IL&FS Transportation Networks Limited (Revised)

June 01, 2018

Ratings

Bank Facilities (A)	Amt (Rs. crore)	Rating[1]	Remarks
Long - Term Bank Facilities	1,741.50	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	Revised from CARE A; Negative (Single A; Outlook; Negative)
Short--Term Bank Facilities – Term Loan	230.00	**CARE A2+ (A Two Plus)**	Revised from CARE A1; (A One)
Long/Short Term Bank Facilities	890.00	**CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative /A Two Plus)**	Revised from CARE A; Negative /CARE A1 (Single A; Outlook; Negative/A One)
Total bank facilities (A)	**Rs.2,861.50**		

Instruments (B)	Amt (Rs. crore)	Rating	Remarks
Long Term Instruments-Debentures-Non Convertible Debentures	425.00	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	Revised from CARE A; Negative (Single A; Outlook; Negative)
Commercial papers	750.00	**CARE A2+ (A Two Plus)**	Revised from CARE A1 (A One)
Total Instruments (B)	**Rs.1,175.00**		
Total Bank facilities/instruments (A+B)	**Rs.4,036.50 (Four Thousand Thirty six crore and fifty lakhs only)**		

Detailed Rationale & Key Rating Drivers

The revision in ratings of IL&FS Transportation Networks Limited (ITNL) factors in the deterioration in its leverage indicators as it has predominantly relied upon the debt for extending funding support to its under construction & some of operational SPVs coupled with lower than envisaged asset monetization. Also, the debt coverage indicators have weakened, despite the refinancing efforts made by ITNL wherein, either the maturity profile was elongated or borrowing cost was lowered on refinanced debt. ITNL has substantial quantum of claim pendency with authorities, which are at various stages of claim processes, the claim receipts were lower than what was envisaged, resulting in lower upstreaming of cash flow and higher dependency on debt to finance its operations.

The rating, however, continues to favorably factor in strong parentage of Infrastructure Leasing & Financial Services Limited (IL&FS, rated 'CARE AAA; Stable/CARE A1+'), significant experience and expertise of ITNL in surface transportation and road infrastructure development, established track record in project execution and its dominant position in the domestic road sector reflected by ownership of geographically diversified road assets with healthy mix of annuity and toll-based projects. The promoter group has demonstrated support by providing the Debt service Reserve Account (DSRA) support undertaking for part of NCD's raised by ITNL to refinance its debt.

The rating strengths are tempered by high refinancing risk given the sizable near term repayment obligation even after refinancing of loans undertaken at standalone and SPV level. The rating strengths are further tempered by project execution and implementation risks as approximately 3,166 lane km of the total 13,493 lane kms at SPV level are under various stages of construction/development in FY18 and are likely to be commissioned in the next 2-3 years. ITNL also has foreign exchange exposure on account of guaranteed debt in its subsidiaries namely Elsamex SA and YuHe Express Highway, though same is mitigated due to natural hedge on account of foreign currency denominated earnings of these subsidiaries and ITNL's experience to refinance debt in foreign currency.

Ability of ITNL to execute the under construction BOT projects in timely manner and within the envisaged cost parameters would be critical from credit perspective, any incremental funding support to SPVs leading to deterioration in capital structure of ITNL is key rating sensitivity.

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

Outlook: Negative

CARE continues with Negative outlook on account of ITNL's sizable funding requirements in light of increased support for its SPVs along with near term repayment obligations. The funding support, in the form of equity and loans and advances, extended to the project SPVs has resulted in an increase in ITNL's stand-alone debt levels and consequent deterioration in its debt coverage indicators over the past two fiscals. CARE notes that ITNL has several plans to monetize mature assets, re-financing to longer maturity debt and settlement of claims pending with authorities, which can be up streamed to reduce debt. However, there has been some delay in achievement of the same. The outlook will be revised to stable, if ITNL's plans of monetization of assets, substantial equity infusion and realization of its claims from the authorities get fructified in a timely manner during FY19, which results in meaningful deleveraging of its balance sheet both at standalone as well as consolidated level. Additionally, the SPV support (in the form of equity and loans and advances) remain at budgeted levels.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and linkages with IL&FS, strategic importance and significant experience of ITNL in road infrastructure development

ITNL is involved in the development, operations and maintenance of surface transportation infrastructure projects encompassing national and state highways, roads, tunnels, flyovers and bridges with expertise in development of BOT road projects. The company also renders services in areas of project advisory and management, supervisory in the capacity of lenders' engineer, operation and maintenance (O&M) and toll collection services. Incorporated in 2000, ITNL was promoted by IL&FS, which currently holds 71.92% equity stake, in order to consolidate its existing road infrastructure projects. The company has a proven track record and has successfully implemented and undertaken operation and maintenance of various infrastructure projects in roads and urban infrastructure segment. The company has strong capabilities in appraising infrastructure projects and mobilizing resources for the same. IL&FS is one of the leading infrastructure development and finance companies in India promoted by the Central Bank of India (CBI), Housing Development Finance Corporation (HDFC) and Unit Trust of India (UTI). IL&FS was incorporated with twin mandates of commercializing infrastructure projects and setting up value added financial services. The IL&FS Group has developed a pool of institutionalized resources and has functional expertise in areas such as project management, project engineering, finance, risk management and environmental-social management that are strategic to the infrastructure development activity. ITNL's strategic importance as the largest flagship company for the IL&FS (rated CARE AAA' Stable'/A1+) remains key reason for high level of commitment. The parent has equity stake of 71.92% as on March 31, 2017. ITNL has strong financial and managerial linkages with the parent. IL&FS's commitment is reflected by consistently extending fund based support through subscribing to ITNL's equity issuances and by extending loans and credit lines to the company. Additionally, the parent has also supported the company by extending Shortfall Undertaking to ITNL's Non-Convertible Debentures. The commonality in IL&FS and ITNL's board also reflects its strong linkage

Diversified asset portfolio and improvement in the business profile of ITNL

In FY18, ITNL earned about 56.60% (on a standalone basis) of its reported total income from construction activity as against 66.20% in FY17. The other contributors to the total revenue are Profit on sale of investments (9.43%), advisory and project development fees (4.28%), O&M income 4.47%), and Supervision income (0.28%). ITNL has presence across different business verticals in the surface transportation segment, such as roads, urban transport, railways and development of border check posts. The company has a geographically diversified investment portfolio having presence in 19 countries and a pan India presence in with a healthy mix of toll and annuity projects. However, the net profit has increased on account due to higher other income with higher proportion coming from interest income from SPVs and reversal in expected credit losses.

Robust order book offers medium term revenue visibility

ITNL's order book stood as on March 31, 2018 at Rs.17,620[2] crore (1.80x FY18 consolidated revenues) offering medium term visibility. The company has projects of 3,166 lane kms under construction. Further, ITNL's order book has been

[2] *The order book includes BOT, EPC and international orders; Rs/US $= 68.00*

relatively diversified with two states i.e. J&K and Maharashtra cumulatively accounting for 60% of the total order book as on March 31, 2018

Government focus on investment in transport infrastructure sector in the medium to long term

Infrastructure sector is a key driver for the Indian economy. The sector is primarily responsible for propelling India's overall development and enjoys intense focus from the Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. The Ministry of Road Transport and Highways (MoRTH) has earmarked 7,000 kms of national highways under Bharatmala Pariyojana at estimated cost of Rs.800 bn (US $12 bn). The Ministry also plans to develop 66,177 km of roads under various programmes, with a target of building 30km of road/day. Thus, the long-term outlook for ITNL remains favourable due to government's impetus given to infrastructure development

Key Rating weaknesses

Weakened credit profile with elevated gearing levels; timely refinancing and pending claims realization remains critical

ITNL's overall credit profile has deteriorated on account of higher than anticipated increase in its leverage driven by combination of higher than anticipated support required by its SPVs and delay in pending claims realization from authorities. Further, the refinancing risk for the company remains on higher side with near term obligations remaining high despite efforts being made by the company to elongate maturity profile of the loans.

Refinancing risk continuous to remain elevated

In FY18, ITNL refinanced total senior debt aggregating to Rs.5,739 crore by NCDs/Term Loans (comprising of Rs.3,126 crore at standalone level and Rs.2,613 crore at SPV level), which reduced the total interest cost in a range of 200-280 bps. Nevertheless, the company continues to remain exposed to refinancing risk in the short term. However, ITNL enjoys comfortable standing among various banks/FIs by virtue of being an IL&FS group entity, which has helped the company to refinance large amount of short term loans in the past. Further, the company also receives need based funding support from the group. Going forward, the company plans to raise debt having longer maturity period to address the issue of asset-liability mismatch.

Analytical approach: : For analysing the credit risk profile of ITNL, CARE has considered Consolidated Approach for ITNL as the company along with its SPVs, which house road assets and have strong linkages with holding company.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Factoring Linkages in Ratings]
[Rating Methodology - Infrastructure Sector Ratings]
[Financial ratios – Non-Financial Sector]

About the Company

ITNL is involved in the development, operations and maintenance of surface transportation infrastructure projects encompassing national and state highways, roads, tunnels, flyovers and bridges with expertise in development of Build Operate Transfer (BOT) road projects. ITNL also renders services in the areas of project advisory and management, supervisory in the capacity of lenders' engineer, operation and maintenance (O&M) and toll collection services. Incorporated in 2000, ITNL was promoted by IL&FS [rated CARE AAA; Stable/A1+] which currently holds 71.92% equity stake in ITNL, in order to consolidate its existing road infrastructure projects.

On a standalone basis, ITNL has earned about 56.60% of its total reported income from construction activity in FY2018 as against 66.20% in FY2017.

As on March 31, 2018, the company is the largest player in road development segment on BOT basis (13,493 Lane kms) with a pan India presence in 20 states having 33 road projects (26 operational/7 under construction).

Brief Financials (consolidated) (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	8,402	9,779
PBILDT	3,577	4,324

PAT	65	146
Interest Coverage (times)	1.16	1.15
Overall Gearing; Leverage (times)	6.79	7.21

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	1691.50	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE A-; Negative
Fund-based - ST-Term loan	-	-	-	230.00	CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	890.00	CARE A-; Negative / CARE A2+
Debentures-Non Convertible Debentures	04-Mar-14	11.50%	04-Feb-24	100.00	CARE A-; Negative

Debentures-Non Convertible Debentures	22-Jul-14	11.50%	21-Jun-24	200.00	CARE A-; Negative
Debentures-Non Convertible Debentures	21-Nov-14	11.50%	20-Nov-19	125.00	CARE A-; Negative
Commercial Paper	-	-	-	350.00	CARE A2+
Commercial Paper	-	-	-	400.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1691.50	CARE A-; Negative	-	1)CARE A; Negative (10-Oct-17)	1)CARE A (25-Oct-16)	1)CARE A (29-Oct-15) 2)CARE A (23-Jul-15)
2.	Fund-based - ST-Term loan	ST	230.00	CARE A2+	-	1)CARE A1 (10-Oct-17)	1)CARE A1 (25-Oct-16)	1)CARE A1 (29-Oct-15) 2)CARE A1 (23-Jul-15)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	890.00	CARE A-; Negative / CARE A2+	-	1)CARE A; Negative / CARE A1 (10-Oct-17)	1)CARE A / CARE A1 (25-Oct-16) 2)CARE A / CARE A1 (12-May-16) 3)CARE A / CARE A1 (05-May-16)	1)CARE A / CARE A1 (29-Oct-15) 2)CARE A / CARE A1 (23-Jul-15)
4.	Debentures-Non Convertible Debentures	LT	225.00	CARE A-; Negative	-	1)CARE A; Negative (10-Oct-17)	1)CARE A (25-Oct-16)	1)CARE A (29-Oct-15) 2)CARE A (15-Jun-15)
5.	Commercial Paper	ST	400.00	CARE A2+	-	1)CARE A1 (10-Oct-17)	1)CARE A1 (25-Oct-16)	1)CARE A1 (29-Oct-15) 2)CARE A1 (28-Aug-15)
6.	Debentures-Non Convertible Debentures	LT	200.00	CARE A-; Negative	-	1)CARE A; Negative (10-Oct-17)	1)CARE A (25-Oct-16)	1)CARE A (29-Oct-15) 2)CARE A (15-Jun-15)
7.	Commercial Paper	ST	350.00	CARE A2+	-	1)CARE A1 (10-Oct-17)	1)CARE A1 (25-Oct-16)	1)CARE A1 (29-Oct-15) 2)CARE A1 (28-Aug-15) 3)CARE A1 (15-Jun-15)
8.	Debentures-Non Convertible Debentures	LT	390.00	CARE AAA (SO); Stable	-	1)CARE AAA (SO); Stable (10-Oct-17)	1)CARE AAA (SO) (25-Oct-16) 2)CARE AAA (SO) (13-Apr-16)	-
9.	Debentures-Non Convertible Debentures	LT	200.00	Provisional CARE AAA (SO); Stable	-	1)Provisional CARE AAA (SO); Stable (10-Oct-17)	1)CARE AAA (SO) (25-Oct-16) 2)CARE AAA (SO) (12-Apr-16)	-
10.	Debentures-Non Convertible	LT	425.00	CARE AAA (SO); Stable	-	1)CARE AAA (SO); Stable	1)CARE AAA (SO) (25-Oct-16)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
	Debentures					(10-Oct-17)	2)CARE AAA (SO) (12-Apr-16)	
11.	Fund-based - LT-Cash Credit	LT	50.00	CARE A-; Negative	-	1)CARE A; Negative (10-Oct-17)	1)CARE A (25-Oct-16) 2)CARE A (12-May-16)	-
12.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (10-Oct-17)	1)CARE AA+ (SO) (10-Nov-16) 2)Provisional CARE AA+ (SO) (25-Oct-16) 3)Provisional CARE AA+ (SO) (24-Aug-16) 4)Provisional CARE AA+ (SO) (15-Jul-16)	-
13.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (10-Oct-17)	1)CARE AA+ (SO) (25-Oct-16) 2)CARE AA+ (SO) (15-Jul-16)	-
14.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (10-Oct-17)	1)CARE AA+ (SO) (25-Oct-16)	-
15.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (10-Oct-17)	1)CARE AA+ (SO) (25-Oct-16) 2)CARE AA+ (SO) (24-Aug-16)	-
16.	Fund-based - LT-Term Loan	LT	500.00	CARE AA+ (SO); Stable	-	1)CARE AA+ (SO); Stable (23-Mar-18) 2)Provisional CARE AA+ (SO); Stable (25-Jan-18)	-	-

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