Sadbhav Engineering Limited

June 02, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non Convertible Debentures	67.50 (Reduced from 78.60)	CARE B+ (CWN) (Single B Plus) (Under Credit watch with Negative Implications)	Revised from CARE BB+ (Double B Plus); Continues to be on Credit watch with Negative Implications
Total Long Term Instruments	**67.50 (Rs. Sixty-Seven Crore and Fifty Lakhs Only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the non-convertible debentures (NCD) of Sadbhav Engineering Ltd (SEL) takes into account the sustained delay in the physical progress of works as on March 31, 2022 in respect of its hybrid annuity model (HAM) projects for various reasons. Notwithstanding the extension of time (EOT) granted by authority, delay in completion of these projects beyond agreed upon timelines, exposes company to performance risk thereby attracting levy of damages etc. The rating also factors issuance of notice of intention to terminate concession agreement (CA) by National Highways Authority of India (NHAI; rated CARE AAA; Stable) for one of its HAM projects- Sadbhav Bangalore Highway Private Limited (SBHPL). Inordinate delays in projects execution is expected to deteriorate financial performance of the company in the medium term.

Furthermore, the liquidity of Sadbhav group[2] continued to remain stretched given inordinate delay in materialization of various fund-raising plans and elongated gross current asset days. During last review, it was envisaged that the stake sale transaction in one of the special purpose vehicle (SPV)- Ahmedabad Ring Road Infrastructure Limited (ARIL) shall be concluded by Q4FY22. However, the same is still awaited. As indicated by the management, ARIL has received cash inflow of around Rs.98 crore during Q1FY23 (refers to the period from April 01 to June 30) towards payment compensation of exempted cars from the authority, majority of which have been used towards working capital requirements.

Sadbhav group had also entered into stake sale agreement with Adani group for sale of its entire stake in Maharashtra Border Check Post Network Limited (MBCNL) and the large proceeds from the same were envisaged to be received by October 2021. Management has indicated receipt of part tranche of Rs.290 crore during Q4FY22 (refers to the period from January 01 to March 31) while balance tranche of Rs.260 crore is now envisaged post receipt of approval from Government of Maharashtra (GoM) and completion of balance residual work by Q2FY23. The rating continues to remain on 'Credit Watch with Negative Implications' as materialization of aforementioned transactions as well as planned stake sale in its operational hybrid annuity model (HAM) projects and timely receipt of stake sale proceeds from the same as they are imperative for Sadbhav group.

Nevertheless, rating continues to derive strength from the established track record of the Sadbhav group in construction segment along with favourable prospects of road sectors amidst surge in competitive industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Fructification of fund-raising plans leading to substantial debt rationalisation and improvement in the liquidity on sustained basis.
- Significant growth in TOI and improvement in the current asset days below 300 days.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Inability to scale up operations while realizing sizeable stretched current assets
- Delay in materialization of fund-raising plans stretching the liquidity position of the Sadbhav group
- Inability to cure the delay in execution of HAM as well as other projects attracting sizeable penalties by the authority.

Detailed description of the key rating drivers

Key Rating Weaknesses

Sustained delay in the execution of various HAM projects

As against the expectation of gradual ramp-up in the pace of execution, it continued to remain slow leading to delay in all its on-going HAM projects. The physical progress of works as on March 31, 2022 in respect of Sadbhav Vidarbha Highway Private Limited (SVHPL), Sadbhav Kim Expressway Private Limited (SKEPL) and Sadbhav Nainital Highway Private Limited (SNHPL) continued to remain delayed as mentioned by statutory auditor. In addition, NHAI has also issued notice of intention to terminate CA in one of the HAM projects- SBHPL due to delay in completion of work beyond EOT. Inordinate delay in project execution along with curing such delays beyond permitted extension of time (EOT) heightens risk related to levy of damages by authority as per contractual terms which is further expected to deteriorate the credit profile of the group. Inordinate delays in projects execution is expected to deteriorate financial performance of the company in the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
[2]Combining SEL (standalone) and Sadbhav Infrastructure Project Limited (SIPL; standalone) financials

Inordinate delay in receipt of various stake sale proceeds

During last review, materialization of various fund raising plans including ARIL, MBCNL and stake sale in various operational HAM projects was envisaged to improve the liquidity position of the group. The stake sale transaction in ARIL was expected to be concluded by Q4FY22. However, the same is still awaited despite receipt of NOC from Authority during November 2020. As indicated by the management, ARIL has received cash inflow of around Rs.98 crore during Q1FY23 towards payment compensation of exempted cars from the authority, majority of which have been used towards working capital requirements.

Sadbhav group had also entered into stake sale agreement with Adani group for sale of its entire stake in MBCNL and the part proceeds from the same were envisaged to be received by October 2021. Management has indicated receipt of part tranche of Rs.290 crore during Q4FY22 while balance tranche of Rs.260 crore is envisaged post receipt of approval from Government of Maharashtra (GoM) and completion of balance residual work by Q2FY23. Furthermore, there is no movement with respect to stake sale deals of operational HAM projects.

Key Rating Strengths

Established track record of the Sadbhav group in Indian construction sector

SEL has a track record of over two decades in the Indian road construction sector. SEL has successfully completed construction of more than 8,400 lane km of road projects since its establishment.

GoI initiatives to improve prospects of road construction

The GoI, through the NHAI, has taken various steps to improve the prospects of the road segment. These include premium rescheduling for stressed projects, bidding of tenders only after 80% of land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee, and 100% exit within six months from the COD. NHAI has also made favourable changes in the clauses of the model concession agreement (CA) of HAM projects and linked interest annuities to the average MCLR of the top five scheduled commercial banks in place of bank rate. Furthermore, to ease the funding and smoothen the cash flows of the projects during the construction phase due to the COVID19 pandemic, NHAI has also permitted disbursal of monthly grants and bills against the works billed, as against the previous milestone-based payments until October 30, 2022. The relaxation in the bidding criteria such as the waiver of bid bond guarantee led to stiff competition in the road segment since Q3FY21. However, with the sizeable order inflows to mid-sized EPC contractors as well as tightening of norms by the NHAI, the competition is expected to relax.

Liquidity: Stretched

Gross current asset days elongated to 637 days during FY21 owing large proportion of receivables for ongoing HAM projects. Stretched current assets levels, sustained delay in scaling up of operations owing to large proportion of slow-moving order book and cost overrun in ongoing HAM projects are the prominent reasons for the stretched liquidity. Liquidity position was earlier expected to ease out gradually with improvement in the pace of execution and receipt of large cash inflow of around Rs.1100 crore in H1FY22 to shore up liquidity. Nevertheless, the liquidity of the group continued to remain stretched indicating no meaningful improvement in the gross current asset days. Utilization of the fund based working capital limits for the trailing twelve months ended April 2022 stood high. Liquidity is expected to remain weak given execution delays and in ordinate delay in materialization of various fund raising plans.

Analytical approach: Combined

CARE has taken a combined view of SEL (standalone) and SIPL (standalone) for analytical purpose. This is because majority of the long-term debt raised in SIPL is backed by unconditional and irrevocable corporate guarantee of SEL. Further, SEL and SIPL have operational and financial linkages for funding investment in new projects, bridging of shortfall in select SPVs as well as up-streaming of cash flow of SPVs.

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Construction

About the Company

Incorporated in 1988 and founded by Late Shri Vishnubhai Patel, SEL is an Engineering Procurement and Construction (EPC) contractor executing projects in roads, irrigation and mining segment. SEL had floated a wholly-owned subsidiary – SIPL as a holding company of build-operate-transfer (BOT) projects in 2007. During FY20, SIPL executed share purchase agreement with IndInfravit Trust (IndInfravit) and sold its entire stake in eight operational build operate transfer (BOT) special purpose vehicles (SPV), while the stake sale is awaited in one operational SPV. Post the transaction, Sadbhav Group had a portfolio of 14 BOT projects (four operational toll road projects, ten under construction HAM projects of which five HAM projects have received PCOD on partial length).

Further, as per stock exchange announcement dated October 19, 2019, SIPL would be merged with SEL with effect from April 1, 2019 subject to various statutory and regulatory approvals including approval of National Company Law Tribunal (NCLT). Most of the requisite approvals have been obtained as per stock exchange announcement in January 2021.

Brief Financials- SEL Standalone (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov)
Total operating income	2,363	1,699	938
PBILDT	393	283	174
PAT	85	41	-16
Overall gearing (times)	0.78	0.75	NA
Interest coverage (times)	2.03	1.53	1.30

A: Audited; Prov: Provisional; NA: Not available

Brief Financials- Sadbhav group#(Rs. crore)	31-03-2020	31-03-2021	9MFY22 *
Total operating income	2,467	1,767	1,112
PBILDT	441	345	227
PAT	462	63	-109
Overall gearing (times)	0.56	0.54	NA
Interest coverage (times)	1.40	1.32	NM

#combining SEL (standalone) and SIPL standalone financials; NA: Not available; NM: non meaningful
*no adjustments have been made wrt intercompany interest payments for 9MFY22 as the same is not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE226H07072, INE226H07080, INE226H07098	June 21, 2018	10.75%	June, 2023	67.50	CARE B+ (CWN)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	-	-	-	1)CARE BB+ (CWN) (07-Oct-21) 2)CARE BB+ (CWN) (07-Oct-21) 3)Withdrawn (07-Oct-21)	1)CARE BBB (CWN) (25-Mar-21) 2)CARE BBB+ (CWN) (23-Sep-20)	1)CARE A-; Stable (23-Mar-20) 2)CARE A (CWD) (07-Jan-20) 3)CARE A (CWD) (30-Oct-19) 4)CARE A (CWD) (10-Jul-19) 5)CARE A; Stable (04-Apr-19)

2	Non-fund-based-LT/ST	LT/ST*	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE BB+ / CARE A4 (CWN) (07-Oct-21) 3)CARE BB+ / CARE A4 (CWN) (07-Oct-21)	1)CARE BBB / CARE A3+ (CWN) (25-Mar-21) 2)CARE BBB+ / CARE A3+ (CWN) (23-Sep-20)	1)CARE A-; Stable / CARE A2+ (23-Mar-20) 2)CARE A / CARE A1 (CWD) (07-Jan-20) 3)CARE A / CARE A1 (CWD) (30-Oct-19) 4)CARE A / CARE A1 (CWD) (10-Jul-19) 5)CARE A; Stable / CARE A1 (04-Apr-19)
3	Term Loan-Long Term	LT	-	-	-	1)CARE BB+ (CWN) (07-Oct-21) 2)CARE BB+ (CWN) (07-Oct-21) 3)Withdrawn (07-Oct-21)	1)CARE BBB (CWN) (25-Mar-21) 2)CARE BBB+ (CWN) (23-Sep-20)	1)CARE A-; Stable (23-Mar-20) 2)CARE A (CWD) (07-Jan-20) 3)CARE A (CWD) (30-Oct-19) 4)CARE A (CWD) (10-Jul-19) 5)CARE A; Stable (04-Apr-19)
4	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A2+ (23-Mar-20) 2)CARE A1 (CWD) (07-Jan-20) 3)CARE A1 (CWD) (30-Oct-19) 4)CARE A1 (CWD) (10-Jul-19)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE BB+ / CARE A4 (CWN) (07-Oct-21)	1)CARE BBB / CARE A3+ (CWN) (25-Mar-21) 2)CARE BBB+ /	1)CARE A-; Stable / CARE A2+ (23-Mar-20) 2)CARE A / CARE A1

						3)CARE BB+ / CARE A4 (CWN) (07-Oct-21)	CARE A3+ (CWN) (23-Sep-20)	(CWD) (07-Jan-20) 3)CARE A / CARE A1 (CWD) (30-Oct-19) 4)CARE A / CARE A1 (CWD) (10-Jul-19) 5)CARE A; Stable / CARE A1 (04-Apr-19)
6	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE BB+ (CWN) (07-Oct-21) 3)CARE BB+ (CWN) (07-Oct-21)	1)CARE BBB (CWN) (25-Mar-21) 2)CARE BBB+ (CWN) (23-Sep-20)	1)CARE A-; Stable (23-Mar-20) 2)CARE A (CWD) (07-Jan-20) 3)CARE A (CWD) (30-Oct-19) 4)CARE A (CWD) (10-Jul-19) 5)CARE A; Stable (04-Apr-19)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (07-Jan-20) 2)CARE A (CWD) (30-Oct-19) 3)CARE A (CWD) (10-Jul-19)
8	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE A4 (CWN) (07-Oct-21) 3)CARE A4 (CWN) (07-Oct-21)	1)CARE A3+ (CWN) (25-Mar-21) 2)CARE A3+ (CWN) (23-Sep-20)	1)CARE A2+ (23-Mar-20) 2)CARE A1 (CWD) (07-Jan-20) 3)CARE A1 (CWD) (30-Oct-19) 4)CARE A1 (CWD) (10-Jul-19) 5)CARE A1 (04-Apr-19)
9	Debentures-Non	LT	67.50	CARE	-	1)CARE BB+	1)CARE BBB	1)CARE A-;

	Convertible Debentures			B+ (CWN)		(CWN) (07-Oct-21)	(CWN) (25-Mar-21) 2)CARE BBB+ (CWN) (23-Sep-20)	Stable (23-Mar-20) 2)CARE A (CWD) (07-Jan-20) 3)CARE A (CWD) (30-Oct-19) 4)CARE A (CWD) (10-Jul-19)
10	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (23-Mar-20) 2)CARE A (CWD) (07-Jan-20) 3)CARE A (CWD) (30-Oct-19) 4)CARE A (CWD) (10-Jul-19)
11	Debt-Non-convertible Debenture/Subordinate Debt	LT	-	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A-; Stable (23-Mar-20) 2)CARE A (CWD) (07-Jan-20) 3)CARE A (CWD) (30-Oct-19) 4)CARE A (CWD) (10-Jul-19) 5)CARE A; Stable (04-Apr-19)
12	Debentures-Non Convertible Debentures	ST	-	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A2+ (23-Mar-20)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Not applicable
B. Non-financial covenants	Investor has a right to exercise put option under certain events

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	complex

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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