

Ref: SEL/2021-22/21

Date:- July 13, 2021

To,
The Dy Gen Manager
Corporate Relationship Dept
BSE Limit
PJ Tower, Dalal Street,
Mumbai- 400 001

To,
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051
Fax : 022-26598237-38

Equity Scrip Code:532710

Equity Scrip Name: SADBHAV

Sub: Revised Credit Rating

Dear Sir / Madam,

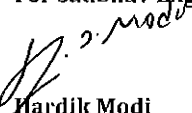
Pursuant to Regulation 30 and 51(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, This is to inform you that on 12th July, 2021, India Ratings and Research Private Limited (India Rating) has revised the credit rating of the Company to IND BBB+ from 'IND A-':

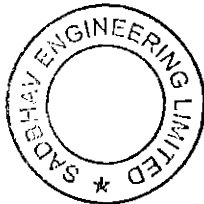
Instrument	Amount (Rs. In Crores)	Rating
Term Loan Facilities	Rs. 127.70 Crores (Rupees One Hundred Twenty-Seven Crores Seventy Lakhs Only)	IND BBB+/Negative [Triple BBB Plus; Outlook: Negative]
Fund based working capital Facilities	Rs. 581.00 Crores (Rupees Five Hundred and Eighty-One Crores Only)	IND BBB+/Negative/IND A2 [Triple BBB Plus; Outlook: Negative] [Single A Two]
Non - Fund based working capital Facilities	Rs.2000.00 Crores (Rupees Two Thousand Crores Only)	IND BBB+/Negative/IND A2 [Triple BBB Plus; Outlook: Negative] [Single A Two]
Non-Convertible Debenture (NCDs)	Rs. 100.00 Crores (Rupees One Hundred Crores Only) (Reduced from Rs. 150.00 Crores)	IND BBB+/Negative-/Negative [Triple BBB Plus; Outlook: Negative]
Proposed Fund Based Limit	Rs. 41.30 Crores (Rupees Forty One Crores Thirty Lakhs Only)	IND BBB+/Negative/IND A2 [Triple BBB Plus; Outlook: Negative] [Single A Two]

The downgrade reflects the changes in Ind-Ra's base case scenario in view of SEL's stretched liquidity position, driven by the high gross working capital levels, which is likely to impact the company's execution capabilities.

This is for your information and records.

Thanking You,
Yours Faithfully,
For **Sadbhav Engineering Ltd.**


Hardik Modi
Company Secretary



Encl:- As Above

Sadbhav Engineering Limited

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India Ratings Downgrades Sadbhav Engineering to 'IND BBB+'; Outlook Negative

12

JUL 2021

By Harsha Rekapalli

India Ratings and Research (Ind-Ra) has downgraded Sadbhav Engineering Limited's (SEL) Long-Term Issuer Rating to 'IND BBB+' from 'IND A-'. The Outlook is Negative. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs) £	-	-	-	INR1,000 (reduced from INR1,500)	IND BBB+/Negative	Downgraded
Fund-based working capital limit	-	-	-	INR5,810	IND BBB+/Negative/IND A2	Downgraded
Non-fund-based working capital limit	-	-	-	INR20,000	IND BBB+/Negative/IND A2	Downgraded
Term loan	-	-	September 2022	INR1,277	IND BBB+/Negative	Downgraded
Proposed fund-based limits	-	-	-	INR413	IND BBB+/Negative/IND A2	Downgraded

£ Details in Annexure

Analytical Approach: Ind-Ra continues to take a consolidated view of SEL and its subsidiary, Sadbhav Infrastructure Projects Limited (SIPL; SEL holds 69.7% stake), collectively known as Sadbhav, owing to the strong legal and operational linkages between them. Ind-Ra has also adjusted the financials for the equity required to be infused by SEL in its under-construction hybrid annuity model (HAM) projects along with the shortfall support envisaged for the operational build-operate-transfer (BOT) and HAM assets. Ind-Ra has not consolidated the debt of the projects, wherever it is on a non-recourse basis, and has included corporate guarantee provided by the company for its HAM projects.

The downgrade reflects the changes in Ind-Ra's base case scenario in view of SEL's stretched liquidity position, driven by the high gross working capital levels, which is likely to impact the company's execution capabilities. The Negative Outlook reflects the tight liquidity position despite an inflow of INR9.9 billion via the Indinfravit Trust unit sales and non-convertible debentures (NCDs) issuances at SIPL's level, and the fact that any delays in the monetisation of assets could exert further stress on the company's ability to manage its obligations.

KEY RATING DRIVERS

Liquidity Indicator - Stretched; Proceeds from NCD Issuances & Invit Unit Sales at SIPL level Exhausted: At FYE21, SEL and SIPL had unencumbered cash balances of INR0.08 billion (FYE20: INR0.18 billion) and INR0.01 billion (INR0.31 billion), respectively. The average utilisation of SEL's fund-based limits was high at 95% for the 12 months ended June 2021. Ind-Ra had previously expected the liquidity profile of the entity to improve significantly following the NCD issuances worth INR5.5 billion at SIPL's level and the sales of 7% of Indinfravit Trust's units for INR4.4 billion in 1QFY22. However, the proceeds have largely been utilised towards the prepayment of long-term debt facilities, while the working capital facilities remain highly utilised. SIPL is likely to receive INR2.67 billion once the stake sale of Ahmedabad Ring Road Infrastructure Limited to IndInfravit Trust is concluded, though the transfer of asset has been pending for more than five months following the receipt of approval from the Ahmedabad Urban Development Authority. The agency has been informed that the company is in the final stages of monetising a few of its assets, which would result in cash inflows that would be used to deleverage the balance sheet. Given that SEL is likely to service a repayment obligation of INR1,480 million over the rest of FY22, any delay in the receipt of the cash flows could result in further deterioration in the liquidity profile and would be negative for the ratings. The figures for FY21 are provisional in nature.

Working Capital Requirement Remains High as Funding Tie-up for Sadbhav Jodhpur Ring Road Still Ongoing: The gross debtors remain high at INR17.5 billion at FYE21 (FYE20: INR17.4 billion), while the cost escalations of under-construction HAM projects increased to INR2.9 billion (INR2.3 billion). Furthermore, two of the HAM projects, namely Sadbhav Kim Expressway Private Limited and Sadbhav Jodhpur Ring Road Highway Private Limited (debt rated at 'IND BBB+'/Stable), had cumulatively high outstanding debtors of over INR4.0 billion at FYE21. The working capital has failed to ease up, contrary to Ind-Ra's expectations, due to the higher working capital requirement as well as the continued uncertainty regarding the lender tie-up for Sadbhav Jodhpur Ring Road.

Operations Remained Subdued in FY21; Improvements Likely in FY22, Albeit at Slower-Than-Expected Pace: SEL's standalone revenue declined by 27.7% yoy to INR16.2 billion in FY21 due to COVID-19-induced execution challenges in 1HFY21. Furthermore, in 4QFY21, the revenue fell by about 23%, as SEL's ability to mobilise its resources was adversely affected by the continued stretched liquidity position. Ind-Ra expects the execution to pick pace in FY22 following the equity infusion in HAM projects (which constitute about 30% of the order book) from 2QFY22. Similarly, the consolidated revenue declined to INR18.2 billion in FY21 (FY20: INR24.3 billion) in line with SEL's performance..

The consolidated EBITDA margins improved to 17.3% in FY21 (FY20: 14.6%), driven by the execution of high-margin orders coupled with lower subcontracting expenses. The consolidated net leverage (net debt/ EBIDTA) deteriorated to 5.4x in FY21 (FY20: 4.6x) due to the revenue-led decline in gross EBITDA levels Ind-Ra expects the entity's net leverage to improve to only 4.5x by FYE22, against Ind-Ra's earlier expectation of 3.4x, mainly on account of the likely lower EBIDTA generation during the year. The fall in gross EBIDTA levels also caused the interest coverage to fall to 1.1x in FY21 (FY20: 1.4x). Ind-Ra expects the revenues and operating margins to improve over the remaining period of FY22 from July 2021 onwards; however, despite substantial fund inflows in 1QFY22, the improvement in the revenue and margins will take place at a slower-than-expected pace, as the tight liquidity position at 1QFYE22 is likely to result in slower mobilisation of resources.

Diversified, Strong Order Book; Execution Challenges Related to HAM Projects Largely Resolved: At FYE21, SEL had a strong order book of INR9.3 billion (4.9x of FY21 revenue), spread across HAM (26.3%), engineering, procurement and construction (EPC:49.8%) and irrigation and mining (23.9%). Some of the HAM projects in the order book are running behind schedule due to the issues related to the right of way and clearances. The counterparty, National Highway Authority of India (NHAI; 'IND AAA'/Stable), has agreed for the extension of timelines on some of these projects without any financial penalties, though the terms of settlement include performance clauses that need to be met. Furthermore,

the fulfilment of equity commitments across nine of these projects is likely to help in improving the working capital cycle of these projects. SEL's Mumbai Nagpur Super Communication Expressway EPC project is also running behind schedule, and the company has applied for an extension of the deadline by 541 days for the project.

The order book has been geographically diversified historically, although the concentration in Gujarat has been increasing, with the state accounting for orders worth INR23.5 billion in FY21. Gujarat, Maharashtra and Karnataka constituted about 33%, about 23% and about 12%, respectively, of the order book at FYE21. Additionally, SEL has demonstrated segmental diversification, with a presence across the roads, mining and irrigation segments, which constituted 76.1%, 20.5% and 3.3%, respectively, of the order book at FYE21. There is moderate project concentration, with the top five projects accounting for about 52% of the order book at FYE21.

HAM Equity Commitments Largely Met: According to the management, with the infusion of INR2.6 billion in 1QFY22 with the receipts of IndInfravit Trust unit sales as well as NCD proceeds, the outstanding equity commitments for SEL's 10 HAM projects fell to INR0.9 billion (pending in FY23) at end-June 2021.. The infusion of equity in the HAM projects is likely to provide comfort to the project lenders regarding the project's progress. With most of the equity commitments being met, Ind-Ra believes the execution of these HAM projects would pick up pace; also, with SEL being the EPC contractor for all these HAM projects, the company is likely to realise better operational efficiencies by FY23-FY24. However, the execution pace of HAM projects will be a key monitorable.

RATING SENSITIVITIES

Outlook Revision to Stable: An improvement in the consolidated credit profile, led by an improvement in the liquidity position through the monetisation of assets, leading to an improvement in the execution profile as well as an improvement in the working capital cycle, resulting in the consolidated net leverage falling below 3.5x, on a sustained basis, could lead to the Outlook being revised to Stable.

Negative: Any delays in asset monetisation, resulting in deterioration in the liquidity position or further elongation in the working capital cycle or providing of higher-than-expected support to the special purpose vehicles or lower revenue visibility, driven by the stalling/cancellation of the existing projects in the order book, leading to deterioration in the overall consolidated credit profile and/or the net leverage sustaining above 4.0x will lead to a negative rating action.

COMPANY PROFILE

Incorporated in 1988, SEL is an Ahmedabad-based construction contractor and developer primarily engaged in road construction, mining and irrigation.

STANDALONE FINANCIAL SUMMARY

Particulars (SEL)	FY21(Provisional)	FY20	FY19
Revenue (INR billion)	16.2	22.5	35.5
Operating EBITDA (INR billion)	2.1	2.8	4.3
Operating EBITDA margins (%)	13.0	12.4	12.1
Total debt (INR billion)	12.2	12.4	15.6
Interest coverage (x)	1.1	1.4	2.4
Net leverage (x)	5.8	4.4	2.7
Source: SEL, Ind-Ra			

CONSOLIDATED FINANCIAL SUMMARY

Particulars (Sadbhav)	FY21#	FY20#	FY19#
Revenue (INR billion)	18.2	24.3	38.4
Operating EBITDA (INR billion)	3.1	3.5	6.4
Operating EBITDA margins (%)	17.3	14.6	16.6
Total debt (INR billion)	17.1	16.7	25.0
Interest coverage (x)	1.2	1.1	2.2
Net leverage (x)	5.4	4.6	2.9

Source: Sadbhav, Ind-Ra
#Based on Ind-Ra's principles of consolidation

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	22 March 2021	16 September 2020	15 September 2020
Issuer rating	Long-term	-	IND BBB+/Negative	IND A-/Negative	IND A-/Stable	IND A-/Stable
Term loan	Long-term	INR1,277	IND BBB+/Negative	IND A-/Negative	IND A-/Stable	IND A-/Stable
NCDs	Long-term	INR1,000	IND BBB+/Negative	IND A-/Negative	IND A-/Stable	-
Fund-based limits	Long-term/Short-term	INR6,223	IND BBB+/Negative/IND A2	IND A-/Negative/IND A2+	IND A-/Stable/IND A2+	-
Non-fund-based limits	Long-term/Short-term	INR20,000	IND BBB+/Negative/IND A2	IND A-/Negative/IND A2+	IND A-/Stable/IND A2+	-

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE226H07072	22 June 2018	9.50	22 June 2021	INR500	WD
NCDs	INE226H07080	22 June 2018	9.50	22 June 2022	INR500	IND A-/Negative
NCDs	INE226H07098	22 June 2018	9.50	22 June 2023	INR500	IND A-/Negative

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Non-fund-based working capital limit	Low
Term Loan	Low
NCDs	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Corporate Rating Methodology

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