

July 18, 2022

Ashoka Kandi Ramsanpalle Road Private Limited: Rating reaffirmed and outlook changed from Stable to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	235.00	235.00	[ICRA]A- reaffirmed and outlook changed from Stable to Positive
Total	235.00	235.00	

*Instrument details are provided in Annexure I

Rationale

The revision in rating outlook to Positive factors in Ashoka Kandi Ramsanpalle Road Private Limited's (AKRRPL) significant project progress of 75% as of June 2022, with expected receipt of the fourth milestone payment in Q2 FY2023. The rating considers the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW)¹, automatic de-scoping of RoW pending beyond 180 days from appointed date, inflation-linked² revisions to bid for project cost during the construction period and relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of a grant. The rating notes the stable revenue stream post-commissioning with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at Bank Rate plus 300 bps and operations and maintenance (O&M) payments (adjusted for inflation) over the term of the concession from the project owner and annuity provider, National Highway Authority of India (NHAI, rated [ICRA]AAA(Stable)), which is a key Central Government entity responsible for the development and maintenance of India's national highway programme. The rating further draws comfort from the appointment of Ashoka Buildcon Limited (ABL) as the fixed-price engineering, procurement and construction (EPC) contractor for executing the project, which has a demonstrated track record of project execution within the budgeted time and cost. The rating favourably considers the strong sponsor profile – ABL, which has provided an undertaking towards financial support in case of cost overrun during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase as per lender's approved base case business plan.

The rating, however, remains constrained by the pending execution risk. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective. Post-commissioning, it would have to ensure healthy lane availability to avoid any deductions from the annuity amount. Timely support from promoters to fund any shortfalls due to delays in grant or any cost overruns during the construction phase will remain crucial. AKRRPL'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 the project loan, would adversely impact its coverage indicators and IRRs as annuity payments are linked with the Bank Rate.

The Positive outlook on the rating reflects ICRA's opinion that AKRRPL's credit profile will improve over the near to medium term, given the advanced stage of project execution and expectation that the project will be completed within the scheduled timelines and budgeted costs.

¹ At least 80% prior to the Appointed Date (AD)

² Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30

Key rating drivers and their description

Credit strengths

Significant project progress as of June 2022 - The appointed date was received on October 5, 2020. The fourth milestone payment is expected in Q2 FY2023 on account of achieving 75% project progress as of June 2022. The project is expected to achieve PCOD by October 2022 and final completion by November 2022, given the EOT of 44 days.

Low inherent risks in HAM projects from NHAI - The inherent benefits of the hybrid annuity mode (HAM) project include upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to BPC during the construction period. Moreover, it faces a relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period in the form of grant. A stable revenue stream post commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at Bank Rate + 3% on balance annuity offers comfort. Additionally, the project has inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, NHAI, which is a strong counterparty.

Track record of the sponsor in executing BOT projects - ABL has two-decade long expertise in the construction business, and a track record of project execution within the budgeted time and cost.

Credit challenges

Residual execution risks - The project is exposed to pending execution risks due to the availability of ~93.3% of RoW (including land at 3H stage) as of May 31, 2022. However, the risk is mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of ABL.

Annuity risk - The company must ensure lane availability to earn annuity. Poor maintenance of the road could result in lane closures leading to potential deductions from annuity.

Inflation and interest rate risk - The project's cash flows are exposed to inflation risk as O&M receipts are linked to inflation (70% WPI and 30% CPI). It is exposed to the interest rate risk is there due to the floating nature of the interest rate on the term loan.

Liquidity position: Adequate

AKRRPL's liquidity position is adequate. The pending project cost of Rs. 280.47 crore as on May 31, 2022 is expected to be funded through undrawn debt of Rs. 119.00 crore, balance equity of Rs. 48.77 crore (including sponsor contribution of Rs. 32.85 crore in the form of contingency, if required) and NHAI grant of Rs. 112.75 crore (adjusted for mobilisation advance). The debt repayment can be comfortably met through the annuity receipts (six months post achievement of COD). Moreover, the undertaking provided by ABL towards financial support in case of a cost overrun and delay in NHAI 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, provides comfort.

Rating sensitivities

Positive factors - The rating could be upgraded on achieving COD as per the expected timelines, without any cost overrun.

Negative factors - Pressure could arise if there is a delay in achieving COD resulting in delayed annuities and/or any cost overruns. Further, any deterioration in the sponsor's credit profile 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 Buildcon Limited (ABL) The rating assigned to AKRRPL factors in the likelihood of its parent, ABL, extending financial support to it because of close business linkages between them. ICRA also expects ABL to be willing to extend financial support to AKRRPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

Ashoka Kandi Ramsanpalle Road Private Limited (AKRRPL) is a 100% subsidiary of ABL. The special purpose vehicle (SPV) was formed to undertake four-laning of 39.98 km stretch from NH-161 Kandi (km 498.250 of NH-65) to Ramsanpalle (existing km. 44.757) in Telangana under Bharatmala Pariyojana on a HAM basis. The existing stretch is a two-lane flexible pavement road. The construction and operations period for the project is 2 years and 15 years, respectively. The Concession Agreement was signed on January 03, 2020 and the project has received appointed date on October 05, 2020. The total project cost of Rs. 757.7 crore is proposed to be funded by equity of Rs. 101.7 crore, which includes sponsor contribution of Rs. 32.85 crore in the form of contingency, if required (13.4% of project cost), term loan of Rs. 235.0 crore (31.0% of project cost) and NHAI's grant including PMI adjustment of Rs. 421.1 crore (55.5% 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. 3.3 crore to be adjusted for inflation from the bid date.

Key financial indicators (audited)

Key financial indicators are not applicable as AKRRPL 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 May 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					July 18, 2022				
1	Term loans	Long-term	235.0	235.0	[ICRA]A-(Positive)	[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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Ra. crore)	Current Rating and Outlook
NA	Term loan-I	Sep 2020	NA	FY2036	235.0	[ICRA]A-(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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