

India Ratings Affirms Aseem Infrastructure's NCDs at 'IND AA+'/Stable

Aug 28, 2023 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating action on Aseem Infrastructure Finance Limited's (AIFL) non-convertible debentures (NCDs):

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
NCDs#	INE0AD507077	1 February 2022	6.35	29 December 2023	INR2.5	WD	Withdrawn
NCDs^	-	-	-	-	INR10.50	IND AA+/Stable	Affirmed
Proposed NCDs (unutilised limits)	-	-	-	-	INR2.0	IND AA+/Stable	Affirmed

redeemed in full

^ details in Annexure

ANALYTICAL APPROACH: To arrive at the ratings, Ind-Ra continues to factor in AIFL's linkage with the government of India (GoI) directly and through its sponsor, Strategic Opportunities Fund (SOF), acting through its investment manager, National Investment and Infrastructure Fund Limited (NIIFL), an investor-owned fund manager anchored by the GoI. The ratings reflect AIFL's strategic importance to the GoI as a vehicle for financing infrastructure projects across a wide spectrum of operating, brownfield and greenfield assets in India. Ind-Ra views AIFL as a dependent entity of the National Investment and Infrastructure Fund (NIIF), in line with its criteria for Rating Public Sector Entities.

Key Rating Drivers

Institutional Framework and Ownership Status: AIFL's rating is principally driven by its linkages with the GoI and its position in the NIIF's institutional framework. The GoI is the sponsor of NIIF, and AIFL is a subsidiary of SOF, which is one of the three funds in the NIIF platform and is registered with the Securities and Exchange Board of India as a category II alternative investment fund. The GoI is a limited partner in NIIF, with its capital contribution capped at 49% in all three funds of NIIF: Master Fund, Fund of Funds and SOF. The targeted fund corpus of SOF is USD2.1 billion. The GoI has committed funds worth USD1 billion to SOF.

The GoI expects AIFL to grow and become a significant player with the ability to attract long-term global and domestic

capital over the medium- to-long term. It is highly unlikely that SOF and the GoI would exit from AIFL in the medium term, according to the agency. On 25 November 2020, the union cabinet approved the infusion of funds up to INR60 billion in the NIIF's infrastructure debt financing platform, comprising AIFL and its associate company, NIIF IFL. In March 2021, the GoI became a direct shareholder in AIFL, acquiring a 34.4% stake on a fully diluted basis in the company through an equity infusion of INR8.1 billion. Furthermore, in March 2022, Sumitomo Mitsui Banking Corporation invested in AIFL as a strategic investor and acquired a 10% stake, resulting in the stake of GoI and SOF diluting to 30.95% and 59.05%, respectively.

Ind-Ra believes the GoI would play the role of a catalyst in the company's operations rather than directing strategic and/or business decisions. AIFL's board has three members from NIIF and three independent members. Ind-Ra believes the composition of AIFL's board reflects NIIF's substantial control over AIFL's policy design and strategy. Although AIFL's board does not have the GoI representation, Ind-Ra believes the direct shareholding by the GoI lends greater visibility to AIFL and would be instrumental in attracting long-term capital, thereby supporting the company's growth initiatives in the near- to medium term.

High Strategic Importance of Entity: The GoI's investment further reinforces AIFL's strategic importance to the sovereign and also demonstrates the GoI's willingness to support AIFL in expanding its operations. The GoI, through its national infrastructure pipeline, is aggressively pursuing infrastructure developments in the country. The GoI is keen on expanding the role of the private sector in the infrastructure development and intends NIIF to be a key channel of investment into infrastructure. The GoI's focus on infrastructure, the creation of NIIF, and AIFL being a part of NIIF's infrastructure debt financing platform reflect AIFL's high strategic importance.

As a non-banking financial company (NBFC)-infrastructure finance company (IFC), AIFL can lend across phases of infrastructure projects, with a mix of operating, brownfield and greenfield assets. AIFL has been financing operating and near-to-completion under-construction assets and plans to gradually move into greenfield assets. In line with the stated objective of the company, the exposure to under-construction assets increased to 19% of the loan book in 1QFY24 (1QFY23: 9%), with 81% of the portfolio consisting of operational assets (91%).

Sovereign Support: AIFL is financially independent as it maintains its own accounts, and its debt/borrowings are not consolidated with those of the GoI. Ind-Ra believes the Union government's willingness and ability to support AIFL is high. Although AIFL's debt liabilities are not backed by an explicit GoI guarantee or an annual budgetary allocation, Ind-Ra believes the GoI, either directly or through SOF, will provide support to AIFL in case of a financial stress, given the strategic objective the entity is envisaged to fulfil. The agency believes as business decisions at AIFL will be focused on commercial aspects, the company is likely to be provided with equity support to achieve its growth objectives. NIIF intends to retain a controlling stake in AIFL and wield influence in terms of shaping its growth trajectory. AIFL will continue to borrow on the strength of its own balance sheet. The company has access to undrawn committed capital by the GoI of around INR43 billion and NIIF's SOF will provide capital on a need basis.

Liquidity Indicator - Adequate: AIFL's cash and bank balances stood at INR4,460 million at end-June 2023 (FYE23: INR4,950.35 million; FYE22: INR6,417.4 million) and unutilised working capital limit stood at INR500 million. The agency understands that adequate liquidity buffers will be maintained such that it covers two months of fixed liabilities. At end-June 2023, the company had adequate cash buffers to meet its debt payment obligations for up to three months without relying on inflows from advances. With respect to the asset-liability profile, AIFL's asset book is long-to-very long term and its borrowings have a tenure of two-to-seven years. However, the behavioural maturity of the loan book is much shorter (around three years) than the contractual maturity due to prepayments, according to the management. In terms of asset liability management, there was no asset-liability mismatch in the one-day and up to one-year period on a cumulative basis as on 30 June 2023.

AIFL has well-established bank relationships and has raised funding from a diverse set of lenders and investors. Ind-Ra expects AIFL's direct and indirect (through its sponsor, NIIF's SOF) linkages with the GoI to benefit the company in terms of providing funding diversification, access to capital markets, and an enhanced ability to raise resources at competitive rates.

Leverage within Ind-Ra Expected Level; Healthy Capitalisation: Ind-Ra expects the expansion in the portfolio to be funded primarily through a mix of term loans and NCDs in the medium term. Equity capital infusion is unlikely in the near term; however, the company has said it would endeavour to bring on board strategic long-term investors in the medium term. The debt to equity ratio was 3.5x at end-June 2023 (FYE23: 3.6x; FY22: 2.2x). According to the management, AIFL would be gradual in its approach towards debt, and its leverage would be around 4.5x to 5x over a three-year period.

AIFL reported a net profit of INR530.17 million at 1QFY24 (FY23: INR1,459 million; FY22: INR852.3 million). The total net worth increased to INR28.53 billion in June 2023 from INR28 billion at FYE23. AIFL is well capitalised, with a healthy capital to risk weighted assets ratio. The capital adequacy ratio stood at 21.5% at end-June 2023 (FYE23: 21.2%; FY22: 35.2%), which was well above the regulatory requirement of 15%.

Nascent Stage of Operations: The company commenced lending operations in August 2020. The gross loans remained nearly stable at INR115.2 billion in 1QFY24 compared to FYE23 (INR115.6 billion). The loan portfolio is primarily concentrated in renewable assets (51.5% sector share), followed by roads (23.8%), telecom towers (7%), power distribution (7%) and airports (5.86%), with a small exposure into urban public transport and data center assets in 1QFY24. All assets were standard at end-June 2023. Nonetheless, the wholesale nature of lending, along with the large ticket-size exposure to the tune of greater than INR1 billion for around 84% of assets under management, gives rise to asset quality risks. However, the assets are either almost entirely operational or short gestation-infrastructure projects, thereby mitigating the risks to some extent. The share of the top 20 borrowers in the total loans declined to 58% at end-June 2023 (June 2022: 69%), indicating a moderation in credit concentration risk.

Rating Sensitivities

Positive: An increase in the size and scale of operations while maintaining the asset quality and its linkages with the GoI could lead to a positive rating action.

Negative: The following developments, individually or collectively, could lead to a negative rating action:

- any weakening of AIFL's financial/non-financial linkages with the GoI and SOF,
- a significant rise in the leverage, combined with heightened credit risk in AIFL's portfolio.
- inadequate liquidity surplus in the up to 1-year time bucket

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 AIFL, 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](#).

Company Profile

NIIF's SOF focuses on investing in sectors with significant growth potential, and as part of its objective, it acquired an infrastructure debt fund non-banking financial company (NBFC-IDF), NIIF Infrastructure Finance Limited (NIIF IFL) and incubated AIFL. AIFL, a public limited company, was incorporated on 23 May 2019 under the provisions of

the Companies Act, 2013 and is an NBFC. AIFL is registered with the Reserve Bank of India as an NBFC-IFC and received the NBFC-IFC licence from the central bank on 28 January 2020. The objective of the company is to undertake infrastructure financing activities.

FINANCIAL SUMMARY

Particulars (INR million)	FY22	FY23
Total Assets	84,722.0	128,871.5
Net interest income	1,669.7	2,375.4
Net income	852.3	1459.0
Gross non-performing assets (%)	0.0	0.0
Capital adequacy ratio (%)	35.2	21.2
Source: AIFL, 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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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating				
	Rating Type	Rated Limit (INR billion)	Rating		29 August	10 January	10 November	20 August
				23 November 2022	2022	2022	2021	2020
Issuer rating	Short-term	-	-	WD	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	12.5	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	-	-

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
NCDs	INE0AD507085	14 July 2022	8.25	14 July 2027	INR2.5	IND AA+/Stable	Affirmed
NCDs	INE0AD507093	5 September 2022	8.25	3 September 2027	INR6.5	IND AA+/Stable	Affirmed
NCDs	INE0AD507119	10 May 2023	8.3	10 May 2028	INR1.50	IND AA+/Stable	Affirmed
Total	-	-	-	-	INR10.50		

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
Proposed NCDs	Low

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

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APPLICABLE CRITERIA

Local and State Government Rating Criteria

Rating of Public Sector Entities

Evaluating Corporate Governance

The Rating Process

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