

June 21, 2024

## Ashoka Kharar Ludhiana Road 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	453.98	369.64	[ICRA]AA- (Stable); reaffirmed
<b>Total</b>	<b>453.98</b>	<b>369.64</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in the timely receipt of eight semi-annuity payments, including operations and maintenance (O&M) payments from the National Highway Authority of India (NHAI; rated [ICRA]AAA (Stable)), without any penalties, availability of a debt service reserve account (DSRA) equivalent to six months of debt obligations and a major maintenance reserve (MMR) for periodic maintenance. The rating considers the healthy debt coverage indicators during the debt tenure. Further, the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a minimum DSCR of 1.2 times, provide credit support.

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. ICRA notes that the interest rate on the rated debt is linked to the repo rate, whereas the annuity income is linked to the base rate, thereby mitigating the interest rate risk to a large extent. The rating takes into account the strong profile of the O&M contractor and sponsor – Ashoka Concessions Limited (ACL, rated [ICRA]A (Stable)). The Ashoka Buildcon Group has a demonstrated track record of executing O&M works within the budgeted time and cost. Further, ACL 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.

The rating is, however, constrained by the weak debt structure due to the lack of cushion available between the annuity date and repayment dates. The annuity dates fall on March 31 and September 30 each year, which coincide with the debt repayment dates. Historically, two out of eight annuities were received with a lag of 11-12 days, thereby necessitating funding support from the promoter group to tide over the cash flow mismatch in the interim. The company has prepaid one instalment and intends to continue repaying ahead of the existing repayment schedule mitigating the risk to an extent. In addition, it has surplus balances of Rs. 101.8 crore as of May 2024, which can be utilised for debt servicing in case of any delay in future annuities. ICRA notes the single asset nature of the project, which exposes it to revenue concentration risk. Consequently, the debt metrics remain vulnerable to any deductions in annuity and O&M receipts. Further, AKLRL would have to ensure satisfactory upkeep of the carriageway as per the provisions of the concession agreement to avoid any deductions in the annuity amount. The first MM cycle is due in FY2026-27, with an estimated cost of Rs. 120.3 crore as per the lender's model, which is planned to be funded through project cash flows. The company has MMR of Rs. 62.5 crore as on May 31, 2024, and the balance would be created from the cash flows before MM cycle is due. Any material increase in regular or periodic maintenance expenditure will adversely impact the debt coverage metrics and remain a key credit sensitivity.

The Stable outlook on the rating reflects ICRA's opinion that AKLRL will continue to benefit from its stable revenue stream from the strong counterparty with timely annuity payments, 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 eight semi annuities** – The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. The project has 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. AKLRL has received eight semi-annuity payments, including O&M payment, without any penalties. Previously, there were deductions witnessed in the second and fifth annuity on account of negative change in scope (COS) and adjustments owing to change in CPI reference date, and delay of 11 days and 12 days were seen in the receipt of the fifth and sixth semi-annuity due to the revised bid project cost (BPC) computation. In the interim, the promoters have infused funds to meet the temporary cash flow mismatches.

**Healthy debt coverage metrics** – The projected debt coverage metrics are healthy during the debt tenure. Further, the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a minimum DSCR of 1.2 times, provide credit support. The company maintains DSRA equivalent to six months of debt obligations (which stood at Rs. 38.9 crore as on May 31, 2024) and MMR of Rs. 62.5 crore, which is maintained in the form of fixed deposits with the lead lender.

**Established track record of O&M contractor** – AKLRL is a wholly-owned subsidiary of ACL, which is a 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 promoter group has expertise of two decades in the construction business with strong presence in the road segment, and a demonstrated track record of executing O&M works within the budgeted time and cost.

### Credit challenges

**Weak debt structure with no cushion between annuity date and debt repayment date** – The annuity dates fall on March 31 and September 30 each year, which coincides with the debt repayment dates. Historically, two out of eight annuities were received with a lag of 11-12 days, thereby necessitating funding support from the promoter group to tide over the cash flow mismatch in the interim. The company has prepaid one instalment and intends to continue repaying ahead of the existing repayment schedule mitigating the risk to an extent. In addition, it has surplus balances of Rs. 101.8 crore as of May 2024, which can be utilised for debt servicing in case of any delay in future annuities. As per the confirmation received from the lenders, the DSRA would be used to ensure timely debt servicing in case of any delay in annuity receipt and it will be subsequently topped up as per the defined cash flow waterfall mechanism.

**Lane availability to be ensured for annuity payments** – AKLRL'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, which exposes it to revenue concentration risk. Consequently, the debt metrics remain vulnerable to any deductions in annuity and O&M receipts. Further, AKLRL would have to ensure satisfactory upkeep of the carriageway as per the provisions of the concession agreement to avoid any deductions in the annuity amount. The first MM cycle is due in FY2026-27, with an estimated cost of Rs. 120.3 crore as per the lender's model, which is planned to be funded through project cash flows. The company has MMR of Rs. 62.5 crore as on May 31, 2024, and the balance would be created from cash flows before MM cycle is due. 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. ICRA notes that the special purpose vehicle (SPV) has entered into a fixed-price O&M contracts with the sponsor. Further, ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses, including the first MM, as per the lender's approved base case business plan. AKLRL's cash flows 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.

## Liquidity position: Adequate

The cash flow from operations is expected to be sufficient to meet debt servicing obligations of ~Rs. 75 crore in FY2025. The company's liquidity position is adequate, supported by the availability of funded DSRA of Rs. 38.9 crore, which is sufficient to fund six months of debt servicing obligations, MMR of Rs. 62.5 crore, other operating reserves of Rs. 16.5 and free cash balances of Rs. 101.8 crore as on May 31, 2024.

## Rating sensitivities

**Positive factors** – The rating could be upgraded if there is an improvement in the debt structure, along with timely receipt of annuity and O&M payments without any significant deductions.

**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 result in a deterioration in the debt coverage indicators. The rating could also come under pressure if there is any weakening of debt structure.

## Analytical approach

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

## About the company

AKLRL is a 100% subsidiary of ACL, a holding company of road assets of ABL. The SPV was formed to undertake construction, operation and maintenance of the four-laning/six-laning of the NH-5 from Kharar to Samrala Chowk, Ludhiana from km 10.185 to km 86.199 in Punjab under Design, Build, Operate and Transfer (Hybrid Annuity) basis. The operation period for the project is 15 years and it received Provisional Completion Certificate w.e.f. March 31, 2020. The final COD was received on September 01, 2022. Post the de-scoping of certain stretches, the BPC has been revised to Rs. 1,505.08 crore (from original BPC of Rs.1600 crore).

## Key financial indicators (audited)

	FY2023	FY2024
Operating income	108.8	109.1
PAT	35.8	54.9
OPBDIT/OI	70.8%	83.0%
PAT/OI	32.9%	50.3%
Total outside liabilities/Tangible net worth (times)	2.0	1.4
Total debt/OPBDIT (times)	5.6	4.3
Interest coverage (times)	2.0	2.6

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

AKLRL follows Ind AS and key financial ratios 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 (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on May 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 21, 2024	-	Mar 22, 2023	Dec 16, 2021    June 18, 2021
1	Term loan	Long term	369.64	369.64*	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable); Assigned	-    -
2	Term loan	Long Term	-	-	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)    [ICRA]AA (Stable)

\*Original sanctioned amount was Rs. 473.87 crore and o/s term loan amount is Rs 369.64 crore as of May 31, 2024

## 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 loans	July 2022	-	March 2033	369.64	[ICRA]AA- (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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