Shrem Infra Structure Private Limited

May 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Market Linked Debentures	274.00	CARE PP-MLD AA; Stable	Assigned
Non Convertible Debentures	480.00	CARE AA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the long term instruments of Shrem Infra Structure Private Limited (SISPL) takes into consideration the healthy cashflows from underlying assets of Shrem InvIT (InvIT) leading to healthy debt coverage indicators of InvIT and in turn steady distribution pay out to unit holders of InvIT. SISPL along with its wholly owned subsidiary Shrem Enterprises Private Limited (SEPL) are the largest unitholder of InvIT with 55.72% stake as on March 31, 2023 and possess track record of receipt of six quarterly distribution from InvIT. InvIT has 24 operational assets acquired from Dilip Buildcon Limited (DBL; rated CARE BBB+; Stable) and has identified 10 new assets for acquisition of which 5 assets have been fully acquired, 3 assets have been partially acquired and balance 2 assets are pending acquisition. The entire acquisition process is expected to be completed by end of H1FY24 (refers to period from April 01 to September 30). Post acquisition, revenue contribution from NHAI projects is expected increase to 90%-92% strengthening the revenue profile. Cash pooling of all SPVs including newly acquired (special purpose vehicles) is available for debt servicing of InvIT and for carrying out routine as well as major maintenance expenses of SPVs.

The above rating strengths are tempered by limited revenue diversification with entire dependency on distribution from InvIT, moderate leverage and limited track record of promoters in the infrastructure business

No major maintenance reserve is being created or maintained at SPV level for existing 24 SPVs. Further, InvIT is entirely dependent on DBL for carrying out the maintenance of SPVs, however adequate operation and maintenance (O&M) as well as major maintenance (MM) assumptions in line with other CARE rated HAM peers mitigates the risk to an extent. Besides, proposed creation of major maintenance reserve for 10 new assets also provides liquidity cushion to some extent. Owing to the aforementioned factors, the revenue/cash flow visibility at SISPL is reasonably strengthened in the medium term and is thus a credit positive.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Higher than envisaged distribution income from InvIT post addition of new assets on sustained basis along with rationalization of existing debt

Negative factors

- Weakening in the credit profile of InvIT leading to lower than envisaged distribution from InvIT thus impacting its liquidity and debt coverage indicators
- Any further increase in external debt of SISPL at consolidated level
- Non creation of reserves for debt servicing as envisaged
- Any adverse outcome of on-going litigation on Shrem group

Analytical approach: Consolidated. The credit profile of SISPL also factors in the combined business and financial risk profile of 34 underlying assets of InvIT.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The Stable outlook is on account of expectation of regular dividend income from InvIT leading to adequate liquidity and debt coverage indicators.

Detailed description of the key rating drivers:

Key strengths

Stable cashflow from InvIT owing to diversified portfolio of underlying SPVs

Shrem InvIT had acquired portfolio of 24 operational assets from DBL and generates stable revenue from its pool of projects until the end of the concession period. Further, 10 more assets have been identified from DBL to be transferred to InvIT upon being operational. Of the slated ten projects, five projects have been acquired by InvIT, three projects have been partly acquired to the tune of 49% while balance two projects are pending to be acquired. Post completion of acquisition of entire ten projects, InvIT shall have a portfolio of underlying 34 SPVs of which 15 are National Highway Authority of India (NHAI; rated CARE AAA; Stable) HAM projects, 1 Ministry of Road Transport and Highways (MoRTH) HAM project, 1 NHAI toll project, 10 state annuity plus toll projects, 6 state annuity projects and one state toll project. InvIT has a track record of timely receipt of annuities from both NHAI as well as State Governments with minor delays seen in the past. SISPL along with SEPL is the largest unitholders of InvIT with 55.72% stake as on March 31, 2023. Going forward, with entire acquisition of ten projects the unit holding of SISPL is expected to increase further.

Low leverage and strong debt coverage indicators at InvIT level

InvIT's consolidated cash flow has a robust cover, with comfortable debt coverage indicators. Further, features such as defined cash flow escrow waterfall mechanism as well as creation and maintenance of DSRA and provision of cash trap in case of fall in debt service coverage ratio (DSCR) below 1.25x also provides comfort. Towards the acquisition of 24 projects, InvIT has availed term loan (TL-1) which has an outstanding amount of Rs.2952 crore as on March 31, 2023. For acquisition of 10 new assets InvIT has sanctioned term loan (TL-II) of Rs.4086 crore- of which debt to the tune of Rs.3147 crore is disbursed as on March 31, 2023. The remaining debt shall be disbursed upon acquisition of balance 2 assets. Due to change in valuation of deal for acquisition of ten new assets due to change in bank rate as well as change in the cash component of deal for 10 projects, incremental debt of Rs.1000 crore is being proposed to be availed at InvIT level. Nevertheless, factoring in the incremental debt, debt by enterprise value for all 34 assets is expected to remain comfortable at 52% post completion of entire acquisition.

Established track record of receipt of distribution income

Operational nature of projects of InvIT coupled with cash pooling of underlying SPVs leads to healthy cash flows at InvIT level. As per the regulatory requirements, at least 90% of the net distributable cashflows is to be distributed to unit holders of InvIT. Accordingly, SISPL has track record of receipt of six distributions made between November 2021 to January 2023 and has received total distribution of Rs.523 crore till date. Going forward, lower than envisaged distribution leading to moderation in the debt coverage indicators from current level is the key rating sensitivity.

Key weaknesses

Limited revenue diversification

SISPL is entirely dependent on distribution income from InvIT. Hence, any change in the frequency of distribution by Shrem InvIT or lower than envisaged distribution shall impact company's debt coverage indicators. Although track record of distribution is established with receipt of 6 distributions till date, single revenue source exposes it to concentration risk.

Dependency on single O&M contractor as well as assets from single developer

DBL is the O&M contractor (both routine and periodic) for all the 24 projects during the balance concession period. There is an arrangement wherein the toll revenue of 11 state SPVs (10 Toll plus Annuity, 1 Toll) would be passed on to DBL for carrying out O&M activities (both routine and periodic) for 14 state road SPVs during the balance concession period. For the other 10 SPVs (3 State annuity, 6 NHAI HAM and 1 MORTH HAM), there is an annual fixed-price contract with DBL for taking up routine and major maintenance activities for the entire concession period. DBL will also be appointed as the O&M contractor for the proposed 10 HAM assets with a fixed-price contract.

For existing 24 projects, no MM reserve is being maintained as those assets are built on rigid pavement. The fixed price contract with DBL provides some cushion, however moderation in the financial risk profile of DBL exposes InvIT to the risk of inferior quality maintenance. As indicated by the management, payment to DBL is released after successful receipt of annuity payment. Further, adequate O&M and MM assumptions are in line with other CARE rated HAM peers which also mitigates the risk to an extent. Management has indicated that built in MM costs for the future years provides cushion and sufficiency to meet required O&M and MM. Also, outstanding defect liability period (DLP) deposit (for the 6 existing HAM projects) and O&M Deposit (under 14 State projects) of Rs. 216 crore as on 31st March 2023, mitigates the O&M contractor risk to an extent. Any annuity deductions from the authorities on account of O&M deficiencies will be adjusted in the O&M payments to DBL.

Moderate leverage

SISPL has an outstanding debt of Rs. 429 crore as on May 10, 2023 on consolidated basis, which was primarily used to fund the acquisition of additional units by subscribing NCDs issued by SPVs to be acquired by Shrem InvIT (i.e. part of 10 assets) added in October 2022. However, due to revision in deal value, for funding the additional acquisition of units by replacing promoters' debt in the SPVs to be acquired by Shrem InvIT, management is planning to raise additional debt of Rs.325 crore (Rs.120 crore already raised). As indicated by management, of the market linked debentures (MLDs) of Rs.274 crore, MLDs to the tune of Rs.161 crore is being purchased by group companies from existing investor. Considering the additional debt, the coverage metrics are expected to remain comfortable. Nevertheless, any further incremental increase in debt levels thereby impacting the coverage metrics will be a key rating sensitivity.

Rating also takes the note of pledge of 78% of the outstanding units of SISPL towards the debt raised as well as for security purpose. Although, SISPL shall be receiving additional units against the incremental debt to be raised for pending acquisition of the assets, maintenance of security cover of 2.25x of the outstanding debt raised shall limit its financial flexibility to an extent.

Limited track record of sponsor in the infrastructure

Shrem group has a limited experience of five years in infrastructure segment. Shrem Group has investments across the Infrastructure, Real Estate, Telecom, Healthcare and Hospitality sectors. It had diversified real estate investment holdings across Mumbai, Pune, Goa, Bangalore and the National Capital Region. The Group is currently constructing a Fairmont Brand Hotel, the largest hotel in Mumbai in partnership with Accor Hotels, a France based leading hospitality company. 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. SIPL'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. Any adverse outcome of the above litigation is one of the key rating sensitivity

Liquidity: Adequate

SISPL's liquidity is adequate against its debt obligations is expected to be comfortably met through its cash flows from operations. The company has estimated debt servicing of Rs. 121 crore in FY24. The liquidity is anticipated to be supported by timely distribution expected from InvIT. Further, as articulated by management, it will create MLD reserve for an amount excluding the MLD bough out by group company to avoid the risk related to bullet repayment. Further to that, SISPL is required to maintain a debt service reserve (DSR) under the financing terms of NCDs worth Rs.85.0 crore, Rs.120 crore of which SISPL has already maintained DSRA to the tune of Rs.20.80 crore as on May 10, 2023.

Assumptions/Covenants- Not applicable

Environment, social, and governance (ESG) risks- Not applicable

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Investment Trusts (InvITs)
Market Linked Notes
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

SISPL is engaged in business of infrastructure development and is the sponsor of "Shrem InvIT" acquired from DBL. The InvIT has been formed under the Indian Trust Act, 1882 and an approval has been received from the SEBI for the InvIT. Another 10 projects have been identified and in the process of acquisition from DBL. Out of 10 projects, 5 projects have been acquired by Shrem InvIT completely and 3 projects with ownership of 49%. Balance acquisition stake in 3 projects and acquisition of remaining two projects is likely to be completed by Q2FY24.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	0.00	152.01	116.48
PBILDT	-0.51	148.08	115.42
PAT	-5.59	1,992.74	70.99
Overall gearing (times)	2.42	0.28	NA
Interest coverage (times)	-0.11	16.25	NA

A: Audited UA: Unaudited; NA: Not available Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
MLD	INE391V07067	10-Mar-2022	-	10-Jun-2024	137.00	CARE PP-MLD AA; Stable
MLD	INE391V07075	10-Mar-2022	-	10-Sep-2024	137.00	CARE PP-MLD AA; Stable
NCD	INE391V07026	14-Sep-2021	14.25	20-Dec-2024	50.00	CARE AA; Stable
NCD	INE391V07034, INE391V07042	25-Feb-2022	8.39	31-Aug-2024	105.00	CARE AA; Stable
NCD	INE391V07109	09-May-2023	9.75	15-May-2028	120.00	CARE AA; Stable
Proposed NCD	-	-	-	-	205.00	CARE AA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non Convertible Debentures	LT	480.00	CARE AA; Stable				
2	Debentures-Market Linked Debentures	LT	274.00	CARE PP-MLD AA; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Market Linked Debentures	Highly Complex
2	Debentures-Non Convertible Debentures	Complex

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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