Sadbhav Infrastructure Project Limited

January 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term / Short – term Bank Facilities	400.00	**CARE A- / CARE A2+ (Single A Minus / A Two Plus) (Under Credit watch with Developing Implications)**	Continues on Credit watch with Developing Implications
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) continues to be on 'Credit watch with Developing Implications' in view of impending impact of proposed divestment of its entire stake in its nine operational road special purpose vehicles (SPVs) to InvIT portfolio of Indlnfravit Trust (Indlnfravit) as well as scheme of merger and arrangement of SIPL with SEL subject to various statutory and regulatory approvals including approval of National Company Law Tribunal (NCLT). Post the stake sale transaction to IndInfravit, SIPL shall continue to be the maintenance contractor for these assets, along with having 10% stake in the IndInfravit and right of first offer (ROFO) option for its current and future operational assets.

CARE takes cognizance of fulfillment of majority of the conditions precedent (CPs), including in-principle no-objection certificates (NOCs) from concessioning authorities for six SPVs and final NOCs for two SPVs, NOC from majority lenders, debenture holders, debenture trustees and tax authorities. Further, Sadbhav group claims to be at an advance stage of fulfilling all CPs for stake sale including crucial CPs like obtaining final approval from NHAI, approvals of all debenture trustees and lenders. CARE also notes reduction in pace of execution in six out of eight under-construction HAM projects of Sadbhav group due to various execution challenges faced by these projects like issues related to land acquisition, de-scoping/de-linking approvals, alongwith challenging fund raising scenario and paucity of funds which has led to stretched current asset days during H1FY20 as against expectation of improvement of operating cash flows due to expected completion of some of HAM projects.

Successful completion of the afore-mentioned transaction is expected to result in rationalization of SIPL's debt levels along with significant reduction in reliance on internal accruals and debt for funding equity commitment in its under-construction road SPVs, which is likely to improve its debt coverage indicators, pace of execution and financial flexibility. Equity commitment of SIPL has reduced significantly because of mutual termination of three HAM projects due to unavailability of land in those projects.

Proposed holding of listed InvIT units by SIPL is also expected to provide annual income and project management fees. SIPL is expected to receive additional cash flows with receipt of approval for extension of concession period in one of its SPVs and, potential upside from car revenues in another SPV. As such, CARE Ratings would await further developments to unfold so as to enable it to assess the exact impact of the above stake sale transaction on the future funding requirement and debt levels of SIPL before arriving at a view on its credit rating.

The ratings continue to take into account the parentage of Sadbhav Engineering Limited (SEL; rated CARE A / CARE A1 (Under Credit Watch with Developing Implications)) which is one of the leading players in the domestic road construction sector, low revenue risk associated with its under-construction hybrid annuity model (HAM) road projects once they become operational. 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 along with delay in the execution of some of the ongoing HAM projects.

Rating sensitivities

Positive factors

- Completion of merger of SIPL with SEL

Negative factors

- Delay in receipt of sale proceeds for majority of the SPVs beyond February 2020
- Higher than envisaged support to be extended to its under-performing operational BOT projects

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

- Sustained delay in construction of HAM projects resulting in meaningful increase in cash flow support from the sponsor

Detailed description of the key rating drivers

Key Rating Strengths

Proposed stake sale in its SPVs with an aim to rationalise its debt levels and reduce reliance on debt for equity commitments towards under-construction road SPVs: 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) for a consideration of around Rs.2,546 crore, out of which partial consideration would be received by SIPL in the form of units which are listed and marketable in nature 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 announcement on stock exchange, SIPL is expected to receive additional cash flows for receiving extension of concession period by 7.5 years for one of its SPVs. As articulated by the management, the funds raised through stake sale are primarily expected to be utilised towards rationalisation of current debt levels, both for SEL and SIPL, along with significant reduction in reliance on debt for meeting future equity commitments in their under-construction road SPVs. Transfer of these assets to IndInfravit and proposed holding of some InvIT units by SIPL is also expected to provide annual dividend income to it along with right of first offer (ROFO) option of monetizing future operational projects. SIPL shall continue to carry out routine and major maintenance for these projects post stake sale which is likely to maintain its revenue visibility. Approximate value of these contracts is Rs.4,000 crore over the balance concession period. Delay in receipt of proceeds for majority of SPVs beyond February 2020 shall be a key negative sensitivity.

Parentage of SEL and support extended by it: SEL held 69.63% stake in SIPL as on September 30, 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.730 crore as on November 30, 2019. Furthermore, SEL has also infused short term loan of around Rs.800 crore in SIPL as on September 30, 2019 for funding SIPL's equity commitments and shortfall.

Key Rating Weaknesses:

Execution and funding risk associated with under-construction HAM projects elevated by delay in implementation of some of them: 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, paucity of funds, utility shifting, lack of clarity on change scope, etc. 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, completion of ongoing HAM projects within revised timeline shall be crucial.
SIPL has already infused Rs.593 crore as on September 30, 2019 in eight ongoing projects. Further, the under construction HAM projects of the group have equity commitments Rs.415 crore spread over H2FY20, FY21 & FY22. SIPL has availed bridge loan for interim equity infusion in HAM projects till receipt of stake sale proceeds. Further, Maharashtra Border Check Post Network Limited (MBCNL; rated CARE A; Stable) has received disbursement of new long-term debt which has largely been up streamed to its parent, SIPL. The equity commitments for these HAM projects (as stated above) and shortfall in two operational SPVs (not getting transferred) and some under construction HAM SPVs are expected to be fulfilled through the funds raised from the proposed stake sale transaction and up-streaming of cash flows from MBCNL through tie-up of aforementioned debt. With the ROFO agreement, there is an enhanced financial flexibility for meeting the future equity requirement once the HAM projects are commissioned.

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. 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 expected increase in financial flexibility through stake sale: 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.152 crore in H1FY20 as compared to Rs.173 crore in H1FY19 largely on account of delay in receipt of appointed date in few HAM projects. Further, concession agreements of three HAM projects have been mutually terminated due to unavailability of land in those projects. SIPL shall continue to be the maintenance contractor for nine operational SPVs even post stake sale transaction. However, annual dividend income from proposed holding of some InvIT units by SIPL is expected to augment its current revenue streams. Further, SIPL's financial flexibility is expected to increase with proposed holding of InvIT units which can be liquidated along with ROFO option for monetization of current and future operational assets to InvIT portfolio.

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.
Further, up streaming of cash flows from MBCNL through disbursement of new term debt is expected to support SIPL's liquidity position. Average utilization of the non-fund based limits remained at around 85% for the past twelve months ended June 2019. 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. Liquidity position is expected to improve significantly with cash flows from stake sale transaction. SIPL is expected to receive cash of in the range of Rs.1,600 to Rs.1,900 crore from the proposed stake sale transaction which, as articulated by the management, would largely utilized for rationalizing the debt at Sadbhav group level along with meeting future equity commitments and cash flow support for debt servicing in its under-construction HAM 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 and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings (ISR)
Rating Methodology – Consolidation and Factoring Linkages in 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 Bank Facilities	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- / CARE A2+ (Under Credit watch with Developing Implications)

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)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)
3.	Debentures-Non Convertible Debentures- II	LT	120.00	CARE A (CE) (Under Credit watch with Developing Implications)	1)CARE A (CE) (Under Credit watch with Developing Implications) (30-Oct-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)

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 (CE) (Under Credit watch with Developing Implications) (10-Jul-19)			
4.	Debentures-Non Convertible Debentures - III	LT	250.00	CARE A (CE) (Under Credit watch with Developing Implications)	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)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	400.00	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)	1)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (30-Oct-19) 2)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (10-Jul-19) 3)CARE A-; Stable / CARE A2+ (04-Apr-19)	-	1)CARE A-; Stable / CARE A2+ (28-Nov-17)	-
6.	Debentures-Non Convertible Debentures- IV	LT	170.00	CARE A (CE) (Under Credit watch with Developing Implications)	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-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	190.00	CARE A (CE) (Under Credit watch with Developing Implications)	1)CARE A (CE) (Under Credit watch with Developing Implications)	1)CARE A (SO); Stable (20-Mar-19) 2)CARE A+ (SO); Stable	-	-

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
					(30-Oct-19) 2)CARE A (CE) (Under Credit watch with Developing Implications) (10-Jul-19)	(18-Sep-18) 3)Provisional CARE A+ (SO); Stable (16-Apr-18)		

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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