

November 28, 2023

## Ashoka Baswantpur Singnodi Road Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	390.00	390.00	[ICRA]A (Stable); reaffirmed
<b>Total</b>	<b>390.00</b>	<b>390.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation favourably factors in Ashoka Baswantpur Singnodi Road Private Limited's (ASRRPL) satisfactory project progress with 50.02% of the project cost incurred as on September 04, 2023 and the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to the bid project cost (BPC) during the construction period and relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period in the form of grants. The rating considers the support from the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for creation of six months' debt service reserve (DSR) and major maintenance reserve (MMR). Additionally, the presence of reserves to meet the regular operations and maintenance (O&M) and interest obligations till the next scheduled annuity and restricted payment clause offer comfort.

The rating takes into account the stable revenue stream post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLR of the top five scheduled commercial banks plus 125 bps and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner and authority - National Highways Authority of India [NHAI, rated [ICRA]AAA (Stable)], which is a strong counterparty. The rating further draws comfort from the comfortable financial profile and operational track record of its sponsor and engineering, procurement and construction (EPC) contractor – Ashoka Buildcon Limited (ABL, rated [ICRA]A1+ (Stable)). The rating favourably considers the strong sponsor profile – ABL, which has provided an undertaking towards financial support in case of cost overrun during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase as per lender's approved base case business plan.

The rating, however, remains constrained by the residual execution risks and 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 would have to ensure healthy lane availability to avoid any deductions from the annuity amount. Timely support from promoters to fund any shortfalls due to delays in grant or any cost overruns during the construction phase will remain crucial. ABSRPL'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 Stable outlook on the rating reflects ICRA's opinion that ABSRPL will benefit from its strong execution capabilities and financial profile of the sponsor and EPC contractor – ABL.

### Key rating drivers and their description

#### Credit strengths

**Established track record of sponsor and EPC contractor; undertakings from sponsor** – ABSRPL 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. ABL has provided an undertaking towards financial support in case of a cost

overrun during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase as per the lender's approved base case business plan.

**Benefits of hybrid-annuity model (HAM)** – The inherent benefits of a HAM project include upfront availability of RoW, inflation-linked revisions to the BPC during the construction and relatively low equity mobilisation risk as 40% of the BPC will be funded by the authority during the construction period in the form of grants. The project will have a stable revenue stream post commissioning with 60% of the project cost being paid out as annuities (adjusted for inflation) over the term of the concession from the project owner and annuity provider, the NHAI. The inflation-linked revision is based on the annual change in the PMI from the base year (PMI is the weighted average of WPI and CPI in the ratio of 70:30).

**Healthy coverage indicators and presence of structural features** – ABSRPL is expected to have a healthy debt service coverage ratio during the debt tenure. Structural features of the debt, such as an escrow account, a cash flow waterfall mechanism, DSRA equivalent to six months of debt servicing obligation and creation of an MMR provide comfort.

### Credit challenges

**Project exposed to execution risk** – The project is exposed to residual execution risks including time and cost overruns. However, the execution risk is mitigated, to some extent, by the achievement of ~50% physical progress along with fixed-price, fixed-time contract and strong project execution capabilities of ABL.

**Project returns exposed to inflation risks; proper maintenance of roads essential for receipt of annuity payments** – ABSRPL's cash flows are exposed to the interest rate risk, considering the floating nature of interest rates for the project loan. However, the risk is mitigated to some extent as the interest on the outstanding annuities is linked to the average of one-year MCLR of the top five scheduled commercial banks. ABSRPL's source of income includes the annuity, interest on outstanding annuities and annual O&M payments from the authority concerned. Hence, ensuring proper maintenance of roads, along with zero deduction in annuity receipts, will be the key credit sensitivity for ABSRPL.

### Liquidity position: Adequate

ABSRPL's liquidity position is adequate. The pending EPC cost including outstanding liabilities of Rs. 450.85 crore as on September 04, 2023 is expected to be funded by undrawn debt of Rs. 248.4 crore, pending NHAI grant of Rs. 215.8 crore (exclusive PIM) and the balance from promoter infusion. The debt repayment can be comfortably met through annuity receipts (six months post achievement of COD). Moreover, the undertaking provided by ABL towards financial support in case of a cost overrun and delay in NHAI 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, provides comfort.

### Rating sensitivities

**Positive factors** – The rating could be upgraded on achieving significant project progress or COD as per the expected timelines, without any cost overrun.

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

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Roads -Hybrid Annuity</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Ashoka Baswantpur Singnodi Road Private Limited (ABSRPL) is a 99.99% subsidiary of Ashoka Buildcon Limited (ABL). The special purpose vehicle (SPV) was formed in April 2022 to develop a six-lane access-controlled greenfield highway from Km 162.500 to Km 203.100 on Baswantpur to Singnodi section of NH-150C (Package-IV of Akkalkot – KNT/TS Border) on a HAM basis under Bharatmala Pariyojna. The scope of the project includes performance and execution of all design, engineering, financing, procurement, construction, completion, O&M of the project corridor. The construction and concession period for the project is 2.5 years and 15 years, respectively. The SPV signed the concession agreement on May 17, 2022 and received the appointed date on November 13, 2022. The total project cost is Rs. 1,081.9 crore, which is to be funded by promoter contribution of Rs. 260.3 crore (24.06% of project cost), term loan of Rs. 390.0 crore (36.04%) and NHAI's grant of Rs. 431.6 crore (39.89%). The annuity and interest on the 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. 2.74 crore to be adjusted for inflation from the bid date.

## Key financial indicators (audited)

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		Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 28, 2023	Dec 09, 2022	-	-
1	Term loans	Long term	390.00	124.96	[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	Oct 2022	NA	FY2039	390.00	[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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