

## Sadbhav Engineering Limited (Revised)

May 11, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debentures	45.00	CARE D; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE C; Negative;

Details of instruments in Annexure-1

### Rationale & Key Rating Drivers

CARE Ratings Ltd. had, vide its press release dated September 07, 2022, placed the rating of Sadbhav Engineering Limited (SEL) under the 'issuer non-cooperating' category as SEL had not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. SEL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and an email dated May 08, 2023. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating.

**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 ratings have been revised on account of CARE Ratings expectation of likely default in rated NCD, repayment of which is due in June 2023, owing to weak liquidity. Further, the rating takes into account the on-going delays in the debt servicing of sanctioned bank facilities.

### 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.

**Outlook:** Not Applicable

### Detailed description of the key rating drivers

At the time of last rating on September 07, 2022, the following were the rating strengths and weaknesses:

#### Key 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.

##### 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

<sup>2</sup>Combining SEL (standalone) and Sadbhav Infrastructure Project Limited (SIPL; standalone) financials

\*Issuer did not cooperate; Based on best available information

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 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 disbursement 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 inordinate delay in materialization of various fund-raising plans.

### Environment, social, and governance (ESG) risks: Not Applicable

#### 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](#)

[Consolidation](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

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 (A)	9MFY23 (UA)
Total operating income	1,717	1,322	750
PBILDT	305	-439	90
PAT	41	-716	-77
Overall gearing (times)	0.75	0.68	NA
Interest coverage (times)	1.61	-2.34	0.73

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

Note: 'the above results are latest financial results available'

Brief Financials- Sadbhav group# (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	9MFY23 (UA)
Total operating income	1,767	1,557	855
PBILDT	345	-378	127
PAT	63	-908	-437
Overall gearing (times)	0.54	0.50	NA
Interest coverage (times)	1.32	-1.14	0.58

#Combining SEL (standalone) and SIPL standalone financials; NA: Not available.

\*No adjustments have been made w.r.t. intercompany interest payments for FY22 and 9MFY23 as the same is not available.

Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** IND C; ISSUER NOT COOPERATING and IND D; ISSUER NOT COOPERATING, based on best available information. India Ratings in its press release dated September 13, 2022 has downgraded the ratings and simultaneously migrated it to the non-cooperating category as SEL did not participate in the rating exercise despite continuous requests and follow-ups by the agency.

**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

**Lender details:** Annexure-5

#### 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	9.0%	June 22, 2023	45.00	CARE D; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

**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 2023-2024	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
1	Fund-based-Long Term	LT	-	-	-	-	1)CARE BB+ (CW with Negative Implications) (07-Oct-21) 2)Withdrawn (07-Oct-21) 3)CARE BB+ (CW with Negative Implications) (07-Oct-21)	1)CARE BBB (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ (CW with Negative Implications) (23-Sep-20)
2	Non-fund-based-LT/ST	LT/ST *	-	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE BB+ / CARE A4 (CW with Negative Implications) (07-Oct-21) 3)CARE BB+ / CARE A4 (CW with Negative Implications)	1)CARE BBB / CARE A3+ (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ / CARE A3+ (CW with Negative Implications) (23-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
							(07-Oct-21)	
3	Term Loan-Long Term	LT	-	-	-	-	1)CARE BB+ (CW with Negative Implications) (07-Oct-21) 2)Withdrawn (07-Oct-21) 3)CARE BB+ (CW with Negative Implications) (07-Oct-21)	1)CARE BBB (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ (CW with Negative Implications) (23-Sep-20)
4	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (15-Sep-20)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST *	-	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE BB+ / CARE A4 (CW with Negative Implications) (07-Oct-21) 3)CARE BB+ /	1)CARE BBB / CARE A3+ (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ / CARE A3+ (CW with Negative Implications)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
							CARE A4 (CW with Negative Implications) (07-Oct-21)	(23-Sep-20)
6	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE BB+ (CW with Negative Implications) (07-Oct-21) 3)CARE BB+ (CW with Negative Implications) (07-Oct-21)	1)CARE BBB (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ (CW with Negative Implications) (23-Sep-20)
7	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (07-Oct-21) 2)CARE A4 (CW with Negative Implications) (07-Oct-21) 3)CARE A4 (CW with Negative	1)CARE A3+ (CW with Negative Implications) (25-Mar-21) 2)CARE A3+ (CW with Negative Implications)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
							Implication(s) (07-Oct-21)	(23-Sep-20)
8	Debentures-Non Convertible Debentures	LT	45.00	CARE D; ISSUER NOT COOPERATING*	-	1)CARE C; Negative; ISSUER NOT COOPERATING* (07-Sep-22)  2)CARE B+ (CW with Negative Implications) (02-Jun-22)	1)CARE BB+ (CW with Negative Implication s) (07-Oct-21)	1)CARE BBB (CW with Negative Implication s) (25-Mar-21)  2)CARE BBB+ (CW with Negative Implication s) (23-Sep-20)
9	Debt-Non-convertible Debenture/Subordinate Debt	LT	-	-	-	-	-	1)Withdrawn (15-Sep-20)
10	Debentures-Non Convertible Debentures	ST	-	-	-	-	-	1)Withdrawn (15-Sep-20)

\*Issuer did not cooperate; based on best available information.

\*Long term/Short term.

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

Not Applicable

### 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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### About us:

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