

Sadbhav Infrastructure Project Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	400.00	CARE BB+ / CARE A4 (CWN) (Double B Plus/ A Four) (Under Credit watch with Negative Implications)	Revised from CARE BBB / CARE A3+ (Triple B / A Three Plus); Continues to be on Credit watch with Negative Implications
Total Bank Facilities	400.00 (Rs. Four Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Sadbhav Infrastructure Project Limited (SIPL) reflects stretched liquidity position of Sadbhav group² despite raising substantial long-term funds in H1FY22 (refers to the period April 1 to September 30). SIPL has raised Rs.991 crore in Q1FY22 through sale of InvIT units and asset-backed long term debt. Sadbhav Engineering Limited (SEL) also received income tax refund of around Rs.110 crore in September 2021. Nevertheless, sustained delay in scaling up of operations owing to large proportion of slow-moving order book, stretched current assets levels and cost overrun in ongoing Hybrid Annuity Model (HAM) projects have outweighed the fund-raising benefits resulting in stretched liquidity evinced by near full utilization of fund-based limits on prolonged basis. On adjusting revenue booked against inflation component on grant of HAM projects debt protection indicators were modest for FY21. In contrast to CARE's expectations of stake sale transaction of Ahmedabad Ring Road Infrastructure Ltd (ARRIL; rated CARE BBB+; Credit Watch with Negative Implications) by June 2021, it did not materialize despite receipt of no-objection certificate from Authority in November 2020. It is now estimated to be completed by Q4FY22. Sadbhav group has also entered into stake sale agreement of Maharashtra Border Check Post Network Ltd (rated CARE A-; Stable) with Adani group and envisages receipt of arbitration claims and planned stake sale proceeds of its HAM assets. The rating continues to remain on 'Credit Watch with Negative Implications' as materialization of aforementioned transactions and timely receipt of stake sale proceeds are imperative for the Sadbhav group.

The ratings, however, continue to factor the comfortable capital structure due to sizeable debt reduction from the stake sale proceeds of eight operational build-operate transfer (BOT) projects as well as from the funds raised in Q1FY22 and various initiatives of Government of India (GoI) bolstering liquidity for roads sector. The ratings also take cognizance of almost entire equity commitment scheduled for FY22 being met through funds raised in Q1FY22 and appointment of Gawar Construction Ltd (GCL; rated CARE AA-; Stable/ CARE A1+) as a sub-contractor in some of its ongoing HAM projects in H1FY22. Consequent to these initiatives, visible progress in the pace of execution and generation of cash flow from operations constitute key rating monitorables. Sadbhav group has also achieved partial commercial operations date (PCOD) for five out of 10 HAM projects. Notwithstanding the extension of time (EOT) granted by authority, delay in completion of these projects beyond revised timelines, exposes company to performance risk thereby attracting levy of damages etc.

The ratings also take cognizance of termination notice issued to two of its underperforming operational BOT projects in Haryana owing to farmers' agitation which may reduce funding requirement of Sadbhav group.

Rating sensitivities

Positive factors

- Fructification of fund-raising plans over Rs.1000 crore 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

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

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Detailed description of the key rating drivers**Key Rating Weakness:****Liquidity: Stretched liquidity position despite raising substantial long-term funds**

SIPL had raised Rs.991 crore during Q1FY22 through sale of InvIT units and assets backed debt. These proceeds were mainly utilized towards debt redemption to the tune of Rs.685 crore and funding equity commitments of ~ Rs.274 crore. SEL also received income tax refund of Rs.110 crore in September 2021. However, Sadbhav group's liquidity continued to remain stretched in contrast to earlier expectations of improvement in liquidity post completion of above fund-raising plans. The same has also been reflected from near full utilization of fund based working capital bank limits for the trailing twelve months ended September 2021. Statutory auditor has qualified audit report of FY21 citing "delays in repayment of some of the loans owing to technical reasons which were condoned by the respective lenders". SEL had availed moratorium as per RBI guidelines and the same was also approved by the lender. However, delay in rectification of the same in the system of some of the lenders resulted into technical delay as articulated by the management. 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.

Sadbhav group's gross current asset days further stretched from 458 days during FY20 to 637 days during FY21 which is considerably high as compared to other CARE rated peers in the sector. Although the cash flows were eased by release of monthly payment by NHAI under Aatmanirbhar Scheme and release of mobilization advances in two of its HAM projects, no major recovery was witnessed in elongated debtors in FY21. The same has also been corroborated from 5% increase in trade receivables, unbilled revenue and non-current receivables despite 28% decline in total operating income (TOI) of Sadbhav group during FY21. Stuck debtors were largely attributed to revenue booked on 100% of inflation portion on construction grants, irrigation segment, arbitration claims and change of scope. Pending debt syndication in one HAM project also attributed to elongation in receivables which is expected to be realized in the medium term. Sadbhav group's ability to realize stretched current assets without any further delay is crucial from credit perspective.

Sustained delay in scaling up of operations and cost overrun in HAM projects albeit some steps taken to improve the pace of execution

SEL has order book position of Rs.9328 crore as on March 31, 2021. However, large proportion of order book continued to remain slow moving. The same has been reflected from execution of only 19% and 3% of order book in FY21 and Q1FY22 respectively. TOI of SEL steadily declined from previously moderated base of Rs.569 crore in Q3FY21 to Rs.282 crore in Q1FY22 owing to deterioration in its financial flexibility, delay in materialization of fund-raising plans and pending receipt of appointed date in two large Engineering Procurement and Construction (EPC) projects. Execution pace slowed down in its HAM projects, leading to delay in all its on-going HAM projects. Delayed execution has also resulted in cost overrun in some of the HAM projects requiring support from Sadbhav group over and above the equity commitments. 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. SEL has appointed GCL as a sub-contractor in its two large HAM projects to improve pace of execution and has largely fulfilled its equity commitment of HAM projects for FY22. Going forward, SEL's ability to scale up of operations while deploying the requisite funds without any further delay is extremely crucial from the credit perspective.

Deterioration in debt coverage indicators

Sadbhav group's combined total debt/PBILDT further worsened from 4.72 times during FY20 to 5.84 times during FY21 on account of decline in scale of operations. Interest coverage of Sadbhav group also steadily moderated from 2.55 times during FY19 to 1.40 times during FY20 and 1.32 times during FY21. On adjusting revenue booked against inflation component on grant of HAM projects, debt protection indicators showed further deterioration for FY21. Sadbhav group's ability to scale up its operations and generate free cash flow is crucial.

Key Rating Strengths:**Comfortable capital structure due to debt prepayments from stake sale proceeds**

Sadbhav group's overall gearing stood comfortable at 0.54 times as on March 31, 2021 on account of rationalization of debt levels by around Rs.785 crore and augmentation of networth from stake sale gain. On adjusting investment and advances of two underperforming projects in Haryana, adjusted overall gearing continued to remain comfortable at 0.70 times as on March 31, 2021. Nevertheless, considerably lower market capitalization vis-a-vis the net worth restricts overall financial flexibility.

Established track record in the Indian road 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.

Funding of substantial equity commitment and termination notice issued for two under-performing toll projects

Subsequent to stake sale, exposure in BOT projects has reduced to 71% of the combined net-worth as of March 31, 2021 as against 110% as on March 31, 2019. Pending equity commitment also reduced to around Rs.90 crore post fulfilment of equity commitment in Q1FY22. Sadbhav group has also achieved partial COD for its five HAM projects providing some relief. Two underperforming toll projects of Haryana have also issued termination notice to NHAI invoking the terms of concession agreement due to sustenance of farmers' agitation for prolonged period. This may also provide cash flow protection to Sadbhav group to an extent. Sadbhav group has also entered into stake sale agreement of Maharashtra Border Check Post Network Ltd (rated CARE A-; Stable) with Adani group. The company envisages receipt of arbitration claims and proceeds from planned stake sale of its HAM assets and ARRIL. Timely fructification of aforementioned plans is crucial from credit perspective.

Favourable prospects of roads sector amidst surge in competitive intensity

GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include declaring appointed dates only after 80% land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee and 100% exit for developers after six months of project completion. NHAI has made favourable changes in the clauses of model concession agreement of HAM projects in November 2020 and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate. However, relaxation in the bidding criteria and changes in the model concession agreement of HAM projects has intensified competition in the bidding from Q3FY21 amidst hike in commodity prices. With increased participation of mid-sized contractors in projects valuing upto Rs.1500 crore the number of maximum bidders rose to 20 in FY21 as against maximum 10 bidders till FY20.

Liquidity: Stretched

Liquidity of the Sadbhav group is stretched despite raising substantial long-term funds as explained in key rating weakness section.

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. SEL has also guaranteed the debt of Sadbhav Nainital Highway Private Ltd till achievement of COD.

Applicable Criteria

[Policy on default recognition](#)

[Rating Methodology: Consolidation](#)

[Financial Ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Construction](#)

About the Company

Sadbhav Engineering Limited (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 the 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.

On July 1, 2019, SIPL has announced that they have executed Share Purchase Agreements with IndInfravit Trust (IndInfravit) for selling their entire equity stake in their nine operational build operate transfer (BOT) special purpose vehicles (SPV) (seven toll and two annuity-based projects). The transaction has been executed considering the enterprise value of Rs.6,610 crore. SIPL has sold its entire stake in eight operational BOT SPV's while the stake sale is awaited in one operational SPV. Post the transaction, SIPL has a portfolio of 13 BOT projects (four operational toll road projects, nine under construction HAM projects of which two HAM projects have received PCOD on partial length).

Further, as per the 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 the approval of NCLT. In consideration of the merger, SEL shall issue one equity share of SEL against three equity shares of SIPL to every shareholder of SIPL.

SIPL has entered into the Debenture Trust Deed with Allianz Global Investors and AMP Capital to raise ₹ 700 crores out of which a sum of ₹550 crores has already been raised on April 15, 2020. Furthermore, SIPL also completed sale of 7% units of IndInfravit Trust to Canadian pension plan (CPP) for a total consideration of Rs.441 crore in first week of May 2021. The above funds raised has mainly been used towards repayment of existing debt obligations of the group and funding under construction HAM assets of the group.

Brief Financials (Rs. crore) – SIPL- Standalone	FY20 (A)	FY21 (A)
Total operating income	246	204
PBILDT	134	113
PAT	377	22
Overall gearing (times; including mobilization advances)	0.42	0.44
Interest coverage (times)	0.66	0.89

A – Audited; Financials classified as per CARE Ratings internal standards

Brief Financials (Rs. crore) – Sadbhav Group#	FY20	FY21
Total operating income	2467	1767
PBILDT	441	345
PAT	462	63
Overall gearing (times; including mobilization advances)	0.56	0.54
Interest coverage (times)	1.40	1.32

#combining SEL (standalone) and SIPL standalone financials

As per published Q1FY22 provisional results, SIPL on a standalone basis reported total operating income (TOI) of Rs.39.98 crore (Rs.49.65 crore during Q1FY21), PBLIDT of Rs.20.70 crore (Rs.35.88 crore during Q1FY21) and net loss of Rs.64.36 crore (Profit of Rs.6.51 crore during Q1FY21). Further, on combined basis, during Q1FY22 Sadbhav Group TOI stood at Rs.309.70 crore (Rs.282.86 crore during Q1FY21), PBILDT stood at Rs.64.31 crore (Rs.58.85 crore during Q1FY21) and there was net loss of Rs.81.22 crore (Rs.20.07 crore during Q1FY21) on account of loss on sale of IndInfravit units of Rs.62.21 crore.

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
Fund-based/Non-fund-based-LT/ST		-	-	-	400.00	CARE BB+ / CARE A4 (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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds	LT	-	-	-	-	-	1)Withdrawn (18-Sep-18)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Jan-20) 2)CARE A (CE) (CWD) (30-Oct-19) 3)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19)2)CARE A+ (SO); Stable (18-Sep-18)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (22-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20)2)CARE A (CE) (CWD) (07-Jan-20)3)CARE A (CE) (CWD) (30-Oct-19)4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19)2)CARE A+ (SO); Stable (18-Sep-18)
4	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (28-Jul-21)	1)CARE BBB (CE) (CWN) (25-Mar-21)2)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20)2)CARE A (CE) (CWD) (07-Jan-20)3)CARE A (CE) (CWD) (30-Oct-19)4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19)2)CARE A+ (SO); Stable (18-Sep-18)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	400.00	CARE BB+ / CARE A4 (CWN)	-	1)CARE BBB / CARE A3+ (CWN) (25-Mar-21)2)CARE BBB+ / CARE A3+ (CWN) (23-Sep-20)	1)CARE A-; Stable / CARE A2+ (25-Mar-20)2)CARE A- / CARE A2+ (CWD) (07-Jan-20)3)CARE A- / CARE A2+ (CWD) (30-Oct-19)4)CARE A- / CARE A2+ (CWD) (10-Jul-19)5)CARE A-; Stable / CARE A2+	-

							(04-Apr-19)	
6	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (28-Jul-21)	1)CARE BBB (CE) (CWN) (25-Mar-21)2)CARE BBB+ (CE) (CWN) (23-Sep-20)	1)CARE A- (CE); Stable (25-Mar-20)2)CARE A (CE) (CWD) (07-Jan-20)3)CARE A (CE) (CWD) (30-Oct-19)4)CARE A (CE) (CWD) (10-Jul-19)	1)CARE A (SO); Stable (20-Mar-19)2)CARE A+ (SO); Stable (18-Sep-18)3)Provisional CARE A+ (SO); Stable (16-Apr-18)

* 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	Not applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple

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 has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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