

**Press release**

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**Road InvIT AUM to double next fiscal, HAM share to rise**

Stable cash flows, adequate leverage will keep credit profiles strong

Assets under management (AUM) of infrastructure investment trusts (InvITs) in the road sector are estimated to nearly double by March 2025 from Rs 1.4 lakh crore at present. The asset composition of these InvITs is expected to change with the hybrid annuity model (HAM) projects forming a substantial portion of the incremental AUM.

CRISIL Ratings believes that the cash flow stability offered by more HAM projects in the InvIT asset pool, will offset the marginal increase in leverage keeping credit profiles strong.

An analysis of nine road InvITs comprising 105 assets with total length of more than 9,000 kilometre (km), and ~50,000 km of road projects available for monetisation indicates as much.

Since its inception in 2016, HAM has been the preferred route used by the National Highways Authority of India (NHAI) for awarding public private partnership (PPP) projects. A large number of these projects have been completed and hence ripe for monetisation. Engineering, procurement and construction (EPC) companies are expected to push for monetisation of these projects to unlock equity.

**Says Mohit Makhija, Senior Director, CRISIL Ratings, “The share of hybrid annuity model (HAM) projects in InvIT AUM is expected to increase to 20-25% by March 2025 from ~7% currently. This is because InvITs are looking to diversify their pool by adding HAM projects in the current toll-heavy portfolios. Additionally, InvITs comprising only HAM projects are also in the offing. Net-net, ~40% of the incremental AUM through next fiscal could come through monetisation of HAM projects.”**

While the share of HAM assets in InvITs is expected to rise, toll projects – in form of monetisation of projects held by private players as well as NHAI – will continue to contribute ~60% of the incremental AUM of InvITs.

Having a diversified pool of HAM and toll assets will strengthen the business risk profiles of InvITs. HAM assets have the advantage of a steady revenue stream with price and interest rate indexation, thereby lending more stability to the cash flows of InvITs. Most HAM projects expected to be monetised will have the NHAI as the counterparty, whose timely annuity payment track record supports monetisation prospects. Toll road assets, on the other hand, benefit from inflation<sup>1</sup> protection and long-term opportunities to ride India’s economic growth.

**Says Anand Kulkarni, Director, CRISIL Ratings, “The consolidated loan to value ratio of road InvITs, which is an indicator of leverage, is currently at ~41%. As the InvITs have, historically, shown intent to maintain balanced mix of debt and equity, leverage should remain comfortable at 45-47%<sup>2</sup> by March 2025.”**

Continued investor interest will also augur well for growth of InvITs. At present, more than 60% of the equity invested in road InvITs has been contributed by foreign investors and a sizeable share of this is through patient capital such as pension funds and sovereign wealth funds, which provide stability.

That said, evolving geopolitical risks and their impact on investor sentiment remains a key monitorable. Quality of assets being acquired and commensurate enhancement in operating capabilities of InvIT managers will also bear watching.

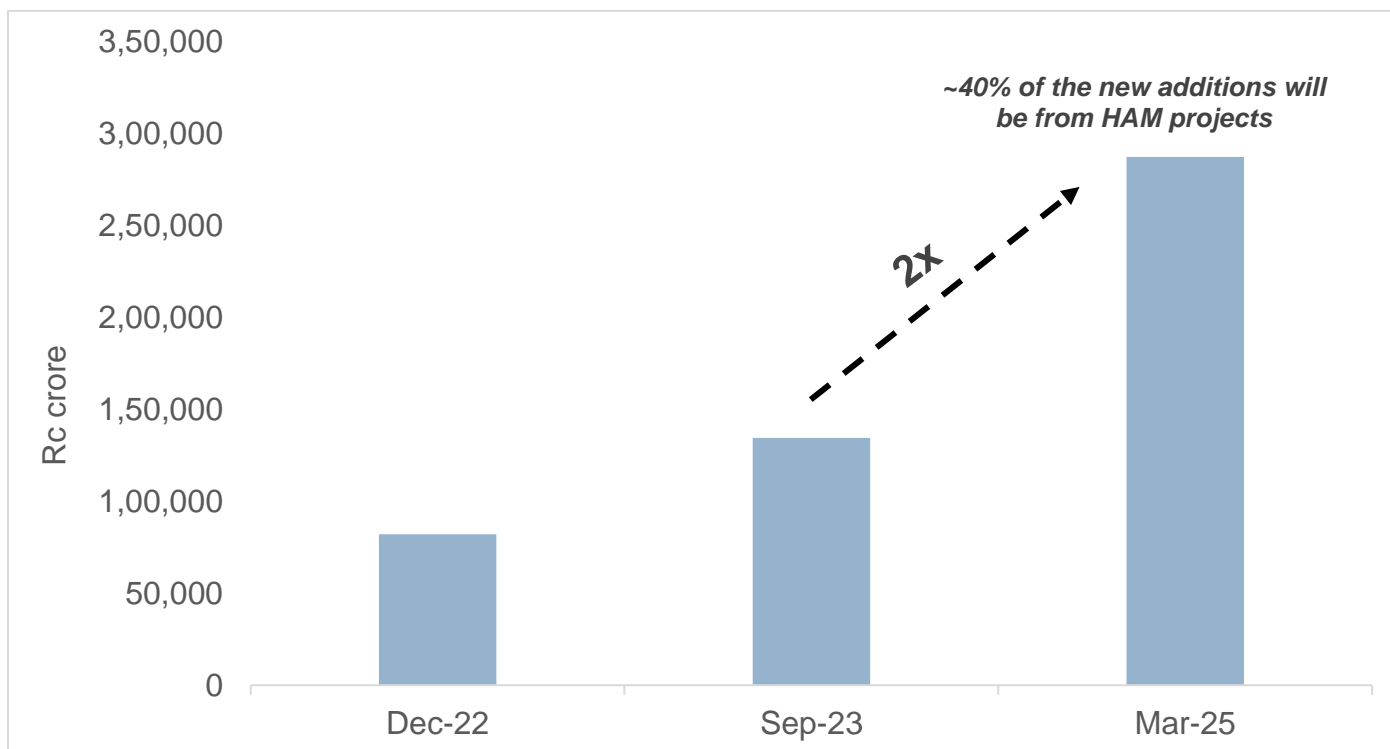
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<sup>1</sup> Toll rate hike in NHAI toll roads is linked to inflation based on the wholesale price index (WPI). For projects awarded after 2008, the toll rate hike is applicable at 3% fixed hike plus 40% of WPI. For projects awarded before 2008, the toll rate hike is fully linked with WPI.

<sup>2</sup> This is CRISIL Ratings estimate of average LTV for all InvITs. Individual LTV levels of InvITs will vary depending on asset mix between toll, HAM and annuity projects.

**Annexure**

**Chart 1: Robust growth expected in road InvITs**



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