IL&FS Transportation Networks Limited (Revised)

September 10, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures (NCDs)	815.00*#	**CARE BB(SO) [Double B (Structured Obligation)] (credit watch with negative implications)**	Revised from CARE AA+(SO); [Double A Plus (Structured Obligation)] (credit watch with negative implications)
Proposed Non-Convertible Debentures (NCDs)	200.00@	**Provisional CARE BB(SO); [Provisional Double B (Structured Obligation)] (credit watch with negative implications)**	Revised from Provisional CARE AA+(SO); [Provisional Double A Plus (Structured Obligation)] (credit watch with negative implications)
Non-Convertible Debentures (NCDs)	750.00**##	**CARE BB-(SO) [Double B Minus (Structured Obligation)] (credit watch with negative implications)**	Revised from CARE AA(SO); [Double A (Structured Obligation)] (credit watch with negative implications)
Bank facilities	500.00**	**CARE BB-(SO) [Double B Minus (Structured Obligation)] (credit watch with negative implications)**	Revised from CARE AA(SO); [Double A (Structured Obligation)] (credit watch with negative implications)
Total Facilities/Instruments	**Rs.2,265 crore (Rupees two thousand two hundred and sixty five crore only)**		

Details of instruments/facilities in Annexure-1
**credit enhancement in the form of a binding tripartite Parent Agreement for shortfall undertaking, whereby Debenture Trustee has a right to call upon IL&FS (i.e. Parent) for timely repayment of outstanding amounts of the aforesaid instruments.*
 # including Green shoe option of Rs.100 crore
@Ratings shall remain provisional till the receipt of the executed copies of the transaction documents such as Debenture Trust Deed, Shortfall Undertaking and Information Memorandum along with Independent Legal Opinion to the satisfaction of CARE.
***Backed by a DSRA Support Undertaking by IL&FS [Credit Enhancement Provider, rated CARE BB/CARE A4 (credit watch with negative implications) to arrange for necessary funds through itself or its nominee in relation to meeting ITNL's obligation to maintain debt service reserve (DSRA) in respect to the immediately succeeding Scheduled Debt Obligation, in the event that ITNL is not able to meet such DSRA obligations throughout the tenure of Non-convertible debentures.*
including Green shoe option of Rs.100 crore

Detailed Rationale & Key Rating Drivers

The revision in the rating of various structured long term debt instruments and bank facilities of ITNL factors in further moderation in the credit profile of the credit enhancement provider i.e. Infrastructure Leasing & Financial Services Limited (IL&FS) wherein the ratings are revised to CARE BB /CARE A4 (credit watch with negative implications) from CARE AA+(credit watch with negative implications) /CARE A1+.

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

The revision in ratings assigned to various debt instruments and bank facilities of IL&FS is on account of build-up of liquidity pressure on the group due to delay in raising funds as envisaged. IL&FS is in the process of raising equity capital of Rs.4,500 crore by H1FY19 (refers to period from April 01 to September 30) by way of Rights Issue and additionally avail lines of credit to the tune of Rs.3,500 crore from its promoter entities for meeting near term liquidity needs and pursuing a deleveraging strategy involving asset sales at various group companies. However, lack of clarity on the fund infusion and impending sizeable repayment obligations in the near term due to elevated debt levels have significantly deteriorated the liquidity profile of the group. Further, the rating revision of IL&FS also takes into consideration the weakening in the credit profile of its energy vertical (housed in IL&FS Energy Development Company Limited; IEDCL) and engineering vertical (housed in IL&FS Engineering and Construction Company Limited; IECCL) which has further weakened the financial risk profile of the group

Earlier in August, 2018, the ratings of IL&FS were revised on account of build-up of company's debt levels over a period of time on the back of increase in funding support to key subsidiaries and group companies, especially to its transport vertical (housed in IL&FS Transportation Networks Limited), whose standalone credit profile has witnessed significant deterioration in recent times. Although IL&FS has been maintaining its profitability through stake sale / divestments in its group entities, the actual realization through sale of core assets has been slower than expected over a period resulting into moderation in the financial flexibility and corresponding increase in the debt levels. IL&FS has embarked upon several strategic measures for de-leveraging its balance sheet including capital infusion from existing shareholders and monetization of assets. The ratings continue to factor in IL&FS's strong institutional ownership, experienced management and demonstrated track record and expertise in the infrastructure sector. IL&FS's ability to maintain adequate capitalization and leverage ratio with expected capital infusion and monetization of the assets through stake sale / exit while maintaining the profitability would be the key rating sensitivities.

The ratings continue to remain on 'credit watch with negative implications' on account of the group's pursuit of a strategic plan to de-leverage the balance sheet by way of equity infusion, reduction of debt by refinancing the exposures in group companies and monetization of certain identified (core as well as non-core) assets by end of FY19 (refers to period from April 01 to March 31). Given the heightened leverage levels and the immediate need to support the group entities, infusion of funds by means of equity capital and credit lines in a time bound manner would be critical; any delay would further exacerbate the company's financial profile. CARE Ratings would continue to monitor the progress made by the group with respect to these strategic initiatives. Timely progress with respect to these initiatives would be critical for the credit profile of the company and will be a key rating monitorable.

For detailed rating rationale of IL&FS, please refer to our website ***www.careratings.com***

For detailed rating rationale of ITNL, please refer to our website ***www.careratings.com***

Detailed description of the key rating drivers

Key Rating Strengths

DSRA support undertaking from IL&FS

A legally binding Debt Service Reserve Account (DSRA)support agreement (among Debenture Trustee (DT), ITNL and IL&FS), whereby DT has to notify the promoter (IL&FS) for arranging the necessary funds in the DSRA under the Facility as agreed in the transaction documents remains key strength. The issuer "ITNL (rated CARE BB Negative/A4)" has entered into legally enforceable tripartite agreement with its parent IL&FS and DT, which is a key strength for the structured payment mechanism (SPM).

However, since the DSRA support undertaking is neither unconditional nor irrecoverable, recourse to the promoter remains limited in an event of default to only arranging the necessary funds towards scheduled debt obligation due on immediately succeeding payment date.

Sponsor undertaking in the form of tripartite parent agreement by IL&FS

A binding tripartite parent agreement for shortfall undertaking (among DT, ITNL and IL&FS), whereby DT has the right to call upon the IL&FS for payment of redemption amount in the DSRA under the Facility as agreed in the transaction documents remains key strength. The issuer ITNL has entered into legally enforceable Tripartite Agreement with its parent IL&FS and debenture trustee which is a key strength for the SPM.

About the Credit Enhancement Provider (i.e. IL&FS)

IL&FS is one of India's leading infrastructure development and finance companies promoted by Life Insurance Corporation of India (LIC), Housing Development Finance Corporation (HDFC) Central Bank of India (CBI), and State Bank of India. IL&FS was established with twin mandates of providing financial services and to develop infrastructure projects under a commercial format. The shareholding pattern of the company has undergone a considerable change over the years with wider participation of other domestic as well as foreign institutional investors. IL&FS received certificate of registration as Core Investment Company (CIC-ND-SI) from RBI dated September 11, 2012.

IL&FS's income profile constitutes interest income from loans given to subsidiaries/group companies, dividend received from subsidiaries (mainly IFIN, IEDCL, ITNL and IL&FS Investment Managers Ltd.), brand fees received from group companies, rental income from business centre and profit from divestment of its exposure in group entities.

Analytical approach: For arriving at rating, CARE Ratings has considered credit profile of Infrastructure Leasing and Financial Services (IL&FS) Limited, which has provided credit enhancement in form of shortfall undertaking and DSRA support undertaking.

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

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 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 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 FY18 as against 66.20% in FY17.

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: ICRA has conducted the review on the basis of best available and has classified ITNL as 'Issuer non cooperating' vide its press release dated August 16, 2018

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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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	-	-	31-Mar-23	500.00	CARE BB- (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	23-Mar-16	Zero coupon	23-Mar-19	365.00	CARE BB (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	23-Mar-16	Zero coupon	23-Jun-19	25.00	CARE BB (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	NA	NA	NA	200.00	Provisional CARE BB (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	30-Mar-16	9.40	05-Apr-19	425.00	CARE BB (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	27-Oct-16	9.44	27-Oct-26	250.00	CARE BB- (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	10-Aug-16	9.51	10-Aug-26	200.00	CARE BB- (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	30-Jun-16	9.28	30-Jun-21	200.00	CARE BB- (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	18-Aug-16	9.51	18-Aug-26	100.00	CARE BB- (SO) (Under Credit watch with Negative Implications)

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 BB; Negative	1)CARE BB; Negative (18-Jul-18) 2)CARE A-; Negative (01-Jun-18)	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 A4	1)CARE A4 (18-Jul-18) 2)CARE A2+ (01-Jun-18)	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 BB; Negative / CARE A4	1)CARE BB; Negative / CARE A4 (18-Jul-18) 2)CARE A-; Negative / CARE A2+ (01-Jun-18)	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 BB; Negative	1)CARE BB; Negative (18-Jul-18) 2)CARE A-; Negative (01-Jun-18)	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	-	-	1)Withdrawn (18-Jul-18) 2)CARE A2+ (01-Jun-18)	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 BB; Negative	1)CARE BB; Negative (18-Jul-18) 2)CARE A-; Negative (01-Jun-18)	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	-	-	1)Withdrawn (18-Jul-18) 2)CARE A2+ (01-Jun-18)	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 BB (SO) (Under Credit watch with Negative Implications)	1)CARE AA+ (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AAA (SO); Stable (01-Jun-18)	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 BB (SO) (Under Credit watch with Negative Implications)	1)Provisional CARE AA+ (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)Provisional CARE AAA (SO); Stable (01-Jun-18)	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 Debentures	LT	425.00	CARE BB (SO) (Under Credit watch with Negative Implications)	1)CARE AA+ (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AAA (SO); Stable (01-Jun-18)	1)CARE AAA (SO); Stable (10-Oct-17)	1)CARE AAA (SO) (25-Oct-16) 2)CARE AAA (SO) (12-Apr-16)	-
11.	Fund-based - LT-Cash Credit	LT	50.00	CARE BB; Negative	1)CARE BB; Negative (18-Jul-18) 2)CARE A-; Negative (01-Jun-18)	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 BB- (SO) (Under Credit watch with Negative Implications)	1)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AA+ (SO); Stable (01-Jun-18)	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 BB- (SO) (Under Credit watch with Negative	1)CARE AA (SO) (Under Credit watch with Negative	1)CARE AA+ (SO); Stable (10-Oct-17)	1)CARE AA+ (SO) (25-Oct-16) 2)CARE AA+	-

				Implications)	Implications) (16-Aug-18) 2)CARE AA+ (SO); Stable (01-Jun-18)		(SO) (15-Jul-16)	
14.	Debentures-Non Convertible Debentures	LT	200.00	CARE BB- (SO) (Under Credit watch with Negative Implications)	1)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AA+ (SO); Stable (01-Jun-18)	1)CARE AA+ (SO); Stable (10-Oct-17)	1)CARE AA+ (SO) (25-Oct-16)	-
15.	Debentures-Non Convertible Debentures	LT	100.00	CARE BB- (SO) (Under Credit watch with Negative Implications)	1)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AA+ (SO); Stable (01-Jun-18)	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 BB- (SO) (Under Credit watch with Negative Implications)	1)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AA+ (SO); Stable (01-Jun-18)	1)CARE AA+ (SO); Stable (23-Mar-18) 2)Provisional CARE AA+ (SO); Stable (25-Jan-18)	-	-

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CIN - L67190MH1993PLC071691