Powergrid Infrastructure Investment Trust

March 22, 2022

Rating

Facilities/Instruments	Rating[1]	Rating Action
Issuer Rating	**CARE AAA (Is); Stable** [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1
The rating is subject to the Powergrid Infrastructure Investment Trust (PG InvIT or Trust) external debt exposure not exceeding 49% of the trust's asset valuation.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the long-term rating to 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 also derives strength 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 three to five 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 industry risk is relatively low. Furthermore, these power transmission assets have counter-party diversified and mitigated through collection under shared regulations operated by the Central Transmission Utility of India Limited (CTUIL, a wholly-owned subsidiary of PGCIL).

CARE Ratings takes cognizance of PG InvIT seeking approval from unitholders towards the acquisition of the balance 26% stake in one SPV, the acquisition of additional revenue rights from PGCIL in three SPVs, and the borrowings not exceeding 49% of the value of PG InvIT assets.

The rating is, however, constrained on account of the moderate operations & maintenance (O&M) risk for the five portfolio assets and the exposure to variation in interest rates in case of external borrowings.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade: Not Applicable

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 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.

Detailed description of the key rating drivers

Key Rating Strengths

Well-established sponsor and project manager with rich experience in the power transmission business

PGCIL (including CTUIL) 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 income consistently. PGCIL has a unitholding of 15% in the Trust and 26% shareholding in the five SPVs (PG InvITs portfolio assets) during the equity lock-in period. PGCIL will oversee the project management of the Trust along with O&M of the assets housed under the five SPVs.

Recently, PGCIL has expressed interest in releasing rights on the additional revenue in the three SPVs to the trust. The additional revenue is on account of the revision of the tariff by Central Electricity Regulatory Commission (CERC) due to the change in the law. Also, PGCIL has expressed interest in the transfer of the balance stake of 26% in Powergrid Vizag Transmission Limited (lock-in expiry date is February 01, 2022).

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 line availability is equal to or more than the target availability. If the line availability is less, the revenue booked is reduced on a proportionate basis along with a benchmark penalty. If the line availability is more, the SPVs are eligible for incentives. The revenue is insulated from demand, supply, and price

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

fluctuation of the power tariff. In normal circumstances, outages (which lead to lower line availability) are easily identifiable and can be repaired. Furthermore, as per the TSA, the availability-based tariff assures a stable cashflow for the SPVs.

Strong operational performance of portfolio assets
The transmission lines of all five assets have registered availability at higher-than-targeted levels, of 98% during the last 18 months of operations ended September 30, 2021, which is comparable with PGCIL's aggregate availability for the corresponding periods. This has not only ensured the full recovery of transmission charge but has also led to incentive income. All the assets have registered an average line availability of 99.88% in FY21, as compared to 99.88% in FY20.

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 FY21-22 by the five SPVs are collected under the shared regulations, where the CTU 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 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 among all ISTS licensees, in proportion to their share in the centrally-collected pool. 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 maintenance of line availability above normative parameters, as the 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 of transmission line 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 parent, i.e., PGCIL, through O&M contracts up to FY24. All the five SPVs have executed O&M contracts with PGCIL. 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, 2021. These SPVs, as on March 31, 2021, on a combined level, had a debt of around Rs.5,000 crore from PGCIL. Furthermore, the proceeds from the InvIT were utilised towards providing loans to the SPVs for per-payment of existing debt availed by them. In order to acquire the balance stake of 26% in the SPVs post-expiry of the equity lock-in period, the Trust is likely to resort to fund raising/external borrowings. The quantum of borrowings would be capped at 49% of the asset's valuation in case of an InvIT with a track record of less than six distributions on a continuous basis. Accordingly, PG InvIT has sought approval from unitholders for aggregate consolidated borrowings and deferred payments of PG InvIT, holdcos, and SPVs, net of cash and cash equivalents up to 49% of the value of PG InvIT assets.
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. As a result, the available cash might be lean. 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 the debt-free position, as on December 31, 2021, and its stable income in the form of interest on loan to the five operational assets and dividend income. As on September 30, 2021, the cash and cash equivalent position of the Trust stood at Rs.409.63 crore. The dividend paying capability has also been demonstrated by the declared dividend in FY21 by all the five SPVs.
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.

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, 2021)
1.	POWERGRID Warora Transmission Limited	74%
2.	POWERGRID Parli Transmission Limited	74%
3.	POWERGRID Vizag Transmission Limited	74%
4.	POWERGRID Jabalpur Transmission Limited	74%
5.	POWERGRID Kala Amb Transmission Limited	74%

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
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 (Rs. crore) – Trust's Standalone	30-09-2021 (Q2FY22, UA)	31-12-2021 (9MFY22, UA)
Total income	416.82	692.51
PBILDT	410.04	683.42
PAT	264.21	536.99
Overall gearing (times)	N.A.	N.A.
Interest coverage (times)	N.A.	N.A.

UA: Unaudited   N.A.: Not Applicable

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
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 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 ratings	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (20-Jan-21)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Issuer Rating-Issuer Ratings	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 Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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