India Ratings Assigns Aseem Infrastructure Finance's CP 'IND A1+'; Affirms Existing Ratings

Oct 16, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating actions on Aseem Infrastructure Finance Limited's (AIFL) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Commercial paper	-	-	7 to 365 days	INR10	IND A1+	Assigned
Non-convertible debentures^	-	-	-	INR10.50	IND AA+/Stable	Affirmed
Proposed non-convertible debentures	-	-	-	INR2.0	IND AA+/Stable	Affirmed

^ details in Annexure

Analytical Approach

Ind-Ra continues to take a standalone view of AIFL. 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. 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.

Detailed Rationale of the Rating Action

AIFL's rating is principally driven by its linkages with the GoI and its position in the NIIF's institutional framework. 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. AIFL has been financing operating and near-to-completion under-construction assets. In line with the stated objective of the company, the exposure to under-construction assets increased to 23% of the loan book in 1QFY25 (1QFY24: 19%), with 77% of the portfolio consisting of operational assets (81%). The gross loan book, with sectoral diversification, continued to grow in FY24 and 1QFY25 with leverage ratio maintained at below 4x. There was no slippage in asset quality since inception. AIFL is comfortably capitalised with its capital-to-risk weighted assets ratio remaining around 20% in FY24 and 1QFY25.

List of Key Rating Drivers

Strengths

- Institutional framework and ownership status
- High strategic importance of entity
- Sovereign support
- Leverage within Ind-Ra expected level

- Comfortable capitalisation

Weaknesses

- Moderate but steadily expanding scale of operations
- Moderate profitability

Detailed Description of Key Rating Drivers

Institutional Framework and Ownership Status: 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 Infrastructure Finance Limited. In March 2021, the GoI became a direct shareholder of AIFL, acquiring a 34.4% stake on a fully diluted basis 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 as non-executive nominee director 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. AIFL also has an experienced senior management team with considerable experience in the infrastructure financing space. 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 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 gradually added greenfield assets to its portfolio. Renewables remain the key focus area with a share of 52% in the portfolio in 1QFY25 (1QFY24: 52%) followed by road projects (1QFY25: 29%; 1QFY24: 24%).

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.

Leverage within Ind-Ra Expected Level: Ind-Ra expects the expansion in the portfolio to be funded primarily through a mix of term loans and NCDs in the near-term. Equity capital infusion could be realised in 2025 as the company is looking at bringing on board long-term equity investor to grow its business. The debt-to-equity ratio was 3.6x at end-June 2024 (FYE24: 3.85x; FYE23: 3.6x; FY22: 2.2x). Ind-Ra believes AIFL would be gradual in its approach towards debt, and its leverage would be 4.5x-5.0x over the medium term.

Comfortable Capitalisation: AIFL reported a net income of INR574.35 million in 1QFY25 (1QFY24: INR530.17 million; FY24: INR2,053.3 million). The total net worth increased to INR30.63 billion in 1QFY25 from INR30.05 billion at FYE24. AIFL is well capitalised. The tier 1 capital ratio was stable at 19.4% in 1QFY25 (FYE24: 19.8%). The overall capital adequacy ratio stood at 20.2% in 1QFY25 (FYE24: 20.6%), which was above the regulatory requirement of 15%.

Moderate but Steadily Expanding Scale of Operations: The company commenced lending operations in August 2020. Loans outstanding on a gross basis increased to INR132.8 billion at FYE24 (FYE23: INR115.6 billion). Gross loans stood at INR140.87 billion at end-June 2024, up 22.2% yoy. The loan portfolio is primarily concentrated in renewable assets (52% share), followed by roads (29%), telecom towers (5%), airports (5%) and power distribution (7%) in 1QFY25. All assets were standard at end-June 2024. The asset quality remained sound with zero days past due since the commencement of operations.

Nonetheless, the wholesale nature of lending, along with the large ticket-size exposure of greater than INR1 billion for around 88% of the assets under management, gives rise to asset quality risks. However, the assets are either almost entirely operational or are short gestation-infra projects, thereby mitigating the risks to some extent. The share of the largest 20 borrowers in the total exposure declined to 51.1% in FY24 (FY23: 57.8%), indicating a moderation in credit concentration risk. As of June 2024, 38 under-construction projects financed by AIFL achieved commercial operations date within the envisaged timelines.

Moderate Profitability: The net income grew at a robust 41% yoy to INR2,053.3 million in FY24. The net interest margin was moderate at 2.26% in FY24 (FY23: 2.36%). The key return indicators namely return on average equity as well as return on average assets remained moderate during FY22-FY24. The return on average equity and return on average assets were 7.1% and 1.5%, respectively, in FY24.

Liquidity

Adequate: AIFL's cash and bank balances stood at INR4,763.1 million at FYE24 (FYE23: INR4,950.35 million). As on June 30, 2024, AIFL had liquidity of INR23,400 million in the form of cash balance, government securities and unutilised bank lines against debt of INR4,840 million maturing over the next three months. Further, advances (performing) of INR8,256 million would flow in over the next three months. The agency understands that adequate liquidity buffers will be maintained such that it covers two months of fixed liabilities. With respect to the asset-liability profile, AIFL's asset book is long-term and its borrowings have a tenure of two-to-10 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 1 day and up to one-year period on a cumulative basis as on 30 June 2024.

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.

Rating Sensitivities

Positive: A significant increase in the size and scale of operations, better diversified liability profile, while maintaining strong 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 one-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.

About the Company

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.

Key Financial Indicators

Particulars (INR billion)	**FY23**	**FY24**
Total assets	128.87	146.16
Tangible equity	27.99	30.04
Net income	1.46	2.05
Return on average assets (%)	1.37	1.49
Capital adequacy ratio (%)	21.23	20.63
Equity/assets (%)	21.73	20.56
Gross stage 3 assets (%)	Nil	Nil
Source: AIFL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**					
	Rating Type	**Rated Limit (billion)**	**Rating**	**27 August 2024**	**28 August 2023**	**23 November 2022**	**29 August 2022**	**10 January 2022**	**10 November 2021**
Issuer rating	Short-term	-	-	-	-	WD	IND A1+	IND A1+	IND A1+
Commercial paper	Short-term	INR10	IND A1+	-	-	-	-	-	-
Non-convertible debentures	Long-term	INR12.5	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	-

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial paper	Low
Non-convertible debentures	Low

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Non-convertible debentures	INE0AD507085	14 July 2022	8.25	14 July 2027	INR2.5	IND AA+/Stable
Non-convertible debentures	INE0AD507093	5 September 2022	8.25	3 September2027	INR6.5	IND AA+/Stable
Non-convertible debentures	INE0AD507119	10 May 2023	8.3	10 May 2028	INR1.50	IND AA+/Stable
Total	-	-	-	-	**INR10.50**	
Source: NSDL; Ind-Ra						

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Rating of Public Sector Entities

Financial Institutions Rating Criteria

The Rating Process