

India Ratings Assigns Kerala Infrastructure Investment Fund Board's NCDs Final 'IND AA(CE)/Stable; Affirms Existing Ratings

Jan 21, 2025 | Development Authority

India Ratings and Research (Ind-Ra) has taken the following rating actions on Kerala Infrastructure Investment Fund Board's (KIIFB) non-convertible debentures (NCDs):

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*,\$,#	-	-	-	INR5,000.10	IND AA(CE)/Stable	Assigned
Proposed non-convertible debentures \$,^	-	-	-	INR14,999.69 (reduced from INR19,999.79)	Provisional IND AA(CE)/Stable	Affirmed
Non-convertible debentures*, \$	-	-	-	INR36,499.40	IND AA(CE)/Stable	Affirmed

\$Credit ratings with (CE) suffix indicates that the instruments are supported by an external explicit credit enhancement (CE). Please refer to section DISCLOSURES FOR CE RATING for additional details as per The Securities and Exchange Board of India's (SEBI) master circular dated 6 July 2023.

#The assignment of the final rating follows the receipt of key executed transaction documents conforming to the information already received by Ind-Ra and the creation of a debt service reserve and fixed deposit (FD) 27 December 2024, respectively. The final rating is, therefore, the same as the provisional rating assigned on 21 August 2024. The key documents received are information memorandum, debenture trustee deed, deed of guarantee, deed of hypothecation, and accounts agreement. A detailed break-up of the NCDs is mentioned in the annexure.

^The rating on the proposed non-convertible debentures (NCDs) is provisional and contingent upon the execution of certain documents and/ occurrence of certain steps. Please refer to section DISCLOSURES FOR PROVISIONAL RATING for additional details as per SEBI master circular.

*Details in Annexure I

Analytical Approach

Ind-Ra continues to take a standalone view of KIIFB to arrive at the ratings. Ind-Ra classifies KIIFB as a dependent entity of the government of Kerala (GoKe) under its rating of Public Sector Entities criteria. The NCD rating draws comfort from the credit profile of the GoKe, which has extended an unconditional and irrevocable guarantee for the debt issuance. The bond rating is notched up on the basis of the pledged revenue, the strength of the structured payment mechanism based on the draft term sheet, and the likely adequate debt service coverage.

Detailed Rationale of the Rating Action

The instrument ratings are based on the continued strong legal and financial linkages between KIIFB and the GoKe, and Ind-Ra has notched them up based on the structured payment mechanism, which is working as it was hypothesised. The collections from the unrestricted pledged receivables, in the form of motor vehicle tax (MVT) and cess on petroleum receipts, allocated to KIIFB by the GoKe, are in line with Ind-Ra's expectations. Resultantly, neither the debt service reserve account (DSRA) has been used nor the GoKe guarantee and DSRA guarantee have been invoked.

Ind-Ra has rated the new and proposed NCDs at the same level as the existing ones on the basis that a similar structured payment mechanism will be followed for them except for the corpus fund. However, unlike in the earlier structure where a recourse to the corpus fund was made in instances such as DSRA impairment/cross default, the current structure takes a recourse to the GoKe to replenish the shortfall in the DSRA as well as infusing funds to meet any shortfall in redeeming NCDs to the bondholders in case of a cross default. In the new structure, the GoKe takes the responsibility of replenishing the upfront fixed deposit (FD) and infusing funds to KIIFB for redeeming bondholders in case of a cross default, along with the responsibilities as per the earlier transaction structure. For the new and proposed bonds, Ind-Ra takes comfort from the unconditional, irrevocable and continuing pre-default guarantee agreement executed between the GoKe and KIIFB, which will remain in force and effect until the NCDs are fully redeemed as per draft the deed of guarantee. Basis the pre-default guarantee and enforceability of the guarantee, Ind-Ra has assigned a CE suffix to the NCD rating, and the base rating of the transaction is linked to the credit profile of GoKe for the new and proposed bonds.

For the existing NCDs, Ind-Ra takes comfort from the unconditional, irrevocable and continuing pre-default guarantee agreement executed between the GoKe and KIIFB, which will remain in force and effect until the NCDs are fully redeemed. The guarantee is also available to replenish the DSRA, if it is utilised to meet debt payment obligations. Basis the pre-default guarantee and enforceability of the guarantee, Ind-Ra has assigned a CE suffix to the NCD rating, and the base rating of the transaction is linked to the credit profile of GoKe for the existing bonds.

The ratings of the new, proposed and existing NCDs are further notched up based on the transaction structure. The ratings also factor in the legal and financial strengths of the transaction structure, which will be monitored and controlled by the debenture trustee (DT). The payment mechanism of all new, proposed and existing bonds is backed by a bond servicing account (BSA), a pre-funded (initial DSRA and FD are (to be) created one day before the pay-in date) one-quarter DSRA and an FD sufficient to meet one-quarter of interest and principal obligations throughout the bond tenor. The DSRA and FDs are liened in favour of the trustee and can be used only for debt servicing.

List of Key Rating Drivers

Strengths

- Adequacy of pledged revenue
- DSRA and corpus fund
- Structured payment mechanism
- Transaction structural features
- Shortfall guarantee from GoKe
- GoKe's ownership and control of KIIFB
- Fiscal prudence in FY24 and FY25

Weaknesses

- Potential revenue risk during an adverse economic situation
- Kerala's moderate economic performance
- State's high debt burden

Detailed Description of Key Rating Drivers

Adequacy of Pledged Revenue: Ind-Ra expects the pledged revenue to comfortably meet the debt service obligations of the bonds throughout the tenor. Under the transaction structure, the MVT and petroleum cess received in KIIFB's collection account daily during April to December every year, will be deposited in KIIFB's BSA. The interest servicing and repayment of the bonds will be made from the build-up of such allocated cash flows, through regular transfers, in the bond servicing escrow account. Ind-Ra expects the revenue pledged to adequately provide a minimum cover of 1.2x of its debt service payments under the rating case scenario without using liquidity buffers in the medium term. The NCDs are issued at a fixed rate of interest that mitigates the interest rate risk.

The transfer to BSA will be done in a manner such that the amount required for servicing NCDs gets fully built-up at least seven days prior to the quarterly servicing date. The MVT and cess allocation by the GoKe increased at a CAGR of 11% during FY20-FY24. The GoKe is required to ensure that the funds allocated to KIIFB grow at least 10% yoy. For any shortfall in cash flow during a financial year, the structure draws support from the statutory obligation of the government to cover the shortfall under the KIIF Act 2016.

DSRA and Corpus Fund: A one-quarter DSRA and an FD sufficient to meet one-quarter interest and principal obligations throughout the bond tenor has been created and will be created one day before the pay-in date for all the existing, and new and proposed bonds, respectively. Also, the terms of the new and proposed bonds are similar as the existing set of bonds, basis the draft term sheet and draft NCD documents except for the availability of the corpus fund. The corpus fund has been enhanced to INR33,270.19 million as of February 2024 from INR28,204.90 million to adhere to the condition that the bond issuance is kept at maximum of 80% of the corpus fund for existing issuances.

Structured Payment Mechanism: Ind-Ra expects the structured payment mechanism overseen by the trustees to protect the interest of bondholders. As per the draft documents received from the management, the structure remains similar for the proposed bonds as well except for the corpus fund. Unlike in the earlier structure where a recourse to the corpus fund was made in instances such as a DSRA impairment/in case of cross default, the current structure takes a recourse to the GoKe to replenish the shortfall in the DSRA as well as infusing funds to meet any shortfall in redeeming NCDs to the bondholders in case of a cross default. In the new structure, the GoKe takes responsibility of replenishing the upfront FD and infusing funds to KIIFB for redeeming bondholders in case of a cross default in addition to the responsibilities as per the earlier transaction structure.

Under the structured payment mechanism, from the first day of each quarterly servicing cycle, an amount equivalent to 2% of the aggregate quarterly servicing requirement of the outstanding bonds will be transferred to KIIFB's BSA, by way of an irrevocable standing instruction to the collection bank, until the required debt servicing amount is fully built up (pay-out date (T)) T-7 days before the due date of the payment. This transfer will continue each working day from April to December. For the period of 1 January to 31 March, KIIFB shall transfer an upfront amount on 1 January each year to KIIFB's BSA. The upfront amount will be equivalent to the amount required towards the aggregate daily transfer amounts for the said period.

The DT would monitor the adequacy of the availability of funds in BSA, and in case of any inadequacy, would fund the same through liquidation of FD to the extent of such shortfall (T-7 days). In case of a shortfall in the BSA by T-5 day, DT would advise KIIFB to immediately bridge the shortfall, under intimation to the state government. If the shortfall persists on T-3 day, DT will transfer the requisite funds from the DSRA to bridge the gap.

In case the funds available in DSRA are lower than the servicing requirement for the immediate next servicing date (T + 91), DT would serve a notice to KIIFB on T+ 1 day to fully replenish the DSRA impairment through the transfer of requisite amount from the corpus fund within T + 6 days for the existing bonds.

The structure payment mechanism is provided in detail for the new and proposed NCDs in the Any Other Information section below.

Transaction Structural Features: All existing, new and proposed bonds are also secured by an exclusive charge on KIIFB's BSA, DSRA and FD in favour of DT. The GoKe has agreed to unconditionally and irrevocably guarantee the bonds raised by KIIFB; the guarantee is continuing in nature and through the tenor of the bonds for the principal and interest as per deed of guarantee for the existing bonds and the executed deed of guarantee for the new bonds to the tune of INR19,999.7 million, of which issued bonds were to the tune of INR5,000.10 million. The corpus fund is unavailable for the proposed bonds and in the new structure, the GoKe takes the responsibility of replenishing the upfront FD/DSRA and infusing funds to KIIFB for redeeming the bondholders in case of a cross default in addition to the responsibilities as per the earlier transaction structure.

Separately, for the existing bonds, KIIFB has extended an unconditional and irrevocable undertaking that in the event the DSRA is utilised for meeting any debt servicing requirement for NCDs, it would arrange to release the requisite amount from the corpus fund to replenish DSRA. As per the undertaking, KIIFB would not impair this corpus fund in any way during the tenor of the NCDs and an amount of INR33,270.19 million (FYE24) would always be maintained as the corpus to fully reinstate the DSRA. There would be no charge or lien on the corpus fund in favour of DT. However, DT would monitor the corpus fund. The corpus fund was enhanced in FY24 for a further fund raise through the NCDs route.

For the existing bonds, in case of a cross default/acceleration under agreements (subject to relevant cure periods) for any financial indebtedness of KIIFB or its subsidiaries, KIIFB would repay bondholders the entire amount of the outstanding bonds from the corpus fund within seven days from the date of occurrence of such cross-default/acceleration, failing which it shall constitute an event of default for the existing bonds. For the new and proposed bonds, the bondholders are provided a put option in case of cross default.

Shortfall Guarantee from GoKe: For the new and proposed bonds, the GoKe has extended a guarantee to fund DSRA and FD shortfall within the specified timeline. Unlike in the earlier structure where a recourse to the corpus fund was made in instances such as a DSRA impairment/ in case of cross default, the current structure takes a recourse to the GoKe to replenish the shortfall in DSRA, FD as well as infusing funds to meet any shortfall in redeeming NCDs to the bond holders in case of cross default.

The deed of guarantee would specifically provide obligation on the part of the GoKe to fund the shortfall in DSRA and FD when called upon by DT, as per the stipulated timeline, in case of new and proposed bonds. The structure payment mechanism is provided in detail for the new and proposed NCDs in the Any Other Information section below.

The GoKe has extended a guarantee to fund only DSRA shortfall within the specified timeline for the existing bonds. In the event of the DSRA not getting fully reinstated by T+6 days, DT would notify the state government about its intention for an invocation of the guarantee if the shortfall were not fully bridged by T+27 days. The deed of guarantee specifically provides obligation on the part of the GoKe to fund the shortfall in DSRA when called upon by DT, as per the above stipulated timeline. If the guaranteed obligations are not met by the GoKe within 30 days of the guaranteed invocation, it would be construed as an event of default, as per the terms of the transaction. Ind-Ra, in its analysis, has stressed the GoKe's credit profile by considering a sizeable portion of the guarantee to devolve. As per Ind-Ra's analysis, the guarantor, even in the stress scenario, is likely to meet all the guaranteed debt obligations.

GoKe's Ownership and Control of KIIFB: Ind-Ra has classified KIIFB as a dependent public sector entity under its Rating of Public Sector Entities criteria. The GoKe exercises significant control over KIIFB's policy objective and governs the composition and functioning of the board. Moreover, KIIFB is fully owned by the GoKe. The government has enacted the necessary legislation to enable the board to mobilise funds for the infrastructure development of Kerala. The GoKe also exercises significant control over the working of KIIFB through its board, which comprises senior state government officials along with independent members. As per section 7 of Kerala Infrastructure Investment Fund (Amendment) Act, 2016 on budgetary allocation for repayment, the GoKe from time to time will provide in its annual budget the expenses incurred for the payment of annuity and other obligations of KIIFB in the form of MVT and petroleum cess. The GoKe may further make grants, loans and advances available to the fund as it may deem fit.

Fiscal Prudence in FY24 & FY25: As per the provisional accounts by the Comptroller and Auditor General of India (CAG), there was a shortfall in total receipts (INR132.66 billion) which led to a cut down of the total expenditure (INR199.52 billion). The shortfall in receipts largely emanated from the receipts from the union government (grants: INR44.25 billion and tax devolution: INR73.32 billion) as own revenues were marginally lower (SOTE: INR5.0 billion and SONTR: INR7.7 billion). On the other hand, there was curtailment of current expenditure

to the tune of INR196.19 billion in FY24 (provisional (P)) compared to budget estimates. Favorably, the capex target was broadly met as it was 98.0% of the FY24 budgeted sum in FY24 (P). All this resulted in the revenue deficit of the state improving to 1.5% of GSDP in FY24 (P) (FY24 (BE): 2.1%). Consequently, the fiscal deficit stood at 2.8% of GSDP in FY24 (P), much lower than 3.5% as per FY24BE.

For FY25, the state government expects the revenue deficit to be 2.1% and the fiscal deficit to be 3.4% of GSDP. The overall gross market borrowings of the state amounted to INR424.38 billion (3.6% of GSDP) in FY24. The state borrowed INR136.08 billion in March 2024, by way of dated securities of various tenors, with a weighted average yield of 7.42%, closer to that of dated securities issued by other states. The net market borrowings stood at INR266.38 billion (2.3% of GSDP) in FY24.

The debt of the state has been budgeted at 34.2% of GSDP in FY25, which will be higher than the corresponding indicative debt estimate of 32.8% of GSDP for the state government, as per the 15th Financial Commission (FC). The guarantees stood at INR503.7 billion, growing 13.5% in FY23, and once included in the state debt, the combined liabilities of the state stood at 39.4% of GSDP in FY23 (FY21: 43.2%).

Potential Revenue Risk during Adverse Economic Situation: Ind-Ra does not rule out the possibility of a reduction of MVT due to an adverse economic situation, which may pan out during the bond tenor, and a reduction in petroleum cess due to a shift to electrical vehicles. However, the liquidity buffers by way of FD and DSRA and an unconditional, irrevocable and continuing guarantee by the GoKe towards DSRA replenishment for both the bonds and FD replenishment for new and proposed bonds under the transaction structure mitigate the risk from inadequate cash flows for debt payments. Ind-Ra believes the GoKe would ensure the budgetary allocation to KIIFB by way of MVT and cess is adequate to meet its debt servicing obligations and fund infrastructure development activity.

Kerala’s Moderate Economic Performance: The share of agriculture and industry in the state economy is lower while that of services is higher than their respective shares in the national economy. The share of industry in Kerala was lower at 27.4% than 30.9% at the national level in FY24. The share of services was higher at 64.2% than the sector’s share in the national economy of 54.6% in FY24. With a CAGR of 4.4%, Kerala’s economy grew slower than the nation’s gross value-added (GVA) growth rate of 5.8% during FY12-FY24. The state’s contribution to the national economy was 3.8% in FY24 (FY12: 4.1%).

State’s High Debt Burden: The debt of the state has been budgeted at 34.2% of GSDP in FY25 which would be higher than the corresponding indicative debt estimate of 32.8% of GSDP for the state government, as per the 15th financial commission. The guarantees stood at INR503.7 billion in FY23, growing 13.5% yoy, and once included in the state debt, the combined liabilities of the state stood at 39.4% of GSDP in FY23 (FY21: 43.2%).

Liquidity

Adequate: Liquidity is supported by daily transfers of MVT and petroleum cess, which are escrowed for debt servicing. KIIFB had surplus liquidity of INR33,270 million by way of the corpus fund at FYE24 (audited). It has already received INR31,300 million during FY25 as the share of MVT and petroleum cess from the GoKe. It is likely to receive INR5,651.80 million as lump-sum allocation during 4QFY25 from the GoKe. Any shortfall in the said funds would be supported by the state government in the form of additional support as required.

The total liquidity available with KIIFB, including cash and bank balances, DSRA deposits for existing debt, corpus fund and investments, was INR71,903.14 million at FYE24. The NCDs benefit from the liquidity buffers by way of a one-quarter pre-funded DSRA and an FD to the extent of interest obligations of one succeeding quarter and a principal redemption amount of one quarter upfront that would be maintained throughout the tenure of NCDs.

The company is required to maintain a DSRA equivalent of one-quarter interest and principal obligations throughout the tenor of NCDs. In accordance with the terms of the structure, a one-quarter DSRA and a one-quarter interest and principal obligations in the form of FDs worth INR2,442.31 million have been created cumulatively (for the existing and new bonds).

The corpus fund can be utilised for replenishing DSRA, put option on a critical rating downgrade notice, cross default mandatory redemption and early redemption only in case of the existing bonds (in the event KIIFB is required to replenish any shortfall in the DSRA for the third consecutive quarter). Ind-Ra expects the cash debt service coverage ratio for FY25 to be comfortably above 1.3x of the debt service payments, based on the rating case scenario (FY24: 2.31x; FY23: 3.13x; including liquidity buffers such as cash and bank balances and investments). The total debt servicing obligation for FY25 and FY26 as per agency's projections are INR44,375.34 million and INR52,599.28 million, respectively, which can be comfortably covered by the existing cash reserves and the budgetary allocation to be received of MVT and petroleum cess from the GoKe.

Rating Sensitivities

Positive: Any improvement in the credit profile of the GoKe will be positive for the ratings.

Negative: The following developments could, individually or collectively, lead to a negative rating action:

- deterioration in the credit profile of the GoKe;
- the DSCR falling below 1.2x for two consecutive years during the bond tenor;
- continuous dipping into liquidity buffers for two consecutive quarters;
- the invocation of the GoKe’s guarantee; and
- a failure or breach to comply with Securities and Exchange Board of India’s listing requirements with regard to timely disclosure on a sustained basis.

Disclosures for CE Rating

1) UNSUPPORTED RATING

Ind-Ra has affirmed the unsupported rating at ‘IND A-/Stable.

ANALYTICAL APPROACH

The NCD rating is supported by the credit profile of the GoKe, the nature of the pledged revenue, the strength of the structured payment mechanism based on the term sheet for existing bonds & new bonds and draft term sheet for proposed bonds, and the likely adequate debt service coverage ratio.

DETAILED RATIONALE OF THE RATING ACTION

Ind-Ra has classified KIIFB as a dependent public sector entity under its Rating of Public Sector Entities criteria. The unsupported rating considers the legal status of the entity, the significant control exercised by the GoKe over its policy objective, and the composition and functioning of the board.

LIST OF KEY RATING DRIVERS

Strengths

- GoKe’s ownership and control of KIIFB
- Fiscal prudence in FY24 and FY25

Weaknesses

- Potential revenue risk during adverse economic situation
- Kerala's moderate economic performance
- State's high debt burden

DETAILED DESCRIPTION OF KEY RATING DRIVERS

GoKe's Ownership and Control of KIIFB: Ind-Ra has classified KIIFB as a dependent public sector entity under its Rating of Public Sector Entities criteria. The GoKe exercises significant control over KIIFB's policy objective and governs the composition and functioning of the board. Moreover, KIIFB is fully owned by the GoKe. The government has enacted the necessary legislation to enable the board to mobilise funds for the infrastructure development of Kerala. The GoKe also exercises significant control over the working of KIIFB through its board, which comprises senior state government officials along with independent members. As per section 7 of Kerala Infrastructure Investment Fund (Amendment) Act, 2016 on budgetary allocation for repayment, the GoKe from time to time will provide in its annual budget the expenses incurred for the payment of annuity and other obligations of KIIFB in the form of MVT and petroleum cess. The GoKe may further make grants, loans and advances available to the fund as it may deem fit.

Fiscal Prudence in FY24 & FY25: As per the provisional accounts by the CAG, there was a shortfall in total receipts (INR132.66 billion) which led to a cut down of the total expenditure (INR199.52 billion). The shortfall in receipts largely emanated from the receipts from the union government (grants: INR44.25 billion & tax devolution: INR73.32 billion) as own revenues were marginally lower (SOTE: INR5.0 billion and SONTR: INR7.7 billion). On the other hand, there was curtailment of current expenditure to the tune of INR196.19 billion in FY24 (P) compared to budget estimates. Favourably, the capex target was broadly met as it was 98.0% of the FY24 budgeted sum in FY24 (P). All this resulted in the revenue deficit of the state improving to 1.5% of GSDP in FY24 (P) (FY24 (BE): 2.1%). Consequently, the fiscal deficit stood at 2.8% of GSDP in FY24 (P), much lower than 3.5% as per FY24BE.

For FY25, the state government expects the revenue deficit to be 2.1% and the fiscal deficit to be 3.4% of GSDP. The overall gross market borrowings of the state amounted to INR424.38 billion (3.6% of GSDP) in FY24. The state borrowed INR136.08 billion in March 2024, by way of dated securities of various tenors, with a weighted average yield of 7.42%, closer to that of dated securities issued by other states. The net market borrowings stood at INR266.38 billion (2.3% of GSDP) in FY24.

The debt of the state has been budgeted at 34.2% of GSDP in FY25 which would be higher than the corresponding indicative debt estimate of 32.8% of GSDP for the state government, as per the 15th FC. The guarantees stood at INR503.7 billion, growing 13.5% in FY23, and once included in the state debt, the combined liabilities of the state stood at 39.4% of GSDP in FY23 (FY21: 43.2%).

Potential Revenue Risk during Adverse Economic Situation: Ind-Ra does not rule out the possibility of a reduction of MVT due to an adverse economic situation, which may pan out during the bond tenor, and a reduction in petroleum cess due to a shift to electrical vehicles. However, the liquidity buffers by way of FD and DSRA and an unconditional, irrevocable and continuing guarantee by the GoKe towards DSRA replenishment under the transaction structure mitigate the risk from inadequate cash flows for debt payments. Ind-Ra believes the GoKe would ensure the budgetary allocation to KIIFB by way of MVT and cess is adequate to meet its debt servicing obligations and fund infrastructure development activity.

Kerala's Moderate Economic Performance: The share of agriculture and industry in the state economy is lower while that of services is higher than their respective shares in the national economy. The share of industry in Kerala was lower at 27.4% than 30.9% at the national level in FY24. The share of services was higher at 64.2% than the sector's share in the national economy of 54.6% in FY24. With a CAGR of 4.4%, Kerala's economy grew slower than the nation's gross value-added (GVA) growth rate of 5.8% during FY12-FY24. The state's contribution to the national economy was 3.8% in FY24 (FY12: 4.1%).

State's High Debt Burden: The debt of the state has been budgeted at 34.2% of GSDP in FY25 which would be higher than the corresponding indicative debt estimate of 32.8% of GSDP for the state government, as per the 15th financial commission. The guarantees stood at INR503.7 billion in FY23, growing 13.5% yoy, and once included in the state debt, the combined liabilities of the state stood at 39.4% of GSDP in FY23 (FY21: 43.2%).

The liquidity profile for the unsupported rating are the same as that for the NCDs.

RATING SENSITIVITIES

Positive: Any improvement in the credit profile of the GoKe will be positive for the ratings.

Negative: A negative rating action could result, individually or collectively, from the following

- a weakening of the linkages with the GoKe
- deterioration in the GoKe's credit profile

2) INSTRUMENT COVENANTS

The issuer shall ensure that, in respect of any relevant period, the liability service coverage ratio for such relevant period shall not be less than 1.1x. The liability service coverage ratio means the ratio of FC cash flow to liability service;

FC cash flow means, with respect to any relevant period, the aggregate of: (a) a share of MVT and cess levied on petroleum products received by the issuer pursuant to KIIF Act; (b) any other amount appropriated by the GoKe for the issuer's sole usage; (c) any other payments to the issuer other than proceeds from any financial indebtedness; and (d) the total amount of cash and cash equivalent investments controlled by the issuer at the beginning of the relevant period, excluding any DSRA and sinking fund or any other debt servicing account of similar intent; and

Liability service means, with respect to the relevant period, the aggregate of: (a) all scheduled payments (including balloon payments) on account of principal and interest and other charges on all financial indebtedness, as applicable and (b) any payment made or required to be made to any debt service account under the terms of any agreement providing for any financial indebtedness.

3) ADEQUACY OF CE STRUCTURE

1. Shortfall Guarantee from GoKe: For the new & proposed bonds the GoKe takes the responsibility of replenishing the upfront FD and infusing funds to KIIFB for redeeming bondholders in case of cross default in addition to the responsibilities as per the earlier transaction structure. The GoKe has extended a guarantee to fund DSRA and FD shortfall within the specified timeline. Unlike in the earlier structure where a recourse to the corpus fund was made in instances such as a DSRA impairment/ in case of cross default, the current structure takes a recourse to the GoKe to replenish the shortfall in DSRA, FD as well as infusing funds to meet any shortfall in redeeming NCDs to the bond holders in case of cross default. The deed of guarantee would specifically provide obligation on the part of the GoKe to fund the shortfall in DSRA and FD when called upon by DT, as per the stipulated timeline. The structure payment mechanism is provided in detail for new & proposed NCDs in the Any Other Information section below.

The GoKe has extended a guarantee to fund only DSRA shortfall within the specified timeline for the existing bonds. In the event of DSRA not getting fully reinstated by T+6 days, DT would notify the state government about its intention for an invocation of the guarantee if the shortfall were not fully bridged by T+27 days. The deed of guarantee would specifically provide obligation on the part of the GoKe to fund the shortfall in DSRA when called upon by DT, as per the above stipulated timeline. If the guarantee obligations are not met by the GoKe within 30 days of guarantee invocation, it would be construed as an event of default, as per terms of the transaction. Ind-Ra, in its analysis, has stressed the GoKe's credit profile by considering a sizeable portion of the guarantee to devolve. As per Ind-Ra's analysis, the guarantor, even in the stress scenario, is likely to meet all the guaranteed debt obligations.

2. State Government Guarantee: The guarantee is unconditional and irrevocable and is a continuing obligation. The guarantee will remain in force and effect until the NCDs are fully redeemed.

Ind-Ra, in its analysis, has stressed the GoKe’s credit profile by considering a sizeable portion of the guarantee to devolve. As per Ind-Ra’s analysis, the guarantor, even in the stress scenario, is likely to meet all the guaranteed debt obligations.

Disclosures for Provisional Rating

1) RATING THAT WOULD HAVE BEEN ASSIGNED IN ABSENCE OF THE PENDING STEPS/ DOCUMENTATION

Ind-Ra would have assigned 'IND A-/Stable in absence of the pending steps/documentation.

2) PENDING STEPS/ DOCUMENTATION CONSIDERED WHILE AFFIRMING PROVISIONAL RATING AND RISKS ASSOCIATED WITH THE PROVISIONAL NATURE OF THE CREDIT RATING:

S.no.	Pending Critical Documentation while Affirming Provisional Rating*	Risks Associated with Provisional Nature of Credit Rating in the Absence of Completed Documentation or Change in Documentation
1	Final term sheet	In the absence of executed documents or the final executed documents deviate from the draft documents submitted at the time of provisional rating, the transaction structure would be weak.
2	Debenture trust deed	
3	Deed of guarantee	
4	Accounts agreement	
5	Creation of DSRA and fixed deposit	Non-creation of DSRA and fixed deposit would increase the vulnerability to cashflow mismatches and the risk of timely debt servicing.
6	Deed of hypothecation	In the absence of executed documents or the final executed documents deviate from the draft documents submitted at the time of provisional rating, the transaction structure would be weak.

*Additionally, any other relevant documents executed for the transaction should be provided to the agency.

3) VALIDITY PERIOD

The final rating, upon the receipt of executed documents consistent with the draft documents, shall be assigned within 90 days from the date of issuance of the instrument. The provisional rating may be extended by another 90 days, subject to Ind-Ra’s policy, if the execution of the documents is pending.

Any Other Information

For New and Proposed Bonds

Interest/principal payment mechanism	
T - Interest/Principal payment date	
Day	
T-7	DT shall independently monitor the amounts required for servicing of the bonds (principal and/or interest as the case may be) in KIIFB’s BSA III 7 days prior to the relevant servicing date (T-7).
T-7	DT should independently monitor the adequacy of availability of such fund in KIIFB’s BSA III seven days prior to the relevant servicing date (T-7), and in case of any inadequacy, fund the same through liquidation of FD to the extent of such shortfall.
T-5	However, if due to any reason, it is not possible to fully fund KIIFB’s BSA III by T-5th day, DT should advise KIIFB to immediately bridge the shortfall, under intimation to the GoK.
T-3	In the event of shortfall persisting on T-3rd day, DT would transfer the requisite funds from the DSRA III to bridge the gap.
T-2	This event of DSRA impairment should be immediately notified to the GoKe by DT on the next day.
T	Interest/principal payment is done
Remedial Action Consequential to Impairment of Upfront FD	
Day	
T-6	In case of any impairment of upfront FD on T-7 to meet the servicing obligation on any payout date (T) resulting in the amount available in the upfront FD less than the stipulated amount for the next quarter, DT shall give a notice to KIIFB on T-6 days to fully replenish such shortfall within the next five days i.e. T-1.
T+1	DT shall check the amount in the upfront FD on due date -T and notice is issued on T+1st day in the event of any shortfall, DT shall notify KIIFB to fund the shortfall within five days (T+6).
T+7	DT shall check the amount available in the upfront FD on T+7 th day and in the event of any shortfall, DT shall notify the GoKe of its intention for invocation of the government guarantee to the extent of such shortfall if the same is not fully bridged within 21 days (T+27).
T+28	If the irregularity continues beyond the above timeline, DT shall invoke the guarantee from the GoKe on the next day (T + 28) to the extent of such shortfall in the upfront FD from the stipulated level.
T+58	The deed of guarantee would specifically provide obligation on the part of the state government to replenish the upfront FD when called upon by DT, as per the above stipulated timeline. If the guaranteed obligations are not met by the state government within 30 days of guarantee invocation, it would be construed as an event of default.
Remedial Action Consequential to Impairment of DSRA	
Day	

T+1	In case of any impairment of DSRA to meet the servicing obligation on any payout date (T) resulting in the amount available in DSRA less than the stipulated amount, DT shall give a reminder notice to KIIFB on T+1 days to fully replenish such shortfall within the next five days.
T+7	DT shall check the amount available in DSRA on T+7th day and in the event of any impairment still persisting, DT shall notify the GoKe of its intention for invocation of the government guarantee to the extent of such impairment/shortfall if the same is not fully bridged within the 21 days (T+27).
T+28	If the irregularity continues beyond the above timeline, DT shall invoke the state government guarantee on the next day (T + 28) to the extent of such shortfall in DSRA III from the stipulated level.
T+58	The deed of guarantee would specifically provide obligation on the part of the state government to fund the shortfall in DSRA III when called upon by DT, as per the above stipulated timeline. If the guaranteed obligations are not met by the state government within 30 days of guaranteed invocation, it would be construed as an event of default.

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 KIIFB, 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

KIIFB, a body corporate created by the Kerala Infrastructure Investment Fund Act 1999 (Act 4 of 2000), came into existence on 11 November 1999 as the principal funding arm of the GoKe. The main objective of KIIFB is to provide investments for critical and large infrastructure projects in the state. Later, comprehensive modifications to the Act have been made through the KIIF (Amendment) Act, 2016. With the expanded scope and structure, KIIFB dynamically mobilises funds for the infrastructure development of Kerala. This also includes major land acquisition needs for infrastructure development. KIIFB resorts to the advanced financial instruments approved by the Securities and Exchange Board of India and the Reserve Bank of India to ensure the development of sustainable infrastructure in Kerala.

Key Financial Indicators

Particulars (INR billion) - KIIFB	FY24	FY23
Revenues	56.29	53.34
Expenditure	66.01	61.87
EBITDA margins (%)	15.51	10.77
Debt/EBITDA(x)	20.49	24.92
Source: KIIFB, Ind-Ra		

Particulars (as % of GSDP) - GoKe	FY24RE	FY25BE
Revenue balance	-2.10	-2.10
Fiscal balance	-3.40	-3.40
Total debt	34.30	34.20
Source: GoKe FY25 Budget, 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 Limits (million)	Rating	28 November 2024	18 October 2024	21 August 2024	19 July 2024	10 April 2024	6 March 2024	27 December 2023	10 November 2023	7 July 2023	5 June 2023	3 May 2023
Non-convertible debentures	Long-term	INR56,499.19	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	IND AA(CE)/Stable	Provisional IND AA(CE)/Stable	Provisional IND AA(CE)/Stable
Unsupported rating	Long-term	-	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Non-convertible debenture	Moderate
Proposed non-convertible debenture	Moderate

Note: The complexity indicator has been assigned as moderate because of the pre-default guarantee agreement executed between the GoKe and KIIFB.

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

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
Non-convertible debentures *	INE658F08037	3 July 2023	8.49	2 July 2027	INR428.60	IND AA(CE)/Stable
Non-convertible debentures *	INE658F08011	3 July 2023	8.49	3 July 2028	INR428.60	IND AA(CE)/Stable
Non-convertible debentures *	INE658F08045	3 July 2023	8.49	3 July 2029	INR428.60	IND AA(CE)/Stable
Non-convertible debentures *	INE658F08029	3 July 2023	8.49	3 July 2030	INR428.60	IND AA(CE)/Stable

Non-convertible debentures *	INE658F08052	3 July 2023	8.49	3 July 2031	INR428.60	IND AA(CE)/Stable
Non-convertible debentures *	INE658F08078	3 July 2023	8.49	2 July 2032	INR428.60	IND AA(CE)/Stable
Non-convertible debentures *	INE658F08060	3 July 2023	8.49	4 July 2033	INR428.60	IND AA(CE)/Stable
Non-convertible debentures	INE658F08086	22 December 2023	8.95	22 December 2027	INR2,142.80	IND AA(CE)/Stable
Non-convertible debentures	INE658F08128	22 December 2023	8.95	22 December 2028	INR2,142.80	IND AA(CE)/Stable
Non-convertible debentures	INE658F08110	22 December 2023	8.95	21 December 2029	INR2,142.80	IND AA(CE)/Stable
Non-convertible debentures	INE658F08102	22 December 2023	8.95	20 December 2030	INR2,142.80	IND AA(CE)/Stable
Non-convertible debentures	INE658F08094	22 December 2023	8.95	22 December 2031	INR2,142.80	IND AA(CE)/Stable
Non-convertible debentures	INE658F08144	22 December 2023	8.95	22 December 2032	INR2,142.80	IND AA(CE)/Stable
Non-convertible debentures	INE658F08136	22 December 2023	8.95	22 December 2033	INR2,142.80	IND AA(CE)/Stable
Non-convertible debentures\$	INE658F08151	26 March 2024	9.10	26 March 2028	INR1,214.20	IND AA(CE)/Stable
Non-convertible debentures\$	INE658F08177	26 March 2024	9.10	26 March 2029	INR1,214.20	IND AA(CE)/Stable
Non-convertible debentures\$	INE658F08201	26 March 2024	9.10	26 March 2030	INR1,214.20	IND AA(CE)/Stable
Non-convertible debentures\$	INE658F08193	26 March 2024	9.10	26 March 2031	INR1,214.20	IND AA(CE)/Stable
Non-convertible debentures\$	INE658F08185	26 March 2024	9.10	26 March 2032	INR1,214.20	IND AA(CE)/Stable
Non-convertible debentures\$	INE658F08169	26 March 2024	9.10	26 March 2033	INR1,214.20	IND AA(CE)/Stable
Non-convertible debentures\$	INE658F08219	26 March 2024	9.10	26 March 2034	INR1,214.20	IND AA(CE)/Stable
Non-convertible debentures#	INE658F08227	8 October 2024	9.49	8 October 2028	INR1,428.60	IND AA(CE)/Stable
Non-convertible debentures#	INE658F08235	8 October 2024	9.49	8 October 2029	INR1,428.60	IND AA(CE)/Stable
Non-convertible debentures#	INE658F08284	8 October 2024	9.49	8 October 2030	INR1,428.60	IND AA(CE)/Stable
Non-convertible debentures#	INE658F08276	8 October 2024	9.49	8 October 2031	INR1,428.60	IND AA(CE)/Stable
Non-convertible debentures#	INE658F08268	8 October 2024	9.49	8 October 2032	INR1,428.60	IND AA(CE)/Stable
Non-convertible debentures#	INE658F08250	8 October 2024	9.49	8 October 2033	INR1,428.60	IND AA(CE)/Stable
Non-convertible debentures#	INE658F08243	8 October 2024	9.49	8 October 2034	INR1,428.60	IND AA(CE)/Stable
Non-convertible debentures	INE658F08292	30 December 2024	9.42	30 December 2028	INR714.30	IND AA(CE)/Stable
Non-convertible debentures	INE658F08359	30 December 2024	9.42	30 December 2029	INR714.30	IND AA(CE)/Stable
Non-convertible debentures	INE658F08300	30 December 2024	9.42	30 December 2030	INR714.30	IND AA(CE)/Stable
Non-convertible debentures	INE658F08342	30 December 2024	9.42	30 December 2031	INR714.30	IND AA(CE)/Stable
Non-convertible debentures	INE658F08334	30 December 2024	9.42	30 December 2032	INR714.30	IND AA(CE)/Stable
Non-convertible debentures	INE658F08326	30 December 2024	9.42	30 December 2033	INR714.30	IND AA(CE)/Stable
Non-convertible debentures	INE658F08318	30 December 2024	9.42	30 December 2034	INR714.30	IND AA(CE)/Stable
TOTAL					INR41,499.50	
*NCDs are green bonds. As per NSDL records, the issue size of each green bond is INR1,428.5 million, which is on the basis of issue size of INR10,000.0 million. However, KIIFB has raised INR3,000.2 million (seven strips of INR428.6 million). KIIFB has taken up this matter with NSDL. \$NCDs amounting to INR2,382.8 million broken into seven sub-series of INR340.40 million were allotted on 23 April 2024 with temporary ISIN and merged with existing ISIN having issuance date of 26 March 2024. # NCDs amounting to INR1,498.70 million broken into seven sub-series of INR214.10 million were allotted on 30 October 2024 with temporary ISIN and merged with existing ISIN having issuance date of 8 October 2024. Source: KIIFB, NSDL						

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Local and State Government Rating Criteria

Evaluating Corporate Governance

Rating of Public Sector Entities

Policy on Provisional Ratings

The Rating Process

Policy for Credit Enhanced (CE) Ratings

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