

## Sadbhav Udaipur Highway Limited

January 22, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	427.00	CARE D; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category

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 October 26, 2023, placed the rating of Sadbhav Udaipur Highway Limited (SUHL) under the 'issuer non-cooperating' category as SUHL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. SUHL continues to be non-cooperative despite repeated requests for submission of information through e-mails dated September 10, 2024, September 20, 2024, and September 30, 2024, and numerous phone calls. In line with the extant SEBI guidelines, CARE Ratings Limited has reviewed the rating based on the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. CARE's Rating on SUHL's long-term bank facilities continues to be denoted as CARE D; 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).**

**Analytical approach:** Standalone

**Outlook:** Not Applicable

### Detailed description of the key rating drivers:

At the time of last rating on October 26, 2023, the following were the rating strengths and weaknesses (Updated basis the publicly available information):

#### Key Weaknesses

##### Delay in debt and interest servicing obligations

There have been delays/default in servicing of its interest and repayment obligations as reported in Audit Report of FY23 (updated from Registrar of Companies). The audit report for FY24 is not available, and CARE Ratings is awaiting supporting documents towards regular debt servicing track record.

##### Inherent execution risk elevated by non-completion of balance project work within granted EOT

SUHL is exposed to inherent construction risk attached to BOT projects. SUHL received appointed date (AD) on November 30, 2017, and was scheduled to achieve COD by November 29, 2019. Against this SUHL has received PCOD for 18.718 km (78.37%) of the project length w.e.f. July 31, 2020.

SUHL received EOT for completion of balance work by March 31, 2021. However, despite availability of 100% ROW SUHL was unable to complete the balance work within the granted EOT as indicated by the physical project progress of 92.83% till May 2021. Accordingly, SUHL had applied for further EOT till December 31, 2021, for completion of balance project work subject to timely receipt of pending approvals. IE has contested the EOT request of the company, and the matter is currently under discussion. On account of non-completion of balance project work within granted EOT, the risk of levy of penalty by NHAI has elevated.

Furthermore, with receipt of all due construction grants from NHAI, disbursement of 100% project debt and infusion of entire equity contribution by the sponsor, SUHL will have to rely on financial support from sponsor for completion of balance project work. SUHL had already deployed Rs.986 crore (netting off annuity receipt) till March 30, 2021, as against bid project cost of Rs.891 crore indicating cost overrun.

##### Moderation in credit profile of Sadbhav group

Sadbhav group has experience of successfully operating and maintaining build-operate and transfer (BOT) projects for more than a decade. However, credit profile of Sadbhav group has deteriorated during last few years on account of continuous decline in scale of operations and stretched liquidity position driven by high GCA days depicting weak execution capabilities. However, entire

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

pending equity contribution has been infused by Sadbhav Infrastructure Projects Limited (SIPL) (rated CARE B / CARE A4 (Credit Watch with Negative Implications); ISSUER NOT COOPERATING) into the company during FY21. SIPL has entered 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 for a total consideration of Rs.441 crore in first week of May 2021. These proceeds are largely utilized for funding equity commitment and cost overrun in the HAM projects and prepayment of the debt of Sadbhav group. Extent of improvement in the pace of execution in HAM projects is the key rating monitorable.

#### **Inherent O&M risk**

Although inflation indexed O&M annuity partly mitigates O&M risk, projects would still face the risk of sharp increase in O&M cost due to more than envisaged wear and tear and aggressive bidding in O&M cost. However, SUHL has entered fixed price and fixed time O&M contract with the sponsor, SIPL, prior to achievement of COD mitigating O&M risk to an extent. Further, SIPL has extended undertaking to infuse funds in case O&M expenses exceed the O&M annuity from NHAI.

**Inherent interest rate risk:** SUHL is exposed to interest rate risk since the project debt is envisaged to be sanctioned with a floating rate of interest which is reset periodically. The interest rate risk is partially mitigated on account of receipt of the interest annuity at the applicable bank rate + 300 bps. However, there is a likelihood of a lag between the reductions in the bank rate and the lending rate to the company. Consequently, it may result in a temporary disrupt on the cash flow available for debt servicing.

#### **Key Strengths**

##### **Assured cash flow due to annuity nature of the revenue stream linked to inflation indexed O&M annuity and bank rate linked interest annuity during operational phase**

During operational phase, cash flow is assured in the form of annuity payments from NHAI on semi-annual basis covering 60% of the project completion cost along with interest at 'bank rate plus 3%' on reducing balance and inflation indexed O&M annuity. Further, BPC and O&M cost shall be inflation indexed (through a Price Index Multiple [PIM]), which is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the ratio of 70:30. Inflation indexed BPC protects the developers against price escalation to an extent.

#### **Low counterparty credit risk**

Incorporated by the Government of India (GoI) under an Act of Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of the national highways in the country. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

#### **Liquidity: Poor**

SUHL's liquidity is poor due to ongoing delays in debt servicing and inordinate delay in project execution leading to increase in interest during construction and reliance on the sponsor till stabilization of revenue streams.

**Assumptions/covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

#### **Applicable criteria**

[Policy in respect of non-cooperation by issuers](#)

[Infrastructure Sector Ratings](#)

[Policy on Default Recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Road Assets-Hybrid Annuity](#)

#### **About the company and industry**

##### **Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

SUHL, a special purpose vehicle (SPV), incorporated and owned by SIPL has entered into 17-year concession agreement (CA)

(including construction period of 730 days from appointed date) with NHAI for the design, build, operate and transfer (DBOT) of 23.883 km road on hybrid annuity basis. The project under consideration aims at construction of the proposed greenfield sixlane Udaipur bypass road starting from existing km 118.50 of NH-76 at Debari and ending at km 287.40 of NH-8 at Kaya village (approximately 23.883 km) on Kishangarh – Udaipur – Ahmedabad section in the state of Rajasthan. SUHL's bid project cost of Rs.891 crore is proposed to be funded through debt, sponsor's contribution and construction support from NHAI in the ratio of 48%, 12% and 40% respectively.

**Brief Financials:** Not applicable due to project under implementation stage.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	31-03-2034	427.00	CARE D; ISSUER NOT COOPERATING*

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

#### Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	427.00	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D; ISSUER NOT COOPERATING* (26-Oct-23)	1)CARE B-; Negative; ISSUER NOT COOPERATING* (03-Aug-22)	1)CARE BB+; Negative (27-Aug-21)

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

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments:** Not Applicable

#### Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

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### About us:

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### Disclaimer:

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