IL&FS Transportation Networks Limited

April 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1000.0	1000.0	[ICRA]A1; Outstanding
Non-Convertible Debentures	1249.5	1249.5	[ICRA]AA+(SO) (Stable); Outstanding
Non-Convertible Debentures	1750.5	1750.5	Provisional [ICRA]AA+(SO) (Stable); Reassigned
Non-Convertible Debentures	2000.0	2000.0	[ICRA]A (Negative); Outstanding
Term Loans	490.0	490.0	[ICRA]A (Negative); Outstanding
Fund-based Bank limits	320.0	320.0	[ICRA]A1; Outstanding
Preference Share	760.0	760.0	[ICRA]A- (Negative); Outstanding
Total	**7,570**	**7,570**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reassigned the provisional rating [ICRA]AA+(SO) (pronounced ICRA double A Plus Structured Obligation) to Rs. 1750.50 crore[1] non-convertible debenture (NCD) programme of IL&FS Transportation Networks Limited (ITNL)[2]. The rating carries a stable outlook. ICRA has a long-term rating of [ICRA]AA+(SO) (pronounced ICRA double A Plus Structured Obligation) with Stable outlook outstanding on Rs. 1249.50 crore non-convertible debentures (NCD) programme with the same structure (backed by debt service reserve account (DSRA) support undertaking by IL&FS Limited). ICRA also has a long-term rating of [ICRA]A (pronounced ICRA A) with Negative outlook outstanding on the Rs. 2,000 crore of non-convertible debenture (NCD) programme and Rs. 490 crore bank loans of ITNL. ICRA has a short term rating of [ICRA]A1 on the fund-based bank lines of Rs. 320 crore and on the commercial paper programme of Rs. 1000 crore. ICRA also has a rating of [ICRA]A- (pronounced ICRA A minus) with Negative outlook outstanding on the preference shares of Rs. 760 crore of ITNL.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications*

Rationale

In March 2017, ICRA had assigned Provisional [ICRA]AA+(SO) rating to Rs. 3,000 crore non-convertible debenture (NCD) programme of ITNL. Subsequently, rating for Rs. 1249.50 crore NCD limit out of the overall programme was confirmed as final. The rating for the balance Rs. 1750.5 crore NCD limit has been reassigned as Provisional [ICRA]AA+(SO) (pronounced ICRA double A Plus Structured Obligation). The outlook on the rating is 'Stable'. The reassignment is as per ICRA's policy on provisional ratings.

The letter SO in parenthesis suffixed to the rating symbol stands for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. 'SO' ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The provisional rating is subject to the fulfilment and review of all pending actions/ documentation pertaining to the instrument rated by ICRA. The final rating may differ from the provisional rating in case the completed actions/ documentation is not in line with ICRA's expectations.

Outlook: Stable

The outlook on the Rs. 3000 crore NCD programme may be revised if there is a change in outlook of Infrastructure Leasing & Financial Services Limited (IL&FS Limited)

Analytical approach: For arriving at the rating, ICRA has taken into account the DSRA Support undertaking from IL&FS Limited that would cover the immediate scheduled obligation at any given point of time to the NCD holders as per the terms of the transaction.

Key rating drivers

Credit strengths

- DSRA Support Undertaking by IL&FS Limited ([ICRA]AAA(Stable)/[ICRA]A1+) that would cover the scheduled debt obligations that may arise on the rated NCDs
- DSRA amount equivalent to next 1 quarter of scheduled debt obligation to be created upfront; DSRA amount shall increase to next 3 quarters of scheduled debt obligations in case the long term rating of ITNL falls below [ICRA]BBB+
- Defined payment mechanism to ensure timely payment of scheduled payouts to the investors
- No acceleration clause in the rated NCDs linked to default by ITNL on its other debt
- Strong Institutional shareholders- both domestic and institutional of IL&FS Limited
- Sustainable cash flows for IL&FS Limited in the form of Business Centre and dividend income from the group companies
- ITNL's well-diversified portfolio with a mix of toll/user fee and annuity projects
- Healthy growth in toll revenues resulting from commencement of tolling in five projects in ITNL over the past two years; annuity portfolio continues to provide stable revenue source
- ITNL's demonstrated ability to successfully raise funds through a combination of preference shares, equity (or equity-like instruments), securitization of tolls and stake sale over the years

Credit weaknesses

- High borrowings in ITNL driven by the funding requirement of the ongoing as well as operational projects resulting in increase in gearing levels; large funding commitments towards the various project SPVs

Description of key rating drivers highlighted above:

The NCDs would have a scheduled tenor of upto 5/10 years from the deemed date of allotment. Coupon on the NCDs would be payable on a quarterly basis and principal would be payable in structured quarterly installments post a moratorium of 5 years. The Issuer shall maintain reserve equivalent to the next scheduled debt obligation in the Debt Service Reserve Account (DSRA). In case the long-term rating of ITNL was to falls below [ICRA]BBB+, the DSRA shall be increased to next 3 quarter scheduled debt obligation which ensures that there is greater liquidity buffer for the rated NCDs in case of deterioration of credit profile of ITNL. The DSRA Support Undertaking shall ensure that IL&FS Ltd or its nominee would arrange for necessary funds to ensure that DSRA is maintained as per the terms of the transaction. Further there shall be no acceleration clause in the rated NCDs linked to default by ITNL on its other debt.

The DSRA Support Undertaking by IL&FS Limited would cover immediate scheduled obligation at any given point of time that may arise on the rated NCDs. The payment mechanism is designed to ensure timely payment to the investors as per terms of the transaction, even if the Issuer does not pay and the scheduled NCD redemption happens through monies due from/arranged by IL&FS Limited as per the terms of the transaction. However the DSRA Support undertaking shall not cover any the accelerated payouts in case of acceleration of NCDs.

As on March 31, 2017, 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. In FY2016, IL&FS reported an operating income of Rs. 1,913 crore on a stand-alone basis, up from Rs. 1,430 crore in the previous fiscal (growth of 34% YoY) supported primarily by a sharp increase in the dividend and interest on investments (growth of 107% YoY from Rs. 362 crore during FY2015 to Rs. 747 crore during FY2016). IL&FS receives dividends from its subsidiaries, namely, IL&FS Financial Services Ltd (IFIN), IL&FS Transportation Networks Ltd (ITNL), IL&FS Securities Services Ltd (ISSL), and IL&FS Investment Managers Ltd (IIML) etc., with IFIN being the largest contributor.

Over the years ITNL has emerged as the leading player in the surface transportation sector and one of the largest private sector Build-Operate-Transfer (BOT) road operators in India. The company's portfolio exhibits geographic diversification with a presence across several Indian states. The funding support, in terms of equity, loans and advances, extended towards the project SPVs has resulted in a significant increase in ITNL's stand-alone debt levels and consequent deterioration in its debt and coverage indicators over the past two fiscals. Additionally, ITNL's capital requirement for the project SPVs is expected to remain high given the large under-execution portfolio (in terms of value of projects). Furthermore, ITNL may be required to extend further support for meeting cost overruns in under-construction projects and cash flow shortfall in the operational projects during the early stages, should there be a requirement. The company, however, plans to partly meet this requirement by leveraging its project portfolio through asset monetisation as well as by up-streaming the surplus from individual project SPV through debt refinance at SPV level, settlement of claims with authorities etc. While the issuance of the proposed NCD's may result in an increase in the debt at the stand-alone level, the consolidated debt would remain stable, albeit with a lower cost and enhanced maturity.

The key issue details for Rs. 3000 crore NCD programme are as given below:

Type of Instrument & Amount	Rated Listed Secured/Unsecured Redeemable Non-Convertible Debentures (NCDs)
Debenture Trustee	Vistra ITCL (India) Limited
Tenor	Upto 10 years
Coupon frequency	Quarterly
Repayment Schedule	Structured quarterly or bullet repayment post principal moratorium of 5 years
DSRA Quantum (DSRA)	The Issuer has created a DSRA equal to the next scheduled debt obligation. In case the long term rating of ITNL falls below [ICRA]BBB+, the DSRA shall be increased to next 3 quarter scheduled debt obligation
DSRA Account	If the DSRA is utilized on any due date, it has to be topped up by the Issuer, within 50 days from utilization to the extent of shortfalls in the monies available to meet the next scheduled debt obligation. In the event Issuer fails to top up the DSRA Account by T+45th calendar day, the Debenture Trustee shall notify the DSRA Support Undertaking Provider on T+45th calendar day. The DSRA Support Undertaking Provider or its nominee shall arrange necessary finance for infusion of funds for equivalent amount to ensure that DSRA is re-instated within T+60 calendar days.
Undertaking	DSRA Support Undertaking from IL&FS Limited

Links to applicable criteria:

[Approach for rating debt instruments backed by third-party explicit support]
Corporate Credit Rating Methodology
Construction Entities Methodology
Rating Methodology for BOT (Toll) Roads

About the company:

Incorporated in 2000, IL&FS Transportation Networks Limited (ITNL) is an established surface transportation infrastructure company and one of the largest private sector Build-Operate-Transfer (BOT) road operators in India. The company is promoted by IL&FS Limited (IL&FS, rated [ICRA]AAA (stable) / [ICRA]A1+) which holds 71.92% equity stake in ITNL as on December 31, 2017. Since inception, ITNL has been involved in the development, construction and implementation, operation and maintenance of national and state highways, roads, flyovers and bridges. ITNL, through its wholly-owned subsidiary in Singapore, namely ITNL International Pte Ltd (IIPL) holds 100% equity stake in Elsamex S.A, a Spanish O&M operator which provides maintenance services for infrastructure facilities largely in the roads sector in Spain and the rest of Europe and 49% stake (51% being held by Chongqing Expressway Group Company Limited) in Chongqing YuHe Expressway Company Limited (CYECL), a toll-based road project in south-west China which has a long operating history of over nine years.

Key Financial Indicators (Audited, Standalone)

	FY 2016	FY 2017	9MFY 2018
Operating Income (Rs. crore)	4524.1	3676.3	2148.3
PAT (Rs. crore)	-97.4	236.4	145.3
OPBDIT/ OI (%)	12.6%	23.5%	22.0%
RoCE (%)	9.3%	11.8%	
Total Debt/ TNW (times)	3.6	4.1	
Total Debt/ OPBDIT (times)	16.9	13.3	
Interest coverage (times)	0.5	0.6	0.4
NWC/ OI (%)	84%	82%	

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profir after Tax; RoCE: Return on Capital Employed; NWC: Net Working Capital; TNW: Tangible Networth

Note: Financials are as per Ind AS

About the DSRA Undertaking Provider:

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, 2017), the shareholding has broadened over the years with the participation of many institutional shareholders. As on March 31, 2017, 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 FY2017, on a standalone basis, IL&FS reported a net profit of Rs. 383 crore on a total income of Rs. 1,787 crore.

Key financial indicators (audited)

	FY 2016	FY 2017
Total Income	1,913	1,787
Profit after tax (PAT)	274	383
Net Worth^	4,754	5,000
Total managed portfolio	3,403	3,909
Total managed assets	20,101	20,166
Return on managed assets (PAT/AMA)	1.50%	1.93%
Return on average net worth (PAT/Avg. net worth)	6.0%	7.85%
Reported Gearing	2.89	2.60
CIC Leverage ratio	2.47	2.23
Gross NPA%	0.0%	0.0%
Net NPA%	0.0%	0.0%
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:

	Instrument	Current Rating (FY2018)							Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount O/s (Rs Crore)	Date & Rating				Date & Rating in FY2017		Date & Rating in FY2016		Date & Rating in FY2015
					April 2018	Feb 2018	Nov 2017	Aug 2017	March 2017	Jan 2017	July 2015	June 2015	Feb 2015
1	CP	Short Term	1000.0	66	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
2	NCD*	Long Term	349.0	349.0	[ICRA]AA+(SO) (Stable)	[ICRA]AA+(SO) (Stable)	-	-	Provisional [ICRA]AA+(SO) (Stable)		-		-
3	NCD*	Long Term	150.5	150.5	[ICRA]AA+(SO) (Stable)	[ICRA]AA+(SO) (Stable)	[ICRA]AA+(SO) (Stable)	-					
4	NCD*	Long Term	750.0	750.0	[ICRA]AA+(SO) (Stable)	[ICRA]AA+(SO) (Stable)	[ICRA]AA+(SO) (Stable)	[ICRA]AA+(SO) (Stable)					
5	NCD*	Long Term	1750.5	-	Provisional [ICRA]AA+(SO) (Stable)	Provisional [ICRA]AA+(SO) (Stable)	Provisional [ICRA]AA+(SO) (Stable)	Provisional [ICRA]AA+(SO) (Stable)		-	-	-	-
6	NCD	Long Term	2000.0	586.3	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
7	Term Loans	Long Term	490.0	85	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	-	-	-
8	Fund-based Bank limits	Short Term	320.0	0	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-	-
9	Preference Share	Long Term	760.0	498.4	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negativ	[ICRA]A- (Negative	[ICRA]A- (Negat	[ICRA]A- (Ne	[ICRA]A- (Stabl	[ICRA]A- (Stabl	[ICRA]A- (Stab

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	Total		**7,570**	**2,485.2**									

*Rating is based on credit enhancement in the form of a binding tripartite Parent Agreement for shortfall undertaking, whereby Debenture Trustee has a right to call upon IL&FS (i.e. Parent) for timely repayment of outstanding amounts of the aforesaid instruments; Final rating assigned to Rs. 1249.5 crore and provisional rating to Rs. 1750.5 crore NCD programme.

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
INE975G08249/ INE975G08256	NCD	Oct 2017	9.25% /9.37%[3]	October 2022/October 2027	150.50	[ICRA]AA+(SO) (Stable)
INE975G08223 /INE975G08231	NCD	Mar 2017	9.20% /9.33%[4]	April 2022/March 2027	750.00	[ICRA]AA+(SO) (Stable)
INE975G08017	NCD	Jan 2013	12.00%	January 2019	400.00	[ICRA]A (Negative)
INE975G08033	NCD	Mar 2013	12.00%	March 2019	600.00	[ICRA]A (Negative)
INE975G08082	NCD	Jan 2015	11.80%	December 2024	250.00	[ICRA]A (Negative)
INE975G08090	NCD	Feb 2015	11.80%	January 2025	250.00	[ICRA]A (Negative)
INE965G08272/ INE975G07027	NCD	Dec 2017	9.25%/ 9.00%[5]	December 2022/December 2027	149.00	[ICRA]AA+(SO) (Stable)
INE975G08264/ INE975G07019	NCD	Nov 2017	9.37%/ 9.00%[6]	November 2027	200.00	[ICRA]AA+(SO) (Stable)
NA	NCD	Yet to be placed	NA	NA	1750.50	Provisional [ICRA]AA+(SO) (Stable)
NA	Commercial Paper			7-365 days	1000.00	[ICRA]A1
NA	Term Loan			June 2019	490.0	[ICRA]A (Negative)
NA	Short Term Loan			June 2018	320.00	[ICRA]A1
NA	Preference Share				760.00	[ICRA]A- (Negative)

Source: Company

[3] The Rs. 150 crore NCDs have been issued in two tranches of Rs. 118 crore and Rs. 32.50 crore
[4] The Rs. 750 crore NCDs have been issued in two tranches of Rs. 300 crore and Rs. 450 crore
[5] The Rs. 149 crore NCDs have been issued in two tranches of Rs. 50 crore and Rs. 99 crore
[6] The Rs. 200 crore NCDs have been issued in two tranches of Rs. 100 crore and Rs. 100 crore

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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