

November 26, 2024

Ashoka Belgaum Khanapur 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	295.00	295.00	[ICRA]A+ (Stable); Reaffirmed
Total	295.00	295.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Ashoka Belgaum Khanapur Road Private Limited (ABKRPL) factors in the receipt of six semi-annuities for the completed stretch of 20.76 km without any material deductions. Further, the last annuity was received within the buffer available of ~20 days between the annuity date and the scheduled principal repayment date, thereby providing adequate cushion in case of administrative delays in annuity receipt. The rating derives comfort from the maintenance of six months' debt servicing reserve account (DSRA) of Rs. 13.9 crore and major maintenance reserve (MMR) of Rs. 1.5 crore as on October 31, 2024. ICRA notes that once the project is fully operational, it is expected to have robust debt coverage metrics.

Additionally, Ashoka Concessions Limited (ACL) has provided an undertaking towards financial support for ABKRPL in case of cost overruns during the construction phase, any shortfall in the operations and maintenance (O&M) expenses and debt servicing in the operational phase as per the lender's approved base case business plan.

The rating is, however, constrained by the residual execution risk with physical progress of 68.47% as on September 30, 2024. The implementation risk is mitigated to an extent by the presence of a fixed-price, fixed-time engineering, procurement and construction (EPC) contract with Ashoka Buildcon Limited (ABL, rated at [ICRA] A1+) and its strong project execution capabilities. Further, the company has signed a settlement agreement with the National Highways Authority of India (NHAI, rated at [ICRA] AAA (Stable)) and is currently constructing the balance stretch of 9.24 km, which is estimated to be completed by July 15, 2025. The balance completion cost of Rs. 187 crore is likely to be funded by undrawn debt of Rs. 97 crore (post adjusted for proportionate repayment), NHAI grant of Rs. 85 crore and pending equity infusion of Rs. 18 crore. Over and above this, the company is expected to receive inflation adjusted grant component from the authority.

ABKRPL's cash flows and 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 project loan is linked to lender's MCLR. Further, ABKRPL'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. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR and remains a key rating monitorable.

The Stable outlook on the rating reflects ICRA's opinion that ABKRPL will benefit from the timely receipt of annuities and strong execution capabilities of the ultimate sponsor and EPC contractor—ABL.

Key rating drivers and their description

Credit strengths

Successful receipt of six semi annuities – ABKRPL received the provisional completion certificate (PCC-1) w.e.f. October 2021 for 16.345 km length. Further, the company has received PCC-2 for 4.415 km length w.e.f. January 13, 2023, with the total completion length of 20.76 km till date. Consequently, the company has received six semi-annuity payment (corresponding to the completion cost of 20.76 km) as on date without any major deductions.

Annuity nature of project eliminates market risks under hybrid annuity model (HAM) – The inherent benefits of a HAM project include upfront availability of Right of way (RoW), inflation-linked revisions to the bid project cost (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 inflation-adjusted project cost being paid out as annuities, along with interest on reducing balance annuity at RBI's bank rate plus 300 bps, and inflation-adjusted O&M cost over the 15-year term of the concession from the project owner and annuity provider, the NHAI, which is a strong counterparty, thereby eliminating the market risks.

Undertakings from the sponsor – ACL has provided an undertaking towards financial support in case of a cost overrun and delay in receiving the NHAI's 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.

Credit challenges

Residual execution risk – The project is exposed to residual execution risks with ~68.47% of physical progress achieved as on September 30, 2024. ICRA notes that 100% of the land has been made available by the authority for construction of the balance stretch. The company has signed a settlement agreement with the NHAI and is currently constructing the balance stretch of 9.24 km, which is expected to be completed by July 15, 2025. However, the implementation risk is mitigated to an extent by the presence of a fixed-price, fixed-time EPC contract with ABL and its strong project execution capabilities. Its ability to complete the balance stretch of 9.24 km within the stipulated timelines, viz. July 15, 2025, would remain important from the credit perspective.

Ensuring routine and periodic maintenance expenses within the budgeted levels and as per concession agreement – Post commissioning, ABKRPL's sources of income are the annuity, 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, it must ensure satisfactory upkeep of the carriageway and undertake O&M and major maintenance of the project stretch as per the concession agreement (CA) to avoid any deductions from annuities and O&M payments. The project stretch is based on rigid pavement, which generally does not require a large-scale MM activity unlike a flexible pavement road. However, undertaking routine and periodic maintenance in a timely manner and within the budgeted costs would remain important. 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.

Project returns exposed to inflation and interest rate risk – ABKRPL'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. Any significant reduction in the RBI's 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. Further, ABKRPL'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 O&M/periodic maintenance expenses. Any increase in routine and major maintenance from the budgeted level could impact its DSCR metrics.

Liquidity position: Adequate

ABKRPL's liquidity position is adequate with free cash balances of Rs. 33.2 crore as on October 31, 2024. The company has created a DSRA account of Rs. 13.92 crore (equivalent to six months P+I) and MMR of Rs. 1.5 crore as per the sanction terms. The balance project cost of Rs. 187 crore can be comfortably met through pending equity infusion of Rs. 18 crore, balance debt draw down of Rs. 97 crore (post adjusted for proportionate repayment) and NHAI grant (excluding inflation) of Rs. 85 crore.

Rating sensitivities

Positive factors – The rating could be upgraded on sustained track record of receipt of annuities without any material deductions and the company achieving the COD as per the expected timelines without any cost overrun.

Negative factors – Pressure on the rating could arise if there is a delay in annuities or cost overruns and additional indebtedness adversely impacts the debt coverage metrics. Further, any deterioration in the credit profile of the sponsor or any non-adherence or dilution to the debt structure could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads – Hybrid Annuity
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

ABKRPL is a 100% subsidiary of ACL, a holding company of the road assets of ABL. The special purpose vehicle (SPV) was formed in April 2018, to undertake four-laning of 30.0 km (rigid pavement) from the Belgaum-Khanapur section (0.00 km to 30.00 km) of NH 4A in Karnataka on HAM. The construction and the operation period of the project are 2.5 years and 15 years, respectively. The concession agreement was signed on April 20, 2018 and the appointed date was received on March 07, 2019. The total project cost of Rs. 745.72 crore is proposed to be funded by an equity of Rs. 77.20 crore (10.35% of project cost), term loan of Rs. 295 crore (39.56% of project cost) and the NHAI's grant including PMI adjustment of Rs. 373.52 crore (50% of project cost). The annuity and interest on 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. 3.00 crore to be adjusted for inflation from the bid date. The company has achieved PCC-1 for 16.345 km w.e.f. October 2021 and PCC-2 for 4.415 km w.e.f. January 13, 2023.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	110.4	55.9
PAT	17.1	21.9
OPBDIT/OI	39.9%	85.2%
PAT/OI	15.5%	39.1%
Total outside liabilities/Tangible net worth (times)	2.1	1.6
Total debt/OPBDIT (times)	3.9	3.4
Interest coverage (times)	2.8	2.8

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; ABKRPL 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)	26-Nov-2024	Date	Rating	Date	Rating	Date	Rating
Long-term-fund-based-Term loan	Long Term	295.00	[ICRA]A+ (Stable)	21-Aug-2023	[ICRA]A+ (Stable)	25-Nov-2022	[ICRA]A- (Stable)	11-Feb-2022	[ICRA]A- (Negative)

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	FY2019	NA	FY2035	295.00	[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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