Sadbhav Infrastructure Project Limited

March 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term / Short – term Bank Facilities	400.00	**CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**	Removed from credit watch and ratings reaffirmed
Total Facilities	**400.00 (Rupees Four Hundred Crore Only)**		

Details of facilities in Annexure - 1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sadbhav Infrastructure Project Limited (SIPL) have been removed from 'Credit watch with Developing Implications' in light of with completion of divestment of SIPL's entire equity stake in eight out of nine operational road special purpose vehicles (SPVs) to InvIT portfolio of IndInfravit Trust (IndInfravit), receipt of substantial portion of envisaged consideration (Rs.1,459 crore in cash out of total cash proceeds of Rs.1,908 crore) and emergence of substantial clarity on the end use of stake sale proceeds from Sadbhav group[2]'s management. As of March 19, 2020, SIPL has received cash proceeds of Rs.1,459 crore in cash in three tranches and Rs.724 crore in form of InvIT units equivalent to 10% stake in IndInfravit Trust for these eight SPVs. CARE also notes that significant portion of the stake sale proceeds have been utilized for rationalization of Sadbhav group's debt (Around Rs.825 crore of external debt has been paid off at standalone level) as envisaged earlier. Further, concessioning authority approval for Ahmedabad Ring Road Infrastructure Limited [ARRIL, rated CARE A (Under Credit watch with Developing Implications)] is pending, which as per management's articulation, is under process and thus, ARRIL is expected to be transferred to IndInfravit by Q1FY21, proceeds of which shall be utilized for further rationalization of debt. As per management articulation, post stake sale transaction, SIPL shall continue to be the maintenance contractor for these nine assets and SIPL would have the right of first offer (ROFO) option for selling its stake in future operational Hybrid Annuity Model (HAM) assets to IndInfravit Trust.

CARE also notes that as per stock exchange announcement dated October 19, 2019, SIPL has announced a scheme of merger with Sadbhav Engineering Limited (SEL; rated CARE A- ; Stable / CARE A2+) subject to various statutory and regulatory approvals including approval of National Company Law Tribunal (NCLT), However, the merger is not expected to have any material impact on ratings as large part of SIPL's debt is guaranteed by parent, SEL where in CARE has taken a combined view of SEL (standalone) and SIPL (standalone) for analytical purpose and common management as well as business linkages in both companies.

The ratings also take cognizance of the fact that there has been reduction in the leverage through utilization of stake sale proceeds, reduction in equity commitments for HAM project with mutual termination of group's three HAM projects, potential upside in cashflows including receipt of arbitration proceeds, expected receipt of mobilization advance in some HAM projects in near term, upstreaming of surplus cashflows from Maharashtra Border Check Post Network Limited (MBCNL; rated CARE A; Negative) and financial flexibility available with SIPL in the form of stake in listed units of IndInfravit Trust alongwith expected cash flows in the form of dividend income from units.

The ratings also factor in parentage of SEL which is one of the leading players in the domestic road construction sector, enhanced financial flexibility with holding of InvIT units and low revenue risk associated with its under-construction hybrid annuity model (HAM) road projects once they become operational. The ratings are, however, constrained by deterioration in operating performance with decline in total operating income (TOI) and profitability during 9MFY20 (refers to period April 1 to March 31) and delay in execution of HAM asset portfolio due to various challenges including issues related to land acquisition, de-scoping/ de-linking approvals, along with challenging funding scenario. Slower equity infusion by sponsor and delay in execution of these SPVs has led to increased propensity to support them till stabilization of revenue stream. The ratings are also constrained by sizeable equity commitments in medium term coupled with subdued performance of its two operational SPVs. The ratings also factor in exposure to inherent risk associated with BOT projects (which has although reduced from 12 projects to 4 projects) especially in current scenario of Covid-19 pandemic along with its moderate scale of operations on standalone basis.

Rating sensitivities

Positive factors

- Monetization of sizeable investments in HAM SPVs within envisaged timelines

Negative factors

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2] *Combining Sadbhav Engineering Limited (standalone) and SIPL (standalone) financials*

- Delay in operationalization of SPVs beyond revised estimates leading to meaningful increase in cash flow support from sponsor
- Higher than envisaged support to be extended to its under-performing operational BOT projects
- Bidding for new HAM projects resulting in higher than envisaged equity commitments in medium term

Detailed description of the key rating drivers

Key Rating Strengths

Completion of stake sale process with transfer of eight out of nine projects and receipt of significant portion of the total envisaged stake sale proceeds: As per announcement on stock exchange dated July 1, 2019, SEL along with SIPL 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). As of March 20, 2020, SEL and SIPL have transferred eight out of nine operational SPVs (i.e., excluding ARRIL) and has received stake sale proceeds of Rs.1,459 crore in cash in total three tranches in addition to the units of Rs.724 crore equivalent to 10% stake in IndInfravit trust. The units are listed and marketable in nature providing significant financial flexibility. As informed by the company and as per various stock exchange announcements, these proceeds have been utilised for rationalisation of the debt levels of the group. Further, as indicated by the management, SIPL is at an advanced stage of obtaining approval from the concessioning authority of ARRIL, i.e. Ahmedabad Urban Development Authority (AUDA), which it expects to receive by April 2020 and thus, receive the stake sale proceeds for ARRIL by June 2020. Post stake sale, SIPL shall continue to carry out routine and major maintenance for these projects which is likely to maintain its revenue visibility in medium term. Approximate value of these contracts is Rs.4,000 crore over the balance concession period. Also, SIPL has entered into a ROFO agreement with IndInfravit for monetisation of its current and future operational assets. Monetization of HAM projects post operationalization within envisaged timelines shall remain key rating sensitivity.

Parentage of SEL and support extended by it: SEL held 69.63% stake in SIPL as on December 31, 2019. SEL is the flagship company of Sadbhav Group and the engineering, procurement and construction (EPC) contractor of all the BOT projects of SIPL. SEL has track record of over two decades in the Indian road construction sector and has successfully completed construction of more than 8,400 lane km of road since its establishment. SEL has extended its unconditional and irrevocable corporate guarantee for the entire outstanding long term debt of SIPL of Rs.438.60 crore as on March 21, 2020. Furthermore, SEL had extended short term loan of around Rs.834 crore in SIPL as on December 31, 2019 for funding SIPL's equity commitments and shortfall which was repaid partially from stake sale proceeds. Further, SIPL is expected to be partially dependent on SEL for meeting its sizeable equity commitments in HAM projects and support for underperforming BOT projects in medium term.

Enhanced financial flexibility with holding of InvIT units albeit constrained by decline in scale of operations and profitability on standalone basis: As part of stake sale, SIPL has received Rs.724 crore in the form of InvIT units equivalent to 10% of stake in IndInfravit Trust, which are listed and marketable in nature. Further, holding of units is expected to provide annual dividend income is expected to augment its revenue stream. SIPL has moderate scale of operations on standalone basis with major source of income being the O&M and major maintenance contracts that the company has entered in to with its SPVs. SIPL's TOI declined to Rs.225 crore in 9MFY20 as compared to Rs.274 crore in 9MFY19 largely on account of delay in receipt of appointed date in few HAM projects. SIPL reported a net loss of Rs.17.75 crore in 9MFY20 as compared to Rs.49.03 crore in 9MFY19 largely on account of decline in TOI coupled with increase in finance costs due to bridge loan availed for interim working capital requirement, debt servicing and equity infusion in HAM projects. Further, concession agreements of three HAM projects have been mutually terminated due to unavailability of land in those projects. SIPL also has ROFO option for monetization of current and future operational assets to InvIT portfolio. Further, under the ROFO agreement with IndInfravit Trust, the management expects monetization of four HAM SPVs in once they become operational in FY21 and further monetization of two HAM SPVs once operational in FY22.

Key Rating Weaknesses:

Delay in implementation of some HAM projects with increased propensity to support them during initial phase; albeit termination of three HAM projects has reduced upfront equity commitment: SIPL has nine under-construction HAM projects in its portfolio with aggregate Bid Project Cost (BPC) of Rs.8,372 crore. HAM projects derive comfort from inherent strengths such as (i) low project funding risk with inflation indexed annuity to be received for construction and favorable clauses introduced in the concession agreement (CA) to debottleneck project execution challenges (ii) lower post implementation risk on account of inflation-indexed annuity to be received for operations and maintenance (O&M) of the road and (iii) receipt of bank rate linked interest annuity. However, unlike the clauses contained in the CA, delay in de-scoping of the unavailable project land has been witnessed in many of the on-going HAM projects of SIPL. There has been delay in execution of some of ongoing HAM projects of SIPL mainly due to hindrances in land acquisition, delay in de-scoping of unavailable land, utility shifting, lack of clarity on change scope, and slower equity infusion by sponsor, SIPL. Provisional COD for one of the HAM projects has been recommended by NHAI while extension of time has been approved or in various stages of approval in other ongoing projects which once approved shall provide relief to SPVs to an extent for project execution. However, due to delay in completion of these HAM SPVs, reliance on the sponsor (i.e. SIPL) to fund the shortfall during the initial phase has increased.

As on February 29, 2020, Sadbhav group had infused around Rs.650 crore as equity in its under-construction HAM SPVs, while it further has equity commitments of Rs.470 crore spread over FY21 & FY22. Simultaneously, the group's scheduled equity commitments reduced by around Rs.395 crore on account of termination of concession agreement for three of its HAM SPVs (i.e. Sadbhav Vizag Highway Private Limited, Sadbhav Bhimasar-Bhuj Highway Private Limited and Sadbhav Tumkur Highway Private Limited) due to non-availability of required RoW within stipulated timelines. SIPL had availed bridge loan for meeting its interim working capital requirement, debt servicing and equity infusion in these HAM projects till receipt of stake sale proceeds, which it has repaid post receipt of stake sale proceeds. However, as articulated by the management, future equity commitment and shortfall is expected to be met by balance stake sale proceeds to be received, internal accruals and up-streaming of cash flows from MBCNL.

Under-performance of its two operational BOT road projects leading to their dependence on SIPL for their uninterrupted operations and debt servicing: There has been significant shortfall in toll collections of two of BOT road projects primarily on account of lower than estimated toll collections. Lower toll collections in these two projects are primarily on account of toll leakages and higher than envisaged proportion of local category vehicles which are exempted from toll. Further, traffic is expected to remain subdued for one of the projects in medium term with development of alternate route. Furthermore, one of the SPVs has scheduled major maintenance in FY21-22 necessitating higher support from SIPL. CARE notes that one of the SPVs has served cure period notice to NHAI regarding development of alternate route and breach of clauses of concession agreement. Significant extent of support required to be extended by SIPL to these two SPVs shall continue to constrain its ratings.

Susceptibility of the operational toll based BOT projects to traffic, interest rate and regulatory risk: The operational toll based SPVs of SIPL are susceptible to inherent revenue risk related to traffic growth, wholesale price index (WPI) linked toll rates and timely release of compensation from state authorities for loss of revenue from exempted vehicles in its two SPVs. Furthermore, since most of the operational toll projects have a high mix of commercial traffic indicating higher linkage to the state of economy and macroeconomic condition the same can have an adverse impact during times of severe economic downturn. The SPVs are also exposed to inherent interest rate risk since the interest rate on the debt taken by majority of them is floating in nature. Further, MBCNL is exposed to inherent regulatory risk considering that this is a project of state transport department and hence susceptible to any change in law apart from risk related to delay in commencement of revenue from check posts even after achieving commercial operations date (COD) due to various factors beyond the control of the company. Exposure to three toll based projects also heightened traffic risk in the current scenario of Covid-19 pandemic.

Liquidity*: Adequate*: Rated bank facilities of Rs.400 crore comprise of non-fund based bank guarantee (BG) without recourse to SEL where in there has been no invocation in the past. SIPL's liquidity position remains moderate on account of tightly matched internal accruals with repayment obligations and equity commitments along with absence of fund based committed bank lines on standalone basis. SIPL has leveraged its financial flexibility of being listed on stock exchange as is evident from raising of short term debts in the form of bridge loan and other working capital demand loans for refinancing its debt obligations and meeting interim equity infusion requirements till receipt of stake sale proceeds, which it has repaid post receipt of stake sale proceeds.

Further, up streaming of cash flows from MBCNL is expected to support SIPL's liquidity position. Average utilization of the non-fund based limits remained at around 66% for the past twelve months ended February 2020. Further, the liquidity of SIPL is underpinned by it being a subsidiary of SEL which has track record of supporting SIPL in times of exigencies. Sizeable equity commitments of around over FY21-FY22 in under construction HAM SPVs along with shortfall support for initial phase for some SPVs along with continued support extended to underperforming BOT SPVs is expected to constrain the cash flows of SIPL. However, SIPL does not have any large repayments in near term on account of prepayment of debt through stake sale proceeds.

Analytical approach: Standalone along with factoring support expected to be received from its parent, SEL, for servicing its guaranteed contractual debt and factoring likely support to be extended by SIPL to its various SPVs.

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

About the Company - 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.
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 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 in cash. 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). In consideration of the merger, SEL shall issue one equity share of SEL against three equity shares of SIPL to every shareholder of SIPL.

(Rs. Crore)

Brief Financials – SIPL (Standalone)	FY18 (A)	FY19 (A)
Total Operating Income	384	356
PBILDT	268	271
PAT	68	57
Overall Gearing	0.95	1.08
Interest Coverage (times)	1.64	1.55

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure – 2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund based-LT/ST	-	-	-	400.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

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.	Bonds	LT	-	-	-	1)Withdrawn (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)
2.	Debentures-Non Convertible Debentures- I	LT	-	-	1)Withdrawn (07-Jan-20) 2)CARE A (CE) (Under Credit	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO);	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)

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
					watch with Developing Implications) (30-Oct-19) 3)CARE A (CE) (Under Credit watch with Developing Implications) (10-Jul-19)	Stable (18-Sep-18)		
3.	Debentures-Non Convertible Debentures- II	LT	19.95	CARE A- (CE); Stable	1)CARE A (CE) (Under Credit watch with Developing Implications) (07-Jan-20) 1)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-19) 2)CARE A (CE) (Under Credit watch with Developing Implications) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)
4.	Debentures-Non Convertible Debentures - III	LT	189.30	CARE A- (CE); Stable	1)CARE A (CE) (Under Credit watch with Developing Implications) (07-Jan-20) 2)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-19) 3)CARE A (CE) (Under Credit watch with Developing Implications) (10-Jul-19)	1)CARE A (SO); Stable (20-Feb-19) 2)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	400.00	CARE A-; Stable / CARE A2+	1)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (07-Jan-20)	-	1)CARE A-; Stable / CARE A2+ (28-Nov-17)	-

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
					2)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (30-Oct-19) 3)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (30-Oct-19) 3)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (10-Jul-19) 4)CARE A-; Stable / CARE A2+ (04-Apr-19)			
6.	Debentures-Non Convertible Debentures- IV	LT	102.00	CARE A- (CE); Stable	1) CARE A (CE) (Under Credit watch with Developing Implications) (07-Jan-20) 2)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-19) 3)CARE A (CE) (Under Credit watch with Developing Implications) (10-Jul-19)	1)CARE A (SO); Stable (20-Mar-19) 2)CARE A+ (SO); Stable (18-Sep-18) 3)Provisional CARE A+ (SO); Stable (16-Apr-18)	-	-
7.	Debentures-Non Convertible Debentures- V	LT	127.40	CARE A-(CE); Stable	1) CARE A (CE) (Under Credit watch with Developing Implications) (07-Jan-20) 2)CARE A (CE) (Under Credit watch with Developing	1)CARE A (SO); Stable (20-Mar-19) 2)CARE A+ (SO); Stable (18-Sep-18) 3)Provisional CARE A+ (SO); Stable (16-Apr-18)	-	-

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
					Implications) (30-Oct-19) 3)CARE A (CE) (Under Credit watch with Developing Implications) (10-Jul-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.*

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