July 22, 2022

Ashoka Khairatunda Barwa Adda Road Limited: Long-term rating upgraded to [ICRA]AA- and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	270.00	245.73	[ICRA]AA- upgraded from [ICRA]A; Outlook revised to Stable from Positive
Total	**270.00**	**245.73**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade of Ashoka Khairatunda Barwa Adda Road Limited (AKBARL) favourably factors in the receipt of the first semi-annuity from the National Highway Authority of India (NHAI, rated [ICRA]AAA(Stable)) in May 2022 and final completion certificate (COD) w.e.f. April 21, 2022, for the entire 40.3 km of project stretch. AKBARL has created a debt service reserve (DSR) of Rs. 18.4 crore, equivalent to six months' debt servicing obligations. Further, it draws comfort from the stable revenue stream with 60% of the bid project cost to be paid out as semi-annual annuities (along with the interest on the residual annuities payable), besides the inflation-adjusted operations and maintenance (O&M) cost bid over the term of the concession by the project owner and annuity provider, NHAI, which is a strong counterparty.

The rating considers the satisfactory profile of its sponsor, Ashoka Concession Limited (ACL), in undertaking O&M works for various Ashoka Group projects in the past. The project stretch is on old NH2, connecting Delhi with Kolkata, wherein the traffic density is expected to be higher, which may result in relatively higher O&M expenses. ICRA, in its base case estimates, has built-in additional cushion compared to the company's assumptions. ICRA notes the fixed-price O&M contract with ACL, which mitigates the risk. Moreover, the sponsor group has provided an undertaking to financially support the project in case of cost overruns, or any shortfall in O&M expenses.

The rating is supported by the presence of structural features of the debt and healthy debt coverage metrics for the debt tenure. The company must ensure a satisfactory upkeep of the carriageway as per the provisions of the Concession Agreement to avoid any deductions in the annuity amount, which would be important from the credit perspective. AKBARL's cash flows are exposed to interest rate risk, given the floating nature of interest rates for the project loan. Moreover, any significant reduction in the Reserve Bank of India's (RBI) Bank Rate would adversely impact its coverage indicators as annuity payments are linked to the Bank Rate.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to receive timely annuity payments without any material deductions supporting the project's debt coverage metrics.

Key rating drivers and their description

Credit strengths

Successful achievement of final COD and receipt of first annuity - AKBARL received the provisional completion certificate w.e.f October 2021 for 36.4 km length. Consequently, the first annuity payment was received on May 12, 2022. Further, the company has received the final COD on April 21, 2022 mitigating the project execution risk.

Annuity nature of the project eliminates market risks under hybrid annuity model (HAM) - The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI [rated [ICRA]AAA(Stable)], which is a strong counterparty.

Healthy coverage indicators and presence of structural features - AKBARL is expected to have a healthy debt service coverage ratio (DSCR) during the debt tenure. Structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, DSR equivalent to ensuing six months of debt servicing obligation and creation of a major maintenance reserve (MMR), presence of reserves to meet regular O&M and interest obligations till the next scheduled annuity, cash sweep and restricted payment clause with a minimum DSCR of 1.20 times, provide comfort. The company has created DSRA of Rs. 18.4 crore as of July 2022.

Credit challenges

Project returns exposed to interest rate and inflation risks - AKBARL's cash flows are exposed to interest rate risks, given the floating nature of the interest rates for the project loan. Further, its cash flows are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Lane availability to be ensured for annuity payments - AKBARL's sources of income are the annuity, interest on outstanding annuities and annual O&M payments from the NHAI. Hence, ensuring proper maintenance of the roads along with no deduction in annuity receipts will be a key credit sensitivity going forward. An increase in the expenditure for regular or periodic maintenance impacting DSCR remains a key credit sensitivity. However, this is mitigated to an extent by the fixed-price O&M and major maintenance (MM) contracts with the sponsor, ACL, for the entire concession period. The promoter group has expertise of two decades in the construction business with a strong presence in the road segment, and a demonstrated track record of executing O&M works within the budgeted time and cost. Further, ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses, including the first MM, as per the lender's approved base case business plan.

Liquidity position: Adequate

The company has created six months DSRA of Rs. 18.43 crore for debt servicing. Further, additional Rs. 2.78-crore deposit is created for one month's interest payment and other expenses. The cash flow from operations is expected to be sufficient for its debt servicing worth Rs. 38.2 crore and O&M expenses in FY2023.

Rating sensitivities

Positive factors - ICRA could upgrade AKBARL's rating if timely receipt of semi-annuity and O&M payments without any deductions and/or successful refinancing on favourable terms result in an improvement in its debt coverage metrics on a sustained basis.

Negative factors - Pressure on the rating could arise if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments. Moreover, if O&M expenses significantly exceed the estimates, or any additional debt availed by the special purpose vehicle (SPV) impacting its coverage indicators may exert pressure on the rating. The rating could also come under pressure if there is any non-adherence to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

AKBARL is a 100% subsidiary of Ashoka Concessions Ltd (ACL/sponsor), a holding company of the road assets of Ashoka Buildcon Limited (ABL). The SPV was formed in April 2018 to undertake six-laning of 40.33 km from Khairatunda to Barwa Adda Section (km. 360.30 to km. 400.13) of NH-2 in Jharkhand 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 April 27, 2018 and the project received the appointed date on January 8, 2019. The total project cost of Rs. 732.53 crore was funded by equity of Rs. 93.43 crore (12.75% of project cost), term loan of Rs. 254.00 crore (34.67% of project cost) and NHAI's grant including PMI adjustment of Rs. 385.10 crore (52.57% of project cost). The annuity and interest on outstanding annuities will be received on a semi-annual basis, along with the O&M receipts, with first year O&M receipt of Rs. 4.89-crore to be adjusted for inflation from the bid date. The project received provisional COD on October 9, 2021 and the final COD on April 21, 2022.

Key financial indicators (audited)

Key financial indicators are not applicable as AKBARL was 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 22, 2022	February 10, 2022	March 31, 2021	January 31, 2020
1	Term loans	Long-term	245.73	245.73	[ICRA]AA- (Stable)	[ICRA]A (Positive)	[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	Sep 2018	NA	Nov 2034	245.73	[ICRA]AA- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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