Aseem Infrastructure Finance Limited

August 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/short-term bank facilities	1,500.00	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Total bank facilities	**1,500.00 (₹ One thousand five hundred crore only)**		
Non-convertible debentures	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total long-term instruments	**500.00 (₹ Five hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the various debt instruments of Aseem Infrastructure Finance Limited (AIFL, or, the company) continue to factor in the strong linkages with the Government of India (GoI), directly and through the National Investment and Infrastructure Fund Limited (NIIFL), which is anchored by the GoI. The ratings also derive strength from the synergies with the NIIFL platform in joint underwriting and shared knowledge pool, among others. The rating also takes cognisance of the capital support from its sponsors, the healthy capitalisation levels, and the experienced management team.

The ratings are, however, constrained by the inherent risk associated with infrastructure financing, characterised by large ticket size advances, and hence, the exposure to asset quality shocks and limited seasoning of the portfolio, as AIFL commenced lending only from Q2FY21, and the early stage of the organisation build-up.

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

Rating sensitivities

Positive factors – Factors that could 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 Net NPA in sub 1% range.
- Demonstration of the continued ability of resource mobilisation at favourable terms.

Negative factors – Factors that could 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.
- 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.
- Deterioration in the assets and liabilities management (ALM) profile and liquidity buffers as the company builds its loan book.
- Sustained deterioration in the profitability, with return on average total assets (ROTA) below 0.5%.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Strong linkages with the GoI through the NIIFL ecosystem: AIFL has strong linkages with the GoI, either directly or indirectly, through the NIIFL ecosystem. AIFL plays a key role in realising the GoI's target and funding socio-economically important sectors. As on March 31, 2022, on a fully diluted basis, NIIF Strategic Opportunities Fund (SOF) holds a 59% stake in AIFL, followed by the GoI (31%), and Sumitomo Mitsui Banking Corporation (SMBC) (10%). NIIFL is an investor-owned fund manager, anchored by the GoI, in collaboration with leading global and domestic institutional investors. It currently manages three funds and holds a stake in AIFL from its SOF. SOF is one of the largest India-focused private equity (PE) funds and targets to invest in sectors that benefit from the changing business landscape in India, as well as demonstrating intrinsic

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

structural growth. Furthermore, on November 25, 2020, as part of the Aatmanirbhar Bharat 3.0, the GoI approved the infusion of funds up to ₹6,000 crore in the NIIFL debt platform comprising NIIF Infrastructure Finance Limited (NIIF IFL) and AIFL. The capital infusion from the GoI in AIFL to the tune of ₹815 crore has come in FY21 (refers to the period from April 1 to March 31). Given the quasi-sovereign nature of NIIFL, it is expected that the growth capital will be made available to AIFL, as and when required. Moreover, considering AIFL's strategic importance to the GoI for funding the long-term capital-intensive infrastructure projects – a key policy function, CARE Ratings Limited (CARE Ratings) expects the GoI's support to be forthcoming either directly or through the NIIF ecosystem.

Association with NIIFL ecosystem, resulting in various operational and underwriting synergies to AIFL: AIFL was incorporated with the objective of lending across phases of infrastructure projects, with a mix of operating, brownfield, and greenfield assets. AFIL, as a sponsor of NIIF IFL (an infrastructure debt fund NBFC), holds 30.83% in the latter (on a fully diluted basis). While NIIF IFL funds only operational projects, AIFL can finance greenfield and brownfield projects as well along with operational projects. CARE Ratings 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 through joint underwriting of refinancing, better credit and commercial terms, reach to strategic investors, and shared knowledge pool. NIIFL's mandate, across all the three funds, is to undertake investments in infrastructure and related sectors. The knowledge base of the NIIF platform will further help AIFL in its credit and underwriting decisions.
Moreover, AIFL, through its integrated debt platform, is expected to follow an approach of project life-cycle financing on the back of its expertise in technical and risk structuring, wherein, it will focus on building long-term engagement with partner banks and financial institutions while maintaining a conservative liabilities' profile and low credit costs.

Healthy capitalisation levels and low gearing: The company's capitalisation levels are comfortable, with a reported total capital adequacy ratio (CAR) of 35.20% (PY: 150.87%) and Tier-1 capital of 34.34% (PY: 150.20%) as on March 31, 2022, well above the regulatory requirement of 15%. The gearing stood at 2.20x as on March 31, 2022, and is expected to increase going forward, in line with the expected growth in the loan book. Following the capital infusion in March 2022, AIFL's TNW increased to ₹2,635.27 crore as on March 31, 2022, from ₹2,247.27 crore as on March 31, 2021.
In March 2022, Sumitomo Mitsui Banking Corporation (SMBC), one of the leading banking groups in Japan and the core unit of Sumitomo Mitsui Financial Group, has infused ₹317.09 crore in AIFL. On November 25, 2020, the Union Cabinet, as part of the Aatmanirbhar Bharat Package 3.0, announced an equity infusion of ₹6,000 crore into the NIIF debt platform comprising NIIF IFL and AIFL. Pursuant to this, in Q4FY21, the GoI and SOF infused ₹815 crore and ₹132 crore, respectively, in AIFL. Prior to this, ₹709 crore and ₹579 crore of capital was infused by SOF in Q1FY21 and FY20, respectively.
CARE Ratings understands that the investment agreement allows AIFL to access additional funds when needed, demonstrating the capital commitment and support of its promoters. CARE Ratings believes this is credit positive because it will give AIFL significant flexibility in raising both, equity and debt resources, to fund its growth strategy.

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. As indicated by the management, during the initial phase, the company will focus on core sectors of its expertise, including renewables, transportation, and power transmission, and will gradually expand the sectoral coverage leveraging on platform strength. The focus will be on operational projects and under-construction projects, where there is near-term visibility on the cash flows. Gradually, the company will build its presence across the entire project life-cycle financing with a judicious mix of under-construction and operating projects. The company has also been proactive in implementing the Reserve Bank of India (RBI) guidelines effective from October 01, 2022, with regards to the scale-based regulatory approach. Furthermore, AIFL does not finance projects with an internal rating below BBB-. As on March 31, 2022, around 89% of the outstanding portfolio has an internal rating of A- or higher and around 94% of the outstanding portfolio has an external rating of A- or higher. The company expects to maintain an overall portfolio rating in the A category. As the company continues its growth trajectory both, in terms of the book size and lending to newer sectors, maintenance of moderate to a good level of profitability and sound asset quality on a sustained basis remains a key rating monitorable.

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 29 years of experience in project finance, working capital, and corporate finance, among others. Pankaj 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 more than a decade's experience in their respective fields. Furthermore, the company's proposals are reviewed and approved by the credit committee. The credit committee is chaired by Surya Prakash Rao, nominee director of NIIF Fund II. As the company is in its early stages, the application of the management personnel's vast experience is yet to be demonstrated in building a consistently profitable and growing infrastructure book at AIFL.

Key rating weaknesses
Early stage of operations with portfolio exposed to inherent infrastructure funding risks: The company initiated its lending operations in Q2FY21; however, it has demonstrated good growth with a portfolio size of ₹7,251 crore as on June 30, 2022 (PY: ₹1,588 crore) with all the assets in 0 (zero) DPD. Nonetheless, the vintage remains small considering the overall size of the book and the long gestation of infrastructure assets. AIFL's conscious strategy to fund only operational or near-operational projects in the initial phases of operations is depicted in 55 of the 61 projects funded, being operational as on June 30, 2022. Going forward, as AIFL ventures into the funding of greenfield and brownfield projects, CARE Ratings expects AIFL to

be exposed to idiosyncratic risks of infrastructure funding, given the high-ticket sizes and the nature of the infrastructure funding business. Hence, the ability to successfully scale up its operations while maintaining stable asset quality and comfortable profitability will remain a key monitorable.

Liquidity: Adequate

The liquidity position of AIFL remained comfortable as on March 31, 2022. As on March 31, 2022, the ALM profile of AIFL had no negative cumulative mismatches across all the buckets up to one year. The company's current liquidity policy is to maintain liquid funds to the tune of three months of gross cash outflows. The company had cash and cash equivalents to the tune of ₹642 crore as on March 31, 2022, and contracted inflows from advances to the tune of ₹533 crore. Moreover, AIFL has undrawn lines worth around ₹2,000 crore and holds, as part of its loan assets, around ₹1,000 crore of AAA-rated infrastructure bonds for any contingency. Against this, the company had contracted repayments on borrowings to the tune of ₹371 crore in the next one year. Thus, the company has an adequate liquidity chest to repay its borrowings for the next one year, as on March 31, 2022.

Analytical approach

CARE Ratings has analysed the standalone credit profile of AIFL, factoring in the strong linkages to GoI and NIIFL, which is a GoI-anchored fund.

Applicable criteria

Rating outlook and credit watch
CARE Ratings' policy on Default Recognition
Factoring linkages in ratings
Criteria for non-banking financial companies
Financial ratios – Financial sector
Criteria for short-term instruments

About the company

Aseem Infrastructure Finance Limited (AIFL)

AIFL is incorporated as an infrastructure finance company under the NBFC category (NBFC-IFC). AIFL was created in May 2019 with the objective of lending across phases of infrastructure projects, with a mix of operating, brownfield, and greenfield assets. The 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, Sumitomo Mitsui Banking Corporation (SMBC) infused capital to the tune of ₹317.09 crore in AIFL. Following the capital raise, the shareholding pattern on a fully diluted basis has undergone a change. The stake of NIIF Fund II now stands at 59% (PY: 65.60%), GoI's stake at 31% (PY: 34.40%), and SMBC's stake at 10%. The loan book of AIFL stood at ₹7,251 crore as on June 30, 2022, compared to ₹2,494 crore as on June 30, 2021.

NIIFL

The National Investment and Infrastructure Fund Limited (NIIFL) is an investor-owned fund manager, anchored by the GoI, in collaboration with leading global and domestic institutional investors. NIIFL has received around ₹20,000 crore of capital commitments from the GoI across three funds (each of which is registered with the Securities and Exchange Board of India [SEBI] as a Category II AIF), encompassing the Master Fund, Fund of Funds, and Strategic Opportunities Fund (SOF), and a similar amount will be raised from external strategic investors such that the GoI's contribution to the corpuses of the three funds will reach 49%. The objective of these funds is to generate attractive risk-adjusted returns through economic cycles by investing in infrastructure, and other related businesses. NIIF manages assets over US$ 4.5 billion through its three funds. The Governing Council of the NIIF is chaired by the Finance Minister of India, Nirmala Sitharaman, and has a representation from the Department of Financial Services and Department of Economic Affairs. Sujoy Bose is the Managing Director & CEO of NIIFL. He has a rich multinational working experience of 26 years in the International Finance Corporation (IFC).

NIIF – SOF (majority shareholder)

The National Investment and Infrastructure Fund II (NIIF Fund II), also referred as NIIF Strategic Opportunities Fund (SOF), is one the largest India-focused private equity fund. The fund focuses on investing in strategic assets and projects with longer term horizon across various stages of development. It targets to invest in sectors that benefit from the changing business landscape in India, as well as demonstrating intrinsic structural growth. SOF is building a scalable integrated financial services platform by investing equity in NIIF Infrastructure Finance Limited and AIFL, enabling them to become sizeable players in the infrastructure debt financing space.

Brief financials of AIFL

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
TOI	47.39	313.94	NA
PAT	20.80	85.23	NA
Interest coverage (times)	NM	1.76	NA
Total assets	2,699.12	8,453.44	NA
Net NPA (%)	0.00	0.00	NA
ROTA (%)	1.27	1.53	NA

A: Audited, NA: Not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Disclosure of interest of independent/non-executive directors of CARE Ratings:

Name of Director	Designation of Director
V Chandrasekaran	Non-executive – Non-independent director

V Chandrasekaran, who is an independent director on the board of Aseem Infrastructure Finance Limited, is a non-executive - non-independent director of CARE Ratings. Non-executive – Non-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 the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Long-term/short-term bank facilities	-	-	-	Feb 06, 2027	1,000.00	CARE AA+; Stable/ CARE A1+
Long-term/short-term bank facilities (Proposed)	-	-	-	-	500.00	CARE AA+; Stable/ CARE A1+
Debentures-Non-convertible debentures	INE0AD507010	May 10, 2021	7.00%	May 10, 2024	100.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE0AD507028	May 10, 2021	7.35%	May 09, 2025	100.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE0AD507036	May 10, 2021	7.70%	May 08, 2026	100.00	CARE AA+; Stable
Debentures-Non-convertible debentures	INE0AD507044	December 01, 2021	6.50%	November 29, 2024	200.00	CARE AA+; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Long-term/short-term bank facilities	LT/ST*	1,500.00	CARE AA+; Stable/ CARE A1+	-	1)CARE AA+; Stable/ CARE A1+ (August 13, 2021)	1)CARE AA; Stable/ CARE A1+ (March 18, 2021) 2)CARE AA; Stable/ CARE A1+ (October 03, 2020)	-
2.	Debentures-Non-convertible debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (August 13, 2021)	1)CARE AA; Stable (March 18, 2021)	-

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible debentures	Simple
2.	Long-term/short-term bank facilities	Simple

Annexure-5: Bank lender details for this company

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

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

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Archana Mahashur
Phone: +91-22-6754 3410
E-mail: Archana.Mahashur@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

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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