

IL&FS Infra Asset Management Limited

October 10, 2018

Ratings

Scheme Name	Tenure	Rating	Rating Action
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-A	5 years	CARE AA (MF-IDF) [Double A (Mutual Fund – Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AAA (MF-IDF) [Triple A (Mutual Fund – Infrastructure Debt Fund)] and placed on watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-B	7 years	CARE AA (MF-IDF) [Double A (Mutual Fund – Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AAA (MF-IDF) [Triple A (Mutual Fund – Infrastructure Debt Fund)] and placed on watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-C	9 years	CARE AA (MF-IDF) [Double A (Mutual Fund – Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AAA (MF-IDF) [Triple A (Mutual Fund – Infrastructure Debt Fund)] and placed on watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 3-A	5 years	CARE AA (MF-IDF) [Double A (Mutual Fund – Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AAA (MF-IDF) [Triple A (Mutual Fund – Infrastructure Debt Fund)] and placed on watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 3-B	7 Years	CARE AA (MF-IDF) [Double A (Mutual Fund – Infrastructure Debt Fund)] (watch with developing implications)	Revised from CARE AAA (MF-IDF) [Triple A (Mutual Fund – Infrastructure Debt Fund)] and placed on watch with developing implications

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the rating assigned to the above mentioned schemes of **IL&FS Mutual Fund – Infrastructure Debt Fund** from **“CARE AAA (MF-IDF) [Triple A (Mutual Fund – Infrastructure Debt Fund)]”** to **“CARE AA (MF-IDF) [Double A (Mutual Fund – Infrastructure Debt Fund)]”** and placed 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.

The revision in the rating is on account of weakening in 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.

The ratings have been 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 consisting of six directors recommended by the Government for preparing a robust and time bound resolution plan for the IL&FS group at the behest of Central Government.

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 rating continues 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 and its subsidiaries companies and its key subsidiaries in the energy vertical - IL&FS Energy Development Company Limited (IEDCL) and transportation vertical - IL&FS Transportation Network Limited (ITNL) resulting the group facing liquidity pressure impacting the group's financial flexibility. The fund has total exposure of 23% as on September 30, 2018 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 also weakened.

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.1,533 crore as on September 30, 2018 consisting debt investments across 19 companies. The portfolio evaluation is based on the following characteristics:

- i. **Percentage of externally rated portfolio in the overall portfolio:** As on September 30, 2018 around 77% 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 externally rated.
- ii. **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.
- iii. **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).
- iv. **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, wind power, solar power, agro processing, etc.
- v. **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.
- vi. **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.
- vii. **Relative average credit quality of the investments within infrastructure sector:** Out of the total exposure in debt investments across all the five series 32% of the portfolio is invested in 'A' rated instruments, 21% in 'BBB' rated instruments, 23% in 'BB' rated category, 22% in unrated instruments and 1% in Collateralized Borrowings and Lending Obligation (CBLOs) and bank balances.

Analytical approach: Standalone

Applicable Criteria

[Rating Methodology for Mutual Fund-Infrastructure Debt Funds](#)

About the Company

IL&FS Infra Asset Management Ltd. (IIAML), a subsidiary of IL&FS Investment Managers Limited (IIML), is the asset manager for IDF schemes. LIC holds 7.72% stake in IIAML and has appointed a nominee director on the Board. The total assets under management (AUM) for all the five schemes stood at Rs.1,533 crore as on September 30, 2018.

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 Instruments/Facilities

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 AA (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-B	-	-	-	-	CARE AA (MF-IDF) watch with developing implications
IL&FS Mutual Fund Infrastructure Debt Fund - Series 1-C	-	-	-	-	CARE AA (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 3B	Close-ended	-	CARE AA (MF-IDF) watch with developing implications	1) CARE AAA (MF-IDF) (18-Apr-18)	-	-	-
2	IL&FS Mutual Fund Infrastructure Debt Fund - Series 3A	Close-ended	-	CARE AA (MF-IDF) watch with developing implications	-	1) CARE AAA (MF-IDF) (02-Jan-18)	-	-
3	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1A	Close-ended	-	CARE AA (MF-IDF) watch with developing implications	1) 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 1B	Close-ended	-	CARE AA (MF-IDF) watch with developing implications	1) CARE AAA (MF-IDF) (05-Apr-18)	1) CARE AAA (MF-IDF) (18-May-17)	-	1) CARE AAA (MF-IDF) (22-Jan-16)
5	IL&FS Mutual Fund Infrastructure Debt Fund - Series 1C	Close-ended	-	CARE AA (MF-IDF) watch with developing implications	1) CARE AAA (MF-IDF) (05-Apr-18)	1) CARE AAA (MF-IDF) (18-May-17)	-	1) CARE AAA (MF-IDF) (22-Jan-16)

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