

December 09, 2022

Ashoka Baswantpur Singnodi Road Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	390.00	[ICRA]A (Stable); assigned
Total	390.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Ashoka Baswantpur Singnodi Road Private Limited (ABSRPL) favourably factors in the comfortable financial profile and operational track record of its sponsor and engineering, procurement and construction (EPC) contractor – Ashoka Buildcon Limited (ABL). The rating notes the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW)¹, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked² revisions to the bid for project cost during the construction period and relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of grants. ABSRPL has received the appointed date w.e.f. from November 13, 2022 on account of availability of 80.17% RoW (~32.55km out of the total project stretch of 40.6 km) and achievement of financial closure. The rating considers the support from the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for creation of six months' debt service reserve (DSR) and major maintenance reserve (MMR). Additionally, the presence of reserves to meet the regular operations and maintenance (O&M) and interest obligations till the next scheduled annuity and restricted payment clause offer comfort. The rating takes into account the stable revenue stream post commissioning with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at the average of one-year MCLR of the top five scheduled commercial banks plus 125 bps and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner and authority - National Highways Authority of India [NHAI, rated [ICRA]AAA (Stable)], which is a strong counterparty.

The rating is, however, constrained by the execution risks in the under-construction project including the risk of time and cost overruns. The risk is mitigated to an extent by the fixed-price, fixed-time EPC contract and strong project execution capabilities of the contractor - ABL. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from a credit perspective. Post commissioning, it would have to ensure healthy lane availability to avoid any deductions from the annuity amount. Timely support from promoters to fund any shortfalls due to delays in grant or any cost overruns during the construction phase will remain crucial. Further, ABSRPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

The Stable outlook on the rating reflects ICRA's opinion that ABSRPL will benefit from its strong execution capabilities and financial profile of the sponsor and EPC contractor – ABL.

1 At least 80% prior to Appointed Date (AD)

2 Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30

Key rating drivers and their description

Credit strengths

Established track record and financial profile of sponsor and EPC contractor – ABSRPL has entered into a fixed-price EPC contract with ABL, which has two decades of experience in the construction business, and a track record of project execution within the budgeted time and cost. Any cost overrun within the scope of the EPC contract will be borne by ABL as per the sponsor's undertaking.

Benefits of hybrid-annuity model (HAM) – The inherent benefits of a HAM project include upfront availability of RoW, inflation-linked revisions to bid for project cost during construction and relatively low equity mobilisation risk as 40% of the project cost will be funded by the authority during the construction period in the form of grants. The project will have a stable revenue stream post commissioning with 60% of the project cost being paid out as annuities (adjusted for inflation) over the term of the concession from the project owner and annuity provider, the NHAI. The inflation-linked revision is based on the annual change in the PMI from the base year (PMI is the weighted average of WPI and CPI in the ratio of 70:30).

Undertakings from the sponsor – ABL has provided an undertaking towards financial support in case of a cost overrun during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase as per the lender's approved base case business plan.

Healthy coverage indicators and presence of structural features – ABSRPL is expected to have a healthy debt service coverage ratio during the debt tenure. Structural features of the debt, such as an escrow account, a cash flow waterfall mechanism, DSRA equivalent to six months of debt servicing obligation and creation of an MMR provide comfort.

Credit challenges

Project exposed to execution risk – The project is exposed to execution risk as construction is yet to commence. However, the implementation risk is mitigated to an extent with the company having RoW available for ~32.55 km road stretch against the total road stretch of 40.6 km as on November 13, 2022. ICRA notes that the implementation risk is mitigated to some extent by a fixed-price, fixed-time contract and ABL's strong project execution capabilities. The company's ability to commission the project, in a timely manner, within the budgeted costs would remain important from the credit perspective.

Project returns exposed to inflation risks – ABSRPL's cash flows are exposed to the interest rate risk, considering the floating nature of interest rates for the project loan. However, the risk is mitigated to some extent as the interest on the outstanding annuities is linked to the average of one-year MCLR of the top five scheduled commercial banks.

Proper maintenance of roads essential for receipt of annuity payments – ABSRPL's source of income includes the annuity, interest on outstanding annuities and annual O&M payments from the authority concerned. Hence, ensuring proper maintenance of roads, along with zero deduction in annuity receipts, will be the key credit sensitivity for ABSRPL.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity. However, the liquidity position is supported by undrawn sanctioned line of credit, grants receivable from the NHAI and equity infusion from ABL in a timely manner. The liquidity profile is also supported by the adequate liquidity of the sponsor.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves significant progress in line with the scheduled timeline and budgeted costs.

Negative factors – Pressure on the rating could arise if project progress is delayed, resulting in significant time and cost overruns, or if there is a deterioration in the sponsor's credit profile, or if delays in receipt of grant or equity infusion results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Roads -Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Ashoka Baswantpur Singnodi Road Private Limited (ABSRPL) is a 99.99% subsidiary of Ashoka Buildcon Limited (ABL). The special purpose vehicle (SPV) was formed in April 2022 to develop a six-lane access controlled greenfield highway from Km 162.500 to Km 203.100 on Baswantpur to Singnodi section of NH-150C (Package-IV of Akkalkot – KNT/TS Border) on a HAM basis under Bharatmala Pariyojna. The scope of the project includes performance and execution of all design, engineering, financing, procurement, construction, completion, O&M of the project corridor. The construction and concession period for the project is 2.5 years and 15 years, respectively. The SPV signed the concession agreement on May 17, 2022 and has received the appointed date on November 13, 2022. The total project cost is Rs. 1,081.9 crore to be funded by promoter contribution of Rs. 260.3 crore (24.06% of project cost), term loan of Rs. 390.0 crore (36.04%) and NHAI's grant of Rs. 431.6 crore (39.89%). The annuity and interest on the outstanding annuities will be received on a semi-annual basis, along with the O&M receipts, with the first-year O&M receipt of Rs. 2.74 crore to be adjusted for inflation from the bid date.

Key financial indicators

Key financial indicators are not applicable as ABKRPL is 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 Nov 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2020	Date & rating in FY2019	Date & rating in FY2018
					Dec 09,2022			
1	Term loans	Long-term	390.00	0.00	[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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Oct 2022	NA	FY2039	390.00	[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- Not applicable

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Branches



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