

April 06, 2023

## Ashoka Kandi Ramsanpalle Road Private Limited: Rating upgraded to [ICRA]A+; 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	235.00	235.00	[ICRA]A+ rating upgraded from [ICRA]A- (Positive); outlook retained at Positive
<b>Total</b>	<b>235.00</b>	<b>235.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action of Ashoka Kandi Ramsanpalle Road Private Limited's (AKRRPL) factors in the receipt of PCOD for 37.920 km of the 39.980 km project stretch (95% of the project stretch). Further, the company has applied for descoping of 0.780 km due to right of way (RoW) issues and resultantly the bid project cost (BPC) and the operations and maintenance (O&M) cost are expected to be revised to Rs. 978.98 crore and Rs. 3.23 crore, respectively. Further, ICRA notes that there is a buffer of 30 days between the scheduled annuity receipt date and debt repayment date, providing cushion in case of administrative delays in annuity receipt.

The rating considers the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW), automatic de-scoping of RoW pending beyond 180 days from appointed date, inflation-linked revisions to the BPC during the construction period and relatively lower equity mobilisation risk with 40% of the BPC 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 BPC being paid out as annuity, along with interest at Bank Rate plus 300 bps and O&M payments (adjusted for inflation) over the term of the concession from the project owner and annuity provider, the National Highways 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 the lender's approved base case business plan.

The rating, however, remains constrained by the pending execution risks with the balance works likely to be completed by September 2023. The risk is mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of ABL. 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. 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 AKRRPL's coverage metrics.

The Positive outlook on the rating reflects ICRA's opinion that the credit profile of AKRRPL will improve over the near-term post receipt of the first annuity and creation of debt service reserve account (DSRA).

## Key rating drivers and their description

### Credit strengths

**Successful achievement of provisional COD** – AKRRPL received the provisional completion certificate w.e.f November 19, 2022 for 37.920 km, out of the total project stretch of 39.980 km. Hence, the first annuity is due in May 2023.

**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 a 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 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.

**Undertakings from the sponsor** – ABL has provided an undertaking towards financial support in case of a cost overrun and delay in receiving the NHAI's grant during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase as per the lender's approved base case business plan.

### Credit challenges

**Residual execution risk** – The project is exposed to pending execution risks due to availability of ~96.4% of RoW as on November 30, 2022. However, the risk is mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of ABL.

**Ensuring routine and periodic maintenance expenses within budgeted levels** – AKRRPL 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 a flexible pavement road and 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.

**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). Further, its 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.

### Liquidity position: Adequate

AKRRPL's liquidity position is adequate. The pending project cost of Rs. 77.53 crore is expected to be funded through undrawn debt of Rs. 52 crore and balance equity of Rs. 43.27 crore (including sponsor's contribution of Rs. 32.85 crore in the form of contingency, if required). The debt repayment can be comfortably met through the annuity receipts (six months post achievement of PCOD). 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 upon timely receipt of semi-annuity and O&M payments without any material deductions and upon creation of DSRA.

**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. Further, any deterioration in the sponsor’s credit profile could exert pressure on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads</a>
Parent/Group support	Not Applicable
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 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 O&M receipts, with first year O&M receipt of Rs. 3.23 crore to be adjusted for inflation from the bid date.

### Key financial indicators

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				April 06, 2023	July 18, 2022	May 31, 2021	-	
1	Term loan	Long Term	235.0	177.20	[ICRA]A+(Positive)	[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: [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	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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