

## Bharat Highways InvIT

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	3,000.00	CARE AAA; Stable	Final Rating Confirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has finalised the rating assigned to bank facilities of Bharat Highways InvIT ("Bharat InvIT") upon completion of transfer of identified assets to the infrastructure investment trust (InvIT) and listing of the Bharat InvIT. The assumptions on the projects so identified for transfer to the Bharat InvIT, as disclosed to CARE Ratings, are in consonance with the details filed by the sponsor under the Final Offer Document with the Securities and Exchange Board of India (SEBI).

The final rating confirmed to long-term bank facilities of Bharat InvIT takes into consideration the expected stable cashflows from underlying operational Hybrid Annuity Mode (HAM) assets having low leverage. The Bharat InvIT's portfolio consists of seven operational National Highways Authority of India (NHAI; rated CARE AAA; Stable) HAM assets diversified across five states which have been 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 has issued units 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 the 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.

Bharat InvIT has raised equity of ₹2,500 crore through public offering (including subscription of sponsor) and debt of approximately ₹500 crore which has been utilized to retire the part external debt at special purpose vehicle (SPV) level. However, debt to the tune of ₹650 crore will continue to exist in SPVs of Varanasi Sangam Expressway Private Limited (VSEPL) & GR Phagwara Expressway Limited (GPEL; CARE AAA; Stable) and will be refinanced in FY25 due to the terms of their existing debt. Accordingly, the leverage (including external debt at SPV level) of Bharat InvIT stood at around 20%.

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 respective seven SPVs have entered into fixed-price O&M and MM Contracts with the Aadharshila Infratech Private Limited (AIPL: Sponsor and Project Manager; rated CARE AA+; Stable) and AIPL has entered into back to back fixed-price O&M and MM Sub-Contracts with GRIL, which is a credit positive given the latter's established experience in construction and maintenance of these roads.

CARE Ratings confirms rating assigned to the above-mentioned bank facilities, following the completion of the below-mentioned steps:

- Transfer of identified assets to Bharat InvIT.
- Listing of Bharat InvIT.

### Rating sensitivities: Factors likely to lead to rating actions

**Positive factors:** Not applicable

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://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 which is 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 entities consolidated is placed as Annexure-6.

**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 has acquired 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 of 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, four assets have received final commercial operation date while balance three 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 Bharat InvIT's current external debt to aggregate completion cost of seven assets standing at 10%. The debt structure stipulates a DSRA 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. Against the acquisition of seven assets, Bharat InvIT has issued units to GRIL and there is no cash outflow towards the acquisition.

Bharat InvIT has raised equity of ₹2,500 crore through public offering (including subscription of sponsor) and debt of approximately ₹500 crore which is used to retire the external debt at SPV level. However, debt to the tune of ₹650 crore will continue to exist in SPV of VSEPL and GPEL and will be refinanced in FY25 due to the terms of their existing debt. Accordingly, the leverage (including external debt at SPV level) of Bharat InvIT will be low at 20%.

**Sound and resourceful management group**

Bharat InvIT is backed by the experienced management team of AIPL and GR Highways Investment Manager Private Limited (GRHIMPL: Investment Manager). The management team has a 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 the O&M contractor for all the seven projects during the balance concession period. The project manager has entered into back-to-back fixed-price O&M and MM sub-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 risk related to acquisition of debt funded assets in future

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 developers. 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 term loans will be amortised in a structured quarterly repayment. The debt repayment is structured in a way that the repayment obligation (FY27-FY28) in 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

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Road Assets-Hybrid Annuity](#)

[Infrastructure Investment Trusts \(InvITs\)](#)

[Infrastructure Sector Ratings](#)

### 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 has acquired 100% of the equity shares in each of the seven project SPVs from GRIL. Bharat InvIT is sponsored by AIPL, with GRHIMPL as its investment manager, AIPL as the project manager and IDBI Trusteeship Services Ltd as the trustee. Bharat InvIT was listed on NSE and BSE platform on March 12, 2024.

**Brief financials:** Not applicable as Bharat InvIT was listed in March 2024 only.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer to 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:** Please refer to Annexure-4

**Lender details:** Please refer to 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	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	CARE AAA; Stable	1)Provisional CARE AAA; Stable (04-Dec-23)	-	-	-

LT: Long term; ST: Short term; LT/ST: 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	Fund-based - LT-Term Loan	Simple

#### Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

## Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	GR Phagwara Expressway Limited	Full	Wholly owned subsidiary
2	Porbandar Dwarka Expressway Private Limited	Full	Wholly owned subsidiary
3	Varanasi Sangam Expressway Private Limited	Full	Wholly owned subsidiary
4	GR Akkalkot Solapur Highway Private Limited	Full	Wholly owned subsidiary
5	GR Sangli Solapur Highway Private Limited	Full	Wholly owned subsidiary
6	GR Dwarka Devariya Highways Private Limited	Full	Wholly owned subsidiary
7	GR Gundugolanu Devarapalli Highway Private Limited	Full	Wholly owned subsidiary

**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](mailto:care@careedge.in) for any clarifications.

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### About us:

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### Disclaimer:

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