Ashoka Buildcon Limited

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	200.00	CARE AA- (RWP)	Placed on Rating Watch with Positive Implications
Long-term / Short-term bank facilities	500.00	CARE AA- (RWP) / CARE A1+	Long Term rating placed on Rating Watch with Positive Implications and Short Term rating Reaffirmed
Non-Convertible Debentures	300.00	CARE AA- (RWP)	Placed on Rating Watch with Positive Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the long-term rating assigned to the bank facilities and instrument of Ashoka Buildcon Limited (ABL) on 'Rating watch with positive implications' following the announcement of stake sale of 11 hybrid annuity model (HAM) projects held by ABL along with its subsidiary Ashoka Concession Limited (ACL) to Epic Concesiones 2 Private Limited, Infrastructure Yield Plus II and Infrastructure Yield Plus IIA for aggregate consideration of ₹2,324 crore. The deal is envisaged to conclude over next 10-12 months subject to fulfilment of conditions precedent and receipt of requisite approvals. Successful completion of aforementioned transaction shall lead to rationalization of ABL's debt levels which is likely to improve its leverage and debt coverage indicators. CARE Ratings shall monitor the development in this regard and shall review the rating when clarity emerges.

Ratings of ABL continues to take 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. Rating also takes the note of the lower pending equity commitment in one of the near completion HAM project (part of the stake sale deal).

CARE Ratings had issued a credit update on November 12, 2024 upon ABL's announcement that its subsidiary Ashoka Concessions Limited (ACL), has entered into share purchase agreement (SPA) with the Maple Infrastructure Trust for sale of the entire share capital held in the five operational BOT SPVs at an aggregate consideration of ₹2,539 crore. ABL holds 66% stake in ACL while the remaining stake is held by SBI Macquarie. Upon completion of the above transaction, ABL will acquire the remaining 34% stake of SBI Macquarie in ACL including class A and class B Compulsorily Convertible Debentures (CCDs) at an aggregate consideration of ₹1,526 crore. CARE Ratings has noted the proposed stake sale of five BOT projects and subsequent exit of investor SBI Macquarie at an envisaged consideration, alleviates concerns regarding pending exit. CARE Ratings will continue to monitor the development related to above transaction.

These strengths are tempered by ABL's working capital intensive operations, its exposure to Build Operate Transfer (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 7.30% in H1FY25 (refers to April 01 to September 30) from 6.92% in H1FY24. 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. Adjusted debt (considering interest bearing mobilisation advances) to PBILDT moderated to 3.66x in FY24, which is expected to improve considerably post receipt of aforementioned stake sale proceeds. 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. Further, corporate guarantees extended to two BOT projects shall also extinguish post completion of stake sale transaction.

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

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 of debt as envisaged.
- 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.

Negative factors

- Increasing working capital intensity, leading to deteriorating gross current asset days beyond 225 days on sustained basis.
- Deteriorating adjusted debt (Including interest bearing mobilization advances) to PBILDT above 2x on sustained basis.
- 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

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: Not applicable

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.

Announced stake sale plans for its BOT Toll and BOT HAM projects

Currently, ABL and its subsidiary ACL has a portfolio of 21 BOT projects (Toll, Annuity and HAM), of which, 20 projects are operational and one is under construction HAM project. Of the 21 road assets, 13 are held under ACL (7 NHAI HAM, 5 NHAI Toll and 1 State Toll), while the remaining 8 assets are held directly under ABL (4 NHAI HAM, 3 NHAI BOT Annuity and 1 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 its stake, while ABL hold the balance 66% stake. Earlier in October 2024, ABL has announced that its subsidiary ACL, has entered into share purchase agreement (SPA) with the Maple Infrastructure Trust for sale of the entire share capital held in the five operational BOT SPVs at an aggregate consideration of ₹2,539 crore. Upon completion of the above transaction, ABL will acquire the remaining 34% stake of SBI Macquarie in ACL including class A and class B Compulsorily Convertible Debentures (CCDs) at an aggregate consideration of ₹1,526 crore. Proposed stake sale of five BOT projects and subsequent exit of investor SBI Macquarie at an envisaged consideration, alleviates concerns regarding pending exit.

Furthermore, ABL on December 31, 2024 announced that ABL and ACL have entered into SPA with the Epic Concessions 2 Private Limited, Infrastructure Yield Plus II and Infrastructure Yield Plus IIA (both schemes of Infrastructure Yield Trust and managed by their respective investment manager, EAAA India Alternatives Limited (formerly known as Edelweiss Alternative Asset Advisors Limited)) for sale of entire share capital and management control of SPVs held by ABL and ACL in their 11 HAM SPVs. Aggregate consideration for the said transaction is ₹2,324 crore. Per management articulation, the proceeds will be utilized towards debt reduction, investment towards new projects and providing return to the equity shareholders. Completion of both the aforementioned transaction within stipulated time-frame and debt reduction as planned shall remain key rating sensitivity.

Healthy growth in scale of operations albeit with 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 H1FY25, ABL reported TOI of ₹3,295 crore as against TOI of ₹3,093 crore in H1FY24 registering y-o-y growth of 6.5%. Further, considering increase in scale of operations, the company's operating margins increased to 7.30% in H1FY25 against 6.92% in H1FY24. 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. Orderbook remained stagnant at ₹11,104 crore as on September 30, 2024 however, the company has received new order worth ₹9,798 crore post September 30, 2024 till November 30, 2024 indicating a healthy revenue visibility.

ABL's orderbook is geographically diversified with presence across 20 states and overseas markets. Orderbook is well diversified across segments, with roads forming 54%, followed by power T&D at 36%, railways at 5%, and building EPC at 5%.

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 asset days (GCA days) 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 operationalizing 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 however, expected to improvement post 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 mobilization 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 1.76x in H1FY25 as well. Adjusted debt (considering interest bearing mobilisation advances) to PBILDT moderated to 3.66x in FY24 from 2.97x in FY23, which is expected to improve considerably post FY25 owing to planned reduction in external debt from the stake sale consideration and expected improvement in profitability. 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. Further, corporate guarantees extended to two BOT projects shall extinguish post completion of aforementioned stake sale transaction.

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 ₹82 crore as on September 30, 2024. Average fund-based working capital utilization 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.

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 CO_2e 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)	September 30, 2024 (UA)
Total operating income	6,372	7,727	3,295
PBILDT	534	576	240

PAT	661	443	77
Overall gearing (times)	0.56	0.64	NA
Interest coverage (times)	3.78	2.53	1.76

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	INE442H08032	November 26, 2024	8.75	April 23, 2026	100.00	CARE AA- (RWP)
	INE442H08040	November 26, 2024		April 09, 2026	100.00	
	INE442H08057	November 26, 2024		April 16, 2026	100.00	
Fund-based - LT-Term Loan	-	-	-	31-05-2028	200.00	CARE AA- (RWP)
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	500.00^	CARE AA- (RWP) / 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- (RWP)	1) CARE AA-; Stable (22-Oct-24) 2)CARE AA-; Stable (19-Jun-24)	-	-	-
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	500.00	CARE AA- (RWP) / CARE A1+	1) CARE AA-; Stable / CARE A1+ (22-Oct-24) 2)CARE AA-; Stable / CARE A1+ (19-Jun-24)	-	-	-
3	Debentures-Non Convertible Debentures	LT	300.00	CARE AA- (RWP)	1) CARE AA-; Stable (22-Oct-24)			

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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