Powergrid Infrastructure Investment Trust

(An irrevocable trust set up under the Indian Trusts Act, 1882, and registered as an infrastructure investment trust with the Securities and Exchange Board of India (SEBI))

January 20, 2021

Ratings

Type of Rating	Rating[1]	Rating Action
Issuer Rating	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Assigned

Details of instruments/facilities in Annexure-1

The rating is subject to the Trust group's external debt exposure not exceeding Rs. 900 cr post issuance of the Initial Public Offer (IPO). The Trust group hereby refers to the Trust and the project SPVs which form part of the initial portfolio of the Trust.

Detailed Rationale & Key Rating Drivers

CARE has assigned an Issuer Rating of CARE AAA (Is); Stable to Powergrid Infrastructure Investment Trust ('Trust' or 'InvIT'). The rating factors in the operational expertise of the sponsor-cum-project manager of the Trust i.e. Power Grid Corporation of India Ltd (rated CARE AAA; Stable/ CARE A1+), a Government of India 'Maharatna' enterprise commanding leadership position in the transmission sector in India. The Investment Manager of the trust is also a wholly owned subsidiary of PGCIL. The rating favourably factors in the strong revenue visibility associated with all the five special purpose vehicles or SPVs (POWERGRID Warora Transmission Limited (PWTL), POWERGRID Parli Transmission Limited (PPTL), POWERGRID Vizag Transmission Limited (PVTL), POWERGRID Jabalpur Transmission Limited (PJTL) and POWERGRID Kala Amb Transmission Limited (PKATL)) proposed to be owned by the Trust. The rating also takes into account their high line availability at above normative levels, which has ensured they have earned incentives consistently in the past. The rating also factors in the healthy collection efficiency of the five SPVs as their counterparty credit risk is diversified with the bulk of the collection covered under point-of-connection (POC) mechanism. The rating also takes into cognizance that all the five assets are operational and have no external debt along with minimal debt requirement at InvIT level in the medium term.

These ratings strengths of the Trust are partially tempered by moderate operations and maintenance (O&M) risk for the five assets.

<u>Rating Sensitivities</u>

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

- Lower-than-envisaged line 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 average collection period (i.e. beyond 120 days) of the SPVs due to delayed collection under the POC mechanism.
- Deterioration in the credit quality of underlying assets

The issuer rating neither signifies the returns to unit holders nor does it signify any potential yield levels to the unit holders, and thereby should not be construed as a rating of InvIT's units. It is also not an indicator of the credit quality of the individual SPVs which will be part of the Trust's portfolio.

Detailed description of the key rating drivers

Extensive experience of sponsor/ project manager in power transmission business

PGCIL (the sponsor/ project manager of the InvIT) operates as one of the chief agencies responsible for the planning (in its capacity of Central Transmission Utility (CTU)) 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 income consistently. During FY20 (refers to period April 01 to March 31), transmission system availability of 99.82% (PY: 99.71%) was achieved for the transmission network. Furthermore, the number of tripping per line was contained at 0.39 times in FY20 (0.46 in FY19).

PGCIL is expected to have shareholding of 15% in the trust and 26% shareholding in the five SPVs during the equity lock-in period. PGCIL is expected to oversee the project management of the trust along with operations and maintenance of the assets housed under the five SPVs.

All five assets of the InvIT are operational with low sales risk and adequate revenue visibility

All the five assets are operational with the newest asset (i.e. PJTL) been in operation for almost two years. The other assets have already completed more than two years and four months of successful operations.

All the five SPVs have low sales risk by virtue of their long tenor of transmission service agreement or TSA (i.e. 35 years from COD) with its customers. The SPVs are eligible to book entire contracted tariff for the year if the annual line availability is equal or more than the target availability. If the line availability is less, the revenue booked is reduced on proportionate basis.

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

The revenue is insulated from demand, supply and price fluctuation of power tariff. In normal circumstances, outages (which lead to lower line availability) are easily identifiable and can be repaired. The availability based tariff assures stable cash flow as per the terms of the TSA.

Strong operational performance of the five assets

The transmission lines of all the five assets have registered availability at higher than targeted levels of 98% during the last 18 months of operations ended September 30, 2020, which is comparable with PGCIL's aggregate line availability for the corresponding periods. This has not only ensured full recovery of transmission charge but has also led to incentive income. All the assets have registered an average line availability of 99.77% or more in FY20. During H1FY21, it continued to remain strong of at least 99.5%.

Counterparty credit risk diversified and mitigated largely through collection under POC mechanism

The five assets have signed Transmission Service Agreement with more than 30 Inter-State Transmission Service (ISTS) customers geographically diversified in southern, western, northern and central India. More than 80% of the annual transmission charges billed (levelised) by the five SPVs is collected under the POC mechanism where the CTU is accountable for raising and collecting bills from the customers. Rest of the charges are collection under bilateral mode with counterparties with acceptable credit profile.

The CTU 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 CTU. However, the collection of revenue of the project will not be dependent upon payment from these ISTS customers only. Any shortfall or delay/default by a designated ISTS customer is shared amongst all ISTS licensees, in proportion to their share in the centrally collected pool. Hence, this method minimises counterparty risk. It may be noted that collection responsibility is of PGCIL (in the capacity of CTU) who owns more than 85% of inter-state transmission lines in the country.

The collection efficiency for all the five SPVs has been healthy in last 18 months for the all the assets, especially despite the recent challenges faced during Covid'19 induced lockdown.

The operating assets are external debt free; InvIT to remain debt free in medium term; however refinancing risk will persist given high distribution of surplus by the trust

As on September 30, 2020 all the five SPVs had nil external debt. The entire borrowing of these SPVs is from the parent i.e PGCIL and is expected to be replaced by loan from the InvIT. These operational assets are not expected to have any significant additional debt requirement going forward.

The InvIT may raise debt to acquire the remaining 26% stake of PGCIL in the five SPVs post the expiry of the equity lock-in period defined in the TSAs. This quantum of debt projected to be raised as percentage of the value of assets in its initial portfolio is expected to remain well below the regulatory threshold. Given the InvIT's regulatory requirement of higher distribution of net distributable cash flows to its unit holders, the accumulated cash might not be adequate for bullet repayment if availed. Consequently, the InvIT would face a refinancing risk. This, however, is mitigated largely given the strong sponsor profile and revenue visibility of the assets.

Liquidity: Strong

Liquidity profile of the InvIT is characterized as strong due to the absence of debt in the medium term, stable income in the form of interest on loan to the five operational assets and dividend income. Dividend paying capability has also been demonstrated by the declared dividend in FY20 by all the five SPVs. Additionally, the SPVs are also expected to repay loan availed from the InvIT which is expected to increase the cash inflows of the InvIT.

By virtue of POC mechanism for collection and association with counterparties with acceptable credit profile in bilateral mode of collection, the average collection period of the SPVs has been within allowable limits. The SPVs did not avail any moratorium under regulatory package during the lockdown due to covid'19.

Low industry risk

Transmission projects are protected from demand risk as the arrangement between the project developer and the beneficiary is regulated by TSA. The annual fixed charge is billed to the beneficiary as a fee for the usage of transmission line as per TSA provided maintenance of line availability above normative parameters. As TSA is usually for the long term and provides the revenue visibility of the project subject to maintenance of operational parameters. On the supply side, the risk is low, as possibility of coming up the additional line on the same transmission network is negligible.

Key Rating Weaknesses

Moderate O&M risk for the five assets

Any lower than target availability of transmission line could lead to proportionate reduction in transmission charges thereby impacting cash flows of the assets and consequently the trust. Currently, the operations and maintenance of all the five assets have till now been managed by the parent i.e. PGCIL through short term O&M contracts which are renewed on an annual basis. The trust is in the process of executing a long term O&M contract with PGCIL for all the five SPVs. The O&M risk is partially offset by steady past performance transmission assets and strong experience of the O&M contractor. Price escalations, if any, in the O&M costs are not expected to materially affect the project cash flows as these costs are small portion of the revenue generated each year.

Analytical approach: Consolidated. Post the IPO, the InvIT is expected to acquire 74% of the stake in the following assets – PWTL, PPTL, PVTL, PJTL and PKATL. The business and financial risk profile of all these SPVs which will be acquired by the Trust is hence consolidated.

Applicable Criteria
Definition of Default
Rating Outlook and Credit Watch
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Infrastructure Sector Ratings
Infrastructure Investment Trusts
Power transmission
Factoring Linkages Parent Sub JV Group
Issuer Rating

About the Trust
Powergrid Infrastructure Investment Trust was registered as an irrevocable trust under Indian Trust Act 1882 on September 14, 2020 and was registered as Infrastructure Investment Trust (InvIT) under SEBI (Infrastructure Investment Trust) Regulations 2014 on January 07, 2021. The fund has been formed to invest in infrastructure assets primarily in the transmission sector in the country. IDBI Trusteeship Services Ltd has been appointed as Trustee of the InvIT.
Five of PGCIL's wholly owned subsidiaries i.e. PWTL, PPTL, PVTL, PJTL and PKATL have built and are owning, operating and maintaining transmission assets (under Build-Own-Operate-Maintain (BOOM) basis) in the Indian states of Madhya Pradesh, Maharashtra, Andhra Pradesh, Telangana and Himachal Pradesh. These SPVs have also availed loan from PGCIL aggregating to Rs. 5,063 cr (outstanding as on September 30, 2020) for meeting its capex requirement. The investment trust is proposed to raise fund to:-

1) initially acquire 74% stake in these 5 operational assets from PGCIL
2) extend loan to these assets so that they completely repay their debt liabilities with PGCIL

PGCIL has received approval from the Government of India (GoI) during Q2FY21 for monetization of these 5 transmission assets. During FY20 (refers to the period from April 01 to March 31) combined operating revenue of the five SPVs proposed to be acquired by the Trust was Rs. 1,334 cr.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AAA (Is); 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE AAA (Is); Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Issuer Rating-Issuer Ratings	Simple

Note on complexity levels of the rated instrument: *CARE 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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About CARE Ratings:
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