Aseem Infrastructure Finance Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	500.00	CARE AA+; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	1,500.00	CARE AA+; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating of Aseem Infrastructure Finance Limited's (AIFL) non-convertible debentures (NCDs) is proposed to be reaffirmed at CARE AA+; with revision in the outlook from 'stable' to 'positive'. The reaffirmation factors in strong linkages with the Government of India (GoI), directly and indirectly through the National Investment and Infrastructure Fund Limited (NIIFL), which is anchored by the GoI. The rating also derives strength from the synergies with the NIIFL platform in joint underwriting and shared knowledge pool, among others. The rating further takes cognisance of the capital support from its sponsors, healthy capitalisation levels, and experienced management team. Furthermore, the ability of the company to maintain nil non-performing assets (NPAs) and raise funds at competitive rates is also factored.

The rating is, however, constrained by the inherent risk associated with infrastructure financing, characterised by large ticket size advances. Hence, there is an exposure to asset quality shocks with limited seasoning of the portfolio, as AIFL commenced lending only from Q2FY21, and is at the early stage of the organisation build-up.

The continued strong linkages with and the capital support from GoI, either directly or through the NIIFL ecosystem, along with AIFL's ability to maintain sound asset quality as it grows into financing both, operational and under-construction projects, while sustaining profitability, will remain key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Ability to scale up operations and increase the loan portfolio with adequate sectoral diversification.
- Maintenance of stable asset quality parameters with gross non-performing assets (GNPA) below 1%.
- Demonstration of the continued ability of resource mobilisation at favourable terms.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Dilution in the strategic position of the company or weakening of linkages with the GoI through its sponsor or otherwise, other than envisaged.
- On an outstanding basis, increase in funding to under-construction projects beyond 40%.
- Deterioration in the asset quality of the portfolio such that the net non-performing assets (NPA) to tangible net worth (TNW) ratio exceeds 15% on a sustained basis.
- Sustained deterioration in the profitability, with return on average total assets (ROTA) below 0.5%.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has analysed the standalone credit profile of AIFL, factoring in the linkages with GoI and NIIFL.

Outlook: Positive

The positive outlook factors growth in the scale of operations, expected capital infusion, continued strong linkages with GOI and NIIFL and improvement in financial metrics. Furthermore, AIFL is expected to maintain strong asset quality and diversified resource profile while securing funds at competitive rates.

Detailed description of the key rating drivers:

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

Key strengths

Strong linkages with GoI through NIIFL ecosystem

AIFL has strong linkages with the GoI, directly and indirectly, through the NIIFL ecosystem. It plays a key role in realising the GoI's target and funding socio-economically important sectors. As on June 30, 2023, on a fully diluted basis, NIIF Fund II ((also referred as NIIF Strategic Opportunities Fund [SOF]) holds a 59% stake in AIFL, followed by the GoI (31%), and SMBC (10%). NIIFL is an investor-owned fund manager, anchored by the GoI, in collaboration with leading global and domestic institutional investors. It currently manages three funds and holds a stake in AIFL from its SOF. SOF is one of the largest India-focused private equity (PE) funds and targets to invest in sectors that benefit from the changing business landscape in India, as well as demonstrating intrinsic structural growth.

Furthermore, on November 25, 2020, as part of the *Aatmanirbhar Bharat 3.0*, the GoI approved the infusion of equity funds up to ₹6,000 crore in the NIIFL debt platform comprising AIFL and NIIF IFL. Pursuant to this, GoI has infused capital to the tune of ₹815 crore in AIFL in FY21. Given the quasi-sovereign nature of NIIFL, it is expected that growth capital will be made available to AIFL, as and when required. Moreover, considering AIFL's strategic importance to the GoI for funding the long-term capital-intensive infrastructure projects – a key policy function, CARE Ratings expects the GoI's support to be forthcoming to the company either directly or through the NIIFL ecosystem.

Association with NIIFL ecosystem, resulting in various operational and underwriting synergies to AIFL

AIFL was incorporated with the objective of lending across phases of infrastructure projects, with a mix of operational and under-construction projects. AIFL, as a sponsor of NIIF Infrastructure Finance Limited (NIIF IFL, an infrastructure debt fund NBFC), holds 30.83% in the latter (on a fully diluted basis). While NIIF IFL funds only operational projects, AIFL can finance greenfield and brownfield projects as well along with operational projects. CARE Ratings views the functioning of AIFL and NIIF IFL under the umbrella of SOF as complementing each other, with AIFL expected to leverage synergies with NIIF IFL through joint underwriting of refinancing, better credit and commercial terms, reach to strategic investors, and shared knowledge pool. NIIFL's mandate, across all the three funds, is to undertake investments in infrastructure and related sectors. The knowledge base of the NIIFL platform will further help AIFL in its credit and underwriting decisions.

Moreover, AIFL, through its integrated debt platform, is expected to follow an approach of project life-cycle financing on the back of its expertise in technical and risk structuring, wherein, it will focus on building long-term engagement with partner banks and financial institutions while maintaining a conservative liability profile and low credit costs.

Experienced management team

The management team is experienced and is guided by an experienced board of directors. Virender Pankaj (Chief Executive Officer) oversees the company's operations and has over 30 years of experience in project finance, working capital, and corporate finance, among others. He has extensive lending experience across a wide range of sectors, including roads, power, and social and industrial finance. He is supported by a team of executives who, on an average, have more than a decade's experience in their respective fields. Furthermore, the company's proposals are reviewed and approved by the credit committee. The credit committee is chaired by Surya Prakash Rao Pendyala, nominee director of NIIF Fund II. As the company is in its early stages of operations, the application of the management personnel's vast experience is yet to be demonstrated in building a consistently profitable and growing infrastructure book at AIFL.

Strategic approach towards risk management and moderately conservative underwriting philosophy expected to keep asset quality reasonably comfortable

AIFL is governed by its strong internal credit risk grading framework and risk management systems owing to which the company has historically reported zero days past due (DPD). As indicated by the management, during the initial phase, the company will focus on core sectors of its expertise including renewables, transportation, power transmission, and will gradually expand the sectoral coverage leveraging on platform strength. The focus would be on operational projects and under-construction projects, where there is near-term visibility on the cash flows. Gradually, the company shall build its presence across entire project life cycle financing with a judicious mix of under-construction and operating projects. Furthermore, according to its policy, it does not finance projects with an internal rating below 'BBB-'. As on March 31, 2023, around 66% of the outstanding portfolio has an internal rating of 'A-' or higher as against 89% as on March 31, 2022. Moreover, around 80% of the outstanding portfolio has an external rating of A- or higher as on March 31, 2023, as against 94% as on March 31, 2022. The average external rating of the portfolio as on March 31, 2023, is AA-. As the company continues its growth trajectory, in terms of the book size with increase in proportion of under-construction projects, and lending to newer sectors, demonstration of sound asset quality on a sustained basis remains a key rating monitorable.

Healthy capitalisation levels

As on June 30, 2023, AIFL's capitalisation levels are comfortable with a reported capital adequacy ratio (CAR) of 21.47% (FY23: 21.24%) and Tier-1 capital of 20.69% (FY23: 20.44%), well above the regulatory requirement of 15% and 10%, respectively. The capitalisation levels are supported by capital infusion by NIIF SOF, GOI, and SMBC aggregating to ₹2,550.39 crore since inception, which has resulted to TNW of ₹2,765.50 crore as on March 31, 2023. Committed capital support from the GoI is expected pursuant to the *Aatmanirbhar Bharat Package 3.0* announcement on November 25, 2020, wherein an equity infusion of ₹6,000 crore into NIIF debt financing platform comprising NIIF IFL and AIFL was announced. Pursuant to this, GOI had infused ₹815 crore in AIFL and ₹885 crore in NIIF IFL till Q1FY24, which means ₹4,300 crore is still available. Equity capital infusion is not expected in FY24 as the company has a comfortable capitalization level which it can leverage and accordingly, growth in the portfolio in FY24 is expected to be funded primarily through borrowing. Furthermore, considering the growth plans, the company is in talks with strategic investors to raise equity capital to the tune of ₹500 crore (approximately) and the said capital infusion is expected in Q1FY25.

The gearing increased to 3.63x as on March 31, 2023, as against 2.20x as on March 31, 2022, with increase in borrowings to fund the growth in portfolio and no capital infusion during the year. Considering the growth plans, gearing is expected to gradually increase, however shall not exceed 5x in the medium term.

CARE Ratings understands that the investment agreement allows AIFL to access additional funds from GOI when needed, demonstrating the capital commitment and support of its promoters. In addition to availability of capital from GoI and NIIFL, the company has secured funding from Sumitomo Mitsui Banking Corporation (SMBC) in FY22 and currently is in discussions with other institutional investors also for investment in AIFL. This will give AIFL significant flexibility in raising both, equity and debt resources, to fund its growth strategy.

Diversified resource profile with the ability to raise funds at competitive rates

AIFL has steadily been able to increase its lender base from two as of March'21 to 13 banks and FIs as of June 2023. It has also been able to expand its liability franchise having various public and private sector banks, foreign banks, mutual funds, domestic institutions, corporate treasury, insurance companies, provident funds, pension fund houses & others onboarded. Out of total borrowings outstanding as on June 30, 2023, 80% are in the form of term loan, while the balance 20% are in the form of NCD issuances. The company has plans to raise funds through commercial paper in FY24.

Given strong parentage and linkages with the GoI and stable operating performance, AIFL has been able to raise funds at competitive rates. AIFL's borrowings rates ranges between the rates at which AAA rated and AA+ rated entities borrow. Going forward, the ability of the company to further diversify its liability franchise with continued access to funds at competitive rates is a key monitorable.

Key weaknesses

Early stage of operations with portfolio exposed to inherent infrastructure funding risks

The company initiated its lending operations in Q2FY21; however, it has demonstrated good growth with a portfolio size of ₹11,524 crore as on June 30, 2023, compared with ₹1,588 crore as on March 31, 2021. Nonetheless, the portfolio remains largely unseasoned considering the long gestation of infrastructure assets. Although AIFL's own vintage is only three years, the assets of the portfolio have a behavioural tenor of four to five years.

AIFL's conscious strategy to fund only operational or near-operational projects in the initial phases of operations is depicted by 92.04% of the total projects funded (on outstanding portfolio basis), being operational in nature as on March 31, 2022. The company is gradually building its presence across the entire project life-cycle financing with a judicious mix of operating and under-construction projects. Accordingly, on an outstanding portfolio basis, the proportion of operational projects, reduced to 80.88% and that of under-construction increased to 19.12% as on June 30, 2023. While the addition of under-construction projects increases the portfolios vulnerability given the project execution risk, AIFL has been selective in lending to under-construction projects with good credit profile of the sponsors as well as financing those under-construction projects where all the key risks are mitigated prior to disbursement, which mitigates implementation risk to a large extent. Given the government's thrust on infrastructure and AIFL's strategy, the share of under-construction projects, in the next two-three years, is expected to increase to around 35-40% on an outstanding basis.

Given the large-ticket sizes and nature of the infrastructure funding business, CARE Ratings understands that when AIFL's exposure increases towards funding of under-construction projects, it will be further exposed to the characteristic execution risks of infrastructure funding. Hence, CARE Ratings will continue to monitor the ability of the company to successfully scale up its operations while maintaining stable asset quality and profitability.

Liquidity: Adequate
As on June 30, 2023, the liquidity position of AIFL remained comfortable. As on June 30, 2023, the asset liability management (ALM) profile of AIFL had no negative cumulative mismatches across all the buckets up to 1 year. The company's current liquidity philosophy is to maintain liquid funds to the tune of three months of gross cash outflows. As on June 30, 2023, AIFL had cash balances worth ₹40.90 crore, fixed deposits worth ₹404.66 crore, and contracted inflow from advances to the tune of ₹924.59 crore. Moreover, it had undrawn lines worth ₹1,125 crore. Against this, the company had contracted repayments on borrowings to the tune ₹1,190.37 crore in the next 1 year. This indicates that the company has adequate liquidity to repay its borrowings for the next one year as on June 30, 2023.

Applicable criteria

Factoring Linkages Government Support
Financial Ratios - Financial Sector
Non Banking Financial Companies
Policy on default recognition
Rating Outlook and Credit Watch

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

AIFL (the company)
AIFL is incorporated as an infrastructure finance company under the NBFC category (NBFC-IFC). AIFL was created in May 2019 with the objective of lending across phases of infrastructure projects, with a mix of operational and under-construction projects. The Reserve Bank of India (RBI) granted a certificate of registration (COR) to AIFL on January 28, 2020, and the company has initiated lending operations in Q2FY21. AIFL is a subsidiary of the National Investment and Infrastructure Fund II (NIIF Fund II) managed by the National Investment and Infrastructure Fund Limited (NIIFL, a GoI-anchored fund). In March 2022, SMBC infused capital to the tune of ₹317.09 crore in AIFL. Following the capital raise, the shareholding pattern had undergone a change and thereafter has remained unchanged. As on June 30, 2023, on a fully diluted basis, NIIF Fund II holds a 59% stake in AIFL, followed by the GoI (31%), and SMBC (10%).

NIIFL (NIIF Fund II's fund manager)
NIIFL is an investor-owned fund manager, anchored by the GoI, in collaboration with leading global and domestic institutional investors. It has received around ₹20,000 crore of capital commitments from the GoI across three funds (each of which is registered with the Securities and Exchange Board of India [SEBI] as a Category II AIF), encompassing the Master Fund, Fund of Funds, and SOF. A similar amount is expected to be raised from external strategic investors such that the GoI's contribution to the corpuses of the three funds will reach 49%. The objective of these funds is to generate attractive risk-adjusted returns through economic cycles by investing in infrastructure, and other related businesses. NIIF manages assets over US$ 4.5 billion through its three funds. The Governing Council of the NIIF is chaired by the Hon'ble Finance Minister of India, Smt. Nirmala Sitharaman, and has a representation from the Department of Financial Services and Department of Economic Affairs. Rajiv Dhar is the interim CEO and the Managing Director of NIIFL.

NIIF – Fund II (majority shareholder)
NIIF Fund II, is one of the largest India-focused private equity fund. The fund focuses on investing in strategic assets and projects with longer term horizons across various stages of development. It targets to invest in sectors that benefit from the changing business landscape in India, as well as demonstrating intrinsic structural growth. NIIF SOF is building a scalable integrated financial services platform by investing equity in AIFL and NIIF IFL, enabling them to become sizeable players in the infrastructure debt financing space.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	313.94	789.12	280.72
PAT	85.23	145.90	53.02
Interest coverage (times)	1.75	1.35	1.34
Total assets	8,453.44	12,852.78	NA
Net NPA (%)	0.00	0.00	0.00
ROTA (%)	1.52	1.36	NA

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

Status of non-cooperation with previous CRA:
None

Any other information:

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings:

Name of Director	Designation of Director
V. Chandrasekaran	Non-Executive - Independent Director

V. Chandrasekaran, who is Independent Director on the Board of Aseem Infrastructure Finance Limited is Non-Executive - Independent Director of CARE Ratings Ltd. Non-Executive - Independent Directors of CARE Ratings Ltd. are not a part of CARE Ratings Ltd.'s Rating Committee and do not participate in the rating process.

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE0AD507010	10-May-2021	7.00%	10-May-2024	100.00	CARE AA+; Positive
Debentures-Non-convertible debentures	INE0AD507028	10-May-2021	7.35%	09-May-2025	100.00	CARE AA+; Positive
Debentures-Non-	INE0AD507036	10-May-2021	7.70%	08-May-2026	100.00	CARE AA+; Positive

convertible debentures						
Debentures-Non-convertible debentures	INE0AD507044	31-Dec-2021	6.50%	29-Nov-2024	200.00	CARE AA+; Positive
Debentures-Non-convertible debentures (Proposed)	-	-	-	-	1500.00	CARE AA+; Positive

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	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	-	-	-	1)CARE AA+; Stable / CARE A1+ (22-Nov-22) 2)Withdrawn (22-Nov-22) 3)CARE AA+; Stable / CARE A1+ (12-Aug-22)	1)CARE AA+; Stable / CARE A1+ (13-Aug-21)	1)CARE AA; Stable / CARE A1+ (18-Mar-21) 2)CARE AA; Stable / CARE A1+ (03-Oct-20)
2	Debentures-Non-convertible debentures	LT	500.00	CARE AA+; Positive	-	1)CARE AA+; Stable (22-Nov-22) 2)CARE AA+; Stable (12-Aug-22)	1)CARE AA+; Stable (13-Aug-21)	1)CARE AA; Stable (18-Mar-21)
3	Debentures-Non -convertible debentures	LT	1500.00	CARE AA+; Positive	-	1)CARE AA+; Stable (22-Nov-22)	-	-

*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-Non-convertible debentures	Simple

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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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