May 29, 2019

National Highways Authority of India: Ratings Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Borrowing Programme for 2018-19	62,000.0	61,217.0	[ICRA]AAA (Stable); Reaffirmed
Long-term Borrowing Programme for 2017-18	59,000.0	50,533.0	[ICRA]AAA (Stable); Reaffirmed
Long-term Borrowing Programme for 2016-17	33,118.0	33,118.0	[ICRA]AAA (Stable); Reaffirmed
Tax-free Bonds – 2015-16	19,000.0	19,000.0	[ICRA]AAA (Stable); Reaffirmed
Fund based- Overdraft	5,000.0	2,000.0	[ICRA]A1+; Reaffirmed
Total	**178,118.0**	**165,868.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings take support from NHAI's strong operational and financial linkages with the Government of India (GoI). It is responsible for the development and maintenance of national highways in the country. The ratings also take comfort from NHAI's stable funding sources which includes fuel cess and project revenues (ploughing back of funds from toll collection, negative grant, and revenue sharing). Besides, NHAI in the past has received funds by way of additional budgetary allocations and monetisation of assets under the toll operate transfer (TOT) model. Its ability to raise long-tenure debt at competitive cost also reduces its debt servicing requirement and supports its financial risk profile.

These strengths apart, the increasing borrowings and sizeable contingent liabilities of NHAI are key credit challenges. Its expenditure towards implementation of national highway projects has increased significantly on account of higher land acquisition and construction costs as well as the shift towards engineering, procurement and construction (EPC) and Hybrid Annuity Model (HAM) mode of project award. This, along with moderate allocation of cess towards NHAI, has resulted in increased dependence on Internal and Extra Budgetary Resources (IEBR) to be arranged by NHAI, which led to an increase in its borrowings to ~Rs. 1.8 lakh crore as of March 31, 2019. This is likely to increase further over the medium term with the proposed borrowings for the ongoing Bharatamala Pariyojana. However, ICRA has noted NHAI's plans of monetising operational road assets through the TOT model, which can provide sizeable funds and help reduce the dependence on external borrowings to some extent.

Going forward, support from the GoI (both financially and operationally) would be crucial for maintaining the credit profile of NHAI and would remain a key rating sensitivity. NHAI's ability to monetise assets through TOT and reduce dependence on external borrowings would also be a key monitorable.

Outlook: Stable

ICRA believes that due to its strategic importance and strong linkage with the GoI, NHAI will continue to get the support of the former, both financially and operationally. This would be critical in maintaining the credit profile of NHAI. The outlook may be revised to Negative if there is any weakness in linkage with the GoI or reduction in its strategic importance.

Key rating drivers

Credit strengths

Strategic importance to GoI - NHAI is an autonomous GoI authority under the Ministry of Road Transport and Highway (MoRTH). It was established on June 15, 1989 as per the National Highways Authority of India Bill, 1988. NHAI is the nodal agency for the development and the maintenance of national highway projects. National Highways constitute about ~2% of India's road network; however, these carry over ~40% of the total road traffic. Given the significance of the national highway infrastructure, NHAI is strategically important to the GoI.

Strong operational and financial linkages with GoI - As a part of the GoI, NHAI has strong financial and operational linkage with the same. Apart from being the promoter, the GoI has statutory and regulatory powers over NHAI and supports it in major policy decisions. The GoI also provides financial support to NHAI in the form of budgetary allocations and the flexibility to raise funds through capital gains bonds and tax-free bonds at competitive borrowing cost.

Stable funding sources - NHAI has stable funding sources owing to the allocation of fuel cess funds, additional budgetary resources, project revenues (toll collections, revenue share, negative grant and premium receivables), and flexibility to raise funds at competitive borrowing cost. This apart, NHAI can monetise its operational assets through the TOT model. NHAI's ability to raise funds through the TOT mode can reduce its dependence on external borrowings. In FY2020, NHAI's expenditure is expected to be funded through Rs. 16,091 crore of cess fund, Rs. 10,600 crore of plough back from consolidated fund of India, Rs. 10,000 crore of asset monetisation through the TOT mode, and Rs. 75,000 crore though market borrowings.

Credit challenges

Increasing borrowings - NHAI's project-implementation cost has increased substantially with more projects awarded on EPC/HAM basis, requiring upfront funds and higher land acquisition costs. Due to this, NHAI's dependence on market borrowings has increased significantly over the years. Its debt-to-capital ratio has increased from 0.26 times as on March 31, 2014 to 0.82 times as on September 30, 2018. In FY2018, about 66% of the total expenditure has been funded through debt compared with ~33% in FY2014. The dependence on debt is expected to increase going forward due to higher funding requirements for Bharatmala Pariyojana, which has an estimated cost of Rs. 5,35,000 crore for phase-1. However, over the longer term, with the completion of the projects awarded under EPC/HAM mode, NHAI's toll collections would increase and the same can also be monetised.

Sizeable contingent liabilities - NHAI has sizeable contingent liabilities, most of which are from disputed claims filed by contractors/developers. As of March 2018, NHAI had contingent liability of Rs. 55,345 crore and $0.43 million in arbitration and Rs. 7,439 crore and EUR 0.26 million in court cases. While the contingent liability on account of claims raised by private players is sizeable, there has not been any significant outflow of cash in the cases that have been settled in the past. However, the final quantum and timing of the settlement of the remaining claims will have a bearing on NHAI's cash flows. ICRA notes that in the annual report of FY2017, the auditor (Comptroller and Auditor General of India) mentioned that the balance sheet and profit and loss accounts were not drawn in the format approved by the GoI.

Liquidity position

NHAI receives budgetary support from the GoI in the form of cess allocation, additional budgetary support, plough back of toll, negative grant, shared revenues, etc. on a quarterly basis. This apart, NHAI can raise funds from the market at competitive rates in the form of 54-EC bonds, bonds, loans, etc. NHAI had cash balance of Rs. 6491.36 crore as on March 31, 2019. Further, it has unutilised overdraft limits of Rs. 2,000 crore and term loan of Rs. 6,000 crore, which provides liquidity cushion. Given the strategic importance of NHAI for the GoI, ICRA expects NHAI to receive timely support from the latter in case of any liquidity constraints.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology BOT Toll Road Projects in India Rating Methodology for BOT (Annuity) Roads Rating Methodology for BOT (Hybrid Annuity Model) Roads Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent: Government of India (GoI) The assigned rating factors in the strategic importance of NHAI for the GoI and its strong operational and financial linkages; it receives support from the GoI in the form of cess allocation, plough back of project revenues and additional budgetary support; ICRA expects the government to extend timely financial support to NHAI, as and when required
Consolidation / Standalone	Standalone

About the issuer

NHAI is an autonomous authority constituted by an Act of Parliament, the National Highways Authority of India Act, 1988. It operates under the MoRTH and is responsible for the development, maintenance and management of the national highways in India. The authority was operationalised in February 1995. NHAI is also entrusted with the responsibility of implementing NHDP, Bharatmala Pariyojana and other programmes approved by the GoI such as SARDP-NE and special projects across various states.

In October 2017, the GoI has approved Phase-1 of Bharatmala Pariyojana involving national highway development of around 34,800 km with a total planned expenditure of Rs. 5.35 lakh crore. Out of 34,800 km of total length, 24,800 km is for Bharatmala Pariyojana, and 10,000 km for balance work under NHDP. Under the Bharatmala Pariyojana, NHAI is responsible for the construction of 19,800 km of roads.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	12.02	12.20
PAT (Rs. crore)	-221.43	-267.15
OPBDIT/OI (%)	Negative	Negative
RoCE (%)	Negative	Negative
Total Debt/TNW (times)	0.33	0.49
Total Debt/OPBDIT (times)	Negative	Negative
Interest coverage (times)	Negative	Negative

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2019 (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017	
					May 2019	April 2018	November 2017	April 2017	June/ August 2016	May 2016
1	Tax Free Bonds 2015-16	Long Term	19,000	19,000	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
2	Long Term Borrowing Programme for 2016-17	Long Term	33,118	33,118	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
3	Fund-based (Overdraft)	Short Term	2,000	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-
4	Long Term Borrowing Programme for 2017-18	Long Term	50,533	50,533	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	-	-
5	Long Term Borrowing Programme for 2018-19	Long Term	61,217	61,217	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	-	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE906B07EE9	Tax-Free Bonds (2015-16)	18.09.2015	7.11%	18.09.2025	549	[ICRA]AAA(Stable)
INE906B07EF6		18.09.2015	7.28%	18.09.2030	3,323	[ICRA]AAA(Stable)
INE906B07EG4		11.01.2016	7.14%	11.01.2026	686	[ICRA]AAA(Stable)
INE906B07EH2		11.01.2016	7.39%	11.01.2026	656	[ICRA]AAA(Stable)
INE906B07EI0		11.01.2016	7.35%	11.01.2031	5,983	[ICRA]AAA(Stable)
INE906B07EJ8		11.01.2016	7.60%	11.01.2031	2,675	[ICRA]AAA(Stable)
INE906B07EK6		18.02.2016	7.02%	18.02.2026	455	[ICRA]AAA(Stable)
INE906B07EL4		18.02.2016	7.39%	18.02.2031	1,373	[ICRA]AAA(Stable)
INE906B07EM2		09.03.2016	7.04%	09.03.2026	98	[ICRA]AAA(Stable)
INE906B07EN0		09.03.2016	7.29%	09.03.2026	192	[ICRA]AAA(Stable)
INE906B07EO8		09.03.2016	7.39%	09.03.2031	1,882	[ICRA]AAA(Stable)
INE906B07EP5		09.03.2016	7.69%	09.03.2031	1,128	[ICRA]AAA(Stable)
INE906B07EQ3	54-EC Bonds (2016-17) under Long Term Borrowing Programme for 2016-17	30.04.2016	6.0%	30.04.2019	270	[ICRA]AAA(Stable)
INE906B07ER1		31.05.2016	6.0%	31.05.2019	367	[ICRA]AAA(Stable)
INE906B07ES9		30.06.2016	6.0%	30.06.2019	441	[ICRA]AAA(Stable)
INE906B07ET7		31.07.2016	6.0%	31.07.2019	521	[ICRA]AAA(Stable)
INE906B07EU5		31.08.2016	6.0%	31.08.2019	417	[ICRA]AAA(Stable)
INE906B07FC0		30.09.2016	6.0%	30.09.2019	455	[ICRA]AAA(Stable)
INE906B07EV3		31.10.2016	6.0%	31.10.2019	433	[ICRA]AAA(Stable)
INE906B07EW1		30.11.2016	6.0%	30.11.2019	566	[ICRA]AAA(Stable)
INE906B07EX9		31.12.2016	5.25%	31.12.2019	455	[ICRA]AAA(Stable)
INE906B07EY7		31.01.2017	5.25%	31.01.2020	392	[ICRA]AAA(Stable)
INE906B07EZ4		28.02.2017	5.25%	28.02.2020	376	[ICRA]AAA(Stable)
INE906B07FA4		31.03.2017	5.25%	31.03.2020	880	[ICRA]AAA(Stable)
INE906B07FB2	Taxable Bonds under Long Term Borrowing Programme for 2016-17	03.08.2016	8.03%	03.08.2041	5,000	[ICRA]AAA(Stable)
INE906B07FD8		01.09.2016	7.68%	30.08.2041	5,000	[ICRA]AAA(Stable)
INE906B07FE6		23.12.2016	7.17%	23.12.2021	5,020	[ICRA]AAA(Stable)
INE906B07FF3		24.01.2017	7.22%	24.01.2047	8,500	[ICRA]AAA(Stable)
INE906B07FG1		20.03.2017	7.60%	18.03.2022	4,025	[ICRA]AAA(Stable)
NA	Fund-based Overdraft Limit	-	-	-	2,000	[ICRA]A1+
INE906B07FH9	54-EC Bonds (2017-18) under Long Term Borrowing Programme for 2017-18	30.04.2017	5.25%	30.04.2020	278	[ICRA]AAA(Stable)
INE906B07FI7		30.05.2017	5.25%	31.05.2020	345	[ICRA]AAA(Stable)
INE906B07FJ5		30.06.2017	5.25%	30.06.2020	379	[ICRA]AAA(Stable)
INE906B07FK3		31.07.2017	5.25%	31.07.2020	515	[ICRA]AAA(Stable)
INE906B07FL1		31.08.2017	5.25%	31.08.2020	419	[ICRA]AAA(Stable)
INE906B07FM9		30.09.2017	5.25%	30.09.2020	470	[ICRA]AAA(Stable)
INE906B07FN7		31.10.2017	5.25%	31.10.2020	457	[ICRA]AAA(Stable)
INE906B07FO5		30.11.2017	5.25%	30.11.2020	509	[ICRA]AAA(Stable)
INE906B07FP2		31.12.2017	5.25%	31.12.2020	544	[ICRA]AAA(Stable)
INE906B07FQ0		31.01.2018	5.25%	31.01.2021	537	[ICRA]AAA(Stable)
INE906B07FR8		28.02.2018	5.25%	28.02.2021	565	[ICRA]AAA(Stable)
INE906B07FS6		31.03.2018	5.25%	31.03.2021	1,639	[ICRA]AAA(Stable)
INE906B07FT4	Taxable Bonds under Long Term Borrowing	06.06.2017	7.27%	06.06.2022	1,525	[ICRA]AAA(Stable)
INE906B07FU2		16.06.2017	7.24%	16.06.2047	5,000	[ICRA]AAA(Stable)
INE906B07FV0		14.07.2017	7.14%	12.07.2047	3,500	[ICRA]AAA(Stable)

INE906B07FW8	Programme for 2017-18	24.08.2017	7.38%	24.08.2032	5,000	[ICRA]AAA(Stable)
INE906B07FX6		06.11.2017	7.11%	06.11.2022	850	[ICRA]AAA(Stable)
INE906B08021		22.11.2017	7.64%	22.11.2032	5,000	[ICRA]AAA(Stable)
NA	Loans under Long Term Borrowing Programme for 2017-18	17.01.2018	7.70%	17.01.2028	10,000	[ICRA]AAA(Stable)
NA		07.03.2018	7.92%	07.03.2028	10,000	[ICRA]AAA(Stable)
NA	Masala Bonds	18.05.2017	7.30%	18.05.2022	3,000	[ICRA]AAA(Stable)
NA	Loans under Long Term Borrowing Programme for 2018-19	07.06.2018	8.38%	07.06.2028	5,000	[ICRA]AAA(Stable)
NA		27.07.2018	7.99%	27.07.2028	19,000	[ICRA]AAA(Stable)
NA		28.09.2018	8.33%	28.09.2028	5,000	[ICRA]AAA(Stable)
NA		31.12.2018	8.11%	31.12.2028	5,000	[ICRA]AAA(Stable)
NA		11.03.2019	8.34%	11.03.2029	5,000	[ICRA]AAA(Stable)
INE906B07GK1	Taxable Bonds under Long Term Borrowing Programme for 2018-19	28.06.2018	8.55%	28.06.2048	2,195	[ICRA]AAA(Stable)
INE906B07GL9		02.08.2018	8.45%	02.08.2048	2,060	[ICRA]AAA(Stable)
INE906B07GM7		21.12.2018	8.19%	21.12.2048	2,055	[ICRA]AAA(Stable)
INE906B07GN5		21.01.2019	8.37%	21.01.2029	1,675	[ICRA]AAA(Stable)
INE906B07GO3		05.02.2019	8.49%	05.02.2029	2,000	[ICRA]AAA(Stable)
INE906B07GP0		28.03.2019	8.27%	28.03.2029	5,500	[ICRA]AAA(Stable)
INE906B07GQ8		29.03.2019	8.18%	29.03.2049	2,025	[ICRA]AAA(Stable)
INE906B07FY4	54-EC Bonds (2017-18) under Long Term Borrowing Programme for 2018-19	30.04.2018	5.75%	30.04.2023	154	[ICRA]AAA(Stable)
INE906B07FZ1		30.05.2018	5.75%	31.05.2023	248	[ICRA]AAA(Stable)
INE906B07GA2		30.06.2018	5.75%	30.06.2023	314	[ICRA]AAA(Stable)
INE906B07GB0		31.07.2018	5.75%	31.07.2023	439	[ICRA]AAA(Stable)
INE906B07GC8		31.08.2018	5.75%	31.08.2023	348	[ICRA]AAA(Stable)
INE906B07GD6		30.09.2018	5.75%	30.09.2023	353	[ICRA]AAA(Stable)
INE906B07GE4		31.10.2018	5.75%	31.10.2023	360	[ICRA]AAA(Stable)
INE906B07GF1		30.11.2018	5.75%	30.11.2023	329	[ICRA]AAA(Stable)
INE906B07GG9		31.12.2018	5.75%	31.12.2023	403	[ICRA]AAA(Stable)
INE906B07GH7		31.01.2019	5.75%	31.01.2024	435	[ICRA]AAA(Stable)
INE906B07GI5		28.02.2019	5.75%	29.02.2024	430	[ICRA]AAA(Stable)
INE906B07GJ3		31.03.2019	5.75%	31.03.2024	672	[ICRA]AAA(Stable)

Source: NHAI

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach

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