Ashoka Buildcon Limited

October 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	200.00	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	500.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Non-Convertible Debentures	300.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed ratings assigned to bank facilities of Ashoka Buildcon Limited (ABL) and has assigned ratings to the long term non-convertible debentures of ABL.

Ratings of ABL takes into consideration its established track record of over four decades in the construction sector and experienced promoters, execution track record in multiple segments and geography, and augmented outstanding order book position with favourable outlook for diversified engineering, procurement, and construction (EPC) companies owing to a large pipeline of projects in transmission and distribution, roads, railways and urban transportation. Ratings favourably factor in the large portfolio of operational assets of nine National Highways Authority of India (NHAI, rated CARE AAA; Stable) Hybrid Annuity Model (HAM) projects, five NHAI Toll projects, one state toll projects, and four annuity projects, aiding financial flexibility and lower pending equity commitments towards its two under-construction HAM projects.

Ratings notes the pending exit to SBI Macquarie, which acquired 36% stake in Ashoka Concession Limited (ACL), a subsidiary of ABL, in 2012. ABL and ACL signed share purchase agreement (SPA) with one of the investors to monetise its portfolio of five operational toll road projects. However, this did not materialise due to pending approvals from NHAI. CARE Ratings relies on the management's articulation that exit to SBI Macquire shall be contingent to stake sale, and no debt shall be availed for this. ABL's management articulated stake sale plans for HAM and toll SPVs. Going forward, completion of stake sale transactions by FY25 is crucial from a credit perspective.

Ratings also notes part upstreaming of the proceeds received from the land sale from one of the ABL's subsidiary Viva Highways Limited (VHL) which utilised towards paying off creditors and other working capital requirements.

These strengths are tempered by ABL's working capital intensive operations, its exposure to BOT projects and risks related to intense competition in the industry. The strengths are further tempered by the company's moderate profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins and leverage. PBILDT margins moderated in FY23-FY24 with margins at 7.46% in FY24 due to execution of low margin orders, provisioning related to solar project and impact of higher input prices. PBILDT margins improved year on year (Y-o-Y) with 6.47% in Q1FY25 (refers to April 01 to June 30) from 4.58% in Q1FY24. Going forward, improvement in PBILDT margins as envisaged shall remain a key rating monitorable.

ABL's debt coverage indicators and leverage have also moderated in FY23-FY24 considering lower operating profitability and increase in debt level. ABL's debt level increased in FY23-FY24 due to fixed asset additions, equity commitment towards HAM projects and increase in working capital intensity aligned with growth in its scale of operations. However, with fewer equity commitments and improvement in profitability, CARE Ratings expects debt to remain range bound in the medium term. Net adjusted debt (considering interest bearing mobilisation advances and corporate guarantee towards ACL) to PBILDT moderated to 3.21x in FY24, which is expected to improve considerably in FY25 and below 2x in FY26. Ratings also take note of the increase in corporate guarantee extended by ABL in FY24. However, post repayment of ACL's entire debt in September 2024, corporate guarantee extended to ACL stands extinguished and no support is required to be extended to other guaranteed debt.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Monetising operational assets, leading to freeing up of capital within envisaged timelines and lowering debt.
- Growing scale of operations led by augmentation of its orderbook position, improving operating margins to 10-11% and improving interest coverage to above 4x on a sustained basis.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Negative factors

- Increasing working capital intensity, leading to deteriorating gross current asset days beyond 225 days on sustained basis.
- Non-material improvement in debt coverage indicators as envisaged.
- Sustaining total debt (including mobilisation advances) beyond ₹2,200 crore
- Aggressive addition of under-construction BOT projects, leading to high exposures of its investments, loans and advances against its net worth on sustained basis.
- Incremental debt availed to provide exit to SBI Macquire, deteriorating its coverage indicators or delaying stake sale plans beyond FY25.

Analytical approach: Standalone

CARE Ratings has considered standalone financials of ABL, while factoring in equity commitments and support requirements towards its under construction and operational projects. CARE Ratings has also factored in the debt guaranteed by ABL while assessing its risk profile.

Outlook: Stable

The outlook is expected to remain stable supported by the company's demonstrated execution capabilities, expected improvement in PBILDT margins, augmentation of order book and financial flexibility from pool of operational assets.

Detailed description of key rating drivers

Key strengths

Established track record of operations in construction industry and experienced management

ABL has a track record of over four decades in the construction industry and demonstrated execution capabilities with presence across power T&D projects, railways, buildings, sewage, and smart infrastructure segments apart from its focus on road sector. ABL has worked across 20 states in India. ABL's operations are managed under the leadership of Ashok Kataria, Chaiman of ABL and Satish Parakh, MD of ABL, who possess vast experience in the construction sector and are ably supported by qualified senior management team. The promoter's stake is 54.48% as on September 30, 2024. ABL's board comprise eight members, of which, four are independent members.

Large operational portfolio available for monetisation, increasing its financial flexibility

Currently, ABL and its subsidiary ACL has a portfolio of 21 BOT projects (Toll, Annuity and HAM), of which, 19 projects are operational and two are under construction. Of the 21 road assets, 13 are held under ACL (7 NHAI HAM, five NHAI Toll and one State Toll), while the remaining eight assets are held directly under ABL (4 NHAI HAM, three NHAI BOT Annuity and one State BOT Annuity). All operational projects are self-sufficient and don't require support from ABL in the next 2-3 years. ABL's investment (including equity, loans and advances) stood at ₹3,274 crore as on March 31, 2024, which is 86% of the company's net worth.

SBI Macquarie invested ₹800 crore in ACL in 2012 for 34% of stake, while ABL hold the balance 66% stake. ABL plans to provide exit to SBI Macquarie with exit value capped at ₹1,526 crore. Exit to SBI Macquarie is linked to ABL's asset monetisation plan. ABL plans to monetise 11 HAM and seven BOT projects and ABL is in the advanced stage of signing SPA for its HAM and toll projects and monetisation is expected by end of FY25. Going forward, completion of stake sale transactions by FY25 is crucial from a credit perspective.

Healthy growth in scale of operations despite moderate profitability

ABL's total operating income (TOI) registered a healthy compound annual growth rate (CAGR) of 26% in the last four years ended March 31, 2024, to ₹7,726 crore owing to healthy execution of its outstanding order book. TOI registered a growth of 21% in FY24 over FY23 owing to healthy execution from power T&D segment. PBILDT margins moderated over FY23-FY24 with margins at 7.46% in FY24 due to execution of low margin orders, provisioning related to solar project and impact of higher input prices. In Q1FY25, ABL reported TOI of ₹1,877 crore as against TOI of ₹1,532 crore in Q1FY24 registering y-o-y growth of 23%. Further, considering increase in scale of operations, the company's operating margins increased to 6.47% in Q1FY25 against 4.58% in Q1FY24. Going forward, improvement in PBILDT margins as envisaged shall remain key rating monitorable.

Diversified order book position providing moderate revenue visibility in medium term

As on March 31, 2024, ABL has an outstanding order book position of ₹11,697 crore, indicating moderate revenue visibility at 1.51x of FY24 TOI. The company's order book position moderated from ₹15,805 crore as on March 31, 2023, due to intense competition and lower awarding in roads sector in FY24. During the year till October 12, 2024, ABL received new orders of ₹5,888

crore and is L1 in one order of ₹918 crore thus indicating healthy revenue visibility. ABL's entire outstanding orderbook is executable.
ABL's orderbook is geographically diversified with presence across 20 states and overseas markets. Orderbook is well diversified across segments, with roads forming 46%, followed by power T&D at 41%, railways at 7%, and building EPC at 6%.

Government thrust on infrastructure development
Continued government thrust on the road construction sector augurs well for ABL's growth prospects in the medium term. Under the government's National Infrastructure Pipeline (NIP), a substantial outlay on road construction ~18% of the overall ₹111 trillion plan – is expected to provide necessary impetus to companies operating in this segment. There is a significant traction in T&D projects supported by governments focus on electrifying and upgrading the grid infrastructure and adopting renewables. A proposed Urban Infrastructure Development Fund in the 2023-24 budget aims to bolster urban infrastructure in tier-2 and tier-3 cities. Railway station redevelopment projects show promise, and post-COVID-19, there is a heightened focus on healthcare infrastructure. Thus, increased focus of the government of India (GOI) on overall Infrastructure development is expected to benefit players such as ABL given its strong execution track record.

Key weaknesses

Working capital intensive operations
ABL's operations are working capital intensive owing to the inherent construction industry. The company's gross current assets have remained on a higher side with ~200-210 days for the last three years ended March 31, 2024, which is largely driven by unbilled revenue and receivables. For T&D projects, 20% payment is received post operationalising of projects and 10% is withheld as retention money until the expiry of defect liability period, leading to long cycle for projects.

Moderate leverage and debt coverage indicators despite expected improvement in FY25
ABL's capital structure remained moderate with total outside liability to tangible net worth (TOL/TNW) of 1.29x as on March 31, 2024. TOL/TNW deteriorated marginally from 1.14x as on March 31, 2023, due to increase in the total debt. The company's total debt (including acceptances and mobilisation advances) increased from ₹1,894 crore as on March 31, 2023, to ₹2,456 crore as on March 31, 2024 and remained range bound as on June 30, 2024. ABL's debt level increased in FY23-FY24 due to fixed asset additions, equity commitment towards HAM projects and increase in working capital intensity aligned with growth in scale of operations.
Increase in working capital borrowing and increase in interest bearing mobilisation advances led to increase in interest cost and moderation in interest coverage from 3.78x in FY23 to 2.53x in FY24. Interest coverage continued to remain moderate at 1.83x in Q1FY25 as well. However, with fewer equity commitments and an improving profitability, CARE Ratings expects debt to remain range bound in the medium term and improvement in the debt coverage indicators in FY25. Net adjusted debt (considering interest bearing mobilisation advances and corporate guarantee towards ACL) to PBILDT moderated to 3.21x in FY24. However, this expected to improve considerably in FY25 and below 2x in FY26. Corporate guarantee extended by ABL in FY24 increased however, post repayment of entire debt of ACL in September 2024, the corporate guarantee extended to ACL stands extinguished and no support is required to be extended to other guaranteed debt.

Risk related to intense competition in industry
The government's thrust on infrastructure sector augurs well for ABL's prospects. Competition intensified in the roads sector with the foray of mid-sized players. Owing to intensified competition, strong developers such as ABL forayed into different sectors and few newer geographies, heightening execution risk. ABL's profitability is also exposed to disproportionate hike in commodity prices over wholesale price index and bidding aggression due to intense competition. ABL's revenue depends on the government's stance on infrastructure spending and prevailing economic conditions.

Liquidity: Strong
ABL had free cash and cash equivalent of ₹358 crore as on March 31, 2024. Average fund-based working capital utilisation limits remained moderate at 67% for 12-months ending June 2024. Yearly cash accruals of ~₹500 crore shall be sufficient for annual debt repayment of ₹60 to 90 crore and minimal pending equity commitments of ~₹100 crore. Financial flexibility is strengthened from the pool of operational assets available for monetisation.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Particulars	Risk factors	Mitigating measures
Environmental	1. Climate Change 2. Carbon Emissions 3. Energy conservation 4. Water usage and management	Aligning with ISO 14001:2015 guidelines, the organisation actively reduces emissions through energy-efficient technologies and solar plant installations. In FY23, the company achieved a significantly reducing 429.61 t CO2e in carbon emissions.
Social	1. Health & Safety 2. Diversity & Inclusion 3. Emergency response planning	The company enforces a 'zero tolerance' safety policy, prioritises cost-effectiveness and ensures efficient deliveries. All employees receive training, and 41.14% are undergoing skill upgrades.
Governance	1. Composition of the board 2. Diversity 3. Stake holder engagement, supply chain management 4. Code of conduct	The company's board comprises over 50% independent directors, emphasizing diversity and effective oversight. The company adhere to strict corporate governance standards, including a comprehensive report and a compliance certificate from the practising company secretary.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry
Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

Headquartered in Nashik and a part of the Ashoka Buildcon Group, ABL is a leading infrastructure construction firm in India, specialising in the road, building, and power sectors. Since its establishment in 1993, the firm expanded from its initial concentration on building projects to a significant role in highway development, beginning with its first BOT project in 1997.

Presently, ABL's activities span across roads, power T&D, railways, buildings and sewage water. The company ventured in commercial gas distribution in 2016, from which, it exited in 2024. ABL is listed on the Bombay Stock Exchange and National Stock Exchange.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	6,372	7,727	1,877
PBILDT	534	576	121
PAT	661	443	41
Overall gearing (times)	0.56	0.64	NA
Interest coverage (times)	3.78	2.53	1.83

A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non Convertible Debentures	-	Proposed	-	-	300.00	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	31-05-2028	200.00	CARE AA-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	500.00^	CARE AA-; Stable / CARE A1+

^The total assessed limit for the working capital facility by the lead bank is ₹12,000 crore (Fund based: ₹1,200 crore, Non-fund based: ₹8,000 crore, and Insurance surety bond: ₹2,800 crore)

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (19-Jun-24)	-	-	-
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	500.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (19-Jun-24)	-	-	-
3	Debentures-Non Convertible Debentures	LT	300.00	CARE AA-; Stable				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures- Non-Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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