

May 30, 2023

Ashoka Concessions Limited: Rating reaffirmed; removed from Rating Watch with Developing Implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed term loan	200.00	200.00	[ICRA]A; rating reaffirmed; removed from Rating Watch with Developing Implications and Stable outlook assigned
Total	200.00	200.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action for Ashoka Concessions Limited (ACL) factors in the announcement by Ashoka Buildcon Limited (ABL) on May 20, 2023 regarding termination of the share subscription and share purchase agreements (SPA) between ACL and Galaxy Investments II Pvt. Ltd., an affiliate of Kohlberg Kravis Roberts & Co. L.P. (KKR), on account of delay in approvals from the National Highways Authority of India (NHAI) for the share transfer of Ashoka Dhankuni Kharagpur Tollway Limited (ADKTL). On December 25, 2021, ACL had entered into the SPA for the sale of the entire share capital held in five build-operate-transfer (BOT) toll subsidiaries, i.e., Ashoka Highways (Bhandara) Limited (AHBL), Ashoka Highways (Durg) Limited (AHDL), Ashoka Belgaum Dharwad Tollway Limited (ABDTL), Ashoka Sambalpur Baragarh Tollway Limited (ASBTL) and ADKTL for an aggregate consideration of Rs. 1,337 crore. Further, from the total proceeds expected to be received from KKR sale transaction, the company was to utilise Rs. 1,200 crore to facilitate the exit of SBI Macquarie from ACL. ICRA understands that the payment to SBI Macquarie is solely linked to completion of asset monetisation and the amounts will be paid to them as and when the monetisation happens.

ACL's rating favourably factors in its strong parentage by virtue of being a subsidiary of ABL which holds 66% stake in the firm, whereas rest of the stake is held by SBI Macquarie. ABL has extensive experience with strong execution capabilities and demonstrated track record of constructing and operating BOT road projects. The rating notes the mature portfolio of six operational BOT (toll) road projects having an average tolling track record of about nine years. In FY2023, the toll projects witnessed 22% year-on-year (YoY) growth in collections to Rs. 1,117 crore from Rs. 918 crore in FY2022. The toll collections are expected to increase to more than Rs. 1,200 crore in FY2024 on the back of a modest rise in toll rates and moderate traffic growth. Among the operational toll road projects, ASBTL and ABDTL are likely to remain dependent on ACL for meeting its debt obligations. For the remaining special purpose vehicle (SPVs), the extent of support is limited to shortfall in major maintenance expense, if any. However, the average tail period for the operational toll assets is around eight years, which provides adequate financial flexibility. Further, the NHAI's premium deferment for two SPVs viz. ADKTL and ABDTL up to FY2025, eases the burden on cash flows. The rating also notes the portfolio of seven HAM assets of which two have achieved COD, four have achieved PCOD and one is under construction. As on March 31, 2023, ACL has a pending equity infusion of Rs. 27 crore towards its one under-construction project and residual execution of its operational projects. Further, ACL has provided an undertaking to financially support the HAM projects in case of cost overruns, or any shortfall in O&M expenses.

The rating is, however, constrained by the inherent risks associated with BOT (toll) projects including acceptability of annual toll rate hikes, likelihood of toll leakages and traffic diversion risks arising from alternative routes. Any significant under performance of operational BOT (toll) projects or cost overrun or any shortfall in O&M expenses for under-construction and operational HAM projects would remain a rating sensitivity. With six hybrid annuity model (HAM) SPVs achieving PCOD, the execution risk is reduced with only one HAM project under construction. ICRA notes that the execution risk for HAM projects is relatively lower due to upfront availability of right of way (RoW) and automatic de-scoping of RoW pending beyond 180 days from the appointed date.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will receive timely support from its parent, ABL.

Key rating drivers and their description

Credit strengths

Strong parentage with ABL having majority stake in ACL – ABL has a 66% stake in ACL, while the rest is held by SBI Macquarie. ABL provides management, technical and financial support to ACL. It has a proven track record and strong execution capabilities as an engineering, procurement and construction (EPC) contractor for road, power transmission and distribution and railway projects across the country. It exclusively undertakes EPC and operations and maintenance (O&M) for all ACL's projects. The rating considers the consistent track record of timely support from ABL to ACL, which is expected to continue going forward.

Operational nature of toll portfolio with established traffic density – All six toll projects under ACL are operational and have an average tolling track record of nine years with established traffic density. In FY2023, the toll projects witnessed a YoY growth of 22% in collections to Rs. 1,117 crore from Rs. 918 crore in FY2022. The toll collections are expected to rise to more than Rs. 1,200 crore in FY2024 on the back of a modest increase in toll rates and moderate traffic growth.

Long tail period of toll SPVs – All the toll SPVs have a long tail period ranging from 2 years to 13 years, with an average tail period of around eight years, which provides adequate financial flexibility.

Credit challenges

Inherent risks in BOT (toll) road projects – ACL remains exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development/improvement of alternative routes and likelihood of toll leakages. Any reduction in either of these will have an adverse impact on toll collections and increase cash shortfall support on ACL. Further, the profitability and cash flow of the operational projects remain exposed to interest rate risk, given the floating nature of interest rates.

Exposure to time and cost overrun risks – Notwithstanding the provisional completion certificate attained by six of the HAM projects, ACL's BOT-HAM projects are exposed to residual execution risks. However, the completion risk for HAM projects is relatively lower due to upfront availability of RoW and automatic de-scoping of RoW pending beyond 180 days from the appointed date.

Liquidity position: Adequate

ACL's liquidity position is adequate. It has external debt of Rs. 200 crore as of March 2023 with repayments falling due in June 2023, December 2023 and June 2024 and is backed by corporate guarantee from the parent, ABL. ICRA takes note of the track record of timely financial assistance from ABL to ACL, which is expected to continue going forward in case of financial exigencies.

Rating sensitivities

Positive factors – The rating could be upgraded in case of significant improvement in the risk profile of the investee companies.

Negative factors – The rating could face a downward pressure if there is any deterioration in the credit profile of the promoter, ABL, or if there is any delay in support to meet the funding requirements of ACL or weakening of support philosophy from ABL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: Ashoka Buildcon Limited The rating assigned to ACL factors in the likelihood of its parent, ABL, extending financial support to it because of close business linkages between them. ICRA expects ABL to be willing to extend financial support to ACL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of ABL having extended timely financial support to ACL in the past, whenever a need has arisen.
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the standalone financials of the two entities, where ACL has extended a corporate guarantee and two BOT (Toll) entities where implicit support has been taken, with ACL's standalone financials. For other entities, ICRA has used the limited consolidation approach, under which the proposed equity investments for under-construction projects and funding support required to operational SPVs towards debt servicing and operational shortfall have been considered. The list of companies considered for limited/full consolidation are given in Annexure II below.

About the company

Incorporated in April 2011, Ashoka Concessions Limited (ACL) is a subsidiary of Ashoka Buildcon Limited (ABL). In 2012, SBI Macquarie infused Rs. 800 crore and acquired 34% stake in ACL with ABL holding the remaining 66%. At present, ACL holds six operational BOT (toll) projects and seven hybrid annuity projects. Of the seven HAM projects, six are operational and one is under construction.

Key financial indicators

ACL Standalone	FY2021	FY2022	FY2023
Operating income	83.1	90.3	112.6
PAT	-178.2	-470.3	97.2
OPBDIT/OI	28.0%	20.4%	-5.9%
PAT/OI	-214.4%	-521.0%	86.3%
Total outside liabilities/Tangible net worth (times)	0.8	1.3	1.3
Total debt/OPBDIT (times)	46.1	55.3	-176.3
Interest coverage (times)	0.25	0.20	-0.29

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				May 30, 2023	Feb 17, 2023	Jan 18, 2022	Sep 07, 2021	Oct 16, 2020
1 Proposed term loans	Long term	200.00	-	[ICRA]A (Stable)	[ICRA]A; Rating Watch with Developing Implications	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)

&: Rating Watch with Developing Implications

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed term loan	NA	NA	NA	200.00	[ICRA]A (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

Company Name	ACL Ownership	Consolidation Approach
Ashoka Dhankuni Kharagpur Tollway Limited	100%	Full Consolidation
Ashoka Belgaum Dharwad Tollway Limited	100%	Full Consolidation
Ashoka Sambalpur Baragarh Tollway Limited	100%	Full Consolidation
Ashoka Kharar Ludhiana Road Limited	100%	Limited Consolidation
Ashoka Ranastalam Anandapuram Road Limited	100%	Limited Consolidation
Ashoka Khairatunda Barwa Adda Road Limited	100%	Limited Consolidation
Ashoka Karadi Banwara Road Private Limited	100%	Limited Consolidation
Ashoka Mallasandra Karadi Road Private limited	100%	Limited Consolidation
Ashoka Belgaum Khanapur Road Private Limited	100%	Limited Consolidation
Ashoka Ankleshwar Manubar Expressway Private Limited	100%	Limited Consolidation
Ashoka Highways (Bhandara) Limited	51%	Limited Consolidation
Ashoka Highways (Durg) Limited	51%	Full Consolidation
GVR Ashoka Chennai ORR Limited	50%	Limited Consolidation
Jaora Nayagaon Toll Road Company Private Limited	37.74%	Limited Consolidation

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Branches



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