National Highways Infra Trust

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	9,000.00	CARE AAA; Stable	Final Rating Confirmed
Long-term bank facilities	2,850.00	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.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has finalised ratings assigned to bank facilities of National Highways Infra Trust (NHIT) amounting to ₹9,000 crore upon receipt of pending documents (related to the transfer of identified assets to the infrastructure investment trust [InvIT]) to the satisfaction of CARE Ratings.

The assumptions on the quantum of debt to be raised and projects so identified for transfer to the InVIT under round-3, as disclosed to CARE Ratings, are in consonance with the details filed by the sponsor under the Draft Placement Memorandum with the Securities and Exchange Board of India (SEBI). The capital structure is broadly in line with the assumptions considered by CARE Ratings, and it factors a total debt raise of a maximum of ₹13,357 crore.

To arrive at ratings of debt facilities of NHIT, CARE Ratings has applied a consolidated approach of NHIT and its underlying project 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.

NHIT's five toll road assets 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 concession agreement (CA) with 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 subsumed under NHIT which are held through another project SPV, NHIT Eastern Projects Private Limited (NEPPL). NEPPL has signed a 20-year CA with NHAI for operating the road assets, thereby increasing the portfolio size to 15 toll road assets.

Geographically well-diversified portfolio with healthy toll collection, benefits of cashflow pooling under the InvIT structure, favourable capital structure, and strong debt coverage metrices 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.

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.

CARE Ratings confirms ratings assigned to the above-mentioned bank facilities towards seven identified assets following the submission of the below-mentioned documents/completion of the below-mentioned steps:

a. Transfer of additional identified assets to NHIT.
b. Receipt of valuation report for new assets.

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

c. Execution of CA towards new assets acquired on March 07, 2024.

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.
- Adversely changing capital structure 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 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. The InvIT holds 100% stake in another SPV, NEPPL, which in turn has signed CA with following seven additional road assets – Rewa-Katni-Jabalpur-Lakhnadon, Mohgaon-Khawasa, Chichra-Kharagpur, Orai-Barah, Assam Package, Galia, and Haveri-Hebbalu-Chitradurga. 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 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 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, 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, 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 addition of seven assets under round-3, NHIT have a diversified presence across 10 states from the eight states earlier with 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 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 toll collection from round-3 is expected to commence by April 2024.

CA providing long-term revenue visibility
The NHIT holds the entire shareholding in project assets through its 100% subsidiaries, NHIPPL and NEPPL. NHIPPL 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 on October 29, 2022. Toll collections have also commenced. For the additional seven assets subsumed under round-3, NEPPL has signed 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 ₹3,169 crore up to March 27, 2024. Towards the Round-3 asset, NHIT shall raise a debt of about ₹9,000 crore. NHIT has raised a capital of ₹7,441 crore in FY22 and FY23 and ₹7,272 crore in FY24. Proceeds have been utilised for NHAI concession fee payment, as specified in the CA. 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. According to the valuation report of the eight existing assets dated February 09, 2024, and the valuation report of the seven assets dated February 09, 2024, the consolidated debt to enterprise value (for all 15 assets) remained at 48.86%.

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 terms 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 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 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 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 due to 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 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 fixed deposits (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

Consolidation
Definition of Default
Assignment of Provisional Rating
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Investment Trusts (InvITs)
Infrastructure Sector Ratings
Road Assets-Toll

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road assets–Toll, annuity, hybrid-annuity

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 under round-1 and three project assets under round-2 have received appointed date as December 16, 2021 and October 29, 2022, respectively, and have commenced tolling operations. NHIT has transferred additional seven road assets – Rewa-Katni-Jabalpur-Lakhnadon, Mohgaon-Khawasa, Chichra-Kharagpur, Orai-Barah, Assam Package, Galia, and Haveri-Hebbalu-Chitradurga under the InvIT and signed a CA with the NHAI for 20 years on March 07, 2024.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)
Total operating income	139.61	700.87	718.26
PBILDT	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: These 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 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
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	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
Debentures-Non-convertible debentures	INE0H7R07017	25-10-2022	7.9%	25-10-2035	450.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE0H7R07025	25-10-2022	7.9%	25-10-2040	450.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE0H7R07033	25-10-2022	7.9%	25-10-2047	600.00	CARE AAA; Stable

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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 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-Feb-24) 2)CARE AAA; Stable (20-Dec-23) 3)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 rating	0.00	CARE AAA; Stable	1)CARE AAA; Stable (20-Feb-24) 2)CARE AAA; Stable (20-Dec-23) 3)CARE AAA; Stable (05-Jul-23)	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (11-Oct-22) 3)CARE AAA (Is); Stable (26-Aug-22)	1)CARE AAA (Is); Stable (02-Feb-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 (20-Feb-24) 2)CARE AAA; Stable (20-Dec-23) 3)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-Feb-24) 2)CARE AAA; Stable (20-Dec-23) 3)CARE AAA; Stable (05-Jul-23)	1)CARE AAA; Stable (11-Oct-22) 2)Provisional CARE AAA; Stable (26-Aug-22)	-	-

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
5	Fund-based - LT-Term loan	LT	9000.00	CARE AAA; Stable	1)Provisional CARE AAA; Stable (20-Feb-24) 2)Provisional CARE AAA; Stable (20-Dec-23) 3)Provisional CARE AAA; Stable (05-Jul-23)	-	-	-
6	Debt	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (20-Feb-24) 2)CARE AAA; Stable (20-Dec-23)	-	-	-

LT: 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 all the 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) are 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone:022-6837 4474 E-mail: rajashree.murkute@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Maulesh Desai Director **CARE Ratings Limited** Phone: 079-4026 5605 E-mail: maulesh.desai@careedge.in Setu Gajjar Assistant Director **CARE Ratings Limited** Phone: 079-4026 5615 E-mail: setu.gajjar@careedge.in

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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