Press Release

SADBHAV GADAG HIGHWAY PRIVATE LIMITED

May 29, 2025

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	283.00	ACUITE BB+ | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	283.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for rating

The rating reaffirmation reflects the achievement of provisional commercial operations date (PCOD) w.e.f. February 23, 2025 for 92 percent completion of the project (127.205 km out of 138.168 km). Further, of the balance project work on 10.963 km, the company is currently working on 4.223 km and balance land is yet to be cleared by the authority. The rating also factors the disbursements of all the grant milestone payments amounting to Rs. 603.75 Cr. from the counterparty i.e., KSHIP and successful debt tie up of NCDs of Rs. 283 Cr. (Rs. 90 Cr. disbursed till date) by the company. Further, the rating continues to draw comfort from the annuity-based revenue model (consisting of annuity payments, interest on annuity and O&M receivables) and takes note of the increase in the annuity receipts from Rs. 700.70 Cr. to Rs. 731.61 Cr. basis the recent 7th supplementary agreement between the company and authority. However, timely clearance of the pending land and pending disbursements from the lender, achievement of final completion, timely receipt of annuities continues to remain a key rating sensitivity to the rating. Further, the refinancing of debt/ sale of the project within 2 years of disbursement as stipulated by the lender shall also be a key rating monitorable.

About the Company

SGHPL, a special purpose vehicle (SPV) incorporated by Sadbhav Engineering Limited (SEL) in 2018, was awarded the project for the development of the existing two lanes of State Highway SH57 (105.5 km to 205.29 km) and SH26 (215.33 km to 253.71 km) to two lanes with a paved shoulder. The road section involved is from Gadag to Honnali with a design length of 138.168 km in Karnataka. The SPV has been granted a nine-year concession period (including two years' construction period) by Karnataka State Highways Improvement Project (KSHIP). The concession agreement was signed in January 2019. The project was however delayed due to covid-19 pandemic and delays in land clearances by the authority. Further, in September 2021, SEL had appointed Gawar Constructions Ltd (GCL) as the EPC contractor for the project wherein GCL had infused 26 percent of the equity in the SPV as per the requirements stipulated by KSHIP. The total project cost is of Rs. 995 Cr., funded through Rs. 108.25 Cr. of equity (Rs. 106.65 Cr. infused till date), Rs. 603.75 Cr. of grants from KSHIP (fully received) and debt of Rs. 283 Cr. (Rs. 90 Cr. disbursed till date). The current directors of the company are Mr. Shashin Vishnubhai Patel, Mrs. Shefali Manojbhai Patel, Mr. Jatin Thakkar, Mr. Mahendrasinh Rajusinh Chavada and Mr. Arunbhai Shankerlal Patel.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Achievement of PCOD and low funding risk

The SPV has received the PCOD certificate from KSHIP w.e.f. February 23, 2025 for 92% of the project (127.205 km out of 138.168 km). Currently the SPV has successfully completed ~95 percent of physical progress and achieved ~93 percent of financial progress. The project is also supported by the strong and healthy execution track record of the EPC contractor i.e. GCL.

Moreover, the project has low funding risk as the entire grant milestone payments amounting to Rs. 603.75 Cr. has been released by KSHIP and debt of Rs. 283 Cr. has been fully tied up. Further, of the pending NCD tranches of Rs. 193 Cr., Rs. 50 Cr. is expected to be released by June 2025 and Rs. 143 Cr. by September 2025, to be utilised towards the project execution and payments to EPC contractors. The project funding is also support by GCL who infused ~Rs. 65 Cr. in the form of the unsecured subordinate debt, of which current outstanding is of Rs. 11.25 Cr.

Low revenue risk

The project developed by SGHPL is an annuity-based revenue model wherein concession is granted to SGHPL for 9 years, which includes 7 years of planned annuity payments after the achievement of the COD which shall be funded by KSHIP. Hence, the SPV will be receiving ~55 percent of total escalated project cost in the form of 14 biannual annuities along with operation & maintenance expenses and interest on reducing balance of construction cost. As the project got extension from KSHIP for delays due to covid-19 pandemic and unavailability of timely land clearance, the annuity payments will consist of the escalations of the project cost and the O&M bid quote adjusted to price index multiple to the SPV as per the clause mentioned in the concession agreement. Therefore, as per the 7th supplementary agreement signed between the authority and the SPV, the bid project cost has escalated from Rs. 995 Cr. to Rs. 1,335.36 Cr (Grant: Rs. 603.75 Cr. and Annuity: Rs. 731.61 Cr.). Further, as per the 7th supplementary agreement the first annuity payment is due in the month of August 2025.

Waterfall mechanism in escrow account for debt servicing

SGHPL has escrow mechanism through which the cash flows from authority is routed and used for payment as per the defined payment waterfall. Only surplus cash flow after meeting statutory payments, operating expense, debt servicing obligation, and provision for major maintenance expense, can be utilised as per borrower’s discretion during the concession period.

Weaknesses

Timely land clearance by the authority and receipt of final completion certificate

The company as on date is yet to receive the land clearance for remaining ~3 km from the authority wherein the authorities are negotiating with the landowners. Moreover, if the authority fails to acquire the land, as per the latest 7th Supplementary agreement, there is a clause wherein de-scoping of the same will be done and eventually the project cost shall also be reduced in the proportionate ratio. However, all these actions shall be critical in achievement of the 100 percent completion which is targeted by September 30, 2025 or within 4 months of land clearance, whichever is later. Therefore, any substantial delay in the land clearance extending the project timelines affecting the receipt of final completion certificate shall be a key rating sensitivity.

Susceptibility to risks related to delay in receipt of annuity

As per the concession agreement, the company is entitled to receive a semi-annual annuity over the concession period. However, any delay in the timely receipt of these annuity payments could adversely affect its debt-servicing capacity. In addition to fixed annuities, the project is also eligible to receive interest on outstanding annuity amounts, calculated at the prevailing bank rate plus an applicable spread. The company is also exposed to risks associated with the maintenance of the project and failure to adhere to prescribed maintenance standards or delays in timely upkeep could lead to deductions in annuity payments, thereby significantly impacting the company’s cash flows.

Assessment of Adequacy of Credit Enhancement under various scenarios including stress scenarios (applicable for ratings factoring specified support considerations with or without the “CE” suffix)

SGHPL maintains a escrow mechanism with waterfall mechanism.

Stress case Scenario

Acuité believes that given the presence of waterfall payment in escrow mechanism, SGHPL will be able to service its debt on time, even in a stress scenario.

ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact, as it is a labour intensive business. Social issues significant for the industry are community support and development, employee safety and human rights. Governance issues that are relevant include board and management compensation, transparency in related party transactions, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimize the environmental impact.
SEL, the sponsor company, has policies in corporate governance category on board independence, key management retention and business conduct and ethics. The company has designated committees for corporate social responsibility (CSR), risk management, stakeholders relationship, nomination and remuneration amongst others. The company has a total of 5 number of board of directors out of which 3 are independent directors and 2 are executive directors. The company has CSR committee consisting of 3 members with major focus on promoting education, health care, sustainable livelihood, protection of the environment, infrastructure development, eradicating hunger and poverty amongst others.

Rating Sensitivities

- Timely implementation of project, land clearances and final completion of project without cost overruns
- Timely release of the balance NCD tranches to be utilised towards project execution
- Timely payment of annuity receipts from the authority after completion of project

All Covenants

- Achievement of COD within 12 months from the date of receipt of PCOD, unless otherwise extended by KSHIP.
- Achievement of exit event within 2 years from the date of investment.
- Existing promotor loans, sub-debt or any other instrument (if any) to be fully subordinate to the Total Dues.
- Any overrun in the project, over and above the BPC, shall be infused by the Sponsor or Promotor in a manner acceptable to the Investors.

Liquidity Position

Adequate

The SPV has received ~45 percent of project cost as construction support during the construction period from the respective authorities and balance shall be received as annuity payments during the concession period as per the concessionaire agreement. In April 2025, the SPV has repaid debt of Rs. 7.03 Cr. and serviced its interest in timely manner through the change in scope fees received from authority, equity infusion and tax refunds. Further, as per the 7th supplementary agreement, the first annuity is due in August 2025, which shall enhance SGHPL's ability to service its debt obligations.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 25 (Actual)	FY 24 (Actual)
Operating Income	Rs. Cr.	255.17	243.01
PAT	Rs. Cr.	22.11	18.05
PAT Margin	(%)	8.66	7.43
Total Debt/Tangible Net Worth	Times	0.54	0.22
PBDIT/Interest	Times	3.34	4.82

FY2025 numbers are based on abridged financials.

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

Not Applicable

Interaction with Audit Committee anytime in the last 12 months (applicable for rated-listed / proposed to be listed debt securities being reviewed by Acuite)

Although Acuite requested an interaction with the Audit Committee the issuer entity was unable to arrange it.

Any other information

None

Applicable Criteria

- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.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. Acuite'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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Jun 2024	Proposed Non Convertible Debentures	Long Term	283.00	ACUITE BB+ | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	INE04AP07016	Non-Convertible Debentures (NCD)	01 Oct 2024	10.00	31 Oct 2028	90.00	Simple	ACUITE BB+ | Stable | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	193.00	Simple	ACUITE BB+ | Stable | Reaffirmed

Contacts

Mohit Jain Senior Vice President-Rating Operations Akshit Agrawal Associate Analyst-Rating Operations	**Contact details exclusively for investors and lenders** Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit https://www.acuite.in/faqs.htm to refer FAQs on Credit Rating.

Note: None of the Directors on the Board of Acuité Ratings & Research Limited are members of any rating committee and therefore do not participate in discussions regarding the rating of any entity.