

IRB Invit Fund

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,528.18 (Reduced from 1,608.49)	CARE AAA; Stable	Reaffirmed
Issuer rating Issuer rating	-	CARE AAA; Stable	Reaffirmed

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

Rationale and key rating drivers

The reaffirmation of the rating assigned to the long-term bank facilities and issuer rating of IRB InvIT Fund (IRB InvIT) continue to favourably factor in the diversified portfolio of five matured operational toll assets with established track record of close to 11 years on average and 1 Hybrid Annuity Mode (HAM) project with an operational track record of around 1.5 year. The portfolio is spread across six states with all the projects under concession with National Highway Authority of India (rated CARE AAA; Stable). The ratings continue to derive comfort from robust debt metrics and leverage position. The consolidated debt/enterprise value (EV) remains comfortable at around 30% as on March 31, 2023 (without deferment premium). CARE Ratings Limited (CARE Ratings) expects the leverage to remain comfortable going forward with debt/EV to remain below 49%.

During FY23, IRB InvIT handed over two assets of IDAA Infrastructure Ltd and IRB Surat Dahisar Tollway Ltd on March 31, 2022 and May 25, 2022, respectively, upon completion of respective concession period. Excluding the same, the fund has reported a toll revenue growth 41% during FY23 over FY22. IRB Pathankot Amritsar Toll Road Ltd (PATL) wherein tolling halted during the period October 2020 to December 2021 has resumed collections during FY23 thus boosting overall collections. The addition of HAM project during FY23 to the portfolio has partially compensated the decline in total revenues consequent to the expiry of the two toll concessions. The HAM project has received three annuities in a timely manner till October 2023.

The ratings continue to factor in support from the pooling of cash flows at SPV level which ensures availability of the cash flows towards debt servicing, periodic maintenance expenses and major maintenance at consolidated level. 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 thus providing reasonable visibility on the surpluses likely to be generated over the tenure of the debt.

Notwithstanding the aforementioned rating strengths, IRB InvIT 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 modes of transportation and regulatory risks (both for project SPVs and InvIT regulations). Higher-than-envisaged debt-funded asset acquisition by the IRB InvIT will have a bearing on the debt coverage indicators and thus constitutes a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not Applicable

Negative factors

- 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.

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

- Any adverse change in the capital structure and /or debt coverage indicators due to incremental debt raised.
- Non-adherence of any covenants as per sanctioned terms.
- Any systemic risk or regulatory changes adversely impacting credit profile

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, 2023)
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%
8	VK1 Expressway Limited	100%

Outlook: Stable

IRB InvIT's business and financial risk profile are expected to remain stable aided by healthy toll collections, comfortable leverage indicators along with strong liquidity.

Detailed description of the key rating drivers:

Key strengths

Diversified and established track record of InvIT portfolio: Invit consist of five matured operational toll assets and 1 HAM. 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, Gujarat and Punjab and have operational track record of close to 11 years. 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 unforeseen event emerging in any particular region and/or with respect to any particular project.

During FY23, concession for two projects has ended and as a result there is dip in collections during FY23 (in line with envisaged level). Adjusted for these projects, the toll collections reported a growth 41% from ₹589 crore in FY22 to ₹832 crore led by 22% growth in Traffic (in term of PCU) and well as toll hike. The growth continued during H1FY24 with IRB InvIT reporting toll collection growth of around 8.5% (adjusted for assets where concession has ended) during the period. In terms of traffic during H1FY24, all the toll projects reported a growth of 4% in traffic. Apart from the toll projects, during FY23, IRB InvIT acquired an operational HAM asset operated under Vk1 Expressway Limited (VEPL) with counterparty as NHAI. The HAM project is located on Padra-Vadodara section of the Delhi Mumbai expressway and achieved COD in August 2022. VEPL has received three annuities till October 2023, in a timely manner without any major deduction.

Satisfactory leverage and debt coverage: The leverage of fund as on March 31, 2023, stood at around 30% (without deferment premium). In the near term, the leverage is expected to remain satisfactory with debt to enterprise value envisaged to remain below 49%, with a portfolio comprising of only operational road assets.

Debt coverage indicators are estimated to remain strong with Debt Service Coverage Ratio (DSCR) over the entire debt tenor to remain close to 2x. Any acquisitions without the support of cashflows thereby impacting the debt coverage will remain a key rating sensitivity.

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 two decades 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 ₹538 crore as on March 31, 2023. The premium payment is being made in accordance with the cash surplus accruing to the IRBTC.

Key weaknesses

Risks inherent in BOT toll road projects

The toll revenues are a function of toll rates and traffic volumes. Traffic volumes are directly or indirectly dependent on multiple factors, including the location of the road project (connecting areas and their commercial importance), the quality, convenience and travel efficiency of alternative routes outside the network of toll roads, etc. The traffic is exposed to political risks too with the Pathankot-Amritsar stretch witnessing farmer protests and suspension of toll in the recent past. However, comfort can be drawn from the diversified asset base of InvIT, the potential impact of any unprecedented event occurring in any particular region and/or with respect to any particular project.

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 (IRBIDL) 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 IRBIDL are low as compared to CARE Ratings' benchmark. Therefore, the substitution risk pertaining to O&M contractor is perceived high. The maintenance contract is a fixed price contract which when combined with past experience of the project manager/O&M contractor in the road sector mitigates the risk to a certain extent. Nevertheless, considering the CAREs benchmark, the average DSCR is estimated remain above ~1.8x. Going forward, higher than envisaged outlay towards O&M/MM will impact Debt service coverage indicators and is a key rating sensitivity.

Refinancing Risk

The assets in the portfolio have various concession end-dates ranging from FY23 to FY39 (including extension till FY43). The debt raised has a repayment schedule till March 2036 (FY36) with about 58% to be repaid in last 4 years. The debt has a tail period ~2.5 years (without extension) which moderate the refinancing flexibility.

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 IRB InvIT. Hence, the IRB InvIT does not maintain any significant liquid funds. The debt obligations towards principal and interest repayment due for FY24 stands at around ₹330

crore (on Consolidated basis) with adequate toll collections against the same. In line with the sanctioned terms, the Fund is maintaining a DSRA balance of Rs.116 crore as on September 30, 2023 (on Consolidated basis).

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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 Investment Trusts \(InvITs\)](#)

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[Issuer Rating](#)

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About the company and industry

IRB InvIT Fund is a Trust registered under the SEBI's Infrastructure Investment Fund Regulations 2014 and is sponsored by IRB Infrastructure Developers Limited. The fund owns, operates and maintains a portfolio of five toll - road assets and one HAM in the Indian states of Maharashtra, Rajasthan, Karnataka Tamil Nadu, Gujarat and Punjab. These toll roads projects are Jaipur–Deoli NH 12, Tumkur– Chitradurga NH 4, Omalur–Salem–Namakkal NH 7, Talegaon–Amravati NH 6 and Amritsar-Pathankot NH15. The HAM project is operated under VK1 Expressway Ltd.

Industry classification

Macro economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	1,392	1,442	518
PBILDT	1150	807	433
PAT	303	370	189
Overall gearing (times)	0.46	0.76	-
Interest coverage (times)	10.61	5.44	-

A: Audited Prov – Provisional; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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	1528.18	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 2023-2024	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
1	Fund-based - LT-Term loan	LT	1528.18	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Dec-22)	1)CARE AAA; Stable (04-Oct-21)	1)CARE AAA; Stable (05-Oct-20)
2	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (01-Dec-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**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 detailsTo 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.

Contact us

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About us:

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