IRB InviT Fund

January 15, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities-Term loan	1489.84	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**1489.84 (Rs. Fourteen hundred eighty nine crore and eighty four 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 further derives moderate comfort by a fixed price agreement for 10 years being entered by all the underlying SPVs with IRB Infrastructure Developers Limited (IRBIDL) for O&M (Operation & Maintenance) and MMR (Major Maintenance & Repairs) requirement. Healthy debt coverage and favorable capital structure of the Trust Group with no senior debt at the 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 the 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 O&M/MMR expenses projected by IRB Invit is considerably lower than average rate per lane km for CARE rated portfolio. Therefore, CARE has revised the O&M/MMR cost assumptions as per the benchmark rates on the basis of CARE's rated universe. Despite CARE's assumption of moderation in the growth rates and alignment of O&M costs with CARE's benchmarks for toll based road projects, the DSCR over the tenure of the debt is expected to remain comfortable.

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 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. Further, InviTs are now allowed to raise upto 74% of the value of the assets as compared to 49% earlier. However, the management of IRB InvIT has conveyed that the borrowing level at Trust will not exceed 49% of the value of the assets. 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.

<u>Rating Sensitivities</u>

Negative Factors

- *Any regulatory change adversely impacting the InviT's credit profile*
- *Significant decline in the traffic impacting the toll collections and deteriorating the underlying asset quality*
- *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*
- *Decline in average DSCR below 2.52x as per CARE's assumptions for revenue and cost estimates*

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 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.

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

collecting toll: partial/entire) for a period in range of 4-10 years, average of ~8 years for the portfolio and have demonstrated healthy traffic growth. Surat-Dahisar and Bharuch-Surat project has concession period tenure till FY2023 and Omalur-Salem-Namakkal till FY2027, Pathankot till FY2035, Talegaon Amravati in FY 2037 and other projects have concession tenures ending in FY2038. During FY19, the Fund reported a net toll income of Rs. 1196 crore. The revenue for FY19 was driven by projects Surat-Dahisar and Bharuch-Surat which collectively contribute around 60% of the toll revenue while remaining 40% is contributed mainly by Tumkur-Chitradurga and other four projects.

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 with the sponsor company IRB Infrastructure Developers Limited (IRBIDL). 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 IRBIDL 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 0.30x as on March 2019 and 0.31x as on Sept, 2019. The term loan raised at InvIT level has ballooning repayments with majority of the loan ~68% being repaid in the last four years. As on September 30, 2019, the fund has DSRA balance of Rs. 51.54 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.

Established track record in infrastructure, especially road sector of the Sponsor, Investment Manager and Project Manager of the Trust: 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 trust. 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 Trust 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 FY19 and H1FY20: In FY19, the Trust declared a total distribution of Rs. 12.25/unit which comprised of Rs. 3.40/unit of interest and Rs. 8.85 /unit of return of capital. The Trust paid Rs.711.11 crore to the unit holders. Total payout for H1FY20 was Rs. 5.50/unit – Rs. 319.28 crores.

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.

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 a first level comfort against any escalation in the actual costs compared to the projected. CARE has assumed the O&M cost assumptions in line with its rated universe of road SPVs, to make the average costs largely comparable. Despite CARE's assumption of moderation in the growth rates and alignment of O&M costs with CARE's benchmarks for toll based road projects, the DSCR over the tenure of the debt is expected to remain comfortable. Considering the Sponsor and Project Manager (i.e. IRBIDL) 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.

Refinancing risk: The assets in the portfolio have various concession end dates from FY 22 to FY 38 with a tail period of 5 years. The debt raised has a repayment schedule till FY33, thereby limiting scope of refinancing in the event of any cash flow mismatch.

Liquidity: Adequate
As on September 30, 2019, the fund has liquid investments of Rs. 62.55 crore (including DSRA balance of Rs. 51.54 crore) and cash bank balance of Rs. 78 crore. The repayment obligations due for FY20 is around Rs. 46.38 crore out of which Rs. 23.14 crore has been repaid as on Sept, 2019. As on September, 2019 the Debt to equity ratio stood comfortable at 0.31x. The value of the underlying assets is Rs. 7,496.40 crore as on Sept, 2019 for the seven SPVs in its portfolio. As per SEBI regulations regarding cap on overall gearing, IRB InvIT Fund can raise debt upto 74% of the value of the assets.

Analytical approach: Consolidated

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

About IRB InviT Fund
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 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.
Sponsor IRB Infrastructure Developers Limited is an established surface transportation infrastructure company with expertise in development of BOT Road Projects. As on December 2019, IRB has a portfolio of 13 owned projects, of which six projects are in the operational BOT space; one is in the HAM space; five are under tolling and construction; and one project is in the advanced stages of construction. The total road length under portfolio stood at 11,303 lane km with 2,982 lane km operational and 4,266 lane km under development. It provides O&M services for the assets transferred to InviT with 4,055 lane km.
IRB InvIT 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 on May 18, 2017. In September 2017, the Trust acquired Pathankot- Amristar NH 15 Project and this acquisition was funded by debt raised at Trust Level amounting to Rs.1550.0 crores. Post the acquisition of Pathankot-Amritsar project, the Fund's consolidated external debt stood at Rs. 1489.84 crore as on September, 2019.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	993.22	1216.73
PBILDT	807.87	983.33
PAT	232.42	197.76
Overall gearing (times)	0.31x	0.35x
Interest coverage (times)	8.08x	6.14x

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	March 2033	1489.84	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Issuer Rating-Issuer Ratings	Issuer rat	-	-	-	1)CARE AAA (Is) (10-Dec-18) 2)CARE AAA (Is); Stable (05-Oct-18)	1)CARE AAA (Is); Stable (19-Sep-17)	1)CARE AAA (Is); Stable (02-Mar-17)
2.	Fund-based - LT-Term Loan	LT	1489.84	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Oct-18)	1)CARE AAA; Stable (19-Sep-17)	-

Annexure-3: Detailed explanation of covenants of the rated 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.

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.*

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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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