India Ratings Assigns Shrem Infra Structure's NCDs Final 'IND AA'/Stable; Affirms Others

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Shrem Infra Structure Private Limited's (SISPL) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)#,*	-	-	-	INR600	IND AA/Stable	Assigned
NCDs*	-	-	-	INR1,200	IND AA/Stable	Affirmed
NCDs#,*				INR500	IND AA/Stable	Assigned
NCDs*	-	-	-	INR1,850 (outstanding INR1,337.5)	IND AA/Stable	Affirmed
Proposed NCDs^	-	-	-	INR950	Provisional IND AA/Stable	Affirmed
Principal protected market linked debentures (PP-MLDs)*	-	-	-	INR2,740 (outstanding INR2,740)	IND PP-MLD AA/Stable	Affirmed

*Details in annexure
#The final rating has been assigned on the receipt of the executed debenture trust deed and other financing documents confirming that the final key sanction terms are in line with the draft financing documents referred for assigning provisional ratings.
^The rating is provisional and on conformance of the executed documents in line with the originally envisaged draft documents. A final rating shall be assigned within 90 days from the date of issuance of the debt 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.

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.

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 seven projects and is likely to acquire 51% ownership in another two SPVs and 100% in the remaining by 4QFY24. However, the equity nature of the units and the limited diversification of the revenue stream for SISPL 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 SISPL. The strong coverage metrics of InvIT lends support to the ratings.

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'/Negative) 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 SISPL, 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. SISPL'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. Ind-Ra has received the white paper, along with a legal opinion from an Insolvency and Bankruptcy Law lawyer to support the above case. Any adverse development affecting the debt structure is a rating sensitivity.

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. Till date, Shrem InvIT has acquired 100% ownership of seven SPVs and 49% ownership of another two SPVs in accordance with the relevant NHAI regulations. SISPL's management expects the remaining 51% ownership of two SPVs and 100% of ownership of another one SPV to be acquired by 30 September 2023.

Shrem InvIT has discharged the consideration till date by paying cash of about INR3,883 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, 'IND AA'/Stable; subsidiary of SISPL). 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. The management has indicated that the balance consideration of about INR4,626 million shall be funded from internal accruals and by availing additional debt by the InvIT.

Upon consummation of the entire acquisition process of 10 new SPVs by Shrem InvIT, the agency expects SISPL 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 the said outstanding debt quantum, the agency believes that Shrem group will meet the permitted indebtedness as per the financing terms of SISPL, which stipulates aggregate debt to be lower than 25% of the carrying amount of the investment in form of InvIT units held by SISPL and its group entities and also lower than 40% of the carrying amount of investment in form of InvIT units held by SISPL solely.

Ind-Ra believes that the additional external debt should be accompanied with the issuance of additional Shrem InvIT units to SISPL 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 SISPL and/or group entities generated as a unitholder of Shrem InvIT. Any adverse impact on the cash flows of SISPL and/or group entities including SEPL along with an increase in the external debt would be a credit negative.

Liquidity Indicator - Adequate: SISPL maintains a debt service reserve (DSR) of INR314.3 million which is equivalent to two quarters of debt servicing as required under the financing terms of earlier issued NCDs worth INR2,050 million, and is also equivalent to peak one quarter of debt servicing under the debt terms for the recently issued NCDs worth INR1,100 million. Furthermore, it has also created a PP-MLD reserve of about INR280.0 million from the distribution of 1QFY24, in accordance with erstwhile management representation, to ensure the maintenance of adequate reserve for the MLD redemption, thereby avoiding the bullet payment risk.The agency expects SISPL 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, SISPL's debt service coverage ratio is close to 2.05x with an aggregate external debt of about INR6,180.0 million, including the proposed additional external debt to be serviced till 30 June 2028.

SISPL raised INR1,100 million worth of NCDs in May-June 2023 and the management proposes to raise further NCDs worth INR950 million in the near term and infuse the said amount in Shrem InvIT to fund future acquisitions, if any. As per Ind-Ra analysis, the additional external debt should be accompanied with the issuance of additional Shrem InvIT units to SISPL 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 unitholding of SISPL or its group entities will 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). MLDs amounting to INR1,615 million have been bought by SISPL's group entities and the MLD investors have been discharged by the InvIT units held by SISPL. A quantified reserve on quarterly basis from distribution of InvIT starting from 30 June 2023 was agreed to be created for the redemption of MLDs held by external investors which will be due in June 2024 and September 2024. Accordingly, the reserve amounting to INR280 million has been created till date. The management has confirmed to create and maintain a further reserve from future four distributions of the InvIT as confirmed earlier, thus mitigating the risk of bullet payments. The agency will quarterly monitor the maintenance of quantified MLD reserve and any usage of reserve other than the specified purpose could be a negative for the ratings.

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.

SISPL 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 SISPL and its group entities and also lower than 40% of the carrying amount of investment in form of InvIT units held by SISPL 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.

The ratings factor in SISPL's external debt of about INR6,180.0 million to be serviced till 30 June 2028 which include existing NCDs, proposed NCDs and MLD exposure outside the group entities. The management confirmed that the aggregate debt of SISPL and its group entities will be within INR9,500 million and that no further debt will be raised by SISPL 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 SISPL once the transaction is completed. Any deviation from this will be a credit negative.

Single Income Stream with Limited Track Record: SISPL 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 eight distributions made between November 2021 and August 2023 for the quarters ended from September 2021 to June 2023. Although the underlying asset quality is strong, the absence of a diversified revenue stream exposes the company to the single revenue concentration risk.

Rating Sensitivities

Positive: Stable distributions from Shrem InvIT higher than the management estimates post the acquisition of new assets may lead to a positive rating action.

Negative: Future developments that could, individually or collectively, result in a negative rating action are:

- any delay/significant deterioration in the distribution from Shrem InvIT compared to the base case
- an increase in the external debt, impacting its coverages significantly
- a weakening of the credit profile of Shrem InvIT
- the non-creation of the quantified PP-MLD reserve
- negative implications of legal cases on the Shrem group entities/promoters

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 SISPL, due to either their nature or the way in which they are being managed by the entity and sponsor. 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.

Company Profile

The sponsor, SISPL, 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.

For simplifying the structure, the intermediate holding companies are extinguished post receipt of the National Company Law Tribunal approval.

Another 10 projects have been identified and in the process of acquisition from DBL. Post completion of the acquisition, Shrem InvIT will have a diversified portfolio of 34 projects involving 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.

FINANCIAL SIUMMARY

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: SISPL, Ind-Ra		

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 on Provisional Ratings

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook						
	Rating Type	Size of Issue (million)	Rating	11 May 2023	24 March 2023	21 March 2023	22 March 2022	3 March 2022	23 August 2021	26 March 2021
NCDs	Long-term	INR5,100	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	Provisional IND AA/Stable
PP-MLDs	Long-term	INR2,740	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AAemr/Stable	Provisional IND PP-MLD AAemr/Stable	-	-

Annexure

NCDs

ISIN	Date of Issue	Coupon Rate (%)	Maturity date	Size of Issue (million)	Rating/Outlook
INE391V07026	14 September 2021	14.25	20 December 2024	INR500	IND AA/Stable
INE391V07034	25 February 2022	8.39	31 August 2023	INR600	IND AA/Stable
INE391V07042	25 February 2022	8.39	31 August 2024	INR750	IND AA/Stable
INE391V07109	9 May 2023	9.75	15 May 2028	INR1,200	IND AA/Stable
INE391V07125	18 May 2023	9.75	15 May 2025	INR500	IND AA/Stable
INE391V07133	15 June 2023	9.75	15 May 2028	INR600	IND AA/Stable
Total	**-**	**-**	**-**	**INR4,150**	**-**

PP-MLDs

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

Key Terms of the Rated NCDs

Particulars	Terms
Instrument Type	Secured, listed, rated, redeemable, non-convertible debt securities
Debt amount	INR500 million and INR600 million
Repayment schedule	INR500 million - Eight equated quarterly instalments commencing from 30 September 2023 INR600 million - Six quarterly instalments commencing from 31 March 2027

Security	1.	Exclusive charge by way of pledge of the units of Shrem InvIT held by the issuer equivalent to 2.25 times of the total debt
	2.	Pari-passu charge by way of hypothecation over the cash flows of the issuer including but not limited to receivables, cash & bank balance, loans, other current assets, and movable assets of the issuer
	3.	Exclusive charge by way of hypothecation over the debt service account including DSR amount
	4.	Non-disposal agreements
	5.	Unconditional and irrevocable personal guarantees by Nitan Chhatwal and Hitesh Chhatwal
DSRA		Peak one quarter of the redemption and coupon payments within one day from the deemed date of allotment of NCDs
Financial Covenant	1.	Consolidated external debt shall not exceed 25% of the carrying amount of the investments held by SISPL and its group entities. In the event, the consolidated external debt is beyond permissible limits, SISPL or Shrem Enterprises Limited (subsidiary of SISPL) shall not extend any corporate guarantee or provide any security or letter of comfort for the availed by any of group entity of SISPL and Shrem InvIT without prior approval of debenture trustee
	2.	External financial indebtedness of SISPL on standalone basis, including the outstanding corporate guarantee /letter of comfort given by it, shall not exceed 40% of carrying amount of investments held by SISPL
	3.	Maintenance of a minimum DSCR of 1.2x for the entire debt tenure to be tested on quarterly basis from 30 June 2023
Source: Debenture trust deed, Ind-Ra		

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

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
PP-MLDs	High

For details on the complexity level of the instruments, please visit https://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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