

## IL&FS Transportation Networks Limited

August 07, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	1,764.5	1,764.5	[ICRA]AA(SO) @; Downgraded from [ICRA]AA+(SO) @ (rating continues to be on rating watch with negative implications)
Non-Convertible Debentures	1,235.5	1,235.5	Provisional [ICRA]AA(SO) @; Downgraded from Provisional [ICRA]AA+(SO) @ (rating continues to be on rating watch with negative implications)
Commercial Paper	1,000.0	1,000.0	[ICRA]A4; outstanding
Non-Convertible Debentures	2,000.0	2,000.0	[ICRA]BB (Negative); outstanding
Term Loans	490.0	490.0	[ICRA]BB (Negative); outstanding
Fund-based Bank limits	320.0	320.0	[ICRA]A4; outstanding
Preference Share	760.0	760.0	[ICRA]BB-(Negative); outstanding
<b>Total</b>	<b>7,570.0</b>	<b>7,570.0</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has downgraded the rating assigned to Rs. 1,764.50<sup>1</sup> crore structured non-convertible debenture (NCD) programme of IL&FS Transportation Networks Limited (ITNL) from [ICRA]AA+(SO) (pronounced ICRA Double A plus structured obligation) to [ICRA]AA(SO) pronounced ICRA Double A structured obligation). The rating continues to be on rating watch with negative implications.

ICRA has also downgraded the rating assigned to Rs. 1,235.50 crore structured non-convertible debenture (NCD) programme of ITNL from Provisional [ICRA]AA+(SO) (pronounced ICRA Provisional Double A plus structured obligation) to Provisional [ICRA]AA(SO) (pronounced ICRA Provisional Double A structured obligation). The rating continues to be on rating watch with negative implications. The rating for Rs. 1,235.5 crore amount remains provisional, and would be finalised upon execution of the necessary transaction documents and they being in line with initial terms shared with ICRA. 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 final rating may differ from the provisional rating in case the completed actions/ documentation are not in line with ICRA's expectations.

<sup>1</sup> 100 lakh = 1 crore = 10 million

ICRA has long-term rating outstanding of [ICRA]BB (pronounced ICRA double B) on the Rs. 2,000.0 crore NCD programme and Rs.490.0 crore term loans of IL&FS Transportation Networks Limited (ITNL)<sup>2</sup>. The outlook on the long-term rating is 'Negative'. ICRA also has long-term rating outstanding of [ICRA]BB- (pronounced ICRA double B minus) on the Rs. 760.0 crore preference share of ITNL. The outlook on the long-term rating is 'Negative'. Further, ICRA has short-term rating of [ICRA]A4 (pronounced ICRA A four) outstanding on the Rs. 320.0 crore fund-based bank facilities and Rs.1,000.0 crore commercial paper programme of ITNL.

## Rationale

In March 2017, ICRA had assigned provisional rating to Rs. 3,000 crore structured non-convertible debenture (NCD) programme of ITNL. Subsequently, rating for Rs. 1,764.50 crore limit was confirmed as final. The rating for the balance Rs. 1,235.50 crore NCDs continues to remain provisional.

The Rs. 3,000 crore structured NCD programme of ITNL is backed by a DSRA Support Undertaking from Infrastructure Leasing and Financial Services Limited (IL&FS Limited) that would cover all scheduled debt obligations 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. While the DSRA Support Undertaking from IL&FS Limited shall cover all scheduled debt obligations, the undertaking would not fully cover the accelerated amount due to the investors in the event the NCDs were to get accelerated. ICRA continues to monitor the impact of the deterioration in ITNL's credit profile on the rated debt and would take any further rating action, if warranted.

The revision in rating of structured NCD programme follows the revision in the long-term rating of IL&FS Limited (DSRA Support Undertaking Provider) to [ICRA]AA+ (pronounced ICRA double A plus) from [ICRA]AAA (pronounced ICRA triple A). The long-term rating of IL&FS Limited has been placed under rating watch with developing implications.

## Outlook: Negative

ICRA believes ITNL's liquidity will continue to remain stretched due to sizable near-term debt repayment obligations, high refinancing risk and high dependence on external funding to support project SPVs. The outlook for the standalone debt of ITNL may be revised to 'Stable' if the company achieves meaningful progress on planned avenues of cash inflows and deleverages its balance sheet that would strengthen the financial risk profile.

## Key rating drivers

### Credit weaknesses

For Rs. 3,000 crore NCD programme, while the DSRA Support Undertaking from IL&FS Limited shall cover the scheduled debt obligations, the undertaking would not fully cover the accelerated payouts due to the investors in case the NCDs were to get accelerated.

**Failure to achieve meaningful progress on plans of equity infusion, asset monetisation and realisation of claims pending with authorities, resulting in stretched liquidity position; timely refinancing and realization of claims pending with authorities remains critical** - The company has failed to achieve any meaningful progress on plans of equity infusion, asset monetisation and realisation of claims pending with authorities, resulted in stretched liquidity position. ICRA notes that the company has several plans to reduce the debt levels, including equity infusion, asset monetisation, realisation of claims pending with authorities to recover its investments (loans and advances) from various SPVs, and topping up of debt through refinancing for some of the operational BOT projects thereby up-streaming the surplus to

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<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

ITNL. Additionally, the company is also in the process of refinancing the current debt at stand-alone level with elongated maturity profile while also reducing the average interest cost which could relieve pressure on cash flows. Going forward, the company's ability to achieve meaningful progress on these endeavours and deleverage its balance sheet remains critical from a credit perspective. The ability of the company to service its debt in a timely manner would critically hinge on the deleveraging through proposed equity infusion. Furthermore, the extent of incremental investments made towards project SPVs and the consequent impact on ITNL's financial risk profile would be other rating sensitive factor.

**Leveraged capital structure and moderate debt coverage indicators** - The funding support to both under construction and some of the operational BOT projects was largely funded through additional debt resulting in an increase in ITNL's stand-alone debt levels, thereby adversely affecting the debt coverage indicators. On a stand-alone basis, ITNL's gearing increased to 4.1 times as of March 31, 2017, from 3.6 times as of March 31, 2016, while the interest coverage weakened to 0.6 times for FY2017.

**High refinancing risk** - The company remains exposed to refinancing risks, given the sizable near-term debt repayment obligations despite efforts being made by the company to elongate its debt maturity profile. As of December 31, 2017, ITNL had a debt of Rs. 12,735 crore outstanding (inclusive of preference share), of which 40% is repayable over the coming 15 months.

## Credit strengths

**Support from IL&FS Limited** - The Rs. 3,000 crore NCD programme of ITNL is backed by a DSRA Support Undertaking from IL&FS Limited that would cover all scheduled debt obligations that may arise on the rated NCDs.

### Parentage of IL&FS Group with support from the parent at managerial, financial as well as strategic levels

ITNL was incorporated in 2000 as a wholly owned subsidiary of IL&FS Limited (IL&FS, rated [ICRA]AA+&(rating on watch with developing implications)/[ICRA]A1+) as a vehicle for housing and consolidating the surface transportation business of the IL&FS Group. As of June 30, 2018, the IL&FS Group held 73.22% stake in ITNL, of which 71.92% was held directly by IL&FS.

**Analytical approach:** For arriving at the ratings for the Rs. 3000 crore NCD programme of ITNL, ICRA has taken into account the DSRA Support Undertaking from IL&FS Limited that would cover the scheduled obligations at any given point of time to the NCD holders as per the terms of the transaction.

### Links to applicable criteria:

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

### 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]AA+&(rating on watch with developing implications)/[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	FY 2018
Operating Income (Rs. crore)	4524.1	3676.3	3536.83
PAT (Rs. crore)	-97.4	236.4	251.8
OPBDIT/ OI (%)	12.6%	23.5%	23.3%
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	0.5

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

Note: Financials are as per Ind AS

## About IL&FS Limited

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. 377 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 <sup>^</sup>	4,999	5,528
Total managed portfolio	3,904	5,742
Total managed assets	19,599	24,140
Return on managed assets (PAT/AMA)	1.93%	2.67%
Return on average net worth (PAT/Avg. net worth)	7.85%	11.10%
Reported Gearing	2.60	3.04
CIC Leverage ratio	2.23	2.3
Gross NPA%	0.00%	0.00%
Net NPA%	0.00%	0.00%
Net NPA/Net worth	0%	0%

<sup>^</sup>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:

	Instru ment				Current Rating (FY2019)			Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amou nt O/s (Rs Crore)	Date & Rating			Date & Rating in FY 2018			Date & Rating in FY2017		Date & Rating in FY2016		
					August 2018	July 2018	May 2018	Feb 2018	Nov 2017	Aug 2017	March 2017	Jan 2017	July 2015	June 2015	
1	CP	Short Term	1000.0	143	[ICRA]A4	[ICRA]A4	[ICRA]A 2+ &	[ICRA]A 1	[ICRA]A 1	[ICRA]A 1	[ICRA]A1	[ICRA ]A1	[ICRA] A1	[ICR A]A1	
2	NCD	Long Term	349.0	1764. 50	[ICRA]AA (SO)@	[ICRA]A A+(SO); @ placed on rating watch with negative implicati ons	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)	-	-	Provision al [ICRA]AA +(SO) (Stable)		-		
3	NCD	Long Term	150.5		[ICRA]AA (SO)@	[ICRA]A A+(SO); @ placed on rating watch with negative implicati ons	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)	-					
4	NCD	Long Term	750.0		[ICRA]AA (SO)@	[ICRA]A A+(SO); @ placed on rating watch with negative implicati ons	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)	[ICRA]A A+(SO) (Stable)					
5	NCD	Long Term	515.0		[ICRA]AA (SO)@	[ICRA]A A+(SO); @ placed on rating watch with	Provisio nal [ICRA]A A+(SO) (Stable)	Provisio nal [ICRA]A A+(SO) (Stable)	Provisio nal [ICRA]A A+(SO) (Stable)	Provisio nal [ICRA]A A+(SO) (Stable)					

						negative implications								
6	NCD	Long Term	1235.5		Provisional [ICRA]AA (SO)@	Provisional [ICRA]A A+(SO); @ placed on rating watch with negative implications	Provisional [ICRA]A A+(SO) (Stable)	Provisional [ICRA]A A+(SO) (Stable)	Provisional [ICRA]A A+(SO) (Stable)	Provisional [ICRA]A A+(SO) (Stable)		-	-	-
7	NCD	Long Term	2000.0	537.8	[ICRA]BB (Negative)	[ICRA]BB (Negative)	[ICRA]A- &	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)
8	Term Loans	Long Term	490.0	340	[ICRA]BB (Negative)	[ICRA]BB (Negative)	[ICRA]A- &	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	-	-
9	Fund-based Bank limits	Short Term	320.0	0.0	[ICRA]A4	[ICRA]A4	[ICRA]A 2+ &	[ICRA]A 1	[ICRA]A 1	[ICRA]A 1	[ICRA]A 1	[ICRA]A 1	-	-
10	Preference Share	Long Term	760.0	458.4	[ICRA]BB - (Negative)	[ICRA]BB - (Negative)	[ICRA]B BB+ &	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
	<b>Total</b>		<b>7,570</b>	<b>3,243.7</b>										

@: on rating watch with negative 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](http://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% <sup>3</sup>	October 2022/October 2027	150.50	[ICRA]AA(SO)@
INE975G08223 /INE975G08231	NCD	Mar 2017	9.20% /9.33% <sup>4</sup>	April 2022/March 2027	750.00	[ICRA]AA(SO)@
INE975G08264/ INE975G07019	NCD	Nov 2017	9.37%/ 9.00% <sup>5</sup>	November 2027	200.00	[ICRA]AA(SO)@
INE975G08272/ INE975G07027	NCD	Dec 2017	9.25%/ 9.00% <sup>6</sup>	December 2022/December 2027	149.00	[ICRA]AA(SO)@
INE975G07043	NCD	Feb 2018	9.10%	December 2027	100.00	[ICRA]AA(SO)@
INE975G07035	NCD	Feb 2018	9.10%	February 2023	100.00	[ICRA]AA(SO)@
INE975G07068	NCD	March 2018	9.10%	March 2025	100.00	[ICRA]AA(SO)@
INE975G07050	NCD	March 2018	9.15%	March 2023	75.00	[ICRA]AA(SO)@
INE975G07076	NCD	March 2018	9.20%	March 2028	140.00	[ICRA]AA(SO)@
NA	NCD	Yet to be placed	NA	NA	1235.50	Provisional [ICRA]AA(SO)@
INE975G08017	NCD	Jan 2013	12.00%	January 2019	400.00	[ICRA]BB (Negative)
INE975G08033	NCD	Mar 2013	12.00%	March 2019	600.00	[ICRA]BB (Negative)
INE975G08082	NCD	Jan 2015	11.80%	December 2024	250.00	[ICRA]BB (Negative)
INE975G08090	NCD	Feb 2015	11.80%	January 2025	250.00	[ICRA]BB (Negative)
NA	Commercial Paper			7-365 days	1000.00	[ICRA]A4
NA	Term Loan			June 2019	490.0	[ICRA]BB (Negative)
NA	Short Term Loan			June 2018	320.00	[ICRA]A4
NA	Preference Share				760.00	[ICRA]BB- (Negative)

Source: Company

@: under rating watch with negative implications

<sup>3</sup> The Rs. 150 crore NCDs have been issued in two tranches of Rs. 118 crore and Rs. 32.50 crore

<sup>4</sup> The Rs. 750 crore NCDs have been issued in two tranches of Rs. 300 crore and Rs. 450 crore

<sup>5</sup> The Rs. 200 crore NCDs have been issued in two tranches of Rs. 100 crore and Rs. 100 crore

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



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