IRB InvIT Fund — FY 2022 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**IRB InvIT Fund operates a high-quality infrastructure portfolio with 92.6% of revenue derived from tolls, benefiting directly from Indian GDP and traffic recovery.**	—
2	**Revenue grew 21.77% YoY to □1,392 Cr, driven by a robust post-pandemic traffic rebound across key project SPVs.**	—
3	**Operating Profit Margins (OPM) expanded to 83.00% from 80.00%, demonstrating high operating leverage as traffic volumes increased.**	—
4	**Cash Flow from Operations (CFO) of □1,027 Cr is 3.4x reported PAT (□303 Cr), indicating superior cash generation quality and high distribution potential.**	—
5	***The Fund carries a massive long-term NHAI Premium Obligation of 5,709.67 Cr, which exceeds the Fund's total Equity Capital and acts as a structural "debt bomb."***	—
6	**Financial gearing remains conservative at 31.97%, well below regulatory caps, supported by a stable FPI holding of 29.09%.**	—
7	***Free Cash Flow of 1,026 Cr is currently pressured by a heavy maintenance cycle, with resurfacing provision utilization jumping to 140.70 Cr.***	—
8	***Earnings quality is clouded by subjective amortization policies (49% of revenue) and a 22x surge in receivables from government authorities to 82.15 Cr.***	—
9	***Governance concerns persist due to high Sponsor leakage, with Project Manager Fees accounting for 19.5% of total revenue (271.39 Cr) and a lack of board gender diversity.***	—
10	***Liquidity is constrained by 647.01 Cr in restricted escrow accounts and a localized cash trap resulting from a 16.98 Cr NHAI dispute.***	—
11	***The Fund faces significant interest rate sensitivity, where a 50bps rise in floating rates results in a 7.01 Cr hit to Profit Before Tax.***	—
12	Investment View: Watch; while operational cash flows are strong, investors should monitor for a reduction in Sponsor fees below 15% and stabilization of maintenance capex.	—

1. Business overview (In Bullet Points)

- **Business Structure:** IRB InvIT Fund is an Infrastructure Investment Trust focused on the Indian road sector, acting as a yield-generating vehicle for stabilized road assets under Toll-Operate-Transfer (TOT) and Build-Operate-Transfer (BOT) models.
- **Sponsor & Industry Position:** Sponsored by IRB Infrastructure Developers Limited, a leading private toll road developer with a 20% share in the Golden Quadrilateral.
- **Revenue Drivers:** 100% of revenue is derived from toll collection across Project SPVs, driven by traffic volume (economic activity) and inflation-linked toll rate revisions.
- **Cost Drivers:** Primary cash outflows include Operation & Maintenance (O&M) and cyclical Major Maintenance (Resurfacing) costs.

- **Asset Portfolio:** The portfolio comprises stabilized assets with a "Right of First Offer" (ROFO) on the Sponsor’s pipeline of 24 projects (19 BOT, 1 TOT, 4 HAM).
- **Operating Leverage:** High operating leverage allows incremental traffic growth to flow directly to Net Distributable Cash Flow (NDCF) once debt and O&M are serviced.
- **Geographical Presence:** Assets are strategically located across key national corridors, including projects like Jaipur-Deoli and Pathankot-Amritsar.
- **Yield Performance:** Yield based on average rate stood at 17% in FY22, down from 21% in FY21, reflecting increased maintenance outlays and a shifting interest rate environment.

2. Management commentary & outlook

- Management strategy is centered on the "stabilized asset" model, shifting focus from aggressive acquisition to optimizing current portfolio yields and ensuring traffic recovery translates into distributions.
- The appointment of Mr. Rajinder Pal Singh (former Chairman of NHAI) as Chairman of the Investment Manager signals a strategic move to leverage regulatory expertise in navigating complex NHAI concession agreements.
- Structural safeguards within Concession Agreements, such as cash reimbursement for revenue loss and concession extensions to recover IRR, are highlighted as key downside protection mechanisms.
- Management acknowledges the shift to automated tolling (FASTag) and emphasizes the necessity of robust IT controls to prevent revenue leakage.
- The Trust maintains a conservative gearing ratio of 31.97%, providing significant headroom against regulatory caps for future debt-funded acquisitions.
- The "upbeat traffic" narrative is tempered by the reality of a heavy maintenance cycle, with significant utilization of resurfacing provisions (□140.70 Cr) impacting near-term cash flows.
- Management views the business as a regulatory arbitrage and cash-flow management exercise, prioritizing governance and risk mitigation over traditional construction-led growth.
- **Management Tone Verdict:** The management tone is pragmatic and regulatory-centric, focusing heavily on risk mitigation and compliance rather than aggressive growth projections. However, there is a notable lack of explicit reconciliation regarding the 400 bps drop in yield (21% to 17%) despite "upbeat traffic," suggesting that rising maintenance costs or debt servicing are weighing on distributions.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2022	Mar 2021
Sales	1,392	1,143
Sales Growth %	21.77	-7.88
Expenses	242	226
Manufacturing Cost %	14.55	17.08
Employee Cost %	1.88	2.14
Other Cost %	0.94	0.58
Operating Profit	1,150	917
OPM %	83	80
Other Income	9	18
Exceptional items	4.33	6.14
Other income normal	4.45	11.92
Interest	142	146
Depreciation	681	608
Profit before tax	336	181
Tax %	10	0
Net Profit	303	181
Exceptional items AT	4	6
Profit excl Excep	299	175
Profit for PE	299	175
Profit for EPS	303	181
Profit Growth %	71	6
EPS (□)	5.21	3.12
Dividend Payout %	1,517	250

Balance sheet (□Cr)

Line item	Mar 2022	Mar 2021
Equity Capital	5,103	5,312
Reserves	-963	-959
Borrowings	1,896	1,899
Long term Borrowings	1,842	1,844
Short term Borrowings	54	54
Other Borrowings	0	0
Other Liabilities	5,923	5,989
Trade Payables	20	11
Advance from Customers	0	1
Other liability items	5,902	5,977
Total Liabilities	11,958	12,241
Fixed Assets	10,951	11,629
Land	1	1
Plant Machinery	0	0
Equipments	0	0
Computers	0	0
Furniture n fittings	0	0
Vehicles	0	0
Intangible Assets	7,374	7,371
Other fixed assets	6,673	6,673
Gross Block	14,048	14,045
Accumulated Depreciation	3,097	2,416
CWIP	1	2
Investments	215	159
Other Assets	790	450
Trade receivables	0	0
Cash Equivalents	690	396
Loans n Advances	7	8
Other asset items	93	46
Total Assets	11,958	12,241

Cash flow statement (□Cr)

Line item	Mar 2022	Mar 2021
Cash from Operating Activity	1,027	929
Profit from operations	1,183	982
Receivables	0	0
Payables	9	-21
Loans Advances	0	0
Other WC items	-165	-33
Working capital changes	-156	-54
Direct taxes	0	1
Cash from Investing Activity	-378	-494
Fixed assets purchased	-1	-99
Fixed assets sold	0	56
Investments purchased	-52	-101
Investments sold	0	0
Interest received	0	0
Other investing items	-324	-351
Cash from Financing Activity	-679	-581
Proceeds from shares	0	0
Proceeds from borrowings	0	0
Repayment of borrowings	-54	-2
Interest paid fin	-109	-126
Dividends paid	-308	-337
Other financing items	-209	-116
Net Cash Flow	-30	-146
Free Cash Flow	1,026	887
CFO/OP	89	101

Key ratios

Line item	Mar 2022	Mar 2021
Debtor Days	0	0
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	0	0
Working Capital Days	-206	-219
ROCE %	8	5

3.2 Financial analysis summary

- **Revenue** grew by 21.77% to ₹1,392.00 Cr, primarily driven by Toll Revenue of ₹1,288.57 Cr (92.6% of total) as traffic recovered post-pandemic, though this was offset by a 30% increase in revenue share paid to NHAI amounting to ₹453.99 Cr.
- **Operating Profit** margins (OPM %) expanded to 83.00% from 80.00%, reflecting high operating leverage where Revenue growth outpaced relatively fixed Operation and Maintenance Expenses, which decreased by 18.2% to ₹45.31 Cr.
- **Net Profit** surged 71% to ₹303.00 Cr, but earnings quality is impacted by a massive non-cash Depreciation (Amortization) charge of ₹681.00 Cr (48.9% of Revenue), which is sensitive to long-term traffic forecasts.
- **CFO** of ₹1,027.00 Cr significantly exceeds PAT of ₹303.00 Cr due to the add-back of non-cash amortization, resulting in a strong Free Cash Flow of ₹1,026.00 Cr, which supported Dividends paid of ₹308.00 Cr.
- **Working Capital Days** remained negative at -206.00, as the business model collects cash upfront (zero Trade Receivables) while maintaining Trade Payables of ₹19.94 Cr, which increased 84% YoY.
- **Cash Equivalents** increased to ₹690.00 Cr, but liquidity is constrained as ₹647.01 Cr is held in restricted escrow accounts for debt servicing and O&M, further complicated by a localized liquidity trap in one SPV due to a ₹16.98 Cr dispute with NHAI.
- **Total Debt** (Borrowings) remained stable at ₹1,896.00 Cr, but the Balance Sheet is heavily burdened by Other Liabilities of ₹5,923.00 Cr, dominated by a ₹5,709.67 Cr Premium Obligation to NHAI.
- **Finance Cost** of ₹142.00 Cr includes ₹27.67 Cr of non-cash interest on premium deferment, which is being capitalized and increasing the long-term liability to NHAI rather than being paid out of current CFO.
- **ROCE %** improved to 8.00% from 5.00% due to higher Operating Profit, while ROE % reached 7.32%, reflecting improved capital efficiency as the asset base (Fixed Assets) depreciates while Revenue scales.
- **Related Party Transactions** remain a significant area of value leakage, with Project Manager Fees paid to the Sponsor (Irbidl) totaling ₹271.39 Cr, representing 19.5% of total Revenue.
- **Other Assets** saw a sharp increase as Receivable from Government Authorities jumped 22x to ₹82.15 Cr, representing pending toll compensation claims that have not yet converted to CFO.
- **Other Liabilities** are dominated by the Premium Obligation to NHAI of ₹5,709.67 Cr, a staggering liability compared to Equity Capital of ₹5,103.00 Cr, representing a "hidden" cost of concession rights.
- **Other Expenses** were impacted by Legal and Professional Fees surging to ₹7.34 Cr from ₹2.33 Cr, likely linked to ongoing premium calculation disputes with NHAI.
- **Net Worth** is impacted by negative Reserves of -₹963.00 Cr, a result of high historical amortization and dividend payouts exceeding accounting PAT, even as Free Cash Flow remains robust.
- The dominant financial theme of the year is a strong operational recovery in **CFO** and Revenue driven by traffic, which is being utilized to fund a heavy maintenance cycle and service a massive, growing long-term Premium Obligation to NHAI.

3.3 Contingent liabilities & commitments

- **NHAI Premium Dispute:** A critical dispute exists regarding deferred premium calculations where NHAI has demanded **₹16.98 Cr** plus interest. The High Court has restricted withdrawals from the Escrow Account for the concerned SPV until resolution via arbitration.
- **Capital Commitments:** Outstanding commitments for toll equipment amounted to **₹0.01 Cr** (down from ₹1.56 Cr in FY21).
- **Litigation:** Management has not quantified claims from commuters and regulators, classifying them as "remote" or "adequately provided for," which may mask potential litigation risks.

- **Guarantees:** Secured Term Loans of ₹**1,422.05 Cr** are secured by a pledge of 51% of the shares in key project SPVs.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑ — high non-cash amortization of □681 Cr creates significant cash-to-accrual buffer.	—	Amortization (□680.72 Cr) is 2.25x PAT, typical for infrastructure assets.
2	Receivables & channel-stuffing signal	Neutral — cash-and-carry toll model eliminates credit risk and inventory-based revenue manipulation.	—	Toll revenue recognized on actual collection basis with minimal credit risk.
3	Revenue timing	Neutral — toll revenue recognized on actual collection basis ensures high-quality, immediate realization.	—	Revenue is primarily cash/FASTag based at point of service.
4	Revenue from related parties %	Neutral — revenue is externally sourced from toll users, minimizing circular revenue risk.	—	Revenue is reported net of NHAI share; RPT revenue is negligible (Note 21, 43).
5	Inventory vs revenue growth	Neutral — service-based infrastructure model carries no inventory, removing valuation or obsolescence risks.	—	The Group operates in a single segment (Toll Collection) with no physical goods.
6	Inventory valuation method change	Neutral — absence of inventory precludes earnings management through valuation method shifts.	—	Accounting policies confirm no inventory-related valuation risks.
7	Exceptional items in operating profit	Profit ↑ — non-recurring gains of □4.33 Cr boost reported PBT without operational improvement.	—	Exceptional items represent non-core adjustments to profit before tax.
8	Depreciation rate vs useful life policy	Profit ↑↓ — revenue-based amortization sensitive to management's long-term traffic and revenue projections.	—	Revenue-based method relies on "Total Projected Revenue" estimates over concession periods.
9	Provision reversals boosting PAT	Profit ↓ — heavy maintenance cycle utilization of □140.7 Cr reflects real cash outflow needs.	—	Provisions are based on PV of future outflows; high utilization indicates heavy maintenance.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↓ — MAT credit reversal of □32.58 Cr signals expiration of historical tax shields.	—	Reversal of MAT credit entitlement suggests SPVs are moving out of tax-shielded phases.
11	CWIP age and stalling projects	Neutral — negligible CWIP indicates projects are fully operational and generating toll revenue.	—	Low CWIP relative to □10,951 Cr fixed assets suggests no major construction delays.
12	Deferred tax asset recognition adequacy	Profit ↓ — write-down of tax assets suggests reduced confidence in future taxable profit availability.	—	Management reversed MAT credit as tax-shielding benefits at SPV level are being utilized.
13	RPT quantum and trend	Profit ↓ — significant value leakage via □271 Cr fees and high-volume sponsor advances.	—	High churn in "Secured Advances" to Sponsor (□257.30 Cr) requires close monitoring.
14	Dividend paid vs FCF adequacy	Neutral — dividends are well-covered by free cash flow of □1,026 Cr despite accounting losses.	—	Payout is sustainable from cash flows; high % relative to PAT is due to non-cash charges.
15	Premium Deferment Capitalization	Profit ↑ — Capitalizing interest on NHAI premium avoids immediate P&L hit but increases long-term debt.	—	This builds a "debt bomb" that must be settled before the concession ends.
16	Auditor KAM: Asset Impairment		—	

#	Check	Impact	Status	Notes detail
		Profit ↑↓ — High sensitivity of ₹10,950 Cr carrying value to WACC and traffic growth assumptions.		Any downward revision in traffic growth post-COVID could lead to significant non-cash impairments.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion Type:** Unqualified.
- **Key Audit Matters (KAMs):**
  1. ***Assessing Impairment of Intangible Assets***: The Group holds toll collection rights valued at ₹10,950.40 Cr. The auditor's concern centered on the high sensitivity of "Value in Use" to traffic projections and discount rates (WACC).
  2. ***Toll Revenue Recognition***: Focus on the integrity of IT systems and automated controls for cash and FASTag collection. Auditor verified reconciliations between system-generated reports and bank deposits.
  3. ***Provisioning for Resurfacing Expense***: Significant judgment is required to estimate future major maintenance obligations. Auditor tested assumptions against concession agreement requirements.
  4. ***Fair Valuation of Assets***: InvIT regulations mandate half-yearly fair valuation. Auditor's concern involved the subjectivity of inputs like WACC and inflation rates.
  5. ***Impairment of Investments/Loans***: Carrying value of ₹2,200.18 Cr in subsidiaries. Risk of overvaluation if traffic/cash flows fail.
- **Auditor Fees:** Not explicitly disaggregated. Legal and professional fees surged to ₹**7.34 Cr** from ₹2.33 Cr, but specific audit vs. non-audit fee split is not disclosed.

B. Related party transactions

Party	Relationship	Nature	Amount (₹ Cr)	Concern
IRB Infrastructure Developers Ltd	Sponsor / Project Manager	Project Manager Fees	271.39 Cr	***High dependency; 19.5% of Revenue***
IRB Infrastructure Developers Ltd	Sponsor / Project Manager	Secured Advance (Given/ Recov.)	257.30 Cr	***High volume churn with Sponsor***
IRB Infrastructure Private Ltd	Investment Manager	Management Fees	12.78 Cr	Aligned with regulatory caps
Related Parties (Total)	Various	Trade Payables	10.38 Cr	***752% increase YoY***

- **% of Revenue:** 20.41% (Total Fees ₹284.17 Cr / Revenue ₹1,392.00 Cr) → **Flag: >15%**
- **% of CFO:** 27.67% (Total Fees ₹284.17 Cr / CFO ₹1,027.00 Cr) → **Flag: Potential cash leakage to Sponsor**
- **RPT Verdict:** Monitor. While the InvIT structure involves the Sponsor, the 20% revenue leakage and high-value churn of advances (₹257.30 Cr) necessitate close monitoring of arm's-length pricing.

C. Shareholding

Line item	Mar 2022	Mar 2021
Sponsor / Group	18.54%	18.54%
Foreign Institutions (FPI)	29.09%	29.09%
Mutual Funds	6.56%	6.56%
Insurance Companies	2.27%	2.27%
Public / Others	43.54%	43.54%

- **Pledged Shares:** 51% of shares in key project SPVs are pledged to lenders to secure term loans.

D. Board composition + KMP compensation

- **Total Directors:** 4 (Investment Manager Board).
- **Independent %:** 50.00% (2 out of 4).
- **Women Directors:** 0.00% (All 4 directors are male).
- **KMP Compensation:** Individual KMP compensation (CEO Vinod Kumar Menon, CFO Rushabh Gandhi) is not disclosed at the Trust level; remuneration is borne by the Investment Manager out of the □**12.78 Cr** management fee. This reduces transparency regarding performance-linked incentives.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Dividends Paid	308.00 Cr	337.00 Cr	29.99%	—
Interest Payments	109.00 Cr	126.00 Cr	10.61%	—
Repayment of Borrowings	54.00 Cr	2.00 Cr	5.26%	—
Capex (Fixed Assets)	1.00 Cr	99.00 Cr	0.10%	—
Investments (Financial)	52.00 Cr	101.00 Cr	5.06%	—
Major Maintenance (Utilized)	140.70 Cr	85.22 Cr	13.70%	—

- **CFO Coverage of Capex:** CFO/Capex ratio is **1,027x**, indicating a mature phase with minimal new asset creation requirements.
- **Nature of Capex:** Capex is almost entirely maintenance-related. **The massive utilization of □140.70 Cr for resurfacing indicates the assets are in a heavy maintenance cycle, which will impact near-term distributable cash.**
- **Deployment Efficiency: Revenue** grew 21.77% while capex fell, signaling growth is driven by traffic recovery rather than new asset deployment.
- **Key Takeaway:** The Fund is generating strong **Free Cash Flow** (□1,026.00 Cr) and distributing a significant portion while maintaining a conservative gearing ratio of 31.97%.

H. Risks

- **Traffic Diversion (High):** Slowdown in traffic or diversion to alternate routes could directly impact **92.6% of income**.
- **NHAI Premium Dispute (Medium):** Dispute over deferred premium calculations (□**16.98 Cr principal**) has led to a liquidity trap in Escrow for one SPV.

- **Interest Rate Sensitivity (Medium):** Floating rate loans (**7.25%-8.15%**). A 50 bps rise results in a ₹7.01 Cr hit to PBT.
- **Amortization Estimates (Medium):** Revenue-based amortization is sensitive to management's "Total Projected Revenue"; downward revisions would accelerate the **₹680.72 Cr annual cost**.
- **Sponsor Dependence (Medium):** O&M and Project Management handled by Sponsor with a **₹271.39 Cr annual outflow** (19.5% of revenue).
- **NHAI Premium Obligation (High):** The **₹5,709.67 Cr** liability exceeds equity capital, representing significant structural leverage.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	92.6% Toll Revenue; 21.8% Growth	Strong asset quality and traffic recovery, though highly sensitive to economic cycles.
Financial health	4	↑	D/E 0.46x; CFO ₹1,027 Cr > PAT	Strong cash generation and manageable gearing, offset by massive NHAI premium liability.
Earnings quality	3	→	CFO > PAT; 19.5% RPT leakage	Robust cash flows but high dependence on Sponsor and subjective amortization policies.
Management & governance	3	→	50% Independent; 0% Women; High RPT	Regulatory expertise is strong, but RPT churn and lack of board diversity are concerns.
Capital allocation & earnings visibility	4	→	ROCE 8%; FCF ₹1,026 Cr	Disciplined distributions and debt servicing, though maintenance cycle is currently heavy.

Business positives (for this company this year) * **Strong Cash Flow Generation: CFO** of ₹1,027 Cr significantly exceeds PAT of ₹303 Cr, ensuring high distribution potential. * **Robust Revenue Recovery: Revenue** grew by 21.77% to ₹1,392 Cr driven by post-pandemic traffic recovery. * **Operational Efficiency: OPM %** expanded to 83.00% from 80.00% due to high operating leverage. * **Conservative Gearing:** Maintained a **Gearing Ratio** of 31.97%, well below the regulatory cap. * **High Institutional Confidence: FPI** holding remains stable and high at 29.09%.

Business negatives / concerns (for this company this year) * **High Sponsor Leakage: Project Manager Fees** to the Sponsor represent 19.5% of total Revenue (₹271.39 Cr). * **Massive Long-term Liability: Premium Obligation to NHAI** stands at ₹5,709.67 Cr, exceeding the Fund's Equity Capital. * **Liquidity Constraints: ₹647.01 Cr** of cash is restricted in Escrow, with a localized trap due to a ₹16.98 Cr NHAI dispute. * **Heavy Maintenance Cycle: Resurfacing provision utilization** jumped to ₹140.70 Cr, signaling a period of high cash outflow. * **Interest Rate Risk: ₹1,422.05 Cr** in floating rate loans makes the Fund vulnerable to the rising rate cycle (₹7.01 Cr hit per 50bps).

Overall scorecard summary IRB InvIT Fund exhibits strong financial strength characterized by robust **Free Cash Flow** and a healthy CFO-to-PAT ratio, driven by a 21.77% recovery in toll revenues. However, the governance posture is moderate due to high related-party dependence (19.5% revenue leakage) and a lack of board diversity. Capital allocation remains disciplined with sustainable dividends, but the massive ₹5.7k Cr NHAI premium liability and the current heavy maintenance cycle act as significant overhangs. Overall, the business is on a stable trajectory, where operational gains are currently being balanced against structural liabilities and maintenance requirements.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 7/10 — Governance Rating: 3"

Part c: investor verdict

Thesis: A high-yield infrastructure play on Indian GDP and traffic recovery, protected by regulatory floors but burdened by high sponsor dependency and long-term NHAI liabilities. **Overall stance:** Watch **Rationale:** Strong operational cash flows are currently offset by a heavy maintenance cycle and a localized liquidity trap due to NHAI disputes. **Re-evaluate when: Project Manager Fees** as a % of Revenue drop below 15% OR the NHAI Premium Dispute is resolved in the Fund's favor. **BULL CASE:** Traffic growth exceeds 10% YoY leading to a 20%+ jump in NDCF and a return to 20%+ yields. **BEAR CASE:** A 100 bps rise in interest rates combined with a downward revision in traffic forecasts triggers a significant impairment of the □**10,951 Cr** intangible assets. **Key monitorable: Resurfacing Provision Utilization**: Current □**140.70 Cr** → Watch for stabilization below □100 Cr.