

November 14, 2024

## Ashoka Kandi Ramsanpalle Road Private Limited: Rating upgraded to [ICRA]AAA; outlook revised to Stable from Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	235.00	212.33	[ICRA]AAA (Stable); upgraded from [ICRA]AA- (Positive), outlook revised to Stable from Positive
<b>Total</b>	<b>235.00</b>	<b>212.33</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade for Ashoka Kandi Ramsanpalle Road Private Limited (AKRRPL) favourably factors in the receipt of the final completion certificate resulting in finalisation of the bid project cost for annuity payments and receipt of three semi-annuity payments including the operations and maintenance (O&M) payment within 16 days and without any deductions. ICRA notes that there is a buffer of 27-28 days between the annuity date and debt repayment date, providing cushion in case of administrative delays in annuity receipt. The rating notes the strong debt coverage indicators with a cumulative debt service coverage ratio (DSCR) above 1.25 times during the debt tenure. The rating also considers the creation of major maintenance reserve (MMR) of Rs.22.98 crore and six months' debt servicing reserve account (DSRA).

The rating notes the stable annuity revenue stream over the term of the concession from the project owner, National Highway Authority of India (NHAI; rated [ICRA]AAA (Stable)), which is a key Central Government entity responsible for development and maintenance of India's national highway programme. AKRRPL has appointed Ashoka Buildcon Limited (ABL) as the O&M contractor to take up routine maintenance activities at an annual fixed-price contract. The rating takes into account the strong profile of the O&M contractor and the sponsor (ABL, rated [ICRA]A1+).

The rating, however, considers the exposure of cash flows to inflation risks 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 sensitive to any deductions in annuity and O&M receipts. Hence, the company must ensure satisfactory upkeep of the carriageway as per the provisions of the Concession Agreement to avoid any deductions from the annuity amount. Nevertheless, the demonstrated track record of the Ashoka Buildcon Group in executing O&M works within the budgeted time and cost and satisfactory track record of operating road assets mitigates the risk to an extent. The returns remain sensitive to the spread between the Reserve Bank of India's (RBI) bank rate and the lender's MCLR as the interest earned on the outstanding annuities are linked to the bank rate, while the interest payable on the part of the project loan is linked to lender's MCLR. The debt structure remains moderate due to presence of cross default clause, whereby a default by the sponsor (ABL) will constitute as an event of default for AKRRPL 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 long-term rating benefits from expectation of timely receipt of annuities, healthy debt coverage metrics and presence of structural features, with presence of strong counterparty.

## Key rating drivers and their description

### Credit strengths

**Operational annuity project with timely track record of receipt of three semi annuities** – AKRRPL has received the provisional completion (PCOD) effective from November 19, 2022, and received the final completion certificate with effective from January 31, 2024. The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. The achievement of the final COD results in finalisation of the bid project cost on which annuity amounts are paid. As per the Concession Agreement, AKRRPL will be receiving 30 semi-annuities starting six months from the 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, a key Central Government entity responsible for the development and maintenance of the national highways in the country. AKRRPL has received three semi-annuity payments, including O&M payment, without any penalties/deductions and within 16 days from the annuity date. There is a buffer of 27-28 days between the annuity date and the scheduled debt servicing date and availability of liquidity cushion in the form of DSRA mitigates the risk of delay in annuity payments (if any).

**Healthy projected debt coverage indicators and presence of structural features** – AKRRPL is expected to have robust debt coverage indicators with a cumulative DSCR of above 1.25 times during the debt tenure. The credit profile is supported by the presence of various structural features in the term loan facility such as the creation of DSR, equivalent to six months of debt servicing obligations, as well as creation of the MMR from future annuities.

**Established track record of O&M contractor** – AKRRPL is a wholly-owned subsidiary of ABL, which is part of the Ashoka Buildcon Group. ABL 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

**Undertaking O&M as per concession requirement and risk of deductions from annuity/O&M payout** – AKRRPL'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 sensitive to any deductions in annuity and O&M receipts. The project stretch is a flexible pavement road and 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 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. In this regard, ICRA has taken comfort from the strong estimated cash flow and sufficient cushion built in the cost estimates for undertaking the O&M and MM expenditure.

**Project returns exposed to inflation and interest rate risk** – AKRRPL's cash flows and returns remain sensitive to the spread between the RBI's bank rate and the lender's MCLR as the interest earned on the outstanding annuities are linked to the bank rate, while the interest payable on the project loan is linked to lender's MCLR. Further, AKRRPL'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.

**Moderate debt structure due to presence of cross default clauses** – AKRRPL's debt terms have a cross default clause, whereby any default by the sponsor will constitute as an event of default for the company 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

AKRRPL's liquidity position is adequate with the cash flow from operations expected to be sufficient to meet the debt servicing obligations of Rs. 9.40 crore in H2 FY2025 and Rs. 18.21 crore in FY2026. Its liquidity position is also supported by the availability of cash DSRA of Rs. 18.59 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 any 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 a rating downgrade includes cumulative DSCR falling below 1.25 times on a sustained basis. The rating could also come under pressure if there is any non-adherence or dilution to the 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

Ashoka Kandi Ramsanpalle Road Private Limited (AKRRPL) is a subsidiary of Ashoka Buildcon Ltd (ABL). The special purpose vehicle (SPV) was formed to undertake four laning of 39.98 km stretch from NH-161 Kandi (km 498.250 of NH-65) to Ramsanpalle (existing km. 44.757) in Telangana under Bharatmala Pariyojana on hybrid annuity basis. The company proposed to widen the existing two-lane stretch to four-lane stretch, along with the service road. The construction and concession period for the project is 2 years and 15 years respectively. The concession agreement was signed on January 03, 2020 and the project received the appointed date on October 05, 2020. It received provisional COD w.e.f. November 19, 2022 and the final COD w.e.f. January 31, 2024.

## Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	340.1	115.4
PAT	21.9	32.3
OPBDIT/OI	15.2%	52.0%
PAT/OI	6.4%	28.0%
Total outside liabilities/Tangible net worth (times)	2.3	1.6
Total debt/OPBDIT (times)	3.4	3.3
Interest coverage (times)	3.6	3.3

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; AKRRPL 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

Current (FY2025)			Chronology of rating history for the past 3 years						
FY2025			FY2024		FY2023		FY2022		
Instrument	Type	Amount Rated (Rs. crore)	Nov 14, 2024	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	212.33	[ICRA]AAA (Stable)	28-Aug-23	[ICRA]AA- (Positive)	18-Jul-22	[ICRA]A- (Positive)	31-May-21	[ICRA]A- (Stable)
				06-Apr-23	[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 Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Sep 2020	NA	FY2036	212.33 <sup>1</sup>	[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**

<sup>1</sup> Sanctioned debt for the project was Rs.235.0 crore. Till October 2024, the company has repaid three instalments and current outstanding is Rs.212.33 crore(including Rs.0.85 crore- undrawn debt)

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