

India Grid Trust

April 27, 2018

Summary of rated instruments – India Grid Trust

Company	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
India Grid Trust	Issuer Rating	-	-	[ICRA]AAA reaffirmed; Stable outlook assigned; rating watch removed
Total		-	-	

*Instrument details are provided in Annexure-1

Summary of rated instruments – Bhopal Dhule Transmission Company Limited

Company	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bhopal Dhule Transmission Company Limited	Non-Convertible Debentures	735.00	735.00	[ICRA]AAA reaffirmed; Stable outlook assigned; rating watch removed
Total		735.00	735.00	

*Instrument details are provided in Annexure-2

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AAA (pronounced ICRA triple A) to the issuer rating of India Grid Trust (IndiGrid/InvIT) and the Rs. 735.00 crore¹ non-convertible debentures (NCD) of Bhopal Dhule Transmission Company Limited (BDTCL). The outlook on the long-term rating is 'Stable'. ICRA has removed the ratings watch with developing implications on IndiGrid and BDTCL.

Rationale

The ratings continue to reflect the strength of underlying power transmission assets under the trust. IndiGrid has acquired three power transmission SPVs from named RAPP Transmission Company Limited (RTCL) from Sterlite Grid 2 Limited, Purulia and Kharagpur Transmission Company Limited (PKTCL) from Sterlite Grid 2 Limited and Maheshwaram Transmission Limited (MTL) from Sterlite Grid 3 Limited respectively in Q4 FY2018. All three SPVs acquired by the company have commissioned interstate transmission assets. The acquisition has expanded the portfolio of IndiGrid providing diversification to the revenue streams. All five assets – the initial assets of BDTCL and Jabalpur Transmission Company Limited (JTCL) – as well as the newly acquired ones are operating at healthy line availability demonstrating strong operating performance. All five SPVs have achieved average line availability of ~99.8% till date. The same is also benefiting the trust in form of incentives offered as per the transmission service agreement (TSA) for maintaining line availability higher than 98%.

¹ 100 lakh = 1 crore = 10 million

Being interstate transmission licensees (ISTS), all the five projects enjoy robust payment mechanism and moderate counterparty risk owing to the Point of Connection (POC) mechanism being operated by the Central Transmission Utility i.e. Power Grid Corporation of India Limited (PGCIL).

The acquisition of the three transmission SPVs has been funded by additional external debt of Rs. 1,000 crore long term loan availed by IndiGrid and Rs. 423 crore short term loan availed by JTCL. Consolidated external debt level of the trust has increased to ~Rs. 2,400 crore (including ~Rs. 1,000 crore external debt of BDTCL). The additional debt has pushed the consolidated debt to asset ratio to ~45% from the initial ~26%; however, the same remains well within the regulatory cap of 49%. Nevertheless, favourable debt terms like no principal amortisation over a period of 10 years for Rs. 1,000 crore debt and fixed rate of interest provide stability to cost structure of the trust and also result in comfortable DSCR level. The InvIT should also enjoy stability in the cash flows due to factors like fixed nature of the annuity payment for all the assets and modest O&M expenses.

ICRA has also taken into consideration the proposed acquisition of Patran Transmission Company Limited by IndiGrid for likely consideration of Rs. 232 crore. The details of the transaction are yet to be received, ICRA believes that the acquisition is not expected to deteriorate the financial risk profile of the trust, primarily due to comparatively modest valuation of the project as compared to the existing value of InvIT assets. However, additional issuance of units might be required for any additional acquisition as the debt to asset ratio is likely to reach ~49% after acquisition of PTCL.

ICRA takes note of the refinance risks in various debt (~90% of the NCD for BDTCL is payable on the scheduled maturity date in April 2022 as well as 100% of the IndiGrid debt is payable after 10 years). However, high certainty of the cash flows in power transmission projects, adequate tail period (~27 years for the NCDs and ~25 years for the bank debt), and long useful life of the assets are some of the factors that act as strong risk mitigants. Additionally, variability in O&M expenses might impact profitability of the company. However, the group has large scale presence in power transmission business, which should ensure adequate resource allocation and cost efficient execution of the O&M activity.

The issuer rating by ICRA is not a comment on the ability of IndiGrid to meet dividend payouts to the unit investors. The rating takes into account the consolidated external debt position of the InvIT and the likelihood of this debt getting serviced after factoring the benefit of the pooling mechanism (i.e. the support available from all the underlying SPVs housed under the InvIT). In case IndiGrid raises any additional debt in future or acquires any other asset, the impact of the same on the rating would need to be evaluated by ICRA.

There shall be an unconditional and irrevocable shortfall undertaking from the InvIT which shall ensure the pooling of surplus cashflows from all the SPVs to service the external debt of BDTCL, if required. The rating also draws comfort from the structural features of the NCD programme of BDTCL including presence of Debt Service Reserve, cash trap triggers and the structured payment mechanism designed to ensure timely payment of the rated NCDs, as per the terms of the transaction.

Outlook: Stable

ICRA believes that IndiGrid and BDTCL will continue enjoy stable cash flows due to healthy operating performance and strong payment security. The outlook may be revised to 'Negative' if there is any major impact on line availability resulting in deterioration in cash flows.

Key rating drivers

Credit strengths

Shortfall undertaking from the InvIT for the external debt – The NCD issued by BDTCL has shortfall undertaking from IndiGrid which will achieve cash pooling benefit from four other SPVs in order to service the debt obligations if required.

Structural features like presence of Debt Service Reserve, cash trap triggers and payment mechanism – The NCD issued by BDTCL has structural features like Debt Service Reserve (equivalent to one quarter principal plus interest payable), cash trap triggers and payment mechanism which are designed to ensure timely payment to the investors.

Strong underlying assets housed under the InvIT – All five SPVs under IndiGrid are operational power transmission assets with healthy line availability above 99.8%. Stable operating performance translates into healthy cash flows in form of monthly tariff as well as incentives.

Assured offtake under the long-term TSA – All the SPVs under IndiGrid have assured offtake of power as per the TSA signed with the customers for a fixed monthly tariff, hence mitigating offtake risks

Strong payment security – All the projects are part of interstate transmission grid which enjoys strong payment security with POC mechanism; the Central Transmission Utility (CTU) is responsible for raising bills and collection

Credit challenges

Moderate operations and maintenance (O&M) risk – The cash flows of all the projects and resultantly IndiGrid are closely linked to the line availability. Any lapses in O&M may impact the line availability performance. However, steady performance till date for all the commissioned projects as well as large portfolio of power transmission assets which will ensure adequate resource availability mitigate the risk to a large extent.

Moderate counterparty risk – The SPVs under IndiGrid are exposed to moderate counterparty risks due to weak financial health of some of the state distribution companies in the country, which are the primary customers; however the risk is mitigated to a large extent due to payment security under the POC mechanism.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has consolidated the business and financial risk profile of all five SPVs under IndiGrid as the cashflows are fungible between various SPVs due to direct control of IndiGrid as well as shortfall undertaking provided by IndiGrid to NCD of BDTCL. The regulatory debt cap of 49% of consolidated asset valuation also supports consolidation approach for the InvIT.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Infrastructure Investment Trusts](#)

[Rating Methodology for Power Transmission Companies](#)

InvIT Structure

SEBI has introduced infrastructure investment trust (InvIT) regulations for infrastructure projects, keeping in mind the huge infrastructure needs of India. InvIT is a mechanism that enables infrastructure developers to monetise their assets by pooling multiple assets under a single entity (which would be a trust structure). The key features of InvITs are—mandatory distribution of 90% of net distributable cash flows (NDCF) to the unit investors, leverage cap of 49% on the net asset value and a cap on exposure to under construction assets for publicly placed InvITs. The sponsor of the InvIT shall be responsible for setting up the trust and appointing the trustee. The sponsor shall hold minimum 15% of the units issued by the InvIT with a lock-in period of three years from the date of issuance of units.

India Grid Trust Profile

India Grid Trust is a two-tier InvIT. The trust will hold 100% equity in Sterlite Grid 1 Limited (SGL1), which houses two power transmission subsidiaries—namely BDTCL and JTCL. In Q4 FY2018, IndiGrid acquired three more power transmission SPVs – namely RTCL, PKTCL and MTL. Sterlite Power Grid Ventures Ltd. (SPGVL) is the sponsor and project manager for IndiGrid. Sterlite Investment Managers Limited (SIML) and Axis Trustee Services Limited are the investment manager and trustee, respectively. IndiGrid has also announced planned acquisition of an SPV named PTCL from Techno Electric and Engineering Company Limited and the transaction is expected to be concluded in Q1 FY2019.

The proceeds realised by the InvIT through initial issuance of units were largely infused as debt into BDTCL and JTCL. In turn, BDTCL and JTCL utilised the debt proceeds from InvIT to reduce both the external debt and the sub-debt availed from group companies. The InvIT availed additional external debt of Rs. 1,000 crore at IndiGrid level and Rs. 423 crore at JTCL level in order to fund acquisition of three power transmission assets. As on March 2018, the consolidated external debt for the InvIT is ~Rs. 2,400 crore which is ~45% of the asset value. All the surplus cash flows generated in all the SPVs (post meeting out operational expenses and external debt repayments) shall be upstreamed to the InvIT either as debt repayment or as dividend.

Company Profile: Bhopal Dhule Transmission Company Limited

BDTCL is a power transmission project with 765 kV S/C transmission lines of 891 circuit km (ckm) and 400 kV D/C lines of 53 ckm in the Indore–Bhopal–Jabalpur region and Vadodara–Dhule–Aurangabad region, along with two sub-stations at Bhopal (Madhya Pradesh) and Dhule (Maharashtra). The project has six transmission line elements in total. BDTCL has constructed a total length of 944 ckm at a total project cost of Rs. 2,171.4 crore. The project was implemented on a Build, Own, Operate and Maintain (BOOM) basis and has a transmission service agreement (TSA) in place for 35 years. The project was completely commissioned in June 2015 and has been operating at healthy average line availability of 99.77%.

Company Profile: Jabalpur Transmission Company Limited

JTCL is a power transmission project with a 765 kV S/C quad line between Jabalpur (Madhya Pradesh) and Bina (Madhya Pradesh) of 235 ckm and 765 kV D/C Hexa line between Daramjaygarh (Chhattisgarh) and Jabalpur of 757 ckm as a part of the system strengthening scheme. The project has two transmission line elements. JTCL has constructed a total length of 992 ckm at a total project cost of Rs. 1,918.9 crore. The project was implemented on a Build, Own, Operate and Maintain (BOOM) basis and has a transmission service agreement (TSA) in place for 35 years. The project was completely commissioned in September 2015 and has been operating at healthy average line availability of 99.84%.

Company Profile: RAPP Transmission Company Limited

RTCL is a power transmission project with a 400 kV D/C quad line between Rajasthan and Shujalapur (Madhya Pradesh). The project has one transmission line elements. RTCL has constructed a total length of 403 ckm at a total project cost of Rs. 260.1 crore. The project was implemented on a Build, Own, Operate and Maintain (BOOM) basis and has a transmission service agreement (TSA) in place for 35 years. The project was completely commissioned in March 2016 and has been operating at healthy average line availability of 99.83%.

Company Profile: Purulia and Kharagpur Transmission Company Limited

PKTCL is a power transmission project with two 400 kV D/C quad lines Kharagpur-Chaibasa and Purulia-Ranchi in the states of West Bengal and Jharkhand. The project has two transmission line elements. PKTCL has constructed a total length of 546 ckm at a total project cost of Rs. 440.5 crore. The project was implemented on a Build, Own, Operate and Maintain (BOOM) basis and has a transmission service agreement (TSA) in place for 35 years. The project was completely commissioned in January 2017 and has been operating at healthy average line availability of 99.98%.

Company Profile: Maheshwaram Transmission Company Limited

MTL is a power transmission project with two 400 kV D/C quad lines Maheshwaram-Mehboob Nagar and Nizamabad-Yeddumailaram in the state of Telangana. The project has two transmission line elements. MTL has constructed a total length of 477 ckm at a total project cost of Rs. 384.1 crore. The project was implemented on a Build, Own, Operate and Maintain (BOOM) basis and has a transmission service agreement (TSA) in place for 35 years. The project was completely commissioned in January 2017 and has been operating at healthy average line availability of 99.97%.

Key financial indicators (audited) – India Grid Trust – Consolidated

	FY 2017	FY 2018
Operating Income (Rs. crore)	NA	447.6
PAT (Rs. crore)	NA	210.4
OPBDIT/ OI (%)	NA	92.8%
RoCE (%)	NA	-
Total Debt/ TNW (times)	NA	0.8
Total Debt/ OPBDIT (times)	NA	5.8
Interest coverage (times)	NA	4.1
NWC/ OI (%)	NA	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years – India Grid Trust:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Apr 2017	Date & Rating in FY2017	Date & Rating in FY2016
1 Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA & Oct 2017	Ir AAA (Stable)	Ir AAA (Stable)	-

Rating history for last three years – Bhopal Dhule Transmission Company Limited:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016
				Apr 2018	Oct 2017	Sep 2017	Apr/May 2017	Dec 2016	-
1 NCD	Long Term	720.00	720.00	[ICRA]AAA (Stable)	[ICRA] AAA& Oct 2017	[ICRA] AAA (Stable)	Provisional [ICRA] AAA (Stable)	Provisional [ICRA] AAA (Stable)	-
2 NCD	Long Term	15.00	15.00	[ICRA]AAA (Stable)	[ICRA] AAA& Oct 2017	[ICRA] AAA (Stable)	Provisional [ICRA] AAA (Stable)	-	-

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 www.icra.in

Annexure-1: Instrument Details – India Grid Trust

NA

Annexure-2: Instrument Details – Bhopal Dhule Transmission Company Limited

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE774N07012	NCD	30-May-17	7.85%	30-Jun-2018	12.00	[ICRA]AAA (Stable)
INE774N07020	NCD	30-May-17	7.85%	30-Sep-2018	12.00	[ICRA]AAA (Stable)
INE774N07038	NCD	30-May-17	7.85%	30-Dec-2018	12.00	[ICRA]AAA (Stable)
INE774N07046	NCD	30-May-17	7.85%	31-Mar-2019	12.00	[ICRA]AAA (Stable)
INE774N07053	NCD	30-May-17	7.85%	31-Mar-2020	5.00	[ICRA]AAA (Stable)
INE774N07061	NCD	30-May-17	7.85%	31-Mar-2021	11.00	[ICRA]AAA (Stable)
INE774N07079	NCD	30-May-17	7.85%	31-Dec-2021	15.00	[ICRA]AAA (Stable)
INE774N07087	NCD	30-May-17	7.85%	04-Apr-2022	656.00	[ICRA]AAA (Stable)

Source: Bhopal Dhule Transmission Company Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Anand Kulkarni

+91 20 6606 9910

anand.kulkarni@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3407

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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