

Aseem Infrastructure Finance Limited

August 13, 2021

Ratings

Instruments/ Facilities	Rated Amount (Rs. crore)	Rating ¹	Rating Action
Non Convertible Debentures	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA; Stable (Double A; Outlook: Stable)
Long Term / Short Term Bank Facilities	1,500.00	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)	Revised from CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus)
Total	2,000.00 (Two Thousand crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating action follows the direct investment in Aseem Infrastructure Finance Limited (AIFL) by Government of India (GOI) in March 2021 for a 34.4% stake which strengthens the sovereign linkage and our belief on the GOI's resolve to support the company on its growth objective, as well as need-based support. The direct stake also reinforces the strategic importance attached to the company. Further, GOI has committed Rs.6,000 crore under Atmanirbhar Bharat 3.0, across National Investment and Infrastructure Fund Limited (NIIFL) infrastructure debt-financing platform consisting of NIIF Infrastructure Finance Limited and AIFL, and the related investment agreement enables AIFL to tap the additional amount as and when required. Following the direct investment, the holding by the sponsor, NIIFL platform, through its Strategic Opportunities Fund (SOF) stands reduced to 65.6%. NIIFL is an investor owned fund manager, anchored by GOI, in collaboration with leading global and domestic institutional investors. Given the significant GOI backing and equity commitment, AIFL is well placed to leverage and source long term capital to support its growth objective and play a significant role in meeting the investment needs of India's infrastructure sector. The rating also takes cognizance of the fact that besides the capital support from its sponsors, company is actively looking to raise equity from external investors. The ratings continue to factor in the synergies with NIIFL platform in joint underwriting and shared knowledge pool among others.

The rating is however constrained by inherent risk associated with infrastructure financing, characterised by large ticket size advances and hence exposure to asset quality shocks, limited seasoning of the portfolio, as AIFL commenced lending only from Q2FY21 and early stage of organisation build up, notwithstanding the rich experience of the management team supported by qualified and experienced Board of Directors. CARE also understands that the company is in the process of augmenting and diversifying its resource profile, which should help them garner resources at finer and competitive rates. AIFL's liquidity is comfortable with significant cash and bank balances as compared to debt repayments. The company plans to adhere to a conservative ALM policy with high liquidity buffer and keep the leverage below 4x in the medium term.

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

Rating sensitivities:

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

- Demonstration of track record of operations as envisaged with stable asset quality with portfolio seasoning, as the company plans to increase its lending to under construction projects going forward.
- Demonstration of continued ability of resource mobilization at favorable 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 GOI through its sponsor SOF or otherwise, than envisaged.
- Deterioration in asset quality of the portfolio such that, Net NPA to Net Worth ratio (defined as Net NPA / Tangible Net Worth) exceeds 15% on a sustained basis.
- Deterioration in the ALM profile and liquidity buffers as company builds its loan book.
- Sustained deterioration in profitability with Return on Average Total Assets below 0.5%.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Detailed description of the key rating drivers

Key Rating Strengths

Strong linkages with GOI through NIIFL ecosystem

AIFL is owned ~65% by SOF, which is managed by NIIF, and ~35% directly by GOI. NIIFL is an investor-owned fund manager, anchored by GOI in collaboration with leading global and domestic institutional investors. NIIFL is a collaborative investment platform for International and Indian investors who are looking for investment opportunities in infrastructure and other high-growth sectors of the country. NIIFL has received around ~Rs.20,000 crores of capital commitments from GOI across three funds (each of which is registered with SEBI as Category II Alternate Investment Funds) encompassing the Master Fund, Fund of Funds and Strategic Opportunities Fund (SOF), and similar amount is expected to be raised from external long term strategic investors. These funds are mandated to invest in infrastructure, and other diversified sectors. SOF is the largest India-focused Private Equity fund and targets to invest in sectors that benefit from the changing business landscape in India, as well as demonstrating intrinsic structural growth.

Strong institutional framework of NIIFL

CARE expects NIIFL to support AIFL in realising the growth plans. SOF has already adequately capitalized AIFL and is expected to infuse equity in near future as indicated by management of AIFL. The NIIFL's SOF has target size of USD 2 billion, out of which USD 1 billion is committed by GOI. GOI, as anchor, will hold 49% in SOF, with balance expected to be raised from various domestic and global strategic investors, who have long term investment horizon. The Fund has a life of 15 to 18 years and CARE expects the fund to remain invested in AIFL, for a reasonably long term, with its focus on lending for infrastructure development in India.

Policy function of financing infrastructure, played by AIFL, expected to keep it strategically important to GOI

AIFL being part of the overall NIIFL platform, is poised to play an important role in realizing GOI's Rs.144.12 lakh crore planned Infrastructure spending between 2019-25, spread across 8,129 projects, under National Infrastructure Pipeline (NIP). Although AIFL is not a subsidiary of GOI, GOI continues to be the anchor investor in AIFL directly, and through NIIFL SOF. Further, AIFL's focus on funding socio-economically important sectors such as Roads, Renewables and Transmission sector, underlines its strategic importance to GOI. GOI's strategic focus on private sector participation in infrastructure funding is also evident from its Rs.20,000 crore capital commitment to NIIFL platform across 3 funds namely, Master Fund, Fund of Funds and SOF.

Therefore, CARE expects AIFL to continue to play strategic role in furthering GOI's objective of infrastructure development in near term.

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

AIFL was incorporated in May, 2019 to function as an NBFC-IFC with the objective of lending across phases of infrastructure projects, with a mix of operating, brownfield and greenfield assets. AIFL, as sponsor, holds ~30.8% (on a fully diluted basis) in NIIF Infrastructure Finance Limited (NIIF IFL, rated 'CARE AAA; Stable'), an Infrastructure Debt Fund NBFC, with SOF (AIFL's parent) holding ~54.4%. While NIIF IFL funds only operational projects, AIFL is expected to finance greenfield / brownfield projects also going forward. CARE 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 in the form of joint underwriting, better credit and commercial terms, reach to strategic investors, and shared knowledge pool.

Demonstrated Equity support by GOI which is expected to continue in near term, will help in keeping capitalization strong and gearing at low to moderate levels

During FY21, GOI infused Rs.815 Crore directly into AIFL in Q4, and Rs.132 Crore was invested by SOF. This is part of GOI's commitment of Rs.6,000 crore, announced as part of Atmanirbhar Bharat 3.0, across NIIFL infrastructure debt-financing platform, consisting of NIIF Infrastructure Finance Limited and AIFL. CARE is made to understand that, the related investment agreement enables AIFL to tap the additional amount as and when required, demonstrating capital commitment and support. CARE believes this to be credit positive as it is expected to impart significant flexibility to AIFL, in raising both equity and debt resources, to fund its growth strategy.

The recent equity infusion has also helped in strong capitalization with CAR at ~106%, and in keeping the gearing (Borrowings as per Balance Sheet / Tangible Net worth) low at 0.56x, both as on 30th June 2021. The rating factors in AIFL's plan to operate with a maximum gearing of 4x in near term, with a probable calibrated increase beyond FY25, based on balance sheet size and quantum of equity infusions.

Further, in CARE's opinion, considering AIFL's initial phase of operations with small size, its resource profile is limited to few sources which requires augmentation and diversification to be able to garner resources at competitive rates. As of today, its reliance on equity support from its sponsors (i.e. GOI through NIIFL platform) and external strategic investors to grow its operations is high. Therefore, in CARE's view, continued GOI support to AIFL, either directly or through NIIF platform, and AIFL's ability to tap growth capital from external strategic investors as and when required, will continue to be the key rating anchors going forward.

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

AIFL is governed by its strong internal credit risk management framework. In its initial stages (i.e. initial two years) of operations, AIFL plans to focus on select sector exposures which are operational or near operational in nature, and gradually venture into greenfield / brownfield projects. The target sectors envisaged by AIFL include roads, power transmission, green energy along with healthcare, ports, airports, and education. CARE also understands from the management of AIFL and NIIFL that, the underwriting philosophy is driven more by maintaining sound asset quality than profitability. CARE views this as a credit support, as it should prevent AIFL from exposing its book to riskier assets, as AIFL funds under construction projects going forward.

Having said that, CARE also expects AIFL to further strengthen its risk management framework and selection criteria, to insulate its balance sheet and P&L from riskier assets and higher credit costs respectively. Also, AIFL being an NBFC IFC, is also governed by the RBI's credit concentration and other risk mitigation policies, which are expected to provide effective credit risk management framework on a continuous basis.

Experienced management team, with representation from NIIFL on the Board, although the application of the Management Personnel's vast experience is yet to be demonstrated in building consistently profitable and growing organization

The management of AIFL is governed by Board of Directors which include three nominee directors from SOF and two Independent Directors. CARE views representation from NIIFL on the Board of AIFL as one of the strengths. Also, the Board of Directors of the parent company, NIIFL, includes Secretary (Department of Economic Affairs (DEA) - Ministry of Finance), Additional Secretary (Department of Economic Affairs (DEA) - Ministry of Finance) and representatives from its other investors, which is expected to bring effective management oversight from the parent's side as well.

The operations of the Company are headed by Mr. Virender Pankaj, who has been appointed as the Chief Executive Officer (CEO) and has over 28 years of experience in project finance, project appraisal, working capital, corporate finance and has extensive experience in lending to sectors, such as power, roads, social, and industrial finance. The CEO is supported by a team of executives with experience in Infrastructure and finance.

Considering less than one year of operations history and nascent stage of organizational evolution, the Company is still in the process of building a broader team of experienced professionals to support the execution of its growth strategy. Further, GOI can have significant minority shareholding of maximum 49% in AIFL, with a representation on Board of Directors through NIIFL. This, in CARE's view, is expected to impart operational independence to AIFL, both in onboarding the right people with right experience, and in execution of its strategy, without much of a government intervention.

AIFL's credit committee is chaired by representative from NIIFL, along with two other members from NIIFL. The committee also consists of one independent member, Mr. AKT Chari, who has over 35 years of experience in appraisal of projects - infrastructure and industrial, project monitoring and portfolio management.

Any increased GOI intervention resulting in dilution of operational independence to AIFL will be credit negative. Also, Management's ability to apply learnings from their vast experiences in building profitable growing infrastructure book at AIFL is to be seen going forward.

Key Rating Weaknesses

Limited track record of operations with portfolio exposed to inherent infrastructure funding risks

The Company initiated its lending operations in Q2FY21 and has built a book of Rs.2,494 crore as on 30th June 2021, with majority of the disbursements taking place in Q4FY21 and Q1FY22. Considering long gestation of infrastructure assets, portfolio thus lacks seasoning. CARE notes AIFL's conscious strategy to fund only operational or near to operational projects in the initial phases of operations, which is depicted in 34 projects (total o/s of Rs.2,335 crore as on 30th June 2021) out of 35 projects funded by AIFL being operational. The only one project which is under construction (o/s of Rs.159 crore as on 30th June 2021) is expected to be operational in next 2 to 3 months. In CARE's view, this strategy has largely helped AIFL achieve 100% collection efficiency resulting in NIL NPAs as of now.

However, as AIFL ventures into funding of greenfield / brownfield projects going forward, CARE expects AIFL's portfolio getting exposed to idiosyncratic risks of infrastructure funding, which are likely to put pressure on asset quality and profitability of AIFL. While the already underwritten portfolio is yet demonstrate resilience across business cycles, AIFL's ability to build a healthy loan book, keeping asset quality and credit costs under check will be key rating monitorables. Any significant deterioration in asset quality or profitability going forward can put a downward pressure on the rating.

Analytical approach: Standalone along with Factoring strong linkages to Government of India (GOI) and National Investment and Infrastructure Fund Limited (NIIFL) which is a GOI-anchored Fund. The company is expected to play a strategic role in promotion of infrastructure in India through the NIIF platform. The strong capital support from GOI and NIIFL is expected to continue going forward.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Factoring Linkages in Ratings](#)

[CARE Policy on Default Recognition](#)

[Non Banking Financial Companies](#)

[Financial ratios - Financial Sector](#)

[Criteria for Short Term Instruments](#)

Liquidity Position: Strong

The assets funded by AIFL are long term assets, against which the funding profile is predominantly long-term funds. As on June 30, 2021, the ALM profile of AIFL had no negative cumulative mismatch in any of the time bucket. The company had balance with Bank to the tune of Rs.513 crore as on June 30, 2021 and contracted inflow from advances to the tune of Rs.165 crore. Against this, the company had contracted repayments on borrowings to the tune Rs. 94 crore in the next 1 year. Further, AIFL also has an undrawn Term loan from SBI to the tune of Rs.43 crore. Thus, the Company has adequate liquidity chest to repay its borrowings for next one year, as on 30th June 2021. Also, AIFL's internal liquidity risk management policy suggests that company should maintain minimum 3 months of liquidity.

Additionally, AIFL's strong parentage enables the company mobilize resources at rates which are fairly in line with similar rated peers. In FY21, AIFL was able to raise funds to the tune of Rs.1,000 crore in the form of Term Loan facility from two of the India's large banks. Incrementally in Q1FY22, AIFL raised funds via issuing NCDs to the tune of Rs.300 crore at fairly competitive rates.

About the Company

AIFL, is a subsidiary of NIIF Fund II (SOF) managed by NIIF (GOI anchored fund) and is registered as an NBFC-IFC (Infrastructure Finance Company). It received license from RBI in January 2020 and has initiated lending operations in Q2FY21. AIFL funds infrastructure projects across various phases with a mix of operating, brownfield and greenfield assets within regulatory guidelines.

Brief Financials (Rs. crore)	FY20	FY21
IND As	12m, A	12m, A
Total income	4.55	47.39
PAT	0.26	20.80
Interest coverage (times)	NM	22.60
Total Assets (adjusted for Intangible assets)	581.10	2,699.12
Net NPA Ratio (%)	Nil	Nil
ROTA (%) (PAT/Average Tangible Total Assets)	NM	1.27

A - Audited; All ratios are as per CARE's calculation; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Mr. V. Chandrasekaran who is on the board of AIFL as independent director is a non-executive director of CARE. Independent/Non-executive directors of CARE are not part of CARE's rating committee and do not participate in the rating process.

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate*	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-convertible Debentures	INE0AD507010	10-May-21	7.00%	10-May-24	100.00	CARE AA+; Stable
Non-convertible Debentures	INE0AD507028	10-May-21	7.35%	09-May-25	100.00	CARE AA+; Stable
Non-convertible Debentures	INE0AD507036	10-May-21	7.70%	08-May-26	100.00	CARE AA+; Stable
Non-convertible Debentures (proposed)	-	-	-	-	200.00	CARE AA+; Stable
Long-term / Short-term Bank Borrowings	-	-	-	-	1,000.00	CARE AA+; Stable / CARE A1+
Long-term / Short-term Bank Borrowings (Proposed)	-	-	-	-	500.00	CARE AA+; Stable / CARE A1+

*Annualized

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-convertible Debentures	LT	500.00	CARE AA+; Stable	-	1) CARE AA; Stable / CARE A1+ (18-Mar-21)	-	-
2.	Long-term / Short-term bank facility	LT / ST	1,500.00	CARE AA+; Stable / CARE A1+	-	1) CARE AA; Stable / CARE A1+ (18-Mar-21) 2) CARE AA; Stable / CARE A1+ (03-Oct-20)	-	-

Annexure-3: Complexity Level of various Instruments rated of this company

Sr. No.	Name of Instrument	Complexity Level
1.	Non-convertible Debentures	Simple
2.	Long-term / Short-term Bank Borrowings	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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