

January 22, 2016

## CARE REAFFIRMS RATING ASSIGNED TO IL&FS INFRASTRUCTURE DEBT FUND SCHEMES

**Ratings**

Scheme Name	Maturity Date	Rating <sup>1</sup>	Remarks
Infrastructure debt fund Scheme Series 1-A	29/04/2019	CARE AAA (MF-IDF) [Triple A Mutual Fund- Infrastructure Debt Fund]	Reaffirmed
Infrastructure debt fund Scheme Series 1-B	29/04/2021	CARE AAA (MF-IDF) [Triple A Mutual Fund- Infrastructure Debt Fund]	Reaffirmed
Infrastructure debt fund Scheme Series 1-C	29/04/2024	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 the 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 the 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 the 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 Limited (IIML– subsidiary of IL&FS). IL&FS Limited 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.
- **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 infrastructure sector given that some of the Board of directors and key management personnel have been drawn from IL&FS group companies. At the helm of affairs in IIAML is Mr. Jignesh Shah, Chief Executive Officer and Chief Investment Officer. Mr. Shah has over 19 years of work experience in corporate strategy, M&A, project finance,

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

capital raising, corporate advisory and valuation. He is assisted by a team of experienced professionals both from within IL&FS Group as well as from the 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. Furthermore, 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-** Total corpus of series 1 schemes increased to Rs.900.4 crore as on November 30, 2015. Of the total corpus across the three schemes- Series 1-A, Series 1-B and Series 1-C, the fund has made debt investments in six companies aggregating to Rs.818.8 crore. The following are key portfolio characteristics:

- **Percentage of externally rated portfolio in the overall portfolio:** Presently, 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 has high proportion of operating projects/ liquid money market investments (in the range of 60 to 100%) with the balance being sponsor financing. Although sponsor financing constitutes 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 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. Furthermore, 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 7.72% 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.

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