

India Ratings Downgrades IL&FS Financial Services to 'IND C'; Off RWN

Sep 11, 2018 | Financial Institution

India Ratings and Research (Ind-Ra) has downgraded IL&FS Financial Services Ltd's (IFIN) Long-Term Issuer Rating to 'IND C' from 'IND AA' and Short-Term Issuer Rating to 'IND A4' from 'IND A1+' while resolving the Rating Watch Negative (RWN). The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
Non-convertible debentures* (NCDs)	-	-	-	INR49,850 (reduced from INR50,350)	IND C	Downgraded; off RWN
Subordinated debt*	-	-	-	INR11,000	IND C	Downgraded; off RWN
Bank loans	-	-	-	INR7,587.5	IND C	Downgraded; off RWN
Short-term debt/commercial paper programme^	-	-	-	INR7,000	IND A4	Downgraded; off RWN

*Details in annexure

^Unutilised

The downgrade reflects the sharp liquidity tightness at both the parent (Infrastructure Leasing & Financial Services Limited's (IL&FS; IND BB/RWN) and IFIN levels, which poses critical challenges to their ability to meet their immediate debt liabilities. As IL&FS struggles for liquidity, its ability to support IFIN's obligations immediately is modest at the best. Additionally, while IFIN faces regulatory constraints in accessing the commercial paper market, Ind-Ra believes there may not be sufficient appetite in the banking or capital markets to lend to IL&FS group without clear visibility on funding support from their shareholders. IFIN's ability to bring down its group exposure within the regulatory limits could also face challenges and it may be required to take haircuts on both its group and external exposures. This would aggravate the already high leverage situation.

Key Rating Drivers

Depleted Liquidity Buffers: IFIN's liquidity situation has significantly weakened since March 2018. Contractual debt repayment (principal plus interest) obligations for September 2018 stand at INR17.2 billion (2HFY19: INR37 billion) as against the on-balance sheet liquidity of INR2.0 billion. The liquidity situation has worsened due to the delayed repayments of the loans extended to group companies, which is 29% of the total credit exposure at FYE18. Furthermore, the ability of parent to support IFIN's payment obligations has deteriorated considerably.

There have also been delays in the mobilisation of the much-needed long-term debt which is critical in restoring the liquidity situation.

Regulatory Overhang to Reduce Group Exposure: IFIN’s exposure to group companies over INR50 billion as of March 2018 needs to be significantly brought down by March 2019. However, this is subject to the planned injection of equity by IL&FS’ shareholders as well as the timely divestment of assets at the operating companies of the group.

Deleveraging could be Challenging: IFIN’s financial leverage is higher than its peers’, which the company plans to address through a combination of paring group companies’ exposure and equity infusions. The execution of this plan is critical and involves timely injections of equity and liquidity from its shareholders.

Rating Sensitivities

IFIN’s ability to manage its debt obligations over the next few weeks and couple of months would remain a key rating trigger. Funding support in the required quantum and timelines could be a rating positive.

Company Profile

IFIN is a systemically important non-banking finance company that provides credit and other services such as debt syndication and corporate advisory.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Total assets (INR million)	213,766	192,539
Total equity (INR million)	19,159	19,578
Net income (INR million)	997	2,088
Return on average assets (%)	0.49	1.13
Tier 1 capital (%)	11.4	13.2
Source: IFIN		

Rating History

Instrument Type	Current Rating			Historical Rating/Rating Watch/Outlook		
	Rating Type	Rated Limits (million)	Rating	24 August 2018	27 November 2017	1 September 2016
Issuer rating	Long- /short-term	-	IND C/IND A4	IND AA/RWN/IND A1+/RW	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
NCDs	Long-term	INR49,850	IND C	IND AA/RWN	IND AAA/Stable	IND AAA/Stable
Subordinated debt	Long-term	INR11,000	IND C	IND AA/RWN	IND AAA/Stable	IND AAA/Stable
Short-term debt/commercial paper	Short-term	INR7,000	IND A4	IND A1+/RWN	IND A1+	IND A1+
Bank loan	Long term	INR7587.5	IND C	IND AA/RWN	IND AAA/Stable	-

Complexity Level of the Instruments

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

NCDs

ISIN	Date of Issue	Coupon (%)	Date Of Maturity	Size of Issue (million)	Rating
INE121H07885	28 September 2012	9.54	28 September 2022	INR500.00	IND C
INE121H07935	17 September 2013	10.50	17 September 2018	INR1,750.00	IND C
INE121H07992	28 January 2014	9.90	28 January 2019	INR1,075.00	IND C
INE121H07AB6	3 July 2014	9.50	3 July 2019	INR2,530.00	IND C
INE121H07AC4	3 July 2014		3 July 2024	INR470.00	IND C
INE121H07AD2	28 August 2014	9.60	28 August 2019	INR372.50	IND C
INE121H07AE0	28 August 2014	9.55	28 August 2024	INR60.00	IND C
INE121H07AH3	18 September 2014	9.65	18 September 2019	INR2,000.00	IND C
INE121H07AI1	30 September 2015	8.70	30 September 2018	INR1,500.00	IND C
INE121H07AL5	21 March 2016	8.90	21 March 2019	INR370.00	IND C
INE121H07AM3	21 March 2016		21 March 2021	INR180.00	IND C
INE121H07AO9	28 March 2016	8.90	28 March 2019	INR250.00	IND C
INE121H07AP6	28 March 2016		28 March 2021	INR900.00	IND C
INE121H07AQ4	28 March 2016		28 March 2023	INR580.00	IND C
INE121H07AR2	28 March 2016	8.85	28 March 2026	INR510.00	IND C
INE121H07AS0	31 March 2016	8.90	31 March 2021	INR50.00	IND C
INE121H07AT8	31 March 2016	8.85	31 March 2026	INR700.00	IND C
INE121H07AV4	3 June 2016	8.75	3 December 2018	INR150.00	IND C
INE121H07AW2	3 June 2016		3 June 2019	INR150.00	IND C
INE121H07AX0	3 June 2016		3 June 2021	INR550.00	IND C
INE121H07BA6	9 June 2016	8.75	9 June 2021	INR500.00	IND C
INE121H07BC2	14 June 2016	8.75	14 June 2019	INR50.00	IND C
INE121H07BD0	14 June 2016		14 June 2021	INR290.00	IND C
INE121H07BE8	14 June 2016		14 June 2023	INR110.00	IND C
INE121H07BF5	21 June 2016	8.78	21 June 2021	INR1,000.00	IND C
INE121H07BG3	21 June 2016	8.80	21 June 2023	INR300.00	IND C
INE121H07BI9	28 June 2016	8.78	28 June 2021	INR250.00	IND C
INE121H07BK5	18 July 2016	8.65	18 July 2021	INR750.00	IND C
INE121H07BM1	1 August 2016	8.90	1 August 2026	INR1,000.00	IND C
INE121H07BL3	1 August 2016	8.75	1 August 2021	INR250.00	IND C
INE121H07BN9	5 August 2016	8.60	5 August 2021	INR1,000.00	IND C
INE121H07BP4	16 August 2016	8.75	16 August 2026	INR600.00	IND C
INE121H07BQ2	12 September 2016	8.51	12 September 2026	INR1,000.00	IND C
INE121H07BR0	28 September 2016	8.22	28 September 2021	INR1,000.00	IND C
INE121H07BS8	30 September 2016	8.50	30 September 2026	INR350.00	IND C
INE121H08107	6 December 2016	8.65	6 June 2022	INR1,500.00	IND C

ISIN	Date of Issue	Coupon (%)	Date Of Maturity	Size of Issue (million)	Rating
INE121H08115	6 December 2016	8.65	6 December 2021	INR3,000.00	IND C
INE121H08123	6 December 2016	8.68	6 December 2023	INR1,000.00	IND C
INE121H08131	6 December 2016	8.68	6 December 2026	INR500.00	IND C
INE121H07BT6	20 February 2017	8.50	20 February 2027	INR500.00	IND C
INE121H07BU4	5 April 2017	8.23	5 April 2027	INR1,000.00	IND C
INE121H07BV2	22 June 2017	8.00	22 June 2024	INR1,000.00	IND C
INE121H07BX8	1 August 2017	7.75	1 August 2022	INR400.00	IND C
INE121H07BZ3	1 September 2017	7.75	1 September 2022	INR1,000.00	IND C
INE121H07BY6	1 September 2017	7.80	1 September 2024	INR850.00	IND C
INE121H07CA4	28 March 2018	8.75	28 March 2023	INR2,000.00	IND C
INE121H07CB2	16 April 2018	8.70	16 April 2025	INR1,000.00	IND C
INE121H07CC0	3 May 2018	8.70	3 May 2025	INR1,000.00	IND C
INE121H07CD8	4 July 2018	9.30	4 July 2023	INR500.00	IND C
			Utilised NCDs	INR38,347.50	
			Unutilised NCDs	INR11,502.50	
			Total	INR49,850.0	

Sub debt

ISIN	Date of Issue	Coupon (%)	Date Of Maturity	Size of Issue (million)	Rating
INE121H08016	28 December 2011	10.3	28 December 2021	INR2,000.00	IND C
INE121H08024	22 March 2012	10.3	22 March 2022	INR2,000.00	IND C
INE121H08032	29 June 2012	10.15	29 June 2022	INR2,000.00	IND C
INE121H08057	27 November 2012	9.55	27 November 2022	INR1,000.00	IND C
INE121H08065	28 February 2013	9.55	28 February 2023	INR1,000.00	IND C
INE121H08073	27 January 2016	8.9	27 January 2026	INR350.00	IND C
INE121H08081	22 March 2016	9.03	22 March 2026	INR650.00	IND C
INE121H08099	29 September 2016	8.69	29 September 2026	INR1,000.00	IND C
INE121H08164	23 April 2018	8.9	23 April 2028	INR1,000.00	IND C
			Total	INR11,000.00	

APPLICABLE CRITERIA

- Financial Institutions Rating Criteria
- Non-Bank Finance Companies Criteria
- Rating FI Subsidiaries and Holding Companies

Contact

Primary Analyst

Prakash Agarwal

Director and Head Financial Institutions

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

+91 22 40001753

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Pankaj Naik

Associate Director

+91 22 40001723

Chairperson

Sandeep Singh

Senior Director and Head Structured Finance

+91 22 40001735

Media Relation

Namita Sharma

Manager – Corporate Communication

+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is 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 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.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

Additional information is available at 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.

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>. In addition, rating definitions and the terms of use of such ratings are available on the agency's public website 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.