July 27, 2023

Ashoka Karadi Banwara Road Private Limited: Rating upgraded; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	385.00	385.00	[ICRA]A rating upgraded from [ICRA]A-; outlook revised to Positive from Stable
Total	**385.00**	**385.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Ashoka Karadi Banwara Road Private Limited (AKBRPL) factors in the alleviation in project execution risk in the backdrop of the advanced stage of project progress, as reflected by receipt of four milestone construction grant payments from the National Highway Authority of India (NHAI) and project progress of 83.17% as of May 31, 2023. The company has applied for PCOD for 41.60 km stretch out of the total stretch of 56.705 km (~73% of project stretch and 36.12 kms of land handed over within 146 days of the appointed date), which is currently pending with the NHAI. Further, the rating notes the inherent benefits of the hybrid annuity model (HAM) project and the operational as well as financial support from the strong sponsor, Ashoka Concessions Limited (ACL, rated [ICRA]A(Stable)), which is the holding company of Ashoka Buildcon Limited's (ABL) road assets. ICRA notes that ACL has provided an undertaking towards financial support for AKBRPL in case of cost overruns during the construction phase, any shortfall in the operations and maintenance (O&M) expenses and debt servicing in the operational phase as per the lender's approved base case business plan. The rating draws comfort from ABL being its engineering, procurement and construction (EPC) contractor for executing the project on a fixed-price basis. ABL has a demonstrated track record of project execution within the budgeted time and cost.

The rating, however, remains constrained by the residual execution risks. Although project execution got delayed, the delay is attributable to the delay in handing over of right of way (RoW), court cases and the resistance from local people, second Covid-19 wave, adverse weather conditions in October and November 2021. ICRA notes that the company is expected to sign a settlement agreement by August 2023, post which it would receive an extension of time (EOT) till January 31, 2024 for completion of the balance stretch. Further, it is yet to receive the balance land of 1.040 km, which is likely to be handed over by July 31, 2023, otherwise the same would be de-scoped as per the proposed settlement agreement. The implementation risk is, however, mitigated to an extent by the presence of a fixed-price, fixed-time EPC 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. Post commissioning, it must ensure healthy lane availability to avoid any deductions from the annuity amount. AKBRPL's cash flows are exposed to the interest rate risk, given the floating nature of interest rates for the project loan. Any significant reduction in the Reserve Bank of India's (RBI) bank rate with no commensurate reduction in interest rate on project loan will impact its coverage indicators and IRRs as annuity payments are linked to the bank rates.

The Positive outlook on the rating reflects ICRA's opinion that AKBRPL's credit profile will improve over the near term with expected receipt of PCOD, completion of balance work and finalisation of project completion cost.

Key rating drivers and their description

Credit strengths

Benefits of executing project under HAM – The inherent benefits of the HAM project include upfront availability of RoW, inflation-linked revisions to the bid project cost during the construction period and relatively low equity mobilisation risk with 40% of the project cost to be funded by the authority during the construction period in the form of a grant. The project will have a stable revenue stream post-commissioning as 60% of the remaining project cost will be paid out as annuity (adjusted for inflation) over the term of the concession by the project owner and annuity provider, the NHAI, a key Central Government entity that develops and maintains India's national highways.

Strong profile of sponsor and established track record of ABL in road construction – AKBRPL is a wholly-owned subsidiary of ACL, which is the holding company of ABL's road assets. The Group has strong presence in the road segment. AKBRPL 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.

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

Credit challenges

Project exposed to residual execution risk – The project is exposed to residual execution risks as AKBRPL has achieved 83.98% physical progress as on May 31, 2023. ICRA notes that the company is expected to sign a settlement agreement by August 2023, post which it would receive an EOT till January 31, 2024 for completion of the balance stretch and receipt of final COD. Further, it is yet to receive the balance land of 1.040 km, which is likely to be handed over by July 31, 2023, otherwise the same would be descoped as per the proposed settlement agreement. The implementation risk is, however, mitigated to an extent by the presence of a fixed-price, fixed-time EPC 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 and interest rate risk – AKBRPL's cash flows are exposed to interest rate risk considering the floating nature of interest rates for the project loan. Further, the prevailing low bank rate would adversely impact the projected coverage metrics and IRRs for HAM projects as ~40-45% of the total annuity inflows for a HAM project are contributed by interest on annuities.

Lane availability to be ensured for annuity payments – AKBRPL's source of income is the annuity, the interest on outstanding annuities and the annual O&M payments from the NHAI. Hence ensuring 100% lane availability, and thereby no deductions in annuity receipts, will be the key credit sensitivity for AKBRPL on achievement of PCOD/COD.

Liquidity position: Adequate

AKBRPL's liquidity position is adequate. The pending cost of Rs. 198.98 crore as on May 31, 2023 is expected to be funded by undrawn debt of Rs. 90.7 crore, NHAI's 5th grant payment and the remaining through promoter contribution. Further, the O&M expenses and interest servicing for the first six months post COD are funded as a part of the project cost. Moreover, the undertaking provided by ACL towards financial support in case of a cost overrun and delay in receiving NHAI's grant during the construction phase provides comfort.

Rating sensitivities

Positive factors – The rating could be upgraded upon achieving COD as per the expected timelines, without any cost overrun.

Negative factors – Pressure could arise if there is a delay in achieving COD and/or any cost overruns. Further, any deterioration in the sponsor's credit profile could also exert pressure on the rating.

Analytical approach

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

About the company

AKBRPL is a 100% subsidiary of Ashoka Concessions Ltd (ACL/Sponsor), a holding company of the road assets of Ashoka Buildcon Limited (ABL). The special purpose vehicle (SPV) has been formed to undertake four laning of Tumkur-Shivamogga section from km 65.195 (Karadi) to km 121.900 (Banwara) of NH-206 on a HAM basis under NHDP Phase – IV, in Karnataka. The construction and operations period for the project is 2 years and 15 years respectively. The Concession Agreement was signed on April 20, 2018 and the project has received the appointed date of October 15, 2019. The total project cost of Rs. 1,052.0 crore is proposed to be funded by Sponsor contribution of Rs. 142.2 crore including Rs.96.62 crore as sponsor contribution-1 towards project cost and Rs. 45.6 crores as sponsor contribution -2 towards contingency cost (in total, 13.5% of project cost), term loan of Rs. 385.0 crore (36.6% of project cost) and NHAI grant including PMI adjustment of Rs. 524.8 crore (49.6% of project cost). The annuity and interest on outstanding annuities will be received on a semi-annual basis, along with the O&M receipts, with first year O&M receipt of Rs. 7.2 crore to be adjusted for inflation from the bid date.

Key financial indicators (audited)

Key financial indicators are not applicable as AKBRPL 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2021	Date & rating in FY2020
					Jul 27 ,2023	Apr 19, 2022	Mar 31, 2021	Jan 06, 2020
1	**Term loans**	Long term	385.00	291.08	**[ICRA]A (Positive)**	**[ICRA]A-(Stable)**	**[ICRA]A- (Stable)**	**[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**	Sep 2018	NA	FY3037	385.0	[ICRA]A(Positive)

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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4047 4243
rajeshwar.burla@icraindia.com

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

Vinay Kumar G
+91 40 4047 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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.