CARE Ratings
Professional Risk Opinion

CARE/ARO/RR/2017-18/1597

**Mr Vasistha Patel**
**Managing Director**
**Sadbhav Infrastructure Project Limited**
"Sadbhav", Nr. Havmor Restaurant,
B/H. Navrangpura Bus Stand, Navrangpura,
Ahmedabad – 380009

December 21, 2017

Dear Sir,

**Credit rating of Bank Facilities for Rs.400 crore**

Please refer to our letter dated November 24, 2017 on the above subject.

2. The rationale for the rating is attached as an **Annexure - I**.
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,

M. D. Desai

**[Maulesh Desai]**
**Associate Director**

Encl: As above

## Annexure I

**Rating Rationale**

**Sadbhav Infrastructure Project Limited**

**Rating**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term/Short-term Bank Facilities | 400 | **CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)** | Assigned |
| **Total Facilities** | **400 (Rupees Four Hundred Crore Only)** | | |

**Rating Rationale**

*The rating assigned to the bank facilities of Sadbhav Infrastructure Project Limited (SIPL) take into account the parentage of Sadbhav Engineering Limited (SEL; rated 'CARE A+; Stable/CARE A1+') which is one of the leading players in the domestic road construction sector, its mature portfolio of geographically diversified build-operate and transfer (BOT) road projects, low risk associated with its under-construction hybrid annuity model (HAM) road projects and successful refinancing of debt in its seven operational BOT projects leading to their self-sustainable operations and in-turn improvement in annual cash profit from these operational projects. The ratings also factor its improved cash accruals on standalone basis during FY17 (refers to the period April 1 to March 31) and H1FY18 along with advanced stage of refinancing in two of its special purpose vehicles (SPVs).*

*The ratings are, however, constrained on account of continued under-performance of its two operational SPVs leading to their dependence on SIPL, susceptibility of the operational BOT projects to traffic, operations & maintenance (O&M), regulatory and interest rate risk along with its moderate scale of operations on standalone basis.*

*Inordinate delay in completion of the planned refinancing of two of its operational SPVs beyond their envisaged timeframe, extent of support required to be extended to its two under-performing operational BOT projects, generation of adequate cash surplus as envisaged across the portfolio of its operational BOT projects and deterioration in its leverage as a result of more than envisaged debt raised by SIPL without recourse to SEL are the key rating sensitivities. Pace*

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*



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*of addition of new BOT projects along with their funding profile shall also be a key rating monitorable.*

**Analytical Approach:** Standalone along with factoring support expected to be received from its parent, SEL, for servicing its guaranteed contractual debt and factoring likely support to be extended by SIPL to its various SPVs as well as benefit of up-streaming of cash surplus generated at its SPV level.

**Background**

SEL had floated a 100% subsidiary, SIPL, in January 2007, as a holding company for its BOT projects. During FY11, SEL diluted 22.22% of its stake through issue of fresh equity of Rs.300 crore and compulsory convertible cumulative preference shares (CCCPS) of Rs.100 crore to private equity (PE) investors. Proceeds of PE were utilized by SIPL for fulfilling its equity commitment in BOT projects. During September 2015, SIPL raised Rs.425 crore through Initial Public Offer (IPO) of its equity shares.

**Credit Risk Assessment**

***Parentage of SEL and support extended by it***

SEL holds 68.64% stake in SIPL as on September 30, 2017. SEL is the flagship company of Sadbhav Group and the engineering, procurement and construction (EPC) contractor of all the BOT projects of SIPL. SEL has a sound track record of over two decades in the Indian road construction sector and has successfully completed construction of more than 7,551 lane km of road since its establishment. SEL has demonstrated its execution capability in terms of execution of large order book with efficient deployment of resources. SEL had an order book of Rs.7,715 crore (2.26 times contract receipt of FY17) as on September 30, 2017 diversified across road, irrigation and mining sector. In addition, SEL has also been declared as L1 bidder for contracts aggregating Rs.1,741 crore as on September 30, 2017. As per audited financials of FY17, SEL on a standalone basis, reported total operating income (TOI) of Rs.3,408 crore (FY16: Rs.3,283 crore) and profit after tax (PAT) of Rs.188 crore (FY16: Rs.132 crore). Based on combined financials of FY17, Sadbhav group



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(combining SEL [standalone] and SIPL [standalone] financials) reported TOI of Rs.3,541 crore (FY16: Rs.3,333 crore) and PAT of Rs.229 crore (FY16: Rs.135 crore).

SEL has regularly supported SIPL for ensuring its smooth operations. SEL has given corporate guarantee to the entire outstanding long term debt of SIPL of Rs.800.54 crore as on March 31, 2017. Furthermore, SEL has also infused short term loan of Rs.435.76 crore in SIPL as on March 31, 2017 for funding its equity commitments and supporting SIPL's under-performing operational BOT projects.

***Mature portfolio of geographically diversified operational BOT projects***

SIPL has a portfolio of 19 projects including one to be transferred from SEL and its joint venture (JV) partner and HAM projects for which appointed date is yet to be received from National Highway Authority of India (NHAI; rated 'CARE AAA; Stable'). Out of these 19 projects, 10 road projects are operational with aggregate length of around 3,000 lane km while one border check-post project - Maharashtra Border Checkpost Network Ltd (MBCNL, rated 'CARE A-; Stable') – is partly operational. Out of these 11 operational projects (including one partly operational), apart from two BOT projects, the remaining are largely self sustainable.

SIPL has geographically diversified portfolio with presence in states like Rajasthan, Gujarat, Maharashtra, Karnataka, Haryana, Andhra Pradesh and Telangana. Presence in high growth states where gross state domestic product (GSDP) is greater than India's average GDP by 50-170 bps leading to high industrial growth has resulted in sustainable traffic and toll revenue growth for SIPL's BOT road projects.

<u>*A geographic presentation of the operational projects of the company is given on next page:*</u>



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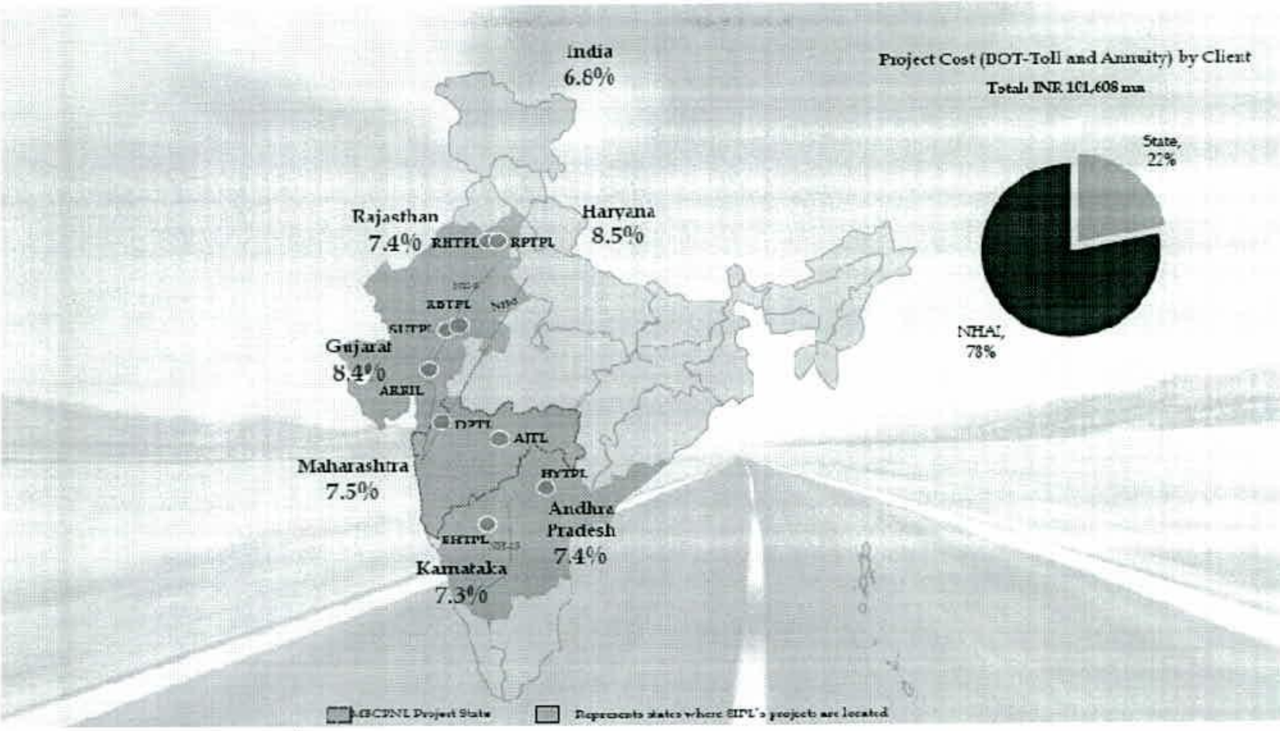


*Source: Company presentation*

***Successful refinancing of debt in seven operational SPVs along with advanced stage of refinancing in two more operational SPVs***

During the past two years, SIPL has successfully refinanced debt in seven of its operational SPVs. The same has led to substantial reduction in interest rate, staggered installment repayments utilizing its tail period and tie up of funds for the first major maintenance thereby resulting in self-sustainable operations of these SPVs. Post refinancing, the average cost of debt in these seven operational SPVs has reduced to 9.84% p.a. Many of these SPVs have also raised non-convertible debentures (NCDs) through infrastructure debt fund (IDF).

*The detail of refinance of these projects is given in the table below:*

| Name of the SPV | Approx. amount of debt refinanced (Rs. Crore) | Outstanding Ratings for refinanced debt |
|---|---|---|
| Nagpur Seoni Expressway Ltd (NSEL) | 195 | CARE AAA (SO); Stable |
| Dhule Palesner Tollway Ltd (DPTL) | 1042 | CARE A; Stable (for senior debt) & CARE A-; Stable (for subordinate debt) |
| Aurangabad Jalna Tollway Ltd (AJTL) | 240 | CARE A; Stable |
| Bijapur Hungur Tollway Pvt Ltd (BHTPL) | 825 | - |
| Hyderabad Yadgiri Tollway Pvt Ltd | 388 | CARE A- |



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| Name of the SPV | Approx. amount of debt refinanced (Rs. Crore) | Outstanding Ratings for refinanced debt |
|---|---|---|
| Ahmedabad Ring Road Infrastructure Ltd (ARRIL) | 295 | - |
| Shreenatji Udaipur Tollway Pvt Ltd (SUTPL) | 840 | - |

Furthermore, SIPL is also at an advance stage of refinancing the debt in two more SPVs which shall further reduced the average cost of borrowing and there is a potential up-streaming of cash flows which has been suitably factored in its credit risk assessment. The regular refinancing of large volume of debt at lower rates of interest indicates strong financial flexibility of the Sadbhav group.

***Low risk associated with under construction HAM projects***

SIPL's seven under construction projects under different SPVs are all relatively low risk HAM projects. Comfort is derived from inherent strengths of the HAM model like lower sponsor contribution during construction period considering 40% construction support (grant) from NHAI and availability of 10% mobilization advances on bid project cost (BPC) at bank rate (currently 6.25% per annum), clauses to issue final commercial operation date (COD) in case of completion of 100% work on the land available within 180 days from appointed date (which is declared only after availability of at least 90% right of way [RoW]) while reducing the balance scope of work, inflation indexed project & operations & maintenance (O&M) cost and annuity payments to be received from NHAI on semi-annual basis covering 60% of the completion cost along with interest at bank rate plus 3% (currently 9.25% per annum) on reducing balance along with O&M annuity during operational phase. In addition, SIPL has tied up for financial closure in all seven projects while receiving appointed date in five of them with availability of around 90% RoW.

Aggregate BPC for these seven projects is Rs.5,807 crore. The equity commitment for these projects is estimated at Rs.697 crore (12% of BPC) spread over the next few years. Under HAM model, concessionaire (SPV) is responsible for O&M of project stretch during construction period post signing of concession agreement. Hence, SIPL has signed separate O&M contract (as a part of total BPC) with its under-construction SPVs. Furthermore, HAM model also entail receipt of mobilization advances equivalent to 10% of BPC from NHAI. Healthy profitability from O&M contract and receipt of mobilization advances are expected to improve cash flow position of SIPL during construction period. In addition, SIPL also plans to up-stream the cash flow of



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SPVs including additional debt over and above its existing debt through refinancing of debt in MBCNL. Furthermore, SIPL has already infused equity of Rs.156 crore in these SPVs till September 2017 against its total estimated equity commitment of around Rs.204 crore till March 2018.

***Improvement in cash accruals during FY17 and H1FY18 in SIPL***

On a standalone basis, the total operating income (TOI) of SIPL increased from Rs.126 crore during FY16 to Rs.312 crore during FY17 primarily on account of major maintenance of two of its SPVs – AJTL and NSEL, information technology (IT) related work of MBCNL, O&M of its operational toll projects and under-construction HAM projects. The PBILDT margin of the company remained healthy at 58.10% during FY17 (FY16: 62.81%). The same also resulted in company's cash accruals growing from Rs.1.03 crore during FY16 to Rs.39.89 crore during FY17. TOI of SIPL also grew by 35% during H1FY18 as compared to H1FY17 mainly on account of O&M work for the under-construction HAM projects. The same also resulted in company's cash accruals growing from Rs.6.40 crore during H1FY17 to Rs.32.07 crore during H1FY18.

***Moderate leverage of SIPL on standalone level***

SIPL on a standalone basis had low debt of Rs.10 crore from banks and financial institution without recourse to SEL as on March 31, 2017. Rated facilities of Rs.400 crore comprise of non-fund based bank guarantee (BG) without recourse to SEL. There have been no instances of invocation of BG in the past reflecting Sadbhav Group's demonstrated project execution capabilities. Any deterioration in its leverage on account of more than envisaged debt raised by SIPL without recourse to SEL shall be a key rating sensitivity.

***Under-performance of its two operational BOT road projects leading to their dependence on SIPL for their uninterrupted operations and debt servicing***

There has been significant shortfall in toll collections of two of SIPL's BOT road projects, Rohtak Hissar Tollway Private Limited (RHTPL; rated 'CARE BBB-; Negative') and Rohtak Panipat Tollway Private Limited (RPTPL; rated 'CARE BBB-; Negative'), primarily on account of lower than estimated toll collections. While RPTPL commenced toll collections from January 9, 2014, RHTPL commenced toll collections from August 3, 2016. Although, there has been healthy growth in toll collection in RPTPL by 25% during H1FY18 on a year-on-year (y-o-y) basis, still the debt coverage indicators of these SPVs continue to remain weak and consequently both RPTPL and



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RHTPL are dependent on SIPL for their uninterrupted operations and debt servicing. Recently, RPTPL has also won an arbitration award of Rs.105 crore from NHAI. Although, these developments are expected to somewhat reduce the dependence of RPTPL on SIPL, significant extent of support required to be extended by SIPL to these two SPVs shall continue to constrain its ratings.

***Susceptibility of the operational toll based SPVs to traffic, interest rate and regulatory risk***

The operational toll based SPVs of SIPL are susceptible to inherent revenue risk related to traffic growth. Furthermore, since most of the operational toll projects have high mix of commercial traffic indicating higher linkage to the state of economy and macroeconomic condition which can have an adverse impact during times of economic downturn. In addition, its entire operational project portfolio except two – MBCNL and AJTL, have their toll rate escalations linked to growth in wholesale price index (WPI). The SPVs are also exposed to interest rate risk since the interest rate of the debt taken by them is floating in nature. The cash flows of the SPVs thus remain linked to traffic growth, WPI as well as interest rate and any material impact of any/all of them can increase the support requirement of SIPL. Furthermore, MBCNL is exposed to inherent regulatory risk considering that this is a project of state transport department and hence susceptible to any change in law apart from risk related to delay in commencement of revenue from check posts even after achieving COD due to various factors beyond the control of the company. However, service fees collection at existing operational border check posts has remained uninterrupted despite goods and service tax (GST) implementation. Furthermore, SIPL has extended various undertakings to its under-construction HAM projects including shortfall undertakings in case of delay in receipt of annuities from NHAI. In addition, there exists roll over risk associated with debt service reserve account (DSRA) guarantee extended by the company to its operational BOT projects.

***Moderate scale of operations on standalone basis due to limited revenue diversity; albeit with financial flexibility***

SIPL has moderate scale of operations on standalone basis with major source of income being the O&M and major maintenance contracts that the company has entered into with its SPVs. Till FY17, SIPL had to rely on need based support from SEL to fund shortfall in some of its SPVs as well as for meeting its equity commitments due to its limited revenue source. However, SIPL derives financial



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flexibility in terms of raising funds post listing of its equity shares on the stock exchanges and option of stake sale in its operational SPVs. Further, successful completion of refinancing of debt in balance SPVs within envisaged time frame and receipt of money from arbitration award pertaining to RPTPL is expected to improve prospects of up-streaming of cash flows at SIPL level. In addition, the parent, SEL, has also supported SIPL on need basis.

**Prospects**

The prospects of SIPL will be governed by extent of up-streaming of cash surplus generated in operational BOT projects and funding profile of new BOT projects to be taken by the company. Furthermore, the prospects of SIPL would be dependent on timely completion of refinance in two of its operational BOT projects and timely completion of under-construction HAM projects within cost parameters.



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## Financial Performance – SIPL (standalone)

*(Rs. Cr)*

| For the Year Ended/As on March 31, | 2015 (12M, A) | 2016 (12M, A) | 2017 (12M, A) |
|---|---|---|---|
| **Working Results** | | | |
| Net Sales | 70.11 | 85.80 | 285.45 |
| Total Operating income | 107.18 | 125.50 | 312.47 |
| PBILDT | 42.64 | 78.83 | 181.54 |
| Interest | 103.75 | 146.06 | 129.50 |
| Depreciation | 0.13 | 0.07 | 0.69 |
| PBT | (63.24) | (4.85) | 52.54 |
| PAT (After def Tax) | (63.26) | (5.03) | 41.12 |
| Gross Cash Accruals | (63.11) | 1.03 | 39.89 |
| **Financial Position** | | | |
| Equity Share capital | 310.96 | 352.23 | 352.23 |
| Net Worth | 843.59 | 1324.85 | 1374.35 |
| Total Debt | 1257.91 | 1054.18 | 1254.90 |
| -Debt Guaranteed by SEL | 691.20 | 500.54 | 800.54 |
| -Unsecured loans from SEL | 466.41 | 532.64 | 435.76 |
| **Key Ratios** | | | |
| *Growth (%)* | | | |
| Growth in Total Operating income | (7.45) | 17.10 | 148.98 |
| Growth in PAT (after D. Tax) | L to L | L to P | VL |
| *Profitability (%)* | | | |
| PBILDT / Total Operating Income | 39.78 | 62.81 | 58.10 |
| APAT / Total income | -59.03 | -4.01 | 13.16 |
| ROCE | 2.37 | 6.30 | 7.28 |
| *Solvency(times)* | | | |
| Long-term Debt Equity Ratio | 0.91 | 0.38 | 0.58 |
| Overall Gearing ratio (including acceptances) | 1.49 | 0.80 | 0.91 |
| PBILDT Interest Coverage | 0.41 | 0.54 | 1.40 |
| PBIT Interest Coverage | 0.41 | 0.54 | 1.40 |
| Term Debt/ Gross Cash Accruals (years) | VL | VL | 20.07 |
| Total Debt / Gross Cash Accruals (years) | VL | VL | 31.46 |
| *Liquidity (times)* | | | |
| Current ratio | 0.58 | 0.50 | 0.84 |
| Quick ratio | 0.58 | 0.50 | 0.84 |
| *Turnover* | | | |
| Avg. Collection Period (days) | 258 | 164 | 66 |
| Avg. Inventory (days) | 3 | 2 | 1 |
| Avg. Creditors (days) | 139 | 287 | 131 |
| Operating cycle (days) | 123 | (122) | (65) |

*NM – Not Meaningful; L: Loss; P: Profit; VL – Very Large*



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## Details of Rated Facilities

### 1. Long-term/short-term bank facilities

### 1.A. Non-fund based bank facilities

*(Rs. crore)*

| Sr. No. | Lender | Rated Amount |
|---|---|---|
| 1. | Union Bank of India | 200.00 |
| 2. | IDBI Bank | 200.00 |
| | **Total** | **400.00** |

**Total rated bank facilities (1.A.) of Rs.400.00 crore**





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