Press Release

Ashoka Buildcon Limited

July 22, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 6306.00 Cr.
Commercial Paper	Rs. 200.00 Cr.
Long Term Rating	ACUITE AA/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A1+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

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

Acuité has reaffirmed the short-term rating of '**ACUITE A1+**' **(read as ACUITE A one plus)** on the Rs.200.00 crore commercial paper of ABL.

About the Company

ABL, incorporated in 1993, is a Nashik-based company that undertakes Engineering, Procurement and Construction (EPC) contracts for the road and power sector. The company is one of the leading players in the BOT (Build Own, Transfer) segment. ABL has recently forayed into 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 21 direct and 16 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.

Rationale for Rating Reaffirmation

The rating continues to be driven by the long track record of operations and stable business risk profile with a healthy revenue visibility over the medium term. ABL's financial risk profile continues to remain healthy, marked by strong liquidity. Acuite expects the business and financial performance is likely to be sustained over the medium term on the back of healthy order book and efficient working capital management.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ABL to arrive at this rating while also considering any support that may be need to be extended to its subsidiaries.

Key Rating Drivers

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 10000 lane kilometers of road since its inception. The Ashoka group (ABL & ACL) has currently 17 projects of which 8 are currently operational. The group also has 2 foot over bridges in Mumbai from which it generates advertising revenue. Of the 8 operational projects, 6 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 modernizing

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.

Acuité 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 to 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.8166.90 Cr. as on 31 March 2021 that includes HAM road projects worth Rs. 3470.70 Cr., EPC road projects worth Rs. 2711.80 Cr., EPC Power Transmission and Distribution worth Rs. 1375.90 Cr, EPC Railways worth Rs. 537.40 Cr. And City Gas Distribution (CGD) of Rs. 71.10 Cr. Road construction has healthy prospects on account of government policies and initiatives through NHAI (National Highway Authority of India). There is a significant growth in orders in power segment by ~97 per cent as compared to previous year. The company is also trying to expand in the CGD segment. Revenues for FY2021 were muted due to the lockdown on account of ongoing pandemic situation.

  Acuité 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**

  The financial risk profile of ABL is healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible networth increased to Rs.3006.74 crore as on 31 March, 2021 as against Rs. 2598.94 crore as on 31 March, 2020 on account of healthy accretion to reserves.

  The company follows conservative leverage policy as reflected by its peak gearing of 0.36 times as on March 31, 2019. The current gearing is estimated to be 0.15 times as on March 31, 2021. The total debt of Rs. 439.64 crore includes term loans from banks of Rs. 156.93 crore, working capital funds of Rs. 245.99 crore and unsecured loans of Rs. 36.71 crore. Since the company also receives support from trade credit and mobilization advances, its dependence on the bank lines for funding its incremental working capital requirements is limited. Acuite expects the gearing to remain in the range of 0.05-0.10 times over the medium term on account of its lower reliance on the external funding sources and moderately healthy accretion to reserves.

  In FY2021, net cash accruals increased to Rs.495.33 crore as against Rs.487.59 crore in FY2020. The net cash accruals have increased on account of increase in net profits. The improving profitability coupled with low gearing levels has resulted in healthy debt protection metrics, with interest coverage ratio (ICR) of 8.74 times (PY: 8.70 times) and NCA/TD of 1.13 times for FY2021. Acuité expects the coverage indicators of ABL to remain healthy on account of expansion of profitability margins.

  ACL's 34 per cent stake is held by SBI Macquarie Infrastructure Management Private Limited. Based on the discussion with the management, Acuité understands that if SBI Macquarie decides to exit, it will be through the induction of a new investor. 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. 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.

Rating Sensitivities

- Significant and sustained growth in operating revenues while maintain the profitability.
- Stretched working capital cycle and deterioration in liquidity position.

Material Covenants

No major covenants apart from financial covenants.

Liquidity Position – Strong

ABL has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.272.17-495.33 crore during the four years through 2018-21, while its maturing debt obligations were in the range of Rs.34.80 to 79.58 crore over the same period. The cash accruals of the company are estimated to remain around Rs.520–600 crore during 2022-24 while its repayment obligation are estimated to be around Rs. 85.00 Crore. However, the reliance on working capital borrowings is low. The current ratio of the company stand moderate at 1.20 times as on March 31, 2021. Also, Government is providing special impetus and relaxations due to COVID-19 outbreak to EPC projects which will further enhance the liquidity position of ABL. Acuite believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité 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.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	3876.59	3950.66
PAT	Rs. Cr.	408.13	387.14
PAT Margin	(%)	10.53	9.80
Total Debt/Tangible Net Worth	Times	0.15	0.17
PBDIT/Interest	Times	8.74	8.70

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities in Infrastructure Sector - https://www.acuite.in/view-rating-criteria-51.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Commercial Paper - https://www.acuite.in/view-rating-criteria-54.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Jul-2020	Cash Credit	Long Term	485.00	ACUITE AA / Stable (Reaffirmed)
	Bank guarantee	Short Term	3865.00	ACUITE A1+ (Reaffirmed)
	Proposed Bank Facility	Short Term	1956.00	ACUITE A1+ (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)
30-Jul-2019	Cash Credit	Long Term	485.00	ACUITE AA / Stable (Reaffirmed)
	Bank guarantee	Short Term	3865.00	ACUITE A1+ (Reaffirmed)
	Proposed Bank Facility	Short Term	1956.00	ACUITE A1+ (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)
01-Aug-2018	Cash Credit	Long Term	485.00	ACUITE AA / Stable (Upgraded)
	Bank guarantee	Short Term	3100.00	ACUITE A1+ (Reaffirmed)
	Proposed Short Term Loan	Short Term	2721.00	ACUITE A1+ (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	485.00	ACUITE AA / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3865.00	ACUITE A1+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1956.00	ACUITE A1+ (Reaffirmed)
Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Reaffirmed)

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About Acuité Ratings & Research:
Acuité Ratings & Research 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.