

IL&FS Infra Asset Management Limited

April 09, 2020

Ratings

Instrument	Tenure	Rating ¹	Rating Action
IL&FS Infrastructure Debt Fund Schemes Series 1-B	7 years	CARE BBB+ (MF-IDF) [Triple B Plus (Mutual Fund- Infrastructure Debt Fund)] (Under Watch with Developing Implications)	Revised from CARE A+ (MF-IDF) [Single A Plus (Mutual Fund- Infrastructure Debt Fund)] And remains under watch
IL&FS Infrastructure Debt Fund Schemes Series 1-C	10 years	CARE BBB+ (MF-IDF) [Triple B Plus (Mutual Fund- Infrastructure Debt Fund)] (Under Watch with Developing Implications)	Revised from CARE A+ (MF-IDF) [Single A Plus (Mutual Fund- Infrastructure Debt Fund)] And remains under watch
IL&FS Infrastructure Debt Fund Schemes Series 3-A	5 years	CARE BBB+ (MF-IDF) [Triple B Plus (Mutual Fund- Infrastructure Debt Fund)] (Under Watch with Developing Implications)	Revised from CARE AA- (MF-IDF) [Double A Minus (Mutual Fund- Infrastructure Debt Fund)] And remains under watch
IL&FS Infrastructure Debt Fund Schemes Series 3-B	7 years	CARE BBB+ (MF-IDF) [Triple B Plus (Mutual Fund- Infrastructure Debt Fund)] (Under Watch with Developing Implications)	Revised from CARE AA- (MF-IDF) [Double A Minus (Mutual Fund- Infrastructure Debt Fund)] And remains under watch
IL&FS Infrastructure Debt Fund Schemes Series 1-A	-	-	Withdrawn

CARE's rating of infrastructure debt fund schemes are an opinion on the asset selection ability and asset management capabilities in the infrastructure sector for these schemes. These ratings are based on the strength of sponsors, the management experience of the asset managers and the expected/ actual portfolio quality within infrastructure sector. IDF-MF ratings provide an opinion on the selection ability of the scheme within the infrastructure sector based on past selection track record of the sponsors & asset managers and the expected/ actual portfolio composition given the investment strategy specific to the scheme. The rating also assesses fund management capability for infrastructure investments after selection of assets and comments on the strength of the asset manager & the sponsor's capability based on their management of similar assets in the past.

Detailed Rationale and Key rating drivers

CARE has revised the ratings assigned to Schemes 1B & 1C of IL&FS Infrastructure Debt Fund from '**CARE A+ (MF-IDF)**' to '**CARE BBB+ (MF-IDF)**' and ratings of Schemes 3A & Scheme 3B from '**CARE AA- (MF-IDF)**' to '**CARE BBB+ (MF-IDF)**' of IL&FS Infra Asset Management Limited (IL&FS IDF). All the ratings continue to remain on watch with developing implications.

The revision in the ratings factors weak credit profile of the sponsor i.e. Infrastructure Leasing and Financial Services (IL&FS) group. The ownership of the asset manager and trustee company of the Infrastructure Debt Fund (IDF) was transferred to IL&FS Investment Managers (IIML), a subsidiary of IL&FS, from IL&FS Financial Services (IFIN) (rated CARE D) with effect from January 1, 2017.

The ratings assigned to the IDF schemes do not factor in the expectation/probability of the default risk as these schemes do not have any debt obligations. Further, the IDF rating scale is different from the rating scale prescribed by Securities and Exchange Board of India (SEBI) for providing credit rating of debt instruments.

The ratings continue to be on a 'watch with developing implications' following the induction of a new Board of Directors for preparing a robust and time bound resolution plan for the IL&FS group at the behest of Central Government and the subsequent announcement by the newly constituted board on soliciting Expression of Interest (EOI) for sale of its Alternative Investment Fund Management business including IDF business. There was no concrete development during first round of disinvestment of the IDF business and now the management has called for second round of stake sale and again solicited EOI which is expected to take place by September, 2020. CARE would continue to monitor the developments on the disinvestment.

The ratings continue to consider the stated investment policy, indicative investment strategy as well as the actual and expected portfolio composition provided by the AMC.

The ratings assigned to Scheme 1A has been withdrawn on redemption of the scheme during April 2019. The fund house had raised Rs.238 crore from investors in April 2014 and has paid back Rs.314 crore excluding the Rs.71.5 crore stuck in IL&FS

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Wind Energy Limited, which was not realized within the maturity of the fund and fund house will distribute the proceeds from IL&FS Wind to the investors in pro-rata basis as and when they receive the amount.

Detailed description of the key rating drivers

Deterioration in the credit profile of the sponsor and group companies

The credit profile of IL&FS group including IL&FS (rated CARE D), its financial services subsidiary IFIN (rated CARE D, key subsidiaries in the energy vertical – IL&FS Energy Development Company Limited (IEDCL) (rated CARE D; Issuer Not Cooperating), transportation vertical – IL&FS Transportation Network Limited (ITNL) (rated CARE D; Issuer not Cooperating) deteriorated resulting in liquidity pressure impacting the group's financial flexibility. The fund has total exposure of 23.65% as on February 28, 2020 across the four CARE rated schemes to its group companies namely IL&FS Wind Energy Limited (IWEL) and IL&FS Solar Power Limited (ISPL) which are subsidiaries of IEDCL.

• Asset Management Company evaluation

IL&FS Infra Asset Management Company Ltd. (IIAML), a subsidiary of IIML is the asset management company for managing the IIDF schemes. IIAML is headed by Mr. Jignesh Shah (Chief Executive Officer) who has over 20 years of work experience in corporate strategy, M&A, project finance, capital raising, corporate advisory and valuation. He is ably supported by a team of experienced professionals to manage the fund.

• Portfolio Quality

The total AUM of all the four CARE rated schemes stood at Rs.1,240 crore as on February 29, 2020, consisting debt investments across 15 companies. The portfolio evaluation is based on the following characteristics:

- i. **Percentage of unrated portfolio in the overall portfolio:** As on February 28, 2020 around 22.50% of the portfolio across all the four CARE rated schemes i.e. Series 1-B, Series 1-C, Series 3-A and Series 3-B, is unrated.
- ii. **Extent of investments in revenue generating operational projects:** All the four schemes have high proportion of operating projects / liquid money market investments with the balance being sponsor financing.
- iii. **Concentration / Exposure Limits:** The investment concentration in the existing portfolio of four schemes is within the 30% cap specified by SEBI (as per SEBI norms, the fund shall not invest more than 30% of its net assets in the debt securities or assets of any single infrastructure company or project or special purpose vehicles).
- iv. **Sectoral concentration:** The schemes are also within the prescribed limits as far as sectorial concentration is concerned. Currently the investments consist of exposures to sectors like hydro power, roads, wind power, solar power, etc.
- v. **Maturity profile of the investments vis-à-vis fund tenor and its influence on the stability of earnings:** The asset tenures of all the five schemes are well matched and maturity of all the debt investments is less than maturity of the schemes.
- vi. **Form and extent of investment:** The fund has invest around 84% of the corpus in debt instruments of infrastructure companies or infrastructure related projects while around 16% is invested in money market instruments.
- vii. **Relative average credit quality of the investments within infrastructure sector:** Out of the total exposure in debt investments across all the four CARE rated schemes as on February 28, 2020, on an average 22.5% of the portfolio was invested in unrated rated instruments, 24.3% in below investment grade instruments (including D), 16.0% in TREPS, 0.3% in AA rated instruments, 20.3% in A rated instruments and 16.7% in BBB rated instruments. While some of the assets in which the schemes have invested have been defaulting on their repayments, IL&FS IDF has initiated legal actions against these borrowers and expects to recover the amount in the near term. The management has indicated that these investments have security cover in excess of amount invested and recovering investments from investments would be a key monitorable.

Analytical approach: Standalone

Applicable Criteria

[Rating Methodology for Mutual Fund-Infrastructure Debt Funds](#)

About the company

IL&FS Infra Asset Management Limited (IIAML) is a public limited company incorporated on January 08, 2013. IATL & IIAML have executed the Investment Management Agreement (IMA) on January 21, 2013 whereby, IATL appointed IIAML as AMC of IL&FS Mutual Fund (IDF). IIAML is a subsidiary of IIML. IIML along with 6 nominee shareholders holds 86.61% of IIAML's share capital. Other shareholders include LIC of India (7.72%) and GIC of India, United Insurance Company Limited and National Insurance Company Limited (1.89% each). The total assets under management (AUM) for all the schemes managed by AMC stood at Rs.1,832.21 crore as on February 29, 2020.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of the facilities/instruments

Name of the fund	Date of Issuance	Coupon Rate	Maturity	Size of the issue	Rating assigned along with rating outlook
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-B	-	-	-	-	CARE BBB+ (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-C	-	-	-	-	CARE BBB+ (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 3-A	-	-	-	-	CARE BBB+ (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 3-B	-	-	-	-	CARE BBB+ (MF-IDF) watch with developing implications

Annexure-2: Rating History of last three years

Sr. No.	Name of the fund	Current ratings			Rating History			
		Type	Amount Outstanding (Rs. crore)	Rating	Date & Rating assigned in 2019-2020	Date & Rating assigned in 2018-2019	Date & Rating assigned in 2017-2018	Date & Rating assigned in 2016-2017
1	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1A	Close-ended	-	Withdrawn	1) CARE A (MF-IDF) watch with developing implications (03-Apr-19)	1)CARE AA (MF-IDF) (Watch with developing implications) (10-Oct-18) 2)CARE AAA (MF-IDF) (05-Apr-18)	1)CARE AAA (MF-IDF) (18-May-17)	-
2	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1B	Close-ended	-	CARE BBB+ (MF-IDF) watch with developing implications	1) CARE A+ (MF-IDF) watch with developing implications (03-Apr-19)	1)CARE AA (MF-IDF) (Watch with developing implications) (10-Oct-18) 2)CARE AAA (MF-IDF) (05-Apr-18)	1)CARE AAA (MF-IDF) (18-May-17)	-
3	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1C	Close-ended	-	CARE BBB+ (MF-IDF) watch with developing implications	1) CARE A+ (MF-IDF) watch with developing implications (03-Apr-19)	1)CARE AA (MF-IDF) (Watch with developing implications) (10-Oct-18) 2)CARE AAA (MF-IDF) (05-Apr-18)	1)CARE AAA (MF-IDF) (18-May-17)	-
4	IL&FS Mutual Fund Infrastructure Debt Fund - Series 3A	Close-ended	-	CARE BBB+ (MF-IDF) watch with developing implications	1) CARE AA- (MF-IDF) watch with developing implications (03-Apr-19)	1)CARE AA (MF-IDF) (Watch with developing implications) (10-Oct-18)	1)CARE AAA (MF-IDF) (02-Jan-18)	-
5	IL&FS Mutual	Close-	-	CARE BBB+ (MF-IDF)	1) CARE AA-	1)CARE AA	-	-

Sr. No.	Name of the fund	Current ratings			Rating History			
		Type	Amount Outstanding (Rs. crore)	Rating	Date & Rating assigned in 2019-2020	Date & Rating assigned in 2018-2019	Date & Rating assigned in 2017-2018	Date & Rating assigned in 2016-2017
	Fund Infrastructure Debt Fund - Series 3B	ended		watch with developing implications	(MF-IDF) watch with developing implications (03-Apr-19)	(MF-IDF) (Watch with developing implications) (10-Oct-18) 2)CARE AAA (MF-IDF) (18-Apr-18)		

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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