March 23, 2023

Ashoka Kharar Ludhiana Road Limited: [ICRA]AAA(Stable) withdrawn and [ICRA]AA-(Stable) simultaneously assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	493.60	-	[ICRA]AAA (Stable); Withdrawn
Long-term – Fund-based – Term loan	0.00	453.98	[ICRA]AA- (Stable); Assigned
Total	**493.60**	**453.98**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has withdrawn the rating assigned to the bank facilities of Ashoka Kharar Ludhiana Road Limited (AKLRL) on the confirmation received from the lenders' trustee that there is no amount outstanding against the earlier rated instruments in accordance with ICRA's policy on withdrawal of credit rating. ICRA has assigned the rating of [ICRA]AA- (Stable) to the refinanced facility of AKLRL.

The rating factors in the timely receipt of the first five semi-annuity payments, including operations and maintenance (O&M) payments from the National Highway Authority of India (NHAI; rated [ICRA]AAA (Stable)), without any penalties, 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 also considers healthy debt coverage indicators 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 1.2 times, provide credit support. ICRA notes that interest rate on rated debt is linked with repo rate, the whereas annuity income is linked with the base rate, thereby mitigating the interest rate risk to a large extent. The rating also considers the stable annuity revenue stream over the term of the concession from the project owner and annuity provider, NHAI, which is a key Central Government entity responsible for the development and maintenance of India's national highway programme.

The rating also takes into account the strong profile of the O&M contractor and sponsor – Ashoka Concessions Limited (ACL, rated [ICRA]A and on Watch with Developing Implications) – the holding company of the road assets of Ashoka Buildcon Limited (ABL). AKLRL 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, ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses, including the first major maintenance (MM), as per the lender's approved base case business plan.

The rating is, however, constrained by the weak debt structure due to the lack of cushion available between the annuity due date and repayment dates. The annuity due dates fall on March 31 and September 30 each year, which coincide with the debt repayment dates. In the past, the sponsor supported the company on the repayment date in case of any timing mismatch, which is expected to continue going forward. AKLRL would have to ensure satisfactory upkeep of the carriageway as per the provisions of the concession agreement to avoid any deductions in the annuity amount. Any material increase in regular or periodic maintenance expenditure will adversely impact the debt coverage metrics and remain a key credit sensitivity.

The Stable outlook on the rating reflects ICRA's opinion that AKLRL will continue to benefit from the strong counterparty, healthy debt coverage metrics and presence of structural features.

Key rating drivers and their description

Credit strengths

Annuity nature of project eliminates market risks – The project has 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. AKLRL has received five semi-annuity payments, including O&M payment, without any penalties. There were deductions in the fifth annuity on account of negative change in scope (COS) and delay of 11 days in receipt of annuity due to revised bid project cost (BPC) computation.

Healthy debt coverage metrics – The projected debt coverage metrics are healthy 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 1.2 times, provide credit support. The company maintains DSRA equivalent to six months of debt obligations (which stood at Rs. 36.86 crore as on December 31, 2022) and MMR of Rs. 45.61 crore, which is maintained in the form of fixed deposits with the lead lender and is in line with the lender's base case financial model.

Established track record of O&M contractor – AKLRL is a wholly-owned subsidiary of ACL, which is a part of the Ashoka Buildcon Group. ACL has been appointed as the O&M contractor to take up routine maintenance activities at an annual fixed-price contract. The promoter group has expertise of two decades in the construction business with a strong presence in the road segment, and a demonstrated track record of executing O&M works within the budgeted time and cost.

Credit challenges

Weak debt structure with no cushion between annuity due date and debt repayment date – The annuity due dates fall on March 31 and September 30 each year, which coincides with the debt repayment dates as the company started making the debt repayments from March 31, 2020 (date of PCOD) as per the original debt repayment schedule before the receipt of the first semi-annuity through the infusion of funds from the sponsor. Notwithstanding this, as per the confirmation received from the lenders, the DSRA would be used to ensure timely debt servicing in case of any delay in annuity receipt and it will be subsequently topped up as per the defined cash flow waterfall mechanism. In the past, the sponsor has supported the company on the repayment date in case of any timing mismatch, which is expected to continue.

Lane availability to be ensured for annuity payments – AKLRL's sources of income are the annuity, interest on outstanding annuities and annual O&M payments from the NHAI. Hence, ensuring a 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 ARARL 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. ICRA notes that the special purpose vehicle (SPV) has entered into fixed-price O&M and MM contracts with the sponsor. Further, ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses, including the first MM, as per the lender's approved base case business plan. AKLRL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Liquidity position: Adequate

The cash flow from operations are expected to be sufficient to meet the debt servicing obligations of ~Rs. 77 crore in FY2024. The company's liquidity position is supported by the availability of funded DSRA of Rs. 36.86 crore, which is sufficient to fund six months of debt servicing obligations.

Rating sensitivities

Positive factors – The rating could be upgraded if there is an improvement in the debt structure, along with timely receipt of annuity and O&M payments without any significant deductions.

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 result in a deterioration in the debt coverage indicators. The rating could also come under pressure if there is any weakening of debt structure.

Analytical approach

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

About the company

AKLRL is a 100% subsidiary of ACL, a holding company of road assets of ABL. The SPV was formed to undertake construction, operation and maintenance of the four-laning/six-laning of the NH-5 from Kharar to Samrala Chowk, Ludhiana from km 10.185 to km 86.199 in Punjab under Design, Build, Operate and Transfer (Hybrid Annuity) basis.

The operation period for the project is 15 years and it received Provisional Completion Certificate w.e.f March 31, 2020. The final COD was received on September 01, 2022. Post the de-scoping of certain stretches, the BPC has been revised to Rs. 1496.81 crore (from original BPC of Rs.1600 crore).

Key financial indicators (audited)

	FY2021	FY2022
Operating income	167.1	80.4
PAT	-18.3	17.6
OPBDIT/OI	13.9%	73.3%
PAT/OI	-10.9%	22.0%
Total outside liabilities/Tangible net worth (times)	3.5	2.6
Total debt/OPBDIT (times)	20.0	8.0
Interest coverage (times)	0.5	1.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: 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 of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Mar 23, 2023	Dec 16, 2021	June 18, 2021	Nov 13, 2020	Oct 04, 2019
1	Term loan	Long Term	493.60	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AA (Stable)	[ICRA]A+ (Positive)	[ICRA]A- (Stable)
2	Term loan	Long term	453.98	453.98	[ICRA]AA- (Stable); Assigned				

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 loans**	July - 2022	-	Mar-2033	453.98	[ICRA]AA- (Stable)
NA	**Term loans**	Jan-2017	-	Oct-2033	493.60	[ICRA]AAA (Stable); Withdrawn

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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