

October 20, 2023

POWERGRID Infrastructure Investment Trust: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	N.A.	N.A.	[ICRA]AAA (Stable); reaffirmed
Total	N.A.	N.A.	

*Instrument details are provided in Annexure-I

Rationale

POWERGRID Infrastructure Investment Trust (PGInvIT) is an infrastructure investment trust sponsored by Power Grid Corporation of India Limited (PGCIL, rated [ICRA]AAA(Stable)/[ICRA]A1+). The trust acquired PGCIL's 74% stake in five special purpose vehicles (SPVs) – Vizag Transmission Limited (VTL; formally known as POWERGRID Vizag Transmission Limited), POWERGRID Kala Amb Transmission Limited (PKATL), POWERGRID Parli Transmission Limited (PPTL), POWERGRID Warora Transmission Limited (PWTL) and POWERGRID Jabalpur Transmission Limited (PJTL) - in May 2021. In March 2022, PGInvIT acquired the remaining 26% stake in VTL. The 26%¹ stake in three of the remaining four SPVs (PKATL, PPTL and PWTL), now held by PGCIL, can be acquired as the equity lock-in period is over. PGInvIT's issue of Rs. 7,734.99 crore in May 2021 comprised a fresh issue of Rs 4,993.48 crore and an offer for sale of Rs. 2,741.51 crore by the sponsor. The fresh issue was used to extend loans to the five SPVs to repay or prepay the debt availed by the SPV from PGCIL. The five SPVs do not have any external debt as on date.

The rating factors in the high revenue stability due to the presence of TSAs for 35 years from the COD for the inter-state transmission assets of the five SPVs, with revenues linked to transmission system availability. The assets are operational, with the availability higher than the target annual availability of 98%, resulting in full recovery of transmission charges plus incentive since COD. The transmission projects housed in the five SPVs were awarded to PGCIL through the competitive bidding route and are a part of the inter-state transmission system (ISTS).

The rating also takes into account the timely realisation of transmission charges, as per the CERC (Sharing of Inter-State Transmission Charges and Losses) Regulations through the Central Transmission Utility of India Limited (CTUIL), which substantially limits the counterparty credit risk, evident from the timely payments and high collection efficiency. Further, ICRA notes that the 74% stake acquisition in the five SPVs has been funded entirely from the unit holder's capital raised by PGInvIT. The present net debt to AUM remains low at 0.91% (debt raised for acquiring 26% stake in VTL and additional revenue rights in PPTL, PWTL and PJTL). The acquisition of the 26% stake in the remaining SPVs is likely to be funded majorly through external debt.

The rating is, however, constrained by operational risks associated with power transmission and the ability of PGInvIT to ensure annual availability above the target annual availability of 98%, which shall be critical for the recovery of transmission charges. However, the operational risk is mitigated to some extent with PGCIL as the project manager, which is responsible for the operation and maintenance of transmission assets of the five SPVs. Further, the entity remains exposed to interest rate risk for the debt availed as the transmission charges are fixed in nature for the tenure of the TSA (except an escalable component for transmission charges for VTL).

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that PGInvIT shall benefit from the stability in cash flows, aided by the availability of TSAs, satisfactory operational profile of the transmission assets of the five SPVs and timely payments from the customers under CERC regulations.

¹ Under the terms of TSA, the developer is allowed to sell 74% stake post completion of 2 years from COD and 100% stake post 5 years from COD. In line with this, the balance 26% stake shall be acquired by PGInvIT as the projects complete 5 years which is only remaining in PJTL (to be completed by January 2024)

Key rating drivers and their description

Credit strengths

Satisfactory operational track record of the inter-state transmission projects acquired by PGINVIT – The SPVs acquired by PGINVIT have consistently demonstrated high annual system availability since, which is more than normative levels of 98% as per the CERC norms, ensuring the recovery of annual transmission charges and earning incentive for the annual availability being higher than the normative levels.

High cash flow stability, aided by availability of TSA and CERC norms for collection of transmission charges – The presence of TSAs for 35 years from the COD for the five SPVs, with availability-linked tariff billing, results in long-term revenue visibility. The presence of CERC (Sharing of InterState Transmission Charges and Losses) Regulations, 2020 for the collection of transmission charges, with CTU being responsible for the billing and collection, leads to high cash flow stability and supports the rating.

Billing and collection through CTU mitigates counterparty credit risk to a large extent – The transmission systems of the five SPVs are a part of the ISTS network and hence are eligible for billing and collection, as per the CERC (Sharing of Inter State Transmission Charges and Losses) Regulations, 2020 through CTUIL. This mitigates the counterparty credit risk to a large extent due to the diversification of counterparties. The low counterparty credit risk is evident from the low debtor days on a consolidated basis of 43 days in FY2022 and 47 days in FY2023, excluding unbilled revenue.

Strong financial risk profile, characterised by stable cash flows – ICRA notes that the purchase of a 74% stake in the five SPVs (in line with equity lock-in clauses in TSAs) has been funded entirely from the unit holder's capital raised by PGINVIT. Though PGINVIT has raised external debt to fund the acquisition of the remaining 26% stake in VTL and additional revenue rights in PPTL, PWTL and PJTL, the net debt/AUM remains lower at 0.91% as on March 31, 2023.

Presence of PGCIL as project manager provides comfort – PGCIL {rated [ICRA]AAA(Stable)/[ICRA]A1+} acts as a project manager of PGINVIT and is responsible for the operation, maintenance and management of the transmission assets of the SPVs. PGCIL, being the largest transmission player in the country, has a long and satisfactory track record of setting up and operating transmission assets in India. The demonstrated operational track record of the transmission assets of PGCIL is evident from the availability being higher than the CERC norms.

Credit challenges

Ability to maintain availability in line with target annual availability critical for recovery of transmission charges – The ability of PGINVIT to maintain transmission availability above the target annual availability of 98% remains critical for the recovery of transmission charges. The transmission assets of the five SPVs have demonstrated satisfactory operational performance, with the annual availability being higher than 98% in the past since COD. The risk is also mitigated by the presence of PGCIL as the project manager (contract expiring in March 2024), which is responsible for the operation, maintenance and management of the transmission assets of the five SPVs.

Interest rate risk – The transmission charges for the five SPVs in which PGINVIT has acquired stakes are fixed for the tenure of the TSA, except the escalable component of transmission charges for VTL. Hence, PGINVIT shall be exposed to interest rate risk for any additional debt to be availed in the future, as the fluctuations in interest rate shall not be allowed as pass-through.

Environmental and Social Considerations

Environmental consideration – The SPVs of PGINVIT exhibit low environment risks as their revenues are derived from transmission assets which have low exposure towards the lack of availability of natural resources or the risk of not meeting emission or carbon footprint norms. Also, there were no major pending show cause/legal notices from the respective authorities at the end of 2022-23.

Social consideration – PGINVIT’s SPVs have low exposure to social risks arising from the right-of-way (ROW) requirement for setting up the transmission assets. It has only commissioned assets in its existing portfolio, thus exhibiting low social risks.

Liquidity position: Strong

The liquidity of the five SPVs, on a consolidated basis, is strong, driven by satisfactory annual availability (higher than target annual availability of 98%) and timely collections from the counterparty (i.e. CTUIL). The availability is expected to be at least equal to the normative annual availability, going forward, in line with past trends, resulting in the recovery of transmission charges, as per the TSA. The cash and liquid investments on a consolidated basis were Rs. 512 crore as on March 31, 2023. The debt service reserve account (DSRA) for the subsequent one quarter of debt servicing (for the debt of Rs 576 crore raised in March 2022) is in the form of fixed deposits, which further supports its liquidity position.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Lower-than-target annual availability of transmission assets and/or delays in collecting payments from customers and/or significant debt-funded acquisition resulting in a moderation of the debt coverage metrics may result in a downgrade. Further, pressure on the rating could arise if there is any deterioration in the asset credit quality or diversification into segments other than inter-state power transmission.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Companies Rating Methodology for Infrastructure Investment Trusts (InvITs)
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has consolidated the business and financial risk profile of all the five SPVs acquired by PGINVIT as the cash flows shall be fungible among the SPVs due to direct control of PGINVIT

About the company

POWERGRID Infrastructure Investment Trust (PGINVIT) is an infrastructure investment trust (InvIT) sponsored by Power Grid Corporation of India Limited (PGCIL). PGINVIT has acquired 74% stake in the four subsidiaries of PGCIL, namely, POWERGRID Kala Amb Transmission Limited (PKATL), POWERGRID Parli Transmission Limited (PPTL), POWERGRID Warora Transmission Limited (PWTL) and POWERGRID Jabalpur Transmission Limited (PJTL), and a 100% stake in Vizag Transmission Limited (formerly known as POWERGRID Vizag Transmission Limited) as on March 31, 2023. These five SPVs own inter-state transmission lines which were awarded through competitive bidding to PGCIL. The 26% stake in three of the remaining four SPVs (PKATL, PPTL and PWTL), now held by PGCIL, can be acquired as the equity lock-in period is over.

POWERGRID Vizag Transmission Limited has two transmission lines across Andhra Pradesh and Telangana. The project was commissioned in February 2017.

POWERGRID Kala Amb Transmission Limited has LILO of one transmission line and one sub-station in Himachal Pradesh. The project has been operational since July 2017.

POWERGRID Parli Transmission Limited has three transmission lines and one sub-station in Maharashtra. The project was commissioned in June 2018.

POWERGRID Warora Transmission Limited has four transmission lines in Madhya Pradesh and Maharashtra and one sub-station in Maharashtra. The project was commissioned in July 2018.

POWERGRID Jabalpur Transmission Limited has one transmission line in Madhya Pradesh. The project has been operational since January 2019.

Power Grid Corporation of India Limited is the project manager and POWERGRID Unchahar Transmission Limited is the investment manager for PGINVIT.

Key financial indicators (audited)

PGInvIT Consolidated	FY2022	FY2023
Operating income	1,227.9 [#]	1293.4 [#]
PAT	463.3	(446.4)*
OPBDIT/OI	93.6%	93.1
PAT/OI	37.7%	-34.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.5	0.5
Interest coverage (times)	NM [^]	29.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

[#]This includes surcharge income of Rs. 10.6 crore in FY2022 and Rs. 7.7 crore in FY2023 *Impairment of Rs. 1509.8 crore has resulted in PAT loss in FY2023

[^]Not meaningful: all calculations as per ICRA Research

Source: Annual reports and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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 Oct 20, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				October 20, 2023	Oct 12, 2022	July 08, 2021	Jan 19, 2021
1 Issuer rating	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA] AAA (Stable) Provisional rating confirmed as final	Provisional [ICRA] AAA(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	PGInvIT Ownership	Consolidation Approach
POWERGRID Infrastructure Investment Trust	100.00% (rated entity)	Full Consolidation
Vizag Transmission Limited	100.00%	Full Consolidation
POWERGRID Kala Amb Transmission Limited	74.00%*	Full Consolidation
POWERGRID Parli Transmission Limited	74.00%*	Full Consolidation
POWERGRID Warora Transmission System Limited	74.00%*	Full Consolidation
POWERGRID Jabalpur Transmission Limited	74.00%*	Full Consolidation

Source: POWERGRID Infrastructure Investment Trust

* ICRA has taken a consolidated view of the POWERGRID Infrastructure Investment Trust and its subsidiary while assigning the ratings. PGInvIT acquired 74% in the 4 SPVs and 100% stake in VTL (formally known as POWERGRID Vizag Transmission Limited), while the remaining 26% stake in the remaining SPVs except PJTL (completing in January 2024) can be acquired as the equity lock-in of 26% till 5 years from COD is over for the respective SPVs as per TSAs.

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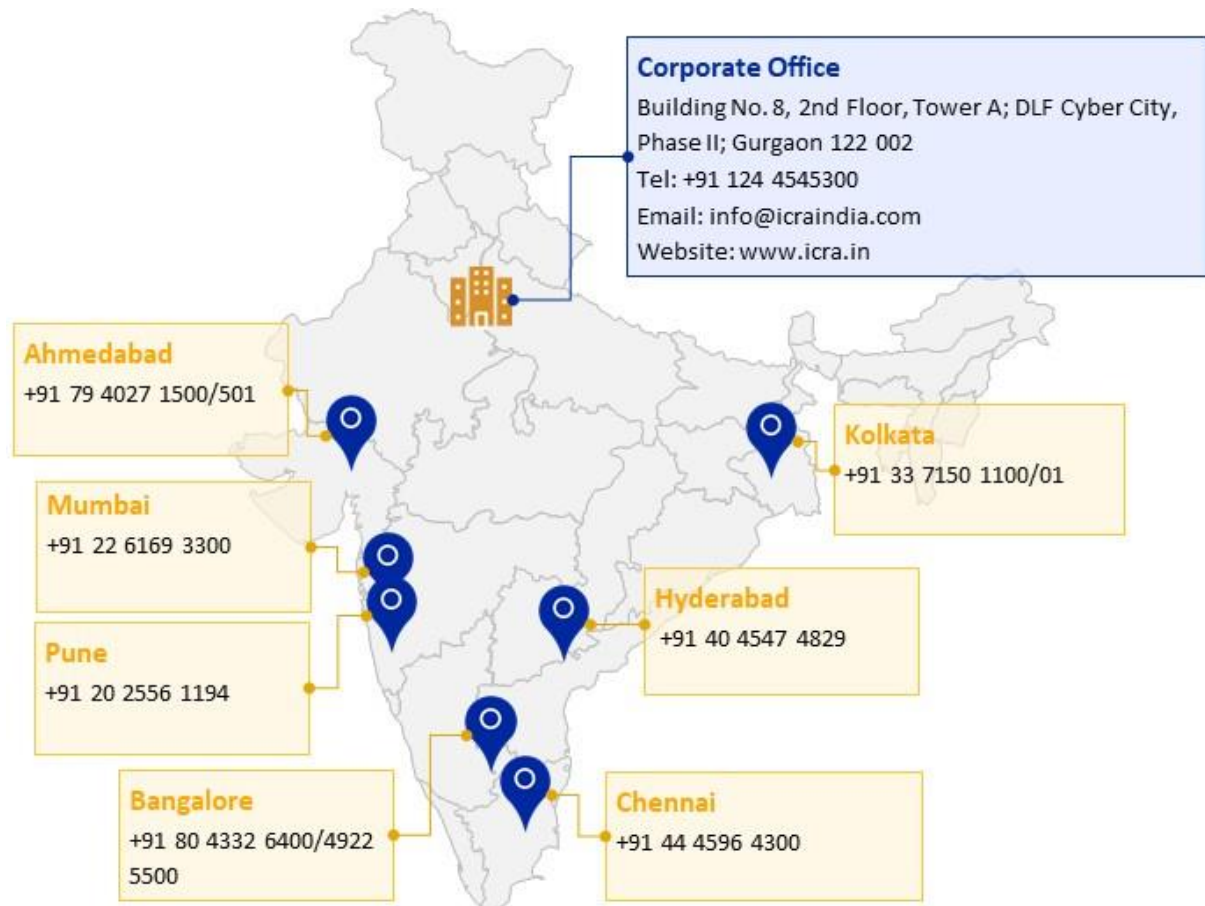
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