



Press Release
SADBHAV GADAG HIGHWAY PRIVATE LIMITED
September 01, 2025
Rating Reaffirmed

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| Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuite 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). Further, the ratings have been placed under '**Rating watch with Negative Implications**'.

Rationale for rating watch and reaffirmation

The rationale for placing under watch is based on the event of default (EOD) notices (dated 30th October 2024, 15th January 2025, 13th March 2025, 21st July 2025) issued by the debenture trustee (as per instructions of the debenture holders) to SGHPL, pertaining to non-compliance of certain covenants related to security perfection, PCOD delays and other breaches as per the Debenture Trust Deed (DTD) dated July 19, 2024. Further, the notice dated July 21, 2025 also highlights charging of default interest @ 4% p.a. from Oct 01, 2024 till July 21, 2025 amounting to Rs. 2.91 Cr, which was to be paid within stipulated timeline of 3 days from the date of notice. However, the issuer has contested on the triggered EODs and requested for a meeting with the debenture holders in its response dated Aug 23, 2025 to discuss the future course of action. Also, while the default interest continues to accrue with each passing day till the date of curing of EOD, in line with the clauses stipulated in the trust deed, Acuite has been made to understand that the debenture trustee has not received any further written instruction from the debenture holders to recover the same. However, considering that default interest liabilities is accruing on a daily basis till the same is cured and any further action by the trustee to recover the same shall impact the cashflows of SGHPL, the rating is placed at 'Rating watch with negative implications'.

Further, Acuite understands from the trustee all dues towards principal & interest obligations have been timely paid by the issuer. The company achieved its 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) and first annuity is expected by September/October 2025 (earlier expected in August 2025). Also, as per the management articulation, they are in advance stages of refinancing these NCDs at a lower finance cost.

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, SGHPL 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 directors of the company as on June 30,

2025 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, the NCDs of Rs. 193 Cr. are pending to be disbursed, 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 receipts 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.).

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 or materialisation of EOD liabilities

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. Further, any significant liabilities arising from the ongoing EODs highlighted by the trustee impacting the cash outflows of the company shall be a key rating monitorable.

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 account 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 2 are independent directors and 3 are non-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

- Any further development with respect to EOD leading to significant liabilities to be paid within the stipulated time period impacting the cashflow position and liquidity profile of the company
- 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 was due in August 2025 (due in 180 days from date of PCOD), however, owing to administrative delays and procedural delays, the same is expected to be received by September/October 2025, which is expected to enhance SGHPL's ability to service its debt obligations.

Outlook: Not Applicable

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 |

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

Not Applicable

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. 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|-------------------------------------|-----------|-----------------|----------------------------------|
| 29 May 2025 | Non-Convertible Debentures (NCD) | Long Term | 90.00 | ACUITE BB+ Stable (Reaffirmed) |
| | Proposed Non Convertible Debentures | Long Term | 193.00 | ACUITE BB+ Stable (Reaffirmed) |
| 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+ Reaffirmed Rating Watch with Negative Implications |
| 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+ Reaffirmed Rating Watch with Negative Implications |

Contacts

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About Acuité Ratings & Research

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