IRB InvIT Fund

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities – Term Loan	**1478.20**	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**1478.20**	**(Rs. Fourteen Hundred Seventy Eight Crore and Twenty Lakhs Only)**	

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the long term 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 pertains to the debt of the fund reflecting its ability to service external debt commitments as and when it falls due and does not cover the ability of the fund to pay envisaged returns to the unit holders of the fund. The rating continues to take support from the pooling of cash flows from seven operational road SPVs located at diversified geographical locations collecting toll with an operational period of 6-11 years in InvIT fund. The rating also derives comfort by a fixed price agreement for 10 years being entered by all the underlying SPVs with IRB Infrastructure Developers Limited (IRB) for O&M (Operation & Maintenance) and MMR (Major Maintenance & Repairs) requirement. Considering the vast experience of IRB in road sector, the O&M (along with MMR) is not likely to be a cause of concern. Although healthy debt coverage and favorable capital structure of the Trust Group with no senior debt at the SPV level provides cushion at the Fund level, the stable performance of the fund during FY20 and lower than anticipated performance in Q1 FY21 is observed. The toll collection during last week of March 2020 and Q1 FY20 was impacted severely due to nationwide lockdown w.e.f March 26th 2020 till April 19, 2020 owing to Covid-19 pandemic. With gradual opening up of economy and partial lockdown still continuing, the toll collection still continues to get impacted. As on July 2020, the average daily toll collection has reached more than 80% of average per day toll collection of FY20. Thus, traffic rebounding and recovery in toll collections post opening up of economy to pre covid levels and a growth thereon would be a key rating monitorable.

The Trust Group, refers to the Fund and seven 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 Fund. The enterprise value of the project assets as on March 31, 2020 stands at ~Rs 6506 crore as submitted by registered valuer considers extension of timeline in all project SPVs due to target traffic clause, Covid or demonization. The same is considered by CARE in the base case assumption. Any change in the assumed timelines would be a rating trigger.

Taking into view the impact of covid, the toll collection in FY 21 and FY 22 have been further discounted in the base case thereby moderating the toll revenue till tenor of the loan. The expenses as contracted with IRB are low as compared to CARE's benchmark for O&M and Major Maintenance. Therefore the substitution risk pertaining to O&M contractor is perceived high. However, considering the O&M contract (including periodic maintenance) being a fixed price contract with IRB, and past payouts also restricted to contracted amount, we have reconsidered the same for base case calculations. Considering the fixed price O&M /MMR contract already in place with IRB, the DSCR is expected to remain comfortable over the tenor of the loan. Going forward, in case of actual O&M/MMR expense being higher than contracted price will be a rating revision trigger.

The above rating strengths are however tempered by exposure to inherent risks associated with Built-Operate–Toll (BOT) road projects including variations in traffic growth and maintenance requirement in all the SPVs. 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 Fund Group. The Fund 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 Fund level. As on March 31, 2020, the leverage of fund stood at ~27% of value of assets (enterprise value of assets as per valuation report) as against SEBI guideline of a cap of 70% of value of asset. Any deviation from the aforementioned stated position will be a rating monitorable.

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

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

<u>Rating Sensitivities</u>

Negative Factors

- Any systemic risk or regulatory changes adversely impacting InvIT's credit profile
- Significant and sustained de-growth in the traffic, leading to weak debt protection matrics
- Significant deterioration in the underlying asset quality
- Acquisition of under construction toll projects in the portfolio
- Any adverse change in the capital structure and /or debt coverage indicators due to further debt raised by InvIT for the purpose of acquiring additional assets
- Non adherence of any covenants as per sanctioned terms.

<u>Outlook:</u> Stable

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 fund owns, operates and maintains a portfolio of seven matured toll - road assets in the Indian states of Maharashtra, Gujarat, Rajasthan, Karnataka, Tamil Nadu and Punjab. 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, Talegaon– Amravati NH 6 and Amritsar-Pathankot NH15. 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. Portfolio projects have been operational (i.e. collecting toll: partial/entire) for a period in range of 6-11 years, average of ~9 years for the portfolio and have demonstrated healthy traffic growth with concession period ending from FY23 till FY41 (considering EOT). During FY20, the Fund reported a gross toll income of Rs. 1605 crore as against Rs 1537 crore in FY19 thereby registering a growth of 4.5%. Due to covid, the no of operational days were less in FY20. Considering similar period of operations in FY19, the growth stood in gross toll collection was 6.23%.

Fixed price O&M and major maintenance agreement with IRBIDL: All the seven SPVs have entered into a fixed price agreement for O&M and major maintenance requirement for a period of 10 years (till FY30) with the sponsor company IRB Infrastructure Developers Limited (IRB). The Major Maintenance Reserve Account (MMRA) is not maintained by the SPVs and thus they would have to rely on their respective cash flows in future for their routine as well as periodic expenses. However, the fixed price agreement with IRB will have a moderate comfort for any escalation in the actual costs compared to the costs projected.

Comfortable debt coverage metrics and healthy capital structure: The Debt to Equity ratio is comfortable at 0.35x as on March 31, 2020. The term loan raised at InvIT level has ballooning repayments with majority of the loan ~70% being repaid in the last four years. As on June 30, 2020, the fund has DSRA balance of Rs. 50.28 crore in the form of liquid investments which has been created to meet the debt obligations for one quarter. Any adverse change in the capital structure and /or 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. CARE takes note of shift in repayment schedule by 3 months for debt from IDFC Bank and 6 months for debt from State Bank of India (SBI) based on the discussion with the lenders due to moratorium being availed in light of covid-19.

Established track record in infrastructure, especially road sector of the Sponsor, Investment Manager and Project Manager of the Fund: The promoter and CMD of sponsor group (i.e. IRB), Mr Virendra D. Mhaiskar has more than two decades of experience in the infrastructure sector especially roads. Besides, he is well-supported by experienced professionals, having more than a decade's experience in their respective fields. 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 approximately 18 years and also in developing, operating and maintaining toll plazas. IRB Infrastructure Developers Limited (IRBIDL) is the Project Manager of the Fund to carry out operations and management of the Project SPVs. IRBIDL has experience in the execution of construction work for roads and highways including National Highways (NHs).

Distribution of surplus to unit holders in FY20 and Q1FY21: In FY20, the Fund declared a total distribution of Rs. 10.00/unit which comprised of Rs. 7.00/unit of interest and Rs. 3.00/unit of return of capital. The Fund paid Rs. 581 crore to the unit holders in FY20 as against Rs 711 crore in FY19. Despite of impact of covid on revenues in Q1 FY21, the fund distributed ~Rs

87 crore during the quarter (Rs. 1.50/unit as interest). NDCF during FY 20 moderated to Rs 606.81 crore as against Rs 763.87 crore during FY19.

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, however, actual extension granted by the Concessioning Authority remains a rating monitorable. Based on the valuation report, we have considered the revised EOT in the base case assumptions.

Concession period of 2 key projects viz IDAA (Bharuch-Surat) and IRBSD (Surat Dahisar) contributing 58%-60% toll revenues is expiring in FY 23 (considering EOT), thereby restricting the revenue visibility in the absence of any new SPV acquisitions. Though, acquiring good operational road asset would be important but any steep rise in debt funded acquisitions will also be a key rating monitorable. Management has informed that the process of identifying projects to be a part of invIT is underway.

When compared to the base model submitted by the Fund during the time of initial rating in FY17, the actual toll collections outperformed by ~22% for the year FY20. However, as compared to FY19 the gross toll collections in FY20 portrayed a moderate growth of ~4.5%. Due to Covid, the traffic movement started slowing from second week of March 2020 until completely stopped from March 26, 2020. This impacted the performance during the year. Further as toll collection resumed from April 20, 2020 with gradual opening up of economy and partial lockdown still continuing the toll collection during Q1FY21 was 48% lower than Q1 FY20. In July 2020, the toll collections were 86% YoY from 13% YoY in April 2020. The management believes that the impact of Covid is temporary and will not be there till end of concession agreement. Further, the independent valuer has considered the effect of Covid for the purpose of calculating fair value of assets as on March 31, 2020. We have further toned down the assumptions while calculating debt service coverage indicators in base case analysis. Thus, traffic rebounding and recovery in toll collections post opening up of economy to pre covid levels and a growth thereon would be a key rating monitorable.

O&M risk: The underlying SPVs are exposed to execution risk pertaining to periodic maintenance to be undertaken in all the SPVs over the concession period. The MMRA (Major Maintenance Reserve Account) 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). However, the fixed price agreement with IRBIDL imparts comfort against any escalation in the actual costs compared to the projected.

The expenses as contracted with IRB are low as compared to CARE's benchmark for O&M and Major Maintenance. Therefore the substitution risk pertaining to O&M contractor is perceived high.

However, considering the O&M contract (including periodic maintenance) being a fixed price contract with IRB, and past payouts also restricted to contracted amount, we have reconsidered the same for base case calculations.

Considering the vast experience in road sector of the Sponsor, Project Manager and O&M contractor being IRB, O&M (both routine and periodic maintenance) of the project stretches is not likely to be a concern. However, any deviation from the contracted price would be monitored.

Refinancing risk:

The assets in the portfolio have various concession end dates ranging from FY 23 to FY 41(with extensions). The debt raised has a repayment schedule till Sept 2033 (FY34) with majority debt to be repaid in last 4 years. Considering that 4 projects out of 7 projects have end date beyond 2033, there is a possibility of refinancing of the debt with a higher tenor debt.

Liquidity: Adequate

As on June 30, 2020, the fund at a consolidated level has liquid investments of Rs. 53.77 crore (including DSRA balance of Rs. 50.28 crore) and cash & bank balance of Rs. 197.28 crore including balances with banks amounting to Rs 193.64 cr in fund, retention and other escrow accounts of subsidiary companies hypothecated in favour of lenders of the SPVs i.e., IRB InvIT Fund. The principal repayment obligations due for FY21 are around Rs. 43.13 crore (considering shift in principal repayment due to covid-19) and an interest obligation of ~Rs 132 crore (considering the recovery thereof in FY21). Further, the fund has also applied for a covid-19 loan by NHAI at lower interest rates thereby improving the liquidity of the fund at lower cost.

Analytical approach: Consolidated

List of Subsidiaries:

S. No.	Name of Company	% of holding (as on March 31, 2020)
1	IDAA Infrastructure Ltd. (IDAA)	100%
2	IRB Jaipur Deoli Tollway Ltd. (IRBJD)	100%
3	IRB Surat Dahisar Tollway Ltd. (IRBSD)	100%
4	IRB Tumkur Chitradurga Tollway Ltd. (IRBTC)	100%
5	MVR Infrastructure & Tollways Ltd. (MVR)	100%
6	IRB Talegaon Amravati Tollway Ltd. (IRBTA)	100%
7	IRB Pathankot Amritsar Toll Road Ltd. (IRBPA)	100%

Applicable Criteria
CARE's policy on default recognition
Criteria on assigning outlook to credit ratings
Financial Ratios: Non-Financial Sectors
Rating Methodology - Infrastructure Sector Ratings
CARE's rating methodology for debt issues of toll road projects
Rating methodology: Factoring Linkages in Ratings
Liquidity Analysis of non-financial sector entities

About IRB InviT
IRB InvIT Fund is a Trust registered under the SEBI's Infrastructure Investment Fund Regulations 2014. The fund own, operate and maintain a portfolio of seven toll - road assets in the Indian states of Maharashtra, Gujarat, Rajasthan, Karnataka Tamil Nadu and Punjab. 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, Talegaon–Amravati NH 6 and Amritsar-Pathankot NH15.
The fund raised Rs.5,035 crore through the IPO route by offering 493,420,000 units at a price of Rs.102 per unit and was listed in both stock exchanges (BSE & NSE) on May 18, 2017 . In September 2017, the Fund acquired Pathankot- Amristar NH 15 Project and this acquisition was funded by debt raised at Fund Level amounting to Rs.1550 crores. As on March 31, 2020 the NAV for the InviT fund value is Rs. 87.64 per unit and the current enterprise valuation as on March 31, 2020 as per latest valuation report dated June 5, 2020 stands at Rs. 6506.20 crore.
Sponsor (IRB Infrastructure Developers Limited) is an established surface transportation infrastructure company with expertise in development of BOT Road Projects. As on March 2020, IRB has a portfolio of fully owned 3 BOT-Toll (Ahmedabad-Vadodara, Thane-Ghodbunder and Pune-Nashik), 1 TOT (Mumbai-Pune) and 1 HAM (Vadodara-Kim) assets aggregating to around 2,370 lane kms; 9 BOT-Toll projects of around 5,892 lane kms under Private InvIT with 51% holding and 7 operational BOT projects of around 4,055 lane kms with 16% holding in public InvIT. As on March 31, 2020, the total road length under portfolio stood at 12,317 lane kms with 4,754 lane kms operational, 3,508 lane kms under development and under O&M (Operation & Maintenance) for InvIT assets of 4,055 lane kms. All 12 BOT-toll projects and 1 TOT project (consolidated IRB level) are revenue generating.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1217.26	1248.41
PBILDT	983.86	1000.95
PAT	197.77	172.7
Overall gearing (times)	0.37	0.41
Interest coverage (times)	6.14	6.09

A: Audited
Note: The financials are classified as per CARE's internal Standards
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 facility: *Detailed explanation of covenants of the rated facilities is given in Annexure-3*

Annexure-1: Details of 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	-	-	-	1478.20	CARE AAA; 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 rat	-	-	-	1)Withdrawn (15-Jan-20)	1)CARE AAA (Is) (10-Dec-18) 2)CARE AAA (Is); Stable (05-Oct-18)	1)CARE AAA (Is); Stable (19-Sep-17)
2.	Fund-based - LT-Term Loan	LT	1478.20	CARE AAA; Stable	-	1)CARE AAA; Stable (15-Jan-20)	1)CARE AAA; Stable (05-Oct-18)	1)CARE AAA; Stable (19-Sep-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	The borrower shall at all times during the currency of the loan, maintain the following financial covenants: Long term debt/EBITDA <= 4 DSCR >= 1.75x Interest coverage ratio >=2.6
B. Non-financial covenants	The Borrower shall not without prior written permission of the bank undertake or permit any merger, de-merger, consolidation, reorganization, dissolution or reconstitution scheme of arrangement or compromise with its creditors or shareholders or effect any scheme of amalgamation or reconstruction or dissolution or reconstitution.

Annexure 4: Complexity level of various instruments rated for this Trust

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	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:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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