Ashoka Concessions Limited

Instrument	Amount	Rating Action
Long Term – Term Loan (Proposed)	Rs. 200.00 crore	[ICRA]A (Stable) assigned

ICRA has assigned a long term rating as [ICRA]A (pronounced as ICRA A) to Rs. 200 crore proposed term loan facilities of Ashoka Concessions Limited[1] (ACL). The long term rating has been assigned stable outlook.

The assigned rating reflects strong parentage of the company by virtue of being 66% held by Ashoka Buildcon Limited (ABL) having established presence as one of the leading road developer in the country with a mature BOT portfolio along with proven abilities in executing large road EPC projects. All the six BOT projects held by ACL as on date are fully operational and tolling at full rates mitigating construction risks. ACL has fully met its equity commitment towards its portfolio of BOT projects and incremental requirements are limited to cash-flow shortfall in meeting bank obligations. Given healthy traffic growth in last and current fiscal and premium deferment for two projects along with recent refinancing of term loans across projects providing sizeable interest rate reductions, cash-flow shortfall funding is expected to be mainly required only by one under-performing project in medium term. With expected pick-up in mining activity and general increase in cargo movement, ACL's BOT portfolio is expected to benefit in terms of traffic growth. All the BOT projects of ACL have registered healthy traffic growth in FY2016 compared to FY2015 and FY2017 growth prospects remain healthy. ICRA also derives comfort from the elongated debt maturity profile and healthy tail period of ACL's BOT portfolio providing adequate financial flexibility.

The rating, however, remain constrained by ACL's exposure to more than expected cash-flow support to its operational BOT projects which in turn is dependent on traffic growth and major maintenance requirements for the respective stretches. ACL's standalone accruals are expected to be insufficient to meet any such shortfalls and it would be dependent on combination of options like usage of cash surpluses generated from few of the road SPVs it holds, its own ability to raise funds or incremental funding support from promoters. Continued ability to raise requisite funds through public or private placement in a timely manner remains key sensitivity factor. Parent ABL's financial profile remain strong with standalone gearing at 0.3x as on March 2016 and Total Debt/EBITDA of 1.7 times along with healthy EPC order book providing strong revenue visibility. ACL's BOT portfolio is concentrated majorly on NH-6 with four out of six project stretches being part of NH-6 along with sizeable dependence on industries like mining, steel, power, cement, etc to drive traffic growth.

For arriving at the rating, ICRA has factored in the impact of likely support to be extended by ACL towards its under-construction and operational projects in case of cost overruns, cash gaps in operational projects due to lower-than-anticipated traffic volumes, funding of major-maintenance and payment of premiums to various authorities in case of cash-flow shortfalls in SPVs.

ACL which held seven of the BOT projects transferred from ABL in 2012 had a total commitment of ~Rs. 1300 crore as construction cost share for its portfolio projects. As on March 2016, it has already infused ~Rs. 1710 crore with additional funds provided to fund cash flow shortfall given some of the projects had seen lower than expected toll collection till FY2015 along with delays in getting final completion certificate in certain projects. Further one of the projects, PNG Tollway Limited (PNG) where ACL held 26% stake, was terminated by NHAI in March 2016 on the request of concessionaire given lack of State Government support for the toll collection and ACL has wrote off its investments in PNG in FY2016.

The traffic growth, though, has improved in FY2016 resulting in overall toll collection growth of 14% (for five projects except PNG and Sambalpur Baragarh) as against 7% in FY2015. The Sambalpur-Baragarh stretch which started tolling in October 2014 based on provisional completion got final approval in June 2016 resulting in tolling at full rates from June 2016 onwards. The overall traffic for Sambalpur-Baragarh stretch still remain below expectations and the project is expected to continue to require funding support to meet cash shortfall though overall support requirement has come down post final completion certificate. Further two of the projects (Dhankuni Kharagpur and Belgaum Dharwad) received premium deferment sanction from NHAI over last two fiscals providing some comfort to cash flows in medium term. Also five of the six projects have refinanced/renegotiated their term loans over last and current fiscal providing sizeable reduction in interest

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

rates and comforting overall cash flows. ACL's funding support is expected to be majorly limited to Sambalpur-Baragarh project in near to medium term though overall project portfolio remain exposed to traffic growth which in turn is dependent on pick up in mining activity in Odisha and Chattisgarh along with general pickup in economic activity. Further toll rate revisions remain dependent on WPI growth (except for Jaora Nayagaon project) which affected toll rate hikes in FY2017.

ACL has minimal source of revenues on a standalone basis with key source of income being margin on O&M contract signed between ABL and SPVs and hence standalone accruals are unlikely to be sufficient to meet cash shortfall commitments. However all the six BOT projects held by ACL as on date are fully operational and tolling at full rates mitigating construction risks. Few of these projects are expected to generate cash surplus based on projected traffic growth. Further ACL has no bank borrowings on its standalone books as on date and incremental funding requirements in the past has been met through infusion from promoters in form of equity or unsecured loans. ACL has ability to raise funds through a combination of preference shares, equity (or equity-like instruments), securitization of tolls in a specific SPV and stake sale in order to meet its funding commitments. Continued ability to raise such funds through public or private placement in a timely manner remains key sensitivity factor.

ACL's majority parent ABL has done a QIP of Rs. 500 crore in FY2016 and has a mature BOT portfolio with limited equity requirements for under construction projects providing sufficient liquidity. Further ABL's financial profile remain strong with FY2016 cash accruals close to ~Rs. 195 crore, Debt/Net worth of 0.3x, and Debt/EBITDA of 1.7 times providing strong financial flexibility.

Company Profile

ACL was set up in November 2011 as a subsidiary of ABL with ABL transferring seven BOT projects to ACL. SBI Macquarie was to infuse Rs.800 crore through a stake dilution of 34 per cent in ACL. As on date, SBI Macquarie has infused the entire committed equity of Rs 800 crore in ACL providing them 34% stake while 66% is held by ABL. ACL acts as an exclusive BOT project developer for both ABL and SBI Macquarie. ACL currently holds six operational BOT projects with one project being terminated in April 2016. The six operational projects are Ashoka Highways (Durg) Limited, Ashoka Highways (Bhandara) Limited, Ashoka Dhankuni Kharagpur Tollway Limited, Ashoka Belgaum Dharwad Tollway Limited, Ashoka Sambalpur Baragarh Tollway Limited and Jaora Nayagaon Toll Road Co Pvt Ltd. One of the BOT project, PNG Tollway Limited was terminated in April 2016.

ABL, established in 1993, is engaged in construction and operation of road projects under various models like EPC/BOT/HAM (hybrid annuity model), collection of tolls on roads and bridges owned and constructed by third parties. In the EPC division, ABL constructs roads and bridges for its own BOT projects as well as for third parties. It also executes EPC projects in the power distribution space. Other than ACL projects, ABL has a portfolio of 10 BOT projects of which six are operational, two are in advance stages of construction and remaining two were won in H2 FY2016 only. It also has six foot-over bridges providing advertising revenues. ABL had an EPC order book of Rs. 4147 crore as on March 2016 including Road EPC book of Rs. 2981 crore, captive BOT EPC book of Rs. 311 crore and Power T&D EPC book of Rs. 842 crore.

Recent Results

ACL reported operating income of Rs. 87.3 crore on a standalone basis with net loss of Rs. 128 crore in FY2016 as against OI of Rs. 37.0 crore in FY2015 with PAT of Rs. 6.5 crore in FY2015.

ABL reported operating income of Rs. 1936 crore on a standalone basis with PAT of Rs. 159.4 crore as against OI of Rs. 1967 crore in FY2015 with PAT of Rs. 142.2 crore in FY2015.

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