

Road runner

Sadbhav Engineering is exploiting the BOT road business well, apart from trying its luck in mining

Deepak Chitroda

As you walk into Vishnubhai Patel's imposing office it's difficult to believe that the 67-year-old began his sojourn as a small-time road sub-contractor and now runs a Rs 800 crore empire from Ahmedabad. If Patel has made his riches, so have the company's investors. Investors, who have stuck with company since 2006 when it went public, have seen their investments gain more than four times. Despite the massive meltdown in the market, Sadbhav's share -- which was priced at Rs 185 -- is now quoting at Rs 790.

While Sadbhav Engineering's business primarily involves constructing roads/highways and canals, what is interesting is the way Patel scaled up his business by capitalising on the government's rising spend on infrastructure, especially for road and irrigation.

Several mid-sized companies, which were earlier sub-contractors of larger road operators, have now entered the sector on their own. Early entrants in built-operate-transfer (BOT) road projects were typically established companies such as Larsen & Toubro and Gammon. But as the economy grew, these top-notch construction players moved on to bigger infrastructure proj-

ects and started cherry-picking road project, thus leaving the field open to smaller companies such as Sadbhav Engineering, Era Constructions and Unity Infrastructure.

In 1993, Sadbhav made its debut in the construction segment with the contract for strengthening and widening of Sambalpur-Rourkela Road from Larsen & Toubro. Says Patel, "After working as a sub-contractor for L&T's road project, we realised this was going to be a big business in the years to come." Thereafter, the company successfully completed eight other road projects -- including the widening of the two-lane of NH-8A from Samakhiali to Bhachau in Gujarat.

After executing over 26 projects in 16 years, Sadbhav went public in 2006, "It was imperative for us to go public as we realized that we needed more funds if we were to emerge as a key player," adds Patel.

Today, apart from beefing up its core BOT road business Sadbhav wants to hit paydirt in mining. The strategy, being put in place by Nitin Patel, the company's executive director, entails Sadbhav Engineering being positioned as a construction company, while its newly formed subsidiaries, Sadbhav Infrastructure and Sadbhav Natural Resources, will steer the BOT and mining businesses respectively. "We have

created a structure that will ensure that Sadbhav Engineering remains a predominant construction company, while the developmental, revenue sharing and fund raising will be done by the subsidiary concerned," says Nitin Patel.

Though Patel is unwilling to comment, market sources suggest that the company has signed a term sheet with a private equity investor for sale of approximately 14 per cent stake in Sadbhav Infrastructure for Rs 100 crore. This would indicate a valuation of Rs 700 crore for the subsidiary, around 70 per cent of its parent's current market capitalisation.

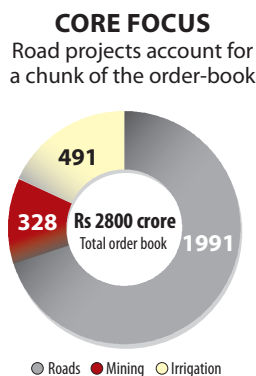
Widening the frame

Toll-based projects have emerged as a lucrative opportunity for developers and Sadbhav has been aggressively targeting such projects to enhance its profitability. While Sadbhav has four toll-based BOT projects that are highly profitable, it also has a suitable mix of government contracts that ensure steady revenues. Unlike BOT projects, where the developer has to design, formulate, raise funds and execute the project, in government contracts, the developer's role is limited only to the execution part.

Usually, since risks are higher in BOT projects, most small companies tend to partner larger peers or financial institutions to limit their funding and execution risks. Besides, large-sized projects often require higher net worth that can be achieved only through tie-ups with bigger players. Sadbhav Engineering too has put the model to use and quite well. It has Gammon, Patel Infra, PBA Infra and also Srei Infrastructure as its partners in BOT projects.

Of the four BOT projects that Sadbhav holds in consortium with other players, three are toll-based and one is annuity type (See table). Sadbhav has committed an investment of Rs 144 crore in the four projects, of which it has already invested Rs 105 crore. The company is now in the process of transferring the four projects to subsidiary Sadbhav Infrastructure. Nitin Patel, without detailing the revenues expected from the BOT projects, says he expects the company to have a return on equity of around 25-30 per cent.

For now, the order-book looks pretty robust at Rs 2,800 crore, 65 per cent of which is accounted by road projects. Currently, roads and highways account



PATH BREAKING?

BOT projects	Type	Size (Rs cr)	Joint venture partner	Sadbhav's share (%)
Mumbai- Nashik Expressway	Toll	753	Gammon, Billimoria	20
Sardar Patel Ring Road (Ahmedabad)	Toll	515	Patel Infra	80
Aurangabad Jalna Road Project	Toll	289	PBA Infra	51
NH-7, MP North-South Corridor	Annuity	589	Srei Infra	51



