Sadbhav Engineering Limited
Sadbhav Infrastructure Project Limited

October 30, 2019

Detailed Rationale & Key Rating Drivers

Sadbhav Engineering Ltd. [SEL; rated CARE A / CARE A1 (Under Credit watch with Developing Implications)] and Sadbhav Infrastructure Project Ltd. [SIPL; rated CARE A- / CARE A2+ (Under Credit watch with Developing Implications)] have made announcements on stock exchange regarding approval of a scheme of merger and arrangement of SIPL with SEL at the meeting of the board of directors of both the companies on October 19, 2019. Merger shall be with effect from April 1, 2019. The merger is subject to the requisite approvals between SEL and SIPL along with other statutory and regulatory approvals including approval of National Company Law Tribunal (NCLT). In consideration of the merger, SEL shall issue one equity share of SEL against three equity shares of SIPL to every shareholder of SIPL. As indicated by the management in the announcement and media release published on stock exchange, the merger is expected to facilitate a simplified corporate structure and provide better business pre-qualifications to the group and the entire process is expected to be concluded within 6-9 months.

CARE has taken a combined view of SEL (standalone) and SIPL (standalone) for analytical purpose and large part of debt in SIPL is guaranteed by SEL and hence, the merger is not likely to have any material impact on the credit profile of SEL.

Further, as per announcement on stock exchange dated October 23, 2019 and October 25, 2019, SIPL has received approvals from NHAI (for six NHAI assets), Govt. of Maharashtra for Aurangabad Jalna Tollway Ltd. [rated CARE A (Under Credit watch with Developing Implications)] and Karnataka State Highway Improvement Project (for Mysore-Bellary Highway Private Limited) for transfer of its 100% stake to IndInfravit Trust. Receipt of approvals from concessioning authorities is a critical condition precedent (CP) for stake sale completion and hence, with the receipt of such approvals for majority SPVs, CARE records the noteworthy progress on the actual receipt from the deal.

Analytical Approach - SEL: 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.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Factoring Linkages in Ratings
Rating Methodology - Infrastructure Sector Ratings
Financial Ratios – Non-Financial Sector

About the Company: Sadbhav Engineering Ltd. (SEL)

Incorporated in 1988, SEL has evolved as one of the prominent developers and EPC contractors in India. SEL had floated a wholly-owned subsidiary – SIPL as a holding company of BOT projects in 2007. Sadbhav Group has a portfolio of 24 BOT projects (eleven operational, one partly operational and twelve under construction HAM projects). 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. During FY19, these segments contributed 23%, 69%, 4% and 4%, respectively, in SEL's contract receipts booked on a standalone basis.

On July 1, 2019, SEL (along with SIPL) have announced that they have executed Share Purchase Agreements with IndInfravit Trust (IndInfravit) for selling their entire equity stake in their nine operational BOT SPVs (seven toll and two annuity based projects). The transaction has been executed considering enterprise value of Rs.6,610 crore. Total sale consideration for the transaction is Rs.2,546 crore, out of which partial consideration would be received by SIPL in the form of units equivalent to 10% stake in IndInfravit having estimated value of Rs.646 crore and the balance amount of Rs.1,900 crore would be received in cash.

About the Company: Sadbhav Infrastructure Project Ltd. (SIPL)

SEL had floated a 100% subsidiary, SIPL, in January 2007, as a holding company for its BOT projects. During FY11, SEL diluted 22.22% of its stake through issue of fresh equity of Rs.300 crore and compulsory convertible cumulative preference shares (CCCPS) of Rs.100 crore to private equity (PE) investors. Proceeds of PE were utilized by SIPL for fulfilling its equity commitment in BOT projects. During September 2015, SIPL raised Rs.425 crore through Initial Public Offer (IPO) of its equity shares.

For previous press release of SEL and SIPL please refer: www.careratings.com

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-1

Annexure-1: Rating History of last three years – SEL

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-Long Term	LT	560.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (10-Jul-19) 2)CARE A; Stable (04-Apr-19)	1)CARE A; Stable (20-Feb-19) 2)CARE A+; Stable (11-Sep-18)	1)CARE A+; Stable (08-Jan-18) 2)CARE A+; Stable (16-Jun-17)	1)CARE A+ (14-Oct-16)
2.	Non-fund-based-LT/ST	LT/ST	1950.00	CARE A / CARE A1 (Under Credit watch with Developing Implications)	1)CARE A / CARE A1 (Under Credit watch with Developing Implications) (10-Jul-19) 2)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)	1)CARE A+; Stable / CARE A1+ (08-Jan-18) 2)CARE A+; Stable / CARE A1+ (16-Jun-17)	1)CARE A+ / CARE A1+ (14-Oct-16)
3.	Term Loan-Long Term	LT	85.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (10-Jul-19) 2)CARE A; Stable (04-Apr-19)	1)CARE A; Stable (20-Feb-19) 2)CARE A+; Stable (11-Sep-18)	1)CARE A+; Stable (08-Jan-18) 2)CARE A+; Stable (16-Jun-17)	1)CARE A+ (14-Oct-16)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1 (Under Credit watch with Developing Implications)	1)CARE A1 (Under Credit watch with Developing Implications) (10-Jul-19)	1)CARE A1 (20-Feb-19) 2)CARE A1 (11-Sep-18)	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (14-Oct-16) 2)CARE A1+ (24-Aug-16)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	50.00	CARE A / CARE A1 (Under Credit watch with Developing	1)CARE A / CARE A1 (Under Credit watch with Developing	1)CARE A; Stable / CARE A1 (20-Feb-19) 2)CARE A+;	1)CARE A+; Stable / CARE A1+ (08-Jan-	1)CARE A+ / CARE A1+ (14-Oct-16)

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				Implications)	Implications) (10-Jul-19) 2)CARE A; Stable / CARE A1 (04-Apr-19)	Stable / CARE A1 (11-Sep-18)	18) 2)CARE A+; Stable / CARE A1+ (16-Jun-17)	
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (11-Sep-18)	1)CARE A+; Stable (08-Jan-18) 2)CARE A+; Stable (16-Jun-17)	1)CARE A+ (14-Oct-16)
7.	Term Loan-Long Term	LT	56.93	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (10-Jul-19) 2)CARE A; Stable (04-Apr-19)	1)CARE A; Stable (20-Feb-19) 2)CARE A+; Stable (11-Sep-18)	1)CARE A+; Stable (08-Jan-18) 2)CARE A+; Stable (16-Jun-17)	1)CARE A+ (14-Oct-16)
8.	Debentures-Non Convertible Debentures	LT	48.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (10-Jul-19)	1)CARE A; Stable (20-Feb-19) 2)CARE A+; Stable (11-Sep-18)	1)CARE A+; Stable (08-Jan-18) 2)CARE A+; Stable (16-Jun-17)	1)CARE A+ (14-Oct-16)
9.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (29-Jun-18)	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (14-Oct-16) 2)CARE A1+ (24-Aug-16)
10.	Fund-based - ST-Term loan	ST	20.00	CARE A1 (Under Credit watch with Developing Implications)	1)CARE A1 (Under Credit watch with Developing Implications) (10-Jul-19) 2)CARE A1 (04-Apr-19)	1)CARE A1 (20-Feb-19) 2)CARE A1 (11-Sep-18)	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (16-Jun-17)	-
11.	Commercial Paper	ST	-	-	-	1)Withdrawn (11-Sep-18) 2)CARE A1 (29-Jun-18) 3)CARE A1	-	-

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						(22-May-18) 4)CARE A1 (13-Apr-18)		
12.	Debentures-Non Convertible Debentures	LT	170.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (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	190.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (10-Jul-19)	1)CARE A; Stable (20-Feb-19) 2)CARE A+; Stable (11-Sep-18)	-	-
14.	Debt-Non-convertible Debenture/Subordinate Debt	LT	100.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (10-Jul-19) 2)CARE A; Stable (04-Apr-19)	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. - +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact
Naresh M. Golani
Contact no. - 079-4026 5618
Email ID – naresh.golani@careratings.com

Relationship Contact
Deepak Prajapati
Contact no. - 079 – 4026 5656
Email ID – deepak.prajapati@careratings.com

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