

February 17, 2023

Ashoka Dhankuni Kharagpur Tollway Limited: Rating continues to be on Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	1606.00	1353.23	[ICRA]BBB+; continues to be on Rating watch with Developing Implications
Total	1606.00	1353.23	

*Instrument details are provided in Annexure-I

Rationale

The rating of Ashoka Dhankuni Karagpur Tollway Limited (ADKTL) continues to remain under Watch with Developing Implications following the ongoing transfer of ownership of 100% stake held by ACL in ADKTL to Galaxy Investments II Pvt. Ltd., an affiliate of Kohlberg Kravis Roberts & Co. L.P. (KKR). ICRA will resolve the watch following the change in shareholding after understanding the impact of the transaction on the operational, financial profile and financial policy of the incoming investor after concluding discussions with the new management. ICRA understands from ACL, that it will continue to provide operational and timely financial support to ADKTL, until the complete transfer of ownership of asset to the new shareholder.

On December 25, 2021, Ashoka Buildcon Limited (ABL) had announced that ACL, a subsidiary of ABL, has entered into share subscription and share purchase agreements (SPAs) with Galaxy Investments II Pvt. Ltd., an affiliate of Kohlberg Kravis Roberts & Co. L.P. (KKR), for the sale of the entire share capital held in five build-operate-transfer (BOT) toll subsidiaries of ACL, i.e., Ashoka Highways (Bhandara) Limited, Ashoka Highways (Durg) Limited (AHDL, rated [ICRA]BBB+¹), Ashoka Belgaum Dharwad Tollway Limited (ABDTL, rated ([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. The company is in the process of obtaining the requisite approvals from the National Highways Authority of India's (NHAI) lenders, and relevant stakeholders and completion of certain conditions precedent therein. Out of the total proceeds received, Rs. 1,200 crore will be utilised to facilitate SBI Macquarie to exit fully from ACL.

ADKTL's rating favourably factors in the operational track record of over eight years, with the project stretch falling on the busy Chennai-Kolkata corridor (part of NH16 and Golden Quadrilateral), which has an established traffic density of commercial vehicles with low alternative route risk. The toll collections witnessed a compounded annual growth rate (CAGR) of ~4.8% during FY2019-FY2022 to Rs. 393.6 crore in FY2022. The toll collections are expected to increase to more than Rs. 450 crore in FY2023 on the back of healthy rise in toll rates and moderate traffic growth. The rating notes the strong profile of the sponsor ACL, which has an extensive experience in construction and operation of road projects. ICRA takes comfort from the sponsor's undertaking to fund any shortfall in the debt service reserve account (DSRA), to meet any shortfall for the first major maintenance, to bring any additional funds required to meet the shortfall in operating expenses and to maintain the minimum DSCR covenant of 1.10 times during the operations period. The presence of DSRA equivalent to one quarter's repayment obligations in the form of bank guarantee and an escrow mechanism provides further comfort.

The rating, however, remains constrained by the weak debt coverage metrics owing to high fixed annual premium payment to the authority. Further, the deferment of National Highways Authority of India (NHAI) premium till FY2025 (granted in 2015) reduced the committed obligation and has thereby eased the burden on cash flows. ICRA notes that the company has prepaid Rs. 305.3 crore of the NHAI's deferred premium from FY2016 till FY2022 from the operating surplus generated and financial flexibility arising out of the long tail period of nine years. The rating remains constrained by the absence of major maintenance

¹ & - on rating Watch with Developing Implications

reserve, thereby necessitating dependence on the sponsor to meet the second periodic major maintenance expenditure falling due over FY2026-FY2027. However, ICRA continues to take comfort from the presence of sponsor undertaking to meet any shortfall in completing the major maintenance cycle. The rating also remains constrained by risks inherent in toll-based projects, which include risks arising from variation in traffic volume over the project stretch, movement in WPI (for toll rate escalation), political acceptability of toll rate hike over the concession period, development/improvement of alternative routes. Timely fund infusion by the sponsor and the company's ability to undertake routine and periodic maintenance expenditure within the budgeted costs remains important. The profitability and cash flows of the project remain exposed to the interest rate risk, owing to the floating nature of the interest rate for the project debt.

Key rating drivers and their description

Credit strengths

Operational nature of the project with established traffic – The project stretch is a part of the busy Chennai-Kolkata corridor on NH-16, which has an established traffic density and a tolling track record of over eight years. The project stretch is in close proximity to the Haldia Port. Low competing alternative routes and an improvement in cargo traffic at the Haldia Port supported traffic growth in the past. The toll collections recorded a CAGR of ~4.8% during FY2014-FY2022 to Rs. 393.6 crore in FY2022. The toll collections are expected to increase to more than Rs. 450 crore in FY2023, driven by hikes in toll rates and moderate traffic growth.

Strong profile of the sponsor and sponsor undertaking for debt servicing – ADKTL is a wholly-owned subsidiary of ACL, which is a part of the Ashoka Buildcon Group. The Group has an established track record in the road sector pertaining to operation and engineering, procurement and construction (EPC) projects. The rating factors in the sponsor's undertaking to fund any shortfall in the DSRA, to meet any shortfall for the first major maintenance, to bring any additional funds required to meet the shortfall in operating expenses and to maintain the minimum DSCR covenant of 1.10 times during the operations period.

Presence of DSRA and escrow mechanism – Presence of DSRA equivalent to one quarter's debt servicing obligation in the form of bank guarantee and an escrow structure provides additional comfort. The availability of the tail period of about nine years for the project provides financial flexibility.

Credit challenges

Weak debt coverage metrics owing to high premium payment to NHAI – ADKTL's debt coverage metrics remained weak owing to high fixed amount of the annual premium payment to the authority. Consequently, any slowdown in the toll collections could have an adverse impact on coverage indicators. However, in August 2015, ADKTL received sanction from the NHAI for premium deferment till FY2025 to the extent of Rs. 1,089 crore, thereby reducing the burden on its cash flows. ICRA notes that the company has prepaid Rs. 305.3 crore of the NHAI's deferred premium from FY2016 till FY2022 from the surplus operating cash flows generated, thereby reducing its deferred premium liability and consequent interest charges.

Risks inherent in BOT (toll) road projects – ADKTL remains exposed to the risks inherent in the BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch, movement in WPI (ADKTL's toll rates are 40% linked to the previous year's December WPI and 3% fixed on base year), political acceptability of toll rate hike over the concession period, development/improvement of alternative routes and likelihood of toll leakages. Further, the project's cash flows and profitability remain exposed to the interest rate risk due to the floating nature of the interest rate.

Liquidity position: Adequate

ADKTL's liquidity is adequate. The external debt obligations in FY2023 and FY2024 can be met from its operational cash flows. The company maintains DSRA of Rs. 56.57 crore equivalent to ensuing one quarter's principal plus interest obligations in the

form of bank guarantee of Rs. 43.58 crore, with recourse to the ultimate sponsor, ABL, and Rs. 12.99 crore in the form of fixed deposit. Further, ADKTL has cash balance Rs. 16.72 crore as on September 30, 2022.

Rating sensitivities

Positive factors – The rating watch will be resolved once the transaction gets consummated. Further, significant growth in toll collections resulting in material improvement in debt coverage metrics will be credit positive.

Negative factors – The rating watch will get resolved upon consummation of the transaction. Significant decline in toll collections on a sustained basis leading to deterioration of debt coverage metrics would put pressure on the ratings. Further, any delay in infusion of support or weakening in support philosophy or credit profile of the sponsor adversely impacting its liquidity position could lead to pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent Company: Ashoka Concessions Limited (ACL) Ultimate promoter: Ashoka Buildcon Limited (ABL) The rating assigned to ADKTL factors in the likelihood of its ultimate parent, ABL, extending financial support to it (through ACL) because of close business linkages between them. ICRA expects ABL to be willing to extend financial support to ADKTL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of ABL having extended timely financial support to ADKTL in the past, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Ashoka Dhankuni Kharagpur Tollway Limited (ADKTL), incorporated in 2011, is a special purpose vehicle (SPV) of ACL. The project is involved in the construction and conversion from four lanes to six lanes, operation and maintenance of the Dhankuni-Kharagpur stretch of National Highway-6 (new NH-16, previously NH-6 from 17.6 to 129.0 kilometres) in West Bengal, under the National Highways Development Project Phase V (NHDP- V), on a design, build, finance, operate, transfer (DBFOT) basis. The construction started in April 2012, with scheduled construction end date in September 2014. The concession period for the project is 25 years (including 30 months for construction) with an annual grant payout of Rs. 126.1 crore and a 5% increment every year. ADKTL also got sanction for premium deferment from the NHAI in August 2015 for ten years with total deferment not exceeding Rs. 1,089.0 crore.

Key financial indicators (audited)

ADKTL	FY2021	FY2022
Operating income	361.2	393.8
PAT	-149.9	-122.3
OPBDIT/OI	84.8%	86.9%
PAT/OI	-41.5%	-31.0%
Total outside liabilities/Tangible net worth (times)	-5.7	-5.1
Total debt/OPBDIT (times)	12.8	11.6
Interest coverage (times)	0.8	0.9

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 (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Sept 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
				Feb 17, 2023	Jan 18, 2022	Sep 13, 2021	Aug 28, 2020	Aug 29, 2019
1 Term Loan	Long term	1353.23	1353.23	[ICRA]BBB+ Rating Watch with Developing Implication	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+(SO) (Stable)

&: Rating Watch with Developing Implications

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	May 2016	NA	Mar 2028	1353.23	[ICRA]BBB+ Rating Watch with Developing Implication

Source: Company

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Annexure II: List of entities considered for consolidated analysis- Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4243
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.co.in

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

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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



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