September 29, 2023

# Oriental InfraTrust: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund-based – Term loan-1** | 2657.00 | 2285.58 | [ICRA]AAA (Stable); reaffirmed |
| **Long-term – Fund-based – Term loan-2** | 1350.00 | 1339.03 | [ICRA]AAA (Stable); reaffirmed |
| **Long-term – Fund-based – Term loan-3** | 1303.00 | 886.63 | [ICRA]AAA (Stable); reaffirmed |
| **Long-term – Unallocated limits** | - | 798.76 | [ICRA]AAA (Stable); reaffirmed |
| **Total** | **5310.00** | **5310.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating assigned by ICRA is not a comment on the ability of Oriental InfraTrust (OIT or Trust or InvIT) to meet distribution/dividend payouts to unitholders/investors, neither should it be construed as a comment on the debt servicing ability of the individual project assets or special purpose vehicles (SPVs) held by the Trust.

ICRA has undertaken the consolidated financial analysis of OIT, its six underlying SPVs [*Oriental Nagpur Bye-Pass Construction Pvt Ltd (ONBP), Oriental Pathways Indore Pvt Ltd (OPIK), Etawah-Chakeri Kanpur Highway Pvt Ltd (ECKH), OSE Hungund Hospet Highways Private Limited (OHH), Oriental Nagpur Betul Highway Ltd (ONBH) and Biaora to Dewas Highways Private Limited (BDHPL*)]. OIT has 100% equity stake in these six SPVs. There is cash flow fungibility for the three SPVs (ECKH, OHH and ONBP) that do not have any external debt, as well as unhindered access to the surplus cash flows[1] for the remaining SPVs that have external debt. There is an established track record of transfer of surplus from the SPVs to the infrastructure investment trust (InvIT) from the time of inclusion of these assets under the InvIT structure. Further, these assets have comfortable debt servicing coverage ratios (DSCR) and significant cushion from triggering the cash trap levels defined in their respective borrowing agreements.

The rating action considers OIT's healthy operational profile with stable operational road projects comprising five toll-based road projects with an average toll collection track record of nearly 7.5 years and one annuity-based road project with a track record of timely receipt of 17 semi-annual annuities, all under Concession Agreement from the National Highway Authority of India (NHAI; rated [ICRA]AAA (Stable)). The Trust has a diversified revenue stream, with the stable income from annuity assets accounting for ~22% of the discounted cash flows available for debt servicing over the tenure of the debt (till FY2040), the balance is from five toll projects spread across four different states. The rating favourably notes the healthy improvement in toll collections in FY2023, with the average daily toll collections improving by ~32% to Rs. 3.7 crore from Rs. 2.8 crore in FY2022, aided by addition of BDHPL's revenues starting October 2022. Excluding the impact of BDHPL's acquisition, toll collection grew by ~22% YoY in FY2023, implying annualised traffic growth of 10.5% on the existing BOT-Toll assets in the last fiscal. In Q1 FY2024, the average daily collection has grown to Rs. 4.6 crore, supported by addition of BDHPL and healthy growth in three of the assets viz. ONBP, OPIK and OHH.

Further, OIT had completed the acquisition of BDHPL in October 2022 and its consolidated debt increased by ~Rs. 2,650 crore and is in line with ICRA's estimates. The Trust is expected to avail additional debt of ~Rs. 200 crore for undertaking incremental capex in ONBP in FY2024 and FY2025. Notwithstanding this, refinancing of debt with elongation of repayment profile by ~7

*[1] Surplus cash flows for the SPVs have been taken as cash flows available after meeting the operating expenses of the SPVs, including taxes, debt servicing and maintenance of the required reserves.*

years supported the debt coverage metrics which continue to remain robust with average DSCR of more than 1.75 times for the debt tenure. The rating also considers the benefit of cash flow pooling for the SPVs and the Trust, which ensures availability of cash flows for meeting the regular and periodic maintenance expenses as well as debt servicing.

ICRA takes comfort from the provision of maintaining a major maintenance reserve (MMR), 18 months prior to the expenditure, which would support the periodic maintenance expenses. The rating draws comfort from the Securities and Exchange Board of India (SEBI) InvIT regulations that restricts[2] the aggregate consolidated borrowings and deferred payments for the InvIT and its SPVs, thereby limiting the leverage that can be undertaken by the Trust. Going forward, for the upcoming acquisitions, if any, the funding, and the target leverage will be decided by the Trust based on the nature of the asset and would remain a key rating monitorable. Notwithstanding incremental acquisition plans, ICRA draws comfort from the management's guidance to keep the overall leverage at a comfortable level. The rating considers the robust cash flow cover and other features like maintenance of a three-month debt service reserve account (DSRA) throughout the loan tenure, for debt at the InvIT level (ONBH maintains DSRA of 9 months, while BDHPL and OPIK maintain DSRA of three months, for their external debts separately) and provision for cash trap in case the DSCR falls below 1.3 times as per quarterly testing. The rating favourably considers the significant experience and established track record of the project manager— OSEPL—and the fixed-price contract between the project manager and the SPVs for taking up routine and major maintenance (MM) activities for the entire concession period.

However, the Trust remains exposed to risks inherent to toll road projects, including risk of lower traffic growth, political acceptability of toll rate hikes over the concession period, the likelihood of toll leakages, development or improvement of alternative routes or alternate modes of transportation. In this regard, ICRA notes the relatively moderate traffic growth witnessed in ECKH and BDHPL in FY2023, owing to slowdown in mining activities for the former and export ban of wheat for the latter. Going forward, trends in traffic growth and movement in inflation/WPI (for toll rate hike) will remain the key rating sensitivities. The Trust's ability to manage routine and periodic maintenance expenses within the budgeted levels remains important. Nonetheless, the presence of fixed-price agreements partially mitigates the risk of coverage defined in the contracts. Some of the SPVs have a provision for revision in concession based on traffic testing, and ICRA has built-in such extension (based on estimated traffic projections) in its base case projections, within the tenure of the existing debt of the InvIT.

The Stable outlook on the rating reflects ICRA's expectation that the Trust will continue to benefit from the strong operational profile of its portfolio assets and its robust debt coverage metrics, comfortable leverage profile and strong liquidity profile. ICRA notes that the Trust can acquire additional projects in the future, which may materially affect its operational and financial risk profile, ICRA will, at that juncture, evaluate the impact of the same on OIT's credit risk profile.

## Key rating drivers and their description

### Credit strengths

**Operational nature of asset portfolio with established track record of toll collection; strong counterparty for annuity project** – OIT's portfolio comprises six build-operate-transfer (BOT) projects, undertaken on public private partnership (PPP) basis, in Concession Agreement with the NHAI, of which five are BOT-Toll projects and one is a BOT-Annuity project. The toll road projects under the Trust have an average toll collection track record of nearly 7.5 years. The healthy operational track record of the projects supports the toll collections, with expectation of a stable profile in the future. The portfolio includes one annuity asset, with concession from a strong counterparty, NHAI. This, in turn, provides greater revenue stability. The annuity project has a track record of receipt of seventeen semi-annual annuities, in a timely manner, as of August 2023. The Trust has a

[2] *For InvITs, SEBI permits leverage up to 70% subject to a minimum track record of six distributions on a continuous basis and maintenance of AAA rating for the consolidated debt*

diversified revenue stream, with the stable income from annuity assets accounting for ~22% of the cash flows available for debt servicing over the tenure of the debt (till FY2040). The balance was from five toll projects spread across four different states.

**Strong financial profile of the Trust** – The rating considers the robust cash flow cover of OIT with projected cumulative DSCR of more than 1.75 times. OIT's consolidated debt increased by ~Rs. 2,650 crore in FY2023 due to the acquisition of BDHPL (Rs. 1,350 crore of debt raised by OIT to fund the acquisition and ~Rs. 891 crore of debt availed for refinancing of BDHPL debt, and further ~Rs. 400 crore of the remaining external debt at BDHPL). OIT's consolidated debt remained in line with ICRA's estimates for the acquisition. However, the Trust is planning to raise additional debt of ~Rs. 200 crore for undertaking incremental capex in ONBP in the near term. Notwithstanding this, refinancing of debt with elongation of repayment profile by ~7 years supported the debt coverage metrics, which continue to remain robust with average DSCR of more than 1.75 times for the debt tenure. Further, structural features of the debt like maintenance of three-month peak DSRA throughout the loan tenure, for debt at the InvIT level (additionally ONBH, BDHPL and OPIK also have DSRA for their external debts) and provision for cash trap in case the DSCR falls below 1.3 times as per the annual audited figures and annual testing support the credit profile.

**Cash pooling benefit of InvIT** – The rating considers the benefit of cash flow pooling for the SPVs and the Trust, which ensures that cash flows of the SPVs are available for meeting the regular and periodic maintenance expenses as well as debt servicing of the SPVs and the InvIT. This will ensure that MM in any of the SPVs is not impacted by the lack of funding in the years with high expenses or concurrent expenditures in various SPVs. Further, the SPVs would be required to maintain MMR, in line with the loan agreement, which would support the MM expenses. 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.

## Credit challenges

**Risks inherent in BOT (toll) road projects** – OIT's current portfolio comprises five toll road projects across four states. However, the top two assets account for ~60% of the revenues in FY2023, indicating the revenue concentration risk, which exposes the credit profile of the InvIT to the performance of its key assets. Further, one of the SPVs (ECKHPL) is required to pay sizeable premium to the NHAI over the concession period and a part of the premium has been deferred, which has increased the future cash outflow. The high back-ended payments may result in consolidated leverage remaining at a relatively higher level.

The underlying assets of the InvIT, being toll-based road projects, remain exposed to revenue risks associated with traffic growth, leakage of toll-paying traffic, diversion of traffic to alternative routes, etc. The sensitivity of revenues to the overall economic growth and inflation (WPI) as well as user resistance to pay/accept any increase in toll rates are other risks. In this regard, ICRA notes the relatively moderate traffic growth witnessed in ECKH and BDHPL in FY2023, owing to slowdown in mining activities and export ban of wheat, respectively. OIT's ability to manage routine and periodic maintenance expenses within the budgeted levels remains critical. Nonetheless, presence of fixed-price agreements partially mitigates the risk to the extent of coverage defined in the contracts.

**Risk of new asset acquisition by the Trust and its funding pattern –** The Trust can acquire additional projects in the future, which may materially affect its operational and financial risk profile. ICRA will, at that juncture, evaluate the impact of the same on OIT's credit risk profile.

## Liquidity position: Strong

OIT's liquidity position remains strong, as reflected in the consolidated cash and bank balance of Rs. 1,222.3 crore as on March 31, 2023 (includes balances at the Trust level as well as the SPV level and includes Rs. 185 crore of unencumbered cash balances). The liquidity position is expected to remain strong with adequate toll collections to meet the operational expenses and debt servicing requirement. The project SPVs generate cash flows on a daily basis from toll collections. Against this, the debt serving happens at monthly (interest) and quarterly (principal repayment) intervals.

## Rating sensitivities

**Positive factors** – Not Applicable.

**Negative factors** – The rating maybe downgraded if any debt-funded acquisition leads to a significant increase in leverage, or lower-than-anticipated collections in SPVs or increase in costs results in average DSCR over the debt tenure falling below 1.75 times. The rating may be downgraded if there is non-adherence or dilution of the debt structure.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Infrastructure Investment Trusts(InvITs)<br>Rating Methodology for BOT (Annuity) Roads<br>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 in Annexure II) |

## About the company

Oriental Infratrust (OIT) is an irrevocable Trust set up under the Indian Trusts Act, 1882, and registered with the SEBI as an InvIT under the Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations on March 29, 2019. OSEPL is the sponsor of the InvIT and the project manager for the SPVs. OIT Infrastructure Management Limited is the investment manager and Axis Trusteeship Services Limited is the trustee.

OIT's current portfolio comprises six BOT road assets, consisting of five toll road assets and one annuity road asset, in Maharashtra, Madhya Pradesh, Uttar Pradesh and Karnataka. These roads are operated and maintained pursuant to concessions granted by the NHAI and are owned and operated by project SPVs. The enterprise value of the InvIT as on March 31, 2023, as per the latest valuation report, stood at Rs. 14,734 crore and the cumulative length of the portfolio is 772 km.

A brief information on the assets is as follows:

| Project SPV/ Asset | Project Type | Concession Authority | State/Location |
|---|---|---|---|
| **Oriental Nagpur Bye Pass Construction Pvt Ltd** | BOT Toll Road project | NHAI | Maharashtra |
| **Oriental Pathways (Indore) Pvt Ltd** | BOT Toll Road project | NHAI | Madhya Pradesh |
| **Etawah-Chakeri (Kanpur) Highway Pvt Ltd** | BOT Toll Road project | NHAI | Uttar Pradesh |
| **OSE Hungund Hospet Highways Private Limited** | BOT Toll Road project | NHAI | Karnataka |
| **Biaora to Dewas Highway Private Limited** | BOT Toll Road project | NHAI | Madhya Pradesh |
| **Oriental Nagpur Betul Highway Ltd** | BOT Annuity project | NHAI | Maharashtra & MP |

The unit capital in OIT was raised through private placement mode, though the Trust is listed on the National Stock Exchange. Approximately 59% of the unit capital in the Trust is held by the promoter group. As per the Trust deed, 20% of the unit capital has to be mandatorily held by the promoter group for 10 years, i.e., till FY2030.

### Key financial indicators (audited)

| OIT Consolidated | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 2,040.7 | 1,755.4 |
| **PAT** | 81.9 | 342.2 |
| **OPBDIT/OI** | 50.5% | 79.4% |

| | | |
|---|---|---|
| **PAT/OI** | 4.0% | 19.5% |
| **Total outside liabilities/Tangible net worth (times)** | 1.4 | 2.0 |
| **Total debt/OPBDIT (times)** | 4.3 | 5.0 |
| **Interest coverage (times)** | 1.9 | 2.2 |

*Source: OIT; ICRA Research*

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore*

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

## Any other information:

**Cash flow pooling:** For arriving at the rating, ICRA considered the consolidated free cash flows from the underlying SPVs on account of the pooling benefit at the SPVs and the Trust level. In addition, ICRA has applied its rating methodologies as mentioned under the section on analytical approach.

The Trust faces prepayment risk, given the possibility of debt acceleration upon the exercise of put option (for term loan 1) by the lenders, breach of covenants, including financial covenants, operating covenants and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

The Trust shall have the option to prepay the term loan 1 in full or in part, at the end of FY2034 by providing 30 days prior notice to the lenders. The Trust shall have 60 days' time for making payments from date of such notice.

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated | Amount outstanding as of June 30, 2023 | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 | | Date & rating in FY2021 |
| | | | (Rs. crore) | (Rs. crore) | 29-Sep-23 | 29-Nov-22 | 2-Aug-22 | 21-Jan-22 | 20-Apr-21 | - |
| 1 | Term loans – 1 | Long term | 2285.58 | 2285.58 | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | - |
| 2 | Term loans – 2 | Long term | 1339.03 | 1339.03 | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | - | - | - |
| 3 | Term loans | Long term | 886.63 | 886.63 | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | - | - | - |
| 4 | Unallocated limits | Long term | 798.76 | - | [ICRA]AAA (Stable) | - | | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term fund-based – Term loan - 1** | Moderately Complex |
| **Long-term fund-based – Term loan - 2** | Simple |

| | |
|---|---|
| **Long-term fund-based – Term loan - 3** | Simple |
| **Long-term – Unallocated limits** | Not applicable |

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 | Fund-based facility – Term loan - 1 | March 2023 | NA | FY2040 | 2285.58 | [ICRA]AAA (Stable) |
| NA | Fund-based facility – Term loan - 2 | March 2023 | NA | FY2040 | 1339.03 | [ICRA]AAA (Stable) |
| NA | Fund-based facility – Term loan - 3 | March 2023 | NA | FY2040 | 886.63 | [ICRA]AAA (Stable) |
| NA | Unallocated limits | NA | NA | NA | 798.76 | [ICRA]AAA (Stable) |

*Source: Company;*

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

## Annexure II: List of entities considered for consolidated analysis

| Company Name | OIT Ownership | Consolidation Approach |
|---|---|---|
| Oriental Nagpur Bye Pass Construction Pvt Ltd | 100.00% | Full Consolidation |
| Oriental Pathways (Indore) Pvt Ltd | 100.00% | Full Consolidation |
| Etawah-Chakeri (Kanpur) Highway Pvt Ltd | 100.00% | Full Consolidation |
| OSE Hungund Hospet Highways Private Limited | 100.00% | Full Consolidation |
| Oriental Nagpur Betul Highway Ltd | 100.00% | Full Consolidation |
| Biaora to Dewas Highways Private Limited | 100.00% | Full consolidation |

*Source: OIT, ICRA Research*

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## About ICRA Limited:

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