

October 30, 2024

Ashoka Buildcon Limited: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Ashoka Buildcon Limited (ABL) factors in the healthy scale of operations with revenue of Rs. 7,727 crore in FY2024 (+21% YoY), comfortable order book of Rs. 10,356 crore (as on June 30, 2024) and geographically diversified presence across India. Moreover, overseas and segmental diversification with presence in road (45%), power (37%), railways (7%) and buildings (5%) as on June 30, 2024, also provides comfort. ICRA notes that the company received orders worth ~Rs. 7,000 crore during 7M FY2025, which supports ABL's order book position. The ratings also consider the extensive experience of ABL with over four decades in the construction industry, along with its strong execution capabilities.

The rating strengths are offset by volatility in margins, with moderation in profitability over the past five years to 7.5% in FY2024 from the highs of 14.9% in FY2020, driven by a change in revenue mix to a relatively lower share of revenues from captive hybrid annuity mode (HAM) projects (i.e., from 52% in FY2020 to 8% in Q1 FY2025) and execution of low-margin projects. The operating margins for FY2025 are expected to improve marginally from FY2024 levels with the completion of lower-margin projects. The extent of such improvement remains a key rating monitorable.

ABL's indebtedness increased with TOL/TNW of 1.45 times as on March 31, 2024 from 0.97 times as on March 31, 2022, owing to rise in working capital borrowings and mobilisation advances. Further, the interest coverage declined to 2.5 times for FY2024 from 6.9 times in FY2020, owing to dip in profitability and increased interest expenses majorly on account of elevated interest-bearing mobilisation advances and higher working capital utilisation. The coverage metrics are expected to improve in the medium term supported by reduction in interest-bearing mobilisation advances and an improvement in profitability margins.

ABL has eleven HAM projects in its portfolio: four are held by ABL and seven by Ashoka Concessions Limited (ACL), in which ABL holds a 66% stake. Of these projects, nine are operational, and two are under construction. ABL has a total pending equity commitment of Rs. 153 crore, expected to be infused in FY2025 for the under-construction HAM projects. Further, it has six operational toll assets, held by ACL, and two of these assets are dependent on ABL to meet their expenses for operations and maintenance (O&M)/ major maintenance (MM)/debt obligations and the support required for these operational assets is considered in ICRA's assessment.

ABL's cash flows from operations are expected to be comfortable to meet its equity commitments for the HAM projects and to support the toll assets. The company is in discussions with potential investors to monetise its HAM and toll assets, and the timelines remain a key rating monitorable. ICRA notes that there has been a delay in road asset monetisation from the earlier expected timelines, and further delays will constrain leverage and coverage metrics and will be credit negative.

ICRA notes that ABL has received proceeds from the sale of land from one of its wholly owned subsidiary, Viva Highways Limited (VHL). These funds were used to reduce ABL's working capital utilisation and pay off creditors. Furthermore, ABL is currently in the process of availing top-up debt at an annuity road project to repay the loans and receivables of ABL. Going forward, meaningful progress on the asset monetisation and refinancing by Q3 FY2025, along with timely fund realisation in subsequent quarters remains crucial from the credit perspective in reducing the working capital utilisation and improving the coverage metrics.

ICRA understands that 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. 1,526 crore. ICRA does not expect ABL to raise any debt to meet the payout requirements for SBI Macquarie. The payout is contingent on the completion of asset monetisation and will be paid as and when the monetisation proceeds are realised.

Key rating drivers and their description

Credit strengths

Healthy scale of operations – The company witnessed a healthy revenue growth of 21% to Rs. 7,727 crore in FY2024 from Rs. 6,372 crore in FY2023, backed by improved order execution. ABL has registered a revenue CAGR of 17.4% during FY2014-FY2024. ICRA expects the revenues to sustain in the near term, supported by the order book position of Rs. 10,356 crore as on June 30, 2024 and robust order addition of ~Rs. 7,000 crore during 7M 2025, lending support to the revenue visibility.

Diversified order book across segments and geographies - ABL's order book is geographically diversified with a presence across 20 states in India and overseas markets, including Maldives, Bangladesh and Ivory Coast. The order book is also diversified, with presence in road (45%), power (37%), railways (7%) and buildings (5%) as on June 30, 2024.

Experienced management; track record of timely completion of EPC and BOT projects - ABL has extensive experience of over four decades in the construction segment and has demonstrated strong execution capabilities. It has a portfolio of 21 BOT projects in India, of which 19 are operational and 2 projects are under construction. The clientele includes reputed entities, comprising Government bodies like the National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/A1+), the Ministry of Road Transport and Highways (MoRTH) and NTPC Renewable Energy, among others.

Credit challenges

Moderate profitability margins, leverage and coverage metrics – ABL's operating margins moderated over the past five years to 7.5% in FY2024 from the highs of 14.9% in FY2020, driven by a change in revenue mix to a relatively lower share of revenues from captive HAM projects (i.e., from 52% in FY2020 to 8% in Q1 FY2025) and the execution of low-margin projects. The operating margins for FY2025 are expected to improve marginally from FY2024 levels, with the completion of low-margin projects. The extent of such improvement remains a key rating monitorable.

ABL's indebtedness has increased with TOL/TNW of 1.45 times as on March 31, 2024 from 0.97 times as on March 31, 2022, owing to rise in working capital borrowings and mobilisation advances. Further, the interest coverage declined to 2.5 times for FY2024 from 6.9 times in FY2020, owing to dip in profitability and increased interest expenses majorly on account of elevated interest-bearing mobilisation advances and higher working capital utilisation. The coverage metrics are expected to improve in the medium term supported by reduction in interest-bearing mobilisation advances and an improvement in profitability margins.

Intense competition in construction industry - ABL procures orders through competitive bidding. The presence of multiple players and heightened competition in the road sector for both EPC and HAM projects constrained the operating margins. However, the built-in price-variation clause in most contracts mitigates the risk to an extent.

Environmental and Social Risks

Ashoka Buildcon Limited operates at multiple project sites simultaneously, and therefore, the risk of business disruptions on account of physical climate risks is low. In cases where ABL is required to deploy additional or specific equipment to contain environmental harm that increases its operating costs, it has the flexibility to seek compensation from its clients. However, given that construction activities contribute to air pollution, entities like ABL remain exposed to the risk of temporary bans on operations in cities that are more sensitive to deteriorating air quality.

Construction entities like ABL face social risks stemming from the health and safety concerns of workers, manifestation of which could invite regulatory or legal action, besides reputational harm. Further, it is observed that ABL has a track record of maintaining healthy relationships with its workers/ employees, including contractual labour with no material incidents of a slowdown in execution because of workforce management issues.

Liquidity position: Adequate

ABL's liquidity is adequate with unencumbered/free cash and bank balances of ~ Rs. 362 crore and a sizeable cushion in working capital limits with utilisation of fund-based limits remaining moderate at 51% as on March 31, 2024. The cash flow from operations is expected to be sufficient for meeting debt repayment of Rs. 68 crore, moderate capex of Rs. 100-150 crore and its funding commitment towards SPVs in FY2025.

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 Construction
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has fully consolidated one entity, 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 engaged in infrastructure construction activities pertaining to the road and power sectors. Incorporated in 1993, the company constructed residential, commercial, industrial, and institutional buildings until 1997. The company won its first BOT project in 1997. At present, operations comprise BOT and EPC road projects, EPC power T&D projects, railways, construction of bridges, buildings, water supply projects, smart-infra projects and manufacturing 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. This asset has been successfully monetised to Mahanagar Gas Limited in February 2024. The Group is one of the leading highway developers in India. ABL is listed on both the Bombay Stock Exchange and National Stock Exchange. It has a portfolio of 21 BOT projects, of which 19 are operational and 2 are under construction.

Key financial indicators (audited)

ABL Standalone	FY2023	FY2024
Operating income	6372.3	7726.7
PAT	654.0	442.3
OPBDIT/OI	8.4%	7.5%
PAT/OI	10.3%	5.7%
Total outside liabilities/Tangible net worth (times)	1.32	1.45
Total debt/OPBDIT (times)	3.25	3.72

Interest coverage (times)

3.79

2.53

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ABL follows Ind AS and key financial ratios are not representative of actual cash flows

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	October 30, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Commercial paper	Long Term	100.00	[ICRA]A1+	October 10, 2023	[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
INE442H14402*	Commercial paper	August 30, 2024	8.35%	November 26, 2024	100.00*	[ICRA]A1+

Source: Company; * Rs. 50 crore of Commercial Paper (CP) was issued by the company bearing ISIN number INE442H14402. The balance is yet to be placed

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	100%	Limited Consolidation
Jaora Nayagaon Toll Road Company Private Limited	35.18%*	Limited Consolidation

Source: ICRA Research; Company * Effective ownership of ABL (ABL holds 66% in Ashoka concessions limited and ACL in turn holds equity stake in these entities)

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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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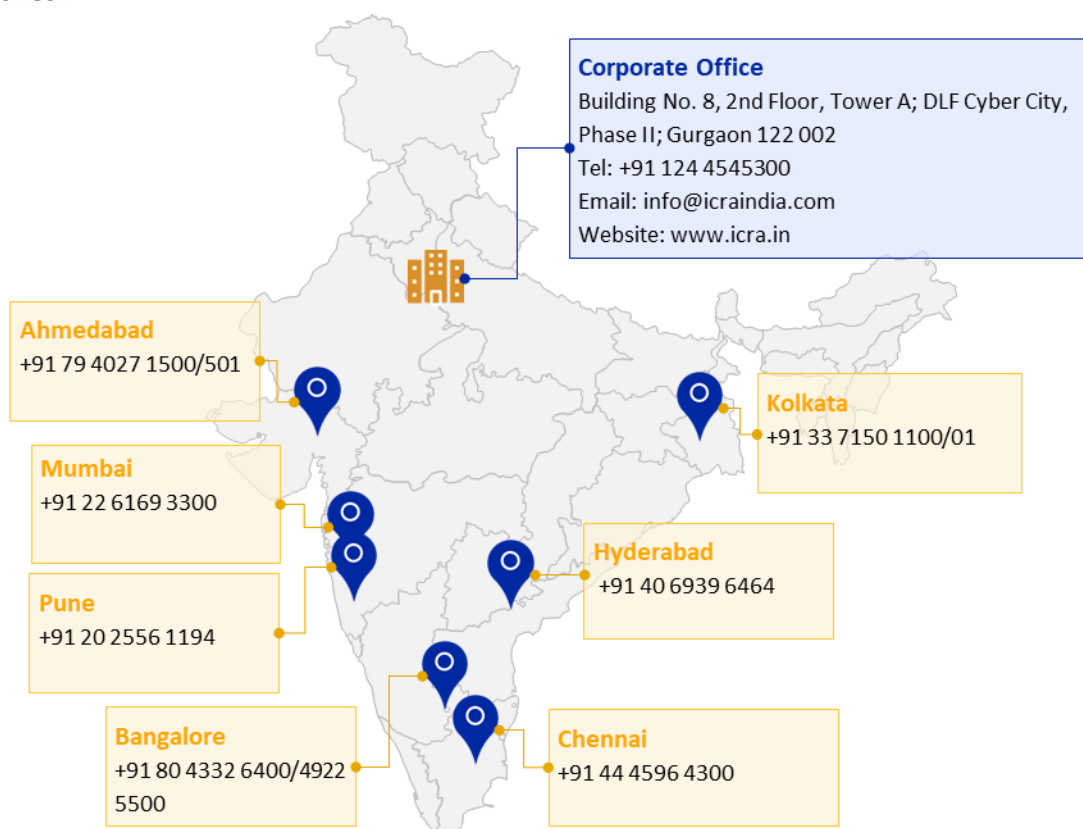


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