

January 15, 2021

Ashoka Ranastalam Anandapuram Road Limited: Long-term rating upgraded to [ICRA]A and outlook revised to Positive from Stable

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	415.00	415.00	[ICRA]A; Upgraded from [ICRA]A- and outlook revised to Positive from Stable
Total	415.00	415.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade favourably factors in the successful achievement of provisional completion certificate (PCC/ PCOD) by Ashoka Ranastalam Anandapuram Road Limited (ARARL) w.e.f. September 24, 2020, with the first semi-annuity expected to be received in 6-months post achievement of PCOD i.e. by end of March 2021. As on August 31, 2020, the SPV achieved 97.08% progress with the residual works pending owing to land availability issues.

The rating also takes into account the receipt of the entire grant from the National Highway Authority of India (NHAI) including PMI adjustment of Rs. 47.48 crore and ~95.3%-infusion of the proposed promoter contribution as on September 30, 2020. The undrawn term debt of Rs. 77.0 crore is adequate to meet the balance construction cost, opex and interest servicing till receipt of first annuity payment. ICRA notes that the debt repayment commencement date has been accordingly shifted from December 2020 to April 2021, in line with the shifting of PCOD date. The rating also takes into account the strong sponsor profile – Ashoka Concessions Limited (ACL, rated [ICRA]A (Stable)), the holding company of road assets of Ashoka Buildcon Limited (ABL). Furthermore, ACL has provided an undertaking towards financial support in case of any shortfall in O&M expenses and debt servicing in the operational phase as per lender’s approved base case business plan. The rating also factors in the 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 entrusted with the responsibility of development and maintenance of India’s national highway programme. ARARL appointed ACL as the O&M contractor for taking up routine and major maintenance activities for the entire concession period at an annual fixed-price contract; Ashoka Group has a demonstrated track record of executing O&M works, within the budgeted time and cost.

The rating, however, remains constrained by the residual execution risks for the SPV owing to land availability issues. Nevertheless, this is mitigated to an extent by the 98.75% encumbrance free land available for construction as on August 31, 2020; the fixed-price, fixed-time contract with ABL; and the de-scoping of obstructed stretches which is currently underway. ICRA notes the possibility of some amount of construction work getting descope on account of delays in the land acquisition by the authority. This pertains to the flyover which is to be built connecting the project stretch to the proposed Bhogapuram airport. The ability of the company to achieve final COD in a timely manner and within the budgeted costs would remain important from the credit perspective. Further, the company would have to ensure healthy lane availability to avoid any deductions from the annuity amount. ARARL’s cash flows are exposed to interest rate risk given the floating nature of interest rates for the project loan. Moreover, any significant reduction in RBI bank rate would adversely impact its coverage indicators as annuity payments are linked with the bank rate.

The Positive outlook on [ICRA]A rating reflects ICRA's opinion that the achievement of final COD will completely eliminate the execution risks and likelihood of timely receipt of 1st semi-annuity payment without any material deductions given the strong credentials of the O&M contractor, supporting the project's debt coverage metrics. Additionally, the DSRA and Major Maintenance Reserve (MMR) is expected to be created from the annuity proceeds in a timely manner.

Key rating drivers and their description

Credit strengths

Successful achievement of PCOD on September 30, 2020: ARARL received PCOD for the completion of 45.55 KMs out of the total project length of 47.00 KMs with September 24, 2020 declared as the Commercial Operations Date (CoD) for the project. The 1st semi-annuity payment (including the O&M payment) for the project is scheduled to be received by end of March 2021 (6-months post achievement of PCOD) and would be utilized towards debt repayment (commencing from April 2021), creation of DSRA and Major Maintenance Reserve (MMR). The quantum of semi-annuity amount and completion cost is yet to be finalized by the authority and would be based on the de-scoping of obstructed stretches which is currently underway and extent of execution of residual works.

Undertakings from the sponsor – ARARL is a wholly-owned subsidiary of ACL which is a part of Ashoka Buildcon Group. ACL has provided an undertaking towards financial support in case any shortfall in O&M expenses and debt servicing in the operational phase as per lender's approved base case business plan. ACL has been appointed as the O&M contractor for taking up routine and major maintenance activities for the entire concession period with an annual fixed-price contract. The promoter group has two-decade long expertise 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. Any cost over-run within the scope of the O&M contract will be borne by ACL.

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, which is a key central government entity entrusted with the responsibility of development and maintenance of India's national highway programme.

Credit challenges

Residual execution risks: The final COD is delayed owing to land availability issues. However, the implementation risks are mitigated to an extent by the 98.75% encumbrance free land available for construction as on August 31, 2020; fixed-price, fixed-time contract; and the strong project execution capabilities of ABL. Further, there is a possibility of obstructed stretches to be descoped which pertains to the flyover to be built connecting the project stretch to the proposed Bhogapuram airport. The pending cost of the project is subject to the descoping which is currently underway.

Project returns exposed to changes in bank rate and interest rate risk: ARARL's cash flows are exposed to interest rate risk, given the floating nature of interest rates for the project loan. Further, the prevailing low bank rate would also 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: ARARL's source of income is the annuity, interest on outstanding annuities and annual O&M payments from NHAI. Hence ensuring proper maintenance of roads along with no deduction in annuity receipts will be a key credit sensitivity for ARARL going forward.

Liquidity Position: Adequate

ARARL's liquidity is adequate. Given that the annuity payments are expected to commence from March 2021, the company's cash flow from operations would be sufficient to meet the interest and principal obligations (commencing 7-months post achievement of PCOD i.e, April 2021). The pending cost to be incurred is expected to be funded by the undrawn debt. Also, the operational cash flows are expected to be sufficient to fund the creation of DSRA for six-months debt obligations and MMR.

Rating sensitivities

Positive triggers: The positive outlook could be concluded and rating could be upgraded on receipt of first semi-annuity payment in a timely manner and if there is adequate progress in the creation of DSRA.

Negative triggers: Negative pressure could arise if there are significant delays or deductions in annuity payments leading to any material reduction in coverage metrics.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads
Parent/Group Support	Parent/Group Company: Ashoka Concessions Limited (ACL) Ultimate promoter: Ashoka Buildcon Limited (ABL) The rating draws comfort from the likelihood of extraordinary support from the parent group for the rated entity, should there be a need in future, given the reputation sensitivity and the strategic importance of the rated entity to the parent group; notwithstanding the above, the current rating opinion of ICRA on the rated entity does not factor any notch up due to parentage.
Consolidation/Standalone	Standalone

About the company:

ARARL is a 100% subsidiary of ACL, a holding company of road assets and subsidiary of ABL. The special purpose vehicle (SPV) was formed to undertake construction, operation and maintenance of the six-laning of NH 16 from Ranastalam to Anandapuram (Visakhapatnam) from 634.000 km to 681.000 km (~47 km) in Andhra Pradesh, under the NHDP Phase V (Package II) on design, build, operate and transfer (hybrid annuity) basis.

The project achieved a Provisional Completion Certificate w.e.f September 24, 2020. ARARL is expected to receive the 1st annuity payment for the project by March 2021 (6-month post achievement of PCOD). Annuity and interest on 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. 11.72 crore to be adjusted for inflation from bid date.

Key financial indicators

Not applicable; achieved PCOD w.e.f September 24, 2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2021)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2021		Date & Rating in FY2020 May 27, 2019	Date & Rating in FY2019 April 04, 2018	Date & Rating in FY2018	
				January 15, 2021	August 06, 2020				
1	Term Loan	Long Term	415.00	338.00	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Oct-2017	NA	June-2033	415.00	[ICRA]A (Positive)

Source: ARARL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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