IRB Invit Fund

December 01, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,608.49 (Enhanced from 1,462.04)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total bank facilities	**1,608.49 (₹ One thousand six hundred eight crore and forty-nine lakh only)**		
Issuer rating	-	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Assigned

Details of instruments/facilities in Annexure-1.

The rating pertains to the debt at the fund level and does not cover the ability of the fund to pay envisaged returns to the unit holders of the fund or debt servicing ability of underlying special purpose vehicles (SPVs) of the trust.

The Issuer rating is subject to is subject to consolidated debt/enterprise value not exceeding 49%

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and issuer rating of IRB InvIT Fund (IRB InvIT) factor in the diversified portfolio of five matured operational toll assets with established track record of close to 11 years on an average. The Fund is also adding an operational project under hybrid annuity model (HAM) from the sponsor, i.e., IRB Infrastructure Developers Limited (IRBIDL). The HAM asset [(VK 1 Expressway P. Ltd (VEPL)] is expected to complement the cash flows from toll assets with benefits accruing in the form of annuity receipts from National Highways Authority of India (rated 'CARE AAA; Stable'). VEPL has received its first annuity from NHAI.

The ratings continue to derive comfort from robust debt metrics and leverage position. The consolidated debt/enterprise value remains comfortable at around 30% (considering the HAM asset and without deferment premium). The operational performance has been satisfactory over the years and the toll collections have seen a strong rebound in FY22 (refers to the period April 1 to March 31) and H1FY23, after witnessing reduction in toll traffic during FY21 due to COVID-19 pandemic impact. The net toll collection improved to ₹3.19 crore per day in FY21 vis-à-vis ₹3.53 crore per day in FY22. The Fund has handed over two assets of IDAA Infrastructure Ltd and IRB Surat Dahisar Tollway Ltd on March 31, 2022 and May 25, 2022, respectively, post end of respective concession period. The absence of the said projects has impacted the H1FY23 toll collection (₹562 crore as against ₹486 crore in H1FY22). Excluding the two projects, the toll collections witnessed a growth of 67% during the said period led by revision in toll charges and resumption of toll collections in IRB Pathankot Amritsar Toll Road Ltd (PATL) wherein tolling was halted during the period October 2020 to December 2021 due to farmers agitation. While the absence of toll from the projects handed over is likely to impact the surplus going forward, CARE Ratings Limited (CARE Ratings) expects that the addition of annuity income and improved collection from PATL (15% revenue contribution in H1FY23) would compensate the surplus reduction.

The ratings continue to factor in support from the pooling of cash flows at SPV level so that the cash flows are available for debt servicing, periodic maintenance expenses and major maintenance in case there is a shortfall.

The ratings also favourably take in to account the significant experience and established track record of the project manager/sponsor- IRB Infrastructure Developers Limited, and the fixed-price contract for 10 years executed in FY20 by all the underlying SPVs for meeting operation and maintenance (O&M) and major maintenance and repairs (MMR) requirements.

Other than the rating strengths mentioned above, the Trust remains exposed to the risks inherent to built-operate-toll (BOT) road projects, including risk of lower traffic growth, the likelihood of toll leakages, non-maintenance of project stretch leading to imposition of penalty by NHAI, development or improvement of alternative routes or alternate modes of transportation and

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

regulatory risks (both for project SPVs and InvIT regulations). Higher-than-envisaged debt-funded asset acquisition by the Trust will be closely monitored by CARE Ratings to evaluate the impact of the same on the credit risk profile of IRB InvIT Fund.

Rating sensitivities

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant decline in toll collection or increase in O&M expenses leading to debt-service coverage ratio (DSCR) falling below 2x on a sustained basis.
- Any adverse change in the capital structure and /or debt coverage indicators due to further debt raised by InvIT for the purpose of acquiring additional assets.
- Non-adherence of any covenants as per sanctioned terms.
- Any systemic risk or regulatory changes adversely impacting InvIT's credit profile.

Detailed rationale and key rating drivers

Key rating strengths

Established track record of InvIT portfolio: IRB InvIT comprises five matured operational road projects with an established operational track record of 11-14 years of toll collections. The assets continued to report stronger collections during FY22 and H1FY23. The net toll collection during FY22 witnessed a growth of 17% from ₹1,103 crore in FY21 to ₹1,290 crore in FY22.
The toll collection witnessed de-growth of 15% in H1FY23 (on a y-o-y basis) due to absence of revenue from the projects wherein concession period is over. However, excluding the same, the toll collections have witnessed a y-o-y growth of 67% for the balance portfolio. The significant jump during the said period is led by revision in toll charges in current fiscal (with rates linked to WPI) and resumption of toll collections in PATL post farmer agitation was called off. Of the 5 toll projects, toll rates for Omalur Namakkal project stretches are 100% linked to wholesale price index (rate revision in 14.87% in September 2022) and toll rates for the remaining four are linked to a rise of 3% fixed plus 40% linkage to WPI (w.e.f April 2022, the toll rate revision is 10.16%).
Apart from the toll projects, InvIT is adding recently completed HAM asset; VEPL. It is a completed HAM project with PCOD received in April 2022 and final COD in August 2022. The HAM project is located on Padra-Vadodara section of the Delhi Mumbai expressway and has received the first annuity from NHAI. NHAI approval has been received for the acquisition requisite.
While the project is yet to establish track record in terms of receipt of annuities; the annuity receipts from strong counter party is expected to complement the cash flow from toll operations.

Diversified portfolio: The toll projects encompassing length of 2,231 lane Km are geographically diversified with two road projects, out of five, part of Golden quadrilateral. The road assets are spread across the states of Maharashtra, Rajasthan, Karnataka, Tamil Nadu and Punjab.
The portfolio till FY22 comprised only toll assets geographically diversified. The addition of HAM asset from FY23 would bring in portfolio diversification benefit of annuity asset. VEPL is likely to contribute an average of 15% of current revenue going forward and compensate partially compensation for the loss of revenue of IDAA and IRBSD.
The diversification significantly mitigates business risk of the InvIT by reducing its reliance on any specific region or project and consequently reducing the potential impact of any force majeure event occurring in any particular region and/or with respect to any particular project.

Satisfactory leverage and debt coverage: As against SEBI guidelines of a cap of 70% of value of asset (subject to certain conditions for a AAA rated InvIT fund), as on March 31, 2022, the leverage of fund stood at around 21% (without deferment premium) of value of asset. IRB InvIT has acquired the HAM project during current fiscal for ₹342 crore, which was funded by a term debt of ₹188 crore and balance through surplus.
The leverage post acquisition of the VEPL is expected to be comfortable at around 30% (without deferment premium) of the enterprise value thereby providing sufficient financial flexibility in mobilising additional debt if required. Debt coverage indicators are estimated to remain strong with DSCR over the debt period to remain above 2x.

Established track record of the sponsor, investment manager and project manager of the Fund: IRB Infrastructure Private Limited (IIPL) is the investment manager of the fund. It has experience in operating a road BOT basis for a period of approximately 18 years and also in developing, operating and maintaining toll plazas. IRBIDL is the Project Manager of the Fund to carry out O&M of the project SPVs. IRBIDL has considerable experience in the execution of construction work for roads and highways including National Highways (NHs).

Cash flow support via premium deferment: Of the five project SPVs under IRB InvIT Fund, one of the project SPVs, IRB Tumkur Chitradurga project (IRBTC) had to pay an annual fixed premium of ₹140.4 crore from first year of concession period (FY12) with an annual rise of 5% p.a. Considering insufficient toll generation as against the premium to be paid in (IRBTC) in initial years of tolling, NHAI had approved deferment of premium obligation over FY15-FY24, thereby providing temporary relief by shifting the payment thereof post FY25. The deferred premium is to be repaid to NHAI along with an interest @2% over RBI Bank rate. The outstanding deferred premium along with interest thereon stands at around ₹483 crore as on March 31, 2022. The premium payment is being made in accordance with the cash surplus accruing to the company.

Key rating weaknesses

Risk inherent in BOT projects, interest rate risk and regulatory risk: The toll revenues are a function of toll rates and traffic volumes. The traffic volumes are directly or indirectly dependent on multiple factors such as location of the road project (connecting areas and their commercial importance), growth in the automobile sector; affordability of automobiles; the quality, convenience and travel efficiency of alternative routes outside the network of toll roads, etc. The support by way of extension of Concession period provides some comfort in the event of lower traffic vis-à-vis set forth in the respective concession agreements. In the past, the toll collections in FY21 were impacted due to nationwide lockdown in April 2021 for 19 days and subsequent travel restrictions during the year as well as farmer agitations during FY22.

The debt raised at the InvIT level and VK 1 Expressway P. Ltd has floating rate of interest and is subject to a periodic reset, which exposes the trust on account of any adverse change in the interest rates in the future.

Exposure to O&M and MM risks: Any material breach in the O&M and MM requirement may result in the contract being terminated by NHAI.

All the SPVs have entered into a fixed-price agreement for O&M and MM requirement for a period of 10 years with the sponsor company IRB Infrastructure Developers Limited (IRB) till FY30. There is no stipulation with respect to maintenance of major maintenance reserve account (MMRA) and thus the project SPVs have to rely on their cash flows in future for their O&M expenses (both routine and periodic). However, the fixed-price contract with IRB imparts comfort against any escalation in the actual costs. The expenses as contracted with IRB are low as compared to CARE Ratings' benchmark. Therefore, the substitution risk pertaining to O&M contractor is perceived high. Considering the maintenance contract being a fixed price, past experience of the project manager/O&M contractor in the road sector and the past payouts also restricted to contracted amount mitigate the risk. Going forward, in case of actual O&M/MMR expense being higher than the contracted price will be a rating revision trigger.

Liquidity: Adequate

In line with the InvIT regulations, more than 90% of net distributable cash flows (NDCF) of IRB InvIT Fund is being distributed to unit holders after servicing debt and meeting all operating expenses of the trust. Hence, the Trust does not maintain any significant liquid funds. The debt obligations towards principal and interest repayment due for FY23 stands at around ₹167 crore at trust level against which the fund has already collected net toll income amounting to around ₹486 crore till September 2022. In line with the sanctioned terms to maintain DSRA at around ₹56 crore, the fund is maintaining DSRA in the form of mutual funds.

Analytical approach: Consolidated.

CARE Ratings has considered combined business and financial risk of the trust at a consolidated level. CARE Ratings has considered the cash flows of VK1 Expressway Private Limited from FY23 onwards.

List of subsidiaries:

S. No.	Name of Company	% of holding (as on March 31, 2022)
1	IDAA Infrastructure Ltd.	100%
2	IRB Surat Dahisar Tollway Ltd	100%
3	IRB Jaipur Deoli Tollway Ltd.	100%
4	IRB Tumkur Chitradurga Tollway Ltd.	100%
5	MVR Infrastructure & Tollways Ltd.	100%
6	IRB Talegaon Amravati Tollway Ltd.	100%
7	IRB Pathankot Amritsar Toll Road Ltd.	100%

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Hybrid Annuity Model based road projects
Infrastructure Sector Ratings
Toll Road Projects
Infrastructure Investment Trust (InvITs)

About the company

IRB InvIT Fund is a Trust registered under the SEBI's Infrastructure Investment Fund Regulations 2014. The fund owns, operates and maintains a portfolio of five toll - road assets in the Indian states of Maharashtra, Rajasthan, Karnataka Tamil Nadu and Punjab. These toll roads projects are Jaipur–Deoli NH 12, Surat–Dahisar NH 8, Tumkur– Chitradurga NH 4, Omalur–Salem–Namakkal NH 7, Talegaon–Amravati NH 6 and Amritsar-Pathankot NH15.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (Provisional)
Total operating income	1,143	1,392	914
PBILDT	916	1150	410
PAT	181	303	176
Overall gearing (times)	0.44	0.46	-
Interest coverage (times)	7.90	10.61	7.96

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	March 2036	1608.49	CARE AAA; Stable
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE AAA (Is); Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer rating-Issuer ratings	Issuer rating	-	-	-	-	-	1)Withdrawn (15-Jan-20)
2	Fund-based - LT-Term loan	LT	1608.49	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Oct-21)	1)CARE AAA; Stable (05-Oct-20)	1)CARE AAA; Stable (15-Jan-20)
3	Issuer rating-Issuer ratings	Issuer rating	0.00	CARE AAA (Is); Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	The borrower shall at all times during the currency of the loan, maintain the following financial covenants: DSCR >= 1.75x

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Issuer Rating	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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