

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)	FY2018			FY2017		FY2016		
					Aug-2018	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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