

Infrastructure Leasing & Financial Services Limited

September 17, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	5,225.00	5,225.00	[ICRA]D; downgraded from [ICRA]BB& and removed from watch with developing implications
Commercial paper programme	2,500.00	2,500.00	[ICRA]D; downgraded from [ICRA]A4& and removed from watch with developing implications
Long Term – Term Loans	350.00	350.00	[ICRA]D; downgraded from [ICRA]BB& and removed from watch with developing implications
Total	8,075.00	8,075.00	

& - 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. 5,225 crore non-convertible debenture programme and the Rs. 350 crore term loans of Infrastructure Leasing & Financial Services Limited (IL&FS) to [ICRA]D (pronounced ICRA D) from [ICRA]BB (pronounced ICRA double B). ICRA has revised the short-term rating for the Rs. 2,500 crore commercial paper programme of IL&FS to [ICRA]D (pronounced ICRA D) from [ICRA]A4 (pronounced ICRA A four). The ratings have been removed from watch with developing implications.

Rationale

The rating revision takes into account the recent irregularities in debt servicing by the company. The liquidity position at a group levels remains under challenge given the delays in raising funds from the promoters in accordance with the earlier stated plans, deterioration in the credit profile of key investee companies and sizeable debt repayment obligations. The company had planned to raise Rs. 4,500 crore equity (through rights issue) and Rs. 3,500 crore long-term line of credit from its shareholders. These plans, however, are yet to be finalised.

Key rating drivers

Credit strengths: Not applicable

Credit challenges

Weak liquidity profile resulting in delays in debt servicing – The company was unable to meet the commercial paper (CP) redemption obligations due on September 14, 2018. Furthermore, on September 15, 2018, the company reported that it had received notices for delays and defaults in servicing some of the inter corporate deposits (ICD) accepted by it. The liquidity profile of the group has been under pressure given the delays in fund raising as initially envisaged, deterioration in credit profile of key investee companies and the sizeable repayment obligations at group level in the near term. The company is in the process of raising Rs. 8,000 crore of funds from the promoter group (through a mix of rights issue and long-term line of credit). ICRA notes that timely receipt of the same remains important to improve the overall liquidity profile of the company.

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.

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 plans to raise Rs. 4,500 crore through a rights issue and avail a Rs. 3,500 crore line of credit from the promoter group 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.

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.

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	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Current Rating (FY2019)									Chronology of Rating History for the past 3 years			
					FY2018			FY2017			FY2016						
					Sep-18	Sep-18	Aug-18	Mar-18	Jan-18	Nov-17	May-17	Apr-16	Feb-16				
1.	Commercial Paper Programme	Short Term	2,500	NA	[ICRA] D	[ICRA] A4&	[ICRA] A1+&	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] 1+	[ICRA]A			
2.	Non-Convertible Debenture Programme	Long Term	5,225	3,343.58	[ICRA] D	[ICRA] BB&	[ICRA] AA+&	[ICRA]A AA (stable)	[ICRA]A AA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AA (stable)	[ICRA]A			
3.	Long Term – Term Loans	Long Term	350	350	[ICRA] D	[ICRA] BB&	[ICRA] AA+&	[ICRA]A AA (stable)	[ICRA]A AA (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]D
NA	Term Loan	19-Aug-14	-	19-Aug-19	75.00	[ICRA]D
NA	Term Loan	30-Mar-15	-	30-Mar-19	62.50	[ICRA]D
NA	Term Loan	30-Mar-15	-	30-Mar-20	62.50	[ICRA]D
NA	Term Loan	16-Dec-16	-	30-Mar-19	20.00	[ICRA]D
NA	Term Loan	16-Dec-16	-	30-Mar-20	20.00	[ICRA]D
NA	Term Loan	20-Mar-17	-	30-Mar-19	17.50	[ICRA]D
NA	Term Loan	20-Mar-17	-	30-Mar-20	17.50	[ICRA]D
INE871D07GJ5	NCD	1-Mar-06	7.80%	1-Mar-21	0.08	[ICRA]D
INE871D07MK1	NCD	16-Sep-11	9.78%	16-Sep-19	75.00	[ICRA]D
INE871D07MO3	NCD	5-Dec-11	9.98%	5-Dec-18	75.00	[ICRA]D
INE871D07MP0	NCD	5-Dec-11	9.98%	5-Dec-21	225.00	[ICRA]D
INE871D07MS4	NCD	12-Mar-12	9.85%	12-Mar-22	210.00	[ICRA]D
INE871D07MU0	NCD	19-Dec-12	9.40%	19-Dec-22	100.00	[ICRA]D
INE871D07MV8	NCD	21-Jan-13	9.10%	21-Jan-20	46.50	[ICRA]D
INE871D07MW6	NCD	24-Jan-13	9.30%	24-Jan-38	50.00	[ICRA]D
INE871D07MZ9	NCD	23-Aug-13	11%	23-Aug-18	200.00	[ICRA]D
INE871D07NC6	NCD	26-Aug-13	10.50%	26-Aug-18	69.00	[ICRA]D
INE871D07NI3	NCD	28-Jul-14	9.50%	28-Jul-24	300.00	[ICRA]D
INE871D07NJ1	NCD	13-Aug-14	9.55%	13-Aug-24	200.00	[ICRA]D
INE871D07NW4	NCD	20-Apr-15	ZERO COUPON/ 8.65% XIRR	10-Apr-18	50.00	[ICRA]D
INE871D07NX2	NCD	21-Apr-15	ZERO COUPON/ 8.65% XIRR	21-May-18	55.00	[ICRA]D
INE871D07NZ7	NCD	20-May-15	8.75%	21-May-18	10.00	[ICRA]D
INE871D07OA8	NCD	20-May-15	8.75%	20-May-20	40.00	[ICRA]D
INE871D07OB6	NCD	23-Jul-15	8.78%	23-Jul-20	100.00	[ICRA]D
INE871D07OC4	NCD	29-Jul-15	8.75%	29-Jul-20	100.00	[ICRA]D
INE871D07OF7	NCD	10-Aug-15	8.74%	10-Aug-18	80.00	[ICRA]D
INE871D07OH3	NCD	11-Aug-15	8.74%	11-Aug-18	100.00	[ICRA]D
INE871D07OK7	NCD	21-Sep-15	8.80%	21-Sep-20	227.00	[ICRA]D
INE871D07OLS	NCD	21-Sep-15	8.75%	21-Sep-25	23.00	[ICRA]D
INE871D07OM3	NCD	22-Sep-15	8.80%	22-Sep-20	83.00	[ICRA]D
INE871D07PK4	NCD	28-Sep-16	ZERO COUPON/ 8.05% XIRR	23-Sep-19	100.00	[ICRA]D
INE871D07PL2	NCD	24-Oct-16	7.85%	24-Oct-19	25.00	[ICRA]D
INE871D07PM0	NCD	24-Oct-16	7.90%	24-Oct-21	50.00	[ICRA]D
INE871D07PP3	NCD	1-Mar-17	8.25%	1-Mar-22	50.00	[ICRA]D
INE871D07PQ1	NCD	3-Mar-17	8%	3-Mar-19	10.00	[ICRA]D
INE871D07PR9	NCD	3-Mar-17	8%	3-Mar-20	5.00	[ICRA]D

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE871D07PS7	NCD	3-Mar-17	8.25%	3-Mar-22	20.00	[ICRA]D
INE871D07PT5	NCD	21-Mar-17	8.09%	15-May-20	300.00	[ICRA]D
INE871D07PU3	NCD	11-May-17	8%	11-May-20	30.00	[ICRA]D
INE871D07PV1	NCD	11-May-17	8.06%	11-May-22	55.00	[ICRA]D
INE871D07PW9	NCD	11-May-17	8.09%	10-May-24	65.00	[ICRA]D
INE871D07PX7	NCD	6-Jun-17	8%	6-Jun-20	50.00	[ICRA]D
INE871D07PY5	NCD	6-Jun-17	8.06%	6-Jun-22	75.00	[ICRA]D
INE871D07PZ2	NCD	6-Jun-17	8.09%	6-Jun-24	25.00	[ICRA]D
INE871D07QA3	NCD	26-Jul-17	7.65%	26-Jul-22	50.00	[ICRA]D
INE871D07QB1	NCD	26-Jul-17	7.70%	26-Jul-24	130.00	[ICRA]D
-	Commercial Paper	NA	NA	7-365 days	2,500.00	[ICRA]D
	NCD [^]	NA	NA	NA	750.00	[ICRA]D

[^]Amount yet to be placed

Source: Infrastructure Leasing & 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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