

## Sadbhav Nainital Highway Limited

February 26, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	315.00	CARE B-; Negative; 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 November 28, 2023, placed the rating of Sadbhav Nainital Highway Limited (SNHL) under the 'issuer non-cooperating' category as SNHL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. SNHL continues to be non-cooperative despite repeated requests for submission of information through e-mails dated October 13, 2024, October 23, 2024, and November 02, 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 SNHL's long-term bank facilities continues to be denoted as CARE B-; Negative; 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:** Negative

The "Negative" outlook reflects CARE's expectation of deterioration in credit profile in case of weakened liquidity of SNHL considering inordinate delay in project execution as well as receipt of extension of time (EOT) and consequent levy of damages from annuities. The outlook may be revised to "Stable" if the project is completed within EOT as approved by NHAI.

### Detailed description of key rating drivers

At the time of last rating on November 28, 2023, the following were the rating strengths and weaknesses:

#### Key Weaknesses

##### Inordinate delay in project execution increasing risk of annuities deduction and cost overrun

SNHL is exposed to inherent construction risk attached to build-operate-transfer (BOT) road projects. SNHL had received appointed date on October 28, 2017, and the project was scheduled to be completed by October 27, 2019. However, against this, the actual project progress as on July 31, 2021, stood low at 60% with no major work done in last one year. This significant slowdown in project execution is mainly on account of funding challenges owing deterioration in the credit profile of sponsor, impact of Covid-19 and various hindrances. Inordinate delay in project execution leads to increased risk of cost overrun and levy of damages and deduction in annuities by NHAI. In order to improve the project progress SIPL has infused entire balance equity commitments during Q1FY22. The company has applied EOT due to delayed execution citing various reasons attributed to authority. However, as on September 30, 2021, EOT is yet to be approved by NHAI. Receipt of EOT without further delay shall be crucial from credit perspective. Company has also applied for PCOD on partial length w.e.f. December 31, 2019. Sadbhav group has already received PCOD on partial length under four of its SPVs

##### Weakening credit profile of SEL and SIPL

SIPL is the sponsor and SEL is the EPC contractor for SNHL. SEL and SIPL have experience of successfully constructing, operating and maintaining BOT projects for more than a decade. However, credit profile of both SEL and SIPL have weakened on account of steady decline in scale of operations and stretched liquidity position driven by high GCA days depicting weak execution capabilities. The liquidity position of SEL and SIPL remained stretched despite raising substantial long-term funds in H1FY22. SIPL raised Rs.991 crore in Q1FY22 through sale of InvIT units and asset backed long term debt. 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 HAM projects have outweighed the fund-raising benefits resulting in stretched liquidity evinced by

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

near full utilization of fund-based limits on prolonged basis. Sadbhav group has also entered into stake sale agreement of Maharashtra Border Check Post Network Ltd with Adani group and envisages receipt of arbitration claims and planned stake sale proceeds of its HAM assets.

### **Weakening of standalone credit profile of SNHL post release of corporate guarantee**

The corporate guarantee from SEL is valid till receipt of completion certificate. Standalone credit profile of SNHL has worsened on account of deterioration in the credit profile of the sponsor-cum EPC contractor, SIPL and poor project progress. DSRA is required to be created by sponsor to take care of debt servicing requirements of first six months. However, weakened credit profile of SIPL largely negates the possibilities of timely creation of DSRA especially in the bank guarantee form as envisaged previously. Furthermore, SNHL is also exposed to inherent risk of annuities deductions primarily due to slow project progress which can potentially weaken the debt coverage indicators of SNHL.

### **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.

### **Inherent interest rate risk**

SNHL 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 variability 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: Stretched**

SNHL's liquidity is stretched due to delay in project execution leading to increase in interest during construction and reliance on sponsor till stabilization of revenue streams. Weakening of sponsor financial profile is an added rating concern. Timely receipt of partial annuity post receipt of partial PCOD is also crucial.

### **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

SNHL, a special purpose vehicle (SPV) incorporated and owned by SIPL has entered into 17 year CA (including construction period of 730 days from appointed date) with NHAH for the design, build, finance, operate and transfer (DBFOT) of 49.780 km of road on hybrid annuity basis. The project under consideration aims at four laning of the existing Rampur-Kathgodam section of NH-87 road from km 42.791 to km 88.00 (design chainage of 49.78 kms) in the state of Uttarakhand and Uttar Pradesh. The project includes augmentation of the existing two lanes into four lanes. SNHL's initial BPC is Rs.657 crore, the same is envisaged to be funded through debt, sponsor's contribution and construction support from NHAH 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
Term Loan-Long Term		-	-	30-11-2033	315.00	CARE B-; Negative; 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	Term Loan-Long Term	LT	315.00	CARE B-; Negative; ISSUER NOT COOPERATING*	-	1)CARE B-; Negative; ISSUER NOT COOPERATING* (28-Nov-23)	1)CARE B-; Negative; ISSUER NOT COOPERATING* (01-Sep-22)	1)CARE BB; Negative (28-Oct-21)
2	Un Supported Rating-Un Supported Rating	LT	-	-	-	-	-	1)Withdrawn (28-Oct-21)

	(Long Term)							
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\*Issuer did not cooperate; based on best available information.

LT: Long term

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Term Loan-Long Term	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.

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### About us:

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### Disclaimer:

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