November 10, 2023

Unison Enviro Private Limited: continues on rating watch with developing implications; [ICRA]BBB+/[ICRA]A2 rating watch with developing implications; assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based – Term loan	543.00	543.00	[ICRA]AA- (CE); continues on rating watch with developing implications
Long term – Non-fund based facility	-	1.60	[ICRA]BBB+; rating watch with developing implications; assigned
Short term - Non-fund based facility	-	21.40	[ICRA]A2; rating watch with developing implications; assigned
Total	**543.00**	**566.00**	

Rating Without Explicit Credit Enhancement	[ICRA]BBB+

**Instrument details are provided in Annexure-1*

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 also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The ratings factor in the strong parentage of Unison Enviro Private Limited (UEPL) by virtue of being a majority owned subsidiary of Ashoka Buildcon Limited (ABL; rated [ICRA]A1+). ABL holds a 51% stake in UEPL with the balance being held by North Haven India Infrastructure Fund[1] (NHIIF). The rating assigned to the term loan is based on the strength of the unconditional and irrevocable corporate guarantee provided by ABL and the ratings assigned to the non-fund based limits are based on the operational and financial support expected from ABL. ICRA notes that on March 3, 2023, Mahanagar Gas Limited (MGL, rated [ICRA]AAA(Stable)/[ICR]A1+) had entered into a share purchase agreement (SPA) with the promoters of UEPL i.e. ABL and NHIIF to purchase the entire stake in UEPL for Rs. 531 crore. The completion of the stake sale and subsequent support philosophy of the incoming promoter towards UEPL will remain a key monitorable, going forward. ICRA will continue to monitor the developments and will take appropriate rating action as and when further details are available.

The ratings factor in the authorisation of the Petroleum and Natural Gas Regulatory Board (PNGRB) to UEPL to implement city gas distribution (CGD) network in the geographical areas (GA) of Ratnagiri, Latur and Osmanabad in Maharashtra, and Chitradurga and Davanagere in Karnataka. UEPL has marketing exclusivity in the Ratnagiri region till CY2023, and till CY2029 for Latur and Osmanabad, as well as for Chitradurga and Davanagere. Further, the company will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2043 for Ratnagiri GA and CY2045 for the other two GAs). Presence in multiple regions provides geographical diversity to UEPL. It has also secured gas tie-ups with GAIL (India) Limited, rated [ICRA]AAA (Stable).

UEPL remains exposed to execution risks associated with the setting up of the CGD projects; however, satisfactory project progress as per the minimum work programme (MWP) and sufficient time for completing the balance target mitigates the risk to an extent. Further, ABL is the engineering, procurement and construction (EPC) contractor for the project, which mitigates the execution risk to an extent. The company remains exposed to regulatory risks given the company's inability to meet the

[1] NHIIF is an India dedicated alternative investment fund of Morgan Stanley Infrastructure Partners (MSIP)

MWP for the Ratnagiri GA in a timely manner. While the company has not faced any regulatory scrutiny so far, it will remain a key risk, going forward. UEPL's ability to ramp up CNG conversions for transportation-related gas demand will remain critical from a credit perspective, given the longer gestation period for CGD projects and the company's own estimates of CNG contributing about 80% to the overall demand mix for all the three GAs.

Adequacy of credit enhancement

For the [ICRA]AA- (CE) rating, ICRA has assessed the attributes of the guarantee issued by ABL, guarantor, in favour of the said facility. While the guarantee is legally enforceable, unconditional and covers the entire amount and tenor of the rated facility/ instrument, it does not have a well-defined invocation and payment mechanism. Considering the same, ICRA has assigned a rating of [ICRA]AA-(CE) to the said facility against the unsupported rating of [ICRA]BBB+. In case the credit profile of the guarantor or the unsupported rating of UEPL was to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility/instrument as well. The rating of this facility may 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

- At least 45% of the total equity of Rs. 291.0 crore shall be infused into the project before seeking any disbursement under the facility. Balance disbursement shall be done maintaining the D/E of 65:35 for the project.
- Promoter to have management control and hold 51% shareholding in the borrower on a fully diluted basis during the entire tenor of the facility.
- In the event that the guarantor revokes or discontinues the guarantee, the captioned rating will not apply in respect of any incremental exposure taken by the bank on the borrower after the revocation or discontinuation notice is sent by the guarantor. In that event, the rating on the facility will have to be reviewed.

Key rating drivers and their description

Credit strengths

Strong parentage of Ashoka Buildcon Limited; corporate guarantee from parent for term loans – The rating factors in the strong parentage of UEPL by virtue of being a majority owned subsidiary of ABL. The rating for the term loan is based on the strength of the unconditional and irrevocable corporate guarantee provided by ABL. UEPL also benefits from the strong execution capabilities of ABL and its healthy financial profile.

Marketing exclusivity in Ratnagiri, Latur & Osmanabad, Chitradurga & Devangere regions – UEPL has been authorised by the PNGRB to implement the CGD network in the GAs of Ratnagiri, Latur and Osmanabad in Maharashtra, along with Chitradurga and Davanagere in Karnataka. UEPL has marketing exclusivity in the Ratnagiri region till CY2023 and till CY2029 for Latur and Osmanabad as well as for Chitradurga and Davanagere. Further, it will continue to enjoy infrastructure exclusivity in all the three GAs for a 25-year period (till CY2043 for Ratnagiri GA and CY2045 for the other two GAs).

Gas tie-up with GAIL (India) Ltd – The company has secured gas tie-ups with GAIL (India) Limited and IOCL for its gas sourcing needs. The company is able to meet its gas requirements for the CNG segment through a mix of the administered price mechanism (APM) gas and LNG using its long-term contract with GAIL. While the company's gas requirements remain low at present, the contract volumes are adequate to cover the healthy ramp-up in volumes expected, going forward.

Credit challenges

Exposure to project execution risks associated with CGD project – The company remains exposed to pending execution risks associated with CGD projects. ICRA notes that debt has been tied up for the envisaged capex for all the three GAs and the company has drawn down Rs. 194.6 crore of debt as on September 30, 2023. Moreover, the promoters have already infused equity of Rs. 135.4 crore as on March 31, 2023, which is ~46.5% of the total envisaged equity. Hence, of the total cost of Rs. 834 crore for the three GAs (to be incurred till FY2025), it has incurred Rs. 309.4-crore capex as on March 31, 2023. Further, ABL is the EPC contractor for the project, which mitigates the execution risk to an extent.

Exposure to market risk – UEPL's ability to ramp up CNG conversions for transportation-related gas demand will remain critical from a credit perspective, given the longer gestation period for CGD projects and the company's own estimates of CNG contributing about 80% to the overall demand mix for all the three GAs.

Regulatory risks associated with CGD projects – UEPL remains exposed to regulatory risks associated with meeting the minimum work programme and service standards. ICRA notes that there have been initial delays in meeting the MWP targets. Some of these delays are attributable to difficult terrain in the Ratnagiri GA to implement the steel pipelines. Hence, the company is focusing on developing virtual pipelines by using cascades and LNG stations which will enable it to service GA efficiently without setting up the inch-KM pipeline network. Compliance with the MWP targets set by the regulator will be a key monitorable.

Liquidity position of UEPL: Adequate

UEPL's liquidity position is expected to remain adequate in the near to medium term as the company has adequate tie-ups of term loans to fund the ongoing capex plans. The free cash balance of Rs. 17.2 crore as on March 31, 2023, along with expected cash accruals in FY2024, is expected to be adequate to service the interest outgo in FY2024, while no term debt repayments are to be made in FY2024.

Liquidity position of guarantor, ABL: Adequate

ABL's liquidity remains adequate. The average utilisation of its fund-based limits against the drawing power (DP) during the 10-month period ended August 2023 was moderate at 65%. The cushion in the fund-based working capital limits (against the DP) stood at ~Rs. 200.0 crore as on August 31, 2023. The estimated cash flows from operations, along with receipts from asset monetisation, is expected to be sufficient for meeting its financial obligations of Rs. 58 crore towards debt repayment and its funding commitment towards SPVs. ABL is likely to incur a capex of ~Rs. 100-150 crore towards equipment and machineries, which will be largely funded by debt. Going forward, timely realisation of proceeds from the asset monetisation would support its liquidity position.

Rating sensitivities

For the [ICRA]AA-(CE) rating

The rating assigned to the term loans of the company will remain sensitive to the movement in the rating/credit profile of the guarantor i.e. Ashoka Buildcon Limited, and/or a change in the guarantor.

For the [ICRA]BBB+ ratings

Positive factors: A significant improvement in the credit profile of the sponsor can lead to an upgrade. Healthy growth in sales volumes and profitability along with a strong credit profile may also result in an upgrade.

Negative factors: Slower-than-expected ramp-up in revenue or profitability or any adverse regulatory action could lead to a downgrade. Deterioration in the credit profile of the support provider and/or lack of timely support from the sponsors can also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for City Gas Distribution companies
Parent/Group Support	Parent/Group Company: Ashoka Buildcon Limited (ABL) The ratings factor in the parentage of ABL for the non-fund based limits and the rating for the term loans is based on the strength of the irrevocable and unconditional corporate guarantee provided by the parent, ABL
Consolidation/Standalone	Standalone

About the company

Unison Enviro Private Limited (UEPL) has been authorised by the Petroleum and Natural Gas Regulatory Board (PNGRB) to implement city gas distribution (CGD) network in the geographical areas (GAs) of Ratnagiri, Latur & Osmanabad in Maharashtra, and Chitradurga & Devengere in Karnataka.

The authorisation to implement the CGD network in the Ratnagiri GA was granted by the PNGRB under the sixth round of CGD bidding in August 2016. The authorisation for the Latur & Osmanabad and Chitraduraga & Devengere GAs was granted in September 2018 under the ninth round of CGD bidding. As per the authorisation, the company will have five years of marketing exclusivity and 25 years of network exclusivity for the Ratnagiri GA, eight years of marketing exclusivity and 25 years of network exclusivity for the Latur & Osmanabad and Chitraduraga & Devengere GAs. As per the authorisation, the company is required to implement the project while achieving the minimum work programme (MWP) targets set by the PNGRB for all the GAs. The MWP target specifies the minimum number of domestic households to be connected and the pipeline infrastructure to be laid in the first 5-year period (Ratnagiri GA)/8-year period (Latur & Osmanabad and Chitradurga & Devenegere) from the date of authorisation (MWP period).

UEPL is a joint venture between Ashoka Buildcon Limited (ABL) and North Haven India Infrastructure Fund (NHIIF, managed by Morgan Stanley Infrastructure Fund) and has been incorporated to implement the project. Mr. Shyamsundar Gurumoorthy Sundaresan and Mr. Bhasmang Vidyutrai Mankodi are the representatives from Morgan Stanley and are directors on UEPL's board.

Mr. Gurumoorthy is the MD and Co-head of India for Morgan Stanley India Infrastructure and a former partner at IDFC Private Equity. He is the former Director of Central U.P. Gas Ltd, Maharashtra Natural Gas Ltd and Krishna Godavari Gas Networks Ltd, thus bringing with him significant experience in the CGD sector.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income (Rs. crore)	77.5	179.7
PAT (Rs. crore)	-24.9	-15.6
OPBDIT/OI (%)	0.4%	15.0%
PAT/OI (%)	-32.2%	-8.7%
Total outside liabilities/Tangible net worth (times)	1.6	2.9
Total debt/OPBDIT (times)	349.5	6.7
Interest coverage (times)	0.1	1.9

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	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Nov 10, 2023	Mar 13, 2023	Dec 30, 2022	Jan 18, 2022	Sep 03, 2021	-
1	Term loans	Long-term	543.00	194.6	[ICRA]AA-(CE); rating watch with developing implications	[ICRA]AA-(CE); Rating watch with developing implications	[ICRA]AA-(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	-
2	Non-fund based facility	Long-term	1.60	-	[ICRA]BBB+; rating watch with developing implications	-	-	-	-	-
3	Non-fund based facility	Short term	21.40	-	[ICRA]A2; rating watch with developing implications	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term - Fund based – Term loan	Simple
Long term - Non-fund based facility	Very simple
Short term - Non-fund based facility	Very 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 No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Term loan**	FY2021	1-year MCLR+1.45%	FY2035	543.00	[ICRA]AA- (CE), Rating watch with developing implications
NA	**Non-fund based facility**	NA	NA	NA	1.60	[ICRA]BBB+; Rating watch with developing implications
NA	**Non-fund based facility**	NA	NA	NA	21.40	[ICRA]A2; Rating watch with developing implications

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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About ICRA Limited:

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