

May 30, 2017

Reliance Infrastructure InvIT Fund

Instrument	Amount	Rating Action
Issuer Rating	-	IrAAA(Stable); Assigned

Rating Action

ICRA has assigned a long term rating of IrAAA (pronounced I R Triple A) to Reliance Infrastructure InvIT Fund (RInfra InvIT). The rating carries a stable outlook.

The issuer rating assigned by ICRA is not a comment on the ability of RInfra InvIT to meet dividend payouts to the unit investors. Neither should it be construed as a comment on the ability of the individual SPVs to service their debt obligations.

Rationale

The issuer rating assigned reflects the strength of the seven operational road SPVs proposed to be included under the RInfra InvIT, namely, DS Toll Road Limited (DS), GF Toll Road Private Limited (GF), JR Toll Road Private Limited (JR), NK Toll Road Limited (NK), SU Toll Road Private Limited (SU), TD Toll Road Private Limited (TD) and TK Toll Road Private Limited (TK). Of these, six SPVs namely DS, JR, NK, SU, TD and TK are national highway toll roads. GF is a Haryana State Toll road. The issuer rating takes into account the benefit of cash flow pooling achieved on account of the irrevocable and unconditional shortfall undertaking/guarantee from the RInfra InvIT and the sizeable reduction in the consolidated debt of the InvIT post Initial Public Offer (“IPO”). The rating is supported by InvIT's strong debt coverage indicators providing ample cushion for external debt servicing in the event of wide fluctuations in toll collections. Further, low level of leveraging and high tail period of around eight years provides financial flexibility.

The consolidated external debt across the seven SPVs stands at around ~Rs. 2,476 crore as on March 31, 2017 which is expected to reduce to ~Rs.680 crore post repayment of debt by the InvIT . All the external debt in GF, TD and TK would be replaced by debt from InvIT. For the other four projects namely DS, JR, NK and SU there would be partial reduction in external debt (between 50-60% for each SPV). Thus DS, JR, NK and SU will remain the entities with external debt post InvIT formation. The funds infused by InvIT into the underlying SPVs in the form of debt would remain subordinated at all times to the external debt (for both principal and interest) thereby providing greater comfort to the external debt holders. The upstreaming of cashflows from SPVs to the InvIT (either in form of interest/principal payment on debt from InvIT or dividend or buyback of units) as well as distribution to InvIT holders would happen semi-annually. The distribution to the InvIT unit holders would happen only after meeting all scheduled obligations on external debt and adequate provisioning for major maintenance costs (for all the SPVs together) for the subsequent financial year. The significant reduction in quantum of external debt would result in a considerable improvement in the consolidated debt coverage indicators. The external debt in the SPVs also has the comfort of a cash reserve (equal to subsequent quarterly external debt obligation) to be maintained across the respective SPVs.

With about 70% of current toll collections being generated out of Tamil Nadu based toll road projects, InvIT remains exposed to geographical concentration risk. Over the last 12-18 months, tolling for Tamil Nadu based projects was adversely affected due to series of political/non-political issues. Pending capex in SU to the tune of Rs. 190 crore – to be executed during FY2022-FY2025 exposes the InvIT to

execution risks while the sponsor support undertaking (from RInfra) mitigates the cost overrun risk. The InvIT also remains exposed to the risks inherent to BOT (Toll) road projects including those arising from political acceptability of WPI-linked rate hikes over the concession period, development or improvement of alternative routes and the likelihood of toll leakages. While the SPVs were able to revise the toll rates successfully in the past; couple of projects (JR and NK) are facing threat from alternate routes which poses risk of traffic diversion.

Given that the consolidated external borrowing at InvIT level is well within the regulatory cap of 49% of net asset value (currently the external borrowing is ~17% of net asset value¹), RInfra InvIT may raise additional debt in future within the ambit of regulatory restrictions. In case RInfra InvIT acquires any other asset or raises any debt in future, ICRA will, at that juncture, evaluate the impact of the acquisition on the rating.

Going forward, trends in traffic growth rates and movement in WPI (for toll rate hike) will remain key rating sensitivities. Any reduction in either of them will have an adverse impact on toll collections. Further, ability of the trust to manage routine and periodic maintenance expenses within the budgeted levels remains critical in the absence of fixed price O&M agreement. Also, if the trust acquires any other projects or contracts additional debt, the consequent impact on InvIT's financial risk profile will be a key monitorable.

Analytical approach:

Cash flow pooling: For arriving at the rating, ICRA has taken into account the consolidated free cash flows from the underlying SPVs on account of the pooling benefit at the RInfra InvIT level. Structural features like creation of a debt service reserve account lend further comfort.

Key rating drivers

Credit Strengths

- Shortfall undertaking/guarantee from the RInfra InvIT for the external debt, to achieve cash pooling benefit
- With 73% of external debt getting prepaid through InvIT issuance proceeds; the projected debt coverage metrics for external debt post InvIT formation are strong
- Operational nature of the underlying assets with average tolling track record of five years
- Creation of upfront cash reserve equal to subsequent quarterly obligation on external debt provides additional comfort; further, high tail period of eight years provides financial flexibility
- Priority of external debt over any payout to RInfra InvIT unit holders

Credit Challenges

- With about 70% of current toll collections being generated out of TN based toll road projects, InvIT remains exposed to geographical concentration risk
- In the absence of long-term fixed price agreements/sponsor undertaking for cost over runs in O&M; ability of the project manager to manage routine and periodic maintenance expenses within the budgeted levels remains critical
- Prospects linked to GDP growth (due to the correlation of GDP growth with commercial traffic growth rates) and movement in WPI (for toll rate hike for 6 out of 7 projects); any reduction in either of them will have an adverse impact on toll collections

¹ The net asset value/fair enterprise value of the InvIT as computed by the valuer is ~Rs. 4026 crore

- InvIT remains exposed to risks inherent in BOT (Toll) road projects, including risks arising from political acceptability of toll rate hike over the concession period and development/improvement of alternate routes and likelihood of toll leakages
- If the trust acquires any other projects or contracts additional debt, the consequent impact on InvIT's financial risk profile will be a key monitorable

Description of key rating drivers highlighted above:

The operational nature of the underlying assets eliminates construction risks. As on March 31, 2017, the consolidated external debt for the SPVs stood at around Rs. 2,476 crore. Post InvIT formation, the external debt at consolidated level is expected to reduce by ~73% to Rs. 680 crore. From debt coverage point of view, the external debt will have the benefit of surplus cashflows from all the underlying SPVs on account of the irrevocable and unconditional guarantee from the RInfra InvIT. The rights of the RInfra InvIT as a debt holder in the SPVs will be subordinated to the external debt in all respects (principal repayment/coupon payments) during the tenure of the external debt. The external debt holders are also protected in the event of termination of concession agreements of any of the underlying SPVs such that the termination proceeds received be used for reduction of external debt in the respective SPV and the remaining proceeds would be used to reduce the external debt across other SPVs under the InvIT on a pro-rata basis. Further Reliance Infrastructure Limited (Reliance Infra) shall give an undertaking to support any cost overrun on the planned capex in SU Toll Road Private Limited (SU).

The aforesaid strengths are partially offset by the high geographical concentration of assets under RInfra InvIT with 70% of the revenues being generated from Tamil Nadu based road projects. However, the rating is supported by InvIT's strong debt coverage indicators providing ample cushion for external debt servicing in the event of wide fluctuations in toll collections along with the presence of DSRA. The InvIT nevertheless remains exposed to the risks inherent to BOT (Toll) road projects including that arising from political acceptability of WPI-linked rate hikes over the concession period. ICRA notes that the acquisition of an asset with a weaker credit profile could result in overall deterioration of the InvIT's credit profile and hence it will be a key monitorable.

About InvIT

InvITs are collective investment vehicles that enable developers of infrastructure assets to monetise their assets by pooling multiple assets under a single entity (trust structure). InvITs are governed by SEBI (Infrastructure Investment Trusts) (Amendment) Regulations, 2016. The key features of InvITs are mandatory distribution of 90% of net distributable cash flows (NDCF)² to the unit investors, leverage cap of 49% on the net asset value, and a cap on exposure to assets under construction (for publicly placed InvITs). The sponsor of the InvIT is responsible for setting up the InvIT and appointing the trustee. The sponsor should hold a minimum 15% of the units issued by the InvIT with a lock-in period of three years from the date of listing of units of the InvIT.

About Reliance Infrastructure InvIT Fund

Reliance Infrastructure InvIT Fund is an InvIT formed under the Securities and Exchange Board of India (Infrastructure Investment Trust) (Amendment) Regulations 2016 (InvIT regulations). Reliance Infrastructure Limited (RInfra) is the sponsor and project manager for the InvIT. Reliance Nippon Life Asset Management Limited and IDBI Trusteeship Services Limited are the investment manager and trustee respectively. RInfra currently holds a 100% stake in each of the underlying SPVs. The InvIT shall hold 100% stake in each of the SPVs post acquisition of this stake from current shareholders of these SPVs except GF where the InvIT shall hold 74% stake post InvIT formation with balance 26% held by RInfra.

² NDCF = PAT + Depreciation + loss/gain on sale of infrastructure assets - Repayment of external debt (principal) /redeemable preference shares/debentures etc. (adjusted for other non-cash expenses/income).

The RInfra InvIT has seven operational road SPVs in its portfolio with average tolling track record of five years. Of these, GF is a Haryana State toll road while other six are national highway toll roads.

The proceeds realised by InvIT through issuance of units are expected to be largely infused as debt into the all the underlying seven SPVs. These SPVs will in turn utilise the debt proceeds from InvIT to reduce both the external debt and the sub debt availed from group companies. The debt from the InvIT to the SPVs will be subordinated to the Rs.680 crore external debt. Majority of the surplus cashflows from the underlying SPVs are upstreamed to the InvIT as dividend payout from the SPVs in addition to principal and interest payments (in lieu of debt availed from InvIT). The rights of the RInfra InvIT as a debt holder in the SPVs would be subordinated to the external debt in all respects (principal repayment/coupon payments) during the tenure of the external debt.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Links to applicable Criteria:

[Rating methodology for Infrastructure Investment Trusts \(InvITs\)](#)

[Issuer rating methodology](#)

[Rating methodology for BOT \(Toll\) Roads](#)

Rating History for last three years:

Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				May 2017	December 2015	December 2014	December 2013
1	Issuer rating	-	-	IrAAA (Stable)	-	-	-

Complexity level of the rated instrument: Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the Instrument	Date of issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
Issuer rating	To be issued	To be decided	To be decided	-	IrAAA (Stable)

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