Aseem Infrastructure Finance Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	3,000.00	CARE AA+; Positive / CARE A1+	Assigned
Non-convertible debentures	500.00	CARE AA+; Positive	Reaffirmed
Non-convertible debentures	1,500.00	CARE AA+; Positive	Reaffirmed
Commercial paper	1,000.00 (Enhanced from 500.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings for Aseem Infrastructure Finance Limited's (AIFL) long-term and short-term instruments have been reaffirmed at CARE AA+; Outlook: Positive / CARE A1+. Reaffirmation reflects strong linkages with the Government of India (GoI), directly and indirectly through the National Investment and Infrastructure Fund Limited (NIIFL), which is anchored by GoI. Ratings benefit from synergies with the NIIFL platform, including joint underwriting and a shared knowledge pool. Ratings also acknowledge capital support from sponsors, comfortable capitalisation levels, and an experienced management team. The company's ability to maintain strong asset quality with nil non-performing assets (NPAs) since inspection and secure funds at competitive rates is also considered.

However, ratings are constrained by inherent risks of infrastructure financing, characterised by large ticket size advances, despite demonstrated stability in the portfolio since inspection. While AIFL commenced lending in Q2FY21, and in the last four years, the portfolio has seen healthy churn, leading to an established asset base with an average operational portfolio vintage of around six years. However, ongoing monitoring will remain critical to managing potential risks.

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 has analysed AIFL's standalone credit profile, factoring in linkages with GoI and NIIFL.

Outlook: Positive

The positive outlook considers growth in scale of operations, anticipated capital infusion, and improvement in financial metrics. CARE Ratings anticipates continued linkages with the GoI and NIIFL, while expecting AIFL to maintain strong asset quality and a diversified resource profile, while securing funds at competitive rates.

Detailed description of key rating drivers:

Key strengths

Strong linkages with GoI through NIIFL ecosystem

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

AIFL has strong linkages with GoI directly and indirectly, through the NIIFL ecosystem. AIFL plays a crucial role in achieving GoI's objectives and funding socio-economically important sectors. As of June 30, 2024, NIIF Fund II/SOF holds a 59% stake in AIFL, followed by the GoI with 31%, and SMBC with 10%. As an investor-owned fund manager anchored by the GoI, NIIF collaborates with leading global and domestic institutional investors, providing a platform for international and Indian investors to invest in infrastructure and growth equity. GoI's strategic focus on infrastructure funding is evident from its ₹20,000 crore capital commitments to the NIIF platform. A similar amount is expected to be raised from external strategic investors, bringing GoI's contribution to corpus of four funds to 49%. NIIFL manages assets over US$ 4.9 billion through its four funds and holds a stake in AIFL through its SOF. SOF is one of the largest India-focused growth equity funds, targeting sectors benefiting from India's evolving business landscape and demonstrating intrinsic structural growth.

On November 25, 2020, as part of the Aatmanirbhar Bharat Package 3.0, the Union Cabinet announced an equity commitment of up to ₹6,000 crore into the NIIF debt financing platform, comprising NIIF IFL and AIFL. Last capital infusions from GoI into AIFL took place in FY21, amounting to ₹815 crore, and into NIIF IFL in FY21 and FY22, amounting to ₹185 crore and ₹700 crore, respectively. Consequently, ~₹4,300 crore is still available for drawdown by both entities.

Given NIIFL's quasi-sovereign nature, it is expected that growth capital will be made available to AIFL as needed. Considering AIFL's strategic importance to GoI for funding long-term, capital-intensive infrastructure projects – a key policy function, CARE Ratings expects continued support from the GoI, either directly or through the NIIFL ecosystem.

Association with NIIFL ecosystem, resulting in operational and underwriting synergies to AIFL
AIFL was established to provide financing across phases of infrastructure projects, including operational and under-construction projects. As a sponsor of NIIF Infrastructure Finance Limited (NIIF IFL), an infrastructure debt fund NBFC, AIFL holds a 30.83% stake in NIIF IFL on a fully diluted basis. While NIIF IFL focuses solely on funding operational projects, AIFL has the flexibility to finance greenfield, brownfield, and operational projects. CARE Ratings views AIFL and NIIF IFL complementing each other under the SOF umbrella. AIFL is expected to leverage synergies with NIIF IFL through joint underwriting of refinancing, better credit and commercial terms, access to strategic investors, and a shared knowledge pool. NIIFL's mandate across its four funds is to invest in infrastructure and related sectors, and knowledge base of the NIIFL platform will further support AIFL in its credit and underwriting decisions.

Through its integrated debt platform, AIFL is expected to follow an approach of project life-cycle financing utilising its expertise in technical and risk structuring, where 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 over a decade's experience in their respective fields. CARE Ratings believes that AIFL will benefit from the management's long track record to scale up the business while, managing the asset quality.

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). According to its policy, it does not finance projects with an internal rating below 'BBB-'. As on March 31, 2024, ~62% of the outstanding portfolio has an internal rating of 'A-' or higher as against 66% as on March 31, 2023. Moreover, ~88% of the outstanding portfolio has an external rating of A- or higher as on March 31, 2024, as against 80% as on March 31, 2023. Proportion of assets in the BBB band has increased with an increase in under-construction projects. Usually, under-construction projects have a rating in the BBB and A band considering the implementation risks associated with these projects. Hence, in line with AIFL's strategy to increase funding for under-construction projects, the proportion of BBB rated assets is likely to increase. As stated by the company, it conducts extensive due diligence on the sponsor group, who generally do the engineering, procurement, and construction (EPC) work for an under-construction project. Impetus is given on sponsor/EPC contractor's experience before considering sanctioning to mitigate risk in the implementation phase.

Average external rating of the portfolio as on March 31, 2024, is A+. 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.

Comfortable capitalisation levels

The company's capitalisation levels are comfortable, with a reported capital adequacy ratio (CAR) of 20.64% (PY: 21.24%) and Tier-1 CAR of 19.84% (PY: 20.44%) as of March 31, 2024, well-above regulatory requirements of 15% and 10%, respectively. As of June 30, 2024, CAR and Tier-1 CAR were 20.37% and 19.60%, respectively. Capitalisation levels are supported by capital infusions from the GoI, NIIF SOF, and SMBC, totalling ₹2,550.37 crore, and internal capital generation. Consequently, tangible net worth (TNW) as of March 31, 2024, stood at ₹2,961.04[2] crore. As of March 31, 2024, gearing increased to 3.90x from 3.63x as of March 31, 2023, due to increased borrowings to fund portfolio growth and no equity infusion. Considering the growth plans, gearing is expected to gradually increase but not exceed 5x in the medium term.

On November 25, 2020, as part of the Aatmanirbhar Bharat Package 3.0, the Union Cabinet announced an equity commitment of up to ₹6,000 crore into the NIIF debt financing platform, comprising NIIF IFL and AIFL. Following this, GoI infused ₹815 crore in AIFL and ₹885 crore into NIIF IFL by FY24. Hence, ₹4,300 crore is still available for drawdown for both entities.

CARE Ratings notes that the investment agreement allows AIFL to access additional funds from GoI when needed, demonstrating capital commitment and support of its promoters. Apart from the capital from GoI and NIIFL, the company secured strategic equity funding from SMBC in FY22 and is currently in discussions with other institutional investors for further investment in AIFL. This will provide AIFL with significant flexibility in raising equity and debt funds to support its growth strategy.

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

AIFL has steadily been able to increase its liability franchise encompassing public and private sector banks, foreign banks, mutual funds, domestic institutions, corporate treasury, insurance companies, provident funds, pension fund houses and others. As of June 2024, the company has been able to onboard 15 banks and FIs. Of the total borrowings outstanding as on June 30, 2024, 83% constitutes term loans, 15.42% NCDs, and 1.25% working capital demand loans. In Q1FY25, the company raised a 3-month commercial paper (CP), which was subscribed by mutual funds. Going forward, CPs will be utilised as part of the borrowing strategy, but on a limited percentage of overall borrowings, while maintaining a balanced funding mix.

Given strong parentage and linkages with the GoI and stable operating performance, AIFL has been able to raise funds at competitive rates. Going forward, the company’s ability 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 demonstrated good growth with a portfolio size of ₹13,609 crore as on March 31, 2024, compared to ₹1,588 crore as on March 31, 2021. AUM has been growing at compound annual growth rate (CAGR) of 103% since FY21 to FY24. AUM further increased to ₹14,438 crore in Q1FY25. The portfolio remains largely unseasoned considering the long gestation of infrastructure assets. Although AIFL’s own vintage is only four years, assets of the portfolio have a behavioural tenor of 4-5 years. The portfolio has undergone a healthy level of churn in the last four years, contributing to an established asset base. AIFL’s lending operations are spread across sectors including renewables (green energy), roads, telecom towers, power distribution, airports, transmission, city gas distribution, water sanitation, and data centres, among others. As on June 30, 2024, its operations are concentrated with renewables and roads forming 52% and 29% of the AUM, respectively.

AIFL’s conscious strategy is to fund only operational or near-operational projects in the initial phases of operations, while gradually building its presence across the entire project life-cycle financing with a judicious mix of under-construction and operating projects. It funds for projects where the COD is to be received in the next 6-9 months. On an outstanding portfolio basis, the proportion of operational projects, reduced to 77.22% as on June 30, 2024, from 92.04% as on March 31, 2022. On the other hand, outstanding proportion of under-construction projects increased from 7.96% as on March 31, 2022, to 22.78% as on June 30, 2024. While the addition of under-construction projects increases portfolio’s vulnerability given the project execution risk, AIFL has been selective in lending to under-construction projects with good credit profile of the sponsors and financing those under-construction projects, where all 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, share of under-construction projects in the next 2-3 years, is expected to increase to ~40% on an outstanding basis and ~50% on a sanctioned basis.

[2] TNW is excluding deferred tax assets and intangible assets. This is as per CARE Ratings’ calculations.

Given the large-ticket sizes and nature of 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 company's ability to successfully scale up its operations, while maintaining stable asset quality and profitability.

Liquidity: Strong

As on June 30, 2024, AIFL's asset liability management (ALM) profile had no negative cumulative mismatches across all buckets up to one 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, 2024, AIFL had liquid funds worth ₹304.55 crore in the form balances with banks and liquid investments. It had contracted inflow from advances to the tune of ₹3,904.92 crore and undrawn lines worth ₹1,985 crore in the next one year. As part of its loan assets, AIFL also holds ~₹1,659.78 crore of AAA-rated infrastructure bonds for contingencies. Against this, the company contracted repayments on borrowings to the tune ₹2,728.27 crore in the next one year. This indicates that the company has adequate liquidity to repay its borrowings for the next one year as on June 30, 2024.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

Definition of Default
Factoring Linkages Government Support
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Withdrawal Policy
Short Term Instruments
Non Banking Financial Companies

About the company and industry

Industry classification

Macroeconomic 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 for 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, shareholding pattern underwent a change and thereafter has remained unchanged. As on March 31, 2024, NIIF Fund II holds a 59% stake in AIFL, followed by the GoI (31%), and Sumitomo Mitsui Banking Corporation (SMBC - 10%).

NIIFL (NIIF Fund II's fund manager)

NIIFL is a collaborative investment platform for international and domestic investors, created with the objective of maximising economic impact and attracting global capital into India. Anchored by the GoI with a 49% stake, NIIFL raises the balance 51% from international and domestic institutional investors in each fund that it manages. It currently manages four funds, each with distinct investment strategies and has a total AUM of ~US$ 4.9 billion. Besides GoI, funds managed by NIIFL have also received commitments from certain domestic and international institutions, including the Abu Dhabi Investment Authority (ADIA), Temasek, US International Development Finance Corporation (DFC), ADB, and JBIC, among others. The Governing Council of NIIFL is chaired by the Finance Minister of India and includes the Secretary - Department of Economic Affairs and the Secretary - Department of Financial Services among representatives from other investors.

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total income	789.12	1,195.70	332.97
PAT	145.90	205.33	57.43
Total assets *	12,852.78	14,571.67	NA
Net NPA (%)	0.00	0.00	0.00
ROTA (%)	1.37	1.50	NA

A: Audited UA: Unaudited, NA: Not available; Note: these are latest available financial results
* Total assets are excluding deferred tax assets and intangible assets. This is per CARE Ratings' calculations.

Status of non-cooperation with previous CRA:
None

Any other information:

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

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

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

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone) (Proposed)	-	-	-	-	1000.00	CARE A1+
Fund-based/non-fund-based-LT/ST (Proposed)	-	-	-	-	3000.00	CARE AA+; Positive / CARE A1+
Non-convertible Debentures	INE0AD507010	10-May-2021	7.00%	10-May-2024	0.00	Withdrawn
Non-convertible Debentures	INE0AD507028	10-May-2021	7.35%	09-May-2025	100.00	CARE AA+; Positive
Non-convertible Debentures	INE0AD507036	10-May-2021	7.70%	08-May-2026	100.00	CARE AA+; Positive
Non-convertible Debentures	INE0AD507044	31-Dec-2021	6.50%	29-Nov-2024	200.00	CARE AA+; Positive
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	1600.00	CARE AA+; Positive

Annexure-2: Rating history for 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 2024-2025	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
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)
2	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Positive	-	1)CARE AA+; Positive (08-Jan-24) 2)CARE AA+; Positive (09-Oct-23)	1)CARE AA+; Stable (22-Nov-22) 2)CARE AA+; Stable (12-Aug-22)	1)CARE AA+; Stable (13-Aug-21)
3	Debentures-Non Convertible Debentures	LT	1500.00	CARE AA+; Positive	-	1)CARE AA+; Positive (08-Jan-24) 2)CARE AA+; Positive (09-Oct-23)	1)CARE AA+; Stable (22-Nov-22)	-
4	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (08-Jan-24)	-	-
5	Fund-based/Non-fund-based-LT/ST	LT/ST	3000.00	CARE AA+; Positive / CARE A1+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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