

# Sadbhav Infrastructure Project Ltd

One-time assessment

**CRISIL IPO Grade 4/5 (Above Average)**

March 26, 2015

## Grading summary

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. The 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 road 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 ~7,850 km of road length over FY15-16 as against 4,824 km awarded over FY13-14. SIPL is in a sweet spot to benefit from the increase in project awards 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

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 in several states including Maharashtra, Gujarat, Rajasthan, Karnataka, Haryana, Madhya Pradesh and Telangana, and border check posts in Maharashtra. It has a portfolio of 10 BOT projects of which six road projects are fully operational, one is partially operational (border check posts) and three are in various stages of development. Nine of the 10 BOT projects are toll projects (including service fee for the border check posts in Maharashtra) and one is an annuity project. In addition to the 10, SIPL has initiated the process to acquire stakes in three projects under SEL – 73.8% in Mysore-Bellary Highway Pvt. Ltd, 20% in Mumbai Nashik Expressway Ltd and 39% in Dhule Palesnar Tollway Ltd, of which two are operational and one is under development. Two of the three BOT projects are toll projects and one is an annuity project. The restructuring is in accordance with the company's overall strategy to consolidate all BOT road projects to be developed by SEL under one company - SIPL.

The company generates revenues primarily from toll collection, service fee and annuity receipts. SIPL's consolidated revenues from operations in FY14 amounted to ₹3,745 mn.

Parent company SEL, incorporated in 1988, has established itself as one of the leading players in the engineering, construction and infrastructure development industry. Over the past 25 years, it has developed a healthy track record of executing construction projects across 10 states in India. SEL has a strong balance sheet. SIPL derives strength from its parent SEL, which has been the EPC (engineering, procurement and construction) contractor for most of SIPL's projects.

**Table 1: Business environment**

Product / segment	BOT projects
Revenue (FY14)	₹3,745 mn
Revenue growth (CAGR) FY11-14	75.3%
Product / service offering	<ul style="list-style-type: none"> <li>Development and maintenance of road projects</li> </ul>
Geographic presence	<ul style="list-style-type: none"> <li>Has projects mainly in Maharashtra, Madhya Pradesh, Gujarat, Haryana, Rajasthan, Telangana and Karnataka</li> </ul>
Market position	<ul style="list-style-type: none"> <li>Highly fragmented industry with a large number of organised players. SIPL is an established player with a focus on the road segment</li> </ul>
Industry growth drivers	<ul style="list-style-type: none"> <li>After a slowdown in the past couple of years, awarding of BOT projects is expected to pick up in FY16-17 driven by a slew of policy reforms undertaken by the government</li> <li>Construction spends in roads projects over the next five years (2014-15 to 2018-19) estimated to grow 1.7 times to ₹7.3 trillion</li> <li>~25,000 km of projects estimated to be awarded by NHAI over the next five years (2014-15 to 2018-19)</li> <li>Road traffic has witnessed a decline in the past couple of years owing mainly to lower commercial vehicle traffic, impacted by economic slowdown. With an expected improvement in economic activity, traffic growth is expected to pick up over the next couple of years</li> </ul>
Key competitors	<ul style="list-style-type: none"> <li>IRB Infrastructure Developers Ltd, Ashoka Buildcon Ltd, GMR Infrastructure Ltd, GVK, ITNL, IVRCL, Nagarjuna Construction Company, Hindustan Construction Company, Era Infra Engineering and Gammon Infrastructure Projects Ltd</li> </ul>
Key risks	<ul style="list-style-type: none"> <li>Awarding of projects through EPC model compared to the BOT model. This may impact the company's business prospects as it only bids for BOT projects</li> <li>Execution bottlenecks such as land acquisition and delay in receiving approvals, etc.</li> <li>Slowdown in traffic growth</li> <li>Moderate increase in toll rates as a result of decline in inflation (as per the concession agreement, increase in toll rates in most of the BOT projects is linked to WPI inflation)</li> </ul>

Source: Company, CRISIL Research

**Table 2: Issue details**

<b>Type of issue</b>	Initial public issue
<b>Shares offered to public</b>	Not available at the time of grading
	Fresh issue: Not available at the time of grading
	Offer for sale: Up to 32,357,622 equity shares
<b>Shares offered as percent of post issue equity (dilution)</b>	Not available at the time of grading
<b>Object of the issue</b>	<ul style="list-style-type: none"> <li>■ Repayment/pre-payment, in full or part, of certain loans</li> <li>■ Equity investment and advancing of subordinate debt to the subsidiary, Shreenathji-Udaipur Tollway Pvt. Ltd (SUTPL), for part financing of the project</li> </ul>
<b>Amount proposed to be raised</b>	Not available at the time of grading
<b>Price band</b>	Not available at the time of grading
<b>Lead managers</b>	Kotak Mahindra Capital Company Ltd, Inga Capital Private Ltd, Citigroup Global Markets India Private Ltd, Edelweiss Financial Services Ltd, ICICI Securities Ltd and YES Bank Ltd

Source: DRHP

**Table 3: Use of IPO proceeds**

<b>Particulars</b>	<b>Deployment of IPO proceeds (₹ mn)</b>
<b>Repayment / pre-payment, in full or part, of certain loans availed by the company:</b>	
▪ Repayment of loan to ICICI Bank Ltd	1,800
▪ Part repayment of unsecured loans from SEL	2,400
Equity investment and advancing of subordinate debt to its subsidiary, SUTPL, for part financing of the SUTPL Project	1,028
General corporate purposes	Not available at the time of grading
<b>Total</b>	Not available at the time of grading

Source: DRHP

**Table 4: Shareholding pre- and post-issue**

<b>Category of equity shareholders</b>	<b>Pre-issue</b>		<b>Post-issue</b>	
	<b>No. of equity shares</b>	<b>%</b>	<b>No. of equity shares</b>	<b>%</b>
Promoters and promoter group	242,867,647	78.1	Not available at the time of grading	NA
Xander	32,357,622	10.4	Not available at the time of grading	NA
Norwest	32,357,622	10.4	Not available at the time of grading	NA
Others	3,380,190	1.8	Not available at the time of grading	NA
<b>Total</b>	<b>310,963,081</b>	<b>100.00</b>	<b>Not available at the time of grading</b>	<b>NA</b>

Source: DRHP

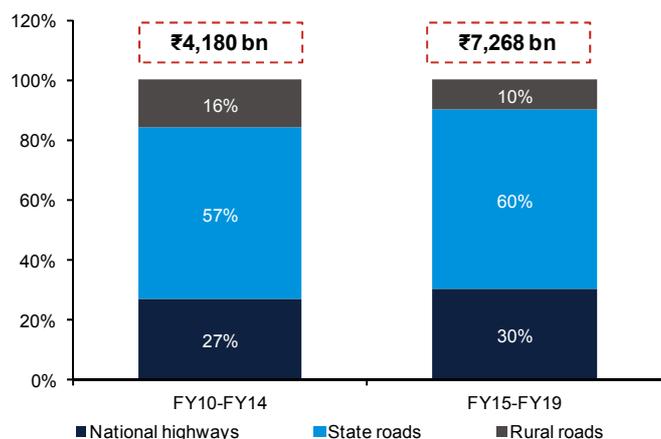
## Detailed Grading Rationale

### A. Business Prospects

#### *Project awarding expected to pick up driven by the government's thrust on infrastructure*

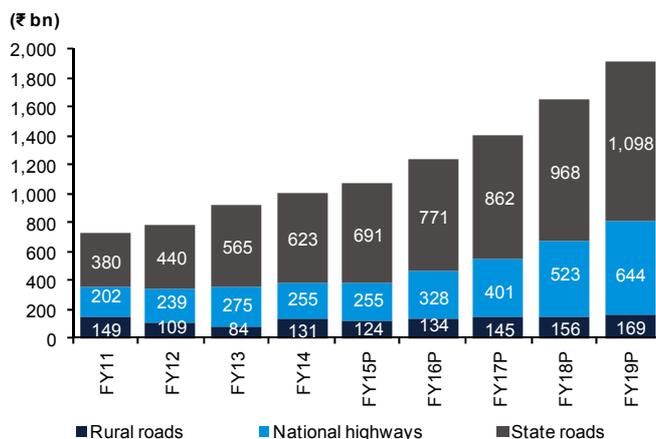
With a host of policy changes announced by the present government, the awarding of new projects is expected to pick up significantly following a slump over the past couple of years. Investments in the road sector are expected to grow to ₹7.3 trillion over the next five years (FY15-19) as against ₹4.1 bn in the past five years, most of which is expected in national highways and state roads.

**Figure 1: Investments in road sector**



Source: CRISIL Research

**Figure 2: Trends in yearly investments in road**



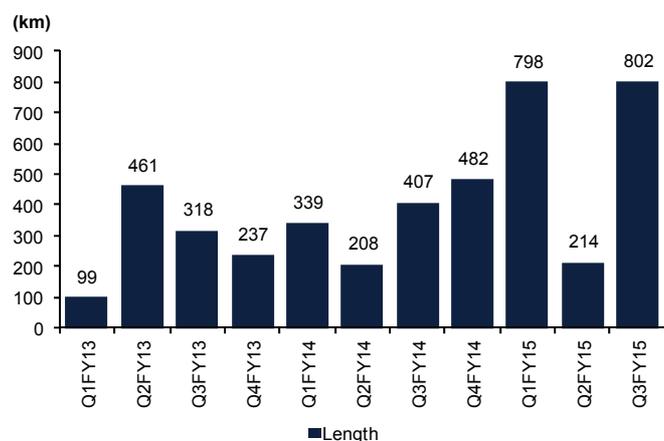
Source: CRISIL Research

**Policy measures announced by the government are expected to ease execution challenges:** The government has announced a number of measures to address the two key factors that have hampered execution of national highways (NH) in the recent past: a) delays in land acquisition and clearances and b) poor financial health and the resultant lack of interest from private developers. Few key measures such as delinking of forest and environmental clearances, ensuring substantial land acquisition before a project is awarded, and simplifying the process to obtain clearances from railways, are expected to reduce delays. On the other hand, the new exit policy and premium rescheduling will offer some respite to ailing road developers.

#### *National highway awarding to pick up*

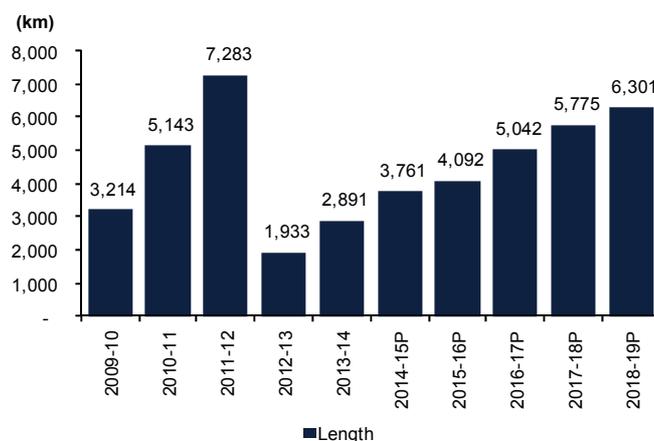
In the last couple of years, NH projects were awarded at an extremely slow pace. Issues related to clearances, land acquisition, low traffic density stretches on offer and weak financial condition of players impacted the sector. However, awarding of NH projects has gathered momentum during 2014-15 with NHA awarding 1,800 km worth of projects across 18 projects during April 2014-December 2014 – the highest since 2011-12. CRISIL Research expects the momentum to continue with ~25,000 km of NH projects estimated to be awarded over FY15-19 by NHA. NH investments are expected to grow to ₹2.2 trillion over FY15-19 compared to ₹1.1 trillion in the past five years.

**Figure 3: Project awards by NHA rose in recent quarters**



Source: NHA, CRISIL Research

**Figure 4: Expected to pick up further**



Source: NHA, CRISIL Research

**EPC model preferred by developers in the recent past:** Given the execution related issues faced by the developers, EPC projects have attracted higher interest in the last few years as they require limited upfront capital and involve lower risk than BOT projects. Also, the regular milestone payments from the authority provided the much-needed cash flows to financially weak companies.

**Expect awards under the BOT model to improve aided by policy changes:** In the near term, awarding of BOT projects is expected to be lower than EPC projects owing to lack of interest from developers as most of them are under financial stress. However, this is expected to change due to the policy changes in the private-public-partnership (PPP) model, which are favourable for BOT operators. The exit policy has been relaxed, which now allows developers to fully exit operational BOT projects. Also, rescheduling of premiums could help developers fund their near-term cash flow mismatch at lower interest rates. Over the next couple of years, few developers who are able to successfully monetise their operational BOT assets and infuse equity could see healing in their financial health.

**Table 5: NHDP to drive awarding of BOT projects**

Phase	Description	Status/ expectation
<b>Phase III: Awarding and implementation in full swing</b>	Four-laning of two-laned roads connecting the state capitals and places of economic and tourist importance	The government plans to implement most projects under this phase through the BOT-toll model. Around 86% of road length under this phase has already been awarded and around 51% has been constructed
<b>Phase V: Attractive stretches with high traffic density</b>	This phase involves conversion of the existing four-lane national highways, comprising the GQ and other high density stretches, into six lanes. The total length of this phase is 6,500 km	The government aims to implement all projects under this phase via the BOT-toll model as traffic volumes on these stretches are attractive for private players. Moreover, the concessionaire will be allowed to collect toll on the existing four-lane highways from the date of financial closure of the project, which will result in cash inflows even before construction of the additional two lanes commences. Around 63% of road length under this phase has already been awarded and around 29% has been constructed
<b>Phase VI: Awarding still to begin</b>	About 1,000 km of expressway projects have been planned for development via the BOT mode on a greenfield basis	In 2014-15, NHA launched the bidding for some of these projects, which may be awarded in the current year

Source: CRISIL Research

### **Traffic growth likely to revive gradually from the lows of the past couple of years**

Over the past couple of years, growth in road traffic has moderated to 2-3% compared to the historic growth rate of 7-8%. Slowdown in macro-economic activity adversely impacted growth in commercial vehicle traffic, which was the primary reason for the slump in road traffic. However, road traffic growth is expected to revive gradually going forward driven by 1) higher commercial vehicle traffic on account of recovering macros and 2) higher growth in non-bulk commodity traffic, for which roads are the preferred mode of transport. CRISIL Research expects road traffic to grow at ~5% CAGR over the next five years.

SIPL's several projects have witnessed improvement in traffic in the last few quarters.

### **Monetisation of road infrastructure assets expected to pick up going forward**

Going ahead, monetisation of road infrastructure assets is expected to pick up. With more assets becoming operational and expected improvement in traffic growth, developers are likely to monetise the assets via refinancing or securitisation and utilise the proceeds to fund new assets. This would address their financing needs to bid for new projects.

### **SIPL has a diversified and strong portfolio of road BOT assets**

SIPL specialises in the development, operation and maintenance of highways and road projects. The company has a strong portfolio of 10 projects of which seven are operational (including one which is partially operational) and three are under development, with an average residual life of 18 years. Other than the typical road BOT projects, the company's project portfolio consists of a border check post project. It is in the process of acquiring stakes in three projects from SEL. The restructuring is in accordance with the strategy to consolidate all BOT road projects under one company - SIPL.

The company is one of the largest players in the road infrastructure space with a proven track record. Currently, seven projects are operational (including Maharashtra Border Check Post Network Ltd project which is partially operational) with total project cost of ₹56.4 bn, measuring 1,534 lane km. Three projects with total project cost of ₹31 bn measuring 1,062 lane km are under various stages of development. Among the three projects to be acquired by SIPL, two projects with a total cost of ₹21.5 bn and measuring 753 lane km are operational, while one project with project cost of ₹7.8 bn measuring 387 lane km is under development. ~81% of the equity is invested in operational projects. The project portfolio is well distributed across urban and rural vehicular traffic, and includes national and state highways. Further, the company develops projects in states which are economically stable and which are expected to grow driven by recovery in industrial activities. The project portfolio will be fully funded after the IPO.

**Table 6: Projects under operation**

Project name	Lane km	Stake (in %)	Project cost (₹ mn)	Granted by	Concession period**
Maharashtra Border Check Post Network Ltd (MBCPNL)	22 check posts	78 <sup>*</sup>	14,264	Government of Maharashtra	May 2009-November 2033
Rohtak Panipat Tollway Pvt. Ltd (RPTPL)	323	100	11,610	NHAI	April 2011-April 2036
Bijapur-Hungund Tollway Pvt. Ltd (BHTPL)	389	77	13,689	NHAI	September 2010-September 2030
Ahmedabad Ring Road Infrastructure Ltd (ARRIL)	305	80 <sup>*</sup>	5,435	AUDA	January 2007-December 2026
Aurangabad Jalna Tollway Ltd (AJTL)	263	100	2,724	Government of Maharashtra	February 2007-July 2030
Hyderabad Yadgiri Tollway Pvt. Ltd (HYTPL)	143	60 <sup>*</sup>	4,947	NHAI	July 2010-July 2023
Nagpur Seoni Express Way Ltd (NSEL)	111	70 <sup>*</sup>	3,748	NHAI	November 2007-November 2027
<b>Total</b>	<b>1,534</b>	<b>NA</b>	<b>56,417</b>	<b>NA</b>	<b>NA</b>

\*Shareholding to increase post requisite approvals

\*\*Subject to increase in case target traffic is not met on the target date (details on page 9)

Source: DRHP

**Table 7: Projects under development**

Project name	Lane km	Company's beneficial interest	Project cost (₹ mn)	Granted by	Concession period**
Shreenathji-Udaipur Tollway Pvt. Ltd (SUTPL)	317	100	11,515	NHAI	April 2013-April 2040
Bhilwara-Rajsamand Tollway Pvt. Ltd (BRTPL)	349	100	6,757	NHAI	October 2013-October 2043
Rohtak- Hissar Tollway Pvt. Ltd (RHTPL)	395	100	12,716	NHAI	December 2013-December 2035
<b>Total</b>	<b>1,061</b>	<b>NA</b>	<b>30,987</b>	<b>NA</b>	<b>NA</b>

\*\*Subject to increase in case target traffic is not met on the target date (details on page 9)

Source: DRHP

**Table 8: Proposed acquisitions**

Project name	Lane km	Company's potential beneficial interest	Status	Project cost (₹ mn)	Granted by	Concession period**
Mysore-Bellary Highway Pvt. Ltd (MBHPL)	386	74	Under development	7,893	Government of Karnataka	Ten years from the appointed date, which is yet to be determined
Dhule Palesner Tollway Ltd (DPTL)	355	39	Operational	13474	NHAI	December 2009-December 2027
Mumbai Nasik Expressway Ltd (MNEL)	398	20	Operational	8,060	NHAI	April 2006-April 2026
<b>Total</b>	<b>1,140</b>	<b>NA</b>		<b>29,427</b>	<b>NA</b>	<b>NA</b>

\*\*Subject to increase in case target traffic is not met on the target date (details on page 9)

Source: DRHP

### ***Execution risk is low; projects under development are progressing well***

Seven of the 10 BOT projects of SIPL are currently operational (including Maharashtra Border Check Post project which is partially operational). For the three under-development projects, the execution risk is low since land acquisition has been completed. One of the projects is nearing completion while construction of the remaining two projects is on schedule.

Additionally, among the three projects to be acquired by SIPL from SEL, two are operational and one is currently under development. For the under-development project, land has been acquired and the work is progressing as per schedule.

### ***Competition has moderated in the BOT space; SIPL well positioned to benefit***

During 2010-12, the road infrastructure space saw a slew of aggressive bids from several developers. However, delays in land acquisition, slowdown in traffic and other operational bottlenecks led to significant delays in the execution of projects, which affected the viability of these projects. Many developers ended up realising less-than-expected returns on these projects; thus, affecting the financial health of the companies.

As a result, competition for bagging BOT projects has narrowed significantly over the past one year. With moderating competitive intensity, we expect bidding to be rational as several developers lack the financial strength to bid for new projects. With the awarding of projects gaining traction along with low risk of mispricing of bids, and several BOT developers with weak financial health mulling options such as divesting of stake in their respective projects, SIPL is well positioned to tap such opportunities due to a strong balance sheet and proven execution capabilities.

### ***Derives strength from SEL; proven execution track record***

SIPL derives strength from its parent SEL, one of the leading road infrastructure companies in India. SEL 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. Further, SIPL's contracts with SEL are fixed term-fixed price EPC contracts, implying that any cost escalation has to be absorbed by SEL.

**Table 9: Projects completed on or before scheduled date of completion**

Projects	Scheduled date of completion	Actual date of completion
Bijapur-Hungund Tollway Pvt. Ltd	March 2013	April 2012
Ahmedabad Ring Road Infrastructure Ltd	June 2008	May 2008
Aurangabad Jalna Tollway Ltd	July 2009	July 2009
Nagpur Seoni Express Way Ltd	May 2010	May 2010

Source: DRHP, Company

SEL is financially sound with a robust balance sheet. Owing to these factors, SEL is a pre-qualified bidder for NHAI awards with respect to large public infrastructure projects for developing and operating road assets. Further, there is a non-compete agreement between SEL and SIPL to bid for BOT projects. We expect SIPL to gain support from SEL in bidding for new projects. The relationship also provides comfort to lenders regarding the financing options for SIPL's projects.

#### ***Effective risk assessment capabilities along with a cautious approach to bidding***

The management's assessment with respect to evaluation of bids and timing of bids has paid off. In an environment where most of the developers have been aggressively bidding for projects, the company focused on rational bidding and sustainable growth. As a result, SIPL has been able to maintain its financial strength which positions it well to benefit from future opportunities. SIPL has strong in-house teams responsible for various aspects of the project such as identification of prospective projects, evaluation of bids and operation and maintenance of the projects.

#### ***Potential delays in land acquisition and other operational bottlenecks are concerns***

Many road projects were stalled in the last two-three years due to delay in receiving environmental and other clearances. Land acquisition hurdles have also impacted the timely commissioning of the ongoing projects. All these factors have impacted road developers' interest in bidding for new projects. For instance, SIPL's Solapur-Bijapur Tollway road project had to be terminated due to non-receipt of environmental, forest and wild-life clearances and problems in connection with land acquisition.

#### ***Cost overruns may affect returns***

In addition to the risk of termination by the concessioning authority, delays in completion of projects may result in cost overruns, lower returns on capital and reduced revenue for SIPL; thus, impacting the project's performance. It might put pressure on the company's ability to meet scheduled debt service payment dates. For instance, the company has faced challenges with respect to various projects including Rohtak Panipat Tollway Pvt. Ltd, Hyderabad Yadgiri Tollway Pvt. Ltd and Maharashtra Border Check Post Network Ltd (MBCPNL) due to delays in obtaining several approvals and land acquisition. Such delays could adversely impact the cash flows.

**Table 10: Challenges faced in the past in few projects**

Project	Challenge faced	Reasons
Rohtak Panipat Tollway Pvt. Ltd	<ul style="list-style-type: none"> <li>■ Project completion was delayed</li> <li>■ Toll collection impacted adversely</li> </ul>	<ul style="list-style-type: none"> <li>■ Non-receipt of the approval from the Commission of Railway Safety for laying of girders on railway over bridges.</li> <li>■ Protests against the toll collection by political party</li> </ul>
Hyderabad Yadgiri Tollway Pvt. Ltd	<ul style="list-style-type: none"> <li>■ Project completion was delayed as a result of which toll collection impacted</li> </ul>	<ul style="list-style-type: none"> <li>■ Delay in land acquisition</li> <li>■ Telangana agitation in the past</li> </ul>
Maharashtra Border Check Post Network Ltd	<ul style="list-style-type: none"> <li>■ Completion delayed in certain check posts</li> </ul>	<ul style="list-style-type: none"> <li>■ Delay in land acquisition</li> <li>■ Delay in commencement of toll collection due to late issuance of general resolutions from NHAI</li> </ul>
Bijapur-Hungund Tollway Pvt. Ltd	<ul style="list-style-type: none"> <li>■ Toll collection impacted adversely</li> </ul>	<ul style="list-style-type: none"> <li>■ Ban on iron ore mining and sand transportation</li> </ul>
Solapur-Bijapur Tollway Pvt. Ltd	<ul style="list-style-type: none"> <li>■ Project terminated</li> </ul>	<ul style="list-style-type: none"> <li>■ Non-receipt of environmental, forest and wild life clearances</li> <li>■ Delay in land acquisition</li> </ul>

Source: DRHP, Company

## Key risks

### ***Low traffic growth and change in toll rates***

Out of the 13 BOT toll projects (including three projects to be acquired by SIPL) in SIPL's portfolio, 11 are toll-based. Owing to sluggish economy, traffic growth in some of the projects has been muted in the past couple of years. Although traffic growth is expected to pick up with the improvement in macro-economic activity, sluggish traffic growth and/or low inflation could adversely impact revenues of the company.

However, risk mitigants are in place. As per the terms of the concession agreement, in case of more than 2.5% shortfall compared to target traffic measured on a target date (defined in the respective concession agreements), the concession period shall be increased by the awarding authority. For every 1% shortfall in traffic, the concession period shall be increased by 1.5% subject to the increase in period not exceeding 20% of the original concession period. These terms are not applicable for two annuity projects and four other toll projects.

### ***Prolonged slowdown in awarding of projects***

After a slowdown in awarding of projects over the past couple of years, we expect the pace of project awards to pick up following a slew of reforms by the current government. However, in case the awarding of project fails to gain traction, it may have an adverse impact on new project flows.

### ***Political risks***

Operational road projects are susceptible to political risks as agitation by any political party may impact toll collections adversely. For example, toll collection at SIPL's RPTPL project in Rohtak-Hissar was adversely impacted by protests by a political party.

## B. Financial Performance

SIPL's operating income increased to ₹3,745 bn in FY14 from ₹695 mn in FY11 driven mainly by increase in revenue contribution from newly operational BOT and projects, and stable revenues from old BOT projects.

**Table 11: Toll collection from BOT projects**

₹ mn	FY11	FY12	FY13	FY14
AJTL	237	269	277	279
ARRIL	634	738	725	724
NSEL	283	199	614	384
BHTPL	-	-	862	950
HYTPL	-	-	112	383
RPTL	-	-	-	191
MBCPNL	-	-	-	302
Total*	1,154	1,207	2,590	3,213

\*The total shall not be equal to the consolidated revenues due to changes in SIPL's shareholding in various projects and exclusion of SIPL's standalone revenues.

Source: Company

- EBITDA margin expanded from 65.3% in FY11 to 67.4% in FY14 due to stabilisation of revenues from certain BOT projects. The increase in margin would have been higher but for the provisioning of major maintenance expenses in most of the projects in FY14.
- The company reported a net loss of ₹1.8 bn in FY14 as against a net profit of ₹70 mn in FY11, mainly due to higher depreciation and interest cost. This is in line with the BOT-toll business model as revenues and operating profits from new projects take time to stabilise.
- The return ratios were suppressed due to the investments in BOT projects, which do not fetch returns in the initial years.

₹ mn	FY11	FY12	FY13	FY14	Q1FY15
Operating income	695	1,760	2,872	3,745	1,201
EBITDA	454	948	1,701	2,525	734
EBITDA margin	65.3%	53.9%	59.2%	67.4%	61.1%
Adjusted PAT	70	91	(591)	(1,851)	(755)
Adj PAT margin (%)	10.1	5.2	(20.6)	(49.4)	(62.9)
Adj EPS (₹)	3.5	4.4	(28.5)	(89.4)	(36.5)
RoCE (%)	3.2	2.5	2.8	3.0	0.6
RoE (%)	1.8	1.0	(5.6)	(17.3)	(7.7)
Actual o/s shares (mn)	20.2	20.7	20.7	20.7	20.7
Net debt/equity (x)	1.6	2.7	3.2	4.9	5.4
Net worth	8,012	9,745	11,310	10,130	9,594
Cash flow from operations	313	(103)	2,957	19,494	(296)

Source: DRHP

## **C. Management Capabilities and Corporate Governance**

### ***Promoters have strong background and domain expertise***

SIPL has grown under the leadership of Mr Vishnubhai M. Patel, Chairman, who has more than three decades of experience in the construction business. He is supported by his son-in-law, Mr Vasistha Patel, Managing Director, who holds a diploma in Civil Engineering from Gujarat University and has more than 15 years of experience in the construction business. Mr Nitin R Patel (Non-executive Director), a chartered accountant by profession, has been associated with the company since inception and is responsible for the financials-related functions and overall group strategy.

### ***Promoters supported by a professional second line***

SIPL has experienced professionals handling key responsibilities. Mr Varun Mehta, CFO, heads corporate strategy and is responsible for evaluating optimum financing options such as debt, equity, securitisation and refinancing of the projects. He has been associated with the company since 2012 and has more than five years of experience. Mr Gaurav Vesavi, Company Secretary and Compliance Officer, is responsible for incorporation of SPVs and the overall secretarial work covering compliance of various provisions of the Companies Act. He has more than 10 years of experience. Dr. Madhvesh Y S, Senior General Manager, is responsible for the maintenance of project highway for all operational SPVs. Mr Darshan Bhatt, Senior Manager, is responsible for toll operations for all operational SPVs, tax compliances and regular MIS management of the company.

### ***Board processes are in place***

SIPL's board consists of eight directors, of whom four are independent directors. The company has seven committees – audit, nomination and remuneration, stakeholder's relationship, corporate social responsibility, finance and investment, risk management and IPO; five are headed by independent directors.

### ***Strategy to focus on execution***

The management's strategy is to focus on timely execution of projects in a few states only rather than aggressively bid for new projects. As a result, the company has managed to complete many projects ahead of schedule in the past which, in turn, enabled the company to maintain its working capital cycle and, thereby, lower leverage than peers.

### ***Prompt in identifying new opportunities***

SIPL's management has been proactive in identifying new opportunities in the road infrastructure space. The company's corporate promoter, SEL, started as an EPC player in water irrigation and the mining segment with a focus on Gujarat. Over time, it diversified into roads and has eventually become one of the strong players in the segment. The company has also been successful in entering other geographies and executing projects successfully. Other than the typical road BOT projects, the company's project portfolio consists of a border check post project.

## Annexure I: Profile of the directors

Name	Designation	Age	Qualification	Directorships / partnership in other entities
Mr Vishnubhai M. Patel	Chairman	72	Matriculation	<ul style="list-style-type: none"> <li>■ Ahmedabad Ring Road Infrastructure Ltd</li> <li>■ Aurangabad – Jalna Toll Way Ltd</li> <li>■ Bhilwara – Rajsamand Tollway Pvt. Ltd</li> <li>■ Hyderabad – Yadgiri Tollway Pvt. Ltd</li> <li>■ Maharashtra Border Check Post Network Ltd</li> <li>■ Mumbai Nasik Expressway Ltd</li> <li>■ Mysore – Bellary Highway Pvt. Ltd</li> <li>■ Nagpur – Seoni Express Way Ltd</li> <li>■ Rohtak – Hissar Tollway Pvt. Ltd</li> <li>■ Sadbhav Engineering Ltd</li> <li>■ Sadbhav Finstock Pvt. Ltd</li> <li>■ Sadbhav Quarry Works Pvt. Ltd</li> <li>■ Sadbhav Realty Pvt. Ltd</li> <li>■ Shreenathji – Udaipur Tollway Pvt. Ltd</li> <li>■ Solapur – Bijapur Tollway Pvt. Ltd</li> </ul>
Mr Vasistha Patel	Managing Director	41	Diploma in civil engineering, Gujarat University	<ul style="list-style-type: none"> <li>■ Bhilwara – Rajsamand Tollway Pvt. Ltd</li> <li>■ Bijapur – Hungund Tollway Pvt. Ltd</li> <li>■ Dhule Palesner Tollway Ltd</li> <li>■ Hyderabad – Yadgiri Tollway Pvt. Ltd</li> <li>■ Maharashtra Border Check Post Network Ltd</li> <li>■ Rohtak – Hissar Tollway Pvt. Ltd</li> <li>■ Rohtak – Panipat Tollway Pvt. Ltd</li> <li>■ Sadbhav Engineering Ltd</li> <li>■ Shreenathji – Udaipur Tollway Pvt. Ltd</li> <li>■ Solapur – Bijapur Tollway Pvt. Ltd</li> </ul>
Mr Shashin V. Patel	Non – Executive Director	33	Bachelor’s degree and Master’s degree in Business Administration from K.S. School of Business Management, Gujarat University	<ul style="list-style-type: none"> <li>■ Ahmedabad Ring Road Infrastructure Ltd</li> <li>■ Aurangabad – Jalna Toll Way Ltd</li> <li>■ Bhilwara – Rajsamand Tollway Pvt. Ltd</li> <li>■ Maharashtra Border Check Post Network Ltd</li> <li>■ Nagpur – Seoni Express Way Ltd</li> <li>■ Rohtak – Hissar Tollway Pvt. Ltd</li> <li>■ Sadbhav Engineering Ltd</li> <li>■ Sadbhav Realty Pvt. Ltd</li> <li>■ Shreenathji – Udaipur Tollway Pvt. Ltd</li> <li>■ Solapur – Bijapur Tollway Pvt. Ltd</li> </ul>

Name	Designation	Age	Qualification	Directorships / partnership in other entities
Mr Nitinkumar R. Patel	Non – Executive Director	46	Chartered accountant	<ul style="list-style-type: none"> <li>■ Ahmedabad Ring Road Infrastructure Ltd</li> <li>■ Aurangabad – Jalna Toll Way Ltd</li> <li>■ Bhilwara – Rajsamand Tollway Pvt. Ltd</li> <li>■ Bijapur – Hungund Tollway Pvt. Ltd</li> <li>■ Dhule Palesner Tollway Ltd</li> <li>■ Hyderabad – Yadgiri Tollway Pvt. Ltd</li> <li>■ Maharashtra Border Check Post Network Ltd</li> <li>■ Mysore – Bellary Highway Pvt. Ltd</li> <li>■ Nagpur – Seoni Express Way Ltd</li> <li>■ Rohtak – Hissar Tollway Pvt. Ltd</li> <li>■ Rohtak – Panipat Tollway Pvt. Ltd</li> <li>■ Sadbhav Engineering Ltd</li> <li>■ Sadbhav Quarry Works Pvt. Ltd</li> <li>■ Shreenathji – Udaipur Tollway Pvt. Ltd</li> <li>■ Solapur – Bijapur Tollway Pvt. Ltd</li> </ul>
Mr Sandip V. Patel	Independent Director	37	Chartered accountant	<ul style="list-style-type: none"> <li>■ Sadbhav Engineering Ltd</li> <li>■ Shah &amp; Patel, Chartered Accountants</li> </ul>
Mr Mirat N. Bhadlawala	Independent Director	40	Bachelor's degree in Commerce, Gujarat University	<ul style="list-style-type: none"> <li>■ Ramkrishna Petro Services Pvt. Ltd</li> <li>■ Amzone Lifting Equipment Pvt. Ltd</li> <li>■ Sadbhav Engineering Ltd</li> </ul>
Mr Arunbhai S. Patel	Independent Director	68	Chartered accountant	<ul style="list-style-type: none"> <li>■ Sadbhav Engineering Ltd</li> </ul>
Mr Atul N. Ruparel	Independent Director	46	Chartered accountant	<ul style="list-style-type: none"> <li>■ Kutchh Gujarat Finstock Ltd</li> <li>■ Sadbhav Engineering Ltd</li> <li>■ Steps Corporate Services Pvt. Ltd</li> <li>■ Sukumar and Atul, Chartered Accountants</li> <li>■ A.N Ruparel &amp; Co., Chartered Accountants</li> </ul>

Source: DRHP

## Annexure II: Financials

Income statement					Balance Sheet				
(₹ mn)	FY11	FY12	FY13	FY14	(₹ mn)	FY11	FY12	FY13	FY14
<b>Operating income</b>	<b>695</b>	<b>1,760</b>	<b>2,872</b>	<b>3,745</b>	<b>Liabilities</b>				
<b>EBITDA</b>	<b>454</b>	<b>948</b>	<b>1,701</b>	<b>2,525</b>	Equity share capital	242	242	260	260
<b>EBITDA margin</b>	<b>65.3%</b>	<b>53.9%</b>	<b>59.2%</b>	<b>67.4%</b>	Reserves	7,771	9,503	11,049	9,870
Depreciation	109	221	504	915	Minorities	-	-	-	-
<b>EBIT</b>	<b>345</b>	<b>727</b>	<b>1,197</b>	<b>1,610</b>	<b>Net worth</b>	<b>8,012</b>	<b>9,745</b>	<b>11,310</b>	<b>10,130</b>
Interest	399	718	1,952	3,552	Convertible debt	-	-	-	-
<b>Operating PBT</b>	<b>(54)</b>	<b>9</b>	<b>(755)</b>	<b>(1,943)</b>	Other debt	13,262	28,062	36,891	50,728
Other income	202	210	215	191	<b>Total debt</b>	<b>13,262</b>	<b>28,062</b>	<b>36,891</b>	<b>50,728</b>
Exceptional inc/(exp)	(100)	(11)	(1)	(59)	Deferred tax liability (net)	-	(0)	(0)	(0)
<b>PBT</b>	<b>48</b>	<b>208</b>	<b>(541)</b>	<b>(1,810)</b>	<b>Total liabilities</b>	<b>21,275</b>	<b>37,807</b>	<b>48,200</b>	<b>60,858</b>
Tax provision	78	128	50	100	<b>Assets</b>				
Minority interest	-	-	-	-	Net fixed assets	7,118	6,969	30,818	70,181
<b>PAT (Reported)</b>	<b>(30)</b>	<b>80</b>	<b>(591)</b>	<b>(1,910)</b>	Capital WIP	12,802	27,990	18,378	11,232
Less: Exceptionals	(100)	(11)	(1)	(59)	<b>Total fixed assets</b>	<b>19,920</b>	<b>34,960</b>	<b>49,196</b>	<b>81,412</b>
<b>Adjusted PAT</b>	<b>70</b>	<b>91</b>	<b>(591)</b>	<b>(1,851)</b>	<b>Investments</b>	756	714	694	644
					<b>Current assets</b>				
					Inventory	44	-	301	12
					Sundry debtors	1,045	2,038	2,195	1,733
					Loans and advances	516	368	509	1,214
					Cash & bank balance	518	1,236	517	518
					Marketable securities	61	117	82	1,029
					<b>Total current assets</b>	<b>2,184</b>	<b>3,760</b>	<b>3,604</b>	<b>4,507</b>
					<b>Total current liabilities</b>	<b>1,739</b>	<b>2,126</b>	<b>5,769</b>	<b>26,155</b>
					<b>Net current assets</b>	<b>445</b>	<b>1,634</b>	<b>(2,165)</b>	<b>(21,648)</b>
					<b>Intangibles/Misc. expenditu</b>	<b>154</b>	<b>499</b>	<b>476</b>	<b>449</b>
					<b>Total assets</b>	<b>21,275</b>	<b>37,807</b>	<b>48,200</b>	<b>60,858</b>
					<b>Cash flow</b>				
					(₹ mn)				
					Pre-tax profit	148	218	(540)	(1,751)
					Total tax paid	(78)	(128)	(50)	(100)
					Depreciation	109	221	504	915
					Working capital changes	134	(414)	3,044	20,431
					<b>Net cash from operations</b>	<b>313</b>	<b>(103)</b>	<b>2,957</b>	<b>19,494</b>
					<b>Cash from investments</b>				
					Capital expenditure	(20,182)	(15,605)	(14,717)	(33,104)
					Investments and others	(817)	(15)	56	(897)
					<b>Net cash from investments</b>	<b>(20,999)</b>	<b>(15,620)</b>	<b>(14,661)</b>	<b>(34,001)</b>
					<b>Cash from financing</b>				
					Equity raised/(repaid)	6,479	-	1,249	-
					Debt raised/(repaid)	13,262	14,799	8,829	13,837
					Dividend (incl. tax)	-	(0)	-	-
					Others (incl extraordinary)	1,463	1,642	906	672
					<b>Net cash from financing</b>	<b>21,204</b>	<b>16,441</b>	<b>10,984</b>	<b>14,509</b>
					Change in cash position	518	718	(720)	2
					Closing cash	518	1,236	517	518
					<b>Per share</b>				
						FY11	FY12	FY13	FY14
					Adj EPS (₹)	2.9	3.8	(22.7)	(71.2)
					CEPS	7.4	12.9	(3.3)	(36.0)
					Book value	331.5	403.2	434.9	389.5
					Dividend (₹)	-	0.0	-	-
					Actual o/s shares (mn)	24.2	24.2	26.0	26.0

These are adjusted estimates and may not match with the reported numbers.

Source: Company, CRISIL Research

## Our Capabilities

### Making Markets Function Better

#### Economy and Industry Research

- Largest team of economy and industry research analysts in India
- Acknowledged premium, high quality research provider with track record spanning two decades
- 95% of India's commercial banking industry by asset base uses our industry research for credit decisions
- Coverage on 86 industries: We provide analysis and forecast on key industry parameters including demand, supply, prices, investments and profitability, along with insightful opinions on emerging trends and impact of key events
- Research on sectors and clusters dominated by small and medium enterprises covering analysis of relative attractiveness, growth prospects and financial performance
- High-end customised research for many leading Indian and global corporates in areas such as market sizing, demand forecasting, project feasibility and entry strategy

#### Funds and Fixed Income Research

- Largest and most comprehensive database on India's debt market, covering more than 18,000 securities
- Largest provider of fixed income valuations in India
- Provide valuation for more than ₹70 trillion (US\$ 1,167billion) of Indian debt securities
- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 37 standard indices and over 100 customised indices
- Ranking of Indian mutual fund schemes covering 73% of assets under management and ₹7.2 trillion (US\$ 120 billion) by value
- Business review consultants to The Employees' Provident Fund Organisation (EPFO) and The National Pension System (NPS) Trust in monitoring performance of their fund managers

#### Equity and Company Research

- Largest independent equity research house in India; coverage exceeds 140 companies
- First research house to release exchange-commissioned equity research reports in India; covered 1,488 firms listed and traded on the National Stock Exchange
- Assigned the first IPO grade in India; graded more than 100 IPOs till date

#### Executive Training

- Conducted 1000+ training programs on a wide spectrum of topics including credit, risk, retail finance, treasury, and corporate advisory; trained more than 20,000 professionals till date
- Training programs being conducted in India, Sri Lanka and Bangladesh through an extensive network of well-qualified financial professionals

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