

Shrem Infra Invest Private Limited

February 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Market-linked debentures	274.00	CARE PP-MLD AA-; Stable	Revised from CARE PP-MLD AA; Stable
Non-Convertible Debentures	480.00	CARE AA-; Stable	Revised from CARE AA; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Shrem Infra Invest Private Limited (SI IPL) is the sponsor of Shrem Invit (InvIT). In order to arrive at ratings of SI IPL, CARE Ratings Limited (CARE Ratings) has adopted a consolidated approach of SI IPL along with its wholly owned subsidiary Shrem Enterprises Private Limited (SEPL), which together held 53.91% stake in InvIT as on December 31, 2023. The revision in long-term ratings of SI IPL takes into consideration CARE Ratings expectations of lower-than-anticipated distribution income from InvIT during FY24(E) which shall in turn moderate the coverage indicators for the current fiscal.

Earlier in May 2023, CARE Ratings was given to understand that the deal valuation and nature pertaining to proposed acquisition of 10 Hybrid Annuity Model (HAM) projects has undergone change thereby necessitating incremental debt of ₹325 crore. The aforesaid debt was proposed to be availed at SI IPL level to acquire additional InvIT units, cash flow (dividend income) of which would be available to service the rated debt. In contrast to this, the incremental debt of ₹230 crore raised by SI IPL was advanced to other group entity- Shrem Investment Private Limited (SIPL), which in turn acquired the additional InvIT units. The said transaction led to incremental debt at SI IPL level with no corresponding increase in InvIT units as envisaged. As indicated by the management, the cash inflow from such acquired units shall be passed on by SIPL to SI IPL. However, as per CARE Ratings, in absence of escrow-backed mechanism for SI IPL's rated debt facility, high degree of cash flow fungibility within the Shrem group combined with deviation from earlier management stance of acquiring additional units under SI IPL accentuates the financial risk. Nonetheless, CARE Ratings notes SI IPL's intent to pre-pay the entire market-linked debentures (MLDs), which shall reduce the external indebtedness by FY24-end. Management of Shrem group has also articulated to establish escrow mechanism with pooling of cash flows from various group entities.

The lower cash inflow is on account of retention of around ₹350 crore at InvIT level during 9MFY24 (refers to the period from April 01 to December 31). As indicated by the management, of the retained amount of ₹350 crore, ₹200 crore has been paid to Dilip Buildcon Limited (DBL) towards the on-going acquisition of assets which initially was expected to be funded through the incremental term debt raised at InvIT level while balance have been parked for contingency and for future acquisition of assets.

Ratings continue to derive strength from stable cashflows from underlying assets of InvIT leading to comfortable debt coverage indicators of InvIT and SI IPL's track record of receipt of ten quarterly distributions from InvIT. Ratings take cognisance of the completion of ongoing acquisition of ten new assets from Dilip Buildcon Limited (DBL) wherein nine projects have been completely acquired by InvIT and one project has been partly acquired to the tune of 49%. Cash pooling of all special purpose vehicles (SPVs) including newly acquired (SPVs) is available for debt servicing of InvIT and for carrying out routine as well as major maintenance expenses of SPVs. Furthermore, revised regulations on InvIT also provides greater clarity on net distributable cash flows and thus better cashflow visibility to SI IPL.

The strengths of the ratings are tempered by limited revenue diversification with entire dependency on distribution from InvIT, moderate leverage and limited track record of the promoters in the infrastructure business. No major maintenance reserve is being created or maintained at SPV level. InvIT is entirely dependent on DBL for carrying out the maintenance of SPVs, however adequate operation and maintenance (O&M) as well as major maintenance (MM) assumptions in line with other rated HAM peers reduces the risk to an extent. Besides, proposed creation of major maintenance reserve for 10 new assets also provides liquidity cushion to some extent.

CARE Ratings takes the cognisance of SI IPL being forayed into developer space by securing HAM project in a joint venture with another developer (i.e. Bharat Vanijya Eastern Private Limited (BVEPL)) and the project is awarded by Karnataka Roads Development Corporation Ltd (KRDCL; GoK entity). As indicated by management, Shrem group along with SI IPL will have approx. 39% stake in the project SPV and shall not extend any contractual commitment except equity commitment of around

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

Rs.117 crore over next 3 years. EPC work will be done by BVEPL on fixed price contract. Nevertheless, it exposes SIIPL to inherent risk related to change in business model from financial investor to developer with limited prior experience. Any further increase in under construction portfolio or extension of more than expected contractual obligations shall be key rating sensitivity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly higher-than-envisaged distribution income from InvIT on sustained basis

Negative factors

- Weakening in the credit profile of InvIT
- Lower-than-envisaged distribution from InvIT thus shrinking its liquidity and debt coverage indicators
- Any material increase in external debt of SIIPL at consolidated level
- Non creation of reserves for debt servicing as per financing terms
- Any unforeseen liability or impact on the Shrem group w.r.t. past litigations
- Any further increase in under construction portfolio or extension of more than expected contractual obligations

Analytical approach: Consolidated- factoring its wholly owned subsidiary Shrem Enterprises Private Limited (SEPL). The credit profile of SIIPL also factors in the combined business and financial risk profile of 34 underlying assets of InvIT as subordinated cash flows from InvIT in the form of net distributable cash flows shall be available for debt servicing of SIIPL. The list of entities consolidated is annexed as Annexure 6.

Outlook: Stable

The Stable outlook is on account of expectation of regular dividend income from InvIT leading to adequate liquidity and debt coverage indicators.

Detailed description of the key rating drivers:

Key strengths

Strong cashflow from InvIT owing to diversified portfolio of underlying SPVs

Shrem InvIT had acquired portfolio of 34 operational assets from DBL including ten assets which were acquired subsequently and generates stable revenue from its pool of projects. Of the slated ten assets, nine were acquired completely while one asset is acquired to the tune of 49%. The portfolio composition of the InvIT consists of 15 National Highway Authority of India (NHAI; rated CARE AAA; Stable) HAM projects, one Ministry of Road Transport and Highways (MoRTH) HAM project, one NHAI toll project, 10 state annuity plus toll projects, six state annuity projects and one state toll project. InvIT has a track record of timely receipt of annuities from both NHAI as well as State Governments with minor delays seen in the past. SIIPL along with SEPL is the largest unitholder of InvIT with 53.91% stake as on December 31, 2023.

Comfortable leverage and strong debt coverage indicators at InvIT level

InvIT's consolidated cash flow has a robust cover, with comfortable debt coverage indicators. Features such as defined cash flow escrow waterfall mechanism as well as creation and maintenance of debt service reserve account (DSRA) and provision of cash trap in case of fall in debt service coverage ratio (DSCR) below 1.25x also provides comfort. Towards the acquisition of 34 projects, InvIT had aggregate outstanding term loan of around ₹6,700 crore as on November 30, 2023. Due to change in valuation of deal for acquisition of ten new assets due to change in bank rate as well as change in the cash component of deal for 10 projects, incremental debt of ₹1,000 crore was proposed to be availed at InvIT level against which debt to the tune of ₹860 crore is availed and balance funded by internal accruals.

Nevertheless, factoring in the incremental debt, debt by enterprise value for all 34 assets is expected to remain slightly above 50%. As indicated by management, the InvIT is evaluating new assets for further acquisition. Hence, any debt-funded acquisition by InvIT, leading to increase in the leverage of the InvIT will be a key rating monitorable.

Established track record of receipt of distribution income albeit lower than envisaged in SIIPL

Operational nature of projects of InvIT coupled with cash pooling of underlying SPVs leads to healthy cash flows at InvIT level. As per the regulatory requirements, at least 90% of the net distributable cashflows is to be distributed to unit holders of InvIT. Accordingly, SIIPL has track record of receipt of ten distributions made between November 2021 to January 2024.

However, due to retention of ₹350 crore at InvIT level during 9MFY24, net distributable cashflow and consequently cash inflow to SIIPL has moderated. It is expected to remain lower than earlier estimates for the year ended March 2024. As indicated by the management, of the retained amount of ₹350 crore, ₹200 crore has been paid to Dilip Buildcon Limited (DBL) towards the on-going acquisition of assets which initially was expected to be funded through the incremental term debt raised at InvIT level while balance has been retained for contingency including towards future acquisition of assets, if any.

Earlier in May 2023, CARE Ratings was given to understand that the deal valuation pertaining to proposed acquisition of 10 HAM projects has undergone change thereby necessitating incremental debt of ₹325 crore. The aforesaid debt was proposed to be availed at SIIPL level to acquire additional InvIT units, cash flow (dividend income) of which would be available to service the rated debt.

In contrast to this, the incremental debt of ₹230 crore raised by SIIPL was advanced to other group entity- Shrem Investment Private Limited (SIPL), which in turn acquired the additional InvIT units. The said transaction led to incremental debt at SIIPL level with no corresponding increase in InvIT units as envisaged. As indicated by the management, the cash inflow from such acquired units shall be passed on by SIPL to SIIPL. However, as per CARE Ratings, in absence of escrow-backed mechanism for SIIPL's rated debt facility, high degree of cash flow fungibility within the Shrem group combined with deviation from earlier management stance of acquiring additional units under SIIPL accentuates the financial risk. Nonetheless, CARE Ratings notes SIIPL's intent to pre-pay the entire MLDs, which shall reduce the external indebtedness by FY24-end. Going forward, any further deterioration in cash inflow from InvIT leading to moderation in the debt coverage indicators from current level is the key rating sensitivity.

Key weaknesses

Limited revenue diversification

SIIPL is entirely dependent on distribution income from InvIT. Hence, any change in the frequency of distribution by Shrem InvIT or lower-than-envisaged distribution shall impact the company's debt coverage indicators. Although track record of distribution is established with receipt of 10 distributions till date, single revenue source exposes it to concentration risk.

Dependency on single O&M contractor as well as assets from single developer

DBL is the O&M contractor (both routine and periodic) for all the 34 projects during the balance concession period. There is an arrangement wherein the toll revenue of 11 state SPVs (10 toll plus annuity, one toll) would be passed on to DBL for carrying out O&M activities (both routine and periodic) for 14 state road SPVs during the balance concession period. For the other 10 SPVs (three state annuity, six NHAI HAM and one MORTH HAM), there is an annual fixed-price contract with DBL for taking up routine and major maintenance activities for the entire concession period. DBL has also been appointed as the O&M contractor for the new 10 HAM assets with a fixed-price contract.

For existing 24 projects, no MM reserve is being maintained as those assets are built on rigid pavement. The fixed-price contract with DBL provides some cushion, however in case of any moderation in the financial risk profile of DBL, it exposes InvIT to the risk of inferior quality maintenance. As indicated by the management, payment to DBL is released after successful receipt of annuity payment. Adequate O&M and MM assumptions are in line with other CARE Ratings' rated HAM peers which also reduces the risk to an extent. Management has indicated that built-in MM costs for the future years provides cushion and sufficiency to meet required O&M and MM. Outstanding defect liability period (DLP) deposit (for the six existing HAM projects) and O&M Deposit (under 14 State projects) of ₹216 crore as on March 31, 2023, mitigates the O&M contractor risk to an extent. Any annuity deductions from the authorities on account of O&M deficiencies will be adjusted in the O&M payments to DBL. For the units given to DBL against 10 new projects, units equivalent to 15% of the deal value shall have non disposal undertaking (NDU) till the life of concession where in DBL shall not be allowed to sell those units.

Moderate leverage

SIIPL has an outstanding debt of ₹763 crore as on January 31, 2024 on consolidated basis including incremental debt of ₹105 crore being availed by SEPL. In addition to that, the same has been utilised towards purchasing SIIPL's MLD through the other Shrem group entities. As indicated by management, of the total MLDs of ₹274 crore, MLDs to the tune of ₹253 crore is being bought out by the Shrem group companies from existing investor and the entire MLDs will be redeemed by March 2024.

With lower-than-envisaged distributions from InvIT coupled with part transfer of InvIT units to the other Shrem group entity instead of SIIPL, the debt coverage indicators shall be moderated in FY24. However, on an overall basis, the coverage metrics are expected to remain comfortable. Yet, any further incremental increase in consolidated debt levels of SIIPL impacting the coverage metrics constitute as a key ratings sensitivity.

Ratings also note pledge creation of upto 87% of the outstanding units of SIIPL towards outstanding debt as well as for security purpose necessary to maintain security cover of 2.25x of the aforesaid debt raised. As per the debt financing terms, consolidated external debt shall not exceed 25% of the value of units held is viewed as credit positive.

Limited track record of sponsor in the infrastructure

The Shrem group has a limited experience of six years in infrastructure segment. The Shrem group has investments across the infrastructure, real estate, telecom, healthcare and hospitality sectors. It had diversified real estate investment holdings across Mumbai, Pune, Goa, Bangalore and the National Capital Region. The group is currently constructing a Fairmont Brand Hotel, the largest hotel in Mumbai in partnership with Accor Hotels, a France-based leading hospitality company. Two of the Shrem group entities, which are the associates of SIIPL, have been mentioned in the Grant Thornton report dated December 5, 2020 in connection with Dewan Housing Finance Limited Corporation's Insolvency and Bankruptcy Board of India proceedings. As per settlement deed dated November 07, 2023 signed between Piramal Capital & Housing Finance Limited (PCHFL) (previously DHFL) and the Shrem group entities, the group entities have settled the outstanding dues. SIIPL's management has confirmed that there has been no irregularity by any of the Shrem group entities with regard to the transaction. Any adverse outcome of the above litigation is one of the key rating sensitivities.

Liquidity: Adequate

SIIPL's liquidity is adequate against its debt obligations which is expected to be comfortably met through its cash flows from operations marked by free cash and bank of ₹135 crore. The liquidity is anticipated to be supported by timely distribution expected from InvIT. As articulated by management, it will retire the MLD (including MLDs bought out by group company) before March 2023 and hence MLD reserve creation shall not be required which shall support the liquidity. SIIPL is required to maintain a DSRA under the financing terms of NCDs of which SIIPL has already maintained DSRA to the tune of ₹38 crore as on January 31, 2024 over and above free cash and balance.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Market Linked Notes](#)

[Rating Outlook and Credit Watch](#)

[Hybrid Annuity Model based road projects](#)

[Infrastructure Investment Trusts \(InvITs\)](#)

[Toll Road Projects](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

SIIPL is engaged in business of infrastructure development and is the sponsor of "Shrem InvIT" acquired from DBL. The InvIT has been formed under the Indian Trust Act, 1882 and an approval has been received from the SEBI for the InvIT. The InvIT has recently completed acquisition of undergoing 10 assets from DBL wherein nine projects are completely acquired while in one project, stake of 49% has been acquired. Balance acquisition stake in one project is likely to be completed by FY25. Thereby, the portfolio of Shrem InvIT is increased to 34 assets.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	152.01	145.39	198.77
PBILDT	148.08	135.84	188.78
PAT	1,992.74	97.30	129.07
Overall gearing (times)	0.28	0.17	NA
Interest coverage (times)	16.25	3.00	3.97

A: Audited UA: Unaudited; NA: Not available Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

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

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
MLD	INE391V07067	10-Mar-2022	G-sec linked	10-Jun-2024	137.00	CARE PP-MLD AA-; Stable
MLD	INE391V07075	10-Mar-2022	G-sec linked	10-Sep-2024	137.00	CARE PP-MLD AA-; Stable
NCD	INE391V07026	14-Sep-2021	14.25	20-Dec-2024	50.00	CARE AA-; Stable
NCD	INE391V07034, INE391V07042	25-Feb-2022	8.39	31-Aug-2024	105.00	CARE AA-; Stable
NCD	INE391V07109	09-May-2023	9.75	15-May-2028	120.00	CARE AA-; Stable
NCD	INE391V07133	15-Jun-2023	9.75	15-May-2028	60.00	CARE AA-; Stable
NCD	INE391V07125	18-May-2023	9.75	15-May-2025	50.00	CARE AA-; Stable
Proposed NCD	-	Proposed	-	Proposed	95.00	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 2023-2024	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
1	Debentures-Non Convertible Debentures	LT*	480.00	CARE AA-; Stable	1)CARE AA; Stable (19-May-23)	-	-	-
2	Debentures-Market Linked Debentures	LT	274.00	CARE PP-MLD AA-; Stable	1)CARE PP-MLD AA; Stable (19-May-23)	-	-	-

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Market Linked Debentures	Highly Complex
2	Debentures-Non Convertible Debentures	Complex

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Shrem Enterprises Private Limited	100%	Wholly owned subsidiary

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

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Rajashree Murkute Senior Director CARE Ratings Limited Phone: 022-68374474 E-mail: Rajashree.murkute@careedge.in</p> <p>Maulesh Desai Director CARE Ratings Limited Phone: 079-40265605 E-mail: maulesh.desai@careedge.in</p> <p>Palak Sahil Vyas Associate Director CARE Ratings Limited Phone: 079-40265615 E-mail: palak.gandhi@careedge.in</p>
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About us:

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Disclaimer:

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