

April 19, 2022^(Revised)

Ashoka Karadi Banwara 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	385.00	385.00	[ICRA]A- (Stable); reaffirmed
Total	385.00	385.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation for Ashoka Karadi Banwara Road Private Limited (AKBRPL) factors in the inherent benefits of the hybrid-annuity model (HAM) project and the operational as well as financial support from the strong sponsor, Ashoka Concessions Limited (ACL, rated [ICRA]A&, placed on Watch with Developing Implications), which is the holding company of Ashoka Buildcon Limited's (ABL) road assets. ACL has provided an undertaking towards financial support for AKBRPL 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 draws comfort from ABL being its engineering, procurement and construction (EPC) contractor for executing the project on a fixed-price basis. ABL has a demonstrated track record of project execution within the budgeted time and cost.

The rating, however, remains constrained by the moderate execution risks as construction is in the intermediate stages with AKBRPL achieving 63.5% physical progress as on December 31, 2021. ICRA notes that the company is awaiting an extension of time (EOT) of 150 days for completion of the balance stretch and is expected to achieve COD by second week of September 2022. The delay in project completion is attributable to the second Covid-19 wave and adverse weather conditions in October and November 2021. The implementation risk is, however, mitigated to an extent by the presence of a fixed-price, fixed-time EPC contract and ABL's strong project execution capabilities. The company's ability to commission the project in a timely manner within the budgeted costs would remain important from the credit perspective. Post commissioning, it must ensure healthy lane availability to avoid any deductions from the annuity amount. Timely support from the promoters to fund any shortfall due to delays in grant or any cost overruns during the construction phase will remain crucial. AKBRPL's cash flows are exposed to interest rate risk, given the floating nature of interest rates for the project loan. Any significant reduction in the Reserve Bank of India's (RBI) Bank Rate with no commensurate reduction in interest rate on project loan will impact its coverage indicators and IRRs as annuity payments are linked with the bank rates.

The Stable outlook on the rating reflects ICRA's opinion that AKBRPL will continue to benefit from the strong execution capabilities of the ultimate sponsor and EPC contractor—ABL.

Key rating drivers and their description

Credit strengths

Benefits of executing project under Hybrid-Annuity Model (HAM) – The inherent benefits of the HAM project include upfront availability of right of way (RoW), inflation-linked revisions to bid for project cost during the construction period and relatively low equity mobilisation risk with 40% of the project cost to be funded by the authority during the construction period in the form of a grant. The project will have a stable revenue stream post-commissioning as 60% of the remaining project cost will be paid out as annuity (adjusted for inflation) over the term of the concession by the project owner and annuity provider, the NHAI, a key Central Government entity that develops and maintains India's national highways.

Strong profile of sponsor and established track record of ABL in road construction – AKBRPL is a wholly-owned subsidiary of ACL, which is the holding company of ABL’s road assets. The Group has strong presence in the road segment. AKBRPL has entered into a fixed-price EPC contract with ABL, which has two decades of experience in the construction business, and a track record of project execution within the budgeted time and cost. Any cost overrun within the scope of the EPC contract will be borne by ABL.

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

Project exposed to execution risk – The project is exposed to execution risks as construction is in intermediate stages with ~63.5% physical progress as on December 31, 2021. ICRA notes that the company is awaiting to receive an EOT of 150 days for completion of the balance project and is expected to achieve COD by second week of September 2022. The implementation risk is, however, mitigated to an extent by the presence of a fixed-price, fixed-time EPC contract and ABL’s strong project execution capabilities. The company’s ability to commission the project in a timely manner within the budgeted costs would remain important from the credit perspective.

Project returns exposed to inflation and interest rate risk – AKBRPL’s cash flows are exposed to interest rate risk considering the floating nature of interest rates for the project loan. Further, the prevailing low bank rate would adversely impact the projected coverage metrics and IRRs for HAM projects as ~40-45% of the total annuity inflows for a HAM project are contributed by interest on annuities.

Lane availability to be ensured for annuity payments – AKBRPL’s source of income is the annuity, the interest on outstanding annuities and the annual O&M payments from the NHAI. Hence ensuring 100% lane availability, and thereby no deductions in annuity receipts, will be the key credit sensitivity for AKBRPL, on achievement of PCOD/COD.

Liquidity position: Adequate

AKBRPL’s liquidity position is adequate. The pending cost as on December 31, 2021 of Rs. 394.5 crore is expected to be funded by an equity of Rs. 34.2 crore, undrawn debt of Rs. 184.2 crore and the remaining through NHAI’s grant. Once fully operational, the debt repayment can be comfortably met through the annuity receipts. Further, the O&M expenses and interest servicing for the first six months post COD are funded as a part of the project cost. Moreover, the undertaking provided by ACL towards financial support in case of a cost overrun and delay in receiving NHAI’s grant during the construction phase provides comfort.

Rating sensitivities

Positive factors – Upon achieving COD as per the expected timelines, without any cost overrun.

Negative factors – Negative pressure could arise if there is a delay in achieving COD resulting in delayed annuities and/or any cost over runs. Further, any deterioration in the sponsor’s credit profile resulting in heightened equity mobilisation risk could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Ashoka Concessions Limited (ACL) Ultimate promoter: Ashoka Buildcon Limited (ABL) The rating assigned to AKBRL factors in the likelihood of its ultimate parent, ABL, extending financial support to it because of close business linkages between them. ICRA expects ABL to be willing to extend financial support to AKBRL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

AKBRPL is a 100% subsidiary of Ashoka Concessions Ltd (ACL/Sponsor), a holding company of the road assets of Ashoka Buildcon Limited (ABL). The special purpose vehicle (SPV) is formed to undertake Four laning of Tumkur-Shivamogga section from km 65.195 (Karadi) to km 121.900 (Banwara) of NH- 206 on a HAM basis under NHDP Phase – IV, in Karnataka. The construction and operations period for the project is 2 years and 15 years respectively. The project signed the Concession Agreement on April 20, 2018 and has received the appointed date of October 15, 2019. AKBRL achieved financial closure in September 2018. The total project cost of Rs. 1,052.0 crore is proposed to be funded by equity of Rs. 142.2 crore including Rs. 45.6 crore of equity towards contingency cost (in total, 13.5% of project cost), term loan of Rs. 385.0 crore (36.6% of project cost) and NHAI grant including PMI adjustment of Rs. 524.8 crore (49.6% 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 first year O&M receipt of Rs. 7.2 crore to be adjusted for inflation from the bid date.

Key financial indicators (audited)

Key financial indicators are not applicable as AKBRL is a project stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
									Apr 19, 2022
1	Term Loans	Long-term	385.0	200.8	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	

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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loan-I	Sep 2018	NA	FY2035	385.0	[ICRA]A-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Not applicable

Corrigendum

Document dated April 19, 2022 has been corrected with revision as detailed below:

Details pertaining to COD were updated.

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