

June 23, 2023^(Revised)

Shrem Infra Structure Private Limited: Rating reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCD)	85.00	85.00	[ICRA]AA Reaffirmed; Outlook revised to Negative from Stable
Non-convertible debentures (NCD)	150.00	150.00	[ICRA]AA Reaffirmed; Outlook revised to Negative from Stable
Market-linked debentures (MLD)	274.00	274.00	PP-MLD [ICRA]AA Reaffirmed; Outlook revised to Negative from Stable
Total	509.00	509.00	

*Instrument details are provided in Annexure I

Rationale

The revision in outlook to Negative factors in ICRA's rating action on Shrem InvIT (InvIT, rated [ICRA]AAA (Negative)) as Shrem Infra Structure Private Limited (SISPL)¹ is the largest unitholder of Shrem InvIT with ~55.7% of the total unitholding as on March 31, 2023. Its entire revenues are dependent on the distribution income from Shrem InvIT. Further, ICRA notes that the Group has displayed a tendency to adjust its financial policy, including a tolerance for a higher financial leverage. Therefore, any material increase in SISPL's leverage or lower-than-anticipated distribution by the InvIT will impact its liquidity position and debt coverage indicators, and remains a key rating monitorable. SISPL has an outstanding debt of Rs. 482.50 crore as on June 15, 2023 (excluding unsecured loans from promoters and Market Linked Debentures (MLD) of Rs. 161.50 crore held by the Shrem Group entities), after raising an additional debt of Rs. 230 crore in Q1 FY2023, which was largely used for acquiring the road assets. ICRA notes that SISPL has sold 1.56 crore of Shrem InvIT units in March 2023, the proceeds from which were used to prepay the external borrowings, which thereby resulted in the overall external leverage below Rs. 500 crore.

The rating draws comfort from the regulatory stipulation of at least 90% of the net distributable cash flows to be distributed to the unitholders of the InvIT. SISPL has received seven quarterly distributions from Shrem InvIT resulting in a satisfactory track record of distribution. Shrem InvIT has a total of 34 operational road special purpose vehicles (SPVs), with an average operational track record of five years, of which eight hybrid annuity (HAM) projects operating under the National Highway Authority of India (NHAI; [ICRA]AAA (Stable)) have recently completed the acquisition in FY2023 and is likely to complete the acquisition of the remaining two HAM assets in Q1 FY2024. The InvIT has a diversified portfolio, comprising 15 NHAI HAM projects, one Ministry of Road Transport and Highway (MoRTH) HAM project, one NHAI toll project, 10 state annuity plus toll projects, six state annuity projects and one state toll project. The projects awarded by the Central Government authorities (NHAI/MoRTH) are expected to account for 95% of the consolidated cumulative revenues, while the remaining 5% will be from the state authorities.

¹ SISPL has a 100% subsidiary, Shrem Enterprises Pvt. Ltd (SEPL), holds 8,19,31,681 units as on March 31, 2023 post acquisition of eight new HAM assets by Shrem InvIT. For all analytical consideration, SISPL's leverage also factors in debt at its subsidiaries.

Key rating drivers and their description

Credit strengths

Steady cash flows from Shrem InvIT – SISPL holds 55.7% of the total units in Shrem InvIT as on March 31, 2023, which generates steady cash flows in the form of distribution income. This is further supported by regulatory stipulation of at least 90% of the net distributable cash flows to be distributed to the unitholders of InvIT. Shrem InvIT holds 34 operational road SPVs (of which two SPVs are expected to be acquired by Q1 FY2024), with an average operational track record of five years. The InvIT has a diversified portfolio, comprising 15 NHAI awarded HAM projects, one HAM project from MoRTH, one NHAI toll project, 10 state annuity plus toll projects, six state annuity projects and one state toll project. The projects awarded by the Central Government authorities (NHAI/MoRTH) are likely to account for 94% of the consolidated cumulative revenues, while the remaining 6% will be from the state authorities.

Established track record of distribution income – Shrem InvIT has steady cash flows owing to the operational nature of the asset portfolio with a track record of toll collection and annuity receipts providing stability to revenues. Further, SISPL received seven distributions. The InvIT was launched in September 2021 with distribution income received every quarter from November 2021.

Credit challenges

Limited diversification of revenues – SISPL's revenues are completely dependent on the distribution income from Shrem InvIT. Further, ICRA notes that the Group has displayed a tendency to make adjustments to its financial policy, including a tolerance for a higher financial leverage. Therefore, any change in the frequency of distribution by Shrem InvIT or lower-than-anticipated distribution will impact its liquidity position and debt coverage indicators, which remains a key rating monitorable.

Moderate leverage levels – SISPL has an outstanding debt of Rs. 482.50 crore (excluding unsecured loans from promoters and Rs. 161.50 crore of MLDs held by Shrem Group entities), after raising an additional debt of Rs. 230 crore in the first quarter as on June 15, 2023, which was primarily used to fund the acquisition of new road assets. Despite this, the company's debt coverage metrics are expected to remain comfortable due to higher unitholding in the InvIT. Nevertheless, any incremental increase in SISPL's external debt levels thereby impacting its leverage or coverage metrics will be a key monitorable.

Liquidity position: Adequate

SISPL's liquidity is adequate with its debt obligations likely to be comfortably met through its cash flows from operations. The company has a debt repayment Rs. 103.75 crore in FY2024. The liquidity is anticipated to be supported by timely distribution expected from Shrem InvIT.

Rating sensitivities

Positive factors – Given the Negative outlook, the rating is unlikely to get upgraded in the near term. However, the outlook may be revised to Stable if there is an improvement in the credit profile of Shrem InvIT.

Negative factors – Pressure on SISPL's rating may arise if there is a weakening in the credit profile of Shrem InvIT or change in the frequency/significantly lower-than-anticipated distribution from the InvIT impacting the liquidity position. The rating could be downgraded if the external indebtedness increases beyond Rs. 500 crore, or if there is a material deterioration in the company's debt coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Investment Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated; For arriving at the rating, ICRA has consolidated the financial of Shrem Enterprises Pvt. Ltd, a 100% subsidiary of SIPL.

About the company

Incorporated in 2014, Shrem Infra Structure Private Limited is the sponsor of Shrem InvIT, which is an infrastructure investment trust consisting of 34 operational SPVs (of which two SPVs are expected to be acquired by Q1 FY2024). The InvIT was formed under the Indian Trust Act, 1882 and an approval has been received from SEBI for the InvIT on February 4, 2021. Established in 2011, the Shrem Group is a Mumbai-based family office managed by Mr. Nitin Chhatwal and Mr. Hitesh Chhatwal. The promoter group holds 55.7% of units, of which 41% is of SISPL and 14.7% is held by Shrem Enterprises Private Ltd, a 100% subsidiary of SISPL. Dilip Buildcon Limited and its affiliates hold 15.1% of Shrem InvIT units as on March 31, 2023.

Key financial indicators

	FY2022	H1 FY2023
Operating income (Rs. crore)	102.0	63.6
PAT (Rs. crore)	1992.74	30.1
OPBDIT/OI (%)	96.1%	95.0%
PAT/OI (%)	1953.4%	47.4%
Total outside liabilities/Tangible net worth (times)*	0.3	0.2
Total debt/OPBDIT (times)	6.7	4.9
Interest coverage (times)	10.8	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

*Total Outside Liabilities include unsecured debt and advances from promoters/related entities

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The company also faces prepayment risk, given the possibility of accelerated payment upon the breach of rating linked triggers or upon exercise of the put option by the debenture holders. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on May 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022			Date & Rating in FY2021
					June 23, 2023	March 02, 2023	April 12, 2022	March 02, 2022	February 24, 2022	September 15, 2021	-
1	NCD	Long-term	85.0	50.0	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	NCD	Long-term	150.0	90.0	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-
3	MLD	Long-term	274.0	274.0	PP-MLD [ICRA]AA (Negative)	PP-MLD [ICRA]AA (Stable)	PP-MLD [ICRA]AA (Stable)	PP-MLD [ICRA]AA (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD (Rs. 85 crore)	Simple
NCD (Rs. 150 crore)	Very Simple
MLD	Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE391V07026	NCD	September 14, 2021	14.25%	December 20, 2024	50.00	[ICRA]AA (Negative)
INE391V07018	NCD	September 14, 2021	14.25%	March 31, 2023	35.00	[ICRA]AA (Negative)
INE391V07034	NCD	February 25, 2022	8.39%	August 31, 2023	60.00	[ICRA]AA (Negative)
INE391V07042	NCD	February 25, 2022	8.39%	August 31, 2024	75.00	[ICRA]AA (Negative)
INE391V07059	NCD	February 25, 2022	8.39%	August 31, 2022	15.00	[ICRA]AA (Negative)
INE391V07067	MLD	March 11, 2022	NA	June 11, 2024	137.00	PP-MLD [ICRA]AA (Negative)
INE391V07075	MLD	March 11, 2022	NA	September 11, 2024	137.00	PP-MLD [ICRA]AA (Negative)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company	Ownership	Consolidation approach
Shrem Enterprises Pvt. Ltd	100%	Full Consolidation

Corrigendum:

Earlier rationale captured only the month and year of date of issuance and maturity date of each NCDs, which has been changed to reflect the exact date in Annexure 1.

The complexity indicators of the NCDs (Rs. 150 crore) and the analytical approach table is corrected and included prepayment risk in the 'Any other Information' section in the revised version.

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