

August 28, 2023

Ashoka Kandi Ramsanpalle Road 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	235.00	235.00	[ICRA]AA-; upgraded from [ICRA]A+, outlook retained at Positive
Total	235.00	235.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Ashoka Kandi Ramsanpalle Road Private Limited (AKRRPL) favourably factors in the receipt of the first semi-annuity payment including operations and maintenance (O&M) payment on June 01, 2023 without any major deductions and creation of major maintenance reserve and six months' debt servicing reserve account (DSRA) from the first annuity receipt. 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. Further, as per the settlement agreement with NHAI signed on August 17, 2023, the company is expected to complete the stretch wherever the land is available, by January 31, 2024. ICRA notes that there is a buffer of 28 days between the scheduled annuity receipt date and debt repayment date, providing cushion in case of administrative delays in annuity receipt.

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, 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 favourably considers the strong sponsor profile – Ashoka Buildcon Limited (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 notes the strong debt coverage indicators with a cumulative debt service coverage ratio (DSCR) above 1.25 times during the debt tenure.

The rating, however, remains constrained by the residual execution risk with the pending project cost of ~Rs. 29 crore to be incurred as on July 31, 2023. The same is expected to be funded by change of scope payment from NHAI and project cash flows. The BPC is likely to be revised downwards owing to reduction in scope of work, and the extent of revision in BPC remains a key rating monitorable. The residual execution risk is mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of ABL, which has a demonstrated track record of project execution within the budgeted time and cost. AKRRPL's cash flows and returns remain sensitive to the spread between the Reserve Bank of India's (RBI) Bank Rate and the lender's MCLR as the interest earned on the outstanding annuities are linked to the Bank Rate, while the interest payable on the project loan is linked to lender's MCLR. Further, AKRRPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. 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 that the credit profile of the company will improve over the near to medium term with timely receipt of annuities 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' debt servicing – 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. The project received the first semi-annuity payment including operations and maintenance (O&M) payment on June 01, 2023 without any major deductions. Using these cash flows, the company has paid the first principal instalment due in June 2023, and created major maintenance reserve and DSRA equivalent to six months debt servicing.

Annuity nature of 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 National Highways Authority of India (NHAI), rated [ICRA]AAA(Stable), 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 strong presence in the road segment, along with a demonstrated track record of executing O&M works within the budgeted time and cost.

Credit challenges

Residual execution risk – The project is exposed to pending execution risk with 94.9% of the physical progress achieved as on February 28, 2023. Further, the BPC is expected to be revised downwards from Rs. 1,000 crore owing to reduction in scope of the project stretch and the extent of revision in BPC remains a key rating monitorable. However, the execution risk is mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of ABL, which has a demonstrated track record of project execution within the budgeted time and cost.

Ensuring routine and periodic maintenance expenses within budgeted levels – AKRRPL has appointed Ashoka Concessions Limited (ACL), which is the holding company of ABL's road assets, as an O&M contractor. 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 sufficient cushion built in the cost estimates for undertaking the O&M and MM expenditure.

Project returns exposed to inflation and interest rate risk – AKRRPL's cash flows and returns remain sensitive to the spread between the Reserve Bank of India's (RBI) Bank Rate and the lender's MCLR as the interest earned on the outstanding annuities are linked to the Bank Rate, while the interest payable on the project loan is linked to lender's MCLR. Further, AKRRPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

Liquidity position: Adequate

AKRRPL's liquidity position is adequate with expected receipt of annuities in a timely manner and without any major deductions. The company has created a DSRA account of Rs. 18.98 crore from the first annuity payment (equivalent to six months P+I). As on July 31, 2023, the pending project cost of ~Rs. 29 crore is likely to be funded through change of scope payment from NHAI and project cash flows.

Rating sensitivities

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

Negative factors – Pressure on the rating could arise if there are any 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 results in a deterioration of the debt coverage indicators. The rating could also come under pressure if there is any non-adherence or dilution 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

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 company has achieved PCOD w.e.f. November 19, 2023 for the project length of 37.92 km.

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 July 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Aug 28, 2023	Apr 06, 2023	Jul 18, 2022	May 31, 2021	-	
1	Term loan	Long Term	235.0	203.45	[ICRA]AA- (Positive)	[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]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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