

IRB InvIT Fund

(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)

September 19, 2017

Ratings

Type of Rating/Facilities*	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities – Proposed Term Loan	1550	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
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 Trust's debt exposure not exceeding Rs.1550 crore.

Detailed Rationale & Key Rating Drivers

The reaffirmation of issuer rating (rating is subject to the Trust's debt exposure not exceeding Rs.1550 crore) and rating assigned to the bank facilities of IRB InvIT Fund continues to reflect high credit quality and established operational track record of the underlying Toll Road assets. The rating derives strength from the complete repayment of senior debt, sponsor's sub-debt/loans and advances in the SPVs from proceeds of the Initial Public Offer (IPO) thereby translating into healthy debt coverage and favorable capital structure of the Trust Group. Further with no external debt repayments at SPV level, the increased net distributable cash-flow to the Trust from the SPVs provides ample liquidity at the Trust level. The Trust Group refers to Trust and Project Special Purpose Vehicles (SPVs) forming part of its portfolio. Further rating also takes into account, established track record in infrastructure, especially road sector of the Sponsor, Investment Manager and Project Manager of the Trust. The Trust is considering addition of a new SPV to its asset portfolio, Pathankot-Amritsar project, the SPV has an operational track record of ~2.5 years and the outstanding senior debt, sponsor's sub-debt/loans and advances in the SPV is proposed to be repaid from the term loan availed by the Trust.

The above rating strengths are however tempered by exposure to inherent traffic growth related risk and Operation and Maintenance (O&M) expenses related risk, associated with Built-Operate-Toll (BOT) road projects. Additionally, regulatory risk at SPV level and also the regulatory framework governing InvITs in India remain a concern. Besides, non-maintenance of Major Maintenance Reserve Account (MMRA) for future Major Maintenance; combined with linkage of toll rate revision (which may be negative consequent to adverse WPI movement) are construed as credit weaknesses.

For arriving at the rating, CARE has considered combined business and financial risk of the Trust Group. The Trust holds 100% stake in the underlying operational SPVs. Moreover, the InvIT regulations stipulates that not less than 90% of the net distributable cash flows (NDCF) of the SPVs shall be distributed to the InvIT in the proportion of its holding in the SPVs providing adequate cash flow to service debt raised at the Trust level. The regulation caps Trust's borrowings and deferred payment (net of cash and cash equivalents) at 49% of the value of assets.

The ability of the underlying SPV's to achieve envisaged growth in the toll revenue, any change impacting the InvIT regulations and any additional debt-funded acquisition of infrastructure assets remain key rating monitorable.

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

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of revenue growth of the underlined SPVs coupled with geographical diversification mitigating regional concentration risks: The trust own, operate and maintain a portfolio of six toll - road assets in the Indian states of Maharashtra, Gujarat, Rajasthan, Karnataka and Tamil Nadu. These toll roads projects are Bharuch–Surat NH 8, Jaipur–Deoli NH 12, Surat–Dahisar NH 8, Tumkur–Chitradurga NH 4, Omalur–Salem–Namakkal NH 7 and Talegaon–Amravati NH 6. This 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 force majeure event occurring in any particular region and/or with respect to any particular project. Surat-Dahisar and Bharuch-Surat project has concession period tenure till FY2023 and FY2022 respectively, and Omalur-Salem-Namakkal till FY2027. Other projects have concession tenures extending upto FY2039. Initial portfolio projects have been operational (i.e. collecting toll on the entire stretch) for a period in range of 3-7 years, average of ~ 5 years for the portfolio. Total toll collected was Rs.1184 crore in FY17 as against Rs.1252 crore in FY16 by the six SPVs, the SPVs received Rs.33 crore as compensation from NHAI for the loss of toll during demonetization period. Further, Rs.8.23 crore is still receivable as compensation from the NHAI along with relevant extensions in the concession agreement. Toll collection was suspended from November 09, 2016 to December 02, 2016 immediately after the demonetization announced on November 08, 2016. Pathankot-Amritsar project (proposed to be included in asset portfolio) earned Rs.108 crore (excluding the compensation from the NHAI for revenue loss during the demonetization period) in FY17 as against Rs.98.60 crore in FY16.

Comfortable debt coverage metrics and healthy capital structure: As on March 31, 2017, the combined external debt at the SPV level was Rs.3,390 crore. Based on the outstanding balance, Rs.3358 crore was repaid from the IPO proceeds in the month of May 2017 and as at the end of June 30, 2017, there is no external debt outstanding at combined SPV level. IRB InvIT proposes to raise Rs.1550 crore of debt to complete its acquisition of the 100% stake in Pathankot-Amritsar project, out of Rs.1550 crore, approximately Rs.950 crore will be used to repay external debt of the SPV and the balance will be used to replace sub - debt / loans and advances from the sponsor and project manager and towards general business purposes of the Trust Group on a consolidated basis. Thus the maximum external debt outstanding at IRB InvIT will be Rs.1550 crore as at the end of September 30, 2017 i.e. 17.55% of the existing valuation of Rs.8837 crore.

CARE has assumed maximum combined debt exposure of Rs.1550 crore for the acquisition of the asset. Any adverse change in the debt coverage indicators due to further debt raised by InvIT for the purpose of supporting existing or acquiring additional assets would remain key rating sensitivity.

Established track record in infrastructure, especially road sector of the Sponsor, Investment Manager and Project Manager of the Trust: The Sponsor, IRB Infrastructure Developers Ltd is one of the largest players in the roads and highways sector in India. The Company has a significantly experienced Management team led by the CMD of sponsor group (i.e. IRB), Mr Virendra D. Mhaiskar who has more than two decades of experience in the infrastructure sector especially roads. IRB Infrastructure Private Limited (IIPL) is the investment manager of the trust, and has significant experience in the field of roads and highways infrastructure. It has experience in operating a road BOT basis for a period of approximately 18 years and also in developing, operating and maintaining toll plazas. Modern Road Makers Private Limited (MRM, rated CARE A; Stable/CARE A1) is the Project Manager of the Trust to carry out operations and management of the Project SPVs. MRM has experience in the execution of construction work for roads and highways including National Highways (NHs).

Distribution of surplus to unit holders in Q1FY18: The Trust declared its first distribution of Rs.1.55/unit to unit holders for Q1FY18. The Trust paid Rs.90.48 crore to the unit holders.

Acquisition of Pathankot-Amritsar project: The IRB InvIT board has approved purchase of 100% stake in Pathankot-Amritsar project of IRB Infrastructure Developers Ltd at a value of Rs.1569.33 crore. Enterprise value of the SPV is Rs.1785.83 crore i.e. at 12% discount. IRB InvIT will acquire the Pathankot-Amritsar project post approval of the unit holders. Pathankot-Amritsar project has an operational track record of ~2.5 years and earned toll income of Rs.108 crore (excluding the compensation receivable for revenue loss during the demonetization period) in FY17 as against Rs.98.60 crore in FY16. The project has concession period ending in FY2035 with approx.18 years of toll collection period left.

Key Rating Weaknesses

Inherent traffic growth and regulatory related risk: Toll revenues are a function of toll rates and traffic volumes. Traffic volumes are directly or indirectly dependent on multiple factors such as location of the road project (connecting areas and their commercial importance), growth in the automobile sector; affordability of automobiles; the quality, convenience and travel efficiency of alternative routes outside the network of toll roads etc.

Further, while the concession agreements of the underlying SPVs provide for an extension in the concession period if the actual traffic volumes are significantly lower than the target traffic volumes set forth in the respective concession agreements, there can be no assurance that the concession period will be actually extended by NHAI.

Low O&M risk in spite of non-maintenance of MMRA: Major Maintenance Reserve Account (MMRA) is not maintained by the SPVs and thus they would have to rely on their cash flows in future for their O&M expenses (both routine and periodic). The O&M costs, projected by the management, are based on historical numbers for each project. Considering the Sponsor (i.e. IRB) and Project Manager (i.e. MRM) vast experience in road sector especially National Highway (NH) projects, O&M (both routine and periodic maintenance) of the project stretches is not likely to be a concern.

Analytical approach:

The debt to be rated is the proposed debt to be raised by IRB InvIT Fund. Combined financials of the existing six SPVs and proposed seventh SPV forming part of IRB InvIT Fund is considered for analysis purpose.

Applicable Criteria

CARE's Issuer Rating
 CARE's rating methodology for debt issues of toll road projects
 CARE's Policy on Default Recognition
 Criteria on assigning Outlook to Credit Ratings
 Rating Methodology - Infrastructure Sector Ratings
 Rating Methodology: Factoring Linkages in Ratings
 Financial ratios – Non-Financial Sector

About the Trust

IRB InvIT Fund is a trust registered under the SEBI's Infrastructure Investment Trust Regulations 2014. The trust own, operate and maintain a portfolio of six toll - road assets in the Indian states of Maharashtra, Gujarat, Rajasthan, Karnataka and Tamil Nadu. These toll roads projects are Bharuch-Surat NH 8, Jaipur-Deoli NH 12, Surat-Dahisar NH 8, Tumkur-Chitradurga NH 4, Omalur-Salem-Namakkal NH 7 and Talegaon-Amravati NH 6.

Sponsor IRB Infrastructure Developers Limited is an established surface transportation infrastructure company with expertise in development of BOT Road Projects with 7 operational BOT projects post InvIT and 8 non-operational road projects as at the end of June 2017. It also has one airport project under construction. All its projects are toll-based. Total lane (km) in portfolio 11,828 km includes 6,525 km of lanes operational and 5,293 km lane under development (portfolio of 3645 lane km has been transferred to IRB InvIT wef May 09, 2017).

IRB InvIT raised Rs.5,033 crore through the IPO route by offering 493,420,000 units at a price of Rs.102 per unit and was listed on May 18, 2017. The Trust is considering the acquisition of 100% stake in the Pathankot – Amritsar Project.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr Pulkit Agarwal

Tel: 022 6754 3456

Ph: 09819074189

Email: pulkit.agarwal@careratings.com****For detailed Rationale Report and subscription information, please contact us at www.careratings.com****About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Fund-based - LT-Term Loan – proposed	-	-	Last repayment in FY33	1550.00	CARE AAA; Stable
Issuer Rating-Issuer Ratings	-	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (02-Mar-17)	-	-
2.	Fund-based - LT-Term Loan	LT	1550.00	CARE AAA; Stable	-	-	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com