Bharat Highways InvIT

December 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,000.00	Provisional CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rating in the absence of the pending steps/ documents	**No rating can be assigned**

Rationale and key rating drivers

The rating assigned to the long-term bank facilities of Bharat Highways InvIT ("Bharat InvIT") takes into consideration the expected stable cashflows from underlying operational Hybrid Annuity Mode (HAM) assets having low leverage. The Bharat InvIT is proposed to have seven operational National Highways Authority of India (NHAI; rated CARE AAA; Stable) HAM assets diversified across five states which are proposed to be acquired from G R Infraprojects Limited (GRIL: rated CARE AA+; Stable/CARE A1+). The seven assets in total have track record of receipt of 35 annuities from NHAI within stipulated time period till November 2023. The projects have residual concession period between 11.41 years to 13.85 years as on September 30, 2023, thereby providing long-term cash flow visibility. Against the transfer of seven assets, Bharat InvIT units shall be issued to GRIL.

The rating also suitably factors in the benefit of cash pooling at Bharat InvIT level leading to robust cash flows, low leverage and well-defined waterfall mechanism including maintenance of Debt Service Reserve Account (DSRA) for one-quarter debt servicing requirement imparting strong debt coverage indicators. As per proposed terms, if in any quarter, the Debt Service Coverage Ratio (DSCR) falls below 1.10x, the entire surplus will be trapped in the Bharat InvIT.

Towards the acquisition of seven assets, Bharat InvIT proposes to raise debt upto ₹3,000 crore which shall be used to retire the part external debt of ₹3,800 crore at special purpose vehicle (SPV) level taking leverage to 49% of the enterprise value. Balance debt at SPV level shall be repaid via raising of public issue. However, as articulated by management, debt shall be restricted at ₹1,500 crore at Bharat InvIT level post transfer of these seven assets due to raising additional equity. CARE Ratings Limited (CARE Ratings) takes the note of the receipt of all necessary approvals from NHAI for transfer of assets to Bharat InvIT. Furthermore, it has received approval of Securities and Exchange Board of India (SEBI) for change in the sponsor and project manager from Lokesh Builders Private Limited (LBPL) to Aadharshila Infratech Private Limited (AIPL).

The above rating strengths are tempered by the inherent interest rate risk, and operation & maintenance (O&M) and major maintenance (MM) risk associated with road projects. CARE Ratings notes that O&M and MM assumptions factored in by Bharat InvIT in its base case are based on the independent report. However, CARE Ratings has sensitized Bharat InvIT's cashflow and has found debt coverage indicators to be strong. Additionally, the Bharat InvIT is expected to enter into back-to-back fixed-price O&M and MM contract with GRIL for all the seven projects, which is a credit positive given the latter's established experience in construction and maintenance of these roads.

Furthermore, the above rating is provisional and will be confirmed once the company has completed the below-mentioned steps to the satisfaction of CARE Ratings:

a. Transfer of these assets into Bharat InvIT
b. Listing of Bharat InvIT

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

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

Negative factors

- Substantial delay in receipt of annuities or considerable deduction in annuities payments on a sustained basis impacting debt coverage indicators
- Any significant debt-funded acquisition of assets resulting in deterioration of average debt service coverage ratio (DSCR) below 1.2x
- Non-adherence to terms of sanction
- Higher-than-envisaged O&M and MM expense leading to average DSCR falling below 1.2x
- Deterioration in credit profile of counterparty
- Significant delay in receipt of GST component on annuities from NHAI impacting the debt coverage indicators

Analytical approach: Consolidated. The credit profile of Bharat InvIT factors in the consolidated business and financial risk profile of seven underlying assets to be transferred to Bharat InvIT. The debt at Bharat InvIT level will be serviced from cash flows which is up-streamed from the underlying SPVs. The DSCR testing for the restricted payment conditions would be at the Bharat InvIT level. List of combined entities is placed in the table below (Details about the InvIT table).

Outlook: Stable

The Stable outlook is on account of expectation of stable cash flows from the underlying assets of Bharat InvIT having strong counterparty and low leverage.

Detailed description of the key rating drivers:

Key strengths

Stable cashflow and operational track record of underlying assets

Bharat InvIT proposes to acquire portfolio of seven NHAI operational HAM assets from GRIL and therefore shall generate stable revenues from its pool of projects until the end of the concession period. The underlying assets are diversified across five states i.e. Gujarat, Uttar Pradesh, Maharashtra, Andhra Pradesh and Punjab. The seven assets in total have track record of receipt of 35 annuities from NHAI within stipulated time period till November 2023. The projects have residual concession period between 11.41 years to 13.85 years as on September 30, 2023, thereby providing long-term cash flow visibility to the Bharat InvIT. On a collective basis, the portfolio assets had a weighted average (by Bid Project Cost) residual project life of approximately 12.33 years as of September 30, 2023. Of the total seven assets, three assets have received final commercial operation date while balance four have received provisional commercial operation date with minimal pending work against which fixed deposit has been maintained at SPV level.

Strong credit profile of counterparty

Incorporated by the Government of India (GoI) under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of the national highways in the country. NHAI is vested with executive powers for developing national highways in India by the Ministry of Road Transport & Highways (MoRTH). The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Strong debt coverage indicators and low leverage

Bharat InvIT's consolidated cash flow has a robust cover with strong debt coverage indicators owing low leverage. Low leverage is marked by proposed Bharat InvIT's debt to aggregate completion cost of seven assets which stands at 26%. The proposed debt structure stipulates a debt service reserve of one quarter and financial covenant of minimum DSCR of 1.10x. If in any quarter, the DSCR falls below 1.10x, the entire surplus will be trapped in the Bharat InvIT. Towards the acquisition of seven assets, Bharat InvIT shall raise debt upto ₹3,000 crore which shall be used to retire the part external debt of ₹3,800 crore at SPV level. Balance debt at the SPV level shall be repaid via raising of public issue. Furthermore, the public issue will be inclusive of subscription of units by AIPL. Considering the debt to be raised at Bharat InvIT level, debt by enterprise value is expected to remain well within 49% until six consecutive dividend distributions. Against the transfer of seven assets, Bharat InvIT units shall be issued to GRIL and there shall be no cash outflow towards the acquisition.

However, as articulated by the management, the Bharat InvIT shall restrict the debt to the tune of ₹1,500 crore and balance funds shall be through raising of public issue, which may lead to low leverage at 24%-25%.

Sound and resourceful management group

Bharat InvIT will be backed by the experienced management team of AIPL and GR Highways Investment Manager Private Limited (GRHIMPL: Investment Manager). The management team has an rich experience in various sectors including in the road and highways sector and brings expertise in the areas of business strategy, operational and financial capabilities. In addition, Bharat InvIT Assets will be managed by qualified personnel of the Project Manager.

Minimal impact of GST
Currently, the Goods and Service Tax (GST) on construction and O&M annuities is being settled against the input tax credit (ITC) and NHAI shall pay for GST outflow net off ITC. NHAI is paying GST on interest annuities and hence CARE Ratings expects that GST outflow will have a credit neutral impact on cashflow.

Inherent O&M risk largely mitigated by strong cash flows and track record of GRIL
The O&M and MM assumptions factored in by the Bharat InvIT in its base case are based on the independent report. However, CARE Ratings has sensitized Bharat InvIT cashflow and has found debt coverage indicators to be strong. GRIL is proposed to be the O&M contractor for all the seven projects during the balance concession period. The project manager proposes to enter into back-to-back fixed-price O&M and MM contract with GRIL for the balance concession period with a clause of fixed price for the first seven years, after which the price will be mutually renegotiated. GRIL has strong executional and operational capabilities in developing and operating multiple HAM-based road projects. No major maintenance reserve (MMR) is proposed at Bharat InvIT level and as articulated by the management, the cash pooling at Bharat InvIT level shall generate sufficient cashflows to incur the MM expense in the year when it falls due.

Key weaknesses
Inherent interest rate risk coupled with any debt-funded acquisition
Bharat InvIT is exposed to the inherent interest rate risk as its interest annuities and interest on debt are having floating interest rate linked to external benchmark. Any reduction in the bank rate can impact quantum of interest annuities and any increase in interest rate of term debt can lead to higher interest obligation. Hence, any material change in these components could impact the debt coverage indicators. However, the risk is mitigated to quite an extent as the movement in interest rate on term debt and interest on annuities shall move in the same direction.

Bharat InvIT plans to add operational assets limited to the road sector. It has already signed a right of first offer (ROFO) agreement with GRIL and is also looking into various NHAI-operational HAM projects of other sponsor. Any acquisition of weak assets with large debt and low revenue potential, impacting debt coverage indicators will be key rating monitorable.

Liquidity: Strong
The liquidity position of Bharat InvIT is adequate marked by fixed stream of revenue and proposed DSRA to be maintained for one quarter of debt servicing till the tenor of the debt. Furthermore, debt structure stipulates financial covenant of minimum DSCR of 1.10x. If in any quarter, the DSCR falls below 1.10x, the entire surplus will be trapped in the Bharat InvIT. The proposed term loans will be amortised in a structured quarterly repayments. Further, the debt repayment is structured in a way that the repayment obligation (FY27-FY28) during the first cycle of MM activity in the project stretch will be as low as 8%-10%

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Assignment of Provisional Rating
Consolidation
Rating Outlook and Credit Watch
Hybrid Annuity Model based road projects
Infrastructure Investment Trusts (InvITs)
Policy on Withdrawal of Ratings

Validity of the provisional rating:
The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:
When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned by CARE Ratings. In absence of receipt of documents/ completion of steps or where such

documents deviate significantly from that considered by CARE Ratings, the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

Details about the InvIT:

Details of assets proposed to be held by InvIT	The following assets are proposed to be held by Bharat InvIT: • GR Phagwara Expressway Limited • Porbandar Dwarka Expressway Private Limited • Varanasi Sangam Expressway Private Limited • GR Akkalkot Solapur Highway Private Limited • GR Sangli Solapur Highway Private Limited • GR Gundugolanu Devarapalli Highway Private Limited • GR Dwarka Devariya Highways Private Limited
Proposed capital structure	Peak debt/ Enterprise value will not be more than 49%.
Undertaking taken by CARE Ratings from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI	Yes

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

Bharat Highways InvIT is a road infrastructure investment trust and has received its registration certificate from SEBI on August 3, 2022. Bharat InvIT intends to acquire 100% of the equity shares in each of the seven project SPVs from GRIL and has received all the approvals for such transfer. Bharat InvIT will be sponsored by AIPL, with GRHIMPL as its investment manager, AIPL as the project manager and IDBI Trusteeship Services Ltd as the trustee. Bharat InvIT is expected to be float by March 2024.

Brief financials: Not applicable; Bharat InvIT is yet to acquire the assets and yet to be listed

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various 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 along with Rating Outlook
Fund-based - LT-Term loan		-	-	30-sep-2036	3000.00	Provisional CARE AAA; Stable

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	3000.00	Provisional CARE AAA; Stable				

*Long term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

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

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