

IL&FS Infra Asset Management Limited

April 03, 2019

Ratings

Instrument	Tenure	Rating ¹	Rating Action
IL&FS Infrastructure debt fund Schemes Series 1-A	5 years	CARE A (MF-IDF) [Single A (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AA (MF-IDF) [Double A (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)
IL&FS Infrastructure debt fund Schemes Series 1-B	7 years	CARE A+ (MF-IDF) [Single A Plus (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AA (MF-IDF) [Double A (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)
IL&FS Infrastructure debt fund Schemes Series 1-C	10 years	CARE A+ (MF-IDF) [Single A Plus (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AA (MF-IDF) [Double A (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)
IL&FS Infrastructure debt fund Schemes Series 3-A	5 years	CARE AA- (MF-IDF) [Double A Minus (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AA (MF-IDF) [Double A (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)
IL&FS Infrastructure debt fund Schemes Series 3-B	7 years	CARE AA- (MF-IDF) [Double A Minus (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AA (MF-IDF) [Double A (Mutual Fund–Infrastructure Debt Fund)] (watch with developing implications)

Detailed Rationale and Key rating drivers

CARE has revised the rating assigned to Scheme 1A from ‘**CARE AA (MF-IDF) [Double A (Mutual Fund-Infrastructure Debt Fund)]**’ to ‘**CARE A (MF-IDF) [Single A (Mutual Fund-Infrastructure Debt Fund)]**’, Scheme 1B & Scheme 1C from ‘**CARE AA (MF-IDF) [Double A (Mutual Fund-Infrastructure Debt Fund)]**’ to ‘**CARE A+ (MF-IDF) [Single A Plus (Mutual Fund-Infrastructure Debt Fund)]**’ and Scheme 3A & Scheme 3B from ‘**CARE AA (MF-IDF) [Double A (Mutual Fund-Infrastructure Debt Fund)]**’ to ‘**CARE AA- (MF-IDF) [Double A Minus (Mutual Fund-Infrastructure Debt Fund)]**’ of IL&FS Infra Asset Management Limited. All the ratings continue to remain on watch with developing implications.

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.

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 revision in the ratings factor in deterioration in the asset quality of the investments under the funds and weakening of the 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) with effect from January 1, 2017.

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

The ratings continue to be placed on a 'watch with developing implications' following the significant deterioration in credit profile of the parent group, i.e. IL&FS group and subsequent induction of a new Board of Directors which includes industry veterans like Mr. Uday Kotak (Chairman, IL&FS), Mr. Vineet Nayyar (Vice Chairman & Managing Director, IL&FS) and Mr. G C Chaturvedi, Mr. Srinivasan Natarajan, Mr. Bijay Kumar, Mr. Nand Kishore, Dr. Malini Shankar & Mr. CS Rajan 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. CARE would continue to monitor the developments of further plans of the new board of the parent group and would review the ratings assigned to the above mentioned schemes accordingly.

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.

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 and its key subsidiaries in the energy vertical – IL&FS Energy Development Company Limited (IEDCL) and transportation vertical – IL &FS Transportation Network Limited (ITNL) deteriorated resulting in liquidity pressure impacting the group's financial flexibility. The fund has total exposure of 23.56% as on February 28, 2019 across five 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 five schemes stood at Rs.1,999.96 crore as on February 28, 2019, consisting debt investments across 19 companies. The portfolio evaluation is based on the following characteristics:

- Percentage of unrated portfolio in the overall portfolio:** As on February 28, 2019 around 27.29% of the portfolio across all the five schemes i.e. Series 1-A, Series 1-B, Series 1-C, Series 3-A and Series 3-B, is unrated.
- Extent of investments in revenue generating operational projects:** All the five schemes have high proportion of operating projects / liquid money market investments with the balance being sponsor financing.
- Concentration / Exposure Limits:** The investment concentration in the existing portfolio of all the five 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).
- 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.
- 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. The maturity of Series 1A is April 29, 2019 with 23.41% of the AUM being investment in IWEL. Considering that IWEL is looking at divestment of its SPVs, the maturity of the schemes is expected to take longer than the tenor of the scheme. The management is currently evaluating on exit options for its investors in the scheme.
- Form and extent of investment:** The fund has invest around 99% of the corpus in debt instruments of infrastructure companies or infrastructure related projects while around 1% is invested in money market instruments and bank deposits.
- Relative average credit quality of the investments within infrastructure sector:** Out of the total exposure in debt investments across all the five series as on February 28, 2019, 0.25% of the portfolio was invested in

'AA' rated instruments, 25.22% in 'A' rated instruments, 15.56% in 'BBB' rated instruments, 13.23% in 'BB' rated instruments, 11.97% in 'C' rated instruments and remaining 27.29% in unrated instruments. The investments in Collateralized Borrowings and Lending Obligation (CBLOs) and bank balances account for 6.48% of total total portfolio.

The fund has total exposure of 23.56% as on February 28, 2019 across five schemes to its group companies namely IL&FS Wind Energy Limited (IWEL) and IL&FS Solar Power Limited (ISPL) which are subsidiaries of IEDCL, whose credit profile has seen significant weakening.

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 five schemes stood at Rs.1,999.96 crore as on February 28, 2019.

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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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 infrastructure debt fund 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. The ratings are based on current information furnished to CARE by the issuer or obtained by CARE from sources it considers 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. CARE does not perform an audit in connection with any rating and may, on occasion, rely on unaudited information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances. Funds rated by CARE have paid a rating fee.

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-A	-	-	-	-	CARE A (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-B	-	-	-	-	CARE A+ (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-C	-	-	-	-	CARE A+ (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 3-A	-	-	-	-	CARE AA- (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 3-B	-	-	-	-	CARE AA- (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 2018-2019	Date & Rating assigned in 2017-2018	Date & Rating assigned in 2016-2017	Date & Rating assigned in 2015-2016
1	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1A	Close-ended	-	CARE A (MF-IDF) watch with developing implications	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)	-	1)CARE AAA (MF-IDF) (22-Jan-16)
2	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1B	Close-ended	-	CARE A+ (MF-IDF) watch with developing implications	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)	-	1)CARE AAA (MF-IDF) (22-Jan-16)
3	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1C	Close-ended	-	CARE A+ (MF-IDF) watch with developing implications	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)	-	1)CARE AAA (MF-IDF) (22-Jan-16)
4	IL&FS Mutual Fund Infrastructure Debt Fund - Series 3A	Close-ended	-	CARE AA- (MF-IDF) watch with developing implications	1)CARE AA (MF-IDF) (Watch with developing implications) (10-Oct-18)	1)CARE AAA (MF-IDF) (02-Jan-18)	-	-
5	IL&FS Mutual Fund Infrastructure Debt Fund - Series 3B	Close-ended	-	CARE AA- (MF-IDF) watch with developing implications	1)CARE AA (MF-IDF) (Watch with developing implications) (10-Oct-18) 2)CARE AAA (MF-IDF) (18-Apr-18)	-	-	-

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