

JULY 21, 2014

CARE REAFFIRMS 'CARE AAA (MF-IDF)' RATING ASSIGNED TO IL&FS INFRASTRUCTURE DEBT FUND SCHEMES

Ratings

Scheme Name	Corpus (Rs. Cr.)	Tenure	Rating ¹	Remark
Infrastructure debt fund Scheme Series 1-A	238.2	5 Years	CARE AAA (MF-IDF) [Triple A Mutual Fund- Infrastructure Debt Fund]	Reaffirmed
Infrastructure debt fund Scheme Series 1-B	235.9	7 Years	CARE AAA (MF-IDF) [Triple A Mutual Fund- Infrastructure Debt Fund]	Reaffirmed
Infrastructure debt fund Scheme Series 1-C	275.9	10 Years	CARE AAA (MF-IDF) [Triple A Mutual Fund- Infrastructure Debt Fund]	Reaffirmed

CARE has reaffirmed 'CARE AAA (MF-IDF)' [Triple A Mutual Fund- Infrastructure Debt Fund] rating to the IL&FS Infrastructure debt fund Schemes Series 1-A, 1-B and 1-C. CARE's ratings of infrastructure debt fund schemes are an opinion on the asset selection ability and asset management capabilities in infrastructure sector for these schemes. The rating is based on the stated investment policy, indicative investment strategy as well as the actual and expected portfolio composition provided by the AMC.

The rating factors in strong support from sponsor, IL&FS group, with a proven track record in the infrastructure development space, rich experience of the management team in the infrastructure sector and expected sound portfolio characteristics. Continued support from the IL&FS group in the capacity as a sponsor, the quality & performance of the portfolio are key rating sensitivities.

Rating Rationale

- **Sponsor Evaluation-** The scheme ratings derive comfort from strong sponsor and sponsor group experience in infrastructure arena. IL&FS Infrastructure Debt Fund (IIDF) is sponsored by IL&FS Financial Services Ltd. (IFIN, rated CARE AAA), the wholly owned infrastructure projects financing arm of IL&FS Ltd. (rated CARE AAA). Established in 1987, IL&FS Ltd. is one of India's leading infrastructure development and finance companies promoted by leading banks and financial institutions. IL&FS group has considerable experience in project conceptualisation, execution and in advisory capacities across various sectors in the infrastructure space. Apart from infrastructure funding and development, the group also has expertise in managing private equity through IL&FS Investment Managers Ltd. (IIML—subsidiary of IL&FS), having assets under management (AUM) aggregating to over USD 3.2 bn. IL&FS Ltd. has demonstrated track record of generating resources by inducting strategic partners or through sale of assets. IIML also has deep experience in monetizing infrastructure projects. So far, IIML has invested in over 163 investments and managed over 96 exits.
- **Asset management company evaluation-** IL&FS Infra Asset Management Company Ltd. (IIAML) is the asset management company for managing the IIDF schemes. The AMC draws support from IL&FS group expertise in the

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

infrastructure sector given that some of the Board of directors and key management personnel have been drawn from IL&FS group companies. Mr. Manish Chaurasia, Chief Executive Officer, has over 17 years of work experience in various roles such as origination, credit risk assessment and syndication in Asia- Pacific region. He is assisted by a team of experienced professionals both from within IL&FS Group as well as from industry.

IIAML shall benefit from group synergies of knowledge sharing and expertise in the area of prudent selection of the investments and efficient monitoring of the portfolio and the expertise in fund management. The project risk assessment and appraisal is expected to be done with the help of knowledge and expertise of senior personnel at the IL&FS group level. Further, IIAML has set up various risk management committees which shall oversee the functioning of the AMC and ensure that the mutual fund renders high standards of services and exercise due diligence in their operations at all times. Investment decisions will be taken by Investment Committee of IIAML which has representation of key personnel from IL&FS group.

- **Portfolio quality-** Of the total corpus of Rs.750 crore across the three schemes- Series 1-A, Series 1-B and Series 1-C, the fund has made debt investments in four companies aggregating to Rs.515.6 crore with the balance being invested in money market instruments. The investments in these four companies are spread across the three schemes.

The following are key portfolio characteristics:

- **Percentage of externally rated portfolio in the overall portfolio:** Although the fund is yet to deploy the corpus proceeds completely, presently the entire debt portfolio across the three schemes i.e. Series 1-A, Series 1-B and Series 1-C is externally rated.
- **Extent of investments in revenue generating operational projects:** All the three schemes i.e. Series 1-A, Series 1-B and Series 1-C have high proportion of operating projects/ liquid money market investments (in the range of 70%-100%) with the balance being sponsor financing. Although sponsor financing comprises a significant portion of Series 1-A and Series 1-B schemes, it constitutes lending to an infrastructure holding company with sizeable operational projects, thereby reducing the project risk to a certain extent.
- **Concentration / Exposure Limits:** The borrower concentration in the existing portfolio of all the three schemes i.e. Series 1-A, Series 1-B and Series 1-C is well 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).
- **Relative average credit quality of the investments within infrastructure sector:** The entire debt portfolio across all the three series is rated investment grade with minimum credit rating being BBB. In majority of the debt investments, the fund has secured corporate guarantees of stronger parent company which has improved the credit profile of the borrowers. Further, the fund investments shall be characterized by strong promoters, operational projects with strong cashflows, superior security mechanism and projects with good payment track record.

Background

IL&FS Financial Services Limited (IFIN), a wholly owned subsidiary of IL&FS Ltd., has set up IL&FS Infrastructure Debt Fund (IIDF), under the mutual fund route. IL&FS Infra Asset Management Ltd. (IIAML), a majority owned subsidiary of IFIN, is the asset manager for IIDF schemes. LIC holds 8.20% stake in IIAML and has appointed an associate director on the Board. The fund has collectively raised a corpus of Rs.750 crore across Series 1-A, 1-B and 1-C of which IFIN's contribution stood at Rs.125 crore.

Analyst Contact

Name: Anuj Jain

Tel # 022-67543451

Mobile # 9892209428

Email: Anuj.jain@careratings.com

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.

Disclaimer: CARE's fund credit quality rating is not a recommendation to purchase, sell, or hold a security / fund. It neither comments on the current market price, suitability for a particular investor nor on the prospective performance of the fund with respect to appreciation, volatility of net asset value (NAV), or yield of the fund. The ratings do not address the funds ability to meet the payment obligations to the investors.

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CONTACT

Head Office Mumbai

Mr. D.R. Dogra

Managing Director
 Mobile: +91-98204 16002
 E-mail: dr.dogra@carerating.com

Ms. Meenal Sikchi

Vice President - Bank Loan & Instrument Rating
 Mobile: +91-9819009839
 E-mail: meenal.sikchi@carerating.com

Mr. Rajesh Mokashi

Dy. Managing Director
 Mobile: +91-98204 16001
 E-mail: rajesh.mokashi@careratings.com

Mr. Ankur Sachdeva

Vice President - Bank Loan & Financial Services
 Mobile: +91-9819698985
 E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

Other Office:

503, Kaledonia, Sahar Road, Near Andheri Railway Station, Andheri (E), Mumbai - 400 069
 Tel: +91-22-6144 3456 | Fax: +91-22-6144 3556

AHMEDABAD
Mr. Mehul Pandya

32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-98242 56265
 Tel: +91-79-4026 5656
 E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91-99000 41975
 Tel: +91-80-4115 0445, 4165 4529
 E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal

2nd Floor, S.C.O. 196-197, Sector 34-A,
 Chandigarh - 160 022.
 Cell: +91 99888 05650
 Tel: +91-172-5171 100 / 09
 Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar

Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Tel: +91-40-4010 2030
 E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Rahul Jain

304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 93149 21496
 Tel: +91-141-402 0213 / 14
 E-mail: rahul.jain@careratings.com

KOLKATA
Ms. Priti Agarwal

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal

13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni

9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-78754 33355
 Tel: +91-20- 4000 9000
 E-mail: rahul.patni@careratings.com

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