

March 17, 2023

Ashoka Ranastalam Anandapuram Road Limited: [ICRA]AAA(Stable) withdrawn and [ICRA]AAA(Stable) simultaneously assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	376.57	-	[ICRA]AAA (Stable); Withdrawn
Long-term – Fund-based – Term loan	0.00	362.57	[ICRA]AAA (Stable); Assigned
Total	376.57	362.57	

*Instrument details are provided in Annexure-I

Rationale

ICRA has withdrawn the rating assigned to the bank facilities of Ashoka Ranastalam Anandapuram Road Limited (ARARL) based on the confirmation received from the lenders' trustee that there is no amount outstanding against the rated instruments in accordance with ICRA's policy on withdrawal of credit rating. ICRA has assigned the rating of [ICRA]AAA to the refinanced facility of ARARL.

The rating factors in the timely receipt of the first four semi-annuity payments, including operations and maintenance (O&M) payments from the National Highway Authority of India (NHAI; rated [ICRA]AAA (Stable)), without any penalties, creation of a debt service reserve account (DSRA) equivalent to six months of debt obligations and a major maintenance reserve (MMR) for periodic maintenance. Despite delays of 10-15 days in the receipt of the first four semi-annuities on account of administrative reasons, there is an adequate cushion of more than 30 days between the annuity due date and the debt repayment date. Further, as per the discussion with the lenders, ICRA is given to understand that the DSRA would be used to ensure timely debt servicing in case of any delays in annuity receipts and it will be subsequently topped up as per the defined cash flow waterfall mechanism.

The rating notes the strong debt coverage indicators with a cumulative debt service coverage ratio (DSCR) above 1.25 times during the debt tenure. Further, structural features of the debt, including the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a minimum DSCR of 1.15 times, provide credit support. The rating also considers the stable annuity revenue stream over the term of the concession from the project owner and annuity provider, NHAI, which is a key Central Government entity responsible for the development and maintenance of India's national highway programme. The rating also takes into account the strong profile of the O&M contractor and sponsor – Ashoka Concessions Limited (ACL, rated [ICRA]A and on Watch with Developing Implications) – the holding company of the road assets of Ashoka Buildcon Limited (ABL). ARARL has appointed ACL as the O&M contractor to take up routine maintenance activities at an annual fixed-price contract. The Ashoka Group has a demonstrated track record of executing O&M works within the budgeted time and cost. Further, ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses, including the first major maintenance (MM), as per the lender's approved base case business plan.

The rating, however, is constrained by the exposure of ARARL's cash flows and returns to changes in bank rates, along with interest rate risks, given the floating nature of the interest rates for the project loan. Any significant reduction in the RBI's Bank Rate would adversely impact its coverage indicators as annuity payments are linked to the Bank Rate. Further, the company would have to ensure satisfactory upkeep of the carriageway as per the provisions of the concession agreement to avoid any deductions in the annuity amount. ICRA notes that Rs. 12.1 crore was withheld in the third annuity on account of excess payment towards electrical utility shifting. Nevertheless, the company has sufficient cash balances for its debt servicing. There were no deductions in the fourth annuity and ICRA expects no further deductions in the future annuities. Any material

deduction in annuities or increase in regular or periodic maintenance expenditure could have an adverse impact on its coverage metrics and will be a credit negative.

The Stable outlook on the rating reflects ICRA's opinion that ARARL will continue to benefit from strong counterparty, healthy debt coverage metrics and presence of structural features.

Key rating drivers and their description

Credit strengths

Annuity nature of project with track record of four semi annuities – The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI, which is a key Central Government entity responsible for the development and maintenance of India's national highway programme.

ARARL has received four semi-annuity payments, including O&M payment, without any penalties. Although Rs. 12.1 crore was withheld in the third annuity on account of excess payment towards electrical utility shifting, the company has sufficient cash balances for its debt servicing. There were no deductions in the fourth annuity and ICRA expects no further deductions in the future annuities.

Strong debt coverage metrics – The projected debt coverage metrics are strong with a cumulative DSCR of above 1.25 times during the debt tenure. Further, structural features of the debt, including the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a minimum DSCR of 1.15 times, provide credit support. The company maintains a DSRA, which stood at Rs. 27.99 crore as on December 31, 2022 and is sufficient to cover six months of debt obligations and MMR of Rs. 30.64 crore, which is maintained in the form of fixed deposits with the lead lender and is in line with the lender's base case financial model.

Established track record of O&M contractor – ARARL is a wholly-owned subsidiary of ACL, which is a part of the Ashoka Buildcon Group. ACL has been appointed as the O&M contractor to take up routine maintenance activities at an annual fixed-price contract. The promoter group has expertise of two decades in the construction business with a strong presence in the road segment, and a demonstrated track record of executing O&M works within the budgeted time and cost.

Credit challenges

Project returns exposed to interest rate and inflation risks – ARARL's cash flows are exposed to interest rate risks, given the floating nature of the interest rates for the project loan. A reduction in Bank Rate would adversely impact the projected coverage metrics and IRRs for hybrid annuity mode (HAM) projects as ~40-45% of the total annuity inflows for a HAM project are contributed by the interest on annuities.

Lane availability to be ensured for annuity payments – ARARL's sources of income are the annuity, interest on outstanding annuities and annual O&M payments from the NHAI. Hence, ensuring a satisfactory upkeep of the carriageway as per the provisions of the concession agreement to avoid any deductions in the annuity amount will be a key credit sensitivity for ARARL going forward. Any material increase in regular or periodic maintenance expenditure will have an adverse impact on the debt coverage metrics and remain a key credit sensitivity. ICRA notes that the special purpose vehicle (SPV) has entered into fixed-price O&M and MM contracts with the sponsor. Further, ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses, including the first MM, as per the lender's approved base case business plan. Further, ARARL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Liquidity position: Adequate

The cash flow from operations are expected to be sufficient to meet the debt servicing obligations of Rs. 55.6 crore in FY2024 and Rs. 54.7 crore in FY2025. The company's liquidity position is supported by the availability of cash DSRA of Rs. 27.99 crore, which is equivalent to six months of debt servicing obligations.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could arise if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments, or if an increase in the O&M expenses or any additional debt availed by the SPV results in a deterioration of the debt coverage indicators. The rating could also come under pressure if there is any non-adherence to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads Policy On Withdrawal Of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

ARARL is a 100% subsidiary of ACL, a holding company of road assets and subsidiary of ABL. The SPV was formed to undertake the construction, operation and maintenance of the six-laning of NH 16 – from Ranastalam to Anandapuram (Visakhapatnam); from 634.000 km to 681.000 km (~47 km) – in Andhra Pradesh, under the NHDP Phase V (Package II) on design, build, operate and transfer (hybrid annuity) basis.

The project achieved a PCOD w.e.f September 24, 2020. The completion certificate was issued w.e.f June 30, 2021. Post the de-scoping of certain stretches, the bid project cost (BPC) has been revised to Rs. 1,173.02 crore (from original BPC of Rs. 1,187.10 crore).

Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	151.4	64.7
PAT (Rs. crore)	-11.5	10.9
OPBDIT/OI	15.2%	62.2%
PAT/OI	-7.6%	16.8%
Total outside liabilities/Tangible net worth (times)	3.1	2.8
Total debt/OPBDIT (times)	17.1	9.3
Interest coverage (times)	0.7	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ARARL follows Ind AS and key financial ratios are not representative of actual cash flows

Source: Company; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2023)					Chronology of rating history for the past 3 years					
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020	
				Mar 17, 2023	Dec-16-2021	Jun-18-2021	Jan-15-2021	Aug-6-2020	May-27-2019	
1	Term loan	Long Term	376.57	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AA (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term loan	Long term	362.57	350.53	[ICRA]AAA (Stable); Assigned					

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	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 loans	July 2022	-	Oct-2033	362.57	[ICRA]AAA (Stable)
NA	Term loans	Oct-2017	-	Oct-2033	199.52	[ICRA]AAA (Stable); Withdrawn
NA	Term loans	Oct-2017	-	Oct-2033	177.05	[ICRA]AAA (Stable); Withdrawn

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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