

August 21, 2023

Ashoka Belgaum Khanapur Road Private Limited: Rating upgraded to [ICRA]A+(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	295.00	295.00	[ICRA]A+ (Stable); upgraded from [ICRA]A- (Stable)
Total	295.00	295.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Ashoka Belgaum Khanapur Road Private Limited (ABKRPL) factors in the receipt of the third semi-annuity in May 2023 for the completed stretch of 20.76 km. The company is yet to receive the balance stretch of 9.24 km land. The authority is expected to hand over the land by October 31, 2023. ABKRPL is likely to sign the settlement agreement with the National Highways Authority of India (NHAI) before CY2023 end providing a resolution to the pending right of way (RoW) issue. In case of delay in handing over of RoW, the balance stretch is expected to be descoped and the final completion certificate would be issued for the completed stretch of 20.76 km. The rating also derives comfort from the maintenance of six months' debt servicing reserve account (DSRA) and major maintenance reserve (MMR) from the project cashflows. The rating also considers inherent benefits of the hybrid-annuity based nature of the project and its strong sponsor, Ashoka Concessions Limited (ACL, rated [ICRA]A(Stable), which is the holding company of the road assets of Ashoka Buildcon Limited (ABL). ICRA notes that project once fully operational is expected to have robust debt coverage metrics. Moreover, there is a buffer of ~20 days between the scheduled annuity receipt date and the scheduled principal repayment date, thereby providing adequate cushion in case of administrative delays in annuity payments. ACL has provided an undertaking towards financial support for ABKRPL 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 is, however, constrained by the residual execution risk with physical progress of 68.47% as on June 30, 2023 and pending RoW issues. The implementation risk is mitigated to an extent by the presence of a fixed-price, fixed-time engineering, procurement and construction (EPC) contract with ABL and its strong project execution capabilities. Its ability to complete the balance stretch of 9.24 km within the stipulated timelines viz. March 31, 2025 would remain important from the credit perspective. ABKRPL's cash flows and returns remain sensitive to the spread between the Reserve Bank of India's (RBI) bank rate and the lender's MCLR as the interest earned on the outstanding annuities are linked to the Bank Rate, while the interest payable on the project loan is linked to lender's MCLR. Further, ABKRPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR and remains a key rating monitorable.

The Stable outlook on the rating reflects ICRA's opinion that ABKRPL will continue to benefit from the timely receipt of annuities and strong execution capabilities of the ultimate sponsor and EPC contractor—ABL.

Key rating drivers and their description

Credit strengths

Successful receipt of third annuity – ABKRPL received the provisional completion certificate w.e.f October 2021 for 16.345-km length. Consequently, the third semi-annuity payment was received on May 16, 2023 without any major deductions. Further, the cash flow from operations would be sufficient for servicing its debt repayment obligations.

Annuity nature of project eliminates market risks under hybrid annuity model (HAM) – The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI (rated [ICRA]AAA(Stable)), which is a strong counterparty.

Undertakings from the sponsor – ACL has provided an undertaking towards financial support in case of a cost overrun and delay in receiving the 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

Residual execution risk for 9.24 km of the project stretch – The project is exposed to residual execution risks with ~68.47% of physical progress achieved as on June 30, 2023. ICRA notes that the company is yet to receive the balance stretch of 9.24km land and the authority is expected to hand over the land by October 31, 2023 as per the draft settlement agreement. ABKRPL is likely to sign the settlement agreement with the NHAI before CY2023 end providing a resolution to the pending RoW issue. In case of delay in handing over of RoW, the balance stretch is expected to be descoped and the final completion certificate would be issued for the completed stretch of 20.76 km. ABKRPL has entered into a fixed-price EPC contract with ABL, which has a three-decade long expertise in the construction business, and a track record of project execution within the budgeted time and cost.

Ensuring routine and periodic maintenance expenses within the budgeted levels – ABKRPL has appointed ACL as an O&M contractor. The project stretch is based on rigid pavement, which generally does not require a large-scale MM activity unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the strong estimated cash flow and cost estimates with adequate cushion for undertaking the O&M and MM expenditure.

Project returns exposed to inflation and interest rate risk – The project's cash flows and returns 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. Additionally, ABKRPL's cash flows and returns remain sensitive to the spread between the RBI's bank rate and the lender's MCLR as the interest earned on the outstanding annuities are linked to the Bank Rate, while the interest payable on the project loan is linked to the lender's MCLR.

Liquidity position: Adequate

ABKRPL's liquidity position is adequate. The company has created a DSRA account of Rs. 13.92 crore from the three annuities received (equivalent to six months P+I). Further, the cash flow from operations would be sufficient for principal repayment of Rs. 16.5 crore in FY2024. The pending project cost for the balance stretch of 9.24 km is Rs. 187.11 crore and can be comfortably funded through pending equity of Rs. 13.84 crore, balance debt draw down of Rs. 118.97 crore and NHAI grant (including inflation component) of Rs. 103.48 crore.

Rating sensitivities

Positive factors – The rating could be upgraded on sustained track record of receipt of annuities without any material deductions and resolving of pending RoW issues.

Negative factors – Pressure could arise if there is a delay in annuities or cost overruns and additional indebtedness adversely impacts the debt coverage metrics. Further, any deterioration in the credit profile of the sponsor could 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	-
Consolidation/Standalone	Standalone

About the company

ABKRPL is a 100% subsidiary of ACL, a holding company of the road assets of ABL. The special purpose vehicle (SPV) was formed in April 2018, to undertake four-laning of 30.0 km (rigid pavement) from the Belgaum-Khanapur section (0.00 km to 30.00 km) of NH 4A in Karnataka on HAM. The construction and the operation period of the project are 2.5 years and 15 years, respectively. The Concession Agreement was signed on April 20, 2018 and the appointed date was received on March 07, 2019. The total project cost of Rs. 745.72 crore is proposed to be funded by an equity of Rs. 77.20 crore (10.35% of project cost), term loan of Rs. 295 crore (39.56% of project cost) and the NHA's grant including PMI adjustment of Rs. 373.52 crore (50% 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 the first year O&M receipt of Rs. 3.00 crore to be adjusted for inflation from the bid date. The company has achieved provisional COD for 16.345 km w.e.f. October 2021.

Key financial indicators

Key financial indicators are not applicable as ABKRPL 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Aug 21, 2023	Nov 25, 2022	Feb 11, 2022	Mar 31, 2021	
1	Term loans	Long term	295.0	168.1	[ICRA]A+ (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)

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	FY2019	NA	FY2035	295.00	[ICRA]A+ (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

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