

InvITs Propel Growth: Road Sector AUM to add Rs 1.43 Lakh Crore in FY25-26

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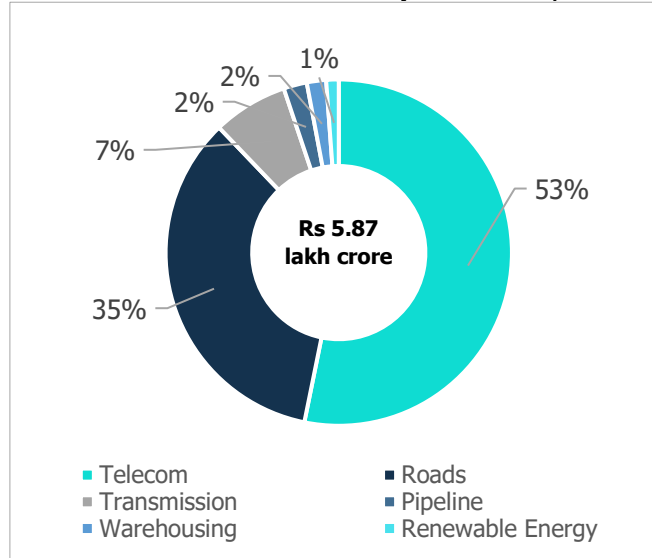


Synopsis

In this report, CareEdge Ratings opines on the growth potential of Asset Under Management (AUM) for Roads Infrastructure Investment Trusts (InvITs) along with monetisation potential for National Highways- Hybrid Annuity Model (HAM) projects.

Gaining traction of InvITs- improved investor confidence and regulatory push

Chart 1- AUM- InvITs as on September 30, 2024



Source: CareEdge Ratings

Infrastructure Investment Trusts have gained traction as a means of asset monetisation, offering investors relatively stable returns and fostering Infrastructure development. As on March 31, 2024, the AUM of InvITs in India stood at Rs 5.39 lakh crore representing a significant 29% growth compared to March 31, 2023. AUM of InvITs further rose to Rs 5.87 lakh crore by September 30, 2024. Assets under InvITs represent diverse sectors, such as roads, transmission, telecom, pipeline, renewable and warehousing, with a leading share of telecom of more than 50% of the AUM, followed by roads at 35% and transmission at 7%.

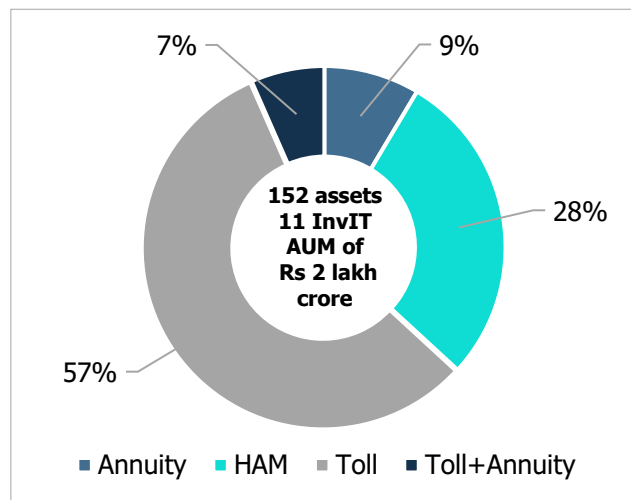
InvITs are anticipated to further contribute to India's infrastructure development by offering fresh investment opportunities and unlocking growth capital for developers.

Asset Under Management for Roads InvIT

Roads InvITs contributed the highest in terms of the number of assets, spread across 152 road assets, with an AUM of Rs 2 lakh crore, as on September 30, 2024. The segment is dominated by mature toll roads, constituting 57% of the assets, followed by Hybrid Annuity Model (HAM) assets at 28%.

During the past 15 months ended September 30, 2024, 49 additional assets have been transferred to InvITs, these include 26 HAM assets, 22 toll assets, and an annuity asset. Key drivers for this trend include 1) increased monetisation activity for HAM assets, 2) transfer of toll projects to National Highways Infrastructure Trust (NHIT, rated CARE AAA; Stable, CARE A1+), and 3) transfer of some Toll-Operate-Transfer (TOT) assets as well as mature toll roads.

Chart 2- AUM- Road InvIT as on September 30, 2024



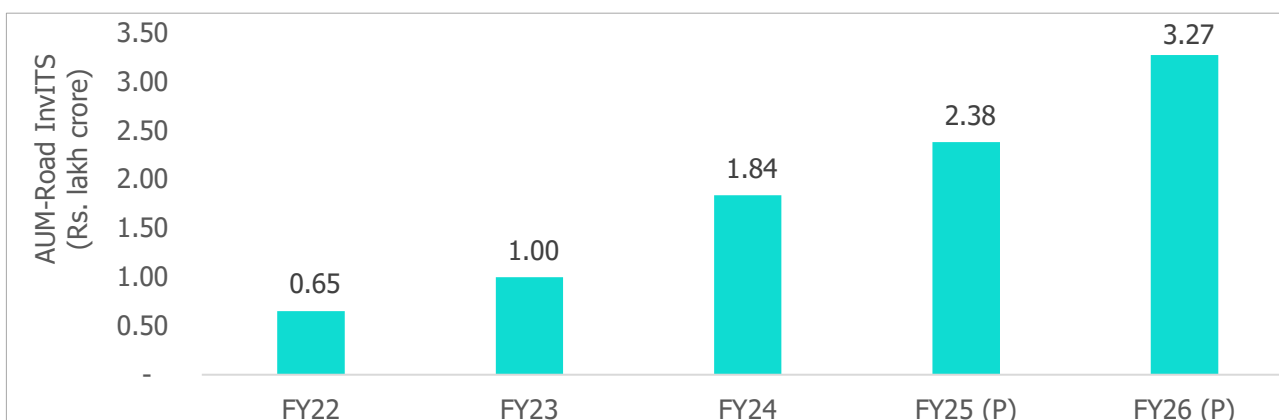
Source: CareEdge Ratings

Subsequent to September 2024, two new InvITs have been floated in the market, adding Rs 0.11 lakh crore to the AUM along with 15 road assets including HAM and Toll projects.

A. Roads InvIT AUM likely to grow by ~37% by FY26 (P); continue to be the most popular asset segment

The monetisation of road assets through InvITs is reflected in the growth in AUM over the years. From an AUM of Rs 0.65 lakh crore in FY22, the roads InvIT AUM is expected to record a CAGR of 54% till FY25. This is further estimated to reach ~Rs 3.30 lakh crore by FY26 end, thus indicating a potential y-o-y growth of 37%. The strong asset monetisation pipeline by National Highway Authority of India (NHAI), the gaining monetisation popularity of NH-HAM projects and, the transfer of mature operational toll roads will continue to be the dominant reasons for this growth.

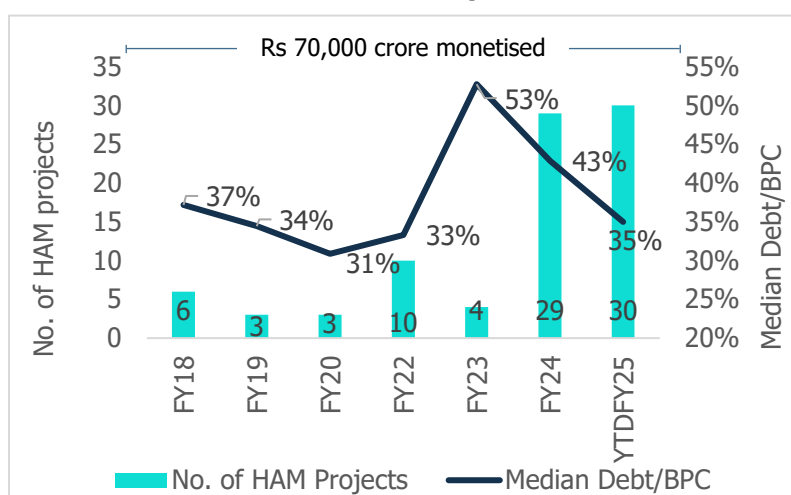
Chart 3- AUM of roads InvITs



Source: CareEdge Ratings

B. The Uptick in NH- HAM monetisation

Chart 4- Stake sale deals over the years



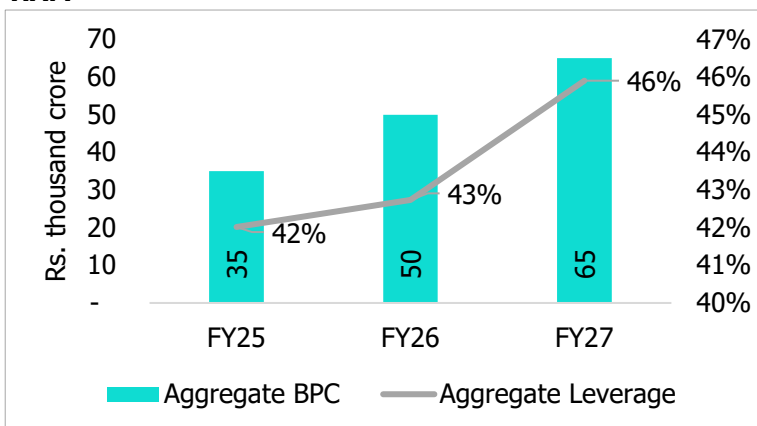
Source: CareEdge Ratings

Over the past 7 years, ended December 31, 2024, operational NH-HAM projects valuing over Rs 70,000 crore have been monetised, enabling various sponsors to realise approximately Rs 11,500 crore from the stake sale of 58 HAM assets. Projects with low leverage and those bid at a healthy premium over NHAI costs have achieved better realisations. Additionally, higher Price Index Multiples for assessing project completion costs and increased bank rates have boosted valuation multiples to 1.75-2.00 times over the years.

C. Monetisation Potential for HAM Projects upbeat; yet achieving desired valuations for project awarded post FY23 is key monitorable

CareEdge Ratings expects an asset monetisation potential of Rs 50,000 crore for existing operational Hybrid Annuity Model (HAM) projects. Additionally, with more HAM projects becoming operational, CareEdge Ratings estimates that projects worth over Rs 1.5 lakh crore will be eligible for InvITs portfolio in the near to medium term, thus bringing the total monetisation potential to around Rs 2 lakh crore over FY25-FY27. Yet, these yet-to-commission operational projects can face challenges in monetisation as compared with the earlier monetised assets. These projects were awarded during periods of intense competition, often at a discount to NHAI costs.

Chart 5- Monetisation Potential for Under-construction HAM



Source: CareEdge Ratings

Table 1: Key challenges for monetizing of upcoming road projects

Existing Operational HAM projects	HAM projects awarded post FY23
Low leverage (debt/BPC): 36%	High leverage (debt/BPC: 42%-46%)
Assets bid at higher premium over NHAI cost (>20%)	Assets bid at lower premium over NHAI cost (<10%) or discount
Higher PIM benefits	Lower PIM benefits

Source: CareEdge Ratings

Also, factors such as higher leverage, peak bank rates, and lower Price Index Multiples (PIM) may limit valuation prospects. Besides the above-mentioned factors, the valuation multiples and varying investor appetite surrounding perceived risks in the construction quality need to be closely monitored.

CareEdge Ratings' View

"Infrastructure Investment Trusts (InvITs) in India have experienced substantial growth in their Asset Under Management (AUM). As of September 30, 2024, the total AUM of InvITs stood at Rs 5.87 lakh crore, spanning various sectors, including roads, transmission, telecom, pipelines, renewable energy, and warehousing. The roads sector continues to dominate, with an estimated AUM of Rs 2.40 lakh crore till March 31, 2025, with 167 road assets already transferred to 13 InvITs. CareEdge Ratings estimates AUM for roads InvITs to grow by 37% to reach Rs 3.27 lakh crore by FY26(P). Growth in roads InvIT portfolio is driven by strong asset monetisation pipeline by National Highways Authority of India (NHAI), transfer of mature operational toll roads and gaining monetisation traction of National Highways- HAM projects." said Maulesh Desai, Director of CareEdge Ratings.

"The monetisation of NH-HAM projects has witnessed significant activity over the past seven years, with over Rs 70,000 crore worth of projects being monetised, which enabled sponsors to realize approximately Rs 11,500 crore. However, challenges such as relatively higher leverage, competitive bidding with HAM projects awarding at lower premium or discount from authority cost and limited upside in bank rates from the bidding period may impact the valuation prospects of HAM projects, particularly those awarded post-FY23. Despite the significant monetisation potential, the valuation multiples and investor appetite due to perceived risks in the quality of construction needs to be closely monitored," adds Setu Gajjar, Assistant Director of CareEdge Ratings.

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