

India Ratings Assigns Aseem Infrastructure 'IND A1+' Short-Term Issuer Rating

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India Ratings and Research (Ind-Ra) has assigned Aseem Infrastructure Finance Limited (AIFL) a Short-Term Issuer Rating of 'IND A1+'.

Analytical Approach: Ind-Ra has factored into the rating AIFL's linkage to the sovereign 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 government of India (GoI). The rating reflects 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: AIFL's rating is principally driven by its linkages with the GoI, through its sponsor SOF. AIFL is not a GoI owned company. The GoI is the sponsor of NIIF and AIFL is a fully owned subsidiary of SOF, which is one of the three funds in the NIIF platform and registered with the Securities and Exchange Board of India as Category II Alternative Investment Fund. The GoI is a limited partner in the 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 billion. The GoI has committed USD1 billion to SOF. The fund will have capital contributions from global and domestic investors over the medium term. The SOF is focused on investing in sectors such as financial services, healthcare, education, agriculture and food, which is fundamental to economic development and to this end, has established AIFL. The total equity infusion by SOF in AIFL stood at INR12.9 billion at end-June 2020. The agency was given to understand that the GoI intends to remain invested in SOF for the fund's entire tenure. NIIF envisages AIFL to grow and become a significant player attracting long-term global and domestic capital over the medium-to-long term. Ind-Ra believes AIFL's linkages with the GoI, through its sponsor NIIF's SOF, will provide adequate support to the credit profile of the company. The agency considers the exit of SOF, and therefore the GoI, from AIFL in the medium term highly unlikely.

NIIFL's board has representation from the Department of Economic Affairs, Ministry of Finance, GoI. AIFL's board does not have GoI representation. The board has three members from NIIF and one independent member. AIFL management expects an additional independent director to join in the near term. Ind-Ra believes the composition of

AIFL's board reflects substantial control of NIIF on AIFL's policy design and strategy.

Strategic Importance of Entity: The GoI, through its National Infrastructure Pipeline, is aggressively pursuing infrastructure development in the country. Infrastructure is a public good. The GoI is keen to expand the role of the private sector in infrastructure development and intends NIIF to be a key channel of investment into infrastructure. The GoI is using its own capital contribution into NIIF – a total commitment of USD3 billion across all three funds managed by NIIFL - which can be leveraged to attract long-term global capital into infrastructure assets.

NIIF's SOF is focused on investing in sectors with significant growth potential; with this objective, it acquired an infrastructure debt fund non-banking financial company (NBFC-IDF) NIIF Infrastructure Finance Limited (NIIF IFL; erstwhile IDFC IFL) and incubated AIFL. NIIF IFL can invest only in assets operating satisfactorily for more than one year. AIFL, however, can lend across phases of infrastructure projects with a mix of operating, brownfield and greenfield assets as an NBFC-Infrastructure Finance Company (IFC). AIFL is the sponsor and holds around 31% stake in NIIF IFL. According to the management representation, the roles of NIIF IFL and AIFL are intended to be complementary and both combined, will be able to finance a broad range of infrastructure assets. The GoI's focus on infrastructure, the creation of NIIF and AIFL being a part of NIIF's infrastructure debt financing platform are indicative of AIFL's high strategic importance to the sovereign.

AIFL will initially finance operating assets and gradually move into greenfield assets, according to the stated objectives of NIIF and AIFL's management. Ind-Ra believes there are opportunities in the renewables and roads sectors, notwithstanding the COVID-19 related challenges. AIFL will have the flexibility to exercise greater discretion/caution while making decisions on financing assets in these sectors.

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, through SOF, is moderately high. The GoI has expressed its intent in the FY21 budget of a direct investment in AIFL in the near-term. Although AIFL's debt liabilities will not be backed by an explicit GoI guarantee or an annual budgetary allocation, Ind-Ra believes SOF will provide support to AIFL in case of financial stress, given the strategic objective the entity is envisaged to fulfill.

Ind-Ra understands that the availability of equity is not an issue for AIFL. Since business decisions at AIFL will be focused on commercial aspects, the company is likely to be provided with equity support to achieve growth objectives, opines Ind-Ra. NIIF intends to retain a controlling stake in AIFL and wield influence in terms of shaping its growth trajectory. AIFL will borrow on the strength of its own balance sheet. However, further investments in AIFL are not ruled out and NIIF's SOF will provide capital on a need basis.

Liquidity Indicator - Adequate: AIFL did not have any debt in its books as on 23 July 2020. Cash and bank balances stood at INR3,151 million at FYE20. Basis management representation, AIFL will be gradual and conservative in its approach and its leverage will increase to 4x over a period of three-to-four years. The key policies such as risk, credit, asset-liability management, investment and provision were approved by AIFL's board on 22 July 2020. On the asset-liability profile, AIFL is planning a long-term infrastructure asset book and focusing on the borrowings of a long tenure. The company has net worth of INR12.9 billion, of which INR3.5 billion constitutes investments in NIIF IFL and the balance was un-deployed as on 21 July 2020. Initially, AIFL intends to borrow from banks and gradually diversify its funding sources to include long-term global and domestic players over the medium term, as it builds the book starting with operational assets, followed by brownfield and greenfield assets. In addition, AIFL would rely on equity support from its sponsor and potential external equity investors to grow its operations.

The agency understands that adequate liquidity buffer will be maintained and short-term debt will be used sparingly, mainly as working capital to support disbursement and not as a permanent tool to finance assets. Ind-Ra has factored AIFL's policy stance on liquidity to arrive at the rating. AIFL's short-term liquidity position will be a key rating monitor.

RATING SENSITIVITIES

Negative

The following developments, individually or collectively, could be negative for the rating:

- any weakening of AIFL's linkages with the GoI through its sponsor

- inadequate financial support from its sponsor NIIF's SOF, in the event of distress
- inadequate liquidity buffer to meet three months of fixed liabilities without relying on collections
- a significant rise in the leverage, combined with heightened credit risk in AIFL's portfolio

COMPANY PROFILE

AIFL is a public limited company 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 - Infrastructure Finance Company (an NBFC-IFC) and received the NBFC-IFC license from the central bank on 28 January 2020. The objective of the company is to undertake infrastructure financing activities. AIFL is a wholly owned subsidiary of the NIIF's SOF.

COMPLEXITY LEVEL OF INSTRUMENTS

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

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Applicable Criteria

Rating of Public Sector Entities

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