



Press Release
KERALA INFRASTRUCTURE INVESTMENT FUND BOARD
November 02, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
BOND	300.02	ACUITE AA CE Stable Reaffirmed	-
BOND	800.00	Provisional ACUITE AA CE Stable Assigned	-
BOND	699.98	Provisional ACUITE AA CE Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1800.00	-	-

Rating Rationale

Acuite has assigned the long term rating of **Provisional ACUITE AA (CE) (read as Provisional ACUITE double A (Credit Enhancement))** to the Rs.800 Cr. unsecured non-convertible bonds of KERALA INFRASTRUCTURE INVESTMENT FUND BOARD (KIIFB). The outlook is '**Stable**'.

Acuite has reaffirmed the long term rating of **Provisional ACUITE AA (CE) (read as Provisional ACUITE double A (Credit Enhancement))** to the Rs.699.98 Cr. unsecured non-convertible bonds of KERALA INFRASTRUCTURE INVESTMENT FUND BOARD (KIIFB). The outlook is '**Stable**'.

Acuite has reaffirmed the long term rating of **ACUITE AA (CE) (read as ACUITE double A (Credit Enhancement))** to the Rs.300.02 Cr. unsecured non-convertible bonds of KERALA INFRASTRUCTURE INVESTMENT FUND BOARD (KIIFB). The outlook is '**Stable**'.

The conversion of provisional rating of proposed bond of KIIFB to final rating is subject to:

- Appointment of a SEBI registered Debenture Trustee
- Execution of Debenture Trust Deed
- Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and condition of term sheet

Rationale for the rating

The rating factors in the strategic importance of KIIFB to the Government of Kerala (GoKe), as it acts as the nodal agency for infrastructure development in the state of Kerala. The rating also considers the complete ownership of the GoKe and the strength of the board of KIIFB with the Chief Minister as the chairperson and also include the finance minister, chief secretary, and other civil servants and experts. The rating also takes in to consideration the constitution of the Fund Trustee Advisory Commission (FTAC) which monitors the financial stability and fund utilisation of KIIFB. GoKe has to make the necessary budgetary allocations to ensure KIIFB's revenue stream. Transfers from GoKe to KIIFB are as provided for in Section 7 of KIIF Act (as amended in 2016). As per Section 7, GOKe shall make budgetary allocations equivalent to share of MVT and entire quantum of fuel cess collected in the state in the previous year. As per the KIIF Act 2016, all the borrowings made by KIIFB are guaranteed by GoKe.

The final rating derives its strength from the structure, the escrow and payment mechanisms, DSRA and FD and also the corpus fund of ~Rs.2498 Cr, all of which will be utilised only for the

issue and hence assure enough liquidity till the complete redemption of the issue.

The rating is partially offset by the financial constraints and widening revenue and fiscal deficits of the Government of Kerala. Also, since KIIFB lends at the average cost of borrowings and also provides fund for the social development of the state in the form of grants, profitability will remain impacted.

About the company

Kerala Infrastructure Investment Fund Board (KIIFB) was established as the principal funding arm of Government of Kerala on 11.11.1999 by the Kerala Infrastructure Investment Fund Act 1999 (Act 4 of 2000). Through various functions provided in the act, KIIFB aims to channel funds for critical and large public infrastructure projects in Kerala. Comprehensive modifications to the Act have been enacted through the Kerala Infrastructure Investment (Amendment) Act, 2016. With the expanded scope and structure provided under the amended Act, KIIFB is now mobilising and channelling funds for facilitating planned, hassle-free, and sustainable development of both physical and social infrastructure, including major land acquisition needs that are integral to development and ensure all round wellbeing and prosperity, using financial instruments approved by the Securities & Exchange Board of India (SEBI) and the Reserve Bank of India (RBI).

KIIFB was established with the main objective of providing investment for critical and large infrastructure projects in Kerala. It acts as the primary agency of the state government to facilitate the development of both the physical and social infrastructure in Kerala and to assist the state government and its agencies in the development of infrastructure in Kerala. KIIFB acts as the main agency of the state government for scrutinising, approving, and funding major infrastructure projects. These infrastructure projects may be revenue generating or non-revenue generating.

Unsupported Rating

Acuite A+/Stable

Post notch up in view of the support from Government of Kerala)

Analytical Approach

Acuite has considered the standalone financial and operational figures of KIIFB and further notched it up for the support from Government of Kerala and the credit enhancement and structured payment mechanisms in place for the issue.

Key Rating Drivers

Strength

Support from the government of kerala

KIIFB is the nodal agency for infrastructure development for the Government of Kerala. KIIFB was established with the main objective of providing investment for critical and large infrastructure projects in Kerala. It acts as the primary agency of the state government to facilitate the development of both the physical and social infrastructure in Kerala and to assist the state government and its agencies in the development of infrastructure in Kerala. It is fully owned by GoKe. The GoKe further extends its support in the form of board representation with the Chief Minister as the chairperson, the Finance Minister, the chief secretary, key bureaucrats, and independent members. Further, all the borrowings made by KIIFB are guaranteed by GoKe as per the KIIF Act. GoKe has to make the necessary budgetary allocations to ensure KIIFB's revenue stream. Transfers from GOKe to KIIFB are as provided for in Section 7 of KIIF Act (as amended in 2016). As per Section 7, GOKe shall make budgetary allocations equivalent to the share of MVT and the entire quantum of fuel cess collected in the state in the previous year. These revenues come to KIIFB on a daily basis and fully by the month of December in every financial year, so that there are no liquidity crunches at the end of the financial year affecting the cashflows. The GoKe may also make any additional grants or loans to KIIFB so that KIIFB defrays its debt liabilities as per the KIIF Act.

Close monitoring by FTAC

The Fund Trustee and Advisory Commission (FTAC) monitors the financial stability and fund utilisation by KIIFB closely. It acts as the trustee to ensure that all investments of the fund serve the purpose and intent of the KIIF Act. The commission consists of eminent members like Shri. Vinod Rai, Chairman, Shri. R.A. Sankara Narayanan and Smt. Uma Shankar. FTAC issues a "Fidelity Certificate" every six months certifying that the application of funds and the investment of surplus funds are in conformity with the Act and KIIFB has adequate resources to meet debt obligations arising in the next 6 months.

Strength of the structure of the issue

The structure will be closely monitored by the DT and DSRA and FD mechanisms are also in place. The tenure of the bond is ten years, and the principal redemption will start in year four. The issuer would create a DSRA for an amount equivalent to the interest obligation of one succeeding quarter and the principal redemption amount of one quarter. The issuer would need to maintain the required DSRA amount on a rolling basis, and the initial DSRA amount so calculated would need to be deposited at least one day prior to the date of pay in. On the first day of every quarterly payment cycle, Issuer shall also maintain a fixed deposit in a scheduled public commercial bank, at least to the extent of the interest obligation on the immediately succeeding quarterly payout date & principal redemption amount of one quarter, and create, maintain, charge/lien on the same in favour of the Debenture Trustee at all times. The current structure provides for two quarters of interest and repayment obligations through the DSRA and FD mechanisms upfront.

The escrow mechanism is in place for the bond servicing account, where daily credit equivalent to 2% of the upcoming servicing requirement will happen, from the daily credit of petroleum and MVT Cess share from GoKe, and the entire amount will be credited in 50 working days. For the last quarter of the financial year, the entire servicing requirement will be transferred upfront at the beginning of the quarter.

Further, there is the corpus fund amounting to Rs. 2498.42 Cr. which will only be used for the replenishment of DSRA or redemption of the issue during any windfall event. The corpus fund has to be maintained till the end of the issue period.

The DT will check the availability of funds on the T-7th day and recover any shortfalls through the liquidation of the FD. If the shortfall still remains on the T-5th day, DT will ask the issuer to bridge the shortfall immediately. If the shortfall persists on the T-3rd day, the DT will transfer the funds from the DSRA to bridge the gap. The DSRA utilisation should be notified to the GoKe by the next day. If the impairment of DSRA is not fully replenished on the payout day, on T+1th day, DT will ask the issuer to replenish the DSRA from the corpus fund by T+ 6th day. If the DSRA is not cured on that day, the DT will inform the GoKe its intention to invoke the guarantee if the DSRA is not replenished in next 21 days. If the DSRA is not replenished by T+27th day, DT will invoke the state guarantee. The GoKe has the obligation to replenish the DSRA within the next 30 days. If the DSRA is not replenished on the T+58th day, it will be considered as an event of default.

Weakness

State of the financial health of Government of Kerala

Since the operations of KIIFB are supported by the GoKe and the revenue stream of KIIFB also derives from the GoKe, the high revenue and fiscal deficits of Government of Kerala can disrupt the operations of KIIFB. GoKe revenue deficit for FY23 (RE) stood at 2% of the GSDP with the fiscal deficit for FY23(RE) at 3.6% of the GSDP. The debt of the GoKe stood at 37.2% of the GSDP for FY23(RE) and interest obligations at 19.3% of the revenue receipts for FY23 (RE). Going forward, the ability of the GoKe to improve its financial stability and the central government's intervention in state borrowing limits will be key monitorables.

Assessment of Adequacy of Credit Enhancement

Acuite believes that the DSRA structure, FD and escrow mechanism in the bond servicing account along with the corpus fund and guarantee by the GoKe will help in maintaining ample liquidity and mitigating any risk in repayment of the issue.

ESG Factors Relevant for Rating

KIIFB created its ESG policy in 2021. The main objective of this policy is to address any of the ESG risks and impacts in the projects and make them ESG sustainable for KIIFB and its

stakeholders and development partners. KIIFB is committed to adopting global standards and principles of responsible investing, and integrating ESG criteria into its investment approach and decision-making processes. Further, KIIFB also encourages Special Purpose Vehicles (SPVs) or Project Implementation Agencies (PIAs) to manage risks responsibly by working beyond regulatory requirements and moving towards enhanced social value creation. As part of this, KIIFB has adopted a nine step mechanism that includes due diligence, monitoring, and grievance redressal mechanisms to ensure proper ESG standards are maintained in each of its projects and the policy is updated as per the latest trends. KIIFB has a strong internal governance system in place. KIIFB is headed by the Chief Executive Officer, who also acts as the fund manager of KIIFB. The Board is the highest decision-making body of KIIFB and comprises the Chief Minister, the Finance Minister, the Chief Executive Officer, key bureaucrats, and independent members. The board consists of 13 members, out of whom 6 are independent members.

Rating Sensitivity

- Changes in GoKe support
- Changes in financial health of GoKe
- Non adherence to the payment structure, for this particular issue
- Deterioration in DSRA, FD or corpus fund or invocation of guarantee, for this particular issue

All Covenants

KIIFB is subject to the below mentioned financial covenant among other covenants as stipulated by the KIIF Act and various term sheets.

- The Issuer shall ensure that, in respect of any Relevant Period, the Liability Service Coverage Ratio for such Relevant Period shall not be less than 1.1 times.

Liquidity Position Adequate

KIIFB has maintained adequate liquidity with Rs.5925 Cr. Of Cash and cash equivalent and Rs. 600 Cr of investments in MF. Also, with the ~Rs. 2498 Cr corpus fund along with the FD and DSRA, there is adequate liquidity maintained for the issue.

Outlook: Stable

Acuite believes that KIIFB will maintain 'stable' outlook for the near to medium term. The outlook may be changed to 'positive' if there is considerable improvement in the revenue stream or profitability. The outlook may be changed to 'negative' if the revenue stream gets affected due to the financial constraints of GoKe or any shortfall in the liquidity buffers earmarked for the issue.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	20,820.60	16,682.78
Total Income*	Rs. Cr.	3,886.69	5,486.84
PAT	Rs. Cr.	(853.33)	(563.53)
Net Worth	Rs. Cr.	2,820.49	2820.49
Return on Average Assets (RoAA)	(%)	(4.55)	(4.06)
Return on Average Net Worth (RoNW)	(%)	(30.25)	(21.19)

Debt/Equity	Times	6.30	4.85
Gross NPA	(%)	-	-
Net NPA	(%)	-	-

*Total income equals to Net Interest Income plus other income

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

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 A+/ 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. Policy of Acuite for Provisional Rating: <https://www.acuite.in/provisional-ratings.htm>

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>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Sep 2023	Proposed Bond	Long Term	699.98	ACUITE Provisional AA (CE) Stable (Reaffirmed)
	Bond	Long Term	42.86	ACUITE AA (CE) Stable (Assigned)
	Bond	Long Term	42.86	ACUITE AA (CE) Stable (Assigned)
	Bond	Long Term	42.86	ACUITE AA (CE) Stable (Assigned)
	Bond	Long Term	42.86	ACUITE AA (CE) Stable (Assigned)
	Bond	Long Term	42.86	ACUITE AA (CE) Stable (Assigned)
	Bond	Long Term	42.86	ACUITE AA (CE) Stable (Assigned)
	Bond	Long Term	42.86	ACUITE AA (CE) Stable (Assigned)
25 May 2023	Proposed Non Convertible Debentures	Long Term	1000.00	ACUITE Provisional AA (CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE658F08037	Bond	03 Jul 2023	8.49	02 Jul 2027	Simple	42.86	ACUITE AA CE Stable Reaffirmed
Not Applicable	INE658F08011	Bond	03 Jul 2023	8.49	03 Jul 2028	Simple	42.86	ACUITE AA CE Stable Reaffirmed
Not Applicable	INE658F08045	Bond	03 Jul 2023	8.49	03 Jul 2029	Simple	42.86	ACUITE AA CE Stable Reaffirmed
Not Applicable	INE658F08029	Bond	03 Jul 2023	8.49	03 Jul 2030	Simple	42.86	ACUITE AA CE Stable Reaffirmed
Not Applicable	INE658F08052	Bond	03 Jul 2023	8.49	03 Jul 2031	Simple	42.86	ACUITE AA CE Stable Reaffirmed
Not Applicable	INE658F08078	Bond	03 Jul 2023	8.49	02 Jul 2032	Simple	42.86	ACUITE AA CE Stable Reaffirmed
Not Applicable	INE658F08060	Bond	03 Jul 2023	8.49	04 Jul 2033	Simple	42.86	ACUITE AA CE Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Bond	Not Applicable	Not Applicable	Not Applicable	Simple	800.00	Provisional ACUITE AA CE Stable Assigned
Not Applicable	Not Applicable	Proposed Bond	Not Applicable	Not Applicable	Not Applicable	Simple	699.98	Provisional ACUITE AA CE Stable Reaffirmed

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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.

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