

September 03, 2021

Unison Enviro Private Limited: [ICRA]A+(CE) (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Term Loan	543.00	[ICRA]A+(CE) (Stable); Assigned
Total	543.00	
Rating Without Explicit Credit Enhancement		[ICRA]BBB+

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating factors in the strong parentage of Unison Enviro Private Limited (UEPL) by virtue of being a majority owned subsidiary of Ashoka Buildcon Limited (ABL). ABL holds 51% stake in UEPL with the balance being held by North Haven India Infrastructure Fund (NHIIF)¹. ABL has extensive experience in executing development projects with strong execution capabilities. The above rating is based on the strength of the unconditional corporate guarantee provided by ABL. UEPL has been authorised by the Petroleum and Natural Gas Regulatory Board (PNGRB) to implement the City Gas Distribution (CGD) network in the Geographical Areas (GA) of Ratnagiri, and Latur & Osmanabad in Maharashtra; and Chitradurga & Devangere in Karnataka. UEPL has received authorisation from PNGRB for marketing exclusivity in the Ratnagiri region for five years (ending in CY2022) and Latur & Osmanabad and Chitradurga & Devangere for eight years (ending in CY2027). Further, UEPL will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2041 for Ratnagiri GA and CY2043 for the other two GAs). Presence in multiple regions provides geographic diversity to UEPL. Further, the company has secured gas tie-ups in place from GAIL (India) Limited (rated [ICRA]AAA (Stable)) and Indian Oil Corporation Limited (IOCL, rated [ICRA]AAA (Stable)).

The standalone profile of the company remains exposed to execution risks associated with setting up of CGD projects, however, ICRA notes that debt has been tied up for the envisaged capex for all the three GAs. Moreover, the promoters have already infused equity of Rs. 131.4 crore as on June 30, 2021 which is ~45% of the total envisaged equity. Further, ABL is the Engineering, Procurement and Construction (EPC) contractor for the project, which mitigates the execution risk to an extent. UEPL also remains exposed to regulatory risks associated with meeting the minimum work program and service standards. ICRA notes that there have been initial delays in meeting the MWP targets by UEPL; some of these delays are attributable to the COVID pandemic. However, ICRA is given to understand that there has been no adverse action taken by the regulator and the management expects to meet the targets in a timely manner going forward. Compliance with the MWP targets set by the regulator will be a key monitorable. Given the longer gestation period for CGD projects and that CNG will be contributing to about 80% to the overall demand mix for all the three GAs as per the company's estimates, the ability of UEPL to ramp up the CNG conversions for transportation related gas demand will remain critical from credit perspective.

¹ NHIIF is an India dedicated alternative investment fund of Morgan Stanley Infrastructure Partners (MSIP)

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by ABL, guarantor, in favour of the said facility. While the guarantee is legally enforceable, unconditional and covers the entire amount and tenor of the rated facility/instrument, it does not have a well-defined invocation and payment mechanism. Taking cognizance of the above, ICRA has assigned a rating of [ICRA]A+(CE) to the said facility against the Unsupported Rating of [ICRA]BBB+. In case the credit profile of the guarantor or the unsupported rating of UEPL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility/ instrument as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » At least 45% of the total equity of Rs 291 crore shall be infused into the project before seeking any disbursement under the facility. Balance disbursement shall be done maintaining the D/E of 65:35 for the project.
- » Promoter to have management control and hold 51% shareholding in the borrower on a fully diluted basis during the entire tenor of the facility.

In the event that the Guarantor revokes or discontinues the guarantee, the captioned rating will not apply in respect of any incremental exposure taken by the bank on the borrower after the revocation or discontinuation notice is sent by the guarantor. In that event, the rating on the facility will have to be reviewed.

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by ABL – The rating factors in the strong parentage of Unison Enviro Private Limited (UEPL) by virtue of being a majority owned subsidiary of Ashoka Buildcon Limited (ABL). The rating is based on the strength of the unconditional corporate guarantee provided by ABL. ABL has extensive experience in executing development projects with strong execution capabilities.

Marketing exclusivity in Ratnagiri, Latur & Osmanabad and Chitradurga & Devangere regions – UEPL has been authorised by the PNGRB to implement the CGD network in the GAs of Ratnagiri and Latur & Osmanabad in Maharashtra; and Chitradurga & Devangere in Karnataka. UEPL has received authorisation from PNGRB for market exclusivity in the Ratnagiri region for five years (ending in CY2022) and Latur & Osmanabad and Chitradurga & Devangere for eight years (ending in CY2027). Further, UEPL will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2041 for Ratnagiri GA and CY2043 for the other two GAs).

Tie-up with GAIL and IOCL– The company has secured gas tie-ups in place from GAIL (India) Limited and IOCL for its gas sourcing needs.

Credit challenges

Exposure to project execution risks associated with setting up of CGD project– The project remains exposed to execution risks associated with setting up of CGD projects, however, ICRA notes that debt has been tied up for the envisaged capex for all the three GAs. Moreover, the promoters have already infused equity of Rs. 131.4 crore as on June 30, 2021 which is ~45% of the total envisaged equity. Further, ABL is the EPC contractor for the project, which mitigates the execution risk to an extent.

Exposure to market risk - Given the longer gestation period for CGD projects and that CNG will be contributing to about 80% to the overall demand mix for all the three GAs as per the company's estimates, the ability of UEPL to ramp up the CNG conversions for transportation related gas demand will remain critical from credit perspective.

Exposure to regulatory risks associated with CGD projects - UEPL remains exposed to regulatory risks associated with meeting the minimum work program and service standards. ICRA notes that there have been initial delays in meeting the MWP targets by UEPL; some of these delays are attributable to the COVID pandemic. However, ICRA is given to understand that there has been no adverse action taken by the regulator and the management expects to meet the targets in a timely manner going forward. Compliance with the MWP targets set by the regulator will be a key monitorable.

Liquidity position of UEPL: Adequate

The liquidity position of the UEPL is estimated to be adequate. The total project of Rs. 834 crore will be funded by debt of Rs. 543 crore and equity of Rs. 291 crore. The equity infusion as on March 31, 2021 stood at Rs. 131.4 crore which is ~45% of the total envisaged equity. Further, the debt of Rs. 543 crore has already been tied up with the lenders with the repayment expected to commence from FY2026 onwards. Ramping up of operations in the current fiscal is expected to support the company's liquidity position.

Liquidity position of guarantor, ABL: Adequate

The liquidity position of the support provider, ABL is adequate, with unencumbered cash and bank balances of Rs. 69.7 crore as on June 30, 2021. Further, ABL's average fund-based limit utilization remained moderate at 20% during the twelve-month period ending June 2021 providing adequate cushion. The debt repayment obligations of ABL for FY2022 stand at Rs. 74 crore which can be comfortably met through the expected cash flow from operations.

Rating sensitivities

Positive factors: ICRA could upgrade rating if there is a significant improvement in the credit profile of the guarantor, ABL.

Negative factors: Negative pressure on the above ratings of UEPL could arise if there is deterioration in the credit profile of the guarantor and/or weakening of the linkages with the guarantor and/or lack of timely support from the sponsors. Slower than expected ramp up in revenue and profitability and/or any adverse regulatory action could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for City Gas Distribution companies Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Ashoka Buildcon Limited (ABL) The rating is based on the strength of the irrevocable and unconditional corporate guarantee provided by the parent, ABL
Consolidation/Standalone	Standalone

About the company

Incorporated in December 2015, Unison Enviro Private Limited (UEPL) has been authorised by the Petroleum and Natural Gas Regulatory Board (PNGRB) to implement the City Gas Distribution (CGD) network in the Geographical Areas (GA) of Ratnagiri and Latur & Osmanabad in the state of Maharashtra; and Chitradurga & Devangere in the state of Karnataka. UEPL has received authorisation from PNGRB for marketing exclusivity in the Ratnagiri region for five years (ending in CY2022) and Latur-Osmanabad and Chitradurga & Devangere for eight years (ending in 2027). Further, UEPL will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2041 for Ratnagiri GA and CY2043 for the other two GAs). The authorisation for implementation of CGD network in Ratnagiri GA was granted by PNGRB under the 6th round of CGD bidding organised by it in August 2016. The authorisation for Latur & Osmanabad and Chitradurga & Devangere GAs was granted in September 2018 under the 9th round of CGD bidding. ABL holds 51% stake in UEPL with the balance being held by North Haven

India Infrastructure Fund (NHIIF). NHIIF is an India dedicated alternative investment fund of Morgan Stanley Infrastructure Partners (MSIP).

Key financial indicators (audited)

UEPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	6.6	20.4
PAT (Rs. crore)	-8.9	-13.2
OPBDIT/OI (%)	-78.1%	-7.4%
PAT/OI (%)	-135.8%	-64.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.4
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, NM – Not Meaningful

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of August 31, 2021 (Rs. crore)*	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 03, 2021	-	-	-
1	Long-term Fund-based – Term Loan	Long-term	543.0	-	[ICRA]A+(CE) (Stable)	-	-	-

*The company is yet to draw down the debt as on August 31, 2021

Complexity level of the rated instrument

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Term Loan	FY2021	NA	FY2035	543.0	[ICRA]A+(CE) (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis - NA

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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.

For more information, visit www.icra.in

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