Sadbhav Engineering Limited

September 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures	45.00 (Reduced from 67.50)	CARE C; Negative; ISSUER NOT COOPERATING* (Single C; Outlook: Negative ISSUER NOT COOPERATING*)	Revised from CARE B+ (Single B Plus) and moved to ISSUER NOT COOPERATING category and removed from Credit watch with Negative Implications; Negative outlook assigned
Total Long-Term Instruments	**45.00 (₹ Forty-Five Crore Only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

SEL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on SEL's instruments will now be denoted as CARE C; Negative ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The revision in rating assigned to the bank facilities of Sadbhav Engineering Limited (SEL) takes into account the on-going delays in the debt servicing of sanctioned banking facilities. However, the debt servicing of the non-convertible debentures rated by CARE Ratings is regular with payment of interest as well as partial redemption on time in June 2022. Further, the next and final redemption and coupon servicing of NCD is due in June 2023.

The rating continues to remain constrained on account of 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. It was envisaged that the stake sale transaction in one of the special purpose vehicles (SPV)- Ahmedabad Ring Road Infrastructure Limited (ARRIL) shall be concluded by Q4FY22. However, the same is still awaited.

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. SEL has realized 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 has been removed from 'Credit Watch with Negative Implications' as stake sale transaction is not expected in the near term.

Outlook: Negative

The revision in the outlook is on account of CARE Rating's expectation of further weakening of liquidity position of SEL.

Detailed description of the key rating drivers

At the time of last rating on June 02, 2022, the following were the rating strengths and weaknesses:

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
*Issuer did not cooperate; Based on best available information

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 in respect of non-cooperation by issuers
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)	31-03-2021 (A)	31-03-2022 (Abridged)	Q1 FY2023 (UA)
Total operating income	1,717	1,322	270
PBILDT	305	-439	31
PAT	41	-716	-22
Overall gearing (times)	0.75	0.68	NA
Interest coverage (times)	1.61	-2.34	0.76

A: Audited; UA: Unaudited; NA: Not Available.

Brief Financials- Sadbhav group# (Rs. crore)	31-03-2021 (A)	31-03-2022 (Abridged)	Q1 FY2023 (UA)
Total operating income	1,767	1,557	293
PBILDT	345	-378	43
PAT	63	-908	-163
Overall gearing (times)	0.54	0.50	NA
Interest coverage (times)	1.32	-1.14	0.59

#Combining SEL (standalone) and SIPL standalone financials; NA: Not available.
*No adjustments have been made w.r.t. intercompany interest payments for FY22 and Q1FY2023 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 (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE226H07072, INE226H07080, INE226H07098	June 21, 2018	9.90%	June, 2023	45.00	CARE C; Negative; ISSUER NOT COOPERATING*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and 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;

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
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								Stable (04-Apr-19)
2	Non-fund-based-LT/ST	LT/ST*	-	-	-	1)CARE BB+ / CARE A4 (CWN) (07-Oct-21) 2)Withdrawn (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)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
								4)CARE A1 (CWD) (10-Jul-19)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	-	1)CARE BB+ / CARE A4 (CWN) (07-Oct-21) 2)CARE BB+ / CARE A4 (CWN) (07-Oct-21) 3)Withdrawn (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)
6	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)
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)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
8	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A4 (CWN) (07-Oct-21) 2)CARE A4 (CWN) (07-Oct-21) 3)Withdrawn (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-Convertible Debentures	LT	45.00	CARE C; Negative; ISSUER NOT COOPERATING*	1)CARE B+ (CWN) (02-Jun-22)	1)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)
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)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
								(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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