

## POWERGRID Infrastructure Investment Trust

March 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	570.60 (Reduced from 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

Reaffirmation of the rating of POWERGRID Infrastructure Investment Trust (PGInvIT) factor in strength from well-established sponsor and project manager of the Trust (Power Grid Corporation of India Limited, PGCIL, rated CARE AAA; Stable/CARE A1+), which has a rich experience in the power transmission business. The rating continues to draw comfort from portfolio assets of PGInvIT, comprising five operational power transmission special purpose vehicles (SPVs), having presence in different Indian geographies, with strong operating parameters. These assets have a track record of more than five years, with low revenue risk and long-term cash flow visibility. By virtue of operations of assets in the power transmission business, the rating takes note of relatively low industry risk. Diversification of counterparties for these power transmission assets and 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 debt levels of PGInvIT against the value of asset owned. The rating takes comfort of an elongated loan repayment structure, leading to comfortable projected debt service coverage ratio (DSCR), presence of waterfall mechanism and presence of one quarter of debt service reserve account (DSRA).

However, the rating is sensitive to operations & maintenance (O&M) risk for five portfolio assets and exposure to interest rate variations.

### Rating sensitivities: Factors likely to lead to rating actions

**Positive factors:** Not applicable

### Negative factors

- External debt exposure exceeding 70% of the Trust's asset valuation.
- Lower-than-envisaged availability in SPVs under the Trust or significantly increasing operational expenses, adversely impacting cash accruals, and pay-out to the Trust.
- Significantly increasing average collection period (beyond 120 days) of SPVs due to delayed collection under shared regulations.
- Deteriorating credit quality of underlying assets.

**Analytical approach:** Consolidated.

Business and financial risk profiles of SPVs acquired by the Trust are consolidated below. Please refer to Annexure-6.

S. No.	Name of Company	Shareholding (as on December 31, 2023)
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

Stable outlook reflects the ability of the SPVs under the Trust to sustain strong availability, leading to steady gross cash accrual (GCA) and timely receipt of bills raised, leading to steady income for the Trust.

### Detailed description of key rating drivers

#### 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 planning and developing the country's nationwide power transmission network, including inter-state networks. Despite the extensive network under its management, PGCIL has maintained annual

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

system availability at more than 99% (above normative), which enables the company to earn incentive income consistently. PGCIL has a unitholding of 15% in the Trust and 26% shareholding in the four SPVs (PKATL, PPTL, PWTL, and PJTL). PGCIL oversees project management of the Trust and O&M of assets housed under the five SPVs.

### **Portfolio assets of the PGInvIT are operational, with low revenue risk and stable cashflow visibility**

The portfolio assets comprise five power transmission projects located across five Indian states. 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 kcm, and three substations with 6,630 MVA of an aggregate transformation capacity and 1,955.66 km of optical ground wire. Each portfolio assets has a long-term transmission service agreement (TSA) of 35 years from the scheduled commercial date of operations (COD) of the relevant initial portfolio asset. SPVs are eligible to book an entire contracted tariff for the year if annual availability is equal to or more than target availability. If availability is less, the revenue booked is reduced on a proportionate basis. If availability is more, 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. Per the TSA, availability-based tariff assures a stable cashflow for SPVs.

### **Strong operational performance of portfolio assets**

All five assets have registered availability at higher-than-targeted levels in the last 12 months. This has ensured full recovery of transmission charge and led to incentive income. All SPVs have registered an average availability exceeding 99.5% for FY23 (refers to April 01 to March 31) and exceeding 99.75% for 9MFY24 (refers to April 01 to December 31).

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

Portfolio assets have TSAs with more than 30 inter-state transmission service (ISTS) customers, geographically diversified in Southern, Western, Northern and Central India. 100% of the annual transmission charges billed for FY23-24 by five SPVs are under the CERC sharing regulations. The CTUIL manages the process; it bills and collects monthly transmission charges on behalf of all ISTS licensees from all 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.

### **Low leverage**

PGInvIT's portfolio assets have no external debt, as on December 31, 2023. Proceeds from the IPO were utilised towards providing loans to SPVs for pre-payment of existing debt availed. The Trust, on a standalone basis, had debt outstanding of ₹570.60 crore as on December 31, 2023. The external borrowing is quite low as compared to the reported market value of assets, which provides comfort. The Trust is likely to avail external borrowings to acquire balance stake of 26% in the remaining four SPVs.

### **Relatively low industry risk in the power transmission business**

Transmission projects are protected from demand risk, as the arrangement between the project developer and beneficiary is regulated by the TSA. Transmission charges are billed monthly for usage of transmission line, per TSA-provided availability. TSA is usually for a long-term and provides revenue visibility of the project, subject to maintenance of operational parameters.

### **Key Weaknesses**

#### **Moderate O&M risk for portfolio assets**

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

#### **Exposure to variation in interest rates**

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. Per InvIT regulatory guidelines, not less than 90% of net distributable cash flows (NDCF) of InvITs shall be distributed to unitholders. Variation in interest rate might impact debt-servicing of the Trust. However, interest expense as a percentage of overall exposure is minimal at this stage.

#### **Liquidity: Strong**

Liquidity of PGInvIT is characterised as strong due to low leverage and its stable income from interest on loan to the five operational assets and dividend income. As on December 31, 2023, the cash and cash equivalent position of the Trust stood at ₹275.91 crore on standalone level. The dividend paying capability has also been demonstrated by declared dividend with

cumulative distribution at ₹31.50/unit till 9MFY24. By virtue of shared regulations mechanism for collection and association with counterparties with acceptable credit profile in the bilateral mode of collection, the average collection period for 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](#)

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[Power- Transmission](#)

### About the company and industry

#### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Investment company

PGInvIT 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 PGInvIT. POWERGRID Unchahar Transmission Limited (PUTL) has been appointed as the Investment Manager to the Trust, while PGCIL has been appointed as the Project Manager for the Trust.

Brief Financials - Consolidated (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	1,217.33	1,285.78	976.04
PBILD	1,139.27	1,196.86	867.81
PAT	463.31	-446.41	712.97
Overall gearing (times)	0.06	0.07	NA
Interest coverage (times)	1,238.34	28.88	24.37

A: Audited UA: Unaudited NA: Not Available; Note: 'these are latest available financial results'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

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

**Complexity level of 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	570.60	CARE AAA; Stable
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AAA; Stable

**Annexure-2: Rating history for 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	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Mar-23) 2)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	570.60	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Mar-23) 2)CARE AAA; Stable (30-May-22)	-	-

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of 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](#)**Annexure-6: List of all entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Vizag Transmission Limited (VTL)	Full	Subsidiary
2	POWERGRID Warora Transmission Limited (PWTL)	Proportional	
3	POWERGRID Parli Transmission Limited (PPTL)		
4	POWERGRID Jabalpur Transmission Limited (PJTL)		
5	POWERGRID Kala Amb Transmission Limited (PKATL)		

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

## Contact us

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