

Press Release

Ashoka Buildcon Limited

August 01, 2018

Rating Reaffirmed and Upgraded



Total Bank Facilities Rated*	Rs. 6306.00 Cr.
Commercial paper	Rs. 200.00 Cr.
Long Term Rating	ACUITE AA / Outlook: Stable (Upgraded From ACUITE AA-/Stable)
Short Term Rating	ACUITE A1+ (Rating reaffirmed)

* Refer Annexure for details

Rating Rationale

ACUITE has upgraded the long term rating to '**ACUITE AA**' (read as **ACUITE double A**) from '**ACUITE AA-**' (read as **ACUITE double AA minus**) and reaffirmed the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 6306.00 Cr. bank facilities of Ashoka Buildcon Limited (ABL). The outlook is 'Stable'.

ACUITE has reaffirmed the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 200.00 Cr. commercial paper of Ashoka Buildcon Limited (ABL).

The upgrade reflects Acuite's belief that ABL will further strengthen its business risk profile over the medium term, backed by healthy orders and a stable financial risk profile. An order pipeline of Rs.11,910 Cr. would ensure strong revenue visibility over the medium term. The operating margin is expected to remain healthy at around 12.00 percent.

The financial risk profile remains strong, indicated by peak gearing below 0.50 times in the past three fiscals and comfortable debt protection indices. Moreover, moderate dependence on bank debt and ploughing of majority of profits back into the business should lead to a further improvement in the financial risk profile over the medium term. Nevertheless, the working capital requirements of ABL will increase as the company executes larger EPC contracts with the gross current assets expected at 320 days over the medium term.

The ratings reflect the extensive experience of ABL's promoter in the infrastructure industry, and its sound capital structure with strong debt protection metrics. Further, better performance of SPVs is likely to lead to upstreaming of cash flows to the parent entity. These strengths are partially offset by exposure to intense competition and exposure of ABL to timely execution of EPC contracts and to risks associated with BOT projects.

Ashoka Buildcon Limited (ABL), incorporated in 1993, is a Nashik-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. ABL has recently entered the CGD (City Gas Distribution) segment. The group is primarily 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 its subsidiary Ashoka Concessions Limited (ACL), a 66 per cent subsidiary of ABL. ABL has an equity stake in 18 direct and 12 indirect subsidiaries, mostly SPVs set up for BOT projects.

ABL is listed on 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 a long track record in the infrastructure sector.

Key Rating Drivers

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited)

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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 its subsidiary Ashoka Concessions Limited. 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 currently 21 projects of which 12 are currently operational. The group also has 2 foot over bridges in Mumbai from which it generates advertising revenue. Of the 12 operational projects, 7 are SPVs housed in ACL, and the balance projects are under ABL. ABL handles EPC contracts for all projects and are also responsible for the Operations and Maintenance (O&M) of road projects in ABL and ACL. 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.

Acuite believes that ABL's established position in the EPC segment of roads power transmission and distribution along with 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 had an order book of Rs.5848.70 Cr. as on March 2018 that includes BOT road projects worth Rs.2236.70 Cr., EPC road projects worth Rs.2019.10 Cr. and EPC Power Transmission and Distribution worth Rs.1593.00 Cr.. Post March 2018, ABL received further orders of Rs.6063 Cr. Thus, the company has a total order book of Rs. 11911.80 Cr.

Road construction has healthy prospects on account of government policies and initiatives through NHAI (National Highway Authority of India).

Acuite 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 net worth of Rs.1926.28 Cr. as on 31 March, 2018 on account of ploughed back profits and healthy accretion to reserves. The debt profile of the company includes working capital of Rs. 3.73 Cr. and term loan of Rs. 88.41 Cr. as on 31 March, 2018. 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 0.08 times as on 31 March, 2018 compared to 0.12 times as on 31 March, 2017. The gearing is expected to remain low in future due to expectations of a healthy net worth. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.03 times as on 31 March, 2017. The interest coverage ratio (ICR) stood at 9.22 times and debt coverage ratio (DSCR) at 5.08 times in FY2017-18. For FY2016-17, the ICR stood at 7.22 times and DSCR at 1.27 times.

ACL's 34 per cent stake is held by SBI Macquarie Infrastructure Management Private Limited. Based on the discussion with the management, Acuite understands that if SBI Macquarie decides to exit, it will be through the induction of a new investor or any other exit option. However the same is not expected to have an impact on the financial risk profile or the cash flows of ABL.

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. ABL is also required to support the projects till the projects reach optimal utilization.

The cash flows of a toll based project are dependent 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. Additionally, lower than expected traffic volumes due to prolonged slowdown in the economic activity due to events such as mining bans etc. may also impact cash flows causing cash flow mismatches. In such cases, support may be required to be extended to the SPVs.

• **Working capital intensive operations**

The operations are working capital intensive due to long construction periods. Typically, the company takes about 30 months to complete road projects. The debtors for FY2017-18 stood at 151 days with inventory of 85 days as compared to debtors of 107 days for FY2016-17 and inventory of 192 days for the period. The Gross Current Assets stood at 309 in FY2017-18 as against 319 in FY2016-17. 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

Acuite has considered the standalone business and financial risk profiles of ABL to arrive at this rating while also taking into account any support that may need to be provided to its subsidiaries.

Outlook: Stable

Acuite 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 in the economy. The outlook may be revised to 'Positive' in case of sufficiently higher than expected growth in accruals and a further strengthening in business risk profile. 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 support to the City Das Distribution venture.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	2,458.99	2,024.78	1,956.29
EBITDA	Rs. Cr.	299.36	255.88	255.50
PAT	Rs. Cr.	237.01	176.09	138.84
EBITDA Margin	(%)	12.17	12.64	13.06
PAT Margin	(%)	9.64	8.70	7.10
ROCE	(%)	16.89	12.90	14.38
Total Debt/Tangible Net Worth	Times	0.08	0.12	0.26
PBDIT/Interest	Times	9.22	7.72	5.84
Total Debt/PBDIT	Times	0.42	0.65	1.33
Gross Current Assets (Days)	Days	309	319	284

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in the infrastructure sector - <http://acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
10-Aug-17	Cash Credit	Long Term	485.00 (Enhanced from Rs 95.00)	ACUITE AA-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	3100.00 (Enhanced from Rs 850.00)	ACUITE A1+ (Reaffirmed)
	Proposed Short Term loan	Short Term	2721.00 (Enhanced from Rs 55.00)	ACUITE A1+ (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	200.00 (Enhanced from Rs 50.00)	ACUITE A1+ (Reaffirmed)
11-Jul-17	Cash Credit	Long Term	95.00	ACUITE AA-/Stable (Assigned)
	Bank Guarantee	Short Term	850.00	ACUITE A1+ (Assigned)
	Proposed Short Term loan	Short Term	55.00	ACUITE A1+ (Assigned)
	Proposed Commercial Paper Program	Short Term	50.00	ACUITE 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	Not Applicable	Not Applicable	Not Applicable	485.00	ACUITE AA/Stable (Upgraded from ACUITE AA-/ Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3100.00	ACUITE A1+ (Reaffirmed)
Proposed Short Term loan	Not Applicable	Not Applicable	Not Applicable	2721.00	ACUITE A1+ (Reaffirmed)
Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head – Corporate and Infrastructure Sector Ratings Tel: 022-67141191 aditya.gupta@acuite.in Amogh Kharkar Analyst - Rating Operations Tel: 022-67141315 Amogh.kharkar@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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