

Press Release

Ashoka Buildcon Limited (ABL)

10 August, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.6306.00 Cr (Enhanced from Rs. 1000.00 Cr)
Commercial Paper	Rs. 200.00 Cr (Enhanced from Rs. 50.00 Cr)
Long Term Rating	SMERA AA-/Stable (Assigned and Reaffirmed)
Short Term Rating	SMERA A1+ (Assigned and Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA AA-**' (**read as SMERA double A minus**) and short term rating of '**SMERA A1+ (read as SMERA A one plus)**' on the Rs.6306.00 crore bank facilities of Ashoka Buildcon Limited (ABL). SMERA has also reaffirmed the short term rating of '**SMERA A1+ (read as SMERA A one plus)**' on the Rs. 200.00 crore (enhanced from Rs. 50.00 crore) commercial paper of ABL. The outlook is '**Stable**'.

Ashoka Buildcon Limited (ABL), incorporated in 1993, is a Mumbai-based company that undertakes Engineering, Procurement and Construction (EPC) contracts for the road and power sectors. The company is also a leading player in the BOT (Build Own, Transfer) segment under which it has 18 operational road projects (of ABL and its 66 per cent subsidiary Ashoka Concessions Limited ACL put together). ABL has recently entered the CGD (City Gas Distribution) segment and is also developing a commercial project in Mumbai.

ABL is listed on the BSE and NSE. The day-to-day operations are led by the Chairman, Mr. Ashok Motilal Katariya and Managing Director, Mr. Satish Dhondulal Parakh. The management of the company has extensive experience in the infrastructure sector.

List of key rating drivers and their detailed description

Strengths:

Established position in EPC and BOT Road Segments: ABL is engaged in two businesses - EPC business for roads and power distribution projects and development of roads and highways on Build, Operate and Transfer (BOT) and also through Ashoka Concessions Limited (ACL). ABL has an established track record of more than two decades in executing EPC contracts. The company has constructed more than 7000 lane kilometres of road since inception. The Ashoka group (ABL & ACL) has 23 BOT projects of which 17 are currently operational. All of these (including six foot over bridges in Mumbai from which it generates advertising revenue) are toll based and are under an agreement with NHAI/State Authority. Of the 17 projects, six are SPVs housed in ACL, and the rest are under ABL. ABL handles EPC contracts for all projects and is also responsible for the Operations and Maintenance (O&M) of road projects in ABL and ACL. Under ABL's development segment, the company has developed seven BOT projects namely Ahmednagar Aurangabad Road, Indore Edalabad Road, Katni Bypass amongst others.

SMERA believes that ABL's established position in the EPC segment of roads, power and BOT-project execution capabilities will support its business risk profile over the near to medium term.

Healthy revenue visibility: ABL is engaged in the execution of Engineering, Procurement and Construction (EPC) contracts and Build Operate Transfer (BOT) road projects for over two decades. ABL has an order book of Rs.7000 crore as on May 2017 that includes BOT road projects worth Rs.2629.30 crore, EPC road projects worth Rs.2484.7 crore and EPC Power Transmission and Distribution worth Rs.1890.80 crore. The company is engaged in modernising and setting up of power distribution lines for Maharashtra State Electricity Distribution Company, North Bihar Power Distribution Company Limited, Tamil Nadu Electricity Board and CPDCL.

Road construction has healthy prospects on account of government policies and initiatives through NHAI (National Highway Authority of India). Initiatives such as faster clearances of projects, allowing tender bidding only after 80 per cent of the land is acquired, premium rescheduling for stressed projects among others have played a major role in providing a major boost. Further, NHAI has introduced Hybrid Annuity Model (HAM) for BOT projects that reduce equity commitment of developers considerably. Apart from these, tailwinds on account of a favourable policy environment, ABL has also taken steps to diversify its operations. The company has taken 1.17 mn sq ft commercial land from Mumbai International Airport Limited (MIAL) on a 49 year lease to develop commercial project for office spaces, retailers and hotels. ABL has entered the CGD segment at Ratnagiri with a total investment of Rs.150.00 crore and is expected to generate revenues from FY2017-18. The revenue streams are expected to evolve gradually. In the near future, the company will continue to depend on its core business for revenue growth.

SMERA believes that ABL will benefit from its established position in the EPC and roads segment coupled with the overall thrust on infrastructure development by the government.

Healthy financial risk profile marked by low gearing and comfortable coverage indicators: ABL's financial risk profile is healthy marked by networth of Rs. 1661.05 crore as on 31 March, 2016 on account of ploughed back profits and regular equity infusion. The debt profile of the company includes working capital of Rs. 194.40 crore and term loan of Rs. 243.89 crore as on 31 March, 2016. Since the company also receives support from trade credit and mobilisation advances, its dependence on the banking system for working capital limits is moderate. The gearing of ABL stood at 0.26 times as on 31 March, 2016 compared to 0.43 times as on 31 March, 2015. The gearing is expected to remain low in the future due to expectations of a healthy networth. The total outside liabilities to tangible networth (TOL/TNW) stood at 0.81 times as on 31 March, 2016. The interest coverage ratio (ICR) stood at 6.17 times and debt coverage ratio (DSCR) at 3.88 times in FY2015-16. For FY2014-15, the ICR stood at 5.22 times and DSCR at 2.77 times.

The company has invested in its Special Purpose Vehicles (SPVs) in the form of equity to the tune of Rs. 134.52 crore as on 31 March, 2016 compared to Rs. 121.60 crore. ABL has issued corporate guarantee of Rs.1319.53 crore as on 31 March, 2016 to its subsidiaries Ashoka Highways (Bhandara) Limited, Ashoka Belgaum Dharwad Tollway Limited, GVR Ashoka Chennai ORR Limited and Ashoka GVR Mudhol Nipani Roads Limited.

ACL's 34 per cent stake is held by SBI Macquarie Infrastructure Management Private Limited. SMERA believes that if SBI Macquarie decides to exit, it will be through a public offering or by bringing in an additional investor with no adverse impact on the financial risk profile of the group.

Weaknesses:

Exposure of ABL to timely execution of EPC contracts and to risks associated with BOT projects: ABL is exposed to risks such as delays in receipt of approvals in the infrastructure segment, which may impact operational cash flows. The timely flow of orders and their execution are critical to the maintenance of a steady revenue growth. As on May 2017, ABL has majority stake ranging from 100.00 per cent to 10.30 per cent in 10 of the total 18 BOT projects. Of these, seven are toll projects and three are annuity. All projects have NHAI/State Government as counterparty. Other than these in which ABL has a direct equity stake, ACL (66 per cent subsidiary of ABL) has 8 projects under its umbrella.

The cash flows of a toll-based project depend on traffic volumes which in turn are largely influenced by the level of economic activity in and around the area of operation. In the event of a project's cash flows being insufficient to meet its debt servicing commitments/maintenance commitments, the support would be required to be extended from either ABL or ACL. For instance the Sambalpur Baragarh Road Tollway is presently dependent on parent (ACL) support to meet its operational/financial commitments since its cash flows are yet to stabilise. Additionally, lower than expected traffic volumes, events such as demonetisation and agitations may also impact cash flows causing cash flow mismatches. In such cases, support may be required to be extended to the SPVs. SMERA believes that the ratings of ABL are constrained considering the liability of the company to provide financial support to its subsidiaries for operational purposes.

Working capital intensive operations: The operations are working capital intensive due to long construction periods. Typically, the company takes about 30 months to complete projects. The debtors for FY2015-16 stood at 115 days with inventory of 182 days as compared to debtors of 105 days for FY2014-15 and inventory of 100 days for the period. However, the working capital efficiency of ABL is expected to improve with projects reaching completion stage in the near future. ABL's ability to manage its working capital requirements in an efficient way while improving collection efficiency within the envisaged time frame will remain critical from the credit perspective.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Infrastructure Entities: <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that ABL will maintain a stable credit profile on the back of its established presence in the infrastructure sector and the increasing infrastructure spending. The outlook may be revised to 'Positive' in case of sufficiently higher than expected growth in accruals translating to an improvement in its debt protection indicators. Conversely, the outlook may be revised to 'Negative' in case of slowdown in the flow of orders, elongation of working capital cycle, significant support required to be extended to its subsidiaries or higher than expected debt intake for its real estate venture.

About the Rated Entity

For FY2015-16, ABL reported profit after tax (PAT) of Rs.159.41 crore on operating income of Rs.1927.96 crore compared with PAT of Rs.142.18 crore on operating income of Rs.1970.12 crore in the previous year. The net worth stood at Rs.1661.05 crore as on 31 March, 2016 compared to Rs.1032.12 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
11 July, 2017	Cash Credit	Long Term	95.00	SMERA AA- (Assigned)
	Bank Guarantee	Short Term	850.00	SMERA A1+ (Assigned)
	Proposed	Short Term	55.00	SMERA A1+ (Assigned)
	Commercial Paper (Proposed)	Short Term	50.00	SMERA A1+ (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	485.00 (Enhanced from 95.00)	SMERA AA-/Stable (Reaffirmed)
Bank Guarantee	N.A	N.A	NA	3100.00 (Enhanced from 850.00)	SMERA A1+ (Reaffirmed)
Proposed	N.A	N.A	NA	2721.00 (Enhanced from 55.00)	SMERA A1+ (Reaffirmed)
Commercial Paper (Proposed)	N.A	N.A	NA	200.00 (Enhanced from 50.00)	SMERA A1+ (Reaffirmed)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Hina Gupta, Rating Analyst, Tel: 022-67141111 Email: hina.gupta@smera.in	

ABOUT SMERA

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