

October 31, 2023

Ashoka Khairatunda Barwa Adda Road Limited: Rating upgraded to [ICRA]AAA(Stable)

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|--------------------------------------|-------------------------------------|--|
| Long-term Fund-based – Term Loan | 245.73 | 225.42 | [ICRA]AAA(Stable); upgraded from [ICRA]AA-(Stable) |
| Total | 245.73 | 225.42 | |

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Ashoka Khairatunda Barwa Adda Road Limited (AKBARL) factors in the substantial improvement in its debt coverage metrics and mitigation of interest rate risk post refinancing of the term loan, with change in benchmark interest rate to repo rate linked structure from the lender's MCLR, which resulted in reduced interest burden. The repo rate linked interest rate provides a natural hedge, given the better alignment with cash inflows as the interest on annuities are linked to the Reserve Bank of India's (RBI) bank rate. The coverage metrics are expected to remain robust with cumulative debt service coverage ratio (DSCR) likely to remain above 1.3 times during the debt tenure. The rating action favourably notes the sustained track record of annuity receipts, including operations and maintenance (O&M) payments from the National Highway Authority of India (NHAI; rated [ICRA]AAA (Stable)), without any penalties/deductions. The rating considers the creation of a debt service reserve account (DSRA) equivalent to six months of debt obligations and a major maintenance reserve (MMR) for periodic maintenance. ICRA notes that there is adequate cushion of 36 days between the annuity due date and the debt repayment date, providing comfort – the first three semi-annuities were received within 15-30 days from the due date.

The rating 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 development and maintenance of India's national highway programme. The rating takes into account the strong profile of the O&M contractor and sponsor – Ashoka Concessions Limited (ACL, rated [ICRA]A (Stable)) – the holding company of the road assets of Ashoka Buildcon Limited (ABL, rated [ICRA]A1+). AKBARL 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, the sponsor 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.

AKBARL'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. ICRA also notes the single asset nature of the project operations, thereby making the debt metrics of the project sensitive to any deductions in annuity and O&M receipts. Hence, the company must ensure satisfactory upkeep of the carriageway undertake O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Any significant deductions from the annuities or rise in routine and MM expenses from the budgeted level could impact its coverage metrics. The debt structure remains moderate due to the presence of the cross default clause, whereby a default by the sponsor (ABL) will constitute as an event of default for AKBARL and could lead to acceleration of its debt at the lender's discretion. However, given its favourable operational and financial profile (robust coverage metrics and strong counterparty – NHAI), if such a clause is exercised by the lender, the company is expected to be able to refinance its debt within the available time period, thereby mitigating the risk to a major extent.

The Stable outlook on the rating reflects ICRA's opinion that AKBARL will continue to benefit from its 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 three 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. AKBARL has received three semi-annuity payments, including O&M payment, without any penalties/deductions. ICRA notes that there is adequate cushion of 36 days between the annuity due date and the debt repayment date, providing comfort – the first three semi-annuities were received within 15-30 days from the due date.

Robust coverage indicators and presence of structural features – The coverage metrics are expected to remain robust with cumulative DSCR likely to remain above 1.3 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. As on September 30, 2023, the company maintains six months DSRA of Rs. 20.06 crore and MMR of Rs. 8.58 crore, in the form of fixed deposits with the lender and in line with the lender's base case financial model.

Established track record of O&M contractor – AKBARL is a wholly-owned subsidiary of ACL, which is 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 Ashoka Group has a demonstrated track record of executing O&M works within the budgeted time and cost.

Credit challenges

Project returns exposed to inflation risk – AKBARL'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. The company will have to undertake O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. The special purpose vehicle (SPV) has a fixed-price O&M contract with ACL. Hence, any significant deterioration in the credit profile of the O&M contractor will impact the SPV's ability to undertake maintenance and will remain a key monitorable.

Lane availability and satisfactory upkeep to be ensured for annuity payments – AKBARL's sources of income are the annuity, interest on outstanding annuities and annual O&M payments from the NHAI. ICRA notes the single asset nature of the project operations, thereby making the debt metrics of the project sensitive to any deductions in annuity and O&M receipts. Hence, ensuring 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 AKBARL 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.

Moderate debt structure due to the presence of cross default clauses – AKBARL's debt terms have a cross default clause, whereby any default by the sponsor will constitute as an event of default for AKBARL and could lead to acceleration of its debt at the lender's discretion. However, given its favourable operational and financial profile (robust coverage metrics and strong counterparty – NHAI), if such a clause is exercised by the lender, the company is expected to be able to refinance its debt within the available time period, thereby mitigating the risk to a major extent.

Liquidity position: Adequate

The cash flow from operations are expected to be sufficient to meet the debt servicing obligations of Rs. 18.7 crore in FY2024 and Rs. 15.9 crore in FY2025. Its liquidity position is also supported by the availability of cash DSRA of Rs. 20.06 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. A specific credit metric for rating downgrade includes if cumulative DSCR is lower than 1.25 times on a sustained basis. The rating could also come under pressure if there is any non-adherence to the debt structure or any material weakening in the credit profile of the sponsor.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Roads- Hybrid Annuity |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Not Applicable |

About the company

AKBARL is a 100% subsidiary of Ashoka Concessions Ltd (ACL/sponsor), a holding company of the road assets of Ashoka Buildcon Limited (ABL). The SPV was formed in April 2018 to undertake six-laning of 40.33 km from Khairatunda to Barwa Adda Section (km. 360.30 to km. 400.13) of NH-2 in Jharkhand on a HAM basis. The construction and operations period for the project is 2 years and 15 years, respectively. The Concession Agreement was signed on April 27, 2018 and the project received the appointed date on January 8, 2019. The total project cost of Rs. 732.53 crore was funded by equity of Rs. 93.43 crore (12.75% of project cost), term loan of Rs. 254.00 crore (34.67% of project cost) and NHAI's grant including PMI adjustment of Rs. 385.10 crore (52.57% 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. 4.89 crore to be adjusted for inflation from the bid date. The project received provisional COD on October 9, 2021 and the final COD on April 21, 2022.

Key financial indicators (audited)

| | FY2022 | FY2023 |
|--|--------|--------|
| Operating income | 141.8 | 60.6 |
| PAT | 2.9 | 17.0 |
| OPBDIT/OI | 24.1% | 75.2% |
| PAT/OI | 2.0% | 28.0% |
| Total outside liabilities/Tangible net worth (times) | 2.8 | 2.3 |
| Total debt/OPBDIT (times) | 7.4 | 5.5 |
| Interest coverage (times) | 1.7 | 2.1 |

Source: AKBARL, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; AKBARL follows IndAS and key financial indicators are not representative of actual cash flows

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 of Sept 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Oct 31,2023 | Jul 22, 2022 | Feb 10, 2022 | Mar 31, 2021 |
| 1 | Term loans | Long-term | 225.42 | 225.42 | [ICRA]AAA(Stable) | [ICRA]AA- (Stable) | [ICRA]A (Positive) | [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 | Nov 2034 | 225.42 | [ICRA]AAA(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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