

IL&FS Transportation Networks Limited ^(Revised)

September 26, 2018

Ratings

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

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in the rating of non-convertible debentures issue of IL&FS Transportation Networks Limited (ITNL) factors takes into account significant weakening of the credit profile of the credit enhancement provider i.e. Infrastructure Leasing & Financial Services Limited (IL&FS) wherein the ratings are revised from CARE BB /CARE A4 (credit watch with negative implications) to CARE D. Earlier, the ratings had factored in the credit enhancement provided by IL&FS on these structured instruments. However, with revision in ratings of IL&FS the DSRA or support undertakings in CARE ratings opinion do not provide any credit enhancement. Thus, CARE now analyses these instruments on the credit quality of ITNL. The ratings of IL&FS Transportation Networks Limited factors in the weakened credit profile marked by non-materialization of deleveraging efforts and lower than anticipated claims receipts translating into weak liquidity. ITNL's six Special Purpose Vehicles (SPV's; of which two are rated by CARE) reported default in servicing of its debt obligation for the month ended June 2018 where they have terminated the contract with the respective authorities.. According to ITNL, it has initiated termination of projects under these SPV's. On a consolidated basis, the overall gearing as on Mar. 31, 2018 has elevated to 7.40x times from 7.00x times as on same date previous year. ITNL has predominantly relied upon the debt for extending funding support to its operational and under construction Special Purpose Vehicles (SPVs). Management of ITNL in the past had indicated about the deleveraging plan either through stake sale in the SPV's or through adequate equity infusion, however, either of these are yet to materialize.

ITNL also has a substantial amount (more than Rs.9,000 crore) of claim pendency with concession granting authorities at various level of approvals of which company expects to receive 40-50%. According to company the accumulated claims are either for cost overrun arising primarily from delay in handover of ROW or due to change in scope of work.

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

ITNL also faces high refinancing risk given the sizable near term repayment obligation. Also it is exposed to 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 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.

The rating weaknesses, are partly mitigated by the experience of ITNL in surface transportation and road infrastructure development, long track record in project execution and its geographically diversified road assets with healthy mix of annuity and toll-based projects.

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

Further, the above rating for Rs.200 crore is provisional as the company is yet to place the same in the market and will be confirmed once the company submits the relevant executed documents to the satisfaction of CARE.

Outlook: Negative

CARE continues with negative outlook as there is sizable amount of support required either by way of equity or loans and advances for its project SPVs. 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 either up streamed to reduce debt or support the SPVs. 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 progress in a timely manner during FY2019, which results in meaningful deleveraging of its balance sheet both at standalone as well as consolidated level.

Detailed description of the key rating drivers

Key Rating Weakness

Defaults reported by SPV's owing to non-extension of support by ITNL

Six SPV's of ITNL reported default in servicing of debt obligation for month of June 2018 owing to non-extension of support and termination initiated for those projects. Unlike its past track record of support, ITNL has not extended the support which translated into nonpayment of debt obligation for these SPV's. According to ITNL, it has initiated the termination of projects under these SPV's.

Weakened credit profile with elevated gearing; 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.

Management has also indicated, that they are aggressively looking at divestment opportunity which would considerably improve ITNL's leverage position on consolidated basis, however, plans have not yet materialized.

Further, ITNL as over Rs.9,000 crore of claim pendency with concession granting authorities at various level of approvals of which the company expects to receive 40%-50%. Timely receipt of these claims remains critical.

Refinancing risk continues to remain elevated

In FY2018, 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. In the past, ITNL enjoyed comfortable standing among various banks/FIs by virtue of being an IL&FS group entity, which had helped the company to refinance large amount of short term loans.. Further, the company had received need based funding support from the group. However, going forward, the company's ability to refinance the debt with the impaired financial flexibility will remain a key rating sensitivity.

Key Rating Strengths

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. 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 order to consolidate its existing road infrastructure projects. ITNL has a long track record and has successfully implemented and undertaken operation and maintenance of various infrastructure projects in roads and urban infrastructure segment.

Diversified asset portfolio and improvement in the business profile of ITNL

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

Robust order book offers medium term revenue visibility

ITNL's order book stood as on June 30, 2018 at Rs.11278² crore (1.15x FY2018 consolidated revenues) offering medium term visibility. The company has projects of 3,166 lane kms under construction. Further, ITNL's order book diversified with two states viz. Maharashtra with 59% and Jammu and Kashmir with 34% of the total order book as on June 30, 2018.

Analytical approach: Originally CARE had considered credit profile of Infrastructure Leasing and Financial Services Limited (IL&FS, rated CARE D) for deriving the rating on these instruments. However, with revision in ratings of IL&FS the DSRA or support undertakings in CARE ratings opinion do not provide any credit enhancement. Thus, CARE now analyses these instruments on the credit quality of ITNL, which is based on its consolidated financials.

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 D] 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 June 30, 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	8,309	9,397
PBILDT	3,505	3954
PAT	146	65
Interest Coverage (times)	1.13	1.05
Overall Gearing; Leverage (times)	7.00	7.40

A: Audited, financial are reclassified as per CARE standards

² The order book includes BOT, EPC and international orders; Rs/US \$= 70.00

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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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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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; Negative
Debentures-Non Convertible Debentures	23-Mar-16	Zero coupon	23-Mar-19	365.00	CARE BB; Negative
Debentures-Non Convertible Debentures	23-Mar-16	Zero coupon	23-Jun-19	25.00	CARE BB; Negative
Debentures-Non Convertible Debentures	NA	NA	NA	200.00	Provisional CARE BB; Negative
Debentures-Non Convertible Debentures	30-Mar-16	9.40	05-Apr-19	425.00	CARE BB; Negative
Debentures-Non Convertible Debentures	27-Oct-16	9.44	27-Oct-26	250.00	CARE BB; Negative
Debentures-Non Convertible Debentures	10-Aug-16	9.51	10-Aug-26	200.00	CARE BB; Negative
Debentures-Non Convertible Debentures	30-Jun-16	9.28	30-Jun-21	200.00	CARE BB; Negative
Debentures-Non Convertible Debentures	18-Aug-16	9.51	18-Aug-26	100.00	CARE BB; Negative

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; Negative	1)CARE BB (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE AA+ (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)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; Negative	1)Provisional CARE BB (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)Provisional CARE AA+ (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)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; Negative	1)CARE BB (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE AA+ (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)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; Negative	1)CARE BB- (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)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; Negative	1)CARE BB- (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)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) (15-Jul-16)	-
14.	Debentures-Non Convertible Debentures	LT	200.00	CARE BB; Negative	1)CARE BB- (SO) (Under Credit watch with Negative	1)CARE AA+ (SO); Stable (10-Oct-17)	1)CARE AA+ (SO) (25-Oct-16)	-

					Implications) (10-Sep-18) 2)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)CARE AA+ (SO); Stable (01-Jun-18)			
15.	Debentures-Non Convertible Debentures	LT	100.00	CARE BB; Negative	1)CARE BB- (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)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; Negative	1)CARE BB- (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)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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