

Sadbhav Infrastructure Project Limited (Revised)

December 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	200.00	CARE B / CARE A4 (RWN); ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category; Continues to be on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

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

Rationale and key rating drivers

CARE Ratings Ltd. had, vide its press release dated September 07, 2022, placed the rating(s) of Sadbhav Infrastructure Project Limited (SIPL) under the 'issuer non-cooperating' category as SIPL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. SIPL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and emails dated November 12, 2023, November 22, 2023 and December 02, 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 take 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 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. Management 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 was envisaged post receipt of approval from Government of Maharashtra (GoM) and completion of balance residual work by Q2FY23. The rating continues to remain on 'Rating 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.

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 upstreaming of cash flow of SPVs.

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:

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

* Issuer did not cooperate; Based on best available information

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 ARRIL, MBCNL and stake sale in various operational HAM projects was envisaged to improve the liquidity position of the group. The stake sale transaction in ARRIL 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, ARRIL 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 indicated receipt of part tranche of Rs.290 crore during Q4FY22 while balance tranche of Rs.260 crore was 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: Sadbhav Group 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 in ordinate 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 issuer](#)

[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](#)
[Short Term Instruments](#)
[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 operates majorly across four distinct business areas in the infrastructure sector viz. EPC of its own BOT road projects, cash contract-based road and metro rail EPC projects, irrigation, and mining.

SEL had floated a wholly-owned subsidiary – SIPL as a holding company of build-operate-transfer (BOT) projects in 2007. 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). 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, Sadbhav group has a portfolio of 14 BOT projects (four operational toll road projects, ten under construction HAM projects of which four HAM projects have received PCOD on partial length).

Brief Financials – SIPL Standalone (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	234.45	89.41	32.39
PBILDT	60.51	48.16	5.74
PAT	-191.65	-357.55	-378.86
Overall gearing (times)	0.53	0.60	0.72
Interest coverage (times)	0.42	0.38	0.10

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Brief Financials – Sadbhav group# (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,557	1143.57	666.27
PBILDT	-378	-61.41	102.78
PAT	-908	-704.03	-381.02
Overall gearing (times)	0.50	0.81	0.88
Interest coverage (times)	-1.14	-0.21	0.72

#Combining SEL (standalone) and SIPL standalone financials;

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: IND C / IND A4; ISSUER NOT COOPERATING, based on best available information. India Ratings in its press release dated September 12, 2023 has reaffirmed the ratings and continued it under the non-cooperating category as SIPL 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	200.00	CARE B / CARE A4 (RWN); ISSUER NOT COOPERATING*

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

Annexure-2: Rating history for the 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	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (22-Sep-20)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (28-Jul-21)	1)CARE BBB (CE) (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ (CE) (CW with Negative Implications) (23-Sep-20)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	200.00	CARE B / CARE A4 (RWN); ISSUER NOT COOPERATING*	-	1)CARE B / CARE A4 (RWN); ISSUER NOT COOPERATING* (27-Dec-22) 2)CARE B / CARE A4 (CW with Negative Implications); ISSUER NOT	1)CARE BB+ / CARE A4 (CW with Negative Implications) (07-Oct-21)	1)CARE BBB / CARE A3+ (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ / CARE A3+

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
						COOPERATING* (07-Sep-22) 3)CARE B+ / CARE A4 (CW with Negative Implications) (02-Jun-22)		(CW with Negative Implications) (23-Sep-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (28-Jul-21)	1)CARE BBB (CE) (CW with Negative Implications) (25-Mar-21) 2)CARE BBB+ (CE) (CW with Negative Implications) (23-Sep-20)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)CARE B+ / CARE A4 (CW with Negative Implications) (02-Jun-22) 2)Withdrawn (02-Jun-22)	-	-

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

**Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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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Disclaimer:

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