

January 19, 2021

## POWERGRID Infrastructure Investment Trust: Rating assigned

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	NA	Provisional [ICRA]AAA(Stable); Assigned
<b>Total</b>	<b>NA</b>	<b>NA</b>	

\*Instrument details are provided in Annexure-1

Not Applicable as this is an issuer rating exercise

### Rationale

POWERGRID Infrastructure Investment Trust (PGInvIT) is an infrastructure investment trust which shall be acquiring 5 special purpose vehicles (SPVs) namely Powergrid Vizag Transmission Limited (PVTL), Powergrid Kala Amb Transmission Limited (PKATL), Powergrid Parli Transmission Limited (PPTL), Powergrid Warora Transmission Limited (PWTL) and Powergrid Jabalpur Transmission Limited (PJTL). These 5 SPVs are currently owned by Power Grid Corporation of India Limited (PGCIL, rated [ICRA]AAA(Stable)/[ICRA]A1+). The provisional rating shall be converted to final post the fund raising and the transfer of 5 SPVs to PGInvIT is completed.

The rating assignment factors in the high revenue stability aided by the presence of transmission service agreements for 35 years from commercial operation date (COD) for the inter-state transmission assets to be acquired from PGCIL, with revenues linked to transmission line availability. The assets to be acquired are operational with line availability higher than the target availability of 98% resulting in full recovery of transmission charges in the past since COD. The transmission projects housed in these five SPVs were awarded through competitive bidding route and are part of inter-state transmission system (ISTS). The rating also factors in the fact that the realization of transmission charges remained timely as per the Point of Connection (PoC) mechanism through the Central Transmission Utility (CTU) which substantially limits the counter party credit risk as evident from the timely payments and high collection efficiency. Further, ICRA also notes that the 74%<sup>1</sup> stake acquisition in the 5 SPVs shall be funded entirely from the unit holder's capital raised by PGInvIT and no external debt shall be availed, thereby leading to strong financial profile. The acquisition of the balance 26% stake is likely to be funded through external debt as contemplated by PGInvIT.

The rating is however constrained by operational risk associated with transmission lines and the ability of PGInvIT to ensure line availability above target availability of 98% shall be critical for recovery of transmission charges. However, operational risk is mitigated to some extent with PGCIL as project manager, who shall be responsible for operation and maintenance of transmission lines of the 5 SPVs. Further, the entity remains exposed to interest rate risk for any debt to be availed in future given that the transmission charges are fixed in nature for tenor of TSA (except escalable component for transmission charges for PVTL).

<sup>1</sup> 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, PGInvIT is acquiring 74% stake in these SPVs and balance 26% stake as the projects complete 5 years.

The Stable outlook on the Provisional [ICRA]AAA rating reflects ICRA's opinion that PGINvIT shall benefit from stability in cash flows aided by availability of TSAs, satisfactory operational profile of the transmission lines of the 5 SPVs and timely payments from beneficiaries through PoC framework.

## Key rating drivers and their description

### Credit strengths

#### **Satisfactory operational track record of the inter-state transmission projects proposed to be transferred to the InvIT –**

The availability of all the 5 SPVs proposed to be acquired by PGINvIT has been satisfactory with annual average line availability being higher than normative/target availability of 98%. The availability demonstrated by PVTL remained high at 99.99% in FY2020 and 100% in H1 FY2021 while line availability for PKATL remained high at 99.90% in FY2020 and 100% in H1 FY2021. The availability for PPTL was high at 99.92% in FY2020 and 99.88% in H1 FY2021 and 99.81% in FY2020 and 99.88% in H1 FY2021 for PWTL. The availability for PJTL was high at 99.77% in FY2020 and 99.54% in H1 FY2021. Since the line availability was higher than target availability of 98%, the SPVs recovered full transmission charges as per TSA and were also eligible for incentives.

#### **High cash flow stability, aided by availability of TSA and PoC mechanism for collection of transmission charges –**

The presence of TSAs for 35 years from COD for the transmission lines of 5 SPVs with availability linked tariff billing results in long term revenue visibility. The presence of PoC mechanism for collection of transmission charges with billing and collection being responsibility of CTU leads to high cash flow stability, which supports the rating.

#### **Billing and collection as per Point of Collection mechanism through CTU, mitigating counter party credit risk to large extent for the inter-state transmission projects –**

The transmission lines of the 5 SPVs are part of ISTS network and hence are eligible for billing and collection as per PoC mechanism through CTU. This mitigates counter party credit risk to large extent due to diversification of counter parties. The low counter party credit risk is evident from low debtor days on consolidated basis of 48 days in FY2020. The debtor days on consolidated basis increased to 76 days in Q1 FY2021 due to Covid 19 pandemic induced lockdown which impacted financial profile of state distribution utilities leading to delay in payments. However, the payments have improved after June 2020 as evident from lower debtor days of 60 days in H1 FY2021 on consolidated basis for the 5 SPVs.

#### **PGInvIT is expected to have a strong financial risk profile characterized by stable cash flows and as the acquisition of the transmission assets (74% stake) is proposed to be funded entirely from unit holder's capital –**

ICRA notes that the purchase of 74% stake in the 5 SPVs (in line with equity lock-in clauses in TSAs) shall be funded entirely from unit holder's capital raised by PGINvIT and no external debt shall be availed. The remaining 26% stake is likely to be funded through external debt as contemplated by PGINvIT as on date. The low total debt/AUM for PGINvIT shall result in a strong financial risk profile.

#### **Presence of PGCIL as the project manager for the InvIT provides comfort –**

PGCIL (rated [ICRA]AAA(Stable)/[ICRA]A1+) shall act as project manager of PGINvIT and shall be responsible for operation and maintenance of the transmission lines. PGCIL has long and satisfactory track record of setting up and operating transmission lines in India, being the largest transmission player in the country and demonstrated operational track record of transmission lines of PGCIL as evident from line availability being higher than CERC norms.

## Credit challenges

### Ability to maintain line availability in line with target availability remains critical for recovery of transmission charges –

The ability of PGINvIT to maintain transmission line availability above target availability of 98% remains critical for recovery of transmission charges. The transmission lines of the 5 SPVs have demonstrated satisfactory operational performance as evident from line availability higher than 98% in the past since COD. The risk is also mitigated by presence of PGCIL as project manager which shall also be responsible for operation and maintenance of transmission lines of the 5 SPVs to be acquired by PGINvIT.

**Interest rate risk** – The transmission charges for the 5 SPVs proposed to be acquired by PGINvIT are fixed for tenor of TSA except escalable component of transmission charges for PVTL. Hence, PGINvIT shall be exposed to interest rate risk, for any debt to be availed in future, as fluctuations in interest rate shall not be pass through.

### Liquidity position: Strong

The liquidity of the 5 SPVs to be transferred to InvIT on consolidated basis is Strong. All the transmission lines are operational in nature and have demonstrated satisfactory line availability (higher than target availability of 98%) in FY2020 and H1 FY2021. The payment from counter parties has been timely in FY2020 although delayed to some extent in H1 FY2021. The line availability is expected to be at least equal to normative availability going forward, in line with past trends, resulting in recovery of transmission charges as per TSA. The cash and liquid investments for the 5 SPVs on consolidated basis were Rs 39.9 crore as on March 31, 2020 and Rs 56.4 crore as on September 30, 2020.

## Rating sensitivities

**Positive triggers** – Not applicable.

**Negative triggers** – Lower than stipulated availability of transmission assets adversely impacting cash accruals and debt service coverage indicators and/or delays in collecting payments under the PoC mechanism. Further, any deterioration in asset credit quality or diversification into segments other than inter-state power transmission could be a negative trigger.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Power Transmission Companies</a> <a href="#">Rating Methodology for Infrastructure Investment Trusts</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has consolidated the business and financial risk profile of all the 5 SPVs proposed to be acquired by PGINvIT as the cash flows shall be fungible among the 5 SPVs due to direct control of PGINvIT.

## About the company

POWERGRID Infrastructure Investment Trust (PGInvIT) is an infrastructure investment trust (InvIT) promoted by Power Grid Corporation of India Limited (PGCIL). PGINvIT shall be acquiring five subsidiaries of PGCIL namely Powergrid Vizag

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Transmission Limited (PVTL), Powergrid Kala Amb Transmission Limited (PKATL), Powergrid Parli Transmission Limited (PPTL), Powergrid Warora Transmission Limited (PWTL) and Powergrid Jabalpur Transmission Limited (PJTL). These 5 SPVs own inter-state transmission lines which were awarded through competitive bidding to PGCIL.

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

Powergrid Kala Amb Transmission Limited has one transmission line and one substation in Himachal Pradesh. The project has been operational since July 2017.

Powergrid Parli Transmission Limited has three transmission lines and one substation in Maharashtra. The project was commissioned in June 2018.

Powergrid Warora Transmission Limited has four transmission lines in Madhya Pradesh and Maharashtra and one substation in Maharashtra. The project was commissioned in July 2018.

Powergrid Jabalpur Transmission Limited has one transmission lines and related infrastructure in Madhya Pradesh. The project has been operational since January 2019.

Power Grid Corporation of India Limited shall be the project manager and Powergrid Unchahar Transmission Limited shall be investment manager of PGInvIT

### **Key financial indicators (audited)**

Not Applicable as PGInvIT was incorporated in September 2020.

### **Status of non-cooperation with previous CRA: Not applicable**

### **Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					19-Jan-2021			
1	Issuer Rating	Long Term	NA	-	Provisional [ICRA]AAA(Stable )	-	-	-

Amount in Rs. Crore, NA- Not Applicable as this is Issuer Rating exercise

### Complexity level of the rated instrument

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 [click here](#)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	Provisional [ICRA]AAA(Stable)

Source: POWERGRID Infrastructure Investment Trust, Amount rated is NA as this is Issuer Rating exercise

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Powergrid Vizag Transmission Limited	74%*	Full Consolidation
Powergrid Kala Amb Transmission Limited	74%*	Full Consolidation
Powergrid Parli Transmission Limited	74%*	Full Consolidation
Powergrid Warora Transmission Limited	74%*	Full Consolidation
Powergrid Jabalpur Transmission Limited	74%*	Full Consolidation

\*74% proposed to be acquired by PGInvIT in the beginning followed by 100% ownership once the equity lock-in of 26% till 5 years from COD is over for the respective SPVs as per TSAs

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