IRB InvIT Fund

October 04, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,462.04 (Reduced from 1,478.20)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**1,462.04 (Rs. One thousand four hundred sixty two crore and four lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the long-term bank facilities of IRB InvIT Fund reflects the high credit quality and established operational track record of the underlying toll road assets. 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 rating continues to take into account support from the pooling of cash flows from seven operational road SPVs in InvIT fund located at diversified geographical locations collecting toll with an average operational period of around 10 years. The trust has 100% equity stake in all the seven project SPVs with no external debt (debt is infused by InvIT). In addition, the trust continues to maintain DSRA at stipulated levels of Rs.50 crore in the form of mutual funds.

The rating also factors in better-than-envisaged toll collection during FY21 (refers to the period April 01 to March 31) owing to quicker toll ramp-up on partial opening up of the economy. The underlying project SPVs witnessed robust recovery in toll collections since Q2FY21 across its project portfolio, except one project SPV – IRB Pathankot Amritsar Toll Road Ltd. The net toll collection which was impacted due to 2nd wave of Covid has recovered significantly during last 2 months and per day net toll collection during 5M (from April 2021 to August 2021) in FY22 neared per day net toll collection in FY20 despite nil collections from Pathankot Amritsar stretch where tolling is suspended due to farmer agitation since October 2020. Subsequently, NHAI has acknowledged the event of farmers' protest under force majeure clause of the concession agreement, whereby they will be paying 50% of the O&M and the interest cost as reimbursement in cash and an extension in the concession agreement to compensate for the revenue loss during the toll suspension period. Any updates in this regard are being monitored closely. The concession period for the project SPVs are eligible for extension due to target traffic clause based on actual traffic on account of target traffic clause as per concession agreement of respective project SPVs/force majeure clause of concession agreement. Any change in the assumed timelines would be a rating trigger.

The leverage position of the trust remained moderate with total debt (including deferred premium and interest on deferred premium) at around 25% of the fair value of assets as against SEBI regulations limiting the leverage at 70% (subject to fulfilment of certain conditions for a AAA rated InvIT). The Fair enterprise value of the underlying project SPVs as per the registered valuer stood at Rs.7,501.7 crore as on March 31, 2021. Healthy debt coverage and favourable capital structure of the trust with no senior debt at the SPV level provides cushion at the Fund level.

The rating also favourably takes in to account the significant experience and established track record of the project manager/sponsor- IRB Infrastructure Developers Limited (IRB rated 'CARE A, Stable') and the fixed-price contract for 10 years executed in FY20 by all the underlying SPVs for meeting Operation & Maintenance (O&M) and Major Maintenance & 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 regulatory risks (both for project SPVs and InvIT regulations). The concession period for two of the major revenue contributors (IRB Surat Dahisar Tollway Ltd. and IDAA Infrastructure Ltd.) is expiring Q1 FY23 (unless further extension is received from NHAI). As a result, the revenues and NDCF of the fund are estimated to decline though sufficient for timely debt servicing. Thus, timely identification and acquisition of new mature road projects is very important, subject to maintenance of satisfactory leverage. Any debt-funded acquisitions undertaken in future may have material impact on its operational and financial risk profile. 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 credit risk profile of IRB InvIT Fund. Consequently, the leverage and the debt coverage metrics post acquisition would remain a key monitorable going forward.

Rating Sensitivities

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

- Significant deterioration in the underlying asset quality.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

- Significant and sustained de-growth in the traffic, leading to weak debt protection metrics.
- Acquisition of under-construction toll projects in the portfolio.
- Any systemic risk or regulatory changes adversely impacting InvIT's credit profile.
- 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 leading to dilution of average DSCR below 2x as per CARE Ratings' base case scenario.
- Non-adherence of any covenants as per sanctioned terms.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of revenue growth of the underlined SPVs coupled with geographical diversification mitigating regional concentration risks
IRB InvIT consists of seven operational road projects having length of 4,055 lane Kms with four of the road projects forming part of Golden quadrilateral and one being part of East-West corridor in the Indian states of Maharashtra, Gujarat, Rajasthan, Karnataka, Tamil Nadu and Punjab. This 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.
Portfolio projects have been operational (i.e., collecting toll: partial/entire) for a period in the range of 7-12 years, average of around 10 years for the portfolio and have demonstrated healthy traffic growth except toll disruptions during pre-covid period with concession period ending from FY23 till FY41 (considering EOT). Of the 7 projects, toll rates for three projects (Surat Dahisar, Bharuch Surat and Omalur Namakkal project stretches) are 100% linked to Wholesale Price Index (rate revision in Bharuch Surat and Omalur Namakkal for FY22 is around 7.9% and around 1.5% for Surat Dahisar) and toll rates for the remaining four are linked to a fixed rise of 3% along with 40% linkage to WPI (w.e.f April 2021, the toll rate revision is 3.78%).

Moderate leverage leading to a healthy DSCR
As against SEBI guideline of a cap of 70% of value of asset (subject to certain conditions for a AAA rated InvIT fund), as on March 31, 2021, the leverage of fund stood at around 25% of value of asset thereby providing sufficient financial flexibility in mobilizing additional debt if required. The Trust has asset addition plans over the next couple of years with a view to provide stable cashflows to the trust. Concession period of two key projects, viz, IDAA (Bharuch-Surat) and IRBSD (Surat Dahisar) contributing more than 50% of toll revenues are scheduled to expire in Q1 FY23, thereby restricting the revenue visibility to remaining five project SPVs in the absence of any new acquisitions. Though acquiring good operational road asset would be important but any steep rise in debt-funded acquisitions will be monitored closely.
With low leverage and ballooning repayments, debt coverage indicators are estimated to remain strong with average DSCR over the debt period to remain above 2x with a concession life coverage ratio 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. IRB Infrastructure Developers Limited (IRBIDL) is the Project Manager of the Fund to carry out operations and maintenance of the Project SPVs. IRBIDL has considerable experience in the execution of construction work for roads and highways including National Highways (NHs).
Temporary support in the form premium deferment
Of the seven project SPVs under IRB InvIT Fund, one of the project SPVs, IRB Tumkur Chitradurga project (IRBTC) had to pay an annual fixed premium of Rs.140.4 crore from 1st 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 Rs.432 crore as on March 31, 2021. The premium payment is being made in accordance with the cash surplus accruing to the company.

Distribution of surplus to unit holders in FY21 and Q1FY22
Despite impact of covid on revenues, the fund continued to distribute more than 90% of its NDCF in line with InvIT regulations. In FY21, the Fund declared a total distribution of Rs.8.50/unit which consisted of Rs.6.50/unit of interest and Rs.2.00/unit of return of capital. The same stood at Rs.1.80/unit for Q1 FY22. Total distribution for FY21 stood at around Rs.493 crore to the unit holders as against around Rs.581 crore for FY20.

SEBI/IRDAI initiatives to impart higher liquidity
To make the segment more attractive to retail investors, SEBI has allowed reduction in trading lot size of the listed trust from the existing 2,500 units to 1 unit. The revised regulations with lower entry barrier will provide an opportunity and encourage retail investor participation in the infrastructure projects. The entry of retail investors is expected to bring in liquidity through increased trading volume.
Furthermore, IRDAI has permitted insurers to invest in the debt instruments of InvITs subject to certain laid down conditions. Earlier insurance companies were allowed to invest in only units of InvITs. Considering the funding requirements through banking system is constrained for a comparatively shorter period due to asset liability mismatches, the said permission is expected to bring access to long-term funds for InvIT and competitive rate of interest.

Key Rating Weaknesses

Risk inherent in BOT toll projects and regulatory risk
Toll revenues are a function of toll rates and traffic volumes. 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. Support by way of extension of Time provides some comfort in the event of lower traffic vis-à-vis set forth in the respective concession agreements.
The toll collections in FY21 were impacted due to nationwide lockdown in April 2021 for 19 days and subsequent travel restrictions during the year. The same further got hit by temporary halt in toll collections in IRBPA (Pathankot Amritsar project) due to farmer agitation. While the net toll collections registered a de-growth of around 11% in FY21 over FY20, it was higher against the expectation of CARE Ratings. The impact of 2nd wave in Q1 FY22 was not as severe as the 1st wave in Q1 FY21; the per day net toll collections during the quarter witnessed Y-o-Y growth of 20% over the same quarter last year (despite no contribution from IRBPA) but registered a de-growth of 23% over Q4 FY21. Thus, traffic rebounding and recovery in toll collections post opening up of the economy to pre-covid levels and a growth thereon would be important from growth prospects.

Exposure to O&M and major maintenance risks
Any material breach in the O&M and major maintenance requirement may result in the contract being terminated by NHAI.
All the seven SPVs have entered into a fixed-price agreement for O&M and major maintenance 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 mitigates the risk. Going forward, in case of actual O&M/MMR expense being higher than the contracted price will be a rating revision trigger.

Refinancing Risk
The assets in the portfolio have various concession end-dates ranging from FY23 to FY41(with extensions). The debt raised has a repayment schedule till December 2033 (FY34) with majority debt to be repaid in last 4 years. Considering that four projects out of seven projects have end date beyond 2033 imparting refinancing opportunity of the debt with a longer tenor debt.

Liquidity : Adequate
The Trust at a consolidated level has unencumbered cash and cash equivalents amounting to Rs.95 crore as on June 30, 2021 (including DSRA). 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 FY22 stands at around Rs.165 crore against which the fund has already collected sufficient net toll income till August 2021. In line with the sanctioned terms to maintain DSRA at Rs.50 crore, the fund is maintaining DSRA in the form of mutual funds with a realizable value of Rs.52.04 crore as on March 31, 2021 (currently, sufficient to cover service debt obligations for one quarter).
The fund had availed moratorium of 3 months from IDFC (March 2020 till May 2020) and 6 months from SBI (March 2020 till August 2020), respectively, thereby preserving liquidity to some extent during 1st wave of Covid-19.

Analytical approach: Consolidated.
CARE Ratings has considered combined business and financial risk of the trust at consolidated level. The lenders of the trust have first charge on the escrow account and receivables of fund arising out of principal and interest payment of the loans by trust to subsidiaries (underlying project SPVs).
List of Subsidiaries:

S. No.	Name of Company	% of holding (as on March 31, 2020)
1	IDAA Infrastructure Ltd. (IDAA)	100%
2	IRB Jaipur Deoli Tollway Ltd. (IRBJD)	100%
3	IRB Surat Dahisar Tollway Ltd. (IRBSD)	100%
4	IRB Tumkur Chitradurga Tollway Ltd. (IRBTC)	100%
5	MVR Infrastructure & Tollways Ltd. (MVR)	100%
6	IRB Talegaon Amravati Tollway Ltd. (IRBTA)	100%
7	IRB Pathankot Amritsar Toll Road Ltd. (IRBPA)	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
Infrastructure Investment Trusts (InvITs)
Infrastructure Sector Ratings
Toll Road Projects

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 seven toll - road assets in the Indian states of Maharashtra, Gujarat, Rajasthan, Karnataka Tamil Nadu and Punjab. These toll roads projects are Bharuch–Surat NH 8, 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.
The fund got listed in both stock exchanges (BSE & NSE) on May 18, 2017. In September 2017, the Fund acquired Pathankot-Amristar NH 15 Project and this acquisition was funded by debt raised at Fund Level amounting to Rs.1,550 crore. As on March 31, 2021 the NAV (fair value) for the InvIT fund value is Rs.104.75 per unit and the fair enterprise valuation of 7 project SPVs as on March 31, 2021 as per latest valuation report dated May 15, 2021 stands at Rs.7,501.7 crore. The fair enterprise value of the fund stood at Rs.6,080.9 crore as on March 31, 2021.
Sponsor, i.e., IRB Infrastructure Developers Limited (IRB) is an established surface transportation infrastructure company with expertise in development of BOT Road Projects.

Brief Financials (Rs. crore)-IRB InvIT Fund Consolidated	FY20 (A)	FY21 (A)
Total operating income	1248.41	1118.34*
PBILDT	1000.95	892.04
PAT	172.70	180.84
Overall gearing (times)	0.41	0.44
Interest coverage (times)#	7.93	7.61

*Excluding non-cash income of Rs.34.75 crore
#Interest expenses exclude discounting impact of MMR Provisions and Interest on Premium Deferment of around Rs.28.45 crore in FY21 and around Rs.38.15 crore in FY20 which is non-cash in nature.
A: Audited *Note: The financials are classified as per CARE's internal standards*
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	1462.04	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Issuer Rating-Issuer Ratings	Issuer rat	-	-	-	-	1)Withdrawn (15-Jan-20)	1)CARE AAA (Is) (10-Dec-18)2)CARE AAA (Is); Stable (05-Oct-18)
2	Fund-based - LT-Term Loan	LT*	1462.04	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Oct-20)	1)CARE AAA; Stable (15-Jan-20)	1)CARE AAA; Stable (05-Oct-18)

** Long Term*

Annexure-3: **Detailed explanation of covenants of the rated instrument / 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: Long term debt/EBITDA <= 4 DSCR >= 1.75x Interest coverage ratio >=2.6
B. Non-financial covenants	The Borrower shall not without prior written permission of the bank undertake or permit any merger, de-merger, consolidation, reorganization, dissolution or reconstitution scheme of arrangement or compromise with its creditors or shareholders or effect any scheme of amalgamation or reconstruction or dissolution or reconstitution.

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

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 instrument: *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@careratings.com for any clarifications.*

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