

# India Ratings & Research

A Fitch Group Company

## India Ratings Assigns IL&FS IDF's Series-3A Scheme 'IND AAAidf-mf'

# 03

By Ratnam Raju Nakka

JAN 2018

India Ratings and Research (Ind-Ra) has assigned IL&FS Infrastructure Debt Fund's (IIDF or the fund) Series-3 mutual fund scheme 3A a rating of 'IND AAAidf-mf'.

### COMPANY PROFILE

IL&FS Financial Services Ltd (IFIN; 'IND AAA/Stable') had set up an infrastructure debt fund (IDF) under the mutual fund route, governed by the mutual fund regulations of the Securities and Exchange Board of India. Effective 1 January 2017, the ownership of the asset manager and trustee company of the IDF was transferred to IL&FS Investment Managers (IIML), a subsidiary of IL&FS Limited, from IFIN. The ownership and management control of the IDF would remain within the IL&FS group as the ultimate controlling shareholder in both entities IFIN and IIML.

IIDF (Series 3A) is expected to raise a corpus from institutional investors, according to the fund's management. The tenor of the scheme is five years. The units will be fully paid up after the final draw down and subsequently listed on the National Stock Exchange.

### KEY RATING DRIVERS

**Strong Group:** IIDF is a part of the IL&FS Group. Infrastructure Leasing & Financial Services Ltd (IL&FS; 'IND AAA/Stable') is among India's premier financial and infrastructure institutions, with established presence across the infrastructure spectrum as developer, financier and operator. Moreover, the sponsor, IIML, has expertise in managing investments across sectors, including infrastructure. IIDF benefits from IIML's management expertise in both operating and divestment of assets. IIML has been a first-mover in the Indian infrastructure private equity space since the late 1990s and has managed several pioneering infrastructure investments in sectors such as telecom, waste management and city gas distribution. Furthermore, IIML has extensive fund-raising and management experience with regard to Indian and international institutions, which can be leveraged by IIDF for further fund-raising.

Management expects that the corpus will be invested in the non-convertible debentures of projects/companies having a presence across diverse sectors, and the balance amount, if any, will be invested in liquid instruments. Ind-Ra believes that IL&FS group's minimum contribution of INR0.25 billion in the corpus indicates its confidence in IIDF's prospects.

**Vast Experience of Investment Manager:** In Ind-Ra's view, investment manager IL&FS Infra Asset Management Company Ltd (the asset management company) has a reasonable track record of managing the portfolio, commensurate with the rating. Experience and structuring skills in financial services are considered critical ingredients for the

commercialisation of infrastructure transactions. IIAML has senior professionals deputed from the sponsor group including nominations to the board. The professionals have a decent experience in the sector and in the financial services business. IL&FS has structured its financial services division to cater to this critical need. IL&FS has a significant focus on investment banking, asset management and infrastructure financing. The investment manager has benefitted from the vast and specialised expertise of over 25 years of the IL&FS Group in the infrastructure sector.

The fund's investment management policies and risk management systems, including control through internal auditing, which are all supported by a comprehensive compliance manual, are deemed robust and conducive to help it achieve its objectives. Board subcommittees have oversight over IIML's key functions.

Ind-Ra believes that the fund, pursuant to its investment criteria, will create a balanced and diversified portfolio for series 3A, within the overall ambit of the prescribed investment guidelines.

**Strategy of Co-investing Favourable:** The fund's strategy of co-investing with few other investors should help it secure favourable transaction structures. It will also play an active role, where necessary, to ensure investee entities perform according to expectations. The fund might invest in riskier assets to earn higher returns. If one or more of the portfolio investments are stressed, IIDF will quickly step into exercise creditor rights to harness the long-term economic value. This is a characteristic of several infrastructure projects despite short-term volatility in performance or cash flows.

**Satisfactory Performance of Other Rated Series:** According to the management, there have been no haircuts on any units managed by IL&FS IDFs.

## RATING SENSITIVITIES

Portfolio composition and characteristics not conforming to Ind-Ra's expectations could trigger a negative rating action. Any sharp deterioration in the credit quality of investments that could permanently impair recovery prospects within the tenor of the schemes could also result in a downgrade. Any potential haircut to the investors will result in a multiple-notch downgrade.

A full rating report will shortly be available on the agency's website [www.indiaratings.co.in](http://www.indiaratings.co.in).

## SOLICITATION DISCLOSURES

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## ABOUT INDIA RATINGS AND RESEARCH

India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, structured finance and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

For more information, visit [www.indiaratings.co.in](http://www.indiaratings.co.in).

## DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/rating-definitions). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE [WWW.INDIARATINGS.CO.IN](http://WWW.INDIARATINGS.CO.IN). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

## Applicable Criteria

### Rating Mutual Fund Schemes of Infrastructure Debt Funds

## Analyst Names

### Primary Analyst

**Ratnam Raju Nakka**

Associate Director

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block.

Bandra Kurla Complex Bandra (East), Mumbai 400051

022 40001742

### Secondary Analyst

**Vineeta Jha**

Analyst

+91 44 43401739

### Committee Chairperson

**Venkataraman Rajaraman**

Senior Director and Head Infrastructure and Project Finance  
+91 44 43401702

---

Media Relation

**Mihir Mukherjee**

Manager Corporate Communications and Investor Relations  
+91 22 40356121

---