

September 30, 2022

Indian Highway Concessions Trust: [ICRA]AAA (Stable) assigned

Summary of rating action

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

*Instrument details are provided in Annexure I

ICRA has assigned [ICRA]AAA (pronounced as ICRA triple A) rating to the Rs. 50-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 Provisional [ICRA]AAA (Stable)), and Shree Jagannath Expressways Private Limited (SJEPL, rated [ICRA]AA- (Stable)). Both are 100% held by the IHCT, and it is in the process of acquiring a third toll road asset - Durg Shivnath Expressways Private Limited (DSEPL, rated [ICRA]AA&).

At present, the debt is proposed to be held at the SPV level. However, the InvIT will have unhindered access to the surplus cash flows after meeting obligations at the 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 a long track record of toll collection and have demonstrated robust recovery post the pandemic-related disruption. The rating considers the InvIT's strong financial risk profile with a projected cumulative DSCR of ~1.9 times as per ICRA's base case estimates and initial leverage¹ anticipated to be below 49%. The asset portfolio showcases geographical diversification across various states, with inflows coming from three region – Odisha (SJEPL), and Haryana and Uttar Pradesh (NEPEPL). NEPEPL is the largest asset in IHCT InvIT accounting for 50% of cash flow after debt servicing (CFADS) and 68% of the enterprise value² at the InvIT level. However, there are nine highways that acts as a feeder for traffic to the Eastern Expressway thereby reducing dependency on limited source for traffic; also, short haul traffic having trip lengths of less than 200 km dominates the project stretch thereby providing sticky nature of traffic. Eastern Peripheral Expressway (National Expressway 2) is a six-lane wide expressway passing through Haryana and Uttar Pradesh. 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.

The rating draws comfort from the management's guidance on keeping the leverage below 49% of the loan-to-value (LTV), thereby supporting IHCT's strong credit profile. 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.

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

² As per company's estimates

The rating favourably factors in the strong sponsor profile and strategic importance of IHCT as a primary vehicle for CDPQ's investment in the Indian road sector.

These strengths apart, IHCT remains exposed to risks inherent in toll road projects, including those arising from cyclicality 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 diversion in traffic, which could have bearing on the overall toll collections and debt coverage indicators will remain a key monitorable. The operations and maintenance (O&M) and major maintenance (MM) activities for the SPVs under the InvIT would be carried by a third party. As on date, Egis India has been appointed to undertake the O&M activity for NEPEPL and SJEPL. 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.

ICRA notes that the 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.

The Stable outlook on the rating reflects ICRA's expectation that IHCT will benefit from the strong operational track record of the toll road assets and financial flexibility arising out of it being majority owned by a CDPQ owned entity. The healthy cash flows should help it in maintaining robust debt coverage metrics and comfortable liquidity profile.

Key rating drivers and their description

Credit strengths

Road projects with operational track record – 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 a long track record of toll collection and have demonstrated robust recovery post the pandemic-related disruption. The asset portfolio showcases geographical diversification across various states, with inflows from Odisha (SJEPL), Haryana and Uttar Pradesh (NEPEPL). NEPEPL is the largest asset in IHCT InvIT accounting for 50% of CFADS and 68% of the enterprise value³ at InvIT level. However, there are nine highways that acts as a feeder for traffic to the Eastern Expressway thereby reducing dependency on limited source for traffic; also, short haul traffic having trip lengths of less than 200 km dominates the project stretch thereby providing sticky nature of traffic. Eastern Peripheral Expressway (National Expressway 2) is a six-lane wide expressway passing through Haryana and Uttar Pradesh. 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.

Strong financial profile and adequate debt structure, with cash pooling benefit of InvIT – The InvIT has a strong financial risk profile with a projected cumulative DSCR of ~1.9 times as per ICRA's base case estimates, and initial leverage anticipated to be below 49%. The rating draws comfort from the management's guidance on keeping the leverage below 49% of LTV, thereby supporting IHCT's strong credit profile.

Strong sponsor and project manager profile – 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 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 investment in the Indian road sector.

³ As per company's estimates

Credit challenges

Risks inherent in BOT Toll Road projects – IHCT is exposed to the risks inherent in toll road projects, including those arising from cyclical growth in traffic, 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 diversion in traffic, which could have bearing on the overall toll collections and debt coverage indicators will remain a key monitorable.

Undertaking regular and periodic maintenance/capex within budgeted cost – 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 is anticipated to have cash and bank balance of Rs. 150 crore, which is available for operational and various obligations of IHCT. The consolidated annual principal debt repayment is estimated at ~Rs. 39.9 crore, ~Rs. 86.9 crore and ~Rs. 106.2 crore for FY2023, FY2024, FY2025, 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 is any large debt-funded acquisitions that result in a significant increase in LTV. Lower-than-anticipated collections in SPVs, resulting in cumulative 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 trust

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 Caisse de depot et placement du Quebec (CDPQ, rated by Moody's Investors

Service at Aaa, Stable) is its sponsor, while the Investment Manager (IM) of the Trust is Maple Infra Invit Investment Manager Pvt. Ltd. IHCT's Project Manager (PM) 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. 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.

At present, there are two operational toll road projects (held in SPVs) viz. — NCR Eastern Peripheral Expressway Private Limited (NEPEPL, rated Provisional [ICRA]AAA (Stable)), and Shree Jagannath Expressways Private Limited (SJEPL, rated [ICRA]AA- (Stable)). Both are 100% held by the IHCT, and it is in the process of acquiring a third toll road asset - Durg Shivnath Expressways Private Limited (DSEPL, rated [ICRA]AA&).

Project SPV/Asset	Project Type	Commission Authority	State/Location
Shree Jagannath Expressways Private Limited	BOT	NHAI	Odisha
NCR Eastern Peripheral Expressway Private Limited	BOT	NHAI	Delhi
Durg Shivnath Expressways Private Limited	BOT	NHAI	Chhattisgarh

Key financial indicators- Not Applicable

Key financial indicators are not applicable as IHCT is a recently formed trust.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of Rating History for the Past 3 Years				
		Amount rated (Rs. crore)	Amount outstanding as on Aug 31, 2022 (Rs. crore)	Date & rating in FY2023 Sep 30, 2022	Date & rating in FY2020	Date & rating in FY2019	Date & rating in FY2018	
1	Bank guarantee	Long-term	50.00	NA	[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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Bank Guarantee	-	-	-	50.00	[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

Project SPV/Asset	Ownership	Consolidation Approach
Shree Jagannath Expressways Private Limited	100%	Full Consolidation
NCR Eastern Peripheral Expressway Private Limited	100%	Full Consolidation
Durg Shivnath Expressways Private Limited	*	Full Consolidation

Source: Company

*Definitive agreement already entered between IHCT and TRIL Roads Private Limited (rated [ICRA]A+ (Stable)); 100% stake proposed to be acquired post NHAI approval.

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