National Highways Infra Trust

December 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,850.00	CARE AAA; Stable	Reaffirmed
Long-term bank facilities	4,500.00	Provisional CARE AAA; Stable	Reaffirmed
Issuer rating - Issuer rating	0.00	CARE AAA; Stable	Reaffirmed
Long-term - Long-term instruments^	500.00	CARE AAA; Stable	Assigned
Non-convertible debentures	1,500.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

^ The proposed long term debt of ₹500 crore shall be utilised to refinance part of the term debt raised towards financing of Round-1 assets and shall not result in any additional increase in the total debt.

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

Rationale and key rating drivers

In order to arrive at the ratings of the debt facilities of National Highways Infra Trust (NHIT), CARE Ratings Limited (CARE Ratings) has applied a consolidated approach of NHIT and its underlying project assets.

The rating assigned to the bank facilities of National Highways Infra Trust (NHIT) amounting to ₹4,500 crore is provisional and will be confirmed upon transfer of identified assets to NHIT, receipt of valuation report of the specified assets, and execution of concession agreement (CA) with National Highways Authority of India (NHAI; rated 'CARE AAA; Stable').

The trust has confirmed that the assumptions on the quantum of proposed debt and the additional five assets (under round 3) identified for transfer to NHIT, as shared with CARE Ratings, are in conformance with the details that will be filed by the sponsor with Securities and Exchange Board of India (SEBI). The sponsor has also confirmed that the capital structure is broadly in line with the assumptions submitted to CARE Ratings, and it factors a total debt of around up to ₹9,357 crore (for the existing assets as well as the proposed identified assets to be subsumed in NHIT).

The rating assigned to the proposed instruments of ₹500 crore and reaffirmation of the ratings assigned to the bank facilities and instruments of NHIT derive strength from the experienced and the established track record of the sponsor of the trust, i.e., NHAI in the road & highways sector and its strategic importance to the Government of India (GoI) as a proposed vehicle for monetisation of road assets. The investment manager – National Highways Infra Investment Managers Private Limited (NHIIM) – comes under the Ministry of Road Transport & Highways (MoRTH) while the project manager – the National Highways Invit Project Managers Pvt Ltd (NHIPMPL) – is a wholly-owned subsidiary of NHAI. The ratings are underpinned by a geographically diversified portfolio of mature toll road assets with an operational history of 6-20 years.

The five toll road assets of NHIT acquired under Round-1 are held through a project special purpose vehicle (SPV), namely, the National Highway Infra Projects Pvt Ltd (NHIPPL) which has entered into a 30-year CA with NHAI to operate the road assets under the toll-operate-transfer (TOT) mode and commenced toll collection from December 16, 2021. The three toll road assets of NHIT acquired under Round-2 are also held under NHIPPL, with a similar TOT arrangement with NHAI for 20 years and commenced toll collection on October 29, 2022, thereby taking the portfolio to eight assets with an aggregate length of 2,544 lane Km.

Additionally, five road assets under Round-3 with an aggregate length of 639 Km are proposed to be subsumed under NHIT. The additional assets are proposed to be held through another project SPV, namely NHIT Eastern Projects Private Limited (NEPPL), which shall enter into a 20-year CA with NHAI to operate the road assets thereby increasing the portfolio size to 13 toll road SPVs, post the aforesaid transfer. NHIT is also evaluating transfer of additional 6 assets (approximately length of 347 Km), however, details of the same are yet to be finalised.

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

Geographically well-diversified portfolio with healthy toll collection, benefit of pooling of cash flows under InvIT structure, favourable capital structure and strong debt coverage metrices for the trust along with presence of debt service reserve account (DSRA) equivalent to one-quarter of debt servicing to be maintained throughout the loan tenor are other credit positives.

The above rating strengths are, however, partially tempered by the exposure to the inherent risks associated with constituent toll road projects including variations in traffic growth combined with the linkage of toll rate revision (which is linked to WPI movement), the inherent operation and maintenance (O&M) and major maintenance (MM) risks along with the inherent interest rate fluctuation risk.

Besides, the rating assigned to the proposed bank facilities towards five identified assets is provisional and will be confirmed once the trust has completed the below-mentioned steps and submitted the documents to the satisfaction of CARE Ratings:

a. Transfer of additional identified assets to the NHIT.
b. Receipt of valuation report for new assets.
c. Execution of CA towards new assets proposed to be acquired.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not applicable

Negative factors

- Lower-than-envisaged toll collections in the underlying SPVs, adversely impacting the combined debt service coverage ratio (DSCR) below 1.50x on a sustained basis.
- Increase in the O&M and MM expenses, which may adversely impact the profitability and cash accruals in the future.
- Any adverse change in the capital structure, leading to a debt-to-enterprise value exceeding 49%.
- Any adverse impact of traffic diversion on the project stretch impacting the combined average DSCR below 1.50x on sustained basis.

Analytical approach: Consolidated

The InvIT has acquired 100% stake in NHIPPL, which in turn has acquired stake and entered into CA with NHAI for concessions of the following assets Palanpur-Abu Road, Abu Road-Swaroopganj, Chittorgarh-Kota, Kothakota-Kurnool, Belgaum-Kagal, Agra-bypass, Borkhedi-Kelapur and Shivpuri-Jhansi. NHIIPL has given a cross-guarantee for the debt raised at NHIT, and hence, the entire cash flow across the eight assets are available for pooling and hence consolidated. Furthermore, five additional road assets are proposed to be held through another project SPV, namely NHIT Eastern Projects Private Limited (NEPPL) (100% stake of NHIT) i.e., Gwalior – Shivpuri, Kharagpur-Chichra, Orai Barah, Rewa-Katni and Kochugaon to Kaljhar is under process and hence consolidated.

Outlook: Stable

NHIT's business and financial risk profile are expected to remain stable aided by healthy toll collections, comfortable leverage indicators along with strong liquidity.

Detailed description of the key rating drivers:

Key strengths

Experienced sponsor coupled with strategic importance to the GoI: The NHIT was set up by NHAI in October 2020 as an infrastructure investment trust to monetise its road assets. NHIT was authorised by the Union Cabinet and announced by the finance minister in Union Budget 2021. As a principal vehicle proposed for the monetisation of road assets in the country under the National Asset Monetisation Pipeline, InvIT holds significant importance for the GoI.

NHAI is the nodal agency responsible for the development and maintenance of national highways. It was constituted u/s 3(1) of the National Highways Authority of India Act, 1988, and commenced operations in February 1995 to develop, maintain, and manage national highways in the country. The NHAI is vested with executive powers for developing national highways in India by MoRTH. The charter of NHAI is set out in the National Highways Act, 1956, and the National Highways Authority of India Act, 1988. The GoI has a 100% stake in NHAI and the authority receives continuous support from the GoI in the form of capital grants, allocation of cess funds, additional budgetary support (ABS), and has extended guarantees to the latter's market borrowing programmes.

Geographically-diversified portfolio of toll road projects with healthy toll collection: Eight road project assets, namely, the Palanpur-Abu Road, Abu Road-Swaroopganj, Chittorgarh-Kota, Kothakota-Kurnool, and Belgaum-Kagal (above five assets under round-1), Agra Bypass, Borkhedi-Kelapur, and Shivpuri-Jhansi (three assets under round-2) have been transferred to InvIT. The portfolio projects are located at diversified geographical locations spread across different states – Gujarat, Rajasthan, Telangana, Andhra Pradesh, Karnataka, Uttar Pradesh, Maharashtra, Madhya Pradesh, West Bengal and Assam. This significantly mitigates the InvIT's business risk by reducing the potential impact of any region-specific economic slowdown or force majeure events, or, with respect to specific risks of individual projects. With proposed addition of five assets under Round-3, NHIT shall have diversified presence in nine states from seven states currently with additional presence Assam and West Bengal with no single asset envisaged to contribute more than 20% of the total toll revenue, which further mitigates the revenue concentration risk.

The five projects under Round-1 and three projects under Round-2 possess an operational track record of 14-20 years and 6-14 years respectively, while the five toll road assets proposed to be subsumed under Round-3 have an operational track record of 3-13 years.

Toll collections for assets under round-1 commenced from December 16, 2021 while for those under round-2 commenced from October 29, 2022. During FY23 (refers to the period from April 1 to March 31), InvIT reported a toll collection of ₹690 crore with an average daily toll collection (ADTC) of ₹2.40 crore. With addition of round-2 assets (in October 2022), the toll collection and ADTC recorded a significant jump from ₹140 crore and ₹1.33 crore/day in FY22 respectively. During H1FY24 (refers to the period April 1 to September 30), NHIT posted toll collection of ₹465 crore translating into an ADTC of Rs. ₹2.54 crore per day. As articulated by the management, the round-3 are expected to be transferred under InvIT by January 2023.

Concession agreement for 20 year and 30 years (existing projects) and 20 years (additional projects), providing long-term revenue visibility: The NHIT holds the entire shareholding in the project assets through its 100% subsidiary, ie, the NHIPPL, which has entered into a 30-year CA (five assets round -1) and 20-year CA (three assets under round-2) with NHAI for O&M of these assets on a TOT basis, which provides long-term revenue visibility. The required concession fees for all eight road assets have been remitted, and accordingly, NHAI has declared the appointed date for the road assets (round -1) as December 16, 2021 and road assets (round-2) as October 29, 2022; the toll collection has also commenced. For the additional five assets, the NEPPL will enter into a 20-year CA with NHAI on a TOT basis, which provides long-term revenue visibility.

Strong debt coverage along with the presence of DSRA: NHIT has received debt sanction limits for ₹4,357 crore, of which it has raised ₹2,980 crore up to March 2023. Besides, NHIT has raised a capital of ₹7,441 crore during FY22 and FY23. The proceeds have been utilised towards NHAI concession fee payment, as specified in the CA. Furthermore, NHIT plans to raise debt of approximately ₹5,000 crore and balance through unit capital for funding the Round-3 asset acquisition. Apart from the above debt, NHIT is also planning to raise debt in a phased manner up to 15 years of the concession period for meeting the required MM expenses of the underlying the project highways.

The surplus cash flows after meeting the operational expenses of all the project highways will be available to the NHIT. Owing to the long debt tenor and strong structural features, debt coverage indicators are expected to remain robust in the projected period. Furthermore, as per the valuation report of the eight existing assets dated September 30, 2023, the consolidated debt to enterprise value remained at 38% while debt to enterprise value (for debt availed as on March 31, 2023) remained low at 26% as on March 31, 2023. The consolidated debt to enterprise value (for all thirteen assets) is envisaged to remain comfortable at around 42-44%.

The DSRA to the tune of ₹95 crore towards the debt raised for the existing eight assets has been created in the form of a fixed deposit (FD) as on March 31, 2023. Besides, as per the indicative term sheet for the proposed debt, NHIT has to maintain a one-quarter DSRA equivalent to principal, interest, fees, and all other obligations due and payable in respect of the facility during the subsequent quarter. The creation and maintenance of the DSRA are one of the restricted payment conditions for the distribution of surplus cash flows to unitholders by the InvIT which is viewed as a strong structural feature.

Thus, the presence of a long-tenor loan, reserve requirement, and availability of a tail period of approximately five years imparts significant financial flexibility. However, any adverse change in the capital structure and/or debt coverage indicators triggered by additional debt raised by InvIT beyond the envisaged level of 49% (refers to consolidated debt/enterprise value) for the purpose of supporting existing or acquiring additional assets will be a key rating monitorable.

Key weaknesses

Inherent O&M and MM risks along with interest rate risk: The underlying assets (both existing and proposed to be transferred) are exposed to the inherent routine and periodic maintenance to be undertaken over the concession period. CARE Ratings understands that the O&M (both, routine and periodic maintenance) of the project highways under the InvIT will be carried out based on a pre-agreed mechanism, in which the project manager will be responsible for the O&M, and the same will be captured under the appropriate InvIT agreements.

For both, routine and periodic maintenance, CARE Ratings has primarily relied on the O&M cost assumptions, as specified by the technical consultant for the respective project stretches. Furthermore, after considering O&M costs (both, routine and periodic maintenance) as per CARE Ratings' benchmarks for similar toll-based road projects, the DSCR over the tenure of the debt is expected to remain comfortable. Besides, the aforesaid risk is largely mitigated on account of NHAI's vast experience in the road construction and development sector.

It is pertinent to note that majority of the debt raised at the InvIT level i.e. 66% of sanctioned debt carries floating interest rate and is subject to a periodic reset, which exposes the trust on account of any adverse change in the interest rates in the future.

Inherent traffic risk: The toll revenues are a function of toll rates and traffic volumes. Traffic volumes are directly or indirectly dependent on multiple factors, including the location of the road project (connecting areas and their commercial importance), growth in the automobile sector, affordability of automobiles, the quality, convenience and travel efficiency of alternative routes outside the network of toll roads, etc. In the absence of actual traffic data for the past years, CARE Ratings has relied on traffic studies conducted by consultants and the data available for the last three years from the earlier toll contracts awarded by the NHAI on the project stretches. However, any divergence between the estimates considered and the actual traffic flow on the stretches and its bearing on the debt coverage metrics will be a key rating monitorable.

Liquidity: Strong

The liquidity profile of the NHIT is strong, with the availability of surplus cash flows from the underlying project stretches and low repayment obligations at the NHIT level debt arising out of a long amortisation period. Provision of DSRA maintenance equivalent to one-quarter of debt repayment obligations to the tune of ₹95 crore in the form of lien-marked FDs as on March 31, 2023 provides liquidity support. NHIT had free cash and bank balances (including liquid investments) of ₹212 crore as on March 31, 2023. Furthermore, cashflow of all assets are available for pooling, which provides added comfort.

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

Applicable criteria

Policy on default recognition
Assignment of Provisional Rating
Consolidation
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Investment Trusts (InvITs)
Toll Road Projects
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 REIT/ InvIT:

Details of assets proposed to be held by REIT/ InvIT	The following assets are proposed to be held by InvIT in third round*: • Gwalior – Shivpuri (118.8 Km) – Madhya Pradesh • Kharagpur-Chichra (56.1 km) – West Bengal • Orai Barah (62.9 km)- Madhya Pradesh and Uttar Pradesh • Rewa-Katni (287.3 km) – Madhya Pradesh • Kochugaon to Kaljhar (114.2 km) - Assam
Proposed Capital Structure	Peak debt/Enterprise value at around 44%
Undertaking taken by CARE Ratings Ltd. 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

** NHIT is contemplating a change in asset mix wherein additional 5-6 assets may be added and Gwalior-Shivpuri may be replaced. CARE ratings shall take cognisance of the same once the asset mix is finalised.*

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

The NHIT is registered as an irrevocable trust under the Indian Trust Act 1882 and is registered as an InvIT under SEBI (Infrastructure Investment Trust) Regulations 2014. Currently, five road projects with a total stretch of 388.83 km, namely, Palanpur-Abu Road, Abu Road-Swaroopganj, Chittorgarh-Kota, Kothakota-Kurnool, and Belgaum-Kagal are transferred to the InvIT. The InvIT, through a project SPV, NHIPPL, has entered into a CA with the NHAI for a period of 30 years on a TOT basis. The InvIT was listed in November 2021. All the five project assets have received appointed date as December 16, 2021, and have commenced tolling operations. The NHIT has transferred additional three road assets under the InvIT, ie, Agra Bypass, Borkhedi-Wadner-Kelapur, and the Shivpuri-Jhansi section under the InvIT and entered into a CA with the NHAI for 20 years on September 26, 2022.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24(UA)
Total operating income	139.61	700.87	481.31
PBILDT	102.06	545.52	370.02
PAT	68.36	256.89	156.53
Overall gearing (times)	0.25	0.40	NA
Interest coverage (times)	3.24	3.28	2.96

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

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
Debt		Proposed	Proposed	Proposed	500.00	CARE AAA; Stable
Fund-based - LT-Term loan		-	-	31-03-2041	2000.00	CARE AAA; Stable
Fund-based - LT-Term loan		-	-	31-03-2041	4500.00	Provisional CARE AAA; Stable
Fund-based - LT-Term loan		-	-	31-03-2042	850.00	CARE AAA; Stable
Issuer rating-Issuer ratings		-	-	-	0.00	CARE AAA; Stable
NCD	INE0H7R07017	25-Oct-2022	7.90%	25-10-2035	450.00	CARE AAA; Stable
NCD	INE0H7R07025	25-Oct-2022	7.90%	25-10-2040	450.00	CARE AAA; Stable
NCD	INE0H7R07033	25-Oct-2022	7.90%	25-10-2047	600.00	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	2000.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-23)	1)CARE AAA; Stable (11-Oct-22) 2)CARE AAA; Stable (26-Aug-22)	1)CARE AAA; Stable (02-Feb-22) 2)Provisional CARE AAA; Stable (24-Aug-21) 3)Provisional CARE AAA; Stable (01-Apr-21)	-
2	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-23)	1)CARE AAA; Stable (26-Dec-22)	1)CARE AAA (Is); Stable (02-Feb-22)	-

						2)CARE AAA (Is); Stable (11-Oct-22) 3)CARE AAA (Is); Stable (26-Aug-22)	2)Provisional CARE AAA (Is); Stable (24-Aug-21)	
3	Fund-based - LT-Term Loan	LT	850.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-23)	1)CARE AAA; Stable (11-Oct-22) 2)Provisional CARE AAA; Stable (26-Aug-22)	-	-
4	Debentures-Non Convertible Debentures	LT	1500.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-23)	1)CARE AAA; Stable (11-Oct-22) 2)Provisional CARE AAA; Stable (26-Aug-22)	-	-
5	Fund-based - LT-Term Loan	LT	4500.00	Provisional CARE AAA; Stable	1)Provisional CARE AAA; Stable (05-Jul-23)	-	-	-
6	Debt	LT	500.00	CARE AAA; Stable				

*Long term/Short 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	Debentures-Non Convertible Debentures	Simple
2	Debt	Simple
3	Fund-based - LT-Term Loan	Simple
4	Issuer Rating-Issuer Ratings	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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in