

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

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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*\$#	-	-	-	INR1,498.70	IND AA(CE)/Stable	Assigned
Proposed non-convertible debentures \$^	-	-	-	INR19,999.79 (reduced from INR21,498.49)	Provisional IND AA(CE)/Stable	Affirmed
Non-convertible debentures*\$	-	-	-	INR35,000.70	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) on 28 October 2024 and 29 October 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 Criteria of Rating Public Sector Entities. The ratings draw 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 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