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India's IL&FS Financial Services Rated 'Fitch AAA(ind)'/Stable Ratings

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Fitch Ratings-Mumbai-16 December 2011: Fitch Ratings has assigned India's IL&FS Financial Services Ltd. (I-Fin) a National Long-Term rating of 'Fitch AAA(ind)' with Stable Outlook. The agency has also assigned a 'Fitch AAA(ind)' rating to I-Fin's INR2bn lower Tier 2 subordinated debt. A complete list of ratings is provided at the end of this commentary.

I-Fin's National Long-Term rating is equalised with that of its parent - Infrastructure Leasing & Financial Services Limited (IL&FS; 'Fitch AAA(ind)'/Stable) - to reflect the 100% ownership and strong operational and management linkages between the two entities. I-Fin was a division of IL&FS till 2007, and its treasury and risk management remain centralised at IL&FS. I-Fin's board comprises senior officials from IL&FS, which review all its funding decisions; the audit committee of IL&FS's board also regularly reviews I-Fin's financial statements.

I-Fin's importance to its parent is evident on several fronts. Its debt syndication desk provides critical support to IL&FS's project development business, a role that will grow with IL&FS's expansion in promoting large projects in power and ports in India. In FY11 (year-end: March 2011), I-Fin was IL&FS's most profitable subsidiary and accounted for 60% of the group company's dividends. Fitch, therefore, expects IL&FS to continue holding its 100% shareholding in I-Fin, and to ensure the latter remains in sound financial condition through timely support.

Any dilution in the ownership, together with a re-evaluation of I-Fin's strategic importance to IL&FS, may lead to the de-linking of the Long-Term ratings of both companies.

I-Fin's INR50bn loan portfolio at end-March 2011 comprised of project finance loans and loans against shares to business groups in India. Growing fee income compensated for falling net interest margins in FY11 (4.7%; FY10: 7.5%) and helped maintain strong pre-provision operating profits at over 8% of earning assets. Stressed assets were well-covered by contingency reserves of 2.7% of earning assets at end-March 2011; this, together with core Tier 1 capital ratio of around 20% at end-March 2011, boost the company's refinancing prospects with commercial banks, which are its primary funding sources.

I-Fin's lower tier 2 subordinated bonds have been rated at the same level as its National Long-Term rating based on Fitch's "Criteria for Indian National Ratings of Bank Hybrids and Subordinated Debt", dated 18 January 2010.

Rating actions on I-Fin:

- National Long-Term rating assigned at 'Fitch AAA(ind)'; Outlook Stable
- INR2bn lower Tier 2 subordinated debt assigned at 'Fitch AAA(ind)'

Outstanding ratings of I-Fin:

- National Short-Term rating: 'Fitch A1+(ind)'
- INR7bn short-term debt: 'Fitch A1+(ind)'
- INR2bn long-term debt: 'Fitch AAA(ind)'

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Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'Fitch AAA(ind)' for National ratings in India. Specific letter grades are not therefore internationally comparable.

Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, "Global Financial Institutions Rating Criteria," dated 16 August 2011; "National Ratings Criteria," dated 19 January 2011 and "Criteria for Indian National Ratings of Bank Hybrids and Subordinated Debt," dated 18 January 2010, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

National Ratings Criteria

Criteria for Indian National Ratings of Bank Hybrids and Subordinated Debt

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