

December 15, 2022

Ashoka Ankleshwar Manubar Expressway Private Limited: Rating upgraded to [ICRA]AA; outlook retained at Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	600.00	600.00	[ICRA]AA rating upgraded from [ICRA]A, outlook retained at Positive
Total	600.00	600.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade of Ashoka Ankleshwar Manubar Expressway Private Limited (AAMEPL) favourably factors in the receipt of the first semi-annuity payment including operations and maintenance (O&M) payment on October 21, 2022 and creation of six months' debt servicing reserve account (DSRA) from the first annuity receipts. The Independent Engineer (IE) recommended de-scoping to the tune of Rs. 30.3 crore pertaining to the construction of pavement for 1.75 km of the project stretch due to the pending right of way (RoW) issues. Consequently, the bid project cost (BPC) had been revised to Rs. 1,646.9 crore. The final approval from the National Highways Authority of India (NHAI), rated [ICRA]AAA(Stable), is pending. The receipt of the first annuity has primarily eliminated the uncertainty around completion cost, with which future annuities are linked. ICRA notes that there is a buffer of 20 days between the scheduled annuity receipt date and debt repayment date, providing cushion in case of administrative delays in annuity receipt. The rating factors in the robust projected debt coverage metrics for AAMEPL and the presence of structural features of the term loan, which requires the creation of upfront funded Debt Service Reserve (DSR), equivalent to six months of debt servicing obligations, as well as creation of the major maintenance reserve (MMR) from the future annuities, and cash trap if the DSCR falls below 1.15 times.

The rating continues to favourably factor in 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 also considers the strong profile of the O&M contractor and sponsor – Ashoka Concessions Limited (ACL, rated [ICRA]A and rating placed on watch with developing implications), the holding company of the road assets of Ashoka Buildcon Limited (ABL). AAMEPL has appointed ACL as the O&M contractor for taking up routine maintenance activities at an annual fixed-price contract. The Ashoka Group has a demonstrated track record in executing O&M works, within the budgeted time and cost. ICRA notes that ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses in the lender's approved base case business plan.

The rating strengths are offset by the interest rate risk, given the floating nature of interest rates for the project loan. Hence, any significant downward revision in the Reserve Bank of India's (RBI) Bank Rate with no commensurate transmission in interest rate on the project loan will impact its coverage indicators and returns as annuity payments are linked with the bank rates. Further, the company must ensure satisfactory upkeep of the carriageway as per the provisions of the Concession Agreement to avoid any deductions from the annuity amount. Any material deductions from annuities or significant increase in routine and major maintenance (MM) from the budgeted level could adversely affect AAMEPL's coverage metrics. It also remains exposed to residual project execution risk for the pending RoW of 1.75 km stretch due to land availability issues.

The Positive outlook on [ICRA]AA rating reflects ICRA's opinion that the credit profile of the special purpose vehicle (SPV) will

improve over the near to medium term post clarity on descoping, which will eliminate the pending execution risk and finalisation of completion cost.

Key rating drivers and their description

Credit strengths

Receipt of first annuity and creation of DSRA equivalent to six months' P+I – AAMEPL received the first annuity of Rs. 67.01 crore on October 21, 2022 as per the revised BPC for the completed length of 11.25 km. Further, the company has created six months' DSRA from the first annuity receipt.

Annuity nature of the project eliminates market risks under hybrid-annuity model (HAM) – The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI, rated [ICRA]AAA(Stable), which is a key Central Government entity for developing and maintaining India's national highway programme.

Strong debt coverage indicators and presence of structural features – AAMEPL is expected to have robust debt coverage indicators with a cumulative DSCR of above 1.3 times during the debt tenure. The credit profile is supported by the presence of various structural features in the term loan facility such as the creation of DSR, equivalent to six months of debt servicing obligations, as well as creation of the MMR from future annuities. Further, the presence of a cash trap mechanism if the DSCR falls below 1.15 times provides comfort.

Strong profile of O&M contractor and sponsor group – AAMEPL is a wholly-owned subsidiary of ACL, which is a part of the Ashoka Buildcon Group having strong presence in the road segment. ACL has been appointed as the O&M contractor to take up routine and MM activities for the entire concession period with an annual fixed-price contract. The promoter group has expertise of two decades in the road construction with a demonstrated track record of executing O&M works within the budgeted time and cost.

Credit challenges

Residual execution risk for 1.75 km of the project stretch – AAMEPL remains exposed to the residual project execution risk for the pending RoW of 1.75 km stretch due to land unavailability. As on October 31, 2022, the pending cost for completing the balance stretch is Rs. 30.35 crore.

Ensuring routine and periodic maintenance expenses within budgeted levels – AAMEPL has appointed ACL as an O&M contractor. In absence of a pre-defined MM schedule in the Concession Agreement, periodic maintenance is required on a need basis, which may result in a volatility in operating expenses. The project stretch is based on rigid pavement, which generally does not require a large-scale MM activity unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the strong estimated cash flow and additional cushion built in the cost estimates for undertaking the O&M and MM expenditure.

Project returns exposed to inflation and interest rate risk – AAMEPL's cash flows are offset by the interest rate risk, given the floating nature of interest rates for the project loan. Hence, any significant downward revision in the Reserve Bank of India's (RBI) Bank Rate with no commensurate transmission in interest rate on the project loan will impact its coverage indicators and returns as annuity payments are linked with the bank rates. The persistent low rate of inflation would result in lower annuity receipts in future.

Liquidity position: Adequate

AAMEPL's liquidity position is adequate. The company has created a DSRA of Rs. 26.47 crore equivalent to six months' debt servicing obligations. The principal obligation of Rs. 1.5 crore in FY2023 and Rs. 30.8 crore in FY2024 can be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – The rating could be upgraded upon sustained track record of annuity and O&M payments and/or finalisation of completion cost.

Negative factors – Pressure on the rating could arise if there are significant delays or deductions in annuity payments and/or additional indebtedness leading to material reduction in debt coverage metrics or non-adherence to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AAMEPL is a 100% subsidiary of ACL (sponsor), a holding company for ABL's road assets. The SPV was formed in April 2018 to undertake eight-laning of Vadodara Kim Expressway (Ankleshwar to Manubar section of Vadodara Mumbai Expressway) from km. 279.0 to km. 292.0 in Gujarat on HAM basis. The construction and operations period for the project is 2.5 years and 15 years, respectively. The Concession Agreement was signed on May 11, 2018 and the appointed date was received on December 10, 2018. The total project cost of Rs. 1,483.1 crore was funded by an equity of Rs. 178.0 crore (12.0% of project cost), term loan of Rs. 600.0 crore (40.5% of project cost) and NHAI's grant including PMI adjustment of Rs. 705.1 crore (47.5% of project cost). The company has achieved PCOD w.e.f. March 31, 2022 for the project length of 11.25 km. The annuity and interest on the 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. 2.6 crore to be adjusted for inflation from the bid date.

Key financial indicators

Key financial indicators are not applicable as AAMEPL 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	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Nov 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Dec 15, 2022	May 09, 2022	Feb 11, 2022	Mar 31, 2021	Mar 18, 2020	
1	Term loans	Long term	600.0	579.6	[ICRA]AA (Positive)	[ICRA]A (Positive)	[ICRA]A- (Positive)	[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: [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	Oct 2018	NA	FY2035	600.00	[ICRA]AA (Positive)

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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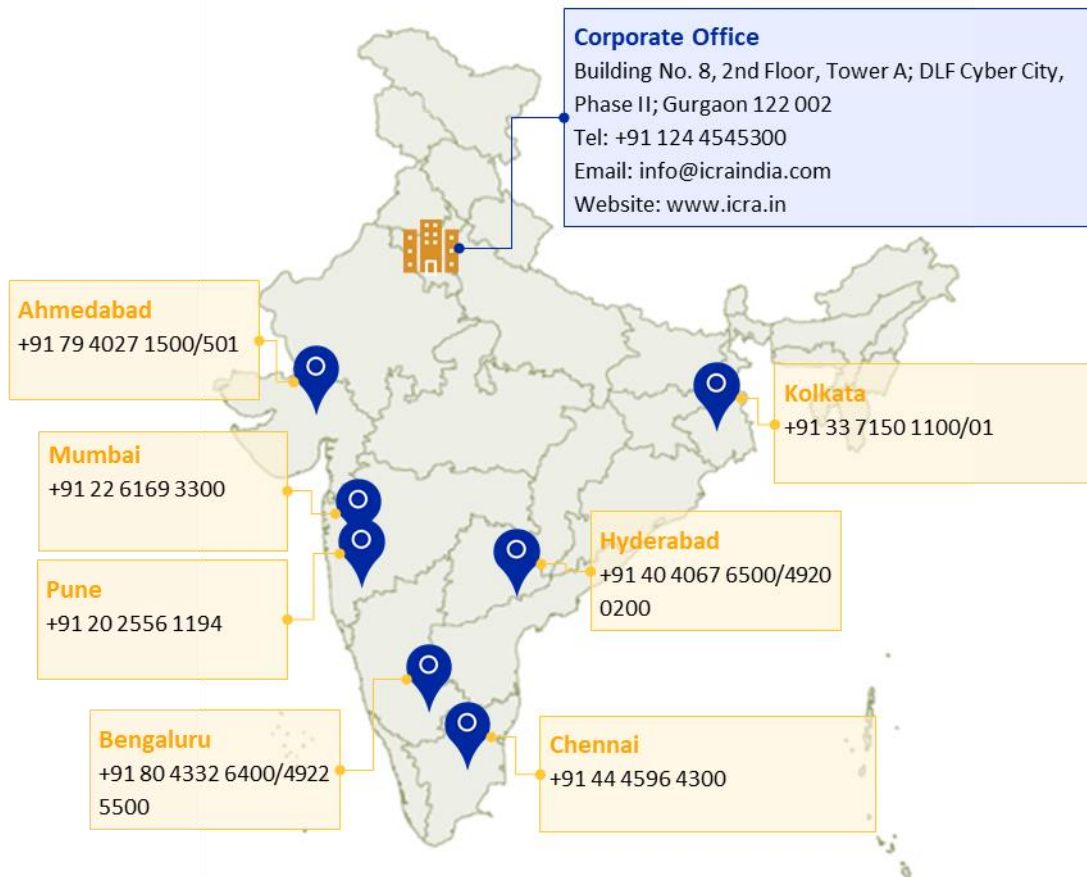
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