December 06, 2024

Ashoka Khairatunda Barwa Adda 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	225.42	208.91	[ICRA]AAA(Stable); reaffirmed
Total	**225.42**	**208.91**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Ashoka Khairatunda Barwa Adda Road Limited (AKBARL) factors in the successful receipt of six semi-annuities without any deductions and the mitigation of interest rate risk with the term loan interest rate linked to the repo rate. This repo rate-linked interest rate provides a natural hedge, given the better alignment with cash inflows as the interest on annuities is linked to the Reserve Bank of India's (RBI) Bank Rate. The coverage metrics are expected to remain robust with a cumulative debt service coverage ratio (DSCR) of more than 1.25 times during the debt tenure. The rating also considers the timely annuity receipts, including operations and maintenance (O&M) payments from the National Highway Authority of India (NHAI; rated [ICRA]AAA (Stable)), which is expected to continue in the medium term. ICRA notes that there is an adequate cushion of 36 days between the annuity date and the debt repayment date, providing comfort. The rating considers the creation 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 continues to consider the 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. The rating takes into account the strong profile of the O&M contractor and sponsor – Ashoka Concessions Limited (ACL) – the holding company of the road assets of Ashoka Buildcon Limited (ABL, rated [ICRA]A1+). AKBARL has appointed ACL 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. Further, the company has entered into a fixed-price major maintenance (MM) contract with ABL for undertaking the first MM, thereby mitigating the risk of any cost overruns for MM.

AKBARL's cash flows are exposed to inflation risk as O&M receipts, though linked to the 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 of the project sensitive to any deductions in annuity and O&M receipts. Hence, the company must ensure satisfactory upkeep of the carriageway and undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from the annuities or rise in routine and MM expenses from the budgeted level could impact its coverage metrics. The debt structure remains moderate due to the presence of the cross-default clause, which stipulates that default by the sponsor (ABL) constitutes a default event for AKBARL, potentially leading to debt acceleration at the lender's discretion. However, given AKBARL's favourable operational and financial profile (robust coverage metrics and strong counterparty – the NHAI), if such a clause is exercised by the lender, the company is expected to refinance its debt within the available time/cure period, thereby mitigating the risk to a major extent.

The Stable outlook on the long-term rating reflects the expected timely receipt of 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 project with track record of six semi-annuities – The project will have 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. AKBARL has received six semi-annuity payments, including O&M payment, without any penalties/deductions and within 12-30 days from the annuity date. ICRA notes that there is adequate cushion of 36 days between the annuity date and the debt repayment date, providing comfort.

Robust coverage indicators and presence of structural features – The coverage metrics are expected to remain robust with cumulative DSCR of more than 1.25 times during the debt tenure. Further, structural features of the debt, including the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a minimum DSCR of 1.15 times, provides support to the rating . As on October 30, 2024, the company maintained six months DSRA of Rs. 16.50 crore and MMR of Rs. 33.66 crore, in the form of fixed deposits with the lender, in line with the lender's approved base case business plan.

Established track record of O&M contractor – AKBARL is a wholly-owned subsidiary of ACL, which is part of the Ashoka Buildcon Group. The Ashoka Group has a demonstrated track record of executing O&M works within the budgeted time and cost. Further, the company has entered into a fixed price major maintenance (MM) contract with ABL for undertaking the first MM, thereby mitigating the risk of any cost overruns for MM.

Credit challenges

Project returns exposed to inflation risk – AKBARL'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 company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Nevertheless, the special purpose vehicle (SPV) has signed a fixed-price O&M contract with ACL. Hence, any significant deterioration in the credit profile of the O&M contractor will impact the SPV's ability to undertake maintenance and will remain a key monitorable.

Lane availability and satisfactory upkeep to be ensured for annuity payments – AKBARL'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 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 AKBARL 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.

Moderate debt structure due to the presence of cross default clauses – AKBARL's debt terms have a cross-default clause, which stipulates that any default by the sponsor will constitute as an event of default for AKBARL and could lead to debt acceleration 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 refinance its debt within the available time period, thereby mitigating the risk to a major extent.

Liquidity position: Adequate

The cash flow from operations is expected to be sufficient to meet the debt servicing obligations (P+I) of Rs. 33.7 crore in FY2025 and Rs. 31.5 crore in FY2026. Its liquidity position is also supported by the availability of cash DSRA of Rs. 16.50 crore, which is equivalent to six months of debt servicing obligations and free cash and fixed deposits of Rs. 45.2 crore as of October 2024.

Rating sensitivities

Positive factors – Not applicable

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 results in a deterioration of the debt coverage indicators. A specific credit metric for rating downgrade includes cumulative DSCR lower than 1.25 times on a sustained basis. The rating could also come under pressure if there is any non-adherence to the debt structure or any material weakening in the credit profile of the sponsor.

Analytical approach

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

About the company

AKBARL is a 100% subsidiary of Ashoka Concessions Ltd (ACL/sponsor), the holding company of the road assets of Ashoka Buildcon Limited (ABL). The SPV was formed in April 2018 to undertake the six-laning of 40.33 km from Khairatunda to Barwa Adda Section (km. 360.30 to km. 400.13) of NH-2 in Jharkhand on a HAM basis. The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on April 27, 2018, and the project received the appointed date on January 8, 2019. The total project cost of Rs. 732.53 crore was funded by the equity of Rs. 93.43 crore (12.75% of project cost), term loan of Rs. 254.00 crore (34.67% of project cost) and the NHAI's grant, including PMI adjustment of Rs. 385.10 crore (52.57% 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. 4.89 crore to be adjusted for inflation from the bid date. The project received the provisional COD on October 9, 2021 and the final COD on April 21, 2022.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	60.6	68.1
PAT	17.0	21.9
OPBDIT/OI	75.2%	70.6%
PAT/OI	28.0%	32.2%
Total outside liabilities/Tangible net worth (times)	2.3	1.7
Total debt/OPBDIT (times)	5.5	4.8
Interest coverage (times)	2.1	2.5

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; AKBARL follows IndAS 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	06-Dec-2024	Date	Rating	Date	Rating	Date	Rating
Term loans	Long-term	208.91	[ICRA]AAA(Stable)	31-Oct-2023	[ICRA]AAA (Stable)	22-Jul-2022	[ICRA]AA- (Stable)	10-Feb-2022	[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	Nov 2034	208.91	[ICRA]AAA (Stable)

Source: Company

Note: Project was sanctioned debt aggregating to Rs. 245.73 crore and current rating is done on present outstanding debt of Rs. 208.91 crore as on October 31, 2024

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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About ICRA Limited:

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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.

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