POWERGRID Infrastructure Investment Trust

March 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	700.00	CARE AAA; Stable	Reaffirmed
Issuer Rating	0.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating of POWERGRID Infrastructure Investment Trust (PG InvIT) continues to derive strength from the well-established sponsor and project manager of the Trust (i.e. Power Grid Corporation of India Limited, PGCIL, rated CARE AAA; Stable/CARE A1+) with rich experience in the power transmission business. The rating continues to draw comfort from the portfolio assets of PG InvIT, comprising five operational power transmission special purpose vehicles (SPVs) having a presence in different geographies of India, with strong operating parameters. These assets have a track record ranging between four to six years, with low revenue risk and stable and long-term cash flow visibility. By virtue of operations of the assets in the power transmission business, the rating takes note of relatively low industry risk. Furthermore, the diversification of counterparties for these power transmission assets along with robust collection mechanism under sharing regulations operated by the Central Transmission Utility of India Limited (CTUIL) are other credit positives. The rating also favourably factors low indebtedness of PG InvIT vis a vis the value of asset owned. The rating takes comfort of fairly-elongated repayment structure of the loan amount leading to comfortable projected debt service coverage ratio (DSCR), presence of waterfall mechanism and presence of one quarter of debt service reserve account (DSRA).

The rating is, however, sensitive to the moderate operations & maintenance (O&M) risk for the five portfolio assets and the exposure to variation in interest rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: NA

Negative factors

- External debt exposure exceeding 49% of the trust's asset valuation.
- Lower-than-envisaged availability in the SPVs under the Trust or significant increase in operational expenses, adversely impacting the cash accruals, and hence, pay-out to the Trust.
- Significant increase in the average collection period (i.e. beyond 120 days) of the SPVs due to delayed collection under the shared regulations.
- Deterioration in the credit quality of underlying assets.

Analytical approach: Consolidated. The business and financial risk profiles of the below mentioned SPVs acquired by the Trust are consolidated.

S. No.	Name of Company	Shareholding (as on December 31, 2022)
1.	Vizag Transmission Limited (VTL)	100%
2.	POWERGRID Warora Transmission Limited (PWTL)	74%
3.	POWERGRID Parli Transmission Limited (PPTL)	74%
4.	POWERGRID Jabalpur Transmission Limited (PJTL)	74%
5.	POWERGRID Kala Amb Transmission Limited (PKATL)	74%

Outlook: Stable

The stable outlook reflects the ability of the SPVs under the Trust to sustain strong availability leading to steady gross cash accrual and timely receipt of payment, thus leading to steady income for the Trust.

Key strengths

Well-established sponsor and project manager with rich experience in the power transmission business: PGCIL operates as one of the chief agencies responsible for the planning and development of the country's nationwide power transmission network, including inter-state networks. Despite the extensive network under its management, PGCIL has been able to maintain system availability at more than 99% (above normative availability), which enables the company to earn incentive

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

income consistently. PGCIL has a unitholding of 15% in the Trust and 26% shareholding in the four SPVs (PKATL, PPTL, PWTL and PJTL) during the equity lock-in period. PGCIL oversees the project management of the Trust along with O&M of the assets housed under the five SPVs.

Portfolio assets of the PG InvIT are operational, with low revenue risk and stable cashflow visibility

The portfolio assets comprise five power transmission projects located across five states in India. The projects comprise 11 transmission lines, including six 765-kV transmission lines and five 400-kV transmission lines, with a total circuit length of approximately 3,698.59 ckm, and three substations with 6,630 MVA of an aggregate transformation capacity and 1,955.66 km of optical ground wire. Each of the portfolio assets has in place a long-term transmission service agreement (TSA) of 35 years from the scheduled COD of the relevant initial portfolio asset. Upon expiry of the term of the TSA, the relevant initial portfolio asset can apply to the CERC for renewal if it is not unilaterally extended by the CERC. The SPVs are eligible to book an entire contracted tariff for the year if the annual availability is equal to or more than the target availability. If the availability is less, the revenue booked is reduced on a proportionate basis. If the availability is more, the SPVs are eligible for incentives. The revenue is insulated from demand, supply, and price fluctuation of the power tariff. In normal circumstances, outages (which lead to lower availability) are easily identifiable. Furthermore, as per the TSA, the availability-based tariff assures a stable cashflow for the SPVs.

Strong operational performance of portfolio assets

All five assets have registered availability at higher-than-targeted levels in last 12 months. This has not only ensured the full recovery of transmission charge but has also led to incentive income. All the SPVs have registered an average availability in excess of 99% for FY22 and in excess of 99.75% for 9MFY23.

Counterparty credit risk diversified and mitigated largely through collection under shared regulations

The portfolio assets have TSAs with more than 30 inter-state transmission service (ISTS) customers, geographically diversified in Southern, Western, Northern and Central India. More than 95% of the annual transmission charges billed for FY22-23 by the five SPVs are collected under the shared regulations, where the CTUIL is accountable for raising and collecting bills from the customers. The rest of the charges are collected under the bilateral mode with counterparties with acceptable credit profiles. The CTUIL manages the process, wherein, it bills and collects monthly transmission charges on behalf of all the ISTS licensees from all the designated ISTS customers (DIC). All ISTS licensees are then paid their share of transmission charges from the centrally collected pool by the CTUIL. Hence, this method minimises counterparty risk.

Relatively low industry risk in the power transmission business

Transmission projects are protected from demand risk as the arrangement between the project developer and the beneficiary is regulated by the TSA. Transmission charges are billed on a monthly basis for the usage of transmission line as per the TSA provided availability. TSA is usually for a long-term and provides revenue visibility of the project, subject to maintenance of operational parameters. On the supply side, the risk is low, as the possibility of coming up with an additional line on the same transmission network is negligible.

Key Rating Weaknesses

Moderate O&M risk for the portfolio assets

Any lower-than-target availability could lead to reduction in the transmission charges, thereby impacting cashflows of the assets, and consequently, the Trust. At present, the O&M of all five assets have until now been managed by the PGCIL, through O&M contracts up to FY24. The O&M risk is partially offset by the steady past performance of the transmission assets and the strong experience of the O&M contractor. Price escalations, if any, in the O&M costs are not expected to materially affect the project cashflows, as these costs are a small portion of the revenue generated each year.

Exposure to variation in interest rates amid external borrowings

The portfolio assets of PG InvIT have no external debt, as on December 31, 2022. These SPVs, as on March 31, 2022, on a combined level, had a debt of around ₹5,197.28 crore from PGinvIT. Furthermore, the proceeds from the IPO were utilised towards providing loans to the SPVs for pre-payment of existing debt availed by them. In order to acquire the balance stake of 26% in the remaining four SPVs post-expiry of the equity lock-in period, the Trust is likely to avail external borrowings.

Currently, the external borrowing is quite low as compared to the reported market value of the assets, which provides comfort. Any external borrowings with floating interest rates would be subject to interest rate variation with a periodic reset of rates. The cash flow of PG InvIT is linked to transmission charges received by SPVs. These charges are fixed in nature. Furthermore, as per InvIT regulatory guidelines, not less than 90% of the net distributable cash flows (NDCF) of the InvITs shall be distributed to the unit holders. Any variation in interest rate might impact the debt-servicing of the Trust.

Liquidity: Strong

The liquidity profile of PG InvIT is characterised as strong due to low leverage and its stable income in the form of interest on loan to the five operational assets and dividend income. As on December 31, 2022, the cash and cash equivalent position of the Trust stood at ₹276.01 crore on standalone level and ₹468.70 crore on consolidated level. The dividend paying capability has also been demonstrated by the declared dividend in FY22 and 9MFY23 with cumulative distribution at ₹19.50/unit. By virtue of the shared regulations mechanism for collection and association with counterparties with acceptable credit profile in the bilateral mode of collection, the average collection period of the SPVs has been within allowable limits.

Applicable criteria

Definition of Default
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Investment Holding Companies
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Infrastructure Investment Trusts (InvITs)
Infrastructure Sector Ratings
Power- Transmission

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Investment Company

PG InvIT was set up by PGCIL as an irrevocable trust pursuant to the Trust Deed, under the provisions of the Indian Trusts Act, 1882. The Trust was registered with the Securities and Exchange Board of India (SEBI) on January 7, 2021, as an infrastructure investment trust (InvIT) under InvIT regulations. IDBI Trusteeship Services Limited is the Trustee. PGCIL, a Maharatna Central Public Sector Enterprise under the Ministry of Power, Government of India, is the Sponsor of PG InvIT. Powergrid Unchahar Transmission Limited (PUTL) has been appointed as the Investment Manager to the Trust, while PGCIL has been appointed as the Project Manager in respect of the Trust.

Brief Financials (₹ crore)	FY22 (A)	9MFY23 (UA)
Total operating income	973.13	804.08
PBILDT	961.61	-388.90
PAT	779.83	-420.93
Overall gearing (times)	0.06	NA
Interest coverage (times)	10,567.15	NA

A: Audited || UA.: Unaudited || NA.: Not Available || Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 31, 2038	700.00	CARE AAA; Stable
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AAA; 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 rat	0.00	CARE AAA; Stable	1)CARE AAA; Stable (26-Dec-22)	1)CARE AAA (Is); Stable (22-Mar-22)	1)CARE AAA (Is); Stable (20-Jan-21)	-
2	Fund-based - LT-Term Loan	LT	700.00	CARE AAA; Stable	1)CARE AAA; Stable (30-May-22)	-	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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:
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