

Infrastructure Leasing & Financial Services Limited

August 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	2,500.00	2,500.00	[ICRA]A1+&; reaffirmed
Long Term – Term Loans	350.00	350.00	[ICRA]AA+&; downgraded from [ICRA]AAA(stable)
Non-Convertible Debenture Programme	4,475.00	4,475.00	[ICRA]AA+&; downgraded from [ICRA]AAA(stable)
Total	7,325.00	7,325.00	

& - Under rating watch with developing implications; *Instrument details are provided in Annexure-1;

Rating action

ICRA has revised the long-term rating for the Rs. 4,475 crore non-convertible debenture programme and the Rs. 350 crore term loans of Infrastructure Leasing & Financial Services Limited (IL&FS) to [ICRA]AA+ (pronounced ICRA double A plus) from [ICRA]AAA (pronounced ICRA triple A). ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 2,500 crore commercial paper programme of IL&FS. The ratings of [ICRA]AA+ and [ICRA]A1+ have been placed under Watch with Developing Implications.

Rationale

The rating revisions take into account the company's elevated debt levels owing to the funding commitments towards Group ventures. While IL&FS has recognised opportunistic asset monetisation as a key strategic initiative, the actual progress on the same has hitherto been slow, resulting in high gearing for the company, albeit within the regulatory limit¹, and deterioration in credit profile of key investee companies. As on March 31, 2018, the company had a reported gearing of 3.04 times (on a stand-alone basis) and regulatory gearing of 2.30 times (reported gearing of 2.60 times and regulatory gearing of 2.23 times as on March 31, 2017 respectively). Additionally, the company has provided credit enhancement towards debt availed by various Group companies. The ratings have been placed under watch with developing implications taking cognizance of the Group's ongoing strategic initiatives for deleveraging its balance sheet and streamlining the portfolio. These include capital raise from the promoter Group (equity through rights issue and additional lines of credit), asset monetisation for unlocking the capital deployed towards various projects, upstreaming of cashflows through raising debt at project level and a strategic realignment of the portfolio to move towards a capital-light model. The progress achieved by the company on these endeavours, and the consequent impact on the company's financial profile would remain critical from a credit perspective. The extent of support extended by the company to Group concerns through funds infusion, guarantees and other shortfall undertakings would constitute other rating sensitive factors.

The ratings, however, continue to positively factor in IL&FS' long history of business operations in the infrastructure domain with strong brand name supported by a demonstrated track-record within this space and the domain expertise of its senior management. The ratings also note the company's parentage with support of strong institutional promoters,

¹ As per the guidelines prescribed for core investment companies (CIC) by the Reserve Bank of India (RBI), the total outside liabilities of a CIC shall at no time exceed 2.5 times of its adjusted net-worth

its healthy asset quality with prudent credit provisioning norms, adequate asset liability profile, and established banking relationships which enhances its financial flexibility. IL&FS has reported a steady earnings profile supported lease rentals, interest and dividend income from its Group entities; the profitability, however, has moderated over the past few fiscals driven by the decline in non-interest income.

Key rating drivers

Credit strengths

Established brand in infrastructure development with a long track-record; strong and competent management - The IL&FS Group, which refers to IL&FS along with its subsidiaries, associates and joint ventures, is a diversified infrastructure developer with presence across sectors like surface transportation, urban infrastructure, energy (thermal and renewable), education, and maritime and ports. The Group is engaged in all aspects of project development including project sponsorship, development and advisory services, investment banking, corporate advisory, asset management and advisory services in environmental and social management. The IL&FS Group has a long history of business operations, spanning over three decades, and has been able to establish a strong brand name within this space supported by its demonstrated track record as well as domain expertise of its senior management.

Strong Institutional shareholders both domestic and institutional - IL&FS was promoted by the Central Bank of India (CBI), Housing Development Finance Corporation Limited (HDFC) and Unit Trust of India (now, Specified Undertaking of Unit Trust of India, SUUTI). Over the year, the company's shareholding has broadened with the participation of many institutional shareholders. As on March 31, 2018, Life Insurance Corporation of India (LIC) and ORIX Corporation Japan the largest shareholders in IL&FS with their stake holding at 25.34% and 23.54% respectively. Other prominent shareholders include Abu Dhabi Investment Authority (ADIA, 12.56% stake), HDFC (9.02% stake), CBI and (7.67% stake) and SBI (6.42% stake). ICRA expects support from shareholders to remain forthcoming given their demonstrated history of equity support in the past, with rights issuance to LIC, ORIX and ADIA in the rights issuance in FY2015 and preference share issuance in FY2016.

Strong banking relationships and ability to raise debt from the capital markets - Liquidity profile is supported by cash surplus coupled with the presence of long-term sources of funding (debt and preference share) that has helped the company manage its asset liability management (ALM) profile. The company plans to avail a Rs. 3,500 crore lines of credit from the promoter Group, for meeting temporary requirements, would provide enhance the liquidity profile. IL&FS enjoys significant financial flexibility supported by strong ties with banks along with demonstrated ability of raising funds from the capital markets. The company acts as the central point for the Group's treasury and liquidity operations.

Presence of contingency reserves to cushion against asset quality issues provides some cushion on any potential future asset quality issues - IL&FS continues to report comfortable asset quality indicators, with nil gross and net NPAs as on March 31, 2018. IL&FS also maintains an adequate general contingency provision (Rs. 854 crore as on March 31, 2018) to protect its asset book from any unforeseen events or business risks to which it is normally exposed.

Credit challenges

High leverage resulting from the sizeable capital requirement across subsidiaries - IL&FS is a core investment company (CIC) and serves as the holding company of the IL&FS Group, with most business operations domiciled in separate companies. Over the years, the increase in funding requirement across Group ventures, owing to cost over-run and liquidity support, exacerbated by delay in settlement of claims of Rs. 9,000 crores has resulted in an increase in the company's debt and consequently leverage levels, though it continues to remain below the regulatory levels. As on March 31, 2018, the company had a reported gearing of 3.04 times (on a stand-alone basis) and regulatory gearing of 2.30 times (reported gearing of 2.60 times and regulatory gearing of 2.23 times as on March 31, 2017 respectively). Additionally, the company has provided credit enhancement towards debt availed by various Group companies. Going forward, the capital commitment towards projects under execution is expected to taper, with the gradual shift in the

Group's portfolio to operational projects, vis-à-vis under-construction projects. ICRA will continue to monitor the support extended by IL&FS to Group concerns through capital and debt infusion, guarantees and other shortfall undertakings.

Ability to achieve material progress on strategic initiatives remains critical for deleveraging - The company's investment portfolio includes Group ventures, in line with the CIC guidelines. IL&FS' investment portfolio remains relatively illiquid with large investments in Group companies engaged in long-gestation and capital-intensive projects. With a portfolio of mature / operational assets, IL&FS has strategically followed an opportunistic divestment business model to monetize its investment portfolio, though the progress on the same has been relatively slow owing to limited investor interest in the sector. The company also plans to raise Rs. 4,500 crore of equity, through a rights issue, in H1 FY2019. Other initiatives being pursued by the company include debt refinance at the project execution entity which would help in up-streaming of cash flows, partnering with strategic investors at a project level and monetisation of assets. The progress achieved by the company on these endeavours, which has been impacted by changes in restructuring and refinancing frameworks in the market, and the consequent impact on the company's financial profile would be important from a credit perspective.

Modest profitability and return indicators – With the reorganization of the company's operations as a holding company the company's revenue profile has shifted in favour of fund-based income, including dividend and interest income. In addition to this, the income from lease rental provides a stable revenue source. The total income increased to Rs. 1,899 crore in FY2018, a modest growth of 6% over the previous fiscal, supported by the increase in interest income. The operating profitability continued its downward slide to 1.52% of average total assets (ATA) in FY2018 from 1.81% in FY2017 owing to contraction in the investment income, despite moderating in operating expense. The net profitability was however supported by income tax write-back (Rs. 361 crore) in FY2018 which led to an improvement the return on asset (RoA) to 2.67% from 1.93% in FY2017, though it continues to remain low.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

[ICRA's Approach for Rating Commercial Papers](#)

About the company

IL&FS Limited was incorporated in 1987 with the objective of promoting infrastructure projects in the country. IL&FS was promoted by the Central Bank of India (CBI), Housing Development Finance Corporation Limited (HDFC) and Unit Trust of India (now, Specified Undertaking of Unit Trust of India - SUUTI). While SUUTI has largely exited (stake of 0.82% as on March 31, 2018), the shareholding has broadened over the years with the participation of many institutional shareholders. As on March 31, 2018, Life Insurance Corporation of India (LIC) and ORIX Corporation Japan were the largest shareholders in IL&FS with their stake holding at 25.34% and 23.54% respectively, while Abu Dhabi Investment Authority (ADIA), HDFC, CBI and SBI stake holding are at 12.56%, 9.02%, 7.67% and 6.42% respectively.

Over the years IL&FS' focus has steadily shifted from project sponsorship to that of project advisory and project facilitator for development and implementation of projects. IL&FS acts as the main holding company of the IL&FS Group with most business operations domiciled in separate companies. IL&FS's Group companies are currently involved in infrastructure related project sponsorship, development & advisory, investment banking, corporate advisory, asset management and advisory services in environmental and social management, with presence across sectors like surface transportation, urban infrastructure, energy (thermal and renewable), education, maritime & ports etc. The Group has a long history of business operations, spanning over three decades, in the infrastructure domain and has been able to establish a strong brand name within this space supported by its demonstrated track-record as well as domain expertise of its senior management.

During FY 2018, the company reported a net profit of Rs. 584 crore on a stand-alone basis on a total income of Rs. 1,899 crore as compared to a net profit of Rs. 383 crore on a total income of Rs. 1,787 crore in FY2017.

Key financial indicators (audited)

	FY 2017	FY 2018
Total Income	1,787	1,899
Profit after tax (PAT)	383	584
Net Worth [^]	4,998	5,541
Total managed portfolio	3,887	5,736
Total managed assets	19,598	24,153
Return on managed assets (PAT/AMA)	1.93%	2.67%
Return on average net worth (PAT/Avg. net worth)	7.86%	11.09%
Reported Gearing	2.60	3.03
CIC Leverage ratio	2.23	2.30
Gross NPA%	0.00%	0.00%
Net NPA%	0.00%	0.00%
Net NPA/Net worth	0%	0%

[^]Net worth does not include preference share capital and Revaluation Reserve

#AMA – average managed asset

Source: Company; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sr. No.	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Aug-2018	FY2018			FY2017		FY2016	
						Mar-18	Jan-18	Nov-17	Mar-17	Apr-16	Feb-16	
1.	Commercial Paper Programme	Short Term	2,500	-	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2.	Non-Convertible Debenture Programme	Long Term	4,475	3343.58	[ICRA]AA+&	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3.	Long Term – Term Loans	Long Term	350	350	[ICRA]AA+&	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-	-

& - under rating watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	19-Aug-14	-	19-Aug-18	75.00	[ICRA]AA+&
NA	Term Loan	19-Aug-14	-	19-Aug-19	75.00	[ICRA]AA+&
NA	Term Loan	30-Mar-15	-	30-Mar-19	62.50	[ICRA]AA+&
NA	Term Loan	30-Mar-15	-	30-Mar-20	62.50	[ICRA]AA+&
NA	Term Loan	16-Dec-16	-	30-Mar-19	20.00	[ICRA]AA+&
NA	Term Loan	16-Dec-16	-	30-Mar-20	20.00	[ICRA]AA+&
NA	Term Loan	20-Mar-17	-	30-Mar-19	17.50	[ICRA]AA+&
NA	Term Loan	20-Mar-17	-	30-Mar-20	17.50	[ICRA]AA+&
INE871D07GJ5	NCD	1-Mar-06	7.80%	1-Mar-21	0.08	[ICRA]AA+&
INE871D07MK1	NCD	16-Sep-11	9.78%	16-Sep-19	75.00	[ICRA]AA+&
INE871D07MO3	NCD	5-Dec-11	9.98%	5-Dec-18	75.00	[ICRA]AA+&
INE871D07MP0	NCD	5-Dec-11	9.98%	5-Dec-21	225.00	[ICRA]AA+&
INE871D07MS4	NCD	12-Mar-12	9.85%	12-Mar-22	210.00	[ICRA]AA+&
INE871D07MU0	NCD	19-Dec-12	9.40%	19-Dec-22	100.00	[ICRA]AA+&
INE871D07MV8	NCD	21-Jan-13	9.10%	21-Jan-20	46.50	[ICRA]AA+&
INE871D07MW6	NCD	24-Jan-13	9.30%	24-Jan-38	50.00	[ICRA]AA+&
INE871D07MZ9	NCD	23-Aug-13	11%	23-Aug-18	200.00	[ICRA]AA+&
INE871D07NC6	NCD	26-Aug-13	10.50%	26-Aug-18	69.00	[ICRA]AA+&
INE871D07NI3	NCD	28-Jul-14	9.50%	28-Jul-24	300.00	[ICRA]AA+&
INE871D07NJ1	NCD	13-Aug-14	9.55%	13-Aug-24	200.00	[ICRA]AA+&
INE871D07NW4	NCD	20-Apr-15	ZERO COUPON/ 8.65% XIRR	10-Apr-18	50.00	[ICRA]AA+&
INE871D07NX2	NCD	21-Apr-15	ZERO COUPON/ 8.65% XIRR	21-May-18	55.00	[ICRA]AA+&
INE871D07NZ7	NCD	20-May-15	8.75%	21-May-18	10.00	[ICRA]AA+&
INE871D07OA8	NCD	20-May-15	8.75%	20-May-20	40.00	[ICRA]AA+&
INE871D07OB6	NCD	23-Jul-15	8.78%	23-Jul-20	100.00	[ICRA]AA+&
INE871D07OC4	NCD	29-Jul-15	8.75%	29-Jul-20	100.00	[ICRA]AA+&
INE871D07OF7	NCD	10-Aug-15	8.74%	10-Aug-18	80.00	[ICRA]AA+&
INE871D07OH3	NCD	11-Aug-15	8.74%	11-Aug-18	100.00	[ICRA]AA+&
INE871D07OK7	NCD	21-Sep-15	8.80%	21-Sep-20	227.00	[ICRA]AA+&
INE871D07OL5	NCD	21-Sep-15	8.75%	21-Sep-25	23.00	[ICRA]AA+&
INE871D07OM3	NCD	22-Sep-15	8.80%	22-Sep-20	83.00	[ICRA]AA+&
INE871D07PK4	NCD	28-Sep-16	ZERO COUPON/ 8.05% XIRR	23-Sep-19	100.00	[ICRA]AA+&
INE871D07PL2	NCD	24-Oct-16	7.85%	24-Oct-19	25.00	[ICRA]AA+&
INE871D07PM0	NCD	24-Oct-16	7.90%	24-Oct-21	50.00	[ICRA]AA+&
INE871D07PP3	NCD	1-Mar-17	8.25%	1-Mar-22	50.00	[ICRA]AA+&
INE871D07PQ1	NCD	3-Mar-17	8%	3-Mar-19	10.00	[ICRA]AA+&
INE871D07PR9	NCD	3-Mar-17	8%	3-Mar-20	5.00	[ICRA]AA+&
INE871D07PS7	NCD	3-Mar-17	8.25%	3-Mar-22	20.00	[ICRA]AA+&
INE871D07PT5	NCD	21-Mar-17	8.09%	15-May-20	300.00	[ICRA]AA+&
INE871D07PU3	NCD	11-May-17	8%	11-May-20	30.00	[ICRA]AA+&
INE871D07PV1	NCD	11-May-17	8.06%	11-May-22	55.00	[ICRA]AA+&

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE871D07PW9	NCD	11-May-17	8.09%	10-May-24	65.00	[ICRA]AA+&
INE871D07PX7	NCD	6-Jun-17	8%	6-Jun-20	50.00	[ICRA]AA+&
INE871D07PY5	NCD	6-Jun-17	8.06%	6-Jun-22	75.00	[ICRA]AA+&
INE871D07PZ2	NCD	6-Jun-17	8.09%	6-Jun-24	25.00	[ICRA]AA+&
INE871D07QA3	NCD	26-Jul-17	7.65%	26-Jul-22	50.00	[ICRA]AA+&
INE871D07QB1	NCD	26-Jul-17	7.70%	26-Jul-24	130.00	[ICRA]AA+&
-	Commercial Paper	NA	NA	7-365 days	2,500.00	[ICRA]A1+&

& - under rating watch with developing implications; ^Amount yet to be placed

Source: Infrastructure Leasing and Financial Services Limited

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Infrastructure Leasing & Financial Services Limited

August 16, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible debentures	9,641.94	CARE AA+ [Double A Plus] (Credit watch with negative implications)	Revised from 'CARE AAA; Stable' and placed on credit watch with negative implications
Subordinate Debt	6.85	CARE AA+ [Double A Plus] (Credit watch with negative implications)	Revised from 'CARE AAA; Stable' and placed on credit watch with negative implications
Redeemable Preference Shares	1,500.00	CARE AA (RPS) [Double A (Redeemable Preference Shares)] (Credit watch with negative implications)	Revised from 'CARE AAA (RPS); Stable' and placed on credit watch with negative implications
Long Term Bank Facilities	400.00	CARE AA+; [Double A Plus] (Credit watch with negative implications)	Revised from 'CARE AAA; Stable' and placed on credit watch with negative implications
Non-fund based bank facilities	200.00	CARE AA+ /CARE A1+; [Double A Plus / A One Plus] (Credit watch with negative implications)	Revised from 'CARE AAA; Stable / A1+' and placed on credit watch with negative implications
Commercial Paper issue	2,500.00	CARE A1+ [A One Plus]	Reaffirmed
Total	14,248.79 (Rs. Fourteen Thousand Two Hundred Forty Eight and Seventy Nine Lakhs only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the various long term debt instruments and bank facilities of Infrastructure Leasing & Financial Services Ltd. (IL&FS) is on account of build-up of company's debt levels over a period of time on the back of increase in funding support to key subsidiaries and group companies, especially to its transport vertical (housed in IL&FS Transportation Networks Limited), whose standalone credit profile has witnessed significant deterioration in recent times. Although, IL&FS has been maintaining its profitability through stake sale / divestments in its group entities, the actual realization through sale of core assets has been slower than expected over a period resulting into moderation in the financial flexibility and corresponding increase in the debt levels. IL&FS has embarked upon several strategic measures for de-leveraging its balance sheet including capital infusion from existing shareholders and monetization of assets.

The ratings continue to factor in IL&FS's strong institutional ownership, experienced management and demonstrated track record and expertise in the infrastructure sector. The ratings also take into account IL&FS's ability to fund its infrastructure subsidiaries / group companies while maintaining capitalisation and gearing levels and asset liability maturity profile. IL&FS's ability to maintain the adequate capitalization and leverage ratio with expected capital infusion and monetization of the assets through stake sale / exit while maintaining the profitability would be the key rating sensitivities.

The ratings have been put on 'credit watch with negative implications' on account of the group's pursuit of a strategic plan to de-leverage the balance sheet by way of equity infusion, reduction of debt by refinancing the exposures in group companies and monetization of certain identified (core as well as non-core) assets by end of FY19 (refers to period from April 01 to March 31). Given the heightened leverage levels and the immediate need to support the group entities, infusion of equity capital in a time bound manner would be critical; any delay would exacerbate the company's financial

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

profile. CARE Ratings would continue to monitor the progress made by the group with respect to these strategic initiatives. Timely progress with respect to these initiatives would be critical for the credit profile of the company and will be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Strong institutional ownership: IL&FS has strong institutional ownership with domestic institutional investors like Life Insurance Corporation of India (LIC) [25.34%], HDFC Ltd. [9.02%], Central Bank of India (CBI) [7.67%] and State Bank of India (SBI) [6.42%] together held around 49% shareholding in IL&FS while foreign institutional investors viz. ORIX Corporation, Japan [23.54%] and Abu Dhabi Investment Authority, Abu Dhabi [12.56%] held around 36% in the company as on June 30, 2018. As a part of the plan for de-leveraging the balance sheet and monetization of portfolio, the company has plans to raise equity capital of Rs.4,500 crore by way of Rights Issue in H1FY19 (refers to period from April 01 to September 30). In addition, the company has plans to avail lines of credit of Rs.3,500 crore from promoter entities for meeting any temporary liquidity requirement.

Experienced management team: IL&FS is a professionally managed company with experienced professionals in the management team. The Board of Directors appointed Mr. Hemant Bhargava (Managing Director of LIC) as the Non-Executive Chairman with effect from July 21, 2018 in place of Mr. Ravi Parthasarathy who resigned from the Board w.e.f. July 21, 2018. The Board of Directors have experienced members like Mr. Hari Sankaran (Vice Chairman and Managing Director) and Mr. Arun Saha (Joint Managing Director and Chief Executive Officer) at the helm of operations. The Board of Directors of IL&FS includes eminent individuals with wide experience in financial services as independent directors.

Expertise in providing advisory and financing in respect of infrastructure projects: IL&FS continues to be a leading player in the infrastructure sector with presence in the roads, ports and power sectors. IL&FS received the registration certificate as a Non Deposit Accepting Systemically Important Core Investment Company (Non-Deposit Taking and Systemically Important) (CIC-ND-SI) in FY13. Major subsidiaries that are operational in various sectors include IL&FS Transportation Networks Limited (ITNL) (road vertical), IL&FS Energy Development Company Ltd (IEDCL) (power sector) and IL&FS Financial Services Limited (IFIN) (investment banking, assets and structured finance).

Asset Liability Maturity profile: The asset-liability maturity (ALM) profile of the company is well-matched and as on March 31, 2018 showed positive cumulative mismatches upto one year bucket and is further supported by adequate cash & bank balances as well as unutilized bank lines. IL&FS is also planning to avail lines of credit to the tune of Rs.3,500 crore from its promoter entities for temporary liquidity mismatches further enhancing the liquidity profile.

Capitalization and increase in gearing levels: Although, IL&FS has been reporting the regulatory leverage ratio within the regulatory cap (the outside debt to adjusted net worth ratio is capped at 2.5 times for Core Investment Company (CIC) as per RBI guidelines), the standalone leverage has seen significant increase over the last three years due to increase in debt levels to support the funding requirement of group entities. As on March 31, 2018, IL&FS reported capital adequacy ratio (as per regulatory CIC requirements) of 32.66% (P.Y.: 33.50%) and gearing of 3.61² times as on March 31, 2018 (leverage ratio as per regulatory requirements: 2.30 times) as against gearing of 3.16² times as on March 31, 2017 (leverage ratio as per regulatory requirements: 2.23 times). Further, IL&FS has also planned to raise equity capital of Rs.4,500 crore, through rights issue during H1FY19 which remains a key rating sensitivity.

Moderation in financial flexibility on account of increase in debt levels and longer time frame taken in offloading investments: IL&FS has a demonstrated track record of generating resources by inducting strategic partners or through sale of assets to external investors. During FY11 to FY14, IL&FS realized profit of around Rs.1,461 crore on sale of stake in strategic investments. IL&FS sold the stake in group power generating company to its energy vertical subsidiary to consolidate its energy holdings at fair market value, which yielded aggregate profits of Rs.361 crore in FY15 and FY16. IL&FS has also sold stake in IL&FS Trust Company Ltd wherein it realized a profit of Rs.113 crore in FY16 and Rs.37 crore in FY17 respectively. IL&FS also up streamed dividend of Rs 223 crore from its energy vertical on account of divestment of 49% stake in the commissioned wind power projects aggregating 775.2 MW.

However, these stake sales have been inadequate to meet the further funding commitments to the group companies leading to an increase in the gearing levels over a period of time. With relatively high leverage, it would largely have to depend on strategic sale in various projects/group companies to support various group entities going forward. In addition to the funding support, IL&FS has been extending additional support to the group entities by way of shortfall undertakings which could lead to contingent stress on the balance sheet.

² Gearing is calculated as total borrowings (including preference share capital and premium) / tangible net-worth (equity share capital & reserves and surplus net of revaluation reserves and intangible assets)

Key Rating Weaknesses

Dependence on induction of strategic partner/sale of investments: IL&FS has initiated various infrastructure projects in power, road, SEZ and ports segment which involve large capital outlays resulting in increase in leverage ratio overtime. Furthermore, IL&FS has been supporting all its verticals due to lower than expected divestment / sale of assets in those verticals. To further support the funding requirements, IL&FS had identified certain assets for stake sale / exits which are capital intensive having long gestation period for which the process of asset monetization / divestment has been slow. Going forward the induction of strategic partners/ sale of investments in a timely manner would be critical for IL&FS to manage its leverage levels within regulatory limits and also to support its group companies.

Support to group companies leading to high concentration in the asset book: The asset profile of IL&FS mainly constitutes investments (equity plus convertible instruments) and loans given to group entities. As on March 31, 2018, the top five exposures of IL&FS i.e. IL&FS Energy Development Company Ltd. (IEDCL), IL&FS Transportation Networks Ltd. (ITNL), IL&FS Engineering and Construction Company Ltd. (IECCL), IL&FS Maritime Infrastructure Company Ltd. (IMIC) and IL&FS Financial Services Ltd. (IFIN) accounted for around 71% of lending and investment book, as compared to 65% of lending and investment book as on March 31, 2017. As the sale of core assets over a period of the time has remained stagnant, IL&FS has been opportunistic in divesting some of its non-core assets to upstream the cash flows and further support the funding requirements of group companies which have been limited to an extent.

Over and above the support provided by IL&FS, IL&FS Financial Services Limited (IFIN) which is a wholly owned subsidiary of IL&FS also had exposure to certain IL&FS group entities that have increased over a period of time. The Reserve Bank of India (RBI) has directed IFIN to reduce its exposure to group companies and comply with regulatory norms by March 31, 2019. IFIN has furnished a plan for reduction in its exposure to IL&FS group entities. Pursuant to the foregoing, IFIN has also taken steps to increase its equity capital. However, timely infusion of capital (equity / preference) and reduction in group exposure would remain critical for IFIN.

Subdued financial risk profile: IL&FS, being a Core Investment Company (CIC) has steady income arising from interest, dividend, brand fee and income from business centre. Additionally, IL&FS has significant income arising out of divestment of its group entities which is relatively volatile. During FY18, IL&FS reported moderate growth of 6% y-o-y in its total income to Rs.1,899 crore, the operating profitability i.e. profit before tax (PBT) declined by 7% y-o-y on account of 32% decline in its investment income (includes dividend income, interest income and profit on sale of investments). However, the profit after tax (PAT) increased by 53% y-o-y on account write-back of excess income tax provision (Rs.361 crore) to Rs.584 crore.

Analytical approach:

CARE has analyzed standalone credit profile of IL&FS. Further, CARE has also assessed the operational, managerial and financial support that IL&FS provides to its subsidiaries / group companies as a CIC.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Criteria for placing rating on credit watch](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology- Non Banking Finance Companies](#)

[Financial ratios - Financial Sector](#)

About the Company:

IL&FS is one of India's leading infrastructure development and finance companies promoted by the Central Bank of India (CBI), Housing Development Finance Corporation (HDFC) and Unit Trust of India (UTI). IL&FS was established with twin mandates of providing financial services and to develop infrastructure projects under a commercial format. The shareholding pattern of the company has undergone a considerable change over the years with wider participation of other domestic as well as foreign institutional investors. IL&FS received certificate of registration as Core Investment Company (CIC-ND-SI) from RBI dated September 11, 2012.

IL&FS's income profile constitutes interest income from loans given to subsidiaries/group companies, dividend received from subsidiaries (mainly IFIN, IEDCL, ITNL, ISSL and IL&FS Investment Managers Ltd.), brand fees received from group companies, rental income from business centre and profit from divestment of its exposure in group entities.

Financials of IL&FS (Standalone)

Particulars (Rs. in crore)	FY17 (A)	FY18 (A)
Total income	1,787	1,899
PAT	383	584
Leverage Ratio (as per CIC guidelines)	2.23	2.30
Total Assets (adjusted for Intangible assets)*	19,562	24,098
Net NPA (%)	Nil	Nil
ROTA (%) (PAT/Average Total Assets)	1.93%	2.68%

A: Audited

* net of deferred tax assets and revaluation reserves

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the instruments	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	09-Aug-02	9.00%	09-Aug-17	10.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	22-Aug-02	9.00%	22-Aug-17	0.20	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	29-Aug-02	9.00%	29-Aug-17	7.00	CARE AA+ (Credit watch with negative implications)

Name of the instruments	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	29-Aug-02	9.00%	29-Aug-17	0.25	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	23-Dec-15	8.65%	20-Dec-17	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	22-Dec-15	8.65%	22-Dec-17	25.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	20-Feb-03	8.10%	20-Feb-18	0.90	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	21-Feb-03	8.05%	21-Feb-18	0.08	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	15-Mar-16	8.90%	15-Mar-18	5.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	17-Mar-16	8.90%	17-Mar-18	5.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	16-May-03	7.20%	16-May-18	2.50	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	06-Jun-03	7.20%	06-Jun-18	0.33	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	17-Jun-03	7.20%	17-Jun-18	0.18	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	03-Aug-17	7.20%	06-Aug-18	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	23-Aug-13	11.00%	23-Aug-18	200.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	26-Aug-13	10.50%	26-Aug-18	69.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	01-Dec-15	8.58%	01-Dec-18	70.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	04-Feb-14	9.95%	04-Feb-19	77.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	15-Mar-16	8.90%	15-Mar-19	20.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	17-Mar-16	8.90%	17-Mar-19	20.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	25-Jan-16	8.70%	25-Jul-19	16.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	18-Mar-16	9.00%	18-Sep-19	85.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	23-Sep-16	8.05%	23-Sep-19	130.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	14-Nov-17	7.80%	14-Nov-19	15.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	21-Jan-13	9.10%	21-Jan-20	46.50	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	02-Mar-10	9.15%	02-Mar-20	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	05-Mar-10	9.20%	05-Mar-20	300.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	22-Mar-10	9.20%	22-Mar-20	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	11-May-17	8.00%	11-May-20	30.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	06-Jun-17	8.00%	06-Jun-20	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	23-Jul-15	8.78%	23-Jul-20	100.00	CARE AA+ (Credit watch with negative implications)

Name of the instruments	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	29-Jul-15	8.75%	29-Jul-20	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	31-Jul-15	8.75%	31-Jul-20	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	04-Aug-17	7.50%	04-Aug-20	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	07-Sep-17	7.60%	07-Sep-20	40.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	28-Oct-15	8.50%	28-Oct-20	90.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	14-Nov-17	7.75%	30-Nov-20	107.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	22-Dec-15	8.65%	22-Dec-20	25.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	28-Aug-17	7.73%	28-Dec-20	150.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	25-Jan-16	8.70%	25-Jan-21	9.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	04-Feb-14	9.95%	04-Feb-21	106.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	13-Feb-14	9.90%	13-Feb-21	21.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	22-Feb-11	9.70%	22-Feb-21	325.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	15-Mar-16	8.90%	15-Mar-21	32.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	17-Mar-16	8.90%	17-Mar-21	25.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	18-Mar-16	9.20%	18-Mar-21	85.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	24-Jan-12	9.82%	24-Jan-22	290.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	12-Mar-12	9.85%	12-Mar-22	210.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	11-May-17	8.06%	11-May-22	55.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	30-May-12	9.80%	30-May-22	390.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	06-Jun-17	8.06%	06-Jun-22	75.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	26-Jul-17	7.65%	26-Jul-22	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	02-Aug-17	7.65%	02-Aug-22	60.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	07-Sep-17	7.65%	07-Sep-22	55.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	30-Oct-17	7.85%	30-Dec-22	175.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	11-Jan-18	8.30%	11-Jan-23	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	15-Jan-18	8.30%	15-Jan-23	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	19-Jan-18	8.30%	19-Jan-23	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	24-Jan-18	8.30%	24-Jan-23	80.00	CARE AA+ (Credit watch with negative implications)

Name of the instruments	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	13-Mar-18	8.45%	13-Mar-23	25.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	06-Feb-18	8.40%	06-Apr-23	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	15-May-18	8.90%	23-May-23	169.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	30-May-18	9.00%	09-Jun-23	150.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	27-Jun-18	9.05%	27-Jun-23	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	23-Sep-16	8.12%	22-Sep-23	30.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	04-Feb-14	9.90%	04-Feb-24	17.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	13-Feb-14	9.90%	13-Feb-24	79.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	11-May-17	8.09%	10-May-24	65.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	06-Jun-17	8.09%	06-Jun-24	25.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	26-Jul-17	7.70%	26-Jul-24	130.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	28-Jul-14	9.50%	28-Jul-24	300.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	02-Aug-17	7.70%	02-Aug-24	55.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	02-Aug-17	7.70%	02-Aug-24	30.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	30-Oct-17	7.88%	30-Oct-24	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	29-Dec-14	9.00%	29-Dec-24	200.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	15-Jan-18	8.40%	15-Jan-25	150.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	21-Jan-15	8.72%	21-Jan-25	200.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	23-Jan-15	8.75%	23-Jan-25	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	06-Feb-18	8.30%	06-Feb-25	34.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	09-Mar-18	8.55%	09-Mar-25	48.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	09-Mar-18	8.55%	09-Mar-25	15.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	22-Mar-18	8.65%	22-Mar-25	20.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	20-May-10	8.96%	20-May-25	350.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	24-Aug-15	8.69%	24-Aug-25	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	25-Aug-15	8.69%	25-Aug-25	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	09-Mar-16	8.80%	09-Mar-26	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	07-Sep-17	7.70%	07-Sep-27	5.00	CARE AA+ (Credit watch with negative implications)

Name of the instruments	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	20-Sep-17	7.85%	20-Sep-27	200.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	09-Mar-18	8.65%	09-Mar-28	70.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	22-Mar-18	8.55%	22-Mar-28	23.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	27-Mar-18	8.65%	27-Mar-28	25.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	15-May-18	9.00%	15-May-28	91.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	30-May-18	9.10%	30-May-28	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	27-Jun-18	9.15%	27-Jun-28	100.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	17-Aug-10	9.35%	17-Aug-35	150.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures	24-Jan-13	9.30%	24-Jan-38	50.00	CARE AA+ (Credit watch with negative implications)
Debentures-Non Convertible Debentures (Proposed)	-	-	-	1,846.00	CARE AA+ (Credit watch with negative implications)
Debt-Subordinate Debt	30-Mar-02	7.50%	30-Apr-20	6.85	CARE AA+ (Credit watch with negative implications)
Long term bank facilities	-	-	14-Mar-22	400.00	CARE AA+ (Credit watch with negative implications)
Non-fund based bank facilities	-	-	-	200.00	CARE AA+ / A1+ (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	14-Mar-14	-	14-Mar-21	300.00	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	25-Mar-14	-	25-Mar-21	443.77	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	28-Mar-14	-	28-Mar-21	25.45	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	16-May-14	-	16-May-21	230.78	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	24-Sep-15	-	24-Sep-22	152.83	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	29-Sep-15	-	29-Sep-22	23.04	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	30-Sep-15	-	30-Sep-22	87.14	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	05-Oct-15	-	05-Oct-22	50.00	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	15-Oct-15	-	15-Oct-22	114.23	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	19-Oct-15	-	19-Oct-22	21.23	CARE AA (RPS) (Credit watch with negative implications)
Preference Shares-Non Convertible Redeemable Preference Share	30-Oct-15	-	30-Oct-22	51.04	CARE AA (RPS) (Credit watch with negative implications)
Short Term Instruments- Commercial Paper issue	-	-	Upto 1 year	2,500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	21.44	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (17-Nov-15)
2.	Debt-Subordinate Debt	-	-	-	-	-	-	1)CARE AAA (17-Nov-15)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (16-Mar-16) 2)CARE AAA (18-Jan-16)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (14-Dec-17) 2)CARE AAA; Stable (09-Oct-17) 3)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
5.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
6.	Debentures-Non Convertible Debentures	LT	325.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
7.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
8.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
9.	Debentures-Non Convertible Debentures	LT	695.50	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
10.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
				implications)		2)CARE AAA; Stable (10-May-17)		
11.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
12.	Preference Shares-Cumulative Redeemable Preference Shares	LT	1000.00	CARE AA (RPS) (Credit watch with negative implications)	-	1)CARE AAA (RPS); Stable (09-Oct-17) 2)CARE AAA (RPS); Stable (10-May-17)	1)CARE AAA (RPS) (27-Oct-16)	1)CARE AAA (RPS) (18-Jan-16)
13.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
14.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (18-Jan-16)
15.	Preference Shares-Non Convertible Redeemable Preference Share	LT	500.00	CARE AA (RPS) (Credit watch with negative implications)	-	1)CARE AAA (RPS); Stable (09-Oct-17) 2)CARE AAA (RPS); Stable (10-May-17)	1)CARE AAA (RPS) (27-Oct-16)	1)CARE AAA (RPS) (18-Jan-16) 2)CARE AAA (RPS) (30-Sep-15) 3)CARE AAA (RPS) (30-Sep-15)
16.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA (27-Oct-16)	1)CARE AAA (17-Nov-15)
17.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA (27-Oct-16) 2)CARE AAA (18-Apr-16)	-
18.	Debt-Subordinate Debt	LT	6.85	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA (09-Oct-17)	-	-
19.	Commercial Paper-Commercial Paper (Standalone)	ST	2500.00	CARE A1+	-	1)CARE A1+ (22-Mar-18) 2)CARE A1+ (19-Jan-18) 3)CARE A1+ (27-Oct-17)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
						4)CARE A1+ (09-Oct-17) 5)CARE A1+ (10-May-17)		
20.	Fund-based - LT-Term Loan	LT	300.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	-	-
21.	Fund-based - LT-Term Loan	LT	100.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (09-Oct-17) 2)CARE AAA; Stable (10-May-17)	-	-
22.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (27-Oct-17)	-	-
23.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (19-Jan-18)	-	-
24.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA+ (Credit watch with negative implications)	-	1)CARE AAA; Stable (21-Feb-18)	-	-
25.	Fund-based - LT/ ST-Term loan	LT/ST	200.00	CARE AA+ / A1+ (Credit watch with negative implications)	1)CARE AAA; Stable /CARE A1+ (02-Apr-18)	-	-	-
26.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+ (Credit watch with negative implications)	1)CARE AAA; Stable (09-May-18)	-	-	-

India Ratings Downgrades Infrastructure Leasing & Financial Services to 'IND AA+'; Places on RWN

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AUG 2018

By [Prakash Agarwal](#)

India Ratings and Research (Ind-Ra) has downgraded Infrastructure Leasing & Financial Services Limited's (IL&FS) Long-Term Issuer Rating to 'IND AA+' from 'IND AAA'. The Outlook was Stable. The agency has also affirmed IL&FS' Short-Term Issuer Rating at 'IND A1+'. The ratings have simultaneously been placed on Rating Watch Negative (RWN). The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Long-term debt*	-	-	-	INR60,100.8 (reduced from INR65,180.9)	IND AA+/RWN	Downgraded; placed on RWN
Long term debt#*	-	-	-	INR35,000	IND AA+/RWN	Assigned; placed on RWN
Subordinated^ debt	-	-	-	INR1,000	IND AA+/RWN	Downgraded; placed on RWN
Short-term debt	-	-	-	INR12,250	IND A1+/RWN	Affirmed, placed on RWN
Bank loans	-	-	-	INR3,000	IND AA+/RWN	Downgraded; placed on RWN

^Unutilised

*Details in annexure

#Yet to be issued

The downgrade reflects weakening of some of IL&FS' major investments in transportation, energy and financial verticals, and proposed restructuring of its business towards a capital-light model. The rating action also factors in dilution in the liquidity buffers of IL&FS and system-wide tight liquidity conditions, which pose challenges in accessing long-term cost-effective funding.

The RWN reflects stress in some of the investments, which could have a material impact on the company's tangible equity buffers. Hence, a sizeably large amount of equity infusion is critical to strengthen the balance sheet, and long-term debt to strengthen the liquidity profile of the company. IL&FS has announced to raise equity capital of INR45 billion and long-term debt (tenure of 10 years) of INR35 billion within the next few weeks. Additionally, it is monetising certain assets in group companies and special purpose vehicles (SPVs), refinancing debt at group level and up-streaming cash flows. Ind-Ra has placed the Outlook on RWN due to pending completion of these developments.

KEY RATING DRIVERS

Unique Positioning in Infrastructure Space; Business Model Under Transition: IL&FS as a group continues to hold a unique position in India's infrastructure space, with competencies encompassing project advisory, sponsoring and development of projects in initial phases as well as funding and operating projects, which enhances its competitiveness. IL&FS benefits from its established franchise, proven operating track record and well-experienced management. The group expertise is spread out with capabilities over a wide segment of the infrastructure space. The company is transforming itself to a capital-light business model and focussing on pure play service offerings in the infrastructure space. Although the company's vast experience and expertise will smoothen the transition, the competitive intensity would also be greater in this domain.

Constrained Funding; Reduction in On-Balance Sheet Liquidity Buffers: IL&FS historically maintained strong liquidity buffers with sizeable cash and liquid assets on its balance sheet, supporting short-term repayments. However, the liquidity buffers have diluted in the recent months. While the asset-liability profile is well matched, some of its repayments are from group companies which have weak financials, which could lead to some delays in repayments. IL&FS is likely to mobilise long-term loans of about INR35 billion from large institutions. These funds would be utilised for refinancing existing debt and provide the much needed long-term debt. IL&FS' borrowings largely are long-term in nature; although commercial paper borrowing has increased to 11.5% of the total borrowings in FY18 (FY17: 3.7%).

Regulation Caps Leverage; Tangible Equity Buffers Could Have Depleted: IL&FS' debt protection buffers remain supported by its low financial leverage, as its status as a core investment company (CIC) caps financial leverage (debt/adjusted net worth capped at 2.5x) compared with traditional financing companies'.

IL&FS' regulatory leverage (FY18: 2.30x, FY17: 2.23x, FY16: 2.47x, FY15: 2.02x) and debt to equity (3.60x, 3.16x, 3.51x, 2.83x) has increased in the recent years. The regulatory leverage in FY18 benefits from the inclusion of INR8.5 billion of general contingency provisions as part of the adjusted net worth, which was not included in FY17.

Moreover, ongoing challenges in some of its large investments, many of which are either loss making or in the nascent stage, could have depleted its tangible equity buffers. Management stated its plans of divesting certain assets and refinancing debt at the subsidiary or SPV level, which would assist IL&FS' deleveraging plans. Ind-Ra's stress test indicates that proposed equity infusion of INR45 billion is critical in strengthening the company's balance sheet and credit profile.

Limited Support to Group Companies: IL&FS' business model entails investments in multiple ventures/companies/SPVs with the objective of appropriately monetising them. The incremental investments either in form of equity, debt or liquidity support to the group companies is solely based on business prospects of the investment(s). IL&FS' leverage has remained high in the recent years; thus, the agency factors in limited support, to the extent explicitly stated, to its group companies.

Concentrated Portfolio: Being a CIC, IL&FS has concentration risk with high single name exposures. The top five exposures (equity and debt) constituted 273% of the equity in FY18 (FY17: 243%). Some of these exposures are towards group entities that have modest financials with high leverage. IL&FS along with IL&FS Financial Services (IFIN; 'IND AA'/RWN) had to support some of the group entities with incremental funding since these could not mobilise funds for their projects due to market constraints.

RATING SENSITIVITIES

A less-than-stated amount of equity and debt infusion within stipulated timelines would lead to a multi-notch downgrade. Material deviation from planned refinancing and divestment plans, further tightening of liquidity and constrained ability to raise funds would also be a credit negative. The RWN reflects the rating will be either downgraded or affirmed. Ind-Ra will resolve the RWN upon completion of the proposed developments.

COMPANY PROFILE

IL&FS is one of the leading companies operating in the infrastructure development space in India. The company has a strong investor profile with LIC of India and ORIX Corporation, Japan together holding a 49% stake. The company restructured its business in FY08 and converted itself into a holding company after demerging its lending and advisory business to its subsidiary, IL&FS Financial Services. The company received a CIC licence in September 2012.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Total assets (INR million)	239,082	194,312
Total equity (INR million)	48,380	43,128
Net income (INR million)	4,465	2,425*
Return on average assets (%)	2.06	1.23
Leverage ratio (times)	2.30	2.23
Source: Company		

*Post deduction of dividend on non-convertible, redeemable, cumulative preference shares

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	1 March 2018	22 March 2016	18 August 2014
Issuer rating	Long-term/Short term	-	IND AA+/RWN/IND A1+/RWN	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Long-term debt	Long-term	INR95,100.8	IND AA+/RWN	IND AAA/Stable	IND AAA/Stable	IND AAA
Subordinated debt	Long-term	INR1,000	IND AA+/RWN	IND AAA/Stable	IND AAA/Stable	IND AAA
Short-term debt	Short-term	INR12,250	IND A1+/RWN	IND A1+	IND A1+	IND A1+
Bank loans	Long-term	INR3,000	IND AA+/RWN	IND AAA/Stable	-	-

ANNEXURE

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Limits (million)*	Rating/Rating Watch
INE871D07GJ5	1 March 2006	7.8	1 March 2021	INR0.80	IND AA+/RWN
INE871D07JN1	15 December 2008	12.2	15 December 2018	INR1,400.00	IND AA+/RWN
INE871D07LU2	20 May 2010	8.96	20 May 2025	INR3,500.00	IND AA+/RWN

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Limits (million)*	Rating/Rating Watch
INE871D07LZ1	17 August 2010	9.35	17 August 2035	INR1,500.00	IND AA+/RWN
INE871D07MC8	24 December 2010	9.2	24 December 2020	INR250.00	IND AA+/RWN
INE871D07ME4	22 February 2011	9.7	22 February 2021	INR3,250.00	IND AA+/RWN
INE871D07MH7	25 July 2011	9.68	25 July 2021	INR1,500.00	IND AA+/RWN
INE871D07MI5	11 August 2011	9.75	11 August 2018	INR1,500.00	IND AA+/RWN
INE871D07MU0	19 December 2012	9.4	19 December 2022	INR1,000.00	IND AA+/RWN
INE871D07ND4	4 February 2014	9.95	4 February 2019	INR770.00	IND AA+/RWN
INE871D07NE2	4 February 2014	9.95	4 February 2021	INR1,060.00	IND AA+/RWN
INE871D07NF9	4 February 2014	9.9	4 February 2024	INR170.00	IND AA+/RWN
INE871D07NG7	13 February 2014	9.9	13 February 2021	INR1,000.00	IND AA+/RWN
INE871D07NH5	13 February 2014	9.9	13 February 2024		IND AA+/RWN
INE871D07NJ1	13 August 2014	9.55	13 August 2024	INR2,000.00	IND AA+/RWN
INE871D07NK9	29 December 2014	9	29 December 2024	INR2,000.00	IND AA+/RWN
INE871D07NL7	21 January 2015	8.72	21 January 2025	INR2,000.00	IND AA+/RWN
INE871D07NM5	23 January 2015	8.75	23 January 2025	INR500.00	IND AA+/RWN
INE871D07OI1	24 August 2015	8.69	24 August 2025	INR1,000.00	IND AA+/RWN
INE871D07OJ9	25 August 2015	8.69	25 August 2025	INR1,000.00	IND AA+/RWN
INE871D07OK7	21 September 2015	8.8	21 September 2020	INR2,270.00	IND AA+/RWN
INE871D07OL5	21 September 2015	8.75	21 September 2025	INR230.00	IND AA+/RWN
INE871D07OM3	22 September 2015	8.8	22 September 2020	INR830.00	IND AA+/RWN
INE871D07OQ4	28 October 2015	8.5	28 October 2020	INR900.00	IND AA+/RWN
INE871D07OW2	25 January 2016	8.7	25 July 2019	INR250.00	IND AA+/RWN
INE871D07OX0	25 January 2016		25 January 2021		IND AA+/RWN
INE871D07OY8	9 March 2016	8.8	9 March 2026	INR500.00	IND AA+/RWN
INE871D07OZ5	15 March 2016	8.9	15 March 2019	INR520.00	IND AA+/RWN
INE871D07PA5					IND AA+/RWN
INE871D07PB3	15 March 2016		15 March 2021		IND AA+/RWN
INE871D07PF4	18 March 2016	9	18 September 2019	INR1,700.00	IND AA+/RWN
INE871D07PG2	18 March 2016	9.2	18 March 2021		IND AA+/RWN
INE871D07PP3	1 March 2017	8.25	1 March 2022	INR500.00	IND AA+/RWN
INE871D07PQ1	3 March 2017	8	3 March 2019	INR100.00	IND AA+/RWN
INE871D07PR9	3 March 2017	8	3 March 20	INR50.00	IND AA+/RWN
INE871D07PS7	3 March 2017	8.25	3 March 2022	INR200.00	IND AA+/RWN
INE871D07QD7	2 August 2017	7.65	2 August 2022	INR1,450.00	IND AA+/RWN
INE871D07QE5	2 August 2017	7.7	2 August 2024		IND AA+/RWN
INE871D07QF2	2 August 2017	7.7	2 August 2027		IND AA+/RWN
INE871D07QI6	18 August 2017	7.6	18 August 2020	INR500.00	IND AA+/RWN
INE871D07QJ4	28 August 2017	7.73	28 December 2020	INR1,500.00	IND AA+/RWN
INE871D07QK2	7 September 2017	7.6	7 September 2020	INR1,000.00	IND AA+/RWN
INE871D07QL0	7 September 2017	7.65	7 September 2022		IND AA+/RWN
INE871D07QN6	7 September 2017	7.7	7 September 2027		IND AA+/RWN
INE871D07QO4	20 September 2017	7.85	20 September 2027	INR2,000.00	IND AA+/RWN
INE871D07QP1	26 September 2017	7.65	26 September 2020	INR500.00	IND AA+/RWN
INE871D07QQ9	29 September 2017	7.6	29 September 2020	INR500.00	IND AA+/RWN
INE871D07QR7	30 October 2017	7.85	30 December 2022	INR1,750.00	IND AA+/RWN
INE871D07QS5	30 October 2017	7.88	30 October 2024	INR500.00	IND AA+/RWN
INE871D07QV9	14 November 2017	7.8	30 November 2020	INR1,070.00	IND AA+/RWN
INE871D07QU1	14 November 2017	7.75	14 November 2019	INR150.00	IND AA+/RWN
INE871D07QW7	11 January 2018	8.3	11 January 2023	INR1,000.00	IND AA+/RWN
INE871D07QX5	15 January 2018	8.3	15 January 2023	INR1,000.00	IND AA+/RWN
INE871D07QY3	15 January 2018	8.4	15 January 2025	INR1,500.00	IND AA+/RWN
INE871D07QZ0	19 January 2018	8.3	19 January 2023	INR500.00	IND AA+/RWN
INE871D07RA1	24 January 2018	8.3	24 January 2023	INR800.00	IND AA+/RWN
INE871D07RD5	6 February 2018	8.4	6 February 2025	INR340.00	IND AA+/RWN
INE871D07RC7	6 February 2018	8.3	6 April 2023	INR500.00	IND AA+/RWN

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Limits (million)*	Rating/Rating Watch
INE871D07RE3	9 March 2018	8.55	9 March 2025	INR630.00	IND AA+/RWN
INE871D07RF0	9 March 2018	8.65	9 March 2028	INR700.00	IND AA+/RWN
INE871D07RG8	13 March 2018	8.45	13 March 2023	INR250.00	IND AA+/RWN
INE871D07RI4	22 March 2018	8.65	22 March 2028	INR230.00	IND AA+/RWN
INE871D07RH6	22 March 2018	8.55	22 March 2025	INR200.00	IND AA+/RWN
INE871D07RJ2	27 March 2018	8.65	27 March 2028	INR250.00	IND AA+/RWN
INE871D07RK0	15 May 2018	8.9	23 May 2023	INR1,690.00	IND AA+/RWN
INE871D07RL8	15 May 2018	9	15 May 2028	INR910.00	IND AA+/RWN
INE871D07RM6	30 May 2018	9	9 June 2023	INR1,500.00	IND AA+/RWN
INE871D07RN4	30 May 2018	9.1	30 May 2028	INR500.00	IND AA+/RWN
INE871D07RO2	27 June 2018	9.05	27 June 2023	INR1,000.00	IND AA+/RWN
INE871D07RP9	27 June 2018	9.15	27 June 2028	INR1,000.00	IND AA+/RWN
	Total outstanding			INR58,870.80	
	Unutilised			INR36,230.00	
	Total			INR95,100.8	

*Amount outstanding as on 31 July 2018

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Applicable Criteria

[Financial Institutions Rating Criteria](#)
[Non-Bank Finance Companies Criteria](#)

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India Ratings Downgrades Infrastructure Leasing & Financial Services to 'IND AA+'; Places on RWN

24

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By [Prakash Agarwal](#)

India Ratings and Research (Ind-Ra) has downgraded Infrastructure Leasing & Financial Services Limited's (IL&FS) Long-Term Issuer Rating to 'IND AA+' from 'IND AAA'. The Outlook was Stable. The agency has also affirmed IL&FS' Short-Term Issuer Rating at 'IND A1+'. The ratings have simultaneously been placed on Rating Watch Negative (RWN). The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Long-term debt*	-	-	-	INR60,100.8 (reduced from INR65,180.9)	IND AA+/RWN	Downgraded; placed on RWN
Long term debt#*	-	-	-	INR35,000	IND AA+/RWN	Assigned; placed on RWN
Subordinated^ debt	-	-	-	INR1,000	IND AA+/RWN	Downgraded; placed on RWN
Short-term debt	-	-	-	INR12,250	IND A1+/RWN	Affirmed, placed on RWN
Bank loans	-	-	-	INR3,000	IND AA+/RWN	Downgraded; placed on RWN

^Unutilised

*Details in annexure

#Yet to be issued

The downgrade reflects weakening of some of IL&FS' major investments in transportation, energy and financial verticals, and proposed restructuring of its business towards a capital-light model. The rating action also factors in dilution in the liquidity buffers of IL&FS and system-wide tight liquidity conditions, which pose challenges in accessing long-term cost-effective funding.

The RWN reflects stress in some of the investments, which could have a material impact on the company's tangible equity buffers. Hence, a sizeably large amount of equity infusion is critical to strengthen the balance sheet, and long-term debt to strengthen the liquidity profile of the company. IL&FS has announced to raise equity capital of INR45 billion and long-term debt (tenure of 10 years) of INR35 billion within the next few weeks. Additionally, it is monetising certain assets in group companies and special purpose vehicles (SPVs), refinancing debt at group level and up-streaming cash flows. Ind-Ra has placed the Outlook on RWN due to pending completion of these developments.

KEY RATING DRIVERS

Unique Positioning in Infrastructure Space; Business Model Under Transition: IL&FS as a group continues to hold a unique position in India's infrastructure space, with competencies encompassing project advisory, sponsoring and development of projects in initial phases as well as funding and operating projects, which enhances its competitiveness. IL&FS benefits from its established franchise, proven operating track record and well-experienced management. The group expertise is spread out with capabilities over a wide segment of the infrastructure space. The company is transforming itself to a capital-light business model and focussing on pure play service offerings in the infrastructure space. Although the company's vast experience and expertise will smoothen the transition, the competitive intensity would also be greater in this domain.

Constrained Funding; Reduction in On-Balance Sheet Liquidity Buffers: IL&FS historically maintained strong liquidity buffers with sizeable cash and liquid assets on its balance sheet, supporting short-term repayments. However, the liquidity buffers have diluted in the recent months. While the asset-liability profile is well matched, some of its repayments are from group companies which have weak financials, which could lead to some delays in repayments. IL&FS is likely to mobilise long-term loans of about INR35 billion from large institutions. These funds would be utilised for refinancing existing debt and provide the much needed long-term debt. IL&FS' borrowings largely are long-term in nature; although commercial paper borrowing has increased to 11.5% of the total borrowings in FY18 (FY17: 3.7%).

Regulation Caps Leverage; Tangible Equity Buffers Could Have Depleted: IL&FS' debt protection buffers remain supported by its low financial leverage, as its status as a core investment company (CIC) caps financial leverage (debt/adjusted net worth capped at 2.5x) compared with traditional financing companies'.

IL&FS' regulatory leverage (FY18: 2.30x, FY17: 2.23x, FY16: 2.47x, FY15: 2.02x) and debt to equity (3.60x, 3.16x, 3.51x, 2.83x) has increased in the recent years. The regulatory leverage in FY18 benefits from the inclusion of INR8.5 billion of general contingency provisions as part of the adjusted net worth, which was not included in FY17.

Moreover, ongoing challenges in some of its large investments, many of which are either loss making or in the nascent stage, could have depleted its tangible equity buffers. Management stated its plans of divesting certain assets and refinancing debt at the subsidiary or SPV level, which would assist IL&FS' deleveraging plans. Ind-Ra's stress test indicates that proposed equity infusion of INR45 billion is critical in strengthening the company's balance sheet and credit profile.

Limited Support to Group Companies: IL&FS' business model entails investments in multiple ventures/companies/SPVs with the objective of appropriately monetising them. The incremental investments either in form of equity, debt or liquidity support to the group companies is solely based on business prospects of the investment(s). IL&FS' leverage has remained high in the recent years; thus, the agency factors in limited support, to the extent explicitly stated, to its group companies.

Concentrated Portfolio: Being a CIC, IL&FS has concentration risk with high single name exposures. The top five exposures (equity and debt) constituted 273% of the equity in FY18 (FY17: 243%). Some of these exposures are towards group entities that have modest financials with high leverage. IL&FS along with IL&FS Financial Services (IFIN; 'IND AA'/RWN) had to support some of the group entities with incremental funding since these could not mobilise funds for their projects due to market constraints.

RATING SENSITIVITIES

A less-than-stated amount of equity and debt infusion within stipulated timelines would lead to a multi-notch downgrade. Material deviation from planned refinancing and divestment plans, further tightening of liquidity and constrained ability to raise funds would also be a credit negative. The RWN reflects the rating will be either downgraded or affirmed. Ind-Ra will resolve the RWN upon completion of the proposed developments.

COMPANY PROFILE

IL&FS is one of the leading companies operating in the infrastructure development space in India. The company has a strong investor profile with LIC of India and ORIX Corporation, Japan together holding a 49% stake. The company restructured its business in FY08 and converted itself into a holding company after demerging its lending and advisory business to its subsidiary, IL&FS Financial Services. The company received a CIC licence in September 2012.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Total assets (INR million)	239,082	194,312
Total equity (INR million)	48,380	43,128
Net income (INR million)	4,465	2,425*
Return on average assets (%)	2.06	1.23
Leverage ratio (times)	2.30	2.23
Source: Company		

*Post deduction of dividend on non-convertible, redeemable, cumulative preference shares

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	1 March 2018	22 March 2016	18 August 2014
Issuer rating	Long-term/Short term	-	IND AA+/RWN/IND A1+/RWN	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Long-term debt	Long-term	INR95,100.8	IND AA+/RWN	IND AAA/Stable	IND AAA/Stable	IND AAA
Subordinated debt	Long-term	INR1,000	IND AA+/RWN	IND AAA/Stable	IND AAA/Stable	IND AAA
Short-term debt	Short-term	INR12,250	IND A1+/RWN	IND A1+	IND A1+	IND A1+
Bank loans	Long-term	INR3,000	IND AA+/RWN	IND AAA/Stable	-	-

ANNEXURE

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Limits (million)*	Rating/Rating Watch
INE871D07GJ5	1 March 2006	7.8	1 March 2021	INR0.80	IND AA+/RWN
INE871D07JN1	15 December 2008	12.2	15 December 2018	INR1,400.00	IND AA+/RWN
INE871D07LU2	20 May 2010	8.96	20 May 2025	INR3,500.00	IND AA+/RWN

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Limits (million)*	Rating/Rating Watch
INE871D07LZ1	17 August 2010	9.35	17 August 2035	INR1,500.00	IND AA+/RWN
INE871D07MC8	24 December 2010	9.2	24 December 2020	INR250.00	IND AA+/RWN
INE871D07ME4	22 February 2011	9.7	22 February 2021	INR3,250.00	IND AA+/RWN
INE871D07MH7	25 July 2011	9.68	25 July 2021	INR1,500.00	IND AA+/RWN
INE871D07MI5	11 August 2011	9.75	11 August 2018	INR1,500.00	IND AA+/RWN
INE871D07MU0	19 December 2012	9.4	19 December 2022	INR1,000.00	IND AA+/RWN
INE871D07ND4	4 February 2014	9.95	4 February 2019	INR770.00	IND AA+/RWN
INE871D07NE2	4 February 2014	9.95	4 February 2021	INR1,060.00	IND AA+/RWN
INE871D07NF9	4 February 2014	9.9	4 February 2024	INR170.00	IND AA+/RWN
INE871D07NG7	13 February 2014	9.9	13 February 2021	INR1,000.00	IND AA+/RWN
INE871D07NH5	13 February 2014	9.9	13 February 2024		IND AA+/RWN
INE871D07NJ1	13 August 2014	9.55	13 August 2024	INR2,000.00	IND AA+/RWN
INE871D07NK9	29 December 2014	9	29 December 2024	INR2,000.00	IND AA+/RWN
INE871D07NL7	21 January 2015	8.72	21 January 2025	INR2,000.00	IND AA+/RWN
INE871D07NM5	23 January 2015	8.75	23 January 2025	INR500.00	IND AA+/RWN
INE871D07OI1	24 August 2015	8.69	24 August 2025	INR1,000.00	IND AA+/RWN
INE871D07OJ9	25 August 2015	8.69	25 August 2025	INR1,000.00	IND AA+/RWN
INE871D07OK7	21 September 2015	8.8	21 September 2020	INR2,270.00	IND AA+/RWN
INE871D07OL5	21 September 2015	8.75	21 September 2025	INR230.00	IND AA+/RWN
INE871D07OM3	22 September 2015	8.8	22 September 2020	INR830.00	IND AA+/RWN
INE871D07OQ4	28 October 2015	8.5	28 October 2020	INR900.00	IND AA+/RWN
INE871D07OW2	25 January 2016	8.7	25 July 2019	INR250.00	IND AA+/RWN
INE871D07OX0	25 January 2016		25 January 2021		IND AA+/RWN
INE871D07OY8	9 March 2016	8.8	9 March 2026	INR500.00	IND AA+/RWN
INE871D07OZ5	15 March 2016	8.9	15 March 2019	INR520.00	IND AA+/RWN
INE871D07PA5					IND AA+/RWN
INE871D07PB3	15 March 2016		15 March 2021		IND AA+/RWN
INE871D07PF4	18 March 2016	9	18 September 2019	INR1,700.00	IND AA+/RWN
INE871D07PG2	18 March 2016	9.2	18 March 2021		IND AA+/RWN
INE871D07PP3	1 March 2017	8.25	1 March 2022	INR500.00	IND AA+/RWN
INE871D07PQ1	3 March 2017	8	3 March 2019	INR100.00	IND AA+/RWN
INE871D07PR9	3 March 2017	8	3 March 20	INR50.00	IND AA+/RWN
INE871D07PS7	3 March 2017	8.25	3 March 2022	INR200.00	IND AA+/RWN
INE871D07QD7	2 August 2017	7.65	2 August 2022	INR1,450.00	IND AA+/RWN
INE871D07QE5	2 August 2017	7.7	2 August 2024		IND AA+/RWN
INE871D07QF2	2 August 2017	7.7	2 August 2027		IND AA+/RWN
INE871D07QI6	18 August 2017	7.6	18 August 2020	INR500.00	IND AA+/RWN
INE871D07QJ4	28 August 2017	7.73	28 December 2020	INR1,500.00	IND AA+/RWN
INE871D07QK2	7 September 2017	7.6	7 September 2020	INR1,000.00	IND AA+/RWN
INE871D07QL0	7 September 2017	7.65	7 September 2022		IND AA+/RWN
INE871D07QN6	7 September 2017	7.7	7 September 2027		IND AA+/RWN
INE871D07QO4	20 September 2017	7.85	20 September 2027	INR2,000.00	IND AA+/RWN
INE871D07QP1	26 September 2017	7.65	26 September 2020	INR500.00	IND AA+/RWN
INE871D07QQ9	29 September 2017	7.6	29 September 2020	INR500.00	IND AA+/RWN
INE871D07QR7	30 October 2017	7.85	30 December 2022	INR1,750.00	IND AA+/RWN
INE871D07QS5	30 October 2017	7.88	30 October 2024	INR500.00	IND AA+/RWN
INE871D07QV9	14 November 2017	7.8	30 November 2020	INR1,070.00	IND AA+/RWN
INE871D07QU1	14 November 2017	7.75	14 November 2019	INR150.00	IND AA+/RWN
INE871D07QW7	11 January 2018	8.3	11 January 2023	INR1,000.00	IND AA+/RWN
INE871D07QX5	15 January 2018	8.3	15 January 2023	INR1,000.00	IND AA+/RWN
INE871D07QY3	15 January 2018	8.4	15 January 2025	INR1,500.00	IND AA+/RWN
INE871D07QZ0	19 January 2018	8.3	19 January 2023	INR500.00	IND AA+/RWN
INE871D07RA1	24 January 2018	8.3	24 January 2023	INR800.00	IND AA+/RWN
INE871D07RD5	6 February 2018	8.4	6 February 2025	INR340.00	IND AA+/RWN
INE871D07RC7	6 February 2018	8.3	6 April 2023	INR500.00	IND AA+/RWN

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Limits (million)*	Rating/Rating Watch
INE871D07RE3	9 March 2018	8.55	9 March 2025	INR630.00	IND AA+/RWN
INE871D07RF0	9 March 2018	8.65	9 March 2028	INR700.00	IND AA+/RWN
INE871D07RG8	13 March 2018	8.45	13 March 2023	INR250.00	IND AA+/RWN
INE871D07RI4	22 March 2018	8.65	22 March 2028	INR230.00	IND AA+/RWN
INE871D07RH6	22 March 2018	8.55	22 March 2025	INR200.00	IND AA+/RWN
INE871D07RJ2	27 March 2018	8.65	27 March 2028	INR250.00	IND AA+/RWN
INE871D07RK0	15 May 2018	8.9	23 May 2023	INR1,690.00	IND AA+/RWN
INE871D07RL8	15 May 2018	9	15 May 2028	INR910.00	IND AA+/RWN
INE871D07RM6	30 May 2018	9	9 June 2023	INR1,500.00	IND AA+/RWN
INE871D07RN4	30 May 2018	9.1	30 May 2028	INR500.00	IND AA+/RWN
INE871D07RO2	27 June 2018	9.05	27 June 2023	INR1,000.00	IND AA+/RWN
INE871D07RP9	27 June 2018	9.15	27 June 2028	INR1,000.00	IND AA+/RWN
	Total outstanding			INR58,870.80	
	Unutilised			INR36,230.00	
	Total			INR95,100.8	

*Amount outstanding as on 31 July 2018

COMPLEXITY LEVEL OF INSTRUMENTS

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