

Press Release

Ashoka Buildcon Limited

July 22, 2022



Rating Reaffirmed & Partly Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5631.00	-	ACUITE A1+ Reaffirmed
Bank Loan Ratings	675.00	ACUITE AA Stable Reaffirmed	-
Commercial Paper (CP)	200.00	-	ACUITE A1+ Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	6306.00	-	-
Total Withdrawn Quantum (Rs. Cr)	200.00	-	-

Rating Rationale

Acuite 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 Cr bank facilities of **Ashoka Buildcon Limited (ABL)**. The outlook is '**Stable**'.

Also, Acuite has reaffirmed and withdrawn its short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.200.00 Cr commercial paper of ABL. The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating and upon receipt of written request from the company.

Rationale for rating

The rating continues to reflect the long track record of operations of the company for more than 25 years and an improvement in scale of operation with revenue of Rs 4668 Cr in FY 2022 as against Rs 3876 Cr in FY 2021. Further, the rating draws comfort from the strong order book position of Rs 13,730 Cr as on March 2022 as against Rs 8,166 Cr as on March, 2021 which provides healthy revenue visibility over the medium term. The financial risk profile of the company remains healthy with below unity leverage ratios and healthy coverage indicators. However, the competitive pressures and the risk associated with execution of the EPC contracts continues to be constraining factor in the rating.

Further, in FY 2022 ABL has recorded an impairment loss of Rs 770 crore majorly related to Share Purchase Agreement (SPA) entered with Galaxy Investment II Pte Ltd (an affiliate of KKR) for the sale of five BOT projects of Ashoka Concession Ltd (ACL) for an aggregate consideration of Rs 1,337 Cr, as investments made in and loans given to these assets are accounted at lower of carrying cost and estimated realizable value. Moreover, the interest on loans and compulsorily convertible debentures given to ACL are waived off.

The transaction of sale of these five assets is expected to be close by September 2022 and of the total proceeds from these transactions Rs 1200 Cr will be utilized to facilitate the exit of

SBI-Macquarie from the company- Ashoka Concession Limited, which currently owns 34% shareholding. Post this transaction ABL will be 100% shareholder in ACL. ABL also has ~ Rs 2,000 Cr of claims from NHA1 on these 5 BOT projects, which will continue to remain with ACL. Acuite observes that despite unlocking of equity value in the sold five projects, the profitability from the sale of assets remains contingent on realization of claims associated with the projects.

The SPA for sale of 100% equity of Chennai ORR project for consideration of Rs 686 Cr has also been executed with National Investment and Infrastructure Fund Limited (NIIF). Out of Rs 686 Cr, ABL is expected to receive Rs 450 Cr that is Rs 250 Cr towards loan repayment and Rs 200 Cr towards 50% equity stake in SPV. The remaining amount will go to GVR Infra as it has a 50% stake in Chennai ORR. The transaction is expected to close in FY2022-23.

Further, ACL is in advance stage of discussions with the investors for the sale of Jaora-Nayagaon project and expected to close the same in a current fiscal year.

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, power distribution, railways and building projects and development of roads and highways on Build, Operate and Transfer (BOT) and Hybrid Annuity Model (HAM) project and also through its subsidiary ACL, a 66 per cent subsidiary of ABL (which is expected to be 100% subsidiary post completion of transaction). ABL has an equity stake in 21 direct and 16 indirect subsidiaries, mostly SPVs set up for BOT and HAM 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 Dhondul Parakh. The management of the company has a long track record in the infrastructure sector.

Analytical Approach

Acuite 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, BOT and HAM Road Segments

ABL is engaged in two businesses - EPC business for roads, power distribution, railways and building projects and development of roads and highways on Build, Operate and Transfer (BOT) and Hybrid Annuity Model (HAM) project and through its subsidiary Ashoka Concessions Limited. ABL has an established track record of almost three decades in executing EPC contracts. The company has constructed more than 11,800 lane kilometres of road since its inception. The Ashoka group (ABL & ACL) has currently 24 projects of which 16 are currently operational. The group also has total 11 HAM projects of which five are in the operational stage and remaining six are in the construction stage. ABL handles EPC contracts for all projects and are 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. The company is also engaged in electrification of railway project with contract from Rail Vikas Nigam Limited, Northeast Frontier Railway, IRCON and Gujrat Rail Infrastructure Development Corp Limited.

Acuite believes that ABL's established position in the EPC segment of roads, railways, power transmission and distribution along with BOT and HAM project execution capabilities will support its business risk profile over 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 almost three decades. ABL has a strong order book of Rs.13,730 Cr. as on 31 March 2022 that includes HAM road projects worth Rs. 2453 Cr., EPC road projects worth Rs. 5452 Cr., EPC Power Transmission and Distribution worth Rs. 2066 Cr, EPC Railways worth Rs. 1226 Cr., EPC Buildings worth Rs 2176 Cr and City Gas Distribution (CGD) of Rs. 65 Cr. Road construction has healthy prospects on account of government policies and initiatives through NHAI (National Highway Authority of India). Further, the company is also expecting good opportunities from railways, metros and semi high-speed railways. There is a significant growth in orders in EPC road projects, railways and power segment by almost 50% as compared to previous year. The company has also received good orders from new segment EPC Building this year. Revenues for FY2022 has recorded a Y-o-Y growth of 20.40 percent with a revenue of Rs 4668 Cr in FY 2022 against Rs 3876 Cr in FY 2021.

Acuité believes that ABL will benefit from its established position in the EPC and roads segment coupled with the strong order book position and 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 net worth stood at Rs 2698 Cr as on 31st March, 2022 as against Rs.3006 Cr. as on 31 March, 2021. The decrease in net worth is due to impairment losses recorded of Rs 770 Cr with respect to assets sold by ACL to KKR and waiving of interest accrued on loans and compulsory convertible debentures given to ACL. However, adjusted tangible net worth stood at Rs 3467 Cr as on 31st March, 2022. The debt profile of the company includes working capital of Rs. 319 Cr., term loan of Rs. 201 Cr. and unsecured loans of Rs. 39.60 Cr. as on 31 March 2022. Since the company also receives support from trade credit and mobilization advances, its dependence on the banking system for working capital limits is moderate.

The company follows conservative leverage policy as reflected by its peak gearing of 0.36 times as on March 31, 2019. The adjusted gearing of ABL stood at 0.16 times as on 31 March 2022 compared to 0.15 times as on 31 March, 2021. The gearing is expected to remain low in future due to expectations of a healthy net worth. The adjusted total outside liabilities to tangible net worth (TOL/TNW) stood at 0.75 times as on 31 March, 2022 as against 0.81 times as on 31 March, 2021. The adjusted interest coverage ratio (ICR) stood at 8.19 times and debt coverage ratio (DSCR) at 2.92 times in FY2022.

Acuite expects the gearing to remain in the range of 0.15 -0.20 times over the medium term on account of its lower reliance on the external funding sources and moderately healthy accretion to reserves.

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.

ABL's 58% of the order book as on 31st March 2022 comprises of roads projects across various modes (BOT/EPC/HAM) which keeps it susceptible to changes in government regulations, economic conditions, intense competition and cyclicity inherent in the construction industry.

ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact since it is a labour

intensive business. Further, community support and development, employee safety and human rights are material factors from the social perspective. Governance issues that assume relevance include board and management compensation, shareholders rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimise the environmental impact.

ABL is compliant with Quality Management System, Environment Management System, Occupational Health & Safety Management System and Greenhouse emissions certification for the quantification, monitoring and reporting of greenhouse gaseous emission reduction. Further, ABL utilizes various eco-friendly construction methodology and machinery including milling machines, which works as recycling equipment for waste generated from old bituminous, warm mix macadam technique, is used to save the fuel and reduce the carbon emission and solar panels based lightning system at the road project sites. On the social responsibility front, the company had spent Rs 10 Cr in FY 2022 for promoting health care and education, especially tribal education under CSR. Further, the Company has continued to focus on various aspects like employee training, welfare and safety thereby maintaining a constructive relationship with employees. On the corporate governance front, the company complies with the requirement under SEBI Regulations, 2015. The Board of Directors of the Company comprises of Executive, Non-Executive and Independent Directors. As per the compliance requirement, the company has also formed separate Audit Committee and Nomination and Remuneration Committee.

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 adjusted net cash accruals of Rs.530 Cr in FY 2022, while its maturing debt obligations were Rs 85 Cr over the same period. The cash accruals of the company are estimated to remain around Rs.531-603 Cr during 2023-24 while its repayment obligation are estimated to be around Rs. 80 Cr over the same tenure. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 281 in FY 2021. However, the reliance on working capital borrowings is low. The current ratio of the company stand moderate at 1.33 times as on March 31, 2022.

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

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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	4668.34	3876.59
PAT	Rs. Cr.	(308.65)	408.13

PAT Margin	(%)	(6.61)	10.53
Total Debt/Tangible Net Worth	Times	0.21	0.15
PBDIT/Interest	Times	(0.80)	8.74

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-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jul 2021	Bank Guarantee	Short Term	3865.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	485.00	ACUITE AA Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	1956.00	ACUITE A1+ (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)
24 Jul 2020	Cash Credit	Long Term	485.00	ACUITE AA Stable (Reaffirmed)
	Bank Guarantee	Short Term	3865.00	ACUITE A1+ (Reaffirmed)
	Proposed Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)
	Proposed Bank Facility	Short Term	1956.00	ACUITE A1+ (Reaffirmed)
30 Jul 2019	Bank Guarantee	Short term	3865.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	485.00	ACUITE AA Stable (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 from ACUITE AA- Stable)
	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)
	Cash Credit	Long Term	485.00	ACUITE AA- Stable (Reaffirmed)

10 Aug 2017	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)
11 Jul 2017	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ Reaffirmed
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	485.00	ACUITE A1+ Reaffirmed
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	290.00	ACUITE A1+ Reaffirmed
Punjab and Sind Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	190.00	ACUITE A1+ Reaffirmed
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	230.00	ACUITE A1+ Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	850.00	ACUITE A1+ Reaffirmed
Exim Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ Reaffirmed
RBL Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	275.00	ACUITE A1+ Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	350.00	ACUITE A1+ Reaffirmed
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	285.00	ACUITE A1+ Reaffirmed
Bank of Maharashtra	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	475.00	ACUITE A1+ Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	160.00	ACUITE A1+ Reaffirmed
IDFC First Bank Limited	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	440.00	ACUITE A1+ Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	575.00	ACUITE A1+ Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	95.00	ACUITE AA Stable Reaffirmed
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE AA Stable Reaffirmed
Bank of	Not		Not	Not	Not		ACUITE AA

Maharashtra	Applicable	Cash Credit	Applicable	Applicable	Applicable	25.00	Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE AA Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE AA Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	175.00	ACUITE AA Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE AA Stable Reaffirmed
Punjab and Sind Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE AA Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE AA Stable Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE AA Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	626.00	ACUITE A1+ Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	100.00	ACUITE AA Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	100.00	ACUITE AA Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Sehal Birla Manager-Rating Operations Tel: 022-49294065 sehal.birla@acuite.in	

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