

October 18, 2024

## Ashoka Karadi Banwara Road Private Limited: Ratings upgraded to [ICRA]AA-; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	385.00	385.00	[ICRA]AA- upgraded from [ICRA]A; Outlook revised to Stable from Positive
<b>Total</b>	<b>385.00</b>	<b>385.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade for Ashoka Karadi Banwara Road Private Limited (AKBRPL) positively factors in the achievement of provisional completion certificate (PCC-I/PCOD) by the company, for 73.4% of the total project stretch (41.61 km completed against the total project length of 56.71 km) and receipt of two semi-annuity payments in July 2024 and October 2024 respectively, linked to the cost incurred till PCC-I. Further, the company has completed works for 10.22 km portion of stretch and has applied for PCC-II, which is expected to be received in Q3 FY2025. Additionally, the work is ongoing for another 1.47 km and the company expects to receive the PCC-III for this length by Q4 FY2025, while the balance right of way (RoW) of 3.40 km is not available and is likely to be descoped as per the settlement agreement signed in June 2024. AKRPPL has also created a debt service reserve account (DSRA) of Rs. 34.4 crore, equivalent to six months' debt servicing obligations, and major maintenance (MM) reserve of Rs. 4.5 crore in line with the lenders' base case model. While the first two annuities were received with a delay due to procedural reasons, the subsequent annuities are likely to be received in a timely manner. ICRA draws comfort from the buffer of 37 days between the annuity date and the scheduled debt servicing date. The rating derives comfort from the stable revenue stream post-commissioning with 60% of the remaining project cost being paid out as annuity (adjusted for inflation) over the term of the concession from the project owner and annuity provider, the National Highways Authority of India (NHAI), rated [ICRA]AAA (Stable), a key Central Government entity responsible for the development and maintenance of India's national highway programme.

The rating, however, remains constrained by the residual execution risks, given ~Rs. 47 crore of cost is still to be incurred, though successful achievement of PCC-I, provides comfort. AKBRPL has entered into a fixed-price engineering, procurement and construction (EPC) contract with Ashoka Buildcon Limited (ABL, rated [ICRA]A1+) for executing the project and ABL has a demonstrated track record of project execution within the budgeted time and cost. Post commissioning, it must ensure healthy lane availability to avoid any deductions from the annuity amount, and will remain a key monitorable. Ashoka Concessions Limited (ACL), which is a holding company for ABL's road assets, has been appointed as the operations and maintenance (O&M) contractor to take up routine maintenance activities at an annual fixed-price contract. The Ashoka Buildcon Group has a demonstrated track record of executing O&M works within the budgeted time and cost. AKBRPL's cash flows are also exposed to the interest rate risk, given the floating nature of interest rates for the project loan. Any significant reduction in the Reserve Bank of India's (RBI) bank rate with no commensurate reduction in interest rate on the project loan will impact its coverage indicators and return metrics as annuity payments are linked to the bank rates. 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 AKBRPL going forward.

The Stable outlook on the rating reflects ICRA's opinion that AKBRPL will continue to receive annuity and O&M payments, without any material deductions supporting the project's debt coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Annuity nature of the project with track record of receipt of two semi-annuity payments** – The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. As per the Concession Agreement, AKBRPL will be receiving 30 semi-annuities starting six months from completion (or provisional completion) totalling to 60% of the final project completion cost, along with interest on the residual annuities payable (at bank rate + 3%), and the inflation-adjusted O&M cost bid over the 15-year operations period from the project owner and authority, NHAI. The company has received two semi-annuity payments, including O&M payments, without any penalties/deductions. While the first two annuities were received with a delay due to procedural reasons, the subsequent annuities are expected to be received in a timely manner. ICRA also draws comfort from the 37 days buffer between the annuity date and the scheduled debt servicing date.

**Healthy projected debt coverage indicators and presence of structure features** – AKBRPL is expected to have a healthy debt coverage metrics during the debt tenure. The company has created a DSR of Rs. 34.4 crore, equivalent to six months' debt servicing obligations (basis current debt o/s), and reserve of Rs. 4.5 crore. Further, structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, DSRA equivalent to ensuing six months of debt servicing obligation and creation of MMR, and restricted payment clause with a minimum DSCR of 1.20 times, provide comfort.

**Established track record of O&M contractor** – AMKRPL 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 Ashoka Buildcon Group has a demonstrated track record of executing O&M works within the budgeted time and cost.

### Credit challenges

**Residual execution risks** – The company is exposed to residual execution risks including achievement of PCC-II, completion of the balance works on the available land and descoping of work where the RoW is not available. However, the presence of requisite approvals from the NHAI for executing the balance work and fixed-price agreement with EPC contractor provides comfort. The PCC-III and final completion is expected to be received by Q4 FY2025. Subsequently, ICRA expects full scale annuities to start from September 2025 onwards. Going forward, any delays in receipt of full contractual annuities could adversely impact the debt coverage metrics and remains a key rating monitorable.

**Project returns exposed to inflation and interest rate risk** – AKBRPL's cash flows are exposed to interest rate risk considering the floating nature of interest rates for the project loan. Further, any adverse changes in bank rate would adversely impact the projected coverage metrics and IRRs for HAM projects as ~40-45% of the total annuity inflows for a HAM project are contributed by interest on annuities. AKBRPL's cash flows are exposed to inflation risks as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in the O&M/periodic maintenance expenses. Any major deductions from the annuities or increase in routine and major maintenance from the budgeted level could impact its DSCR. ICRA has drawn comfort from the fact that the special purpose vehicle (SPV) has a fixed-price O&M contract with ACL.

**Lane availability and satisfactory upkeep to be ensured for annuity payments** – AKBRPL's source of income is the annuity, the interest on outstanding annuities and the annual O&M payments from the NHAI. ICRA notes the single-asset nature of the project operations, thereby making the debt metrics 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 AKBRPL 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.

## Liquidity position: Adequate

AKBRPL's liquidity position is adequate. The pending cost of ~Rs. 47 crore as on July 31, 2024 is expected to be funded by undrawn debt of Rs. 55.9 crore. The cash flows from operations would be sufficient for debt service obligations of Rs. 29.8 crore and Rs. 24.4 crore in FY2025 and FY2026 respectively. The company has already created six months' DSRA of Rs. 28.3 crore and MMR of Rs. 4.5 crore as on September 30, 2024.

## Rating sensitivities

**Positive factors** – The rating could be upgraded upon sustained track record of timely receipt of annuity and O&M payments without any material deductions, along with receipt of the final completion certificate.

**Negative factors** – Pressure on the rating could arise if there are delays in the receipt of semi-annual annuities or O&M payments, or if there are any major deductions, or if the O&M expenses significantly exceed the estimates adversely impacting its debt coverage metrics. Any additional debt availed by the SPV that impacts its coverage indicators, with the cumulative DSCR reducing below 1.25 times may trigger a downward rating revision. The rating could come under pressure if there is any non-adherence or dilution of the debt structure.

## Analytical approach

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

## About the company

AKBRPL is a 100% subsidiary of Ashoka Concessions Ltd (ACL/Sponsor), a holding company of the road assets of Ashoka Buildcon Limited (ABL). The special purpose vehicle (SPV) has been formed to undertake four laning of Tumkur-Shivamogga section from km 65.195 (Karadi) to km 121.900 (Banwara) of NH-206 on a HAM basis under NHDP Phase – IV, in Karnataka. The construction and operations period for the project is 2 years and 15 years respectively. The Concession Agreement was signed on April 20, 2018 and the project has received the appointed date of October 15, 2019. The PCOD of the project was September 8, 2023, for 41.61 km stretch out of the total 56.71 km against the scheduled COD of October 15, 2021.

## Key financial indicators (audited)

	FY2023	FY2024
Operating income	208.1	142.8
PAT	28.6	6.7
OPBDIT/OI	25.9%	44.5%
PAT/OI	13.7%	4.7%
Total outside liabilities/Tangible net worth (times)	2.1	2.2
Total debt/OPBDIT (times)	5.4	5.2
Interest coverage (times)	2.1	2.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

AKBRPL 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 (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Oct 18, 2024	Date	Rating	Date	Rating	Date	Rating
Long-term – Term loan – Fund-based	Long Term	385.00	[ICRA]AA-(Stable)	27-JUL-2023	[ICRA]A (Positive)	19-APR-2022	[ICRA]A-(Stable)	-	-
			-	08-MAR-2024	[ICRA]A (Positive)	-	-	-	-

### 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	FY2037	385.00	[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**

## ANALYST CONTACTS

**Ashish Modani**  
+91 20 6606 9912  
[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Suprio Banerjee**  
+91 22 6114 3443  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Vinay Kumar G**  
+91 40 6939 6424  
[vinay.g@icraindia.com](mailto:vinay.g@icraindia.com)

**Saurabh Singhal**  
+91 124 4545 855  
[saurabh.singhal@icraindia.com](mailto:saurabh.singhal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.