

April 17, 2023

## Ashoka Belgaum Dharwad Tollway Limited: Continues on Rating watch with developing implication for existing limits; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	402.72	402.72	[ICRA]A(CE); continues on Rating Watch with Developing Implications
Long-term Fund-based – Term loan	0.00	68.15	[ICRA]BBB Rating on Watch with Developing Implications; assigned
<b>Total</b>	<b>402.72</b>	<b>470.87</b>	
<b>Rating Without Explicit Credit Enhancement</b>			<b>[ICRA] BBB</b>

\*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 captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

### Rationale

#### For [ICRA]A (CE) (Rating Watch with Developing Implication)

The ratings of Ashoka Belgaum Dharwad Tollway Limited (ABDTL) are based on the strength of the corporate guarantee provided by Ashoka Concession Limited (ACL, rated [ICRA]A (Rating on Watch with Developing Implications)) for the rated term loan.

ABDTL's ratings continue to remain under Watch with Developing Implications following the ongoing transfer of ownership of 100% stake held by ACL in ABDTL 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 that ACL will continue to provide operational and timely financial support to ABDTL, 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+&), 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 other 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.

#### Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by ACL in favour of the said facility. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated facility, it does not have a well-defined invocation and payment mechanism. Considering the same, ICRA has assigned a rating of [ICRA]A&(CE) to the said facility against the Unsupported Rating of [ICRA]BBB [and in relation to the guarantor's rating of [ICRA]A&]. If the rating of the guarantor or the Unsupported Rating of ABDTL were to undergo a change in future, the same

would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument 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**

- » Promoter's shares in ABDTL should not be pledged to any Bank/NBFC/Institution without the lender's consent;
- » ABDTL shall maintain a DSRA equivalent to one quarter's of interest plus principal repayment.

#### **For [ICRA]BBB (Rating Watch with Developing Implications)**

The assigned rating of [ICRA]BBB (Rating Watch with Developing Implications) factors in the strong profile of the sponsor, i.e. ACL, and track record of timely financial support from the promoter group in the past. ACL, which is a holding company of ABL's road portfolio, has extensive experience in construction and operation of road projects. ICRA notes ABDTL's operational track record of over seven years. The project stretch is on the busy Mumbai-Chennai corridor (part of the Golden Quadrilateral), which has an established traffic density with low alternative route risk. The toll collections recorded a compounded annual growth rate (CAGR) of 9.6% during FY2014 to FY2023 to Rs. 135.3 crore in FY2023. The toll collections are expected to increase to more than Rs. 145 crore in FY2024, driven by healthy rise in toll rates and moderate traffic growth. The ratings take comfort from the sponsor undertaking to meet any shortfall in the debt servicing and maintenance of a debt service reserve account (DSRA), as stipulated by the lender, during the tenure of the loan. The presence of DSRA equivalent to one quarter's repayment obligations in the form of bank guarantee and an escrow mechanism provide comfort.

The ratings, however, remain constrained by the high fixed annual premium payment to the authority and lower-than- envisaged toll collections resulting in weak coverage metrics. Consequently, ABDTL is expected to remain dependent on the group support for meeting its debt servicing and major maintenance (MM) obligations. ABDTL does not maintain any major maintenance reserve (MMR). However, the company has availed an Emergency Credit Line Guarantee Scheme (ECLGS) loan to fund the ongoing MM activity, which reduces the dependence on the promoter group. This additional debt will further stretch the debt coverage metrics of ABDTL. The deferment of NHAI's premium till FY2025 (granted in FY2015) reduced the committed obligation and has thereby eased the burden on cash flows. It prepaid Rs. 53.6 crore of NHAI's deferred premium from FY2016 till FY2023 from the operating surplus generated. While its DSCR is likely to remain suppressed over the debt tenure, ICRA takes comfort from the financial flexibility arising out of the long tail period of twelve years. The ratings are 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 remain important. The project's profitability and cash flows are 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**

**Corporate guarantee provided by ACL to rated bank facilities** – The ratings are based on the strength of the corporate guarantee provided by the guarantor. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument.

**Operational nature of project with established traffic** – ABDTL has an operational record of over seven years. The project stretch is on the busy Mumbai-Chennai corridor (part of the Golden Quadrilateral), which has an established traffic density with low alternative route risk. The toll collections rose at a CAGR of ~9.6% during FY2014-FY2022 to Rs. 135.3 crore in FY2023. The toll collections are expected to increase to more than Rs. 145 crore in FY2024 on the back of a healthy rise in toll rates and moderate traffic growth.

**Presence of DSRA and escrow mechanism** – Presence of DSRA equivalent to one quarter’s debt servicing obligation in the form of a bank guarantee and an escrow mechanism provides comfort. The availability of a long tail period of twelve years provides ABDTL with financial flexibility.

## Credit challenges

**Weak coverage metrics and continued reliance on group support** – ABDTL is expected to remain dependent on the Group’s support for meeting its debt servicing and MM obligations. Its DSCR is likely to remain suppressed over the debt tenure. This is on account of high fixed annual premium payment obligations, lower-than-envisaged toll collections and absence of MMR. Further, the deferment of NHAI’ premium till FY2025 (granted in FY2015) reduced the committed obligation and has thereby eased the burden on its cash flow.

**Risks inherent in BOT toll road projects** – ABDTL remains exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development/improvement of alternative routes and likelihood of toll leakages. Further, the project’s profitability and cash flow are exposed to interest rate risk, given the floating nature of interest rates.

## Liquidity position: Stretched

ABDTL’s liquidity position remains stretched. Its estimated cash flow from operations is expected to remain weak, and the company has to rely on timely financial support from sponsor group to meet the debt servicing obligations and MM expenditure.

## Liquidity position of guarantor, ACL (for A(CE) rating): Adequate

ACL’s liquidity position is adequate. It has external debt of Rs. 200 crore as of September 2022 with repayments falling due in June 2023, December 2023 and June 2024 and is backed by corporate guarantee from the parent, ABL. The fund inflow from stake sale in the special purpose vehicles (SPVs) should provide adequate liquidity to ACL to meet its debt repayment obligations over the next 12-18 months. Moreover, ACL is expected to receive timely financial support from ABL, in case of any requirement.

## Rating sensitivities

**Positive factors** – The rating watch will be resolved once the transaction gets consummated. The rating assigned to the bank facilities of ABDTL would remain sensitive to any movement in the ratings or outlook of the guarantor, ACL.

**Negative factors** – The rating watch will get resolved upon consummation of the transaction. Further, 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 of the sponsor, ACL, adversely impacting its liquidity position or any weakening in the credit profile of the guarantor, could lead to pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for BOT (Toll) Roads</a> <a href="#">Impact of Parent or Group Support on Issuer’s Credit Rating</a>
Parent/Group support	Parent Company: Ashoka Concessions Limited (ACL) Ultimate promoter: Ashoka Buildcon Limited (ABL) The rating of [ICRA]A(CE) is based on the unconditional, irrevocable corporate guarantee extended by ABDTL’s parent company, ACL.

	The [ICRA]BBB rating assigned to ABDTL 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 ABDTL 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 ABDTL in the past, whenever a need has arisen.
<b>Consolidation/Standalone</b>	Standalone

## About the company

ABDTL is an SPV of ACL, which is a subsidiary of ABL. ABDTL is assigned to convert the existing four lanes to six lanes on the Belgaum-Dharwad stretch of National Highway-4 (NH-4) in Karnataka. Additionally, it will operate and maintain the 79.36 km stretch, under the National Highways Development Project Phase V, on a design, build, finance, operate, transfer (DBFOT) basis. The toll collection on the existing four lanes commenced from May 2011. The project achieved commencement date (CoD) in March 2014. The concession period for the project is 30 years (including 30 months for construction) and involves an annual grant payout of Rs. 31.0 crore, with a 5% increment every year. ABDTL got a sanction for a 10-year premium deferment from the NHAI in September 2014. However, the total deferment should not exceed Rs. 250.0 crore.

## About the guarantor

Incorporated in April 2011, Ashoka Concessions Limited (ACL) is a subsidiary of Ashoka Buildcon Limited (ABL). In 2012, SBI Macquarie infused Rs. 800 crore and acquired 34% stake in ACL, with ABL holding the remaining 66%. At present, ACL holds six operational BOT (toll) projects and seven hybrid annuity projects. Of the seven HAM projects, five are operational and two are under construction.

## Key financial indicators (audited)

ABDTL	FY2021	FY2022
Operating income	92.1	104.3
PAT	-57.1	-41.2
OPBDIT/OI	73.0%	81.3%
PAT/OI	-62.0%	-39.5%
Total outside liabilities/Tangible net worth (times)	-4.6	-4.1
Total debt/OPBDIT (times)	6.5	6.0
Interest coverage (times)	0.6	0.8

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 (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Apr 17, 2023	Feb 17, 2023	Jan 18, 2022	Sep 17, 2021	Oct 16, 2020
1 Term loans	Long term	402.72	394.55	[ICRA]A(CE) Rating Watch with Developing Implications	[ICRA]A(CE) Rating Watch with Developing Implication	[ICRA]A(CE)&	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)
2 Term loans	Long term	68.15	66.30	[ICRA]BBB Rating Watch with Developing Implications	-	-	-	-

&: 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	Jun 2017	NA	Aug 2028	402.72	[ICRA]A(CE) Rating Watch with Developing Implication
NA	Term loan	Mar 2021	NA	Mar 2026	68.15	[ICRA]BBB Rating Watch with Developing Implication

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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