Sadbhav Infrastructure Project Limited

April 04, 2019

Ratings

Bank Facilities / Instruments#	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]**	Reaffirmed
Total Bank Facilities	**400.00 (Rupees Four hundred crore only)**		

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sadbhav Infrastructure Project Limited (SIPL) continue to take into account the parentage of Sadbhav Engineering Limited (SEL; rated 'CARE A; Stable / CARE A1') which is one of the leading players in the domestic road construction sector, its mature portfolio of geographically diversified build-operate and transfer (BOT) road projects along with generation of cash surplus as well as up-streaming of funds from these operational projects during FY18 (refers to the period April 1 to March 31) and 9MFY19 and low revenue risk associated with its under-construction hybrid annuity model (HAM) road projects once they become operational. The ratings also factor its improved cash accruals on standalone basis during FY18 (refers to the period April 1 to March 31) and 9MFY19. The ratings also take cognizance of receipt of large arbitration award in three special purpose vehicles (SPVs), which once realized is expected to provide some cash flow cushion to SIPL.

The ratings are, however, constrained on account of continued under-performance of its two operational SPVs leading to their dependence on SIPL, susceptibility of the operational BOT projects to inherent traffic, operations & maintenance (O&M), regulatory and interest rate risks along with its moderate scale of operations on standalone basis. The ratings are further constrained by inherent funding and execution risk associated with under construction HAM projects.

Extent of support required to be extended to its two under-performing operational BOT projects and deterioration in its leverage as a result of more than envisaged debt raised by SIPL without recourse to SEL are the key rating sensitivities. Materialization of fund raising plan of Sadbhav group within envisaged time frame to fund equity commitment of its under construction projects as well as for rationalization of debt level of Sadbhav group and pace of addition of new BOT projects along with their funding profile shall also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of SEL and support extended by it: SEL held 69.05% stake in SIPL as on December 31, 2018. 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 7,551 lane km of road since its establishment. SEL has regularly supported SIPL for ensuring its smooth operations. SEL has extended its unconditional and irrevocable corporate guarantee for the entire outstanding long term debt of SIPL of Rs.772 crore as on March 31, 2018. Furthermore, SEL has also infused short term loan of Rs.548 crore in SIPL as on March 31, 2018 for funding SIPL's equity commitments and shortfall.

Mature portfolio of geographically diversified operational BOT projects: SIPL has a portfolio of 23 projects out of which, 10 road projects are operational with aggregate length of around 3,000 lane km while one border check-post - Maharashtra Border Checkpost Network Ltd (MBCNL, rated 'CARE A; Stable') – is partly operational while the balance are under-construction HAM projects. SIPL has geographically diversified portfolio with presence in states like Rajasthan, Gujarat, Maharashtra, Karnataka, Haryana and Telangana. Presence in high growth states where gross state domestic product (GSDP) is greater than India's average GDP by 50-170 bps leading to high industrial growth has resulted in sustainable traffic and toll revenue growth for SIPL's BOT road projects.

Good performance of operational SPVs during FY18 and 9MFY19 marked by generation of cash surplus and up streaming of funds from them: During the past two years, SIPL has successfully refinanced debt in nine of its operational SPVs. The same has led to substantial reduction in interest rate, staggered installment repayments utilizing its tail period and tie up of funds for the first major maintenance thereby resulting in self-sustainable operations of these SPVs. Post refinancing, the average cost of debt in nine of its operational SPVs has reduced to around 9.27% per annum. Furthermore, there has been notable growth in toll collection of SPVs portfolio during FY18 and 9MFY19 due to growth in traffic in some of the stretches nearer to Golden Quadrilateral (GQ) and Haryana apart from hike in service fees by 18% with effect from April 2018 in MBCNL. The same has been reflected from steady increase in cash surplus (post debt servicing and stipulated reserve requirement) from operational SPVs during FY18 and 9MFY19 as against large cash deficit during FY17. Surplus cash generated in operational SPVs has been partly up streamed to meet funding requirement of Sadbhav group. Furthermore, sanctioned loan facilities of MBCNL has an option of top-up loan up to Rs.520 crore wherein

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

Rs.150 crore has already been drawn till December 2018 and up streamed to SIPL while balance amount is eligible for disbursement in tranches upon debt syndication and achievement of targeted revenue for consecutive three months. However, successful tie-up and disbursement of balance top-up debt in MBCNL and its up-streaming to SIPL within envisaged timelines will be crucial from the credit perspective in light of pending debt syndication for amount to be drawn and current challenging business environment.

Improvement in cash accruals during FY18 and 9MFY19: O&M during construction period shall be done by project SPVs under HAM as against project authority in conventional BOT projects. SIPL has entered into O&M contracts with its HAM SPVs during construction phase. Execution of O&M and major maintenance (MM) activity for operational SPVs and work for under construction HAM SPVs has resulted in growth in total operating income (TOI) and consequent improvement in its cash accruals during FY18 and 9MFY19 which is reflected by increase in gross cash accruals of the company from Rs.40 crore during FY17 to Rs.75 crore during FY18 and further to Rs.108 crore during 9MFY19. This has also provided cushion to SIPL for funding part of its equity commitment in HAM SPVs and for supporting the overall cash flows of the Sadbhav Group.

Liquidity Analysis:

SIPL on a standalone basis had low fund-based debt of Rs.10 crore from banks and financial institution without recourse to SEL as on March 31, 2018. Rated bank facilities of Rs.400 crore comprise of non-fund based bank guarantee (BG) without recourse to SEL. There have been no instances of invocation of BG in the past. Average utilization of the non-fund based limits remained at around 82% for the past twelve months ended February 2019. Also cash flow from operations remained healthy at Rs.252 crore during FY18. However, any deterioration in its leverage on account of more than envisaged debt raised by SIPL without recourse to SEL shall be a key rating sensitivity. Nevertheless, the liquidity of SIPL is underpinned by it being a subsidiary of SEL which has track record of supporting SIPL in times of exigencies.

<u>Key Rating Weaknesses:</u>

Execution and funding risk associated with under-construction HAM projects: SIPL has 12 under-construction HAM projects in its portfolio with aggregate Bid Project Cost (BPC) of Rs.11,081 crore out of which eight HAM projects have received appointed date while financing documents for three HAM projects have been submitted for receipt of appointed date to NHAI. 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 have been delay in execution of some of ongoing HAM projects of SIPL mainly due to hindrances in land acquisition resulting in availability of significantly lower than 80% land in terms of length despite availability of more than 80% land in terms of area, utility shifting, delay in permission for tree cutting nearer to forest, lack of clarity on change scope, etc.

The under construction HAM projects of SIPL have equity commitments of around Rs.1,000 crore spread over FY20 – FY22. The equity commitments for these HAM projects and shortfall in two operational SPVs are expected to be fulfilled through up-streaming of cash flows from MBCNL and other operational SPVs apart from cash accrual of SIPL. However, in case of delay in debt syndication of large portion of sanctioned top up loan of MBCNL, reliance on debt guaranteed by SIPL can increase. A lender has extended sanction of Rs.600 crore based on valuation matrix of under construction HAM projects with corporate guarantee of SIPL upto COD of respective HAM projects. Going forward, SIPL's ability to materialize various long-term fund raising plans in time bound manner and manage its debt levels will be crucial.

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 SIPL's BOT road projects, Rohtak Hissar Tollway Private Limited (RHTPL; rated 'CARE BB+; Stable') and Rohtak Panipat Tollway Private Limited (RPTPL; rated 'CARE BB+; Stable'), primarily on account of lower than estimated toll collections. While RPTPL commenced toll collections from January 9, 2014, RHTPL commenced toll collections from August 3, 2016. Although, there has been healthy growth in toll collection in RPTPL by 18% during FY18 on a year-on-year (y-o-y) basis, still the debt coverage indicators of these SPVs continue to remain weak and consequently both RPTPL and RHTPL are dependent on SIPL for their uninterrupted operations and debt servicing. RPTPL has also won an arbitration award of Rs.104.69 crore from NHAI; which once realized is expected to provide some cash flow cushion to SIPL. Although, these developments are expected to somewhat reduce the dependence of RPTPL on SIPL, 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.

Moderate scale of operations on standalone basis due to limited revenue diversity; albeit with financial flexibility: 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. Till FY18, SIPL had to rely on need based support from SEL to fund shortfall in some of its SPVs as well as for meeting its equity commitments due to its limited revenue source. However, SIPL derives financial flexibility in terms of raising funds post listing of its equity shares on the stock exchanges and option of stake sale in its operational SPVs.

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 as well as benefit of up-streaming of cash surplus generated at its SPV level.

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 rating
Rating Methodology - Infrastructure Sector Ratings
Financial Ratios – Non-Financial Sector

About the company

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.

Brief Financials – Standalone - (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income (TOI)	312	384
PBILDT	182	268
PAT	41	68
Overall gearing (times)	0.91	0.95
Adjusted overall gearing*	0.01	0.01
Interest coverage (times)	1.40	1.64

A: Audited; As per IND-AS accounting standard;
**Excluding debt guaranteed by SEL and unsecured loan extended by it*

As per unaudited results for 9MFY19, SIPL on a standalone basis reported TOI of Rs.274 crore (9MFY18: Rs.308 crore) and profit after tax (PAT) of Rs.49 crore (9MFY18: Rs.57 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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Annexure-1: Details of Instruments/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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (02-Feb-16)
2.	Bonds	LT	-	-	1)Withdrawn (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)	1)CARE A+ (SO) (01-Mar-16)
3.	Debentures-Non Convertible Debentures	LT	112.00	CARE A (SO); Stable	1)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)	1)CARE A+ (SO) (01-Mar-16)
4.	Debentures-Non Convertible Debentures	LT	120.00	CARE A (SO); Stable	1)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)	1)CARE A+ (SO) (01-Mar-16)
5.	Debentures-Non Convertible Debentures	LT	300.00	CARE A (SO); Stable	1)CARE A+ (SO); Stable (18-Sep-18)	1)CARE A+ (SO); Stable (08-Jan-18)	1)CARE A+ (SO) (14-Oct-16)	-
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	400.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (28-Nov-17)	-	-
7.	Debentures-Non Convertible Debentures	LT	360.00	CARE A (SO); Stable	1)CARE A+ (SO); Stable (18-Sep-18) 2)Provisional CARE A+ (SO); Stable (16-Apr-18)	-	-	-

Note: All the 'SO' ratings above are backed by credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by Sadbhav Engineering Limited (rated 'CARE A; Stable/CARE A1')

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