

July 18, 2023

Indian Highway Concessions Trust: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-fund based – Bank guarantee	50.00	75.00	[ICRA]AAA (Stable); reaffirmed/assigned for enhanced amount
Total	50.00	75.00	

*Instrument details are provided in Annexure-I

ICRA has assigned/reaffirmed [ICRA]AAA (pronounced as ICRA triple A) rating to the Rs. 75-crore bank guarantee of Indian Highway Concessions Trust (IHCT/the InvIT/the Trust). The outlook on the rating is Stable. The rating assigned by ICRA is not a comment on the ability of the InvIT to meet distribution/dividend payouts to unitholders/investors, neither should it be construed as an opinion on the debt servicing ability of the individual special purpose vehicles (SPVs) held by the InvIT.

ICRA has undertaken a consolidated financial analysis of IHCT and the two operational toll road projects (held in SPVs) viz. — NCR Eastern Peripheral Expressway Private Limited (NEPEPL, rated [ICRA]AAA (Stable)), and Shree Jagannath Expressways Private Limited (SJEPL, rated [ICRA]AA- (Stable)). Both are 100% held by IHCT.

At present, the debt is held at the SPV level. However, the InvIT will have access to the surplus cash flows after meeting obligations at the SPVs and post compliance of conditions of the financing documents of respective SPVs.

Rationale

The rating derives comfort from the healthy profile of IHCT's road assets comprising operational toll road projects with concession from the National Highways Authority of India (NHAI, rated [ICRA]AAA (Stable)). These road assets have an established track record of toll collection. The rating considers the InvIT's strong financial risk profile with a projected average debt servicing coverage ratio (DSCR) of ~1.9 times as per ICRA's base case estimates and leverage¹ of ~42% as on March 31, 2023. The rating draws strength from the SEBI InvIT regulations that restrict the aggregate consolidated borrowings and deferred payments for the InvIT and its SPVs, thereby limiting the leverage that can be undertaken by the Trust. ICRA draws comfort from the management's guidance of leverage to remain below 49% of loan-to-value (LTV), thereby supporting IHCT's strong credit profile. The asset portfolio showcases geographical diversification across various states viz. Odisha (SJEPL), and Haryana and Uttar Pradesh (NEPEPL). NEPEPL, a six-lane wide expressway passing through Haryana and Uttar Pradesh, is the largest asset in IHCT InvIT accounting for 73% of cash flow after debt servicing (CFADS) and 75% of the enterprise value² at the InvIT level. Along with the Western Peripheral Expressway, NEPEPL forms part of the largest ring road around Delhi NCR. The expressway helps in easing traffic congestion in the Faridabad – Ghaziabad stretch and prevents commercial vehicles from entering Delhi, thereby reducing the pollution. There are nine highways that acts as a feeder for traffic to the Eastern Peripheral Expressway, thereby reducing dependency on a single end user industry/ geography. Owing to shorter time taken as compared to the city roads, the stretch, though being tolled, remains the preferred route for passenger vehicles. Further, presence of various industries and warehouses in the vicinity of the project road contributes to the sticky nature of the commercial traffic, especially for ones having trip lengths of less than 200 km, which dominate the project stretch. SJEPL, a six-lane expressway in

¹ Leverage is defined as ratio of consolidated external borrowings to enterprise value

² As per valuation report dated May 31, 2023 shared by the management

Odisha, is a part of the Golden Quadrilateral connecting the Chennai-Kolkata corridor. It also forms an important part of the route connecting Bonaigarh-Keonjhar iron ore belt and the Paradip Port. The Kalinganagar industrial area and Paradip refinery are the other important growth drivers for the stretch.

NEPEPL's average per day toll collection for Q1 FY2024 was Rs. 1.18 crore as compared to the average per day toll collection of Rs. 1.20 crore for FY2023³, despite a ~5% toll rate hike effective from April 01, 2023. SJEPL witnessed a robust year-on-year (YoY) growth of 12.7% in average per day toll collection for FY2023 to Rs. 0.54 crore and 17.8% for Q1 FY2024 to Rs. 0.63 crore. This was supported by higher volumes handled by Paradip Port during FY2023 due to withdrawal of export duty on iron ore and iron pellets in November 2022. ICRA expects the consolidated toll collections for IHCT to witness a moderate growth of 7%-8%, on a per day basis, in FY2024e, supported by the toll rate hike of ~5%.

IHCT is sponsored by Maple Highways Pte Ltd, an affiliate of Caisse de depot et placement du Quebec (CDPQ, rated by Moody's Investors Service at Aaa, Stable), to house operational road assets in India. The rating favourably factors in the strong sponsor profile and strategic importance of IHCT as a primary vehicle for CDPQ's investments in the Indian road sector.

However, IHCT remains exposed to risks inherent in toll road projects, including those arising from cyclicity in traffic growth, inflation-linked toll rate increase, risk of political acceptability of rate hikes over the concession period, the likelihood of toll leakages, development or improvement of alternative routes or alternate modes of transportation. Any material reduction in traffic, which could have an adverse impact on the debt coverage indicators will remain a key monitorable. The operations and maintenance (O&M) activities for the SPVs under the InvIT are currently being carried out by Egis India. The ability to undertake regular and periodic maintenance within the budgeted cost and time would remain a key monitorable. In this regard, ICRA has taken comfort from the projected strong cash flows and significant cushion built in the cost estimates for undertaking the O&M and major maintenance (MM) expenditure.

ICRA notes that IHCT, like any other InvIT, remains exposed to the risks associated with any further asset acquisition, which could materially impact its operational and financial risk profile. If the InvIT acquires any other asset or raises additional debt in future, ICRA will at that juncture, evaluate the impact of the same on the rating. Also, any regulatory changes that can impact its financial risk profile will remain monitorable.

Key rating drivers and their description

Credit strengths

Road projects with operational track record, spread across three states – The rating derives comfort from the healthy profile of IHCT's road assets comprising operational toll road projects with concession from the NHAI. These road assets have an established track record of toll collection. The asset portfolio showcases geographical diversification across various states viz. Odisha (SJEPL), Haryana and Uttar Pradesh (NEPEPL). NEPEPL, a six-lane wide expressway passing through Haryana and Uttar Pradesh, is the largest asset in IHCT InvIT accounting for 73% of CFADS and 75% of the enterprise value⁴ at InvIT level. Along with the Western Peripheral Expressway, it forms a part the largest ring road around Delhi NCR. The expressway helps in easing traffic congestion in the Faridabad – Ghaziabad stretch and prevents commercial vehicles from entering Delhi, thereby reducing the pollution. There are nine highways that acts as a feeder for traffic to the Eastern Expressway, thereby lowering dependency on limited source for traffic. Owing to shorter time taken as compared to the city roads, the stretch, though being tolled, remains the preferred route for passenger vehicles. Further, presence of various industries and warehouses in the vicinity of the project road contributes to the sticky nature of the commercial traffic, especially for ones having trip lengths of less than 200 km, which dominate the project stretch. SJEPL, a six-lane expressway in Odisha, is a part of the Golden Quadrilateral connecting the Chennai-Kolkata corridor. It also forms an important part of the route connecting Bonaigarh-Keonjhar iron ore belt and the Paradip Port. The Kalinganagar industrial area and Paradip refinery are the other important

³ IHCT started collecting toll from November 11, 2022.

⁴ As per valuation report dated May 31, 2023 shared by the management

growth drivers for the stretch. NEPEPL's average per day toll collection for Q1 FY2024 was Rs. 1.18 crore as compared to the average per day toll collection of Rs. 1.20 crore for FY2023⁵, despite a ~5% toll rate hike effective from April 01, 2023. SJEPL witnessed a robust year-on-year (YoY) growth of 12.7% in average per day toll collection for FY2023 to Rs. 0.54 crore and 17.8% for Q1 FY2024 to Rs. 0.63 crore. This was supported by higher volumes handled by Paradip Port during FY2023 due to withdrawal of export duty on iron ore and iron pellets in November 2022. ICRA expects the consolidated toll collections for IHCT to witness a moderate growth of 7%-8%, on a per day basis, in FY2024e, supported by the toll rate hike of ~5%.

Strong financial profile and adequate debt structure, with cash pooling benefit of InvIT – The InvIT has a strong financial risk profile with a projected average DSCR of ~1.9 times as per ICRA's base case estimates and leverage of ~42% as on March 31, 2023. The rating draws comfort from the SEBI InvIT regulations that restrict the aggregate consolidated borrowings and deferred payments for the InvIT and its SPVs, thereby limiting the leverage that can be undertaken by the Trust. ICRA draws comfort from management's guidance of leverage to remain below 49% of LTV, supporting IHCT's strong credit profile.

Strong sponsor and project manager profile – IHCT is sponsored by Maple Highways Pte Ltd, an affiliate of CDPQ, to house the operational road assets in India. The rating favourably factors in the strong sponsor profile and strategic importance of IHCT as a primary vehicle for CDPQ's investments in the Indian road sector.

Credit challenges

Risks inherent in BOT toll road projects – IHCT is exposed to risks inherent in toll road projects, including those arising from cyclical in traffic growth, inflation-linked toll rate increase, risk of political acceptability of rate hikes over the concession period, the likelihood of toll leakages, development or improvement of alternative routes or alternate modes of transportation. Any material reduction in traffic, which could have an adverse impact on the debt coverage indicators, will remain a key monitorable.

Undertaking regular and periodic maintenance/capex within budgeted cost – The O&M activities for the SPVs under the InvIT are currently being carried out by Egis India. The ability to undertake regular and periodic maintenance within the budgeted cost and time would remain a key monitorable. In this regard, ICRA has taken comfort from the projected strong cash flows and significant cushion built in the cost estimates for undertaking the O&M and MM expenditure.

Risk of further asset acquisition by Trust and its funding pattern – The InvIT is exposed to risks associated with any further asset acquisition, which could materially impact its operational and financial risk profile. If the InvIT acquires any other asset or raises additional debt in future, ICRA will at that juncture, evaluate the impact of the same on the rating. Also, any regulatory changes that can impact its financial risk profile will remain monitorable.

Liquidity position: Strong

IHCT's liquidity position is expected to be strong with adequate toll collections to meet the operational expenses and debt servicing requirement. It reported cash and cash equivalents of Rs. 400.8 crore as on March 31, 2023, which includes obligations to be met under the transaction documents and Rs. 150 crore which is available for operational and various obligations of IHCT. The consolidated annual principal debt repayment is estimated at Rs. 51.8 crore, Rs. 99.5 crore and Rs. 127.5 crore for FY2024, FY2025, FY2026, respectively, which is likely to be comfortably serviced from the operational cash flows.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Negative pressure on the rating could arise if there are any debt-funded acquisitions that result in large increase in leverage/LTV. Lower-than-anticipated collections in SPVs, any dilution or non-adherence to debt structure or any

⁵ IHCT started collecting toll from November 11, 2022.

short-term debt raised resulting in average DSCR over the debt tenure falling below 1.75 times for the InvIT, could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Infrastructure Investment Trusts (InvITs) Rating Methodology for BOT (Toll) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the issuer (list of entities given in Annexure II)

About the company

IHCT is an irrevocable Trust set up under the Indian Trusts Act, 1882 and registered with the Securities and Exchange Board of India (SEBI) as an Infrastructure Investment Trust under the SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended. Maple Highways Pte Ltd, an affiliate of CDPO, is its sponsor, while the investment manager of the Trust is Maple Infra Invit Investment Manager Pvt. Ltd. IHCT's project manager is Maple Highway Project Management Pvt. Ltd. And the trustee is Axis Trustee Services Limited. The Trust received registration from SEBI on February 24, 2022.

At present, there are two operational toll road projects (held in SPVs) viz. —NEPEPL and SJEPL. Both are 100% held by IHCT.

Key financial indicators (audited)

IHCT – Consolidated	FY2022	FY2023
Operating income	-	320.5
PAT	NM	-153.4
OPBDIT/OI	-	50.0%
PAT/OI	-	-47.9%
Total outside liabilities/Tangible net worth (times)	NM	1.5
Total debt/OPBDIT (times)	NM	30.1
Interest coverage (times)	NM	0.8

Source: ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NM – Not meaningful, Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					July 18, 2023	Jan 17, 2023	Sep 30, 2022		
1	Bank guarantee	Long term	75.00	59.7	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Non-fund based – Bank guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank guarantee	NA	NA	NA	75.00	[ICRA]AAA (Stable)

Source: Company, ICRA Research

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shree Jagannath Expressways Private Limited	100.00%	Full Consolidation
NCR Eastern Peripheral Expressway Private Limited	100.00%	Full Consolidation

Source: Company, ICRA Research

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Branches



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