



IPO NOTE

Bharat Highways InvIT

27th February 2024.

Company Overview

Bharat Highways InvIT (Bharat InvIT) is an infrastructure investment trust established to acquire, manage, and invest in a portfolio of infrastructure assets in India and to carry on the activities of an infrastructure investment trust, as permissible under the SEBI InvIT Regulations. They were settled through the Original Trust Deed, by GRIL (GR Highways Investment Manager Private Limited) - the Settlor, and registered as an infrastructure investment trust with SEBI on August 3, 2022. The Sponsor - Aadharshila Infratech is engaged in testing services in the field of transportation engineering and has expertise in NSV survey, FWD survey, pavement design of roads and airports, physical and chemical testing of soil, lime, cement, road roughness testing, concrete and bituminous mix design of road projects. Nagaur Mukundgarh Highways Pvt. Ltd. (NMHPL), the Associate of the Sponsor is a road engineering, procurement, and construction company, with an experience in the design and construction of various road/highway projects. NMHPL has over six years of experience in the execution of infrastructure projects since 2017. Bharat InvIT's initial portfolio consists of seven road assets, all operating on a HAM (hybrid annuity model) basis, in the states of Punjab, Gujarat, Andhra Pradesh, Maharashtra, and Uttar Pradesh. As of January 31, 2024, the projects, which are owned, operated, and maintained by the Project SPVs, comprise the InvIT assets consisting of around 498 km of constructed and operational roads across the above five states in India. These roads are operated and maintained under concession rights granted by the NHAI and are owned and operated by the Project SPVs, which are currently wholly owned by GRIL. Further, the Bharat InvIT proposes to enter into a ROFO (right of first offer) agreement with GRIL, under which GRIL will grant a right of first offer to the InvIT to acquire certain other assets owned and developed by GRIL. All of the InvIT assets are HAM projects awarded by NHAI and its revenue stream is primarily through annuity payments from the NHAI. GRIL is monetizing future annuity payments (including interest payable thereon) and O&M (operations and maintenance) income receivable from the NHAI by transferring the InvIT assets to the Bharat InvIT. The net distributable cash flows of the InvIT (Distributable Income) are based on the cash flows generated from the underlying operations undertaken by the Project SPVs. In terms of the SEBI InvIT Regulations, the Project SPVs shall distribute not less than 90% of the net distributable cash flows to the InvIT, proportionate to the InvIT's holding in the Project SPVs. In addition, each Project SPV has entered into a long-term Concession Agreement with the NHAI, with each agreement having a residual operations period of between 11.1 and 13.5 years as of January 31, 2024, thereby providing long-term cash flows to the Bharat InvIT. On a collective basis, the InvIT assets had a weighted average (based on bid project cost) residual project life of approximately 12.0 years as of January 31, 2024.

Objects of the issue

- The net proceeds will be utilized by the InvIT towards the following objects:
- Providing loans to the Project SPVs for repayment/ pre-payment, in part or in full, of their respective outstanding loans (including any accrued interest and prepayment penalty); and
 - General corporate purposes.

Investment Rationale

Sizeable portfolio of stable revenue-generating assets and long-term predictable cash flows

Bharat InvIT owns an initial portfolio consisting of seven InvIT assets having an aggregate length of approximately 498 km located on national networks across five states in India. The projects are located on national highway networks that experience both commercial and passenger vehicular traffic. In addition, each project SPV has entered into a long-term Concession Agreement with the NHAI, with each agreement having a residual operations period of between 11.1 and 13.5 years as of January 31, 2024, thereby providing long-term cash flows to the InvIT. On a collective basis, the InvIT Assets had a weighted average (based on bid project cost) residual project life of approximately 12.0 years as of January 31, 2024. Given that all its InvIT assets are on a HAM basis, its entire revenue is expected to continue in the future from annuities paid by the NHAI, which signifies the steady nature of income for the InvIT. In a HAM project, the concessioning authority shares a portion of the total project cost during the construction phase.

Issue Details

Offer Period 28th Feb, 2024 - 01st Mar, 2024

Price Band Rs. 98 to Rs. 100

Bid Lot 150

Listing BSE & NSE

Issue Size (no. of shares in mn) 250.0

Issue Size (Rs. in bn) 25.0

Issue Structure

QIB 75%

NIB & Retail 25%

BRLM ICICI Securities, HDFC Bank, IIFL Securities, Axis Capital

Registrar KFin Technologies Ltd.

Unit Capital Structure

Primary Issue 24,99,99,900

Post - IPO 44,29,38,605

(Assuming issue subscribed at higher band)

As a mix of EPC and annuity models, HAM reduces the financial burden of a concessionaire during the project construction phase and provides assured revenue in the form of annuities, interest on reducing balance of completion cost (BCC), and O&M payments linked to inflation in the operational phase. Annuity payments eliminate the risk of income fluctuations resulting from changes in traffic volume. The geographically diverse project portfolio and its expertise leveraged from existing projects provide them with an advantage in capitalizing on new opportunities available in the roads and highways sector. Through the proposed ROFO Agreement, Bharat InvIT will have a right of first offer to acquire certain assets of GRIL, their proposed significant Unitholder, and the current majority shareholder of the Project SPVs, including the projects currently owned by GRIL or which may be acquired or developed by GRIL or its existing or future subsidiaries.

Consistent track record in operating and maintaining projects in the road sector

Bharat InvIT intends to leverage the experience and expertise of its sponsor, and its associate NMHPL, to gain a competitive advantage within the road and highways industry. NMHPL is a road engineering, procurement, and construction company, with experience in the design and construction of various road/highway projects and has over six years of experience in the execution of the projects. NMHPL has undertaken the development and augmentation of road projects in the state of Rajasthan, by two-laning / intermediate laning on an annuity basis, under a concession agreement dated March 3, 2017, entered with the Public Works Department, Rajasthan. The Sponsor has an established track record of assessing the roughness and balance life of road projects, which enables it to determine the appropriate maintenance activity to be undertaken on the road projects. The Sponsor will also act as the Project Manager of the InvIT. The Investment Manager intends to expand its initial portfolio by identifying and acquiring additional road projects that meet the investment objective in accordance with the provisions of the Amended and Restated Trust Deed.

Valuation and Outlook

With the increased budgetary allocations by the Government and its road development initiatives as well as investments by the private sector in infrastructure projects, the road and highways sectors have developed significantly in the last decade. The HAM combines the features of EPC and BOT (Build, Operate, and Transfer) models. Under this model, the concessionaire receives 40% of the project cost from the authority during the construction period. The concessionaire is responsible for designing, building, financing (60% of the total project cost), operating and transferring the project. Under this model, the toll is collected by the authority. The amount financed by the concessionaire is to be recovered from the authority through semi-annual payments. The bidding parameter for a contract under HAM is the lifecycle cost, which is the sum of the net present value (NPV) of the project cost and the NPV of the O&M cost for the entire O&M period. On the financial performance front, the company earned a net profit of Rs. 101.4 crores on a total income of Rs. 388.5 crores in H1FY24 and the financial indebtedness of the trust as of February 01, 2024 stood at Rs. 3,568.2 crores. With the NHAI hybrid annuity projects providing a natural hedge against the risk of adverse interest rate movement in addition to the annuity payments due under the respective concession agreements during the operations period, NHAI is required to pay interest on the reducing balance of the completion cost (equivalent to 60% of the BPC) throughout the operation period at the rate of 3% above the RBI bank rate. Accordingly, any increase in the interest payable on loans with floating interest rates by InvIT due to an increase in interest rates will be offset by the increased revenues as a result of an increase in interest on reducing balance of completion cost. The access to future road assets of GRIL and its existing or future subsidiaries will be an important source of the InvIT's growth in the future. **As the lender will utilize net proceeds of the fresh equity issue to repay/prepay loans to the Project SPVs that will enhance the InvIT's leverage position. At the current P/BV multiple of 0.8x based on book value as of September 2023, we believe the company is reasonably valued and advise investors to "Subscribe" to the issue from a medium to long-term perspective.**

Key Risks

- The InvIT is a newly settled trust and does not have an established operating history, which will make it difficult to accurately assess its future growth prospects.
- Its failure and inability to identify and acquire new infrastructure assets that generate comparable revenue, profits, or cash flows may have an adverse effect on its business, financial condition, cash flows, and results of operations, and its ability to make distributions.
- If it fails to maintain roads constructed by them pursuant to and as per the relevant contractual requirements, it may be subject to penalties or even termination of contracts, which may have a material adverse effect on its reputation, business, financial condition, results of operations and cash flows.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Income				
(a) Revenue from operations	21,540	15,857	15,095	3,681
(b) Interest on deposits with banks	37	105	226	174
(c) Interest from vendor advance and income tax refund	125	40	35	20
(d) Other income	3	-	19	11
Total income (I)	21,704	16,002	15,375	3,885
Expenses				
(a) Sub - contractor charges	16,366	11,382	4,119	373
(b) Employee benefits expense	5	4	4	2
(c) Finance costs	2,649	3,441	3,759	2,008
(d) Other expenses	342	332	284	147
Total expenses (II)	19,361	15,159	8,165	2,530
Profit before tax (III) = (I-II)	2,343	843	7,210	1,356
Tax expense:				
(a) Current tax	-	2	208	304
(b) Adjustment of tax related to earlier year (net)	-203	0	0	0
(c) Deferred tax charges	1,052	213	1,731	38
Total tax expenses (IV)	849	215	1,939	342
Net profit for the period/year (V) = (III+IV)	1,494	629	5,270	1,014
Other comprehensive income (OCI) (VI)				
(a) Items that will not be reclassified to profit or loss in subsequent year (net of tax)	0	0	0	0
(b) Items that will be reclassified to profit or loss in subsequent year (net of tax)	0	0	0	0
Other comprehensive income (net of tax)	0	0	0	0
Total Comprehensive Income, net of tax (VII) = (V+VI)	1,494	629	5,270	1,014

Source: RHP, StoxBox

Cash Flow Statement (Rs in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash Flow from operating activities	-9,439	-3,981	4,726	4,981
Cash flow from investing activities	-1,192	-1,506	-1,509	-742
Cash flow from financing activities	11,784	6,258	-4,718	-4,455
Net increase/(decrease) in cash and cash equivalents	1,153	770	-1,501	-215
Cash and cash equivalents at the beginning of the period	190	1,343	2,114	613
Cash and cash equivalents at the end of the period	1,343	2,114	613	397

Source: RHP, StoxBox

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Assets				
Non-current assets				
(a) Contract assets	6,925	2,295	0	0
(b) Financial assets				
(i) Receivable under service concession agreements	26,766	38,321	46,802	45,454
(ii) Other financial assets	9	9	240	213
(c) Income tax assets (net)	534	870	880	680
(d) Other non-current assets	3,996	3,258	1,602	728
Total Non-Current Assets	38,230	44,755	49,523	47,076
Current assets				
(a) Contract assets	4,107	1,350	0	0
(b) Financial assets	5,726	7,885	8,710	9,684
Total Current Assets	11,209	10,609	11,040	12,092
Total Assets	49,439	55,364	60,563	59,168
Equity and liabilities				
Equity				
(a) Capital	1,878	1,878	1,878	1,878
(b) Other equity	3,395	4,026	9,295	10,308
Total Equity	5,273	5,902	11,173	12,186
Liabilities				
Non-current liabilities				
(a) Financial liabilities				
(i) Borrowings	35,588	44,338	42,971	39,638
(b) Deferred tax liabilities (net)	1,260	1,473	3,204	3,242
Total Non-Current Liabilities	36,848	45,811	46,175	42,880
Current liabilities				
(a) Contract liabilities	577	65	0	0
(b) Financial liabilities				
(i) Borrowings	1,517	2,455	2,859	3,745
(ii) Trade payables				
(a) Total outstanding dues of micro enterprises and small enterprises	0	0	0	0
(b) Total outstanding dues of creditors other than micro and small enterprises	5,139	1,040	274	346
(iii) Other financial liabilities	0	0	0	0
(c) Other current liabilities	84	91	81	8
(d) Current tax liabilities (net)	0	0	0	3
Total Current Liabilities	7,318	3,651	3,215	4,102
Total Liabilities	44,166	49,462	49,390	46,982
Total Equity and Liabilities	49,439	55,364	60,563	59,168

Source: RHP,StoxBox

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

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