Capital Infra Trust (erstwhile National Infrastructure Trust)

January 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	Provisional CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

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

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned issuer rating of Provisional CARE AAA; Stable to Capital Infra Trust (CIT). CIT is an Infrastructure Investment Trust (InvIT) and proposes to house operational highway assets sponsored by Gawar Construction Limited (GCL, rated CARE AA; Stable/CARE A1+). Identified assets are National Highways Authority of India (NHAI; rated CARE AAA; Stable) – Hybrid Annuity Model (HAM) based highway Special Purpose Vehicles (SPVs). As on December 31, 2024, CIT is in the process of filing the final offer document with Securities and Exchange Board of India (SEBI), post receipt of necessary approvals from lenders, the authority and other stakeholders for transfer of shareholding of identified nine project assets. CARE Ratings has consolidated the cash flows of aforementioned SPVs' of CIT to arrive at the rating. Towards the acquisition of these nine assets, CIT proposes to raise debt up to ₹2,400 crore and issuance of unit capital at InvIT level, which shall be used to retire entire outstanding external debt of ₹2,869 crore as at September 30, 2024 at SPVs level, translating to consolidated net debt/enterprise value[2] of ~43%.

The rating favourably factors strong revenue visibility in the form of stable annuity revenues from operational National Highways HAM assets which are geographically diversified across seven states. Favourable features of HAM including inflation indexed construction annuities, bank rate linked interest annuities on completion cost and O&M annuities provide stability to cash flow. Until October 2024, these assets possessed combined track record of 49 annuities receipts from NHAI without deductions and timing delays. Projects have residual concession period between 10.08 years to 13.75 years as on September 30, 2024, providing long-term cash flow visibility. However, two of nine SPVs Gawar Bangalore Highways Private Limited (GBHPL) and Gawar Nainital Highways Private Limited (GNHPL II) are yet to commission for entire project length. Therefore, satisfactory track record of receipt of full annuities is yet to be established. CARE Ratings observes that both these projects are at advanced stage of completion. GBHPL has received provisional completion certificate II for 99.3% of the project length with effect from October 2024, while permitting it to complete residual 'change of scope' work within stipulated timelines. GNHPL II achieved physical progress of ~97% as of November 2024 and has applied for provisional completion certificate II to the authority.

The rating also suitably factors in the benefit of cash pooling at CIT level leading to robust cash flows and comfortable leverage (net external debt / enterprise value) of 43%. Comfortable debt coverage indicators, well-defined waterfall mechanism and proposed debt service reserve account (DSRA) creation for one-quarter debt servicing requirements support CIT's financial risk profile. Per proposed financing terms, in case annual debt service coverage ratio (DSCR) falls below 1.15x, cash trap mechanism will be triggered thus providing cash flow cushion. Nonetheless the provision for put and call option exposes CIT to refinancing risk, which is expected to be partially mitigated by strong revenue visibility and long residual concession period. CARE Ratings relies on the management's articulation that the leverage will not exceed 49% at CIT level. Adverse deviation from this stance will be key rating sensitivity.

Rating strengths are tempered by the inherent operation & maintenance (O&M) and major maintenance (MM) risk and interest rate risk associated with HAM road projects. CARE Ratings notes that O&M and MM assumptions factored by CIT in its base case are based on independent technical due diligence report and in line with similar operational HAM projects. Technical due diligence report has some observations on condition of road and structure. It also incorporates suggestions and treatment for enhancement-cum-ratification in O&M condition for project stretches. While annuity receipts so far have not been affected owing to these reasons, yet CARE Ratings has sensitised CIT's cashflow for additional increase in O&M cost and found debt coverage indicators to be comfortable in the medium term at above 2x. The agency also understands that CIT has already entered back-to-back fixed-price O&M and MM contract with GCL for all nine projects with a restriction on GCL to exit from contract for first five years. The contractual arrangement with GCL shall further ensure that annuity deductions shall be compensated by withholding payment

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
[2]Enterprise value is calculated basis report of independent registered valuer

towards project management fees to GCL, which acts as a partial risk mitigant. While back ended repayment terms enhance coverage indicators in the medium term, CARE Ratings expects DSCR to moderate from FY34-FY37 to ~1.15x. With CIT likely to add more HAM road assets to the portfolio in due course, risks are partly mitigated by such incremental cash flows and tail period of one annuity each in three projects. The management has also indicated that CIT portfolio will comprise of NHAI HAM assets and suitable NHAI Toll projects may be acquired, while restricting their contribution to overall EV to maximum 20%. Departure from this understanding translating into debt funded asset acquisition and/or lowering of revenue visibility will be a key rating monitorable.

The rating is provisional and will be confirmed, once CIT completes following steps to the satisfaction of CARE Ratings:

a. Transfer of the identified assets into CIT.
b. Listing of CIT.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors
- Deterioration in credit profile of the counterparty- NHAI.
- Substantial delay and /or deduction in annuity receipts.
- Significant debt-funded acquisition of assets resulting in deterioration of overall DSCR below 1.5x.
- Non-adherence to debt covenants.
- Debt/Enterprise Value exceeding 49%.
- Higher-than-envisaged O&M and MM expense leading to annual DSCR falling below 1.2x.

Analytical approach: Consolidated.

CIT's credit profile factors in consolidated business and financial risk profile of nine underlying assets to be transferred to CIT. Debt at CIT level will be serviced from cash flows, which is up streamed from underlying SPVs. DSCR testing for the restricted payment conditions would be at the CIT level. Entities consolidated is listed under Annexure-6.

Outlook: Stable

The Stable outlook is considering expectation of stable cash flows from underlying assets of CIT, having strong counterparty and comfortable leverage of CIT.

Detailed description of key rating drivers:

Key strengths

Stable cashflow and operational track record of underlying assets

CIT proposes to acquire portfolio of nine NHAI operational HAM assets from GCL with receipt of at least two annuities, imparting strong revenue visibility until end of the concession period. Underlying assets are diversified across Haryana, Rajasthan, Bihar, Himachal Pradesh, Madhya Pradesh, Karnataka and Uttarakhand. Together nine assets have track record of timely receipt of 49 annuities from NHAI till October 2024. Projects have residual concession period between 10.08 years to 13.75 years as on September 30, 2024, providing long-term cash flow visibility to CIT. On a collective basis, portfolio assets had a weighted average (by enterprise valuation) residual project life of ~12.40 years as of September 30, 2024.
For six assets, where final commercial operation date (COD) is achieved, there is a track record of receipt of 30 full annuities without deductions. For Hardiya Hasanpur Highway Private Limited (HHHPL), where final COD is awaited, there is a track record of receipt of three full annuities without deductions. GBHPL and GNHPL II have been acquired under harmonious substitution route from Sadbhav group. GBHPL had provisional COD (PCOD) for length of 81.18 km of the total length of 164.34 km, and hence, it had PCOD for 49% length. Seven Annuities were received in proportion of completed length. GBHPL has completed substantial work on balance 83.16 km in November 2024 and achieved PCOD for 99.3% of length excluding change of scope with effect from October 2024. Full annuities and arrears of past annuities for GBHPL is expected in June 2025.
GNHPL II has achieved Provisional Completion Certificate I (PCC I) on 18.08 km in October 2019 out of total scope of 49.78 km inferring PCOD for 36% of length and received 10 proportionate annuities. Post ownership change by GCL, settlement agreement is signed with NHAI in October 2024. It was agreed to issue Provisional Completion Certificate II (PCC II) for work completed up to July 2024 and balance rail over bridge (ROB) and allied work is required to be completed by October 2024. GNHPL II achieved physical progress of ~97% as of November 2024 and applied for PCC II. The construction of ROB and Toll Plaza is under progress per monthly progress report of November 2024. GNHPL II is also expected to receive full annuities and release of arrears of past

annuities in April 2025. Final Completion cost is yet to be finalised for GNHPL II. However, for analytical purpose, CARE Ratings has projected annuities to be received basis completion cost considered vide Independent Engineer recommendation for release of ninth annuity in June 2024.Timely receipt of estimated annuities without material deductions will remain monitorable for CIT going forward.

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 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). Outlook on NHAI reflects outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Comfortable leverage and debt coverage indicators
CIT proposes to raise debt up to ₹2,400 crore apart from fresh equity to acquire of nine assets, which shall be used to retire entire outstanding external debt of ₹2,868 crore at SPVs level. Net debt/enterprise value stood at 43% as of September 30, 2024. CARE Ratings relied on management articulation for maintaining net debt/enterprise value below 49% throughout and deviations shall be a key rating sensitivity. Comfortable leverage is also marked by CIT's proposed debt to aggregate completion cost of nine assets, which stands at 25% as of September 30, 2024. Adequate leverage and stable cash flows are expected to result in comfortable debt coverage indicators in the medium term. While back ended repayment terms enhance coverage indicators in the medium term, CARE Ratings expects DSCR to moderate from FY34-FY37 to ~1.15x. With CIT likely to add more HAM road assets to the portfolio in due course, this risk is partly mitigated by such incremental cash flows and tail period of one annuity each in three projects.
The proposed debt structure stipulates a debt service reserve of one quarter debt servicing requirement. There is also a cash trap mechanism in case DSCR in any year falling below 1.15x, which aids cash flow cushion. Proposed structure also stipulates put and call option, where for 50% of the proposed debt, there is annual put and call options for the issue and for balance 50%, put and call options are available after three years from the date of allotment and annually thereafter. While the provision for put and call option exposes CIT to refinancing risk, it is expected to be mitigated by stable cash flow visibility from strong counterparty and longer residual concession period.

Experienced and resourceful sponsor cum project manager
CIT will be backed by experienced management teams of GCL (Project Manager) and Gawar Investment Manager Private Limited (GIMPL: Investment Manager). GCL has vast experience in construction, operations and management of roads portfolio. GCL has portfolio of 11 operational assets and 15 under construction HAM assets, where there is right of first offer (ROFO) with CIT. In FY24, GCL reported total operating income of ₹7,287 crore and gross cash accruals (GCA) of ₹832 crore. GCL has strong net worth base of ₹4,314 crore as on March 31, 2024, with net zero debt levels referring its resourcefulness.

Impact of Goods and Service Tax (GST)
With annuity payments being brought under the GST regime, operational HAM projects are eligible to receive a Change in Law (CIL) payment on annuities. While GST on interest annuities are being fully released by NHAI, GST on construction annuity and O&M annuity shall be received as per approved CIL rate as per the extant guidelines laid down by the authority. As of December 31, 2024, CIL rate has in-principally been approved by NHAI for five SPVs, while finalization of CIL rate for balance four SPVs is under process. However, the SPVs have sufficient Input Tax Credit (ITC) to discharge its GST obligations until the clarity on CIL is received. CARE Ratings expects that applicability of GST is credit neutral for CIT.

Key weaknesses
O&M risk
CIT is exposed to inherent O&M risk attached with roads SPVs accentuated by two assets acquired through harmonious substitution of weak sponsor. The O&M and MM assumptions factored in by nine SPVs in its base case are based on the technical due diligence report and comparable with other operational HAM projects. Riding quality is good or fair basis technical due diligence report. Barring a few, structure conditions have been reported as sound and satisfactory in the technical due diligence report, which also highlights several other observations and deficiencies. Cost for proposed ratification and treatment of these issues have been included in the base case business plan. While the stretches have not faced annuity deductions so far, yet CARE Ratings has sensitised CIT's cashflow with increased assumptions for maintenance and opines debt coverage indicators to be comfortable in the medium term. Moreover, GCL is also proposed to be the O&M contractor for all nine projects in the balance concession period. The project manager proposes to enter back-to-back fixed-price O&M and MM contract with GCL for the entire concession period. Increase in O&M cost higher-than-stipulated in the agreement will be borne by GCL, resulting in stability in CIT's cash flow. The contract cannot be terminated by GCL for the initial five years, which provides additional comfort. In case of deductions in annuities, GCL's project management fees shall be withheld to that extent for period of six months. GCL has strong executional and operational capabilities in developing and operating multiple HAM-based road projects. No major maintenance

reserve (MMR) is proposed at CIT level and cash pooling at CIT level are estimated to generate sufficient cashflows to incur the budgeted MM expense in the year when it falls due. Going forward, more-than-envisaged increase in O&M and MM cost impacting annual DSCR below 1.2x is key rating sensitivity.

Inherent interest rate risk and event risk related to debt funded acquisition
CIT is exposed to inherent interest rate risk due to non-linear transmission of bank rate over lending rate. CIT is also exposed to inherent event risk in case of increase in leverage of CIT through debt funded acquisition. The management's articulation to keep leverage below 49% throughout mitigates this risk.

Liquidity: Strong
CIT's liquidity is strong, marked by pooling of surplus cashflows available in assets, fixed stream of revenue, low repayment obligations in the next one-year, proposed cash trap and other restrictive payment conditions in case DSCR in any year falls below 1.15x and DSRA to be maintained for one quarter of debt servicing till the debt tenor. While put and call option exposes CIT to refinancing risk, it is expected to be mitigated by stable cash flow visibility from strong counterparty and longer residual concession.

Assumptions/Covenants: Not applicable

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

Applicable criteria
Assignment of Provisional Rating
Consolidation
Definition of Default
Issuer Rating
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

Validity of Provisional Rating:
Provisional rating shall be converted into a final rating after receipt of transaction documents duly executed/ completion of mentioned steps within 90 days from the instrument's date of issuance. 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, it is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of critical documents to the satisfaction of CARE Ratings, the final rating is assigned. In absence of documents/ completion of steps or where such documents deviate significantly from those considered, 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	Following assets are proposed to be held by InvIT: • Gawar Narnaul Highway Private Limited • Gawar Khajuwala Bap Highway Private Limited • Hardiya Hasanpur Highway Private Limited • Gawar Rohna Jhajjar Highway Private Limited • Gawar Kiratpur Nerchowk Highway Private Limited • Gawar Rohna Sonepat Highways Private Limited • Dewas Ujjain Highway Private Limited • Gawar Bangalore Highways Private Limited • Gawar Nainital Highways Private Limited
Proposed capital structure	Peak debt/ Enterprise value will not be over 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

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

CIT (erstwhile National Infrastructure Trust) established on September 25, 2023, is registered as an irrevocable trust under the Indian Trust Act, 1882, and as an InvIT under the SEBI Infrastructure Trust Regulations, 2014 since March 07, 2024 (updated registration certificate issued by SEBI on October 16, 2024). CIT intends to acquire 100% equity shares in each of the nine project SPVs from GCL, subject to all requisite approvals. CIT will be sponsored by GCL, with GIMPL as its investment manager and Axis Trusteeship Services Limited as the trustee.

Brief financials: Not applicable; CIT is yet to acquire 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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Issuer Rating	NA	NA	NA	NA	0.00	Provisional CARE AAA; Stable

NA: Not applicable

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 2024-2025	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
1	Issuer Rating	LT	0.00	Provisional CARE AAA; Stable	-	-	-	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated – Not applicable

Annexure-5: Lender details – Not applicable in case of issuer ratings

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Gawar Narnaul Highway Private Limited (GNHPL)	Full	100% Subsidiary
2	Gawar Khajuwala Bap Highway Private Limited (GKBHPL)	Full	100% Subsidiary
3	Hardiya Hasanpur Highway Private Limited (HHHPL)	Full	100% Subsidiary
4	Gawar Rohna Jhajjar Highway Private Limited (GRJHPL)	Full	100% Subsidiary
5	Gawar Kiratpur Nerchowk Highway Private Limited (GKNHPL)	Full	100% Subsidiary
6	Gawar Rohna Sonepat Highways Private Limited (GRSHPL)	Full	100% Subsidiary
7	Dewas Ujjain Highway Private Limited (DUHPL)	Full	100% Subsidiary
8	Gawar Bangalore Highways Private Limited (GBHPL)	Full	100% Subsidiary
9	Gawar Nainital Highways Private Limited (GNHPL II)	Full	100% Subsidiary

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