

Press Release

IRB Infrastructure Trust

September 29, 2022

Rating Downgraded & Withdrawn



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3940.00	Provisional ACUITE AA+ Downgraded & Withdrawn	-
Non Convertible Debentures (NCD)	3940.00	Provisional ACUITE AA+ Downgraded & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	7880.00	-	-

Rating Rationale

Acuite has downgraded and withdrawn its long term rating to 'Provisional ACUITE AA+' (read as Provisional ACUITE Double A plus) from 'Provisional ACUITE AAA' (read as Provisional ACUITE Triple A)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).

Acuite has downgraded and withdrawn its long term rating to 'Provisional ACUITE AA+' (read as Provisional ACUITE Double A plus) from 'Provisional ACUITE AAA' (read as Provisional ACUITE Triple A)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 withdrawal is on account of written request received from the client.

Rationale for rating downgrade

The rating downgrade takes into consideration, IRB InvIT II's lower than expected to improvement in consolidated operating profitability leading to widening of gap between consolidated operating profit and repayment obligations. However, there is currently no external debt at the standalone level. The rating continues to draw comfort from its diversified asset base in the road sector. 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 10 assets spread across 6 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.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated financials and business 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 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 of June 2022, IRB has portfolio of two fully owned BOT, one TOT and four hybrid annuity mode (HAM) projects. Of the seven projects, one projects each in BOT, TOT and HAM are operational, two HAM projects are under construction and the balance one project each in BOT and HAM are awaiting appointed date. The company has in-house Engineering Procurement, Construction (EPC) and Operation & Maintenance (O&M) activities primarily handled by its subsidiary, Modern Road Makers Pvt. Limited, (MRMPL). 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.16000 Cr. as on March 31, 2022. Further, IRB has also to raised 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 10 toll road projects across 6 states of which 8 projects has already received final COD, 1 project received Partial COD (PCOD) and 1 recently added toll project is under construction. However, the toll collection activities for all the 10 projects have already been commenced with Rs. 1237 Cr. of revenues in FY22. the revenues registered YoY growth of around in 20 percent in FY22 as compared to FY21. The revenues grew post the lifting of restrictions on account of spread of Covid 19. The asset diversity is reflected in the fact that these assets are located in 6 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 10 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.

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

Not Applicable

Material Covenants

Not Applicable

Liquidity Position: Strong

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. There IRB InvIT II's liquidity profile is expected to remains strong.

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials (Consolidated)

Particulars	Unit	FY2022 (Actual)	FY2021 (Actual)
Operating Income	Rs. Cr.	1250.60	1038.73
Profit after Tax (PAT)	Rs. Cr.	(498.02)	(224.99)
PAT Margin	%	(39.82)	(21.66)
Total Debt to Tangible Networth	Times	0.78	0.76
PBDIT to Interest	Times	0.75	0.92

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

None

Any Other Information

None

Applicable Criteria

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

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Oct 2021	Proposed Non Convertible Debentures	Long Term	3940.00	ACUITE Provisional AAA Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3940.00	ACUITE Provisional AAA Stable (Reaffirmed)
09 Oct 2020	Proposed Non Convertible Debentures	Long Term	3940.00	ACUITE Provisional AAA Stable (Assigned)
	Proposed Bank Facility	Long Term	3940.00	ACUITE Provisional AAA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3940.00	Provisional ACUITE AA+ Downgraded & Withdrawn
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	3940.00	Provisional ACUITE AA+ Downgraded & Withdrawn

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

Sr. No.	Name of Entity	Relationship
1	AE Tollway Limited	Subsidiary
2	CG Tollway Limited	Subsidiary
3	IRB Hapur Morabad 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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Parth Pandit Manager-Rating Operations Tel: 022-49294065 parth.pandit@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.