India Ratings Places Shrem Infra Invest’s NCDS on Rating Watch with Negative Implications

Mar 01, 2024 | Others

India Ratings and Research (Ind-Ra) has placed Shrem Infra Invest Private Limited’s (SIIPL, formerly known as Shrem Infra Structure Private Limited) debt instruments’ ratings on Rating Watch with Negative Implications, as follows:

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/ Rating Watch	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR2,875 (Reduced from 4,150)	IND AA/Rating Watch with Negative Implications	Placed on Rating Watch with Negative Implications
Proposed NCDs^	-	-	-	INR950	Provisional IND AA/Rating Watch with Negative Implications	Placed on Rating Watch with Negative Implications
Principal protected market linked debentures (PP-MLDs)*#	-	-	-	INR2,740	IND PP-MLD AA/Rating Watch with Negative Implications	Placed on Rating Watch with Negative Implications

*Details in Annexure I
PP-MLDs have been fully prepaid on 29 February 2024 as per the disclosure on NSE website and withdrawal request is awaited from the issuer
^The rating is provisional pending execution of documents as detailed in the Annexure. The final rating, upon receipt of the executed documents consistent with the draft documents, shall be assigned within 90 days from the date of issuance of the instrument. The provisional rating may be extended by another 90 days, subject to Ind-Ra’s policy, if the execution of the documents is pending. In the absence of the documentation considered while assigning the provisional rating, the agency would not have assigned any rating to the proposed instrument.

Analytical Approach

ANALYTICAL APPROACH: The ratings reflect the creditworthiness of Shrem InvIT (‘IND AAA’/Stable) and the credit quality of underlying assets in the infrastructure investment trust (InvIT). The ratings also draw strength from the stability of the underlying assets in the InvIT, including a stable stream of cash flows from the proposed 10 new hybrid annuity model (HAM) projects awarded by National Highway Authority of India (NHAI, ‘IND AAA’/Stable); the InvIT has fully acquired nine projects and is likely to acquire 51% ownership in another one special purpose vehicle (SPV), by 4QFY24. However, the equity nature of the units and the limited diversification of the revenue stream for SIIPL constrain the ratings. The net cash distributable to unitholders will rank lower in the waterfall arrangement of the InvIT, considering the equity nature of units. The cash flows of InvIT will be first used to service its debt, and the surplus shall be distributed to the unitholders as per the waterfall mechanism, which shall be utilised to meet the debt servicing of SIIPL. The strong coverage metrics of InvIT lends support to the ratings.

Detailed Rationale of the Rating Action

As per the debenture trust deeds (DTD) of the NCDs worth INR2,300 million (outstanding INR2,112.5 million), SIIPL is required to maintain a minimum credit rating of 'AA'/Stable, and accordingly, the debenture trustee has intimated Ind-Ra regarding the downgrade in the rating of SIIPL by another rating agency. The DTD allows a cure period of 30 days to the company, and as per the DTD, failure of maintaining the minimum credit rating provides the debenture holders with the right to exercise a mandatory redemption. The debenture trustee and management have stated that a meeting of debenture holders is scheduled to be held on 7 March 2024. The management has represented that the redemption right is not likely to be exercised by the debenture holders.

SIIPL has recently been awarded an under-construction project by Karnataka Roads Development Corporation Limited under joint venture structure with Bharat Vanijya Eastern Private Limited (BVEPL). The total project cost of around INR13,500 million is likely to be funded by debt (48%), equity (22%) and grants (30%). SIIPL is likely to hold 39% stake in the said project SPV, which will require an equity commitment of INR1,170 million from SIIPL in the next three years. The project construction will be undertaken by BVEPL. As per the management, the sponsor undertaking or guarantee will be extended by a Shrem group entity that shall have no bearing directly or indirectly on SIIPL. Also, SIIPL's management has confirmed that it will not take any construction-related risk that shall increase its debt / contractual obligations or indicate any change in business model to move into the developer space. Ind-Ra has considered the said confirmation, and any deviation from the above understanding shall be credit negative.

Shrem InvIT has been distributing the surplus on a quarterly basis since November 2021. For 1QFY24 and 2QFY24, the distribution by the InvIT was lower than Ind-Ra's base case estimates by about INR3,070 million. This was on account of retention of surplus amount by the InvIT for the purpose of discharging the consideration for the acquisition of 10 new assets, creating an additional debt service reserve, and providing temporary advances to the SPVs for meeting their operation and maintenance (O&M) requirements. The distribution in 3QFY24 was largely in line with Ind-Ra's estimates, barring the amount of INR1,607.1 million set aside by the InvIT for future acquisitions and contingencies. In 9MFY24, the actual distribution was lower than Ind-Ra's estimates largely on account of the amount set aside for the past and future acquisitions and contingencies by InvIT. The agency takes into account the net distribution cash flow format guided in the recent Securities and Exchange Board of India's circular, which shall be applicable from 1 April 2024, and accordingly, Ind-Ra believes that retention of surplus by InvIT in the future will be within the permissible limit of 10%.

SIIPL's management has informed the agency about the establishment of an escrow mechanism within the Shrem group entities to provide more transparency on cash movements within the group.

Ind-Ra will be monitoring the implications of the abovementioned developments that are likely to take place in next one-two months, and hence, the rating has been placed on Rating Watch with Negative Implications. The Rating Watch will be resolved once the agency receives clarity on the implication of the mandatory redemption clause triggered under the DTD, the establishment of the escrow mechanism, which would increase the transparency of fund utilisation between Shrem group entities, and any additional debt commitment arising from the recently awarded under-construction project to SIIPL and BVEPL under the joint venture structure.

List of Key Rating Drivers

Strengths

Stable Underlying Cash Flow

Acquisition of New SPVs by Shrem InvIT

Strong Sponsor Profile

Weakness

Moderate Debt Structure

Single Income Stream with Limited Track Record

Detailed Description of Key Rating Drivers

Stable Underlying Cash Flow: The InvIT generates stable revenue from its pool of projects, which shall annually receive 64 annuity payments post the acquisition of all new SPVs until the end of the concession period of each project from different counterparties, and the toll collections in its two projects. The addition of 10 NHAI-backed HAM projects, which have already achieved provisional or final commercial operations date, mitigates any construction risk and adds strength to the InvIT's cash flows. A significant portion of the revenue originates from the HAM-based assets with the NHAI and the Ministry of Road Transport and Highway (MoRTH) as the counterparties. The InvIT's cash flows show considerable resilience to stress cases, reflecting ample cushion for distribution to the unitholders. The regulated framework of the InvIT mandates at least 90% of the net distributable cash flow to be distributed to investors. Ind-Ra takes comfort from the sufficient operational track record of the combined portfolio and the timely receipt of annuities from NHAI and the MoRTH, and the distributions made by the InvIT. That being said, the equity nature of the instruments constrains the ratings.

Strong Sponsor Profile: The Shrem group entered into the infrastructure space through the acquisition of 24 road projects from Dilip Buildcon Limited (DBL, 'IND A'/ Positive) in 2017. The group had also invested in Nanavati Hospital and developed two hotels in Goa, which were subsequently divested. It is developing a luxury hotel near Chhatrapati Shivaji International Airport, Terminal 2, Mumbai, under the Fairmont Brand and in September 2020 had monetised its investment in Route Mobiles Limited just before the initial public offering of the latter. Two of the Shrem group entities, which are the associates of SIIPL, have been mentioned in the Grant Thornton report dated 5 December 2020 in connection with Dewan Housing Finance Limited Corporation's Insolvency and Bankruptcy Board of India proceedings. SIIPL's management has confirmed that there has been no irregularity by any of the Shrem group entities with regard to the transaction mentioned in the Grant Thornton report. As per the information received by the agency regarding the settlement deed signed between Piramal Capital & Housing Finance Limited (previously DHFL) and SIIPL on 7 November 2023, the company has fully repaid the amount received by the promoter as an NCD holder. Any unforeseen liability stemming from this legal issue remains a key monitorable for Ind-Ra.

Acquisition of New SPVs by Shrem InvIT: For completing the acquisition of all new SPVs by Shrem InvIT, the revised total equity value is INR29.84 billion, including the value of unsecured loans infused by DBL and its affiliates. As on 29 February 2024, Shrem InvIT had acquired 100% ownership of nine SPVs and 49% ownership of one SPV in accordance with the relevant NHAI regulations. SIIPL's management expects the remaining 51% ownership of the SPV to be acquired by 4QFY24.

Shrem InvIT has discharged the consideration till date by paying cash of about INR3,983 million from its internal accruals and issuance of fresh units, equivalent to INR17,066.1 million, through a preferential allotment to DBL and its affiliates and Shrem Enterprises Private Limited (SEPL, debt rated 'IND AA'/Stable; subsidiary of SIIPL). Fresh units of the InvIT allotted to SEPL were against the unsecured loans of INR8,380.7 million extended by SEPL to the new SPVs acquired by the InvIT from DBL and its affiliates. Against the said unsecured loans, SEPL has been issued fresh units of the InvIT of equivalent value at a weighted average net asset value of INR102.29 per unit. Furthermore, the InvIT has drawdown INR8385.1 million from the sanctioned debt. The management has indicated that the balance consideration of about INR440 million shall be funded from internal accruals and by availing undrawn portion of already sanctioned debt by the InvIT.

Upon consummation of the entire acquisition process of 10 new SPVs by Shrem InvIT, the agency had previously expected SIIPL and/or its group entities to maintain outstanding external debt of about INR6,500 million and total outstanding debt of about INR8,100 million. With a significant part of the acquisition having been completed, SIIPL and its group entities had an external debt of INR5,699.5 million (outstanding as on 1 March 2024: INR4,629 million) and the agency believes that there is no incremental debt to be availed by Shrem Group entities for the said acquisition.

With the said outstanding debt quantum, the agency believes that Shrem group will meet the permitted indebtedness as per the financing terms of SIIPL, which stipulates aggregate debt to be lower than 25% of the carrying amount of the investment in form of InvIT units held by SIIPL and its group entities and also lower than 40% of the carrying amount of investment in form of InvIT units held by SIIPL solely.

Ind-Ra believes that the additional external debt should be accompanied with the issuance of additional Shrem InvIT units to SIIPL and/or its group entities including SEPL, thereby ensuring incremental cash flows in the form of distributions from Shrem InvIT to service the obligations of additional external debt. The agency will monitor the cash flows of SIIPL and/or group entities generated as a unitholder of Shrem InvIT. Any adverse impact on the cash flows of SIIPL and/or group entities including SEPL along with an increase in the external debt would be a credit negative.

Moderate Debt Structure: The PP-MLDs have a maturity of 27 months (Series I – INR1,370 million) and 30 months (Series II - INR1,370 million) from the date of the allotment (10 March 2022). As on 29 February 2024, the MLDs had been fully prepaid and the MLD-reserve maintained by SIIPL had been released.

The NCDs worth INR850 million issued in September 2021 are repayable in 14 quarterly instalments until December 2024, and a debt service reserve, equivalent to six months of debt obligations, has been created from the debt proceeds. The existing NCDs feature a put/call option that can be exercised by the debenture holders from end-December 2021 and every year thereafter with a prior written notice of 90 days for exercising the put/call option.

SIIPL also issued NCDs worth INR1,200 million in May 2023, repayable in equated six instalments commencing from 15 February 2027. As per the financing terms, the company is required to create and maintain a DSR equivalent to two quarters of the interest obligations within three days from the deemed date of allotment of NCDs and enhance it to one quarter of redemption amount and coupon payment obligations within 44 months from the deemed date of allotment of NCDs. Any shortfall in the DSR is to be replenished within three days, which otherwise, will be considered as an event of default, and thereby, provide the right to invoke the securities available in accordance with the financing terms. The facilities are also secured by the units of Shrem InvIT and the NCDs are backed by a guarantee from the promoters. The debt structure also stipulates a minimum DSCR of 1.2x to be tested quarterly from 30 June 2023.

Also, NCDs worth INR500 million and INR600 million were issued in May-June 2023 with maturity of 15 May 2025 and 15 May 2028, respectively. The repayment schedule for NCDs worth INR500 million is eight quarterly instalments commencing from 15 August 2023 and for NCDs of INR600 million is six quarterly instalments commencing from 15 February 2027. As per the financing terms of both NCDs, a DSR equivalent to peak one quarter of redemption and coupon payment is being maintained by the company. Failure to maintain the same will be considered as an event of default. The debt structure also stipulates a financial covenant of a minimum DSCR of 1.2x and aggregate debt to be lower than 25% of the carrying amount of the investment in form of InvIT units held by SIIPL and its group entities and also lower than 40% of the carrying amount of investment in form of InvIT units held by SIIPL solely. These NCDs also feature a put/call option that can be exercised by the debenture holders from end of one year from deemed allotment date with a prior written notice of 30 days for exercising the put/call option. Healthy coverages, stable cash flow generation from Shrem InvIT and the long concession period of projects held by InvIT mitigate the refinance risk in the event that the put option is exercised.

The management has represented to raise further NCDs (proposed NCDs) worth INR950 million with maturity of 30 September 2026 and carrying fixed coupon payment of 9.75% p.a. As confirmed by management, the repayment schedule considered for proposed NCDs is six quarterly instalments commencing from 30 June 2025. The indicative financing terms are considered by the agency to be similar to NCDs raised in May-June 2023.

As per Ind-Ra's analysis, the additional external debt should be accompanied by the issuance of additional Shrem InvIT units to SIIPL and its group entities, thereby ensuring incremental cash flows in the form of the distributions from Shrem InvIT to service the obligations of additional external debt. Any adverse implication of additional debt and unit-holding of SIIPL or its group entities will be a credit negative.

The ratings factor in SIIPL's external debt post the prepayment of MLDs of about INR3,762.5 million (earlier

INR6,180.0 million) to be serviced between FY25 and 30 June 2028, which include the existing NCDs and proposed NCDs. Furthermore, SEPL has availed a debt of INR1,750 million, of which INR750 million would be maturing in April 2024. SIIPL/SEPL has earmarked the funds from the available liquidity for meeting the debt obligation scheduled in April 2024. For the remaining exposure, the repayment is scheduled between FY25 and FY27 and the management has confirmed that it will be serviced from the cash inflows in form of distributions from the InvIT.

The management confirmed that the aggregate debt of SIIPL and its group entities will be within INR9,500 million and that no further debt will be raised by SIIPL beyond the outstanding debt unless the debt is being raised for subscribing additional units of InvIT upon the acquisition of new assets. Ind-Ra will continue to evaluate the impact of the proposed acquisition on the cashflows of InvIT and SIIPL once the transaction is completed. Any deviation from this will be a credit negative.

Single Income Stream with Limited Track Record: SIIPL depends on the cash flow distribution from the InvIT to meet its debt obligations. The InvIT has a track record of distributing cash to its unitholders with 10 distributions made between November 2021 and February 2024 for the quarters ended from September 2021 to December 2023. Although the underlying asset quality is strong, the absence of a diversified revenue stream exposes the company to single revenue concentration risk.

Liquidity

LIQUIDITY INDICATOR: Adequate

SIIPL maintains a debt service reserve (DSR) of INR312.2 million. Of this, INR150 million is DSR equivalent to two quarters of debt servicing as required under the financing terms of earlier issued NCDs worth INR850 million (outstanding INR312.5 million), and INR162.2 million is equivalent to peak one quarter of debt servicing under the debt terms for the recently issued NCDs worth INR2,300 million (outstanding INR2,112.5 million). The PP-MLD was prepaid by SIIPL on 29 February 2024, and hence, the PP-MLD reserve created earlier has been released by the company. In addition to the abovementioned DSR, SIIPL has free liquidity of about INR250 million.

SIIPL has been receiving quarterly distributions from Shrem InvIT in lieu of its unit holding. Historically, the distributions from InvIT are received by SIIPL within 30-45 days from the quarter end date. As per Ind-Ra's base case estimates, the actual distributions received by SIIPL were lower in 1QFY24 and 2QFY24. This was on account of the retention of the surplus undertaken by the InvIT for past acquisitions, the creation of additional DSR by the InvIT, and temporary advances provided to the SPVs for their O&M requirements. While the distribution in 3QFY24 was largely in line with Ind-Ra's estimates, the InvIT had set aside INR1,607.1 million for future acquisitions and contingency. Hence, in 9MFY24, the actual distribution was lower than Ind-Ra's estimates largely due to the amount set aside for the past and future acquisitions and contingency by the InvIT. The agency takes into account the net distribution cash flow format guided in the recent Securities and Exchange Board of India's circular, which shall be applicable from 1 April 2024, and accordingly, Ind-Ra believes that retention of surplus by the InvIT in the future will be within the permissible limit of 10%.

With respect to breach of maintenance of minimum credit rating by SIIPL from two rating agencies as per the DTD, the debenture holders meeting is scheduled to be conducted on 7 March 2024. The management believes that the debenture holders will not exercise their mandatory redemption rights, and hence, the requirement of accelerated payment obligation will not fall on SIIPL. Furthermore, the management has confirmed that they are engaged in discussion to avail additional financing lines by another Shrem group entity, which will enable them to manage the liquidity requirement in case of the said accelerated payment obligation. The cure period available to SIIPL is 30 days from the date of the breach, as per the DTD's terms. Accordingly, the agency has placed the current rating on Rating Watch with Negative Implications. Ind-Ra will monitor the developments from the debenture holder's meeting and evaluate the liquidity gap in case the mandatory repayment rights are exercised by the debenture holders of SIIPL.

The agency expects SIIPL and its group entities unitholding in Shrem InvIT to remain between 66% and 68% in FY24, and believes any changes in the unitholding pattern of InvIT will be consequent to any further acquisitions. As per Ind-Ra's base case, SIIPL's debt service coverage ratio is close to 2.3x with an aggregate external debt of about INR3762.5 million, including the proposed additional external debt to be serviced between FY25 till 30 June 2028.

Rating Sensitivities

The Rating Watch with Negative Implications indicates that the ratings may be either affirmed or downgraded upon resolution. The Rating Watch will be resolved once the agency receives clarity on the implication of the mandatory redemption clause triggered under the DTD, the establishment of the escrow mechanism, which would increase the transparency of fund utilisation between Shrem group entities, and any additional debt commitment arising from the recently awarded under-construction project to SIIPL and BVEPL under the joint venture structure.

Disclosures for Provisional Rating

Provisional Rating Disclosures for Proposed NCDs

The rating is contingent upon the execution of critical documentation/steps pending as details given below:

Sr No.	Pending Critical Documentation while Assigning Provisional Rating*	Risks Associated with Provisional Nature of Credit Rating in absence of Completed Documentation or a Change in Documentation
1	Executed debenture trust deed	The provisional rating is assigned pending the execution of the final financing documents. In the absence of executed documents, which are in line with the originally envisaged draft terms, the transaction structure as delineated does not exist. In the absence of the documentation considered while assigning the provisional rating, the agency would not have assigned any rating to the proposed instrument.

* Additionally, any other relevant documents executed for the transaction should be provided to the agency.

The pending steps while assigning provisional rating are as follows:

- the execution of debenture trustee deed and other critical financing documents
- debt terms in line with indicative terms assessed

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AIL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

The sponsor, SIIPL, floated an InvIT called Shrem InvIT in September 2021 and hived off 24 operational SPVs through three intermediate holding companies – Shrem Infraventure, Shrem Roadways and Shrem Tollway under the trust. The InvIT has been formed under the Indian Trust Act, 1882 and an approval has been received from the Securities and Exchange Board of India for the InvIT.

Another nine projects have been 100% acquired from DBL, with the balance 51% stake in the remaining one SPV likely to be acquired by 4QFYE24. Post completion of the acquisition, Shrem InvIT will have a diversified portfolio of 34 projects, including 15 NHAI and one MoRTH-awarded HAM projects, 10 state annuity plus toll projects, six state HAM projects and two toll projects, including one NHAI awarded toll project.

KEY FINANCIAL INDICATORS

Particulars (INR million)	FY23	FY22
Revenue	1,403.6	1,020.1
Total income	16,300.1	20,181.9
Total expenses	548.2	131.3
Profit after tax	931.3	19,927.4
Source: SIIPL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

Evaluating Corporate Governance

Policy for Placing Ratings on Rating Watch

Policy on Provisional Ratings

The Rating Process

Rating History

Instrument Type	Current Rating/Rating Watch						
	Rating Type	Size of Issue (million)	Rating	14 August 2023	11 May 2023	24 March 2023
NCDs	Long-term	INR3,825	IND AA/Rating Watch with Negative Implications	IND AA/Stable	IND AA/Stable	IND AA/Stable
PP-MLDs	Long-term	INR2,740	IND PP-MLD AA/Rating Watch with Negative Implications	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable

Annexure

DETAILS OF INSTRUMENTS

NCDs

ISIN	Date of Issue	Coupon Rate (%)	Maturity date	Size of Issue (million)	Ratin
INE391V07026	14 September 2021	14.25	20 December 2024	INR312.5	IND AA/Rating Watch
INE391V07034	25 February 2022	8.39	31 August 2023	INR600	WD (p
INE391V07042	25 February 2022	8.39	31 August 2024	INR450	IND AA/Rating Watch
INE391V07109	9 May 2023	9.75	15 May 2028	INR1,200	IND AA/Rating Watch
INE391V07125	18 May 2023	9.75	15 May 2025	INR312.5	IND AA/Rating Watch
INE391V07133	15 June 2023	9.75	15 May 2028	INR600	IND AA/Rating Watch
Total	**-**	**-**	**-**	**INR2,875**	

PP-MLDs

ISIN	Date of Issue	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Ratin
INE391V07067	10 March 2022	8.5	10 June 2024	INR1,370	IND PP-MLD AA/Rating
INE391V07075	10 March 2022	8.5	10 September 2024	INR1,370	IND PP-MLD AA/Rating
Total				**INR2,740**	

As per NSE disclosure, PP-MLDs have been fully prepaid and withdrawal request is awaited from issuer

The interest payouts to the PP-MLD holders depend on the yield of the underlying reference index (currently 7.26% Government Securities 2032). If the yield of the underlying reference index is less than or equal to 12% on the final fixing date, the yield on the PP-MLDs will be 8.50% on an extended internal rate of return (XIRR) basis. Else, if the yield of the underlying reference index is greater than 12% but less than or equal to 18% on the final fixing date, the yield on the PP-MLDs will be 8.40% on the XIRR basis. Furthermore, if the yield on the underlying reference index increases beyond 18%, the PP-MLDs will yield 0%. The rated PP-MLDs are yielding 8.50% on the XIRR basis.

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
NCDs	Low

PP-MLDs	High

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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