

October 10, 2023

Ashoka Buildcon Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	100.00	[ICRA]A1+; assigned
Total	100.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating factors in Ashoka Buildcon Limited's (ABL) diversified order book across segments, projects and regions, extensive experience of over four decades in the construction industry and its strong execution capabilities. The rating notes the healthy revenue growth of 38.8% to Rs. 6,372.3 crore in FY2023 and a sizeable order book of Rs. 16,920 crore as on June 30, 2023, which provides strong medium-term revenue visibility. ABL has geographically diversified presence across twenty states in India and overseas (namely Maldives, Bangladesh, etc) and segmental diversification with presence in road (43%), power (36%), buildings (13%) and railways (8%).

ABL has eleven hybrid annuity mode (HAM) projects in its portfolio, four held by ABL and seven held by Ashoka Concessions Limited (ACL, 66% held by ABL), of which eight have received the commercial operational date (COD) and three are under-construction. ABL has a total pending equity commitment of Rs. 80.4 crore expected to be infused over the next two years towards its under-construction HAM projects. Further, it has eight operational toll assets, two under ABL and six held by ACL. Two of these assets are dependent on ABL to meet their expenses for operations and maintenance (O&M)/ debt obligations. ABL's cash flow from operations will be comfortable to meet the equity commitments for HAM projects and the support towards toll assets. ICRA notes that the company has entered into share subscription and share purchase agreements (SPA) for three¹ of its assets for a total equity consideration of Rs. 329.6 crore. It is expecting the closure of these three deals by FY2024. ABL is in discussions with potential investors for monetisation of its HAM and toll assets. Going forward, timely realisation of funds from the asset monetisation remains crucial from the credit perspective.

The rating strengths are offset by the moderation in profitability over the past five years to 8.4% in FY2023 from 13.5% in FY2019, driven by a change in revenue mix because of relatively lower share of captive HAM projects (i.e., from 52% in FY2020 to 9% as on June 30, 2023) and stiff competition. Provisioning related to a solar project has led to moderation in profitability in Q1 FY2024. ICRA expects the profit margins to improve to ~10-11% from FY2025 onwards. Almost 58% of the order book is currently in the nascent stages (<10% execution completed). However, the company's longstanding track record of project completion in a timely manner provides comfort. ABL's indebtedness has increased with TOL/TNW of 1.2 times as on March 31, 2023 from 0.97 times as on March 31, 2022 owing to rise in working capital borrowings and mobilisation advances. Further, the coverage indicators moderated with interest coverage of 3.6 times as on March 31, 2023 from 5.68 times in FY2019, owing to dip in profitability and surge in interest outflow majorly on account of increase in interest-bearing mobilisation advances and higher working capital utilisation. Given the expected improvement in the operating margins, reduction in mobilisation advances and timely realisation of proceeds from the asset monetisation deals, the company's leverage and coverage indicators are likely to improve.

ICRA understands that the ABL is required to facilitate exit to SBI Macquarie (investor), the 34% shareholder in ACL. The total consideration to be paid to SBI Macquarie is estimated at Rs. 1,296 crore² as on June 30, 2023. ICRA does not expect ABL to raise funds to meet the payout requirements of SBI Macquarie. Exit to the investor is solely linked to completion of asset

¹GVR Ashoka Chennai ORR Limited, Jaora Nayagaon Toll Road Company Private Limited and Unison Enviro Private Limited

²The company will be paying 8% annualised coupon

monetisation. The amounts will be paid to them as and when the monetisation happens. Moreover, with expected closure for UEPL sale transaction in the next few months, the corporate guarantee from ABL towards UEPL debt will also fall-off by March 2024.

Key rating drivers and their description

Credit strengths

Long track record in the civil construction business with established track record of executing EPC and BOT projects – ABL has an extensive experience of over four decades in the construction segment and has demonstrated strong execution capabilities. It has one of the largest portfolios with 23 BOT projects in India, of which 20 are operational and 3 projects are under construction. The promoters have a long track record in the civil construction business and established relation with its key clientele, consisting of Government bodies like the National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/A1+) and the Ministry of Road Transport and Highways (MoRTH).

Healthy scale of operations – The company witnessed a healthy revenue growth of 38.8% to Rs. 6,372.3 crore in FY2023, backed by healthy order execution pace growth, which is expected to continue in the near term. ABL has registered a CAGR of 17% in revenue during FY2014-FY2023, and ICRA's expects the growth momentum in OI to continue. It also has a sizeable order book of Rs. 16,920 crore as on June 30, 2023, which provides strong medium-term revenue visibility.

Diversified order book across segments and geographies – ABL's order book is geographically diversified with presence in across 20 states in India and also in overseas markets, namely Maldives, Bangladesh, etc. The order book is diversified with presence in road (43%), power (36%), EPC buildings (13%) and railways (8%).

Credit challenges

Moderation in profitability margins – ABL's operating margins have moderated over the past five years to 8.4% in FY2023 from 13.5% in FY2019 on account of change in revenue mix because of relatively lower share of captive HAM projects (i.e., from 52% in FY2020 to 9% as on June 30, 2023) and stiff competition. Provisioning related to a solar project led to moderation in profitability in Q1 FY2024. ICRA expects its profit margins to improve to ~10-11% from FY2025 onwards.

Moderate leverage and coverage metrics – ABL's indebtedness has increased with TOL/TNW of 1.2 times as on March 31, 2023 (PY: 0.9 times), owing to rise in working capital borrowings and mobilisation advances. Further, its coverage indicators are moderate with interest coverage of 3.6 times as on March 31, 2023 (PY: 5.8 times), owing to dip in profitability and increase in interest outflow primarily on account of rise in interest-bearing mobilisation advances and higher working capital utilisation to support the expansion in its scale of operations. With improvement in the operating margins, reduction in mobilisation advances and timely realisation of proceeds from the asset monetisation deals, the company's leverage and coverage indicators are expected to improve.

Intense competition in construction industry – ABL procures orders through competitive bidding. With presence of multiple players, there is stiff competition in the road sector for both the EPC and HAM projects, which limits pricing flexibility. However, the built-in price variation clause in most of the contracts mitigates the risk to an extent.

Liquidity position: Adequate

ABL's liquidity remains adequate. The average utilisation of its fund-based limits against the drawing power (DP) during the ten month period that ended in August 2023 was moderate at 65%. The cushion in fund-based working capital limits (against the DP) stood at ~Rs. 200.0 crore as on August 31, 2023. The estimated cash flows from operations, along with receipts from asset monetisation are expected to be sufficient for meeting its financial obligations of Rs. 58 crore towards debt repayment and its funding commitment towards SPVs. ABL is likely to incur capex of ~Rs. 100-150 crore towards equipment and

machineries, which will be funded largely by debt. Going forward, timely realisation of proceeds from the asset monetisation would support its liquidity position.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Pressure on the rating could arise if the company is unable to materially improve its operating profitability and coverage metrics. Further, delays in realising proceeds or closure of the asset monetisation will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has fully consolidated the two entities, where ABL has extended a corporate guarantee and four BOT (Toll) entities, where ABL is likely to provide extraordinary support. For other SPVs, ICRA has undertaken limited consolidation factoring in the expected need-based funding support. The list of companies considered for limited/full consolidation are given in Annexure II below.

About the company

Ashoka Buildcon Limited is the flagship company of the Nashik-based Ashoka Buildcon Group that is primarily involved in infrastructure construction activities pertaining to road, building and power sectors. The Group is one of the leading highway developers in India. Incorporated in 1993, the company constructed residential, commercial, industrial, and institutional buildings until 1997. ABL won its first BOT project in 1997. It has predominantly been present in the roads sector, along with exposure towards power, buildings and railways segments. It is geographically diversified with presence across twenty states in India and in overseas markets, namely Maldives, Bangladesh, Guyana and Benin. At present, operations comprise BOT and EPC road projects, EPC power T&D projects and sale of ready-mix concrete. The company also ventured into the commercial gas distribution business in 2016 by winning its first order to build and operate a gas distribution network in Ratnagiri district, Maharashtra. Recently, ABL entered into an agreement with Mahanagar Gas Limited (MGL) to sell its commercial gas distribution business.

ABL is listed on both the Bombay Stock Exchange and National Stock Exchange. It has a portfolio of 23 BOT projects, of which 20 are operational and 3 are under construction.

Key financial indicators (audited)

ABL Standalone	FY2022	FY2023
Operating income	4591.5	6372.3
PAT	-308.4	671.3
OPBDIT/OI	10.9%	8.4%
PAT/OI	-6.7%	10.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	1.1	1.9
Interest coverage (times)	5.8	3.8

Source: ICRA Research, Company

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 Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 10, 2023	-	-	-
1 Commercial paper	Short term	100.00	-	[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very 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*	Commercial paper	NA	NA	NA	100.00	[ICRA]A1+

Source: Company; * Unplaced

Annexure II: List of entities considered for consolidated analysis

Company Name	ABL Ownership	Consolidation Approach
Ashoka Concessions Limited	66%	Full Consolidation
Ashoka Dhankuni Kharagpur Tollway Limited	66%	Full Consolidation
Ashoka Belgaum Dharwad Tollway Limited	66%	Full Consolidation
Ashoka Sambalpur Baragarh Tollway Limited	66%	Full Consolidation
Ashoka Highways (Durg) Limited	66%	Full Consolidation
Ashoka Highways (Bhandara) Limited	82.66%	Limited Consolidation
Ashoka Kharar Ludhiana Road Limited	66%	Limited Consolidation
Ashoka Ranastalam Anandapuram Road Limited	66%	Limited Consolidation
Ashoka Khairatunda Barwa Adda Road Limited	66%	Limited Consolidation
Ashoka Karadi Banwara Road Private Limited	66%	Limited Consolidation
Ashoka Mallasandra Karadi Road Private limited	66%	Limited Consolidation
Ashoka Belgaum Khanapur Road Private Limited	66%	Limited Consolidation
Ashoka Ankleshwar Manubar Expressway Private Limited	66%	Limited Consolidation
Ashoka Bettadahalli Shivamogga Road Private Limited	100%	Limited Consolidation
Ashoka Kandi Ramsanpalle Road Private Limited	100%	Limited Consolidation
Ashoka Banwara Bettadahalli Road Private Limited	100%	Limited Consolidation
Ashoka Baswantpur Signodi Road Private Limited	100%	Limited Consolidation
GVR Ashoka Chennai ORR Limited	50%	Limited Consolidation
Jaora Nayagaon Toll Road Company Private Limited	35.18%	Limited Consolidation
Unison Enviro Private Limited	51%	Full Consolidation

Source: ICRA Research; Company

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4547 4243

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Vinay Kumar G

+91 40 4547 4225

vinay.g@icraindia.com

Anisha Maheshwari

+91 80 4332 6414

anisha.maheshwari@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

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.

For more information, visit www.icra.in

ICRA Limited

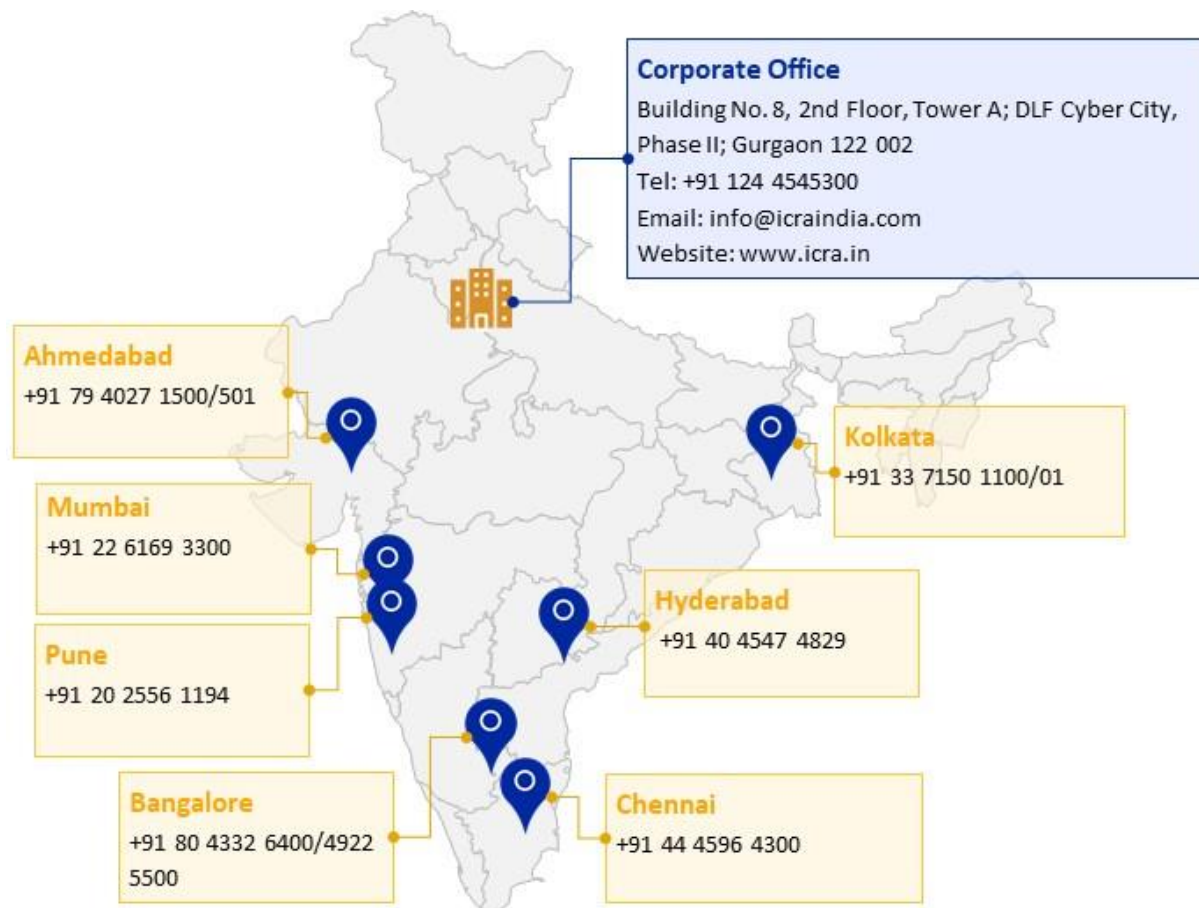


Registered Office

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



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.