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## CRISIL Research assigns IPO grade '4/5' to Sadbhav Infrastructure Project Ltd

CRISIL Research has assigned a CRISIL IPO grade of '4/5' (pronounced 'four on five') to the proposed initial public offer (IPO) of Sadbhav Infrastructure Project Ltd (SIPL). The grade indicates that the fundamentals of the IPO are **above average** relative to the other listed equity securities in India. However, it is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. Nor is it a recommendation to buy/sell or hold the securities it relates to (or any other securities); it does not comment on the issue price, future market price or suitability for a particular investor.

The assigned grade reflects SIPL's established position in the build-operate-transfer (BOT) space in the road sector. It has a strong portfolio of 10 projects, of which seven are operational (including one project which is partially operational) and three are under development. In addition, SIPL is in the process of acquiring stakes in three projects currently owned by its parent Sadbhav Engineering Ltd (SEL), of which two projects are operational and one is under development. The restructuring is in accordance with the strategy to consolidate all BOT road projects under one company - SIPL. The grade factors in low execution risk since nine of the 13 projects are already operational (including the one which is partially operational); for the four under-development projects, land has been acquired and construction is on schedule. SIPL has an integrated in-house team responsible for different functions such as identification of prospective projects, evaluation of bids, and operation and maintenance of projects. The grade factors in SIPL's rational and cautious approach with respect to the evaluation and timing of bids.

The grade also factors in healthy industry prospects; awarding of projects in the road sector is expected to pick up in the next 12-18 months driven by a thrust on the infrastructure sector and a slew of policy reforms by the new government. Over FY15-19, CRISIL Research expects investments in the roads sector to grow to ₹7.3 trillion compared to ₹4.1 trillion over FY10-14. CRISIL Research expects the National Highway Authority of India (NHAI) to award ~7,800 km of road length over FY15 and FY16 as against 4,824 km awarded over FY13 and FY14. SIPL is in a sweet spot to benefit from the increase in awarding of projects by NHAI as the competition for BOT projects has eased in the last few months since some of the infrastructure developers have a stressed balance sheet which could hinder their participation in the new project awards. The grade also factors in expectations of improvement in traffic growth driven by recovery in economic activity.

The grade is supported by SIPL's strong parentage – SEL is a leading road infrastructure company. SEL is financially sound with a robust balance sheet, strong domain expertise and proven execution capabilities. It is the EPC contractor for most of SIPL's projects. Leveraging its domain expertise and experience, SEL has been able to complete most of SIPL's projects on schedule; in fact, some of the projects have been completed ahead of schedule.

The grade is constrained by external risks such as cost overruns owing to delays in land acquisition and other requisite approvals. In the past, the company has encountered instances where it had to terminate the project due to delay in land acquisition. The grade is also constrained by traffic risks as 1) most of its projects are toll projects which are susceptible to low traffic during an economic downcycle and 2) possible divergence of traffic from one stretch to another as the road network in the country gets enhanced significantly.

SIPL's operating income grew from ₹695 mn in FY11 to ₹3,745 mn in FY14. The company commissioned five BOT projects over FY11-14, which supported revenue growth. EBITDA margin increased from 65.3% in FY10 to 67.4% in FY14. The company reported a net loss of ₹1,851 mn in FY14 as against a net profit of ₹70 mn in FY11 owing to higher depreciation and interest cost, which is the case initially for BOT projects.

### About the company and the issue

Ahmedabad-based SIPL, a subsidiary of SEL, was incorporated in 2007 as a developer and operator for highways, road and related projects on a BOT basis. The company is involved in the development, operation and maintenance of national and state highways, and roads. Its parent company SEL, incorporated in 1988, is an established player in the engineering, procurement and construction (EPC) space in infrastructure.

## About CRISIL IPO Grading

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