

Press Release

IRB Infrastructure Trust

October 09, 2020

Rating Assigned



Total Instrument Rated*	Rs. 3,940.00 Cr.®
Long Term Rating	Provisional ACUIE AAA / Stable (Assigned)
Total Bank Facility Rated*	Rs. 3,940.00 Cr.®
Long Term Rating	Provisional ACUIE AAA / Stable (Assigned)

@The total limit for NCD and BLR not to exceed Rs.3,940 Cr.

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**Provisional ACUIE AAA**' (read as **Provisional ACUIE AAA**) on the Rs. 3,940.00 crore on the proposed Non-Convertible Debentures of IRB Infrastructure Trust (IRB InvIT II). The outlook is '**Stable**'.

Acuité has assigned the long term rating of '**Provisional ACUIE AAA**' (read as **Provisional ACUIE AAA**) on the Rs. 3,940.00 crore on the proposed bank facilities of IRB Infrastructure Trust (IRB InvIT II). The outlook is '**Stable**'.

The rating of Rs. 3,940 Cr. of Proposed NCDs / Proposed Bank Facilities is provisional and the final rating is subject to:

- Finalisation of term sheet / Sanction Letters
- Confirmation from the debenture trustee regarding completion of documentation

The rating takes into account IRB InvIT II's comfortable cash flows to meet its external debt obligations along with that of its subsidiary SPVs. The rating on IRB InvIT II reflects the consolidated credit quality of the underlying assets. It is to be noted that the assigned rating is not for the units of IRB InvIT II and the rating should not be interpreted as the rating for the existing outstanding debt of each SPV.

IRB Infrastructure Trust (IRB InvIT II) is owned by IRB Infrastructure Developers Limited (51%) and GIC affiliates (49%). The trust has 9 assets spread across 7 states. The trust was established under the Indian Trust Act 1882 with indenture dated August 27, 2019. As per the InvIT regulations, the trust has appointed IDBI Trusteeship Services Limited as trustee, MMK Toll Road Private Limited as Investment Manager and IRB Infrastructure Developers Limited (IRB) as Project Manager. While IRB had earlier sponsored a public InvIT, this trust is expected to be privately held.

In February 2020, IRB raised Rs.3,753 Cr. by selling its 49% stake in IRB InvIT II to GIC affiliates out of the total commitment of Rs.4,400 Cr. The balance commitment will be invested in projects under construction to achieve COD. GIC is one of the leading global investment firm established in 1981 to manage the Government of Singapore's sovereign funds. GIC has investments in over 40 countries. These proceeds of stake sale in the trust was used for deleveraging at SPV level to the extent of Rs.3,000 Cr. and the balance Rs.1,400 Cr. will be utilised for projects under construction.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of IRB Infrastructure Trust and its subsidiaries to arrive at the rating.

*refer Annexure 2 for list of entities considered in consolidation

Key Rating Drivers

Strengths

• Sponsor's track record in road construction, development & operations

IRB Infrastructure Trust (IRB InvIT II) is sponsored by IRB Infrastructure Developers Limited (IRB). IRB holds 51% stake in IRB InvIT II and rest 49% is held by GIC affiliates. IRB is one of the leading infrastructure players in India and owns Rs.50,000 Cr. worth of road and highway assets in India. IRB has projects under the management of 12,317 kms cumulatively until FY2020. The company had already sponsored one InvIT which is listed on NSE and BSE. IRB (Sponsor) has achieved revenues of Rs.1,073 Cr. in Q1FY2021 as against Rs.1821 Cr. in Q1FY2020. Further, the Profit after Tax (PAT) stood at Rs.46 Cr in Q1FY2021 as against Rs.207 Cr. in Q1FY2020. The net worth of IRB stood at a healthy level of Rs.6,784 Cr. as on June 30, 2020. The company has a strong order book position of Rs.12,904 Cr. which comprises of O&M in BOT, TOT and HAM and EPC for BOT / HAM projects as on June 30, 2020.

GIC is a Singapore based entity which manages Singapore's foreign reserves. The company has presence across 40 countries ranging across different industries.

Acuite believes that IRB InvIT II will benefit from the established position of its Sponsor along with resource raising capability of the Sponsor. In case of tepid growth in traffic volumes leading to depressed cash flows, the Sponsor can infuse funds whenever required. Further, Acuite believes that the operating performance of the InvIT is expected to improve significantly over the medium term with experience of IRB in managing road assets. The financial flexibility of the InvIT is likely to remain strong with the presence of Unitholders like GIC affiliates.

• Diversified Asset base of the InvIT

The IRB InvIT II manages 9 toll road projects across 7 states of which Partial COD (PCOD) has been achieved in all the projects. The toll collection for all 9 projects has also commenced with Rs.873 Cr. of toll collected in FY2020. However, the toll collection in Q1FY2021 was marginally impacted on account of the outbreak of Covid-19 followed by lockdowns across the nation and restrictions on movement of goods and people. However, the toll collections in Q2FY2021 has almost reached pre-COVID levels. Out of 9 projects, 3 projects has achieved COD, 5 projects are likely to achieve COD by the end of FY2021 and balance 1 project is likely to achieve COD in the second half of FY2022. For achieving these COD, the total capex requirement in FY2021 is Rs.2,500 Cr. of which ~Rs.900 Cr. equity is expected to be infused by the unitholders (IRB and GIC affiliates) and Rs.1,300 Cr. is from external debt and balance from internal accruals. The asset diversity is reflected in the fact that these assets are located in 7 different states and are not dependent on any one particular geography. Acuite also observes that there is no significant concentration of revenues from any particular road asset and post achievement of the COD; the composition of revenues is not likely to change materially. The financial closure for all the projects has been achieved. The long term agreements ranging from 28 to 35 years for all 9 projects are also in place. Going ahead, Acuite expects these projects to generate healthy and steady cash flows from toll collection on account of diversified geographic location and strategically located tolls.

• Favourable debt repayment structure and presence of structural features

The Trust along with its SPVs has a total external debt of Rs.7,882 Cr. outstanding as on 31 March 2020 with a net asset value of Rs.21,500 Cr. The total debt to net asset value stood at 37% as on 31 March 2020. Further, the principal repayment has already commenced in FY2021 for 4 SPVs, namely, IRB Westcoast Tollway Ltd, Solapur Yedeshi Tollway Ltd, Yedeshi Aurangabad Tollway Ltd. and Kaithal Tollway Ltd with aggregate debt outstanding of Rs.3,300 Cr. (post deleveraging). The proposed NCDs or proposed bank facilities are expected to refinance the existing debt of these 4 SPVs along with MMR Loan and top up. The proposed debt is expected to have a door-to-door tenor of 20 years along with steep ballooning repayment from the end of 7th year. With the proposed repayment schedule, there

will be a repayment of just 20% until the end of 10th year. Further, the DSRA is also to be created to the tune of 1 quarter debt repayment (principal and interest) along with the presence of waterfall mechanism. The presence of the waterfall mechanism will ring fence the cash flows from the toll collection and prioritising the lenders after O&M and Major Maintenance expenses. With the quarterly structured instalments, 20% repayment in the first 10 years and waterfall mechanism, DSCR is projected to remain comfortable. In a stress case scenario, Acuite does not expect DSCR to fall below 1.13 times. Any sharp slippages in the gross toll collection levels and therefore, a drop in the debt coverage levels will remain a key monitorable.

Weaknesses

- **Cash flows susceptible to economic activities around the country**

IRB InvIT II has been established in 2020. The SPVs have a long term concession agreement with NHAI under the BOT model. The SPVs under the trust will be responsible for toll collection, maintenance of road asset and also major maintenance as per the agreement.

The cash flows of the SPVs are entirely toll based, thus operations are susceptible to fluctuations in traffic movements. The traffic movement is linked to the level of economic activity in and around the operational area. Any event or regulatory interventions likely to affect traffic movement may create pressure on toll revenues, thereby affecting the cash flows of the trust. In such situations, the SPVs will be dependent on the InvIT for funding support.

Liquidity Position: Strong

The liquidity is likely to be supported by the proposed refinancing of debt with expected door-to-door tenor of 20 years. The debt repayments are scheduled to be ballooning and with only 20% repayment is to be made in first 10 years with the presence of DSRA of 1 quarter repayment (principal and interest) and waterfall mechanism to ensure a timely repayment. Further, Acuite believes that the toll collections will significantly improve over the long debt maturity period, thereby enabling the build-up of operating cash flows to service the ballooning debt structure. Acuite also takes significant comfort from the financial flexibility of IRB InvIT II arising from its resourceful Unitholders (IRB & GIC affiliates) which might extend loans/raise funds/invest equity in the InvIT whenever required.

Rating Sensitivities

- Delays in achieving COD
- Decline in DSCR below 1.13 times
- Significant decline in toll collection

Material Covenants

Not Applicable (InvIT does not have any debt outstanding)

Outlook: Stable

Acuite believes IRB InvIT II will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its quality and diversified asset portfolio. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in toll collection, or in case of deterioration DSCR going below 1.13 times.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1164.91	788.68
PAT	Rs. Cr.	(248.02)	25.13
PAT Margin	(%)	(21.29)	3.19
Total Debt/Tangible Net Worth	Times	0.62	1.81

PBDIT/Interest	Times	0.94	1.53
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Investment Trust (InvIT) - <https://www.acuite.in/view-rating-criteria-72.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure 1 – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed NCD	Not Applicable	Not Applicable	Not Applicable	3,940	Provisional ACUITE AAA / Stable (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	3,940	Provisional ACUITE AAA / Stable (Assigned)

***Annexure 2 – List of entities in consolidation**

Sr. No.	Name of Entity	Relationship
1.	AE Tollway Limited	Subsidiary
2.	CG Tollway Limited	Subsidiary
3.	IRB Hapur Moradabad Tollway Limited	Subsidiary
4.	IRB Westcoast Tollway Limited	Subsidiary
5.	Kaithal Tollway Limited	Subsidiary
6.	Kishangarh Gulabpura Tollway Limited	Subsidiary
7.	Solapur Yedeshi Tollway Limited	Subsidiary
8.	Udaipur Tollway Limited	Subsidiary
9.	Yedeshi Aurangabad Tollway Limited	Subsidiary

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