

IL&FS Transportation Networks Limited ^{Revised}

February 01, 2018

Summary of Rated Instruments

Instrument*	Previous (Rs. crore)	Rated Amount	Current (Rs. crore)	Rated Amount	Rating Action
Commercial Paper	1000.0		1000.0		[ICRA]A1; Outstanding
Non-Convertible Debentures	0.0		349.0		Provisional [ICRA]AA+(SO) (Stable); Confirmed as final
Non-Convertible Debentures	900.5		900.5		[ICRA]AA+(SO) (Stable); Outstanding
Non-Convertible Debentures	2099.5		1750.5		Provisional [ICRA]AA+(SO) (Stable); Outstanding
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 confirmed the provisional rating assigned to Rs. 349.00 crore¹ non-convertible debenture (NCD) programme of IL&FS Transportation Networks Limited (ITNL)² as final. The rating carries a stable outlook. ICRA has already confirmed provisional rating on Rs. 150.5 crore and Rs. 750 crore non-convertible debentures (NCD) programme with the same structure (backed by debt service reserve account (DSRA) support undertaking by IL&FS Limited) in November 2017 and August 2017 respectively. 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. 750 crore and Rs.150.5 crore NCD limit out of the overall programme was confirmed as final. ITNL has now shared the documents for an additional Rs. 349 crore NCD limit. Since the documents are in line with the initial rating conditions, the rating for the additional Rs. 349.0 crore NCD limit has now been confirmed as final. The rating for the balance Rs. 1750.5 crore NCD limit continues to remain provisional. The outlook on the rating is 'Stable'.

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 are 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 IL&FS Limited

Analytical approach: The rating action is based on the vetting of transaction documents and they being in line with the terms initially shared with ICRA.

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+45 th calendar day, the Debenture Trustee shall notify the DSRA Support Undertaking Provider on T+45 th 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

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 was promoted by IL&FS Limited (IL&FS, rated [ICRA]AAA (Stable) / [ICRA]A1+) which holds 71.92% equity stake in ITNL. Since inception, ITNL has been involved in the development, construction and implementation, operation and maintenance of national and state highways, roads, flyovers and bridges. The company has a pan-India presence in the BOT road sector with a portfolio of 23 operational projects and 7 under-construction road projects across several Indian states currently as of March 31, 2017. Of its 30 road projects, 15 are being executed for the National Highways Authority of India (NHAI) and the Ministry of Roads, Transports and Highways, while the remaining are being executed for entities owned by various state governments. The company has a total operational / under-execution road portfolio of 14,016 lane kilometre.

ITNL, through its wholly-owned subsidiary in Singapore, namely ITNL International Pte Ltd (IIPL) holds (i) 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 (ii) 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 of ITNL:

Financial Year	FY2016	FY2017	H1FY2018
Accounting Standard	IGAAP	Ind AS	Ind AS
Operating income	5,219.0	4,400.5	2,017.3
PAT	173.5	236.4	84.9
OPBDIT/ OI (%)	25.5%	36.1%	46.2%
RoCE (%)	11.2%	12.7%	NA
Total Debt/ TNW (times)	2.7	3.7	4.2
Total Debt/ OPBDIT (times)	7.3	6.6	6.4
Interest coverage (times)	1.1	1.2	1.2
NWC/ OI (%)	86%	159%	

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital; Note: For FY2016, the company, after migrating to Ind AS, reported a net loss of Rs. 97.4 crore

Source: Company; Amount in Rs. crore

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: Not Applicable

Links to applicable Criteria:

[Approach for rating debt instruments backed by third-party explicit support](#)

[Rating Methodology for Construction Entities](#)

[Rating Methodology for BOT \(Toll\) Roads](#)

Rating history for last three years:

Table:

S. No	Name of Instrument	Type	Rate amount (Rs. Crore)	Current Rating			Chronology of Rating History for the past 3 years				
				Month-year (FY2018)	&	Rating	Month- year & Rating in FY2017		Month- year & Rating in FY2016		Month- year & Rating in FY2015
				Feb-18	Nov-17	Aug-17	Mar-17	Jan-17	Jul-15	Jun-15	Dec-14
1	Non Convertible Debenture programme	Long Term	1750.50	Provisional [ICRA]A A+(SO) (Stable)	Provisional [ICRA]A A+(SO) (Stable)	Provisional [ICRA]A A+(SO) (Stable)	Provisional ³ [ICRA]A A+(SO) (Stable)				
2	Non Convertible Debenture programme	Long Term	349.00	[ICRA]A A+(SO) (Stable)	-	-					
3	Non Convertible Debenture programme	Long Term	150.50	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)	-					
4	Non Convertible Debenture programme	Long Term	750	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)					
5	Commercial Paper programme	Short term	1,000	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

³ The provisional rating was assigned for Rs. 3000 crore NCD programme

6	Non-Convertible Debenture programme	Long term	2,000	[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	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)			
8	Short Term Loans	Short term	320	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1			
9	Preference Share	Long term	760	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

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 Details of Instrument

ISIN	Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	O/s as on Dec 31, 2017 Amt. (Rs. Cr.)	Current Rating and Outlook
--	Non-Convertible Debentures	Yet to be placed	-	-	1750.5	-	Provisional [ICRA]AA+(SO) (Stable)
INE975G08249/ INE975G08256	Non-Convertible Debentures	Oct 2017	9.25%/9.37% ⁴	October 2022/October 2027	150.5	150.5	[ICRA]AA+(SO) (Stable)
INE975G08223 /INE975G08231	Non-Convertible Debentures	Mar 2017	9.20%/9.33% ⁵	April 2022/March 2027	750	750	[ICRA]AA+(SO) (Stable)
INE965G08272/ INE975G07027	Non-Convertible Debentures	Dec 2017	9.25%/9.00% ⁶	December 2022/December 2027	149	149	[ICRA]AA+(SO) (Stable)
INE975G08264/ INE975G07019	Non-Convertible Debentures	Nov 2017	9.37%/9.00% ⁷	November 2027	200	200	[ICRA]AA+(SO) (Stable)
INE975G08017	Non-Convertible Debenture programme	Jan 2013	12.00%	January 2019	400	50	[ICRA]A (Negative)
INE975G08033	Non-Convertible Debenture programme	Mar 2013	12.00%	March 2019	600	36.3	[ICRA]A (Negative)
INE975G08082	Non-Convertible Debenture programme	Jan 2015	11.80%	December 2024	250	250	[ICRA]A (Negative)
INE975G08090	Non-Convertible Debenture programme	Feb 2015	11.80%	January 2025	250	250	[ICRA]A (Negative)
--	Commercial Paper programme			7-365 days	1,000	66	[ICRA]A1
--	Fund Based Term Loans	NA		June-19	490	85	[ICRA]A (Negative)
--	Short Term Loans	NA		June-18	320	0	[ICRA]A1
--	Preference Share				760	498.4	[ICRA]A- (Negative)

Source: IL&FS Transportation Networks Limited

⁴ The Rs. 150 crore NCDs have been issued in two tranches of Rs. 118 crore and Rs. 32.50 crore

⁵ The Rs. 750 crore NCDs have been issued in two tranches of Rs. 300 crore and Rs. 450 crore

⁶ The Rs. 149 crore NCDs have been issued in two tranches of Rs. 50 crore and Rs. 99 crore

⁷ The Rs. 200 crore NCDs have been issued in two tranches of Rs. 100 crore and Rs. 100 crore

Corrigendum

Document dated February 1, 2018 has been corrected with revisions as detailed below –

- Section related to Rating History for FY2018 on page 7 has been revised: Date and Rating column under 'Current Rating (FY 2018)' has been changed from July 2017 to August 2017

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