Rating Rationale

August 30, 2024 | Mumbai

NIIF Infrastructure Finance Limited

'CRISIL AAA/Stable' assigned to Non Convertible Debentures and Non Convertible Redeemable Preference Shares

Rating Action

Rs.3500 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Assigned)**
Rs.1500 Crore Non Convertible Redeemable Preference Shares	**CRISIL AAA/Stable (Assigned)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL AAA/Stable'** rating to Rs 3,500 crore of non-convertible debentures and Rs 1,500 crore of non-convertible redeemable preference shares (NCRPS) of NIIF Infrastructure Finance Limited (NIIF IFL).

One of the key drivers for NIIF IFL's credit rating is the tight, well-defined regulatory and operating framework designed specifically for infrastructure debt funds set up through the non-banking finance company route (IDF-NBFCs). This regulatory structure, coupled with an expectation of prudent management policies, lends significant predictability and stability to NIIF IFL's business profile. This emanates from

- a clear and focused business model resulting in limited asset quality risks
- limited asset liability mismatch

Capitalisation level and leverage ratio will also remain important drivers of the credit risk profile of NIIF IFL. As per the regulatory framework, the fundamental element of asset protection through lending to operational projects (with at least one year of satisfactory commercial operations) enables IDF-NBFCs to operate at a higher leverage than other NBFCs. NIIF IFL had a gearing of ~5.1 times as on March 31, 2024 (4.3 times as on March 31, 2024) and is expected to remain below 9 times. CRISIL Ratings believes the leverage level provides healthy capital coverage against potential asset-side risks.

NIIF IFL is the largest IDF-NBFC in India. The company's loan book has grown by around 24% to Rs 22,118 crore as on March 31, 2024, from Rs 17,839 crore as on March 31, 2023, and Rs 14,201 crore as on March 31, 2022. With regard to portfolio composition, renewables form 62% of the loan book, followed by transport & logistics (19%), communication (7%) and others (12%). As on March 31, 2024, the Government of India (GoI) holds around 25.1% stake in the company, the Strategic Opportunities Fund (SOF), managed by National Investment and Infrastructure Fund Limited (NIIF), directly holds around 39.7% and indirectly holds an additional 30.8% through Aseem Infrastructure Finance Ltd (AIFL) and HDFC Bank Ltd owns the balance 4.4%. GoI has committed Rs 6,000 crore of equity under Atmanirbhar Bharat 3.0, across AIFL and NIIF IFL, of which around Rs 1,700 crore has been utilised.

The ratings on the NCRPS instrument factor in the payment structure of the instrument – specifically that dividend can be paid by a company even in a year in which they are not profitable, to the extent that there are free reserves available. NIIF IFL has undertaken to declare dividend, even if they report losses for any year, out of the available free reserves, subject to relevant approvals. CRISIL Ratings believes that the company's free reserves, going forward, are likely to remain adequate to enable payout of dividend throughout the tenor of the instrument

Analytical Approach

To arrive at the ratings, CRISIL Ratings has considered the standalone business and financial risk profile of NIIF IFL.

Key Rating Drivers & Detailed Description

Strengths:

Focused and predictable business model resulting in robust asset quality

As per regulations, IDF-NBFCs can refinance only infrastructure projects, that have completed at least one year of satisfactory commercial operations and have recently been permitted to finance toll operate transfer (TOT) projects as the direct lender. As a result, projects financed by IDF-NBFC do not carry any construction risk and are already generating cash flows. Accordingly, project related construction and execution risks for NIIF IFL are nil. The company has a good track record of operations, as reflected by the robust asset quality with nil overdue loans since inception. The company refinances only projects that are rated in the investment grade and above. The average rating of the overall portfolio stands at 'A' category as on March 31, 2024.

The guidelines for IDF-NBFCs which were revised in fiscal 2024, provide flexibility to the hitherto closed-box structure of the business model of IDF-NBFCs. The requirement of a tripartite agreement (which ensures a priority charge from a government backed project authority) for projects in certain PPP sectors (road, port, airport), where there was a project authority, has now been made optional for IDF NBFCs. It is however noted that (i) concession agreements in the road sector provide a termination payment of 90% of debt due to all lenders, (ii) concession agreements in the airport sectors provide a termination payment of 100% of debt.

In 2015, the Reserve Bank of India (RBI) permitted IDF-NBFCs to refinance both PPP and non-PPP infrastructure projects that have completed at least one year of satisfactory commercial operations. Since the additional credit enhancement mechanism of tripartite (which provide a priority charge) has been made optional IDF-NBFCs are exposed to the inherent risks in these projects. Such inherent risks are being mitigated by the company through cash pooling structures, fixed rate financing (which reduces interest rate risk), refinancing with longer tenor etc. Asset quality of such operational projects is expected to remain stable, given projects are already operational with track record and are already generating cash flows and are entirely secured via charge on assets, contracts, cashflows/bank accounts and ownership.

Furthermore, given that IDF-NBFCs are permitted to refinance operational projects across the spectrum, it has resulted in greater diversification in the business plan of NIIF IFL, across both sectors and projects. As against a regulatory requirement of refinancing projects with at least 1 year of satisfactory operations, the company's portfolio is seasoned with projects having an average of over 5 years of satisfactory operations.

In line with the strategy till date, the company proposes to consider refinance only those projects with a satisfactory investment grade rating or sectors with a robust track record. According to the company's business plan, operational PPP infrastructure projects (which qualify for a lower regulatory risk weight of 50%) will form approximately 45-50% of the portfolio over the medium term. A large proportion of assets will continue to be primarily in the renewable energy segment (solar, wind, hydro), which is a strategic focus area for the company. Another sector which the company will continue to lend to is transport, logistics, and communication. The proportion of lending to sectors such as water, hospitals, hotels and data centres, is expected to remain relatively small. All these projects will have minimum investment grade ratings. The company's business model will, therefore, remain focused and predictable.

Comfortable capitalisation
Capital position is supported by the demonstrated ability of NIIF IFL to raise capital on a regular basis. The company has raised around Rs 2,457 crore since inception. Resultantly, networth stood at Rs 3,860 crore as on March 31, 2024 (Rs 3,440 crore as on March 31, 2023). Gearing stood at 5.1 times as on March 31, 2024 (4.3 times as on March 31, 2024) and is expected to remain below 9 times.

The recent RBI draft circular on provisioning framework for project finance, if implemented as is, may impact capital adequacy by around 2%. However, given the vintage and track record of projects and the company's sufficient capital adequacy ratio of 24.2% (as on March 31, 2024), which is well above the minimum regulatory requirement of 15%, the ultimate impact of the draft circular on NIIF IFL is expected to be limited.

CRISIL Ratings expects the capital profile to remain comfortable over the medium term, supported by regular capital infusion and flexibility to raise capital.

Experienced management team and expectation of prudent policies
NIIF IFL has a strong professional management team that has been able to build the business in a niche segment. The company has hired professionals having significant and relevant expertise. The CEO, Mr Shiva Rajaraman, has more than 28 years of experience in the infrastructure finance industry. The management has put in place strong risk management systems, processes and policies. The board of directors of NIIF IFL include three nominee directors from SOF and three independent directors. NIIF IFL is likely to follow prudent practices in selection of projects and have an investment portfolio diversified by sector, geography, and promoter groups.

Weakness:
Exposed to concentration risks in loan portfolio
Regulatory concentration limits for IDF-NBFCs are capped at 30% of their tier 1 capital for a single borrower/party, and 50% of their Tier 1 capital for a single group of borrowers/parties. However, given the wholesale nature of the business, the company has large ticket size loans in its book. As on March 31, 2024, the top 10 exposures accounted for 32% of the loan book (30% as on March 31, 2023). Given the wholesale nature of the loan book, the portfolio remains vulnerable to slippages in any of the top exposures of the company.

<u>Liquidity: Superior</u>
The asset liability management of IDF NBFCs is supported by regulation that mandates at least 90% of liabilities to have minimum five years maturity. Regulation permits flexibility for IDF NBFCs to raise shorter tenure bonds and commercial papers up to 10% of the outstanding debt. NIIF IFL had demonstrated the ability to raise long tenor funds (of 5-15 years) to match long tenor project assets.

NIIF IFL had comfortable liquidity in the form of cash & cash equivalents of Rs 1,494 crore as on March 31, 2024 sufficient to cover the upcoming debt repayment of Rs 1,184 crore (principal and interest) till September 2024. The asset-liability management profile as on March 31, 2024 was comfortable, with positive gaps up to at least1 year bucket.

<u>Outlook: Stable</u>
CRISIL Ratings believes NIIF IFL will operate within the well-defined business and financial contours, as outlined in the business plan, and will benefit from its experienced management team and prudent policies. Leverage ratio and asset quality performance will be a key monitorable

<u>Rating sensitivity factors</u>

Downward factors
- Higher-than-expected increase in leverage levels (beyond 9 times) on a sustained basis
- Higher-than-expected deterioration in asset quality

About the Company

NIIF IFL is as an infrastructure finance company setup as an NBFC (infrastructure debt fund-non- banking financial company; IDF-NBFC). It was incorporated as IDFC Infra Debt Fund Ltd (IDFC IDF). The company received approval from the RBI in September 2014 and commenced business from January 2015. In January 2017, the company was renamed as IDFC Infrastructure Finance Ltd (IDFC IFL). In March 2019, NIIF Fund II acquired a majority stake in the company, and it was again renamed as NIIF IFL.

NIIF is a collaborative investment platform for Indian and international investors, anchored by the GoI. It invests across asset classes such as infrastructure, private equity and other diversified sectors in India, through four funds i.e. the Master Fund, Private Markets Fund (erstwhile Fund of Funds), Strategic Opportunities Fund and India-Japan Fund. GoI holds a 49% stake in NIIF IFL, and the rest is held by domestic and global institutional investors.

As on March 31, 2024, NIIF IFL had gross loans outstanding of Rs 22,118 crore (Rs 17,839 crore as on March 31, 2023).

For fiscal 2024, the company reported a profit after tax (PAT) of Rs 420 crore on total income of Rs 1,847 crore, against Rs 326 crore and Rs 1,404 crore, respectively, for the previous fiscal. For the quarter ended June 30, 2024, the company reported PAT of Rs 121 crore on total income of Rs 510 crore as against Rs 85 crore and Rs 401 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

For the period ended	Unit	Mar 2024	Mar 2023
Total assets	Rs crore	23748	18406
Total income	Rs crore	1847	1404
Profit after tax (PAT)	Rs crore	420	326
Gross stage 3	%	Nil	Nil
Gearing	Times	5.1	4.3
Return on assets	%	2.0	1.9

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Non Convertible Debentures#	NA	NA	NA	3500.00	Simple	CRISIL AAA/Stable
NA	Non Convertible Redeemable Preference Shares#	NA	NA	NA	1500.00	Complex	CRISIL AAA/Stable

 # Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	3500.0	CRISIL AAA/Stable		--		--		--		--	--
Non Convertible Redeemable Preference Shares	LT	1500.0	CRISIL AAA/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies

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