

Aadharshila Infratech Private Limited

February 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	150.00	Provisional CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rating in the absence of the pending steps/ documents	No rating can be assigned
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Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned Provisional CARE AA+; Stable rating to Aadharshila Infratech Private Limited (AIPL). The company is a sponsor to Bharat Highways InvIT (Bharat InvIT; rated 'Provisional CARE AAA; Stable') and therefore subordinate cashflow in the form of dividend or interest payouts will be available for AIPL's debt servicing.

The rating assigned to the proposed instruments of AIPL takes into cognisance that AIPL has replaced Lokesh Builders Private Limited (LBPL) as the sponsor and the project manager of the Bharat InvIT. Consequently, AIPL shall hold 15% of the units of Bharat InvIT which will entail healthy cashflows from underlying assets of Bharat InvIT leading to healthy debt coverage indicators and in turn expected healthy distribution pay out to its unit holders. Bharat InvIT is proposed to have seven operational National Highways Authority of India (NHAI; rated CARE AAA; Stable) hybrid annuity mode (HAM) assets which is to be acquired from G R Infraprojects Limited (GRIL; rated 'CARE AA+; Stable/CARE A1+'). The projects have residual concession period between 11.41 years and 13.85 years as on September 30, 2023, thereby providing long-term cash flow visibility.

The rating also suitably factors in Bharat InvIT's robust cash flows, low leverage and well-defined cash flow waterfall mechanism including maintenance of debt service reserve account (DSRA) imparting strong debt coverage indicators at its level. The robust financial and business risk profiles of the InvIT are likely to yield healthy revenues to AIPL in the form of dividend payouts. As articulated by the management, AIPL is expected to restrict its borrowings to ₹150 crore for the proposed acquisition of seven assets thereby translating into strong debt coverage indicators.

The above rating strengths are tempered by absence of dividend distribution history from Bharat InvIT which will be the primary revenue contributor for AIPL, thereby increasing the concentration risk. CARE Ratings notes that operations and maintenance (O&M) and major maintenance (MM) assumptions factored in by Bharat InvIT in its base case are based on the independent report. However, CARE Ratings has sensitised Bharat InvIT's cashflow and found debt coverage indicators to be strong. Additionally, Bharat InvIT is expected to enter back-to-back fixed-price O&M and MM contract with GRIL for all the seven projects, which is a credit positive given the latter's established experience in construction and maintenance of these roads.

Furthermore, the above rating is provisional and will be confirmed once the company has completed the below-mentioned steps to the satisfaction of CARE Ratings:

- a. Transfer of identified assets to Bharat InvIT
- b. Listing of Bharat InvIT

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not applicable as AIPL is entitled to only subordinated cash flows from Bharat InvIT

Negative factors

- Weakening in the credit profile of InvIT leading to lower-than- envisaged distribution from InvIT thus impacting its liquidity and debt coverage indicators.
- Significantly higher-than- envisaged external debt thus impacting its debt coverage indicators.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Standalone. The credit profile of AIPL also factors in the combined business and financial risk profile of 7 underlying assets of Bharat InvIT as subordinate cashflow in the form of dividend payouts will be available for AIPL's debt servicing.

Outlook: Stable

The Stable outlook is on account of expectation of regular dividend income from InvIT leading to strong liquidity and debt coverage indicators.

Detailed description of the key rating drivers:

Key strengths

Stable cashflow and operational track record of underlying assets under Bharat InvIT

Bharat InvIT proposes to acquire portfolio of seven NHAI operational HAM assets from GRIL and therefore shall generate stable revenues from its pool of projects until the end of the concession period. The underlying assets are diversified across five states i.e. Gujarat, Uttar Pradesh, Maharashtra, Andhra Pradesh and Punjab. The seven assets in total have track record of receipt of 35 annuities from NHAI within stipulated time period till November 2023. The projects have residual concession period between 11.41 years to 13.85 years as on September 30, 2023, thereby providing long-term cash flow visibility to Bharat InvIT. On a collective basis, the portfolio assets had a weighted average (by bid project cost [BPC]) residual project life of approximately 12.33 years as on September 30, 2023. Of seven, three assets have received final commercial operation date (COD), while the balance have received provisional COD, with minimal pending work against which fixed deposit has been maintained at special purpose vehicle (SPV) level.

Low leverage and strong debt coverage indicators at InvIT level

Bharat InvIT's consolidated cash flow has a robust cover with strong debt coverage indicators owing to low leverage, which is marked by proposed Bharat InvIT's debt to aggregate completion cost of seven assets standing at 26%. Towards the acquisition of seven assets, Bharat InvIT shall raise debt upto ₹3,000 crore which shall be used to retire the part external debt of ₹3,800 crore at SPV level. Balance debt at the SPV level shall be repaid via raising of public issue. Furthermore, the public issue will be inclusive of subscription of units by AIPL. Considering the debt to be raised at Bharat InvIT level, debt by enterprise value is expected to remain well within 49% until six consecutive dividend distributions.

However, according to the draft offer document filed in December 2023, Bharat InvIT shall raise ₹2,100 crore via public issue, which in turn shall restrict the debt to the tune of ₹1,600 crore leading to lower-than-envisaged leverage at around 28%, thus further boosting its coverage indicators.

Strong profile of O&M contractor partly mitigates the maintenance risk

GRIL is proposed to be the O&M contractor for all the seven projects during the balance concession period. The sponsor has entered back-to-back fixed price O&M and MM contracts with GRIL for the entire concession period with a clause of fixed price for the first seven years, after which the price will be mutually renegotiated. GRIL has strong executional and operational capabilities in developing and operating multiple HAM-based road projects. As four out of seven projects are rigid pavement, there is no requirement of MM, and hence no MM reserve is proposed at InvIT level. For the balance three SPVs as articulated by the management, the cash pooling at InvIT level shall generate sufficient cashflows to incur the MM expense in the year when it falls due.

The O&M and MM assumptions factored in by Bharat InvIT in its base case are based on the independent report. However, CARE Ratings has sensitised Bharat InvIT cashflow and has found debt coverage indicators to be strong.

Low leverage and structural features of AIPL's proposed debt

As on March 31, 2023, AIPL has no outstanding external debt. However, for the acquisition of 15% stake in InvIT, the company shall be raising non-convertible debenture (NCD) to the tune of ₹150 crore. The sub-ordinate cash flow from InvIT shall be available to AIPL for servicing its debt obligations. Debt coverage indicators of the company are envisaged to remain comfortable with average debt service coverage ratio (DSCR) of above 1.5x through the tenor of debt due to strong net distributable cash flow from InvIT.

According to the draft term sheet, the cash flow to be received from InvIT in form of distribution shall be routed through an escrow account. Stipulation to create and maintain DSRA equivalent to 1 quarter of debt servicing also provides credit comfort to an extent. Nevertheless, significant increase in incremental debt towards acquisition of the seven assets under consideration thus weakening the coverage metrics will be a key rating sensitivity.

Key weakness

Limited revenue diversification coupled with no distribution track record

AIPL will be highly dependent on the distribution income from InvIT. Hence, any change in the frequency of distribution by InvIT or lower-than-envisaged distribution shall impact the company's debt coverage indicators and exposes it to concentration risk. Also, since the InvIT is yet to float, there is no established track record of distribution of income from InvIT. However, considering strong underlying assets of InvIT and defined regulations for distribution of income, the risk is mitigated to an extent.

Liquidity: Strong

AIPL's liquidity is expected to be strong as its debt obligations are expected to be comfortably met through its cash flows from operations. The liquidity is anticipated to be supported by timely distribution expected from Bharat InvIT. As per draft financing documents, it shall be required to create and maintain DSRA equivalent to 1 quarter of debt servicing which will provide necessary liquidity cushion.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Assignment of Provisional Rating](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Infrastructure Investment Trusts \(InvITs\)](#)

Validity of the Provisional Rating:

The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings Ltd., the final rating is assigned by CARE Ratings Ltd. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings Ltd., the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road assets–Toll, annuity, hybrid-annuity

Incorporated on June 30, 2010, AIPL offers consulting and laboratory services with the advanced testing equipment, primarily in the field of Transportation Engineering and its allied sectors. AIPL works on material of building/road, field tests (NDT), field surveys, pavement design & airport design, pavement design solutions, mix designs development of bituminous and concrete road project, calculate 'Roughness' of road surface and conduct tests as per requirement under concession agreement. It has setup an equipped laboratory.

Pursuant to the Trust Deed dated October 31, 2023, AIPL has become the Sponsor and Project Manager of the Bharat InvIT by replacing Lokesh Builders Private Limited. The InvIT has been formed under the Indian Trust Act, 1882 and an approval has been received from the SEBI for the InvIT. The InvIT has identified seven NHAI HAM projects and is in the process to acquire assets from GRIL.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	5.55	8.20	NA
PBILDT	3.91	5.16	NA
PAT	2.00	2.70	NA
Overall gearing (times)	2.16	0.93	NA
Interest coverage (times)	6.29	11.28	NA

A: Audited; UA: Unaudited; NA: Not applicable; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	-	Proposed	-	Proposed	150.00	Provisional CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non-convertible debentures	LT	150.00	Provisional CARE AA+; Stable				

*Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

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