

National Highways Infra Trust

February 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	2,850.00	CARE AAA; Stable	Reaffirmed
Long-term bank facilities	9,000.00 (Enhanced from 4,500.00)	Provisional CARE AAA; Stable	Reaffirmed
Issuer rating	0.00	CARE AAA; Stable	Reaffirmed
Long-term instruments [^]	500.00	CARE AAA; Stable	Reaffirmed
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 will be utilised for refinancing part of the term debt raised towards financing Round-1 assets and will not result in additional increase in the total debt.

Rating in the absence of pending steps/documents	No rating can be assigned
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Rationale and key rating drivers

To arrive at ratings of 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.

Ratings of bank facilities of NHIT amounting to ₹9,000 crore is provisional and will be confirmed on transferring identified assets to NHIT, receiving valuation report of specified assets, and executing concession agreement (CA) with the National Highways Authority of India (NHAI; rated 'CARE AAA; Stable').

The Trust has confirmed that assumptions shared with CARE Ratings on the quantum of proposed debt and additional seven assets (under round-3) identified for transfer to NHIT, conform with details that will be filed by the sponsor with the Securities and Exchange Board of India (SEBI). The sponsor has also confirmed that the capital structure is broadly in line with assumptions submitted to CARE Ratings, and it factors a total debt (TD) of about up to ₹13,357 crore (for existing assets and proposed identified assets to be subsumed in NHIT). NHIT had previously planned to acquire five identified road assets however, it has decided to modify or expand round-3 assets by including a total seven assets.

Ratings reaffirmed to bank facilities and instruments of NHIT continue to derive strength from the experienced and established track record of the Trust's sponsor – NHAI – in the roads and highways sector and its strategic importance to the Government of India (GoI) as a proposed vehicle for monetising 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 – National Highways Invit Project Managers Private Limited (NHIPMPL) – is a wholly owned subsidiary of NHAI. 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). The National Highway Infra Projects Pvt Ltd (NHIPPL) has signed a 30-year CA with the NHAI for operating road assets under the toll-operate-transfer (TOT) mode and commenced toll collections from December 16, 2021. NHIPPL also holds the three toll road assets of NHIT acquired under round-2, with a similar TOT arrangement with NHAI for 20 years and commenced toll collections on October 29, 2022, taking the portfolio to eight assets with an aggregate length of 2,544 lane km.

Presently, seven road assets under round-3 with an aggregate length of 887 km are proposed to be subsumed under NHIT. These additional assets are proposed to be held through another project SPV, NHIT Eastern Projects Private Limited (NEPPL), which will sign a 20-year CA with the NHAI for operating the road assets, increasing the portfolio size to 15 toll road assets post the aforementioned transfer.

Geographically well-diversified portfolio with healthy toll collection, benefits of cashflow pooling under the InvIT structure, favourable capital structure, and strong debt coverage metrics for the Trust with a debt service reserve account (DSRA) equivalent to one-quarter of debt servicing to be maintained throughout the loan tenor are other credit positives.

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

However, ratings are partially tempered by the exposure to inherent risks of constituent toll road projects, including varying traffic growth and the linkage of toll rate revision (which is linked to WPI movement), inherent operation and maintenance (O&M) and major maintenance (MM) risks, and inherent interest rate fluctuation risk.

This apart, the rating assigned to proposed bank facilities towards seven identified assets is provisional and will be confirmed when the Trust has completed the below-mentioned steps and submitted the documents to CARE Ratings' satisfaction:

- a. Transferring additional identified assets to NHIT.
- b. Receiving valuation report for new assets.
- c. Executing 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 underlying SPVs, adversely impacting the combined debt service coverage ratio (DSCR) below 1.50x on a sustained basis.
- Increasing O&M and MM expenses, adversely impacting profitability and cash accruals in future.
- Capital structure adversely changing, leading to a debt-to-enterprise value exceeding 49%.
- Traffic diversion adversely impacting the project stretch, resulting in the combined average DSCR below 1.50x on a sustained basis.

Analytical approach: Consolidated

The InvIT holds 100% stake in NHIPPL, which in turn, has signed a CA with the 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. NHIPPL has given a cross-guarantee for the debt raised at NHIT, thus the entire cashflow across eight assets are available for pooling, and hence, consolidated. Seven additional road assets – Rewa-Katni-Jabalpur-Lakhnadon, Mohgaon-Khawasa, Chichra-Kharagpur, Orai-Barah, Assam Package, Galia, and Haveri-Hebbalu-Chitradurga – are proposed to be held through another wholly owned project SPV – NHIT Eastern Projects Private Limited (NEPPL) and are under process. Hence, these too are consolidated. The list of entities consolidated is annexed as annexure-6.

Outlook: Stable

CARE Ratings expects NHIT's business and financial risk profiles to remain stable, aided by healthy toll collections, comfortable leverage indicators, and strong liquidity.

Detailed description of the key rating drivers

Key strengths

Experienced sponsor with strategic importance to the GoI

The NHIT was set up by the NHAI in October 2020 as an infrastructure investment Trust (InvIT) for monetising 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 monetising road assets in the country under the National Asset Monetisation Pipeline, the InvIT holds significant importance for the GoI.

NHAI is the nodal agency responsible for developing and maintaining National Highways. It was constituted under Section 3(1) of the National Highways Authority of India Act, 1988, and commenced operations in February 1995 for developing, maintaining, and managing National Highways in the country. The NHAI is vested with executive powers for developing National Highways in India by the Ministry of Road Transport and Highways (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 the NHAI, with the authority receiving 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 – 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 the InvIT. The existing portfolio projects are at diversified geographical locations spread across the states of Gujarat, Rajasthan, Maharashtra, Telangana, Andhra Pradesh, Karnataka, Madhya Pradesh, and Uttar Pradesh. 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 specific risks of individual projects. With the proposed addition of seven assets under round-3, NHIT will have a diversified presence across ten states from the eight states, having additional presence in Assam and West Bengal. CARE Ratings expects no single asset to contribute more than 20% of the total toll revenue, further mitigating 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 seven toll road assets proposed to be subsumed under round-3 have an operational track record of 4-14 years.

Toll collections for assets under round-1 commenced on December 16, 2021, while for those under round-2 commenced on October 29, 2022. In FY23 (refers to April 1 to March 31), the InvIT collected tolls worth ₹690 crore with an average daily toll collection (ADTC) of ₹2.40 crore. Post adding round-2 assets (in October 2022), toll collection and ADTC significantly jumped from ₹140 crore and ₹1.33 crore per day in FY22, respectively. In H1FY24, NHIT collected tolls worth ₹465 crore, translating into an ADTC of ₹2.54 crore per day. The management has articulated that round-3 is expected to be transferred under the InvIT, with toll collections commencing by April 2024.

CA providing long-term revenue visibility

The NHIT holds the entire shareholding in project assets through its 100% subsidiary, NHIPPL, which has signed a 30-year CA (five assets round-1) and 20-year CA (three assets under round-2) with NHAI on a TOT basis, providing long-term revenue visibility. The required concession fees for all eight road assets have been remitted, with the NHAI declaring the appointed date for road assets (round -1) as December 16, 2021, and road assets (round-2) as October 29, 2022. Toll collections have also commenced. For the additional seven assets, NEPPL will sign a 20-year CA with the NHAI on a TOT basis, providing long-term revenue visibility.

Strong debt coverage with the presence of DSRA:

NHIT has received debt sanction limits for ₹4,357 crore, of which it has raised about ₹3,000 crore up to December 31, 2023. This apart, NHIT has raised a capital of ₹7,441 crore in FY22 and FY23. Proceeds have been utilised for NHAI concession fee payment, as specified in the CA. NHIT is also planning to raise debt of about ₹9,000 crore and the balance through unit capital for funding round-3 asset acquisition. This apart, NHIT is also planning to raise debt in a phased manner during the concession period for meeting the required MM expenses of the underlying project highways.

Surplus cashflows after meeting operational expenses of all project highways will be available to the NHIT. Owing to long debt tenor and strong structural features, debt coverage indicators are expected to be robust in the projected period. Per the valuation report of the eight existing assets on December 31, 2023, the consolidated debt-to-enterprise value was at 37%, while the debt-to-enterprise value (basis debt disbursed) was low at 26%. CARE Ratings expects the consolidated debt-to-enterprise value (for all 15 assets) to be at about 47%-48%.

The DSRA to the tune of ₹95 crore for debt raised for existing eight assets is created in the form of a fixed deposit (FD) as on March 31, 2023. Per the indicative term sheet for the proposed debt, NHIT must maintain a one-quarter DSRA equivalent to principal, interest, fees, and all other obligations due and payable of the facility during the subsequent quarter. Creating and maintaining the DSRA are one of the restricted payment conditions for distributing surplus cashflows to unitholders by the InvIT, viewed as a strong structural feature.

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

Key weaknesses

Inherent O&M and MM risks with interest rate risk

Underlying assets (both existing and proposed to be transferred) are exposed to 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 project highways under the InvIT will be carried out basis a pre-agreed mechanism, in which the project manager will be responsible for the O&M and the same will be captured under 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. The routine O&M costs are superior while periodic maintenance costs

assumptions are largely comparable to CARE Ratings' benchmark. Besides, the aforesaid risk is largely mitigated on account of NHAI's vast experience in the road construction and development sector.

Notably, majority debt raised at the InvIT level – 66% of the sanctioned debt – carries floating interest rate and is subject to a periodic reset, exposing the Trust to adverse changes in interest rates in future.

Inherent traffic risk

Toll revenues are a function of toll rates and traffic volumes. Traffic volumes are directly or indirectly dependent on multiple factors, including project location (connecting areas and their commercial importance), the growing automobile sector, affordability of automobiles, and the quality, convenience, and travel efficiency of alternative routes outside the network of toll roads, among others. With no actual traffic data for past years, CARE Ratings has relied on traffic studies conducted by consultants and data available for past three years from earlier NHAI toll contracts on project stretches. However, any adverse divergence between the estimates considered and the actual traffic flow on the stretches and its consequent bearing on the debt coverage metrics constitute a key rating monitorable.

Liquidity: Strong

NHIT's liquidity profile is strong with available surplus cashflows 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 a free cash and bank balance (including liquid investments) of ₹212 crore as on March 31, 2023. Cashflow of all assets are available for pooling, providing 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](#)

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Validity of the Provisional Rating:

The provisional rating shall be converted into a final rating after receiving above-mentioned transaction documents duly executed or completion of above-mentioned steps within 90 days from the issuance date 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 executing critical documents to CARE Ratings' satisfaction, the final rating is assigned by CARE Ratings. In absence of receipt of documents or 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*: <ul style="list-style-type: none"> Rewa-Katni-Jabalpur-Lakhnadon (306 Km) – Madhya Pradesh Mohgaon – Khawasa (107 km) – Madhya Pradesh Chichra-Kharagpur (56 km) – West Bengal Orai-Barah (63 km) – Uttar Pradesh Assam Package (114 km) – Assam Galia (27 km) – Assam Haveri-Hebbalu-Chitradurga (214 km) – Karnataka
Proposed capital structure	Peak debt/enterprise value at about 48%
Undertaking taken by CARE Ratings from the sponsor stating that key assumptions (relating to assets and capital structure, among others) are in consonance with 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

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 – Palanpur-Abu Road, Abu Road-Swaroopganj, Chittorgarh-Kota, Kothakota-Kurnool, and Belgaum-Kagal – with a total stretch of 388.83 km are transferred to the InvIT. The InvIT, through a project SPV, NHIPPL, has signed a CA with the NHAI for 30 years on a TOT basis. The InvIT was listed in November 2021. All five project assets have received appointed date as December 16, 2021, and have commenced tolling operations. The NHIT has transferred additional three road assets – Agra Bypass, Borkhedi-Wadner-Kelapur, and the Shivpuri-Jhansi section – under the InvIT and signed a CA with the NHAI for 20 years on September 26, 2022.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)
Total operating income	139.61	700.87	718.26
PBILD	102.06	545.52	558.58
PAT	68.36	256.89	228.46
Overall gearing (times)	0.25	0.40	NA
Interest coverage (times)	3.24	3.28	2.85

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the 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 instruments/facilities: 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	-	-	-	31-03-2042	850.00	CARE AAA; Stable
Fund-based - LT-Term loan	-	-	-	31-03-2042	9000.00	Provisional CARE AAA; Stable
Fund-based - LT-Term loan	-	-	-	31-03-2041	2000.00	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 (20-Dec-23) 2)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	Issuers rating-Issuer ratings	Issuer rating	0.00	CARE AAA; Stable	1)CARE AAA; Stable (20-Dec-23) 2)CARE AAA; Stable (05-Jul-23)	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (11-Oct-22)	1)CARE AAA (Is); Stable (02-Feb-22) 2)Provisional CARE AAA (Is); Stable (24-Aug-21)	-

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
						3)CARE AAA (Is); Stable (26-Aug-22)		
3	Fund-based - LT-Term loan	LT	850.00	CARE AAA; Stable	1)CARE AAA; Stable (20-Dec-23) 2)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 (20-Dec-23) 2)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	9000.00	Provisional CARE AAA; Stable	1)Provisional CARE AAA; Stable (20-Dec-23) 2)Provisional CARE AAA; Stable (05-Jul-23)	-	-	-
6	Debt	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (20-Dec-23)	-	-	-

*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	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](#)

Annexure-6: List of entities consolidated

Sr. No.	Name of Entity	Extent of Consolidation	Rationale for Consolidation
1	NHIPPL	Full	Round-1 and round-2 road assets (eight) are held under NHIPPL and entire cashflow across eight road assets are available for pooling, and hence, consolidated.
2	NEPPL	Full	Round-3 road assets (seven) will be held under NEPPL and entire cashflow across seven road assets will be available for pooling, and hence, consolidated.

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:

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