

July 18, 2022

Ashoka Banwara Bettadahalli Road Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	250.00	250.00	[ICRA]A-(Stable); reaffirmed
Total	250.00	250.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation favourably factors in Ashoka Banwara Bettadahalli Road Private Limited's (ABBRPL) satisfactory project progress with ~49% of the project cost incurred as of May 31, 2022 and inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW)¹, automatic de-scoping of RoW pending beyond 180 days from appointed date, inflation-linked² revisions to bid for project cost during the construction period and relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of a grant. The rating notes the stable revenue stream post-commissioning with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at Bank Rate plus 300 bps and operations and maintenance (O&M) payments (adjusted for inflation) over the term of the concession from the project owner and annuity provider, National Highway Authority of India (NHAI, rated [ICRA]AAA(Stable)), which is a key Central Government entity responsible for the development and maintenance of India's national highway programme. The rating further draws comfort from the appointment of Ashoka Buildcon Limited (ABL) as the fixed-price engineering, procurement and construction (EPC) contractor for executing the project, which has a demonstrated track record of project execution within the budgeted time and cost. The rating favourably considers the strong sponsor profile – ABL, which has provided an undertaking towards financial support in case of cost overrun during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase as per lender's approved base case business plan.

The rating, however, remains constrained by the execution risks given that the project is in construction phase having achieved ~40% physical progress. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective. Post-commissioning, it would have to ensure healthy lane availability to avoid any deductions from the annuity amount. Timely support from promoters to fund any shortfalls due to delays in grant or any cost overruns during the construction phase will remain crucial. ABBRPL's cash flows are exposed to interest rate risk, given the floating nature of interest rates for the project loan. Any significant reduction in the Reserve Bank of India's (RBI) Bank Rate, with no commensurate reduction in interest rate on the project loan, would adversely impact its coverage indicators and IRRs as annuity payments are linked with the Bank Rate.

The Stable outlook on the rating reflects ICRA's opinion that ABBRPL will continue to benefit from the strong execution capabilities of the ultimate sponsor and EPC contractor—ABL.

¹ At least 80% prior to the Appointed Date (AD)

² Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30

Key rating drivers and their description

Credit strengths

Low inherent risks in HAM projects from NHAI - The inherent benefits of the hybrid annuity mode (HAM) project include upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to BPC during the construction period. Moreover, it faces a relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period in the form of grant. A stable revenue stream post commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at Bank Rate + 3% on balance annuity offers comfort. Additionally, the project has inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, NHAI, which is a strong counterparty.

Track record of the sponsor in executing BOT projects - ABL has two-decade long expertise in the construction business, and a track record of project execution within the budgeted time and cost.

Credit challenges

Execution risks - The project is exposed to execution risks including time and cost overruns. However, the execution risk is mitigated, to some extent, by the achievement of ~40% physical progress along with fixed-price, fixed-time contract and strong project execution capabilities of ABL.

Annuity risk - The company must ensure lane availability to earn annuity. Poor maintenance of the road could result in lane closures leading to potential deductions from annuity.

Inflation and interest rate risk - The project's cash flows are exposed to inflation risk as O&M receipts are linked to inflation (70% WPI and 30% CPI). It is exposed to the interest rate risk is there due to the floating nature of the interest rate on the term loan.

Liquidity position: Adequate

ABBRPL's liquidity position is adequate. The pending project cost of Rs. 555.55 crore as on May 31, 2022 is expected to be funded through undrawn debt of Rs. 250.00 crore, equity infusion of Rs. 114.46 crore (including ~Rs. 100 crore of additional equity in the form of contingency) and NHAI grant of Rs. 190.54 crore (adjusted for mobilisation advance). The debt repayment can be comfortably met through the annuity receipts (six months post achievement of COD). Moreover, the undertaking provided by ABL towards financial support in case of a cost overrun and delay in NHAI grant during the construction phase, any shortfall in the O&M expenses and debt servicing in the operational phase as per the lender's approved base case business plan, provides comfort.

Rating sensitivities

Positive factors - The rating could be upgraded on achieving satisfactory project progress or COD as per the expected timelines, without any cost overrun.

Negative factors - Pressure could arise if there is a delay in achieving COD resulting in delayed annuities and/or any cost overruns. Further, any deterioration in the sponsor's credit profile could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads Impact of Parent or Group Support on an Issuer's Credit Rating

Parent/Group support	Parent/Group Company: Ashoka Buildcon Limited (ABL) The rating assigned to ABBRPL factors in the likelihood of its parent, ABL, extending financial support to it because of close business linkages between them. ICRA also expects ABL to be willing to extend financial support to ABBRPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

Ashoka Banwara Bettadahalli Road Private Limited (ABBRPL) is a 100% subsidiary of ABL. The special purpose vehicle (SPV) was formed to undertake four-laning of 48.515 km of Tumkur – Shivamogga section (km 119.7 to km. 166.1) Banwara to Bettadahalli section of NH-206 in Karnataka under Bharatmala Pariyojana on a HAM basis. The construction and operations period for the project is 2 years and 15 years, respectively. The Concession Agreement was signed on March 19, 2020 and the project received appointed date on March 15, 2021. The total project cost of Rs. 888.08 crore is proposed to be funded by equity of Rs. 193.91 crore (21.8% of project cost, including Rs 133.09 crore in the form of contingency), term loan of Rs. 250.00 crore (28.1% of project cost), NHAI's grant including PMI adjustment of Rs. 444.83 crore (50% of project cost). The annuity and interest on outstanding annuities will be received on a semi-annual basis, along with first year O&M receipt of Rs. 2.98 crore to be adjusted for inflation from bid date.

Key financial indicators (audited)

Key financial indicators are not applicable as ABBRPL is a project stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on May 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 18, 2022			
1	Term loans	Long-term	250.0	250.0	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-I	Dec 2020	NA	FY2037	250. 0	[ICRA]A-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Vinay Kumar G

+91 40 4067 6533

vinay.g@icraindia.com

Rohan Thombare

+91 22 6169 3360

rohan.thombare@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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