



Press Release
SADBHAV GADAG HIGHWAY PRIVATE LIMITED
June 04, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	283.00	ACUITE BB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	283.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+ ' (read as ACUITE Double B plus)** on the Rs 283.00 Cr. proposed Non-Convertible Debentures of Sadbhav Gadag Highway Private Limited (SGHPL). The outlook is '**Stable**'

Rationale for rating assigned

The rating assigned considers low funding risk of the project with the successful debt tie up by the SPV which is required for the timely completion. Further the rating also factors in the strong counter party for the project – KSHIP and Asian Development Bank as seen by the early milestone payments receipt by the SPV. However, the rating is constrained by the timely availability of land clearance by the authority to the SPV, which in turn can delay the receipt of COD. The rating also consider the risk related to delay in annuity payments and changes in operational and interest cost, which could affect the debt serving capabilities of SGHPL.

About the Company

SGHPL, a special purpose vehicle incorporated by Sadbhav Engineering Limited (SEL), has been granted a nine-year concession period (including two years' construction period) by KSHIP. The project involves the development of the existing two lanes of State Highway 57 (105.5km to 205.29km) and 26 (215.33km to 253.71km) to two lanes with a paved shoulder. The road section involved is from Gadag to Honahalli with a design length of 138.2km in Karnataka. The concession agreement was signed in January 2019. The current directors of the company are Mr. Shashin Vishnubhai Patel, Mr. Dwigesh Bharatbhai Joshi, Mr. Jatin Thakkar, Mr. Mahendrasinh Rajusinh Chavada and Mr. Arunbhai Shankerlal Patel.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SGHPL to arrive at the rating.

Key Rating Drivers

Strengths

Low funding risk with successful debt tie up and limited sponsor contribution required

SGHL will successfully tie up the debt financing with this proposed facility which is required for the timely completion of the project. With the help of this debt financing the SPV will be able to complete the remaining project work and be able to achieve the targeted provisional COD by September 2024 and the final COD by March 2025. Further, SGHL has also received the partial payment of the fifth milestone before the achievement of the provisional COD for the project which helped in managing the construction cost for the project. The SPV has till now managed to complete the work with the help of milestones payments from KSHIP and infusion of funds by way of equity and unsecured loans in SPV by the both the sponsor (SEL) as well the EPC contractor (Gawar Construction Limited) for the project.

The SPV has till date infused 96.5 percent of the planned amount, which was required for the project, with the help of contribution from both SEL as well as Gawar Construction Limited. GCL who is also the EPC contractor of the project had infused funds in 2021 by subscribing to 26 percent of equity in SPV. Further there is also a share repurchase agreement between both the parties where in SEL has the right to buy back the shares from GCL within one year of achievement of COD as per the agreed terms.

Acuite believes that this successful tie up for the debt and with limited sponsor contribution remaining, the funding risk for the project remains low.

Strong counter party linked revenue profile.

The company had entered into a concession agreement in January 2019 with KSHIP which is Karnataka State Highway Improvement Project for improvement of the existing two lanes of State Highway 57 (105.5km to 205.29km) and 26 (215.33km to 253.71km) to two lanes with a paved shoulder. The road section involved is from Gadag to Honahalli with a design length of 138.2km in Karnataka. The concession is granted to SGHPL for 9 years, which includes 7 years of planned annuity payments after the achievement of the COD. All the milestones' payments are to be funded by Asian Development Bank and annuity payments will be catered by KSHIP. The SPV will receive 14 biannual annuities along with interest on reducing balance of construction cost. KSHIP also reimburse the escalation of the project cost and the O&M bid quote adjusted to Price Index Multiple on the annuity payment dates to the SPV.

Weaknesses

Timely land clearance by the authority

The company as on May 2024 is yet to receive the land clearance for remaining 3.5 km from the authority. Any extension in the project by the authority will weigh on the debt serviceability for the company. The company has till date completed 123 km length of DBM and one km of DBM length is pending for achieving the 90 percent physical progress. As per the management, Company will apply for PCOD after completion of 90 percent physical progress. The management expects to achieve the PCOD by September 2024.

Exposed to risks such as delay in receiving annuity payments and any changes in operational cost & interest rate.

As per the concession agreement, the company is expected to receive a semi-annual annuity. Any delay in timely receipt of the annuity could adversely impact debt-servicing ability. Along with fixed annuities, the project will receive interest payments on the balance annuities at a rate equivalent of prevailing bank rate plus spread. Further, the company is exposed to risks related to maintenance of the project. If the prescribed standards and timely maintenances of the project are not performed, it will significantly affect the annuity payments. And with any significant delay or deduction in annuities could impact the debt servicing ability of the company.

Acuite believes that any delay or deduction in annuities will affect the debt servicing capabilities of the SGHPL.

Rating Sensitivities

Timely completion of the project work, along with the receipt of the balance fifth milestone payments.

Liquidity Position Adequate

With the successful debt tie, the SPV will now be able to complete the remaining construction work as and when disbursed. Further on achieving 90 percent completion, the SPV will be eligible for the partial payment which is remaining in the fifth milestone which will add up to the liquidity for the SPV.

Acuite believes that with this debt tie up, the SPV will be sufficient funded for the project

completion.

Outlook: Stable

Acuité believes that the outlook on SGHPL's rated facilities will remain 'Stable' over the medium term on account of successful debt tie by the SPV leading to timely completion of the project and going ahead receiving steady flow of semi-annual annuity from the government. The outlook may be revised to 'Positive' in case of significant improvement in free cash flow from operations. Conversely, the outlook may be revised to 'Negative' in case of delay in completion of the project due to various factor such as land clearance, etc leading to elevated expenses for the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	246.47	127.50
PAT	Rs. Cr.	12.01	9.20
PAT Margin	(%)	4.87	7.22
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	5.37	3.72

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	283.00	ACUITE BB+ Stable Assigned

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About Acuité Ratings & Research

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