December 30, 2022 (Revised)

Unison Enviro Private Limited: Rating upgraded to [ICRA]AA- (CE) (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	543.00	543.00	[ICRA]AA- (CE) (Stable); upgraded from [ICRA]A+(CE) (Stable)
Total	**543.00**	**543.00**	
Rating Without Explicit Credit Enhancement			**[ICRA]BBB+**

**Instrument details are provided in Annexure-I*

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[1] (NHIIF). The above rating is based on the strength of the unconditional corporate guarantee provided by ABL.

The rating upgrade of UEPL reflects the improvement in the credit profile of its guarantor, i.e., ABL, in the backdrop of monetisation of its six toll and one annuity projects, the proceeds from which will be utilised to provide exit to the private equity investor in Ashoka Concession Limited (ACL) as well as for deleveraging its balance sheet. ABL has provided support for debt servicing/major maintenance expenses of few of these assets in the past. ABL is in the process of selling its 100% stake in five build-operate-transfer (BOT) toll subsidiaries, i.e., Ashoka Highways (Bhandara) Limited, Ashoka Highways (Durg) Limited ([ICRA] BBB+&[2]), Ashoka Belgaum Dharwad Tollway Limited ([ICRA]A (CE)&), Ashoka Sambalpur Baragarh Tollway Limited ([ICRA]A (CE) &) and Ashoka Dhankuni Kharagpur Tollway Limited ([ICRA] BBB+ &), for an aggregate consideration of Rs. 1,337 crore and the deal is expected to be concluded by March 2023, subject to receipt of necessary approval/consents from the concerned lenders as well as the National Highways Authority of India (NHAI). From the total consideration received, Rs. 1,200 crore will be utilised to facilitate the exit of SBI Macquarie, which currently holds 36% stake in ACL and some portion will be utilised to pay other shareholders in these subsidiaries. Further, ABL has sold its 50% stake in GVR Ashoka Chennai ORR Limited for an aggregate consideration of Rs. 343 crore and its 48% stake in Jaora Nayagaon Toll Road Pvt. Limited for an aggregate consideration of Rs. 332 crore. Post the completion of sale of these assets, ABL's build-operate-transfer (BOT) asset profile will improve and primarily comprise hybrid annuity model (HAM) projects. The rating also factors in the extensive experience with strong execution capabilities and demonstrated track record of constructing and operating BOT road projects and healthy scale of operations with revenues of Rs. 4,592 crore in FY2022. The revenue growth is expected to sustain in the near term on the back of strong order book position of Rs. 14,901 crore as on September 30, 2022.

The rating notes the authorisation of Petroleum and Natural Gas Regulatory Board (PNGRB) to implement the City Gas Distribution (CGD) network in the Geographical Areas (GA) of Ratnagiri, Latur and Osmanabad in Maharashtra, and Chitradurga and Davanagere in Karnataka to UEPL. It has the marketing exclusivity in the Ratnagiri region till CY2023, for Latur and Osmanabad, as well as Chitradurga and Davanagere till CY2029. Further, the company will continue to enjoy infrastructure

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

[2] & - rating on watch with developing implications

exclusivity in all the three GAs for a 25-year period (till CY2043 for Ratnagiri GA and CY2045 for the other two GAs). Presence in multiple regions provides geographical diversity to UEPL. It also 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)).

UEPL remains exposed to execution risks associated with setting up of CGD projects, however, satisfactory project progress as per Minimum Work Programme (MWP) and sufficient time for completion of the balance targets mitigate the risk to an extent. Further, ABL is the Engineering, Procurement and Construction (EPC) contractor for the project, which mitigates the execution risk to an extent. It also remains exposed to regulatory risks associated with meeting the MWP and service standards. 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, UEPL's ability to ramp-up the CNG conversions for transportation-related gas demand will remain critical from the credit perspective.

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. Considering the same, ICRA has assigned a rating of [ICRA]AA-(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 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 UEPL by virtue of being a majority owned subsidiary of ABL. The rating is based on the strength of the unconditional corporate guarantee provided by ABL. ABL has extensive experience in executing BOT development projects with strong execution capabilities.

Marketing exclusivity in Ratnagiri, Latur and Osmanabad, Chitradurga and Devangere regions – UEPL has been authorised by the PNGRB to implement the CGD network in the GAs of Ratnagiri, Latur and Osmanabad in Maharashtra, along with Chitradurga and Davanagere in Karnataka. UEPL has marketing exclusivity in the Ratnagiri region till CY2023 and for Latur and Osmanabad as well as Chitradurga and Davanagere till CY2029. Further, it will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2043 for Ratnagiri GA and CY2045 for the other two GAs).

Secure gas tie-up from GAIL – 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 pending execution risks associated with setting up of CGD projects. ICRA notes that debt has been tied up for the envisaged capex for all the three GAs and the company has drawn down Rs. 158 crore of debt as on September 30, 2022. Moreover, the promoters have already infused equity of Rs. 135.4 crore as on September 30, 2022, which is ~46.5% of the total envisaged equity. Hence, out of the total cost of Rs. 834 crore for the three GAs (to be incurred till FY2025), it has incurred Rs. 273-crore capex as on September 31, 2022. 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, UEPL's ability to ramp-up the CNG conversions for transportation-related gas demand will remain critical from the credit perspective.

Exposure to regulatory risks associated with CGD projects – UEPL remains exposed to regulatory risks associated with meeting the minimum work programme 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-19 pandemic. However, given that the company has received extension of two years, UEPL is comfortably placed in terms of targets as of September 2022. Going forward, the management expects to achieve the MWP targets within the extended timelines in a timely manner. Compliance with the MWP targets set by the regulator will be a key monitorable.

Liquidity position: Adequate

UEPL's liquidity position is estimated to be adequate. The balance project cost of Rs. 561 crore will be funded by undrawn debt of Rs. 385 crore and pending equity of Rs. 155.6 crore. With repayment starting from FY2026 onwards, the company is expected to service the interest in FY2023 and its estimated cash flows from operations would be sufficient for the same.

Liquidity position of guarantor, ABL: Adequate

The liquidity position of the support provider, ABL, is adequate, with unencumbered cash and bank balances of Rs. 76.5 crore as on September 30, 2022. Further, ABL's average fund-based limit utilisation remained moderate at 62% during the seven months period from April 2022 to October 2022.

Rating sensitivities

Positive factors – Significant improvement in the credit profile of the support provider, ABL, can lead to a rating upgrade.

Negative factors – Slower-than-expected ramp-up in revenue or profitability or any adverse regulatory action could lead to a rating downgrade. Deterioration in the credit profile of the support provider and/or weakening of linkages with the support provider or lack of timely support from the sponsors can also lead to 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 CGD network in GAs of Ratnagiri, Latur and Osmanabad in Maharashtra, along with Chitradurga and Davanagere in Karnataka. UEPL has received authorisation from PNGRB for marketing exclusivity in the Ratnagiri region for five years (ending in CY2023), and for Latur and Osmanabad as well as Chitradurga amd Davanagere for eight years (ending in CY2029). Further, UEPL will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2043 for Ratnagiri GA and CY2045 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 and Osmanabad as well as Chitradurga and Davanagere 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	FY2021	FY2022	H1FY2023*
Operating income	20.4	77.5	40.7
PAT	-13.2	-24.9	-3.3
OPBDIT/OI	-7.4%	0.3%	16.6%
PAT/OI	-64.9%	-32.2%	-8.2%
Total outside liabilities/Tangible net worth (times)	0.4	1.6	-
Total debt/OPBDIT (times)	NM	502.3	-
Interest coverage (times)	NM	0.1	2.2

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

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 Sept 30, 2022 (Rs. crore)	Date & Rating in FY 2023	Date & Rating in FY 2022		Date & Rating in FY2021	Date & Rating in FY2020
					Dec 30, 2022	Jan 18, 2022	Sep 03, 2021		
1	**Term Loans**	Long term	543.0	158.0	**[ICRA]AA- (CE) (Stable)**	**[ICRA]A+(CE) (Stable)**	**[ICRA]A+(CE) (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	FY2021	NA	FY2035	543.0	[ICRA]AA- (CE) (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

Corrigendum

Rationale dated December 30, 2022 has been revised with changes as below:

- Addition of hyperlink for lender-wise facilities rated by ICRA

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