

**NCD Issue Note**
**National Highway Authority of India**

Issuer	National Highway Authority of India
Issue	Public Issue of “ <b>tax free</b> ” NCDs aggregating to Rs.5000 crs with an option to retain oversubscription upto Rs.5000 crs for issuance of additional NCDs.
<b>Recommendation</b>	<b>SUBSCRIBE</b>
<b>Acceptance</b>	<b>ON FIRST COME FIRST SERVE BASIS for HNI, Institutional Investors and PRO RATA basis for Retail Investors</b>
Issue Date	28 <sup>th</sup> December 2011 – 11 <sup>th</sup> January 2012
Book Running Lead Manager	SBI Capital Markets Ltd, AK capital Services Ltd, ICICI Securities, Kotak Invest Banking
Listing date	Within 30 days of closure of the issue
Registrar	MCS Limited
Trustee	SBICAP Trustee Company Ltd
Stock exchange proposed for listing	NSE and BSE
Trading lot	1 NCD
Instrument Form	In Demat as well as in physical form
Depositories	NSDL and CDSL
Rating	AAA/Stable by CRISIL, Fitch AAA (Ind) by Fitch and CARE AAA by CARE
Sector	Infrastructure

**Details of the issue**

<b>NCD Options</b>	<b>I</b>	<b>II</b>
Tenor (in years)	10	15
Put/Call option	None	None
Interest payment	Annual	Annual
Minimum Application	Rs 50,000	Rs 50,000
In Multiples of	Rs 10,000	Rs 10,000
Face Value of NCDs (Rs/NCD)	Rs 1,000	Rs 1,000
<b>Individuals and HUF with application upto Rs 5 lakhs (30% of issue size)</b>		
Coupon (Annual)	8.2%	8.3%
<b>Individuals and HUF with application above Rs 5 lakhs (30% of issue size)</b>		
Coupon (Annual)	8.2%	8.3%
<b>Institutional Investors and Corporate bodies (40% of issue size)</b>		
Coupon (Annual)	8.2%	8.3%

Company data, Nirmal Bang Research

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**Background**

National Highway Authorities of India (NHAI) is an autonomous authority of the GoI. It got operationalized in 1995 and is governed by NHAI Act and Rules. It is a nodal agency for development of National Highway (NH) Projects under National Highway Development Project (NHDP) and allied programmes approved by the GoI. NHAI is responsible for the development, maintenance and management of the NH entrusted to it by the GoI. Its functions include survey, development, maintenance and management of the NH and to construct offices, to establish hotels, restaurants and rest rooms at or near highways vested in or entrusted to it, to regulate and control plying of vehicles, to develop and provide consultancy and construction services and to collect fees for services and benefits rendered by the company.

Since its inception, the mode of implementation of projects under NHDP has undergone significant change. Initially the implementation was through EPC mode. However, since 2005 the GoI has decided to implement projects on Public Private Partnership (PPP) mode (BOT Toll/Annuity or Operation, Management and Transfer (OMT)). NHAI has played a significant role in developing approaches for PPP and actual implementation on a large number of projects. As on 31<sup>st</sup> Aug 2011, NHAI have awarded 141 BOT Toll based contracts valued at Rs. 104,984 crs and 49 BOT Annuity based contracts valued at Rs. 29,081 cr through PPP mode.

Year	Completion (kms)	Award (kms)
FY 2006-07	636	1,730
FY 2007-08	1,684	1,234
FY 2008-09	2,205	643
FY 2009-10	2,693	3,359
FY 2010-11	1,783	5,058
FY 2011-12 (upto Sept 2011)	682	2,476

Source: NHAI

NHAI relies a lot on outsourcing a number of activities like design, construction, operation, maintenance etc. NHAI receives its funding from:

- (i) Government support in the form of capital base, cess fund, additional budgetary support, capital grant, maintenance grant, ploughing back of toll revenue and loan from GoI:
- (ii) loan from multilateral agencies and
- (iii) market borrowings.

During the year 2010-11, a sum of Rs. 8,440 crs was received from GoI as Cess Funds. In addition Rs. 843 cr were received towards development of National Highways.

✓ **Objects of the Issue**

The funds raised will be used for financing of various projects being implemented by the NHAI under the NHDP and other National Highways as approved by the Government of India.

✓ **Credit Rating**

The proposed NCD issues have been rated AAA/Stable by CRISIL which indicates high safety for timely payment of interest and principal on the NCDs. CARE has given rating of AAA and Fitch has assigned Fitch AAA (Ind) rating which indicates high safety for timely servicing of debt obligations.

✓ **Debt to equity ratio**

The debt-equity ratio prior to this Issue is 0.11 times based on a total outstanding consolidated debt of Rs 6,636 crs and consolidated shareholder funds amounting to Rs 5,817 crs as on June 30, 2011. The debt equity ratio post the Issue, (assuming subscription of NCDs aggregating to Rs 10,000 crs) would be 0.29 times.

✓ **Quasi government body**

As NHAI is a quasi government body, it gets budgetary support from the central government which is an additional factor indicating safety for the investors.

✓ **Tax free**

- The income by way of **interest on these Bonds is fully exempt** from Income Tax and shall not form part of Total Income under section 10 (15) (iv) (h) of Income Tax Act 1961.
- There will be **no deduction of tax at source (TDS)** from the interest, which accrues to the bondholders in these bonds irrespective of the amount of interest or the status of the investors.
- Wealth tax will not be applicable on these bonds under section 2 (ea) of Wealth tax Act 1957.

✓ **Interest on Application money**

Out of total application amount, applicants will get interest at coupon rate for amount allotted and 4% for amount refunded for the period between 3 days after the receipt of application or realization of cheque/demand draft whichever is later upto 1 day prior to deemed date of allotment.

✓ **Priority of allotment**

If there is any under subscription in any Portion, priority in allotments will be given in the following order:

- Category III - Retail
- Category II - HNI
- Category I - QIBs

✓ **Closing of Issue**

Issue can get closed if the aggregate amount of collection exceeds the prescribed issue size without considering individual category subscription. For example if retail portion has got collection of Rs 2,000 crs and in aggregate collections have exceeded Rs 10,000 cr then NHAI can close the issue.

**Recommendation:**

We believe that the NCD from NHAI is a good investment opportunity for investors for long term. As interest rates are expected to come down gradually we believe that it is the right time for the investors to lock in their capital at a higher interest rate. Higher credit rating and government backed security along with the creditworthiness of the issue and liquidity provided are some of the advantages which come with the issue.

**Post tax yields**

<b>Tax Rate</b>	<b>10 years</b>	<b>15 years</b>
	<i>8.2% coupon</i>	<i>8.3% coupon</i>
10.3%	9.14%	9.25%
20.6%	10.33%	10.45%
30.9%	11.87%	12.01%

*Company data, Nirmal Bang Research*

**Key Concerns**

- **Change in interest rates**  
Increasing rates of interest, resulting from higher inflation are likely to have a negative effect on the price of the NCDs.
- **Lack of liquidity**  
Though NCDs are listed on the stock exchange, there is a problem of liquidity in the markets.

**Financial Statements**

<b>Income Statement (Rs in crs)</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>
<b>INCOME</b>					
a) Value of Work done					
b) Other income	127	224	12	37	38
c) Interest (Gross)	0	1	0	1	0
d) Grant-in-aid for maintenance of Highways					
e) Net Increase/Decrease in work-in progress					
<b>Total</b>	<b>127</b>	<b>225</b>	<b>13</b>	<b>38</b>	<b>38</b>
<b>EXPENDITURE</b>					
Construction Stores/Material Consumed					
Personnel & Administrative Exp	65	65	101	111	144
Finance Charges	0	0	0	0	0
Depreciation	8	5	4	3	6
Assets of Small Value Charged Off	0	0	0	0	0
<b>Total</b>	<b>73</b>	<b>71</b>	<b>105</b>	<b>115</b>	<b>150</b>
<b>Profit (+)/Loss (-) for the year</b>	<b>54</b>	<b>154</b>	<b>-93</b>	<b>-77</b>	<b>-112</b>
Add: Prior Period Items net(+/-)	15	-3	-10	-6	-5
Less: Net Establishment Expenses	0	0	103	83	117
Less/Add: Provision for Taxation	0	0	0	0	0
<b>Net Profit</b>	<b>69</b>	<b>151</b>	<b>0</b>	<b>0</b>	<b>0</b>

*Company data, Nirmal Bang Research*

The profit and loss account of NHAI appears distorted mainly because it includes only income from sale of tender documents. However, collection from cess on fuels is not included in the P&L statement and is capitalized in the balance sheet under the head Capital.

The higher credit ratings from the rating agency are based on the strong financial position because of the support from GoI in the form of cess on fuels, budgetary allocations and flexibility to raise funds from the capital market.

GoI levies cess of Rs 2 on every litre of petrol and diesel sold in the market. A portion of this cess is passed on the NHAI. These funds are being used by the NHAI for the repayment of principal and interest against market borrowings.

<b>Balance Sheet (Rs in crs)</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>
<b>SOURCES OF FUNDS</b>					
<i>Shareholders' Fund</i>					
a) Capital	22,612	29,712	36,843	44,448	55,195
b) Reserves & Surplus	1,441	1,759	1,765	412	412
<i>Grants</i>	0	0	0	0	0
a) Capital	9,799	11,574	13,087	13,357	13,676
<i>Borrowings</i>	4,923	5,008	5,590	5,123	6,801
<b>Total</b>	<b>38,774</b>	<b>48,053</b>	<b>57,286</b>	<b>63,340</b>	<b>76,084</b>
<b>APPLICATION OF FUNDS</b>					
<i>Fixed Assets</i>					
a) Gross Block	71	71	73	76	85
b) Less: Depreciation	32	37	40	43	49
c) Net Block	39	34	33	32	36
d) Less: Assets created out of Grants	8	6	6	6	6
e) (i) Capital Work- in- Progress	15,131	21,852	28,774	34,025	37,848
(ii) Expenditure on completed project	17,642	21,082	25,158	31,520	41,316
Total Fixed Asset	32,804	42,962	53,959	65,571	79,194
<i>Investment</i>	835	873	919	1,049	1,076
<i>Current Assets, Loans &amp; Advances</i>					
Deposits, Loans & Advances	3,951	3,499	3,071	3,059	3,108
Interest accrued on deposit	85	35	52	10	6
Cash & Bank Balance	4,805	5,418	5,236	2,452	2,866
	8,840	8,953	8,359	5,520	5,980
<i>Less: Current Liabilities and Prov</i>					
a) Liabilities	3,700	4,729	5,943	8,792	10,154
b) Provisions	4	5	8	9	12
	3,704	4,734	5,951	8,801	10,166
<i>Net Current Assets</i>	5,136	4,218	2,408	-3,281	-4,186
<b>Total</b>	<b>38,774</b>	<b>48,053</b>	<b>57,286</b>	<b>63,340</b>	<b>76,084</b>

Company data, Nirmal Bang Research

## NOTE

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