May 31, 2024 (Revised)

Ashoka Highways (Durg) Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	200.00	62.29^[1]	[ICRA]A-(Stable); upgraded from [ICRA] BBB+ (Stable)
Total	**200.00**	**62.29^**	

**Instrument details are provided in Annexure-I*

^ Amount outstanding against the ISIN were partially repaid while none of the ISINs have been fully repaid on reduced amount in NCDs

Rationale

The rating upgrade for Ashoka Highways (Durg) Limited (AHDL) favourably factors in the improvement in its debt coverage metrics, aided by healthy toll collections growth over the past two years to Rs. 134.2 crore in FY2024 from Rs. 91.6 crore in FY2022. Its toll collection is expected to grow to more than Rs. 145 crore in FY2025e. The toll collection on the project stretch witnessed a healthy CAGR of ~18.5%[2] during FY2021-FY2024, driven by healthy toll rate increase and moderate traffic growth. The rating continues to factor in the operational nature of the project with a tolling track record of more than ten years, favourable location of the project stretch (a part of NH-6 and is located along the Chhattisgarh-Maharashtra border) with an established traffic density and low alternative route risk. The rating takes comfort from the sponsor's undertaking to meet any shortfall in debt servicing and maintenance of debt service reserve account (DSRA), as stipulated by the lender, during the tenure of the loan. The company has recently (in FY2023) completed its major maintenance activity. As per the lender's base case estimate, the major maintenance reserve for the next MM activity planned during FY2027-FY2028 will be created from the cash flows from FY2027 onwards, post payment of rated NCD instrument. The presence of DSRA equivalent to one quarter's repayment obligations in the form of cash/BG, along with an escrow mechanism provide additional comfort. The availability of the tail period of about three years for the project provides financial flexibility.

The rating, however, remains constrained by the volatility in toll collections, as the prospects are strongly linked with the performance of the steel industry. Steel transported from the Bhilai Steel Plant is one of the major drivers of traffic for this stretch. The project remains exposed to risks inherent in build-operate-transfer (BOT) toll road projects, including risks arising from variation in traffic volume over the project stretch, movement in WPI (AHDL's toll rates are 100% linked to the average WPI of the previous financial year), political acceptability of toll rate hike over the concession period, development/improvement of alternative routes and likelihood of toll leakages. AHDL has to undertake regular maintenance of the project as per specifications of the Concession Agreement to avoid any penalties. Any significant penalties levied by the authority or rise in routine maintenance expenses from the budgeted level, which could impact its coverage metrics, remain a key rating monitorable. Further, the cash flows are exposed to interest rate risk considering the floating nature of interest rates on the project debt.

The Stable outlook on the rating reflects ICRA's opinion that AHDL will continue to benefit from the low alternate route risk, the established traffic density on the project stretch, which will continue to support the traffic growth.

[1] *Project has sanctioned debt aggregating Rs. 200.0 crore and current rating is done on outstanding amount of Rs. 62.29 crore.*

[2] *The stretch witnessed a de-growth in toll collections in FY2017 due to demonetisation, wherein toll collection was suspended for a period from November 8, 2016 to December 2, 2016. Further, toll collections were suspended from March 26, 2020 to April 19, 2020 on account of lockdown imposed by the Central Government due to the Covid-19 pandemic.*

Key rating drivers and their description

Credit strengths

Operational nature of project with established traffic – The project stretch is located along the Chhattisgarh-Maharashtra border and is part of NH-6, which has an established traffic density with low alternative route risk. The rating favourably factors in the operational nature of the project with a tolling track record of more than ten years. The toll collections witnessed a CAGR of ~9.2% during FY2017-FY2024 with toll revenues increasing to Rs. 134.2 crore in FY2024. The toll collections are projected to rise to more than ~Rs. 145 crore in FY2025, driven by hike in toll rates and moderate traffic growth.

Strong profile of the sponsor and undertaking by ACL for debt servicing – AHDL is a wholly-owned subsidiary of ACL, which is a part of the Ashoka Buildcon Group. The Group has an established track record in the road segment. ACL has provided an undertaking to meet any shortfall in the debt servicing and maintenance of DSRA as stipulated by the lender, during the tenure of the loan.

Presence of DSRA and escrow mechanism – Presence of a DSRA, equivalent to one quarter's debt servicing obligation and an escrow structure provide additional comfort. The availability of the tail period of about three years for the project provides financial flexibility.

Credit challenges

Risks inherent in BOT toll road projects – The project remains exposed to risks inherent in BOT toll road projects, including risks arising from variation in traffic volume over the project stretch, movement in WPI (AHDL's toll rates are 100% linked to the average WPI of the previous financial year), political acceptability of toll rate hike over the concession period, development/improvement of alternative routes and likelihood of toll leakages. Further, the project's cash flows and profitability remain exposed to the interest rate risk due to the floating nature of the interest rate.

Undertaking O&M as per concession requirement – AHDL has to undertake regular maintenance of the project as per the specifications of the Concession Agreement to avoid any penalties, which will be a key credit sensitivity. 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 penalties. Any significant penalties levied by the authority or rise in routine maintenance expenses from the budgeted level, which could impact its coverage metrics, remain a key rating monitorable.

Liquidity position: Adequate

AHDL's liquidity is adequate. The company maintains DSRA equivalent to ensuing one quarter's principal plus interest obligations in the form of cash and bank guarantee (BG) by the sponsor, ACL. It has Rs. 19.48 crore of cash DSRA and Rs. 5.3 crore of BG DSRA outstanding as on April 30, 2024. Further, the company has Rs. 23.0 crore of cash balances and other reserves as on April 30, 2024. AHDL's liquidity position considers the receipt of timely financial support from ACL, if required.

Rating sensitivities

Positive factors – The rating could be upgraded upon significant growth in toll collections while maintaining healthy debt protection metrics.

Negative factors – The rating would face downward pressure in case of a significant decline in toll collections on a sustained basis, leading to a deterioration in debt coverage metrics. 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	Corporate Credit Rating Methodology BOT Toll Road Projects
Parent/Group support	Parent company: Ashoka Concessions Limited (ACL) Ultimate promoter: Ashoka Buildcon Limited (ABL) The rating assigned to AHDL factors in the likelihood of its ultimate parent, ABL, extending financial support to it (through ACL) because of close business linkages between them. ICRA expects ABL to be willing to extend financial support to AHDL out of its need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of ABL having extended timely financial support to AHDL in the past, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Ashoka Highways (Durg) Limited (AHDL) is a special purpose vehicle (SPV) initially promoted by Ashoka Buildcon Limited (ABL) and Infrastructure Development Finance Company (IDFC) through its road asset holding platform Highways Concessions One (HC1) in 2007. ABL's stake was subsequently transferred to Ashoka Concessions Limited (ACL) in 2012.

The SPV undertook the construction, widening, operation, and maintenance of an 82.6 km stretch on National Highway 6 (from 322.40 km to 405.00 km), from the end of Durg Bypass-Chhattisgarh to Maharashtra border, on BOT basis. The construction started in July 2008 and ended in February 2012. The concession period for the project is 20 years ending in June 2028.

Key financial indicators (audited)

AHDL	FY2023	FY2024
Operating income	112.4	134.4
PAT	10.6	30.2
OPBDIT/OI	72.7%	74.9%
PAT/OI	9.4%	22.5%
Total outside liabilities/Tangible net worth (times)	16.0	5.5
Total debt/OPBDIT (times)	3.1	2.0
Interest coverage (times)	2.6	3.5

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

AHDL 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 April 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					May 31, 2024	May 30, 2023	Jan 30, 2023	Jan 18, 2022	Aug 27, 2021
1	Non-convertible debenture	Long term	62.29^	62.29*	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ Rating Watch with Developing Implications	[ICRA]BBB+ Rating Watch with Developing Implications	[ICRA]BBB+ (Stable)

^ Amount outstanding against the ISIN were partially repaid while none of the ISINs have been fully repaid on reduced amount in NCDs

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Moderately complex

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
INE003K07012	**Non-convertible debenture**	10-Nov-2016	-*	15-Nov-2025	62.29^	[ICRA]A- (Stable)

Source: Company; ^ Amount outstanding against the ISIN were partially repaid while none of the ISINs have been fully repaid on reduced amount in NCDs;

**Linked to NIIF IFL Benchmark*

Annexure II: List of entities considered for consolidated analysis: Not Applicable

Corrigendum

Rationale dated May 31, 2024, has been with revision as detailed below:

- Annexure I is amended to include date of issuance and maturity for the rated NCDs
- Original sanctioned debt amount has been mentioned alongside the outstanding debt amount
- Description of reserves has been amended to other reserves, under liquidity section.

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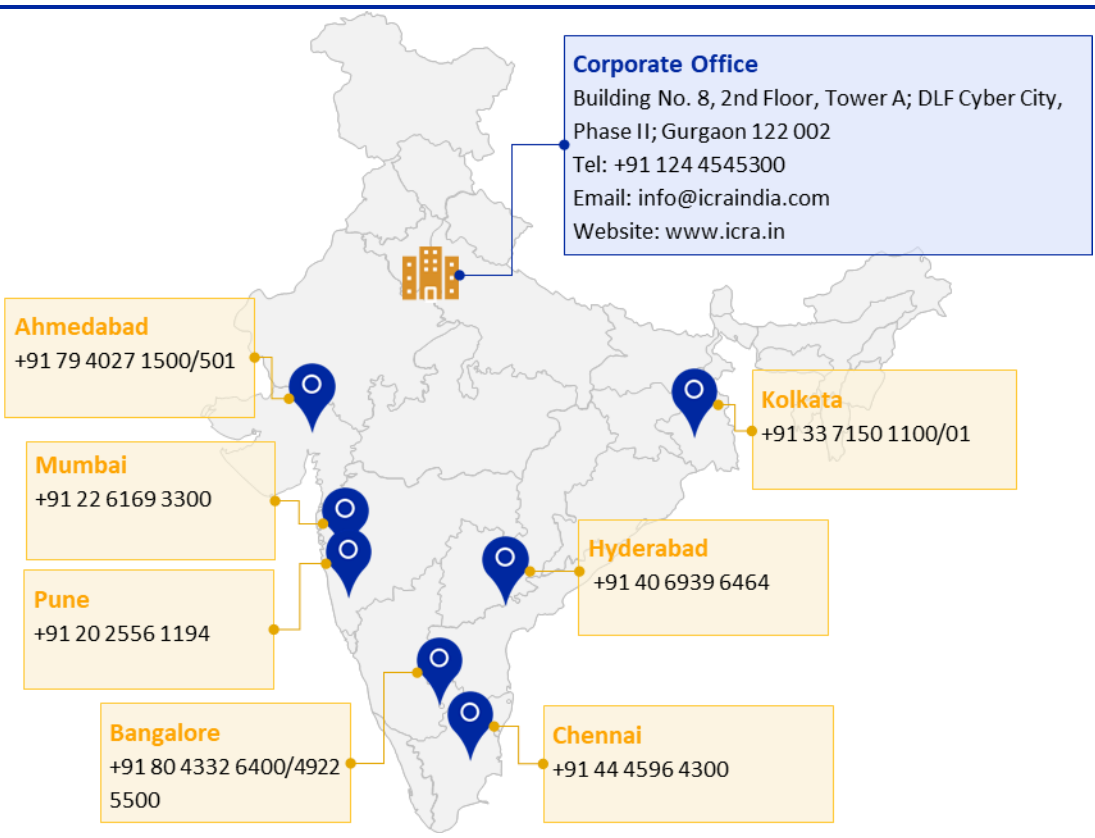
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