



SMERA RATINGS LIMITED

**Bijapur Hungund Tollway Private Limited
(BHTPL)****Rating
Rationale****April 30, 2014**

Facilities	Amount (Rs. Crore)	Rating
Term Loans	846.50	SMERA BBB-/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) to the above-mentioned bank facilities of Bijapur Hungund Tollway Private Limited (BHTPL). The outlook is '**Stable**'. The rating derives strength from the established track record of the promoter of BHTPL - Sadbhav Engineering Limited (SEL) in executing BOT projects and achievement of Commercial operations date (COD) prior to scheduled COD. The rating also factors the presence of Debt Service Reserve Account (DSRA). However, the rating is constrained by traffic risk and lower-than-expected traffic movement. The rating also considers the road maintenance risk and revenue dependence on commercial vehicle traffic and iron ore mining activities.

BHTPL, incorporated in 2010, is the Special Purpose Vehicle (SPV) promoted by Sadbhav Engineering Ltd (SEL) through its step down subsidiary Sadbhav Infrastructure Project Limited (SIPL) and Monte Carlo Construction Limited (MCL) for implementing a 97.22 km four-laning road project under Build, Operate and Transfer (BOT) basis from Bijapur to Hungund in the state of Karnataka on National Highway 13 (NH 13). SEL, SIPL and MCL are the sponsors of the project. SEL has a healthy track record of more than two decades in executing toll road projects under BOT basis and has successfully completed more than 4000 lane kilometers. It has a portfolio of 13 BOT projects (which includes 9 completed projects). The experience of SEL in project execution has resulted in early completion of the project and achievement of COD (April 2012) one year prior to scheduled COD (April 2013).

In FY2013-14, the promoters have infused capital of Rs.73.56 crores in BHTPL for creation of DSRA. BHTPL has created and maintained a DSRA (equivalent to six month interest and principal payment) with the lead bank as per the Common Loan Agreement, which partially safeguards the debt serviceability, despite the lower-than-expected toll revenues.

BHTPL has commenced toll collection from May 2012. The traffic movement on the Bijapur-Hungund stretch, since commencement of operations, has been lower than envisaged (by approx. 40 per cent of expected Average Daily Traffic in FY2013-14), primarily on account of ban on iron ore mining and slowdown in the economy. However, the lower-than-expected traffic movement and decline in traffic movement in FY2013-14 has been partly offset by annual increase in toll rates as per terms of Concession Agreement with NHAI. The toll collection of BHTPL is highly dependent on movement of commercial vehicles. Hence the revenues are susceptible to volatility in economic

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cycle and iron ore mining activity in the state of Karnataka. However, the risk is partially mitigated by commencement of mining activity in the state of Karnataka.

BHTPL has to undertake major maintenance activity for maintaining the roughness index of the road at 2500 mm. The absence of an annual transfer mechanism to major maintenance reserve exposes BHTPL to maintenance risk. The shortfall in toll collection to fund the major maintenance expenses is expected to be met through support from sponsors. However, delay in support from sponsors would remain a key rating sensitivity factor.

Outlook: Stable

SMERA believes the outlook on BHTPL's rated facilities will remain stable over the medium term, given the early commencement of tolling on the BOT project, track record of the promoters and healthy DSRA balance. The outlook may be revised to 'Positive' in case of higher-than-expected increase in traffic movement. Conversely, the outlook may be revised to 'Negative' in case of decline in traffic movement or deterioration in the financial risk profile or lack of timely support from the sponsors.

About the company

BHTPL is a Special Purpose Vehicle (SPV), promoted by Sadbhav Engineering Ltd (SEL) through its step down subsidiary Sadbhav Infrastructure Project Limited (SIPL) (77 per cent stake) and Monte Carlo Construction Limited (MCL) (23 per cent stake) for implementing a 97.22 km four-laning road project under Build, Operate and Transfer (BOT) basis. The project envisaged four-laning of the Bijapur-Hungund section in the state of Karnataka on National Highway 13 (NH 13). The project highway starts from Bijapur (Km 102.00 of NH 13) and ends at Hungund (Km 202.00 of NH 13). The project was awarded by National Highways Authority of India (NHAI) on Toll collection basis, with a concession period of 20 years including the construction period of 910 days. The project achieved its COD in April 2012.

For FY2012-13, BHTPL reported loss of Rs.75.69 crores on operating income of Rs.86.22 crores. For the period April 2013 to December 2013 (per provisional financials), BHTPL has reported loss of Rs.52.31 crores on operating income of Rs.71.07 crores. The company's networth stands at Rs. 214.1 crores as on March 31, 2013.

About SEL

Sadbhav Engineering Limited (SEL), promoted by Shri Vishnubhai M. Patel, was incorporated in October 1988 as a private company in the State of Gujarat. The company is listed on the Bombay

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Stock Exchange (BSE) and National Stock Exchange (NSE). It is one of the prominent developers and Engineering, Procurement and Construction (EPC) contractors in India and it undertakes road construction, irrigation and mining. It has a portfolio of 13 BOT projects (which includes 9 completed projects). It has a track record of 2 decades in the road construction sector and has successfully completed more than 4000 lane kilometers.

For FY2012-13, SEL (on standalone basis) reported PAT of Rs.74.07 crores on operating income of Rs.1,811 crores as compared with PAT of Rs.140.56 crores on operating income of Rs.2,675.55 crores in FY2011-12.

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