

Sadbhav Engineering Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	-	-	Revised to CARE BB+ / CARE A4 (CWN) (Double B Plus/ A Four) (Under Credit watch with Negative Implications) from CARE BBB / CARE A3+ (CWN) (Triple B / A Three Plus) (Under Credit watch with Negative Implications) and Withdrawn
Long Term Bank Facilities	-	-	Revised to CARE BB+ (CWN) (Double B Plus) (Under Credit watch with Negative Implications) from CARE BBB (CWN) (Triple B) (Under Credit watch with Negative Implications) and Withdrawn
Short Term Bank Facilities	-	-	Revised to CARE A4 (CWN) (A Four) (Under Credit watch with Negative Implications) from CARE A3+ (CWN) (A Three Plus) (Under Credit watch with Negative Implications) and Withdrawn
Total Bank Facilities	-		
Non-Convertible Debentures	78.60 (Reduced from 150.00)	CARE BB+ (CWN) (Double B Plus) (Under Credit watch with Negative Implications)	Revised from CARE BBB (Triple B); Continues to be on Credit watch with Negative Implications
Total Long-Term Instruments	78.60 (Rs. Seventy-Eight Crore and Sixty Lakhs Only)		

Details of facilities/instruments in Annexure – 1;

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sadbhav Engineering Ltd (SEL) have been revised and withdrawn simultaneously with immediate effect upon request for withdrawal of bank facilities ratings by SEL. In this regard, CARE Ratings is in receipt of consent to withdraw outstanding ratings from all the consortium lenders along with No objection certificate issued by the lead lender. Further long-term loan of Rs. 17.41 crore has been fully repaid and no dues certificate from the corresponding lender has been received.

The revision in the ratings assigned to the bank facilities and non-convertible debentures of SEL reflects stretched liquidity position of Sadbhav group² despite raising substantial long-term funds in H1FY22 (refers to the period April 1 to September 30). Sadbhav Infrastructure Project Ltd (SIPL) has raised Rs.991 crore in Q1FY22 through sale of InvIT units and asset-backed long term debt. 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

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

²Combining SEL (standalone) and Sadbhav Infrastructure Project Limited (SIPL; standalone) financials

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.

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/PBILDIT 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 Withdrawal of ratings](#)[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**

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).

The board of directors of SEL has approved the changes in the directorship within promoters in May 2020 wherein earlier Chairman and Managing Director of SEL, Mr. Shashin Patel has been appointed as Vice-Chairman and Non-Executive director. Mr. Vasistha Patel is appointed as Chief Executive Officer (CEO) of SEL. The company has also approved constitution of business advisory committee comprising of independent members and Mr. Shashin Patel, promoter and son of Late Vishnubhai Patel. 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 (Rs. crore) – SEL-Standalone	FY20 (A)	FY21 (A)
Total operating income	2363	1,699
PBILDT	393	283
PAT	85	41
Overall gearing (times; including mobilization advances)	0.78	0.75
Interest coverage (times)	2.03	1.53

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, SEL on a standalone basis reported total operating income (TOI) of Rs.282.29 crore (Rs.244.77 crore during Q1FY21), PBILDT of Rs.43.62 crore (Rs.34.53 crore during Q1FY21) and net loss of Rs.16.86 crore (Rs.26.58 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-Long Term		-	-	-	0.00	Withdrawn
Non-fund-based-LT/ST		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ST-BG/LC		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	-	0.00	Withdrawn
Fund-based - ST-Term loan		-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE226H07080, INE226H07098	June 21, 2018	10.75%	June, 2023	78.60	CARE BB+ (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	Fund-based-Long Term	LT	-	-	-	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)	1)CARE A; Stable (20-Feb-19)2)CARE A+; Stable (11-Sep-18)
2	Non-fund-based-LT/ST	LT/ST*	-	-	-	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)	1)CARE A; Stable / CARE A1 (20-Feb-19)2)CARE A+; Stable / CARE A1 (11-Sep-18)
3	Term Loan-Long Term	LT	-	-	-	1)CARE BBB	1)CARE A-;	1)CARE A;

						(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)5)CARE A; Stable (04-Apr-19)	Stable (20-Feb-19)2)CARE A+; Stable (11-Sep-18)
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)	1)CARE A1 (20-Feb-19)2)CARE A1 (11-Sep-18)
5	Non-fund-based - LT/ST-BG/LC	LT/ST*	-	-	-	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)	1)CARE A; Stable / CARE A1 (20-Feb-19)2)CARE A+; Stable / CARE A1 (11-Sep-18)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (11-Sep-18)
7	Term Loan-Long Term	LT	-	-	-	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)	1)CARE A; Stable (20-Feb-19)2)CARE A+; Stable (11-Sep-18)

8	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Jan-20)2)CARE A (CWD) (30-Oct-19)3)CARE A (CWD) (10-Jul-19)	1)CARE A; Stable (20-Feb-19)2)CARE A+; Stable (11-Sep-18)
9	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	-	1)Withdrawn (29-Jun-18)
10	Fund-based - ST-Term loan	ST	-	-	-	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)	1)CARE A1 (20-Feb-19)2)CARE A1 (11-Sep-18)
11	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (11-Sep-18)2)CARE A1 (29-Jun-18)3)CARE A1 (22-May-18)4)CARE A1 (13-Apr-18)
12	Debentures-Non Convertible Debentures	LT	78.60	CARE BB+ (CWN)	-	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)	1)CARE A; Stable (20-Feb-19)2)CARE A+; Stable (11-Sep-18)3)CARE A+; Stable (29-Jun-18)
13	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)	1)CARE A; Stable (20-Feb-19)2)CARE A+; Stable (11-Sep-18)
14	Debt-Non-convertible Debenture/Subordinate	LT	-	-	-	1)Withdrawn (15-Sep-20)	1)CARE A-; Stable (23-	-

	Debt						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)	
15	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 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

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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