Press Release

IRB Infrastructure Trust

October 27, 2021

Rating Reaffirmed

Total Instruments Rated*	Rs. 3,940.00 Cr.@
Long Term Rating	Provisional ACUITE AAA / Stable (Reaffirmed)
Total Bank Facilities Rated*	Rs. 3,940.00 Cr.@
Long Term Rating	Provisional ACUITE AAA / Stable (Reaffirmed)

@ The limits for NCD and BLR are interchangeable and not to exceed Rs.3,940 Cr in aggregate
* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long term rating of **'Provisional ACUITE AAA' (read as Provisional ACUITE Triple A)** on the Rs. 3,940.00 Cr. proposed Non-Convertible Debenture Programme of IRB Infrastructure Trust (IRB InvIT II). The outlook is **'Stable'.**

Acuité has reaffirmed its long term rating of **'Provisional ACUITE AAA' (read as Provisional ACUITE Triple A)** on the Rs. 3,940.00 Cr. 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:

- Finalization of Term Sheet / Sanction Letters
- Debenture Trust Deed if applicable
- Confirmation from trustee regarding the compliance with all the terms and conditions of the term sheet

Rationale for rating reaffirmation

The rating reaffirmation takes into consideration, IRB InvIT II's diversified asset base in the road sector and the available cash flows to meet its external debt obligations along with that of its subsidiary SPVs. The rating also draws comfort from the sponsor's established position and track record in the road & highway construction industry. While 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 applicable for the units of IRB InvIT II and the rating should also not be interpreted as the rating for the existing outstanding debt of each SPV.

About the trust

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 privately held.

In February 2020, IRB sold 49% stake in IRB InvIT II to GIC affiliates out of the total commitment of Rs.4,400 Cr. GIC is one of the leading global investment firms established in 1981 to manage Government of Singapore's sovereign funds. GIC has investments in over 40 countries. Till date, IRB raised Rs.4,187 Cr. out of the total sale proceeds. These proceeds of stake sale in the trust was used for deleveraging at SPV level to an extent of Rs.3,000 Cr. and the balance of Rs.1,187 Cr. was utilised for projects under construction. The remaining proceeds of Rs.213 Cr. will be invested in projects under construction to achieve COD.

Analytical Approach

Acuité has considered the consolidated financials and business profile of IRB Infrastructure Trust and its

subsidiaries to arrive at the rating. Extent of consolidation: Full.
refer Annexure 2 for list of entities considered in consolidation.

Key Rating Drivers

Strengths

- **Sponsor's well established position in EPC and road & highway segment**

  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 players in the domestic infrastructure sector which is engaged in EPC and O&M business for roads & highways, airports, and real estate segments. IRB has an established track record of more than two decades in executing EPC contracts and has constructed more than 12,500 lane kilometres of road since its inception. As on June 2021, IRB holds three BOT Projects, one TOT Project and three HAM Projects across various states of the country. GIC is a Singapore based entity which manages Singapore's foreign reserves. The company has presence across 40 countries ranging across different industries.

  Further, IRB already sponsored one InvIT is listed on NSE and BSE viz. IRB InvIT Fund which has 7 operational BOT projects of around 4,055 lane kms where IRB holds 16 per cent stake. IRB has a strong order book position of Rs.13,280 Cr. as on June 30, 2021 which includes O&M for BOT road projects worth Rs.6,674 Cr. and EPC for BOT projects worth Rs.6,606 Cr. The current order book includes couple of recently bagged projects i.e. one BOT project namely Palsit – Dankuni and one HAM project namely Pathankot Mandi together worth of Rs.3100 Cr. Further, IRB is also planning to raise funds of Rs.5,347 Cr. via preferential issue of equity shares to Cintra Global SE (A subsidiary of Spanish Infrastructure Group Ferrovial SA) and Singapore's sovereign wealth Fund GIC.

  Acuité believes that IRB InvIT II will benefit from the established position and resource raising ability of its Sponsors. In case of tepid growth in traffic volumes leading to depressed cash flows, the sponsor can infuse funds whenever required. Further, Acuité 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 6 projects has already received final COD, 1 project received Partial COD (PCOD) and two projects are yet to receive the final COD. However, the toll collection activities for all the 9 projects have already been commenced with Rs.943 Cr. of toll revenues collected in FY21. Despite various restrictions in movement of goods and people across the nation owing to the onset of Covid-19 pandemic, the toll revenues registered YoY growth of around 8% in FY21 as compared to FY20. The toll collections in Q1FY2022 was marginally impacted on account of outbreak of the second wave of Covid-19 followed by lockdowns across the various states. However, the tolls witnessed significant recovery and has reached almost pre-covid levels in Q2FY22 marked by an overall growth of ~41% in toll revenues during H1FY22 to Rs.517 Cr. as against Rs.367 Cr. in H1FY21.

  Furthermore, the total capex requirement in FY22 is Rs.1,317 Cr. which will mostly be used towards achievement of final COD for the ongoing two projects. Out of the total requirement, ~Rs.512 Cr. equity is expected to be infused by the unitholders (IRB and GIC affiliates) and Rs.726 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.

  Acuité also observes that there is no significant concentration of revenues from any particular road asset and post achievement of the COD for the WIP projects, 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, Acuité expects these projects to generate healthy and steady cash flows from toll collection on account of diversified geographic location and strategically located tolls.

- **Favorable debt repayment structure and presence of structural features**

  The Trust along with its SPVs has total external debt of Rs.9,862 Cr. outstanding as on 31 March 2021 with a net asset value of Rs.21,266 Cr. The total debt to net asset value stood at ~46% as on 31 March 2021. Further, the principal repayment has already commenced in FY21 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.3,511 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 presence of waterfall mechanism. The presence of 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 first 10 years and waterfall mechanism, DSCR is projected to remain comfortable. Acuité believes that any sharp slippages in the gross toll collection levels and thereby, 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.

ESG factors relevant for rating

The infrastructure development industry has a significant social impact since it is a labour intensive business. Further, community support and development, employee safety and human rights are material factors from the social perspective. Governance issues that assume relevance include board and management compensation, shareholders rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimise the environmental impact.

IRB Infrastructure Trust has a current portfolio of nine Build-Operate-Transfer (BOT) projects. The formation and operationalization of the infrastructure investment trust (InViT) is a significant step towards better funding and development of the Indian infrastructure sector.

The trust's sponsor, IRB Infrastructure Developers Ltd has adequate policies in corporate governance category on board independence, key management retention and business conduct and ethics. The company has three independent members in its audit committee and there is adequate gender diversity in the constitution of the board. Under its environment initiatives, the company has a policy in place for reduction in air pollution and waste. The social initiatives of IRB Infrastructure Ltd include policies on human rights and service quality standards. IRB Group also has several programmes on community services.

Rating Sensitivities

- Significant decline in toll collections
- Decline in debt protection levels
- Delays in achieving COD

Material Covenants

Not Applicable

Liquidity position: Strong

The liquidity is likely to be supported by the proposed refinancing of a part of the consolidated 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 presence of DSRA of 1 quarter repayment (principal and interest) and waterfall mechanism to ensure timely repayment. Further, Acuité 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. Acuité also takes significant comfort from the financial flexibility of IRB InvIT II arising from the financial flexibility of the sponsors (IRB & GIC affiliates) which might extend loans/raise funds/invest equity in the InvIT whenever required.

Outlook: Stable

Acuité believes that IRB InvIT will maintain a 'Stable' credit and business risk profile over the medium term on account of healthy toll collections. The trust will continue to benefit from its quality and diversified asset portfolio. Conversely, the outlook may be revised to 'Negative' in case of significant decline in toll collection or in case of deterioration in debt protection matrices.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	1038.73	1164.91
PAT	Rs. Cr.	(224.99)	(248.02)
PAT Margin	(%)	(21.66)	(21.29)
Total Debt/Tangible Net Worth	Times	0.76	1.08
PBDIT/Interest	Times	0.92	0.94
Adj. PBDIT/Interest	Times	1.28	0.94

Note: The Adj. ICR includes only the interest payment on external debt

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Absence of any entity to take appropriate measures to protect the interest of the debenture holders in case of any breach of the trust deed or law.
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE AA- / Stable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Further disclosures for InvITs

A. Broad details of the assets that are proposed to be held by the REIT/ InvIT, the proposed capital structure:
Not applicable as the proposed NCDs or proposed bank facilities are expected to refinance the existing debt of 4 SPVs which are IRB Westcoast Tollway Ltd, Solapur Yedeshi Tollway Ltd, Yedeshi Aurangabad Tollway Ltd. and Kaithal Tollway Ltd.

B. Acuite has taken an undertaking from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI.

C. In instances where there is a change in the Provisional Rating that was earlier assigned due to change in aforesaid key assumptions - the change in rating is based on a declaration from the sponsor that similar changes have been made in the filing with SEBI. : 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
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Oct-2020	Proposed Non-Convertible Debentures	Long term	3,940	Provisional ACUITE AAA / Stable (Assigned)
	Proposed Bank Facility	Long term	3,940	Provisional ACUITE AAA / Stable (Assigned)

*Annexure – Details of instruments rated

Lender's Name	ISIN	Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	3,940.00	Provisional ACUITE AAA / Stable (Reaffirmed)
Not Applicable	Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3,940.00	Provisional ACUITE AAA / Stable (Reaffirmed)

*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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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.