

IL&FS FINANCIAL SERVICES LTD.

CP/STD Programms

PR1+

Rating

CARE has assigned 'PR1+' [PR One Plus] rating to the Short term borrowing programme of Rs.300 crore of IL&FS Financial Services Ltd. (IFIN) with instruments having maturity up to one year. Instruments with this rating would have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk.

The rating factors in strong parentage (IFIN is a wholly owned subsidiary of IL&FS Ltd), expertise and experience of IL&FS Ltd in infrastructure projects and track record of profitable operations. It also takes in to account presence of experienced professionals and senior management team drawn from IL&FS group, comfortable capitalization and profits in FY07. IFIN's limited track record of operations, its ability to maintain spreads and asset quality of its growing portfolio are the key rating sensitivities.

Background

IL&FS Financial Services Ltd is a wholly owned subsidiary of IL&FS Ltd. IFIN (earlier known as IL&FS Finvest Ltd) obtained the certificate of registration to carry on non- banking financial activities from RBI on February 22, 2005. IFIN commenced its financing activities from August 2006. During FY07, IL&FS Ltd has infused equity capital of Rs.71 crore and another Rs. 25 crore during first quarter of FY08. IL&FS Ltd also had provided line of credit to the tune of Rs. 500 crore to IFIN, to carry operations.

IL&FS Ltd plans to create distinct verticals for each business. Thus the financial services division from IL&FS Ltd and debt syndication division from IL&FS Investmart Ltd were integrated under IL&FS Finvest Ltd and it was renamed as IL&FS Financial Services Ltd. IFIN is broadly divided into following business lines:

Asset & structured finance business, syndication business and corporate & project advisory business.

Management

IFIN is a professionally managed company with Mr. Ravi Parthasarathy as Chairman. Mr. Ravi Parthasarathy is also the Executive Chairman of IL&FS Ltd. The Board of Directors and key managerial personnel are experienced professionals from IL&FS Group having wide experience in financial services.

Operations of the Company

Asset Profile

The asset size of IFIN stood at Rs. 620.44 cr as on March 31, 2007 with 94.28 % of total assets in form of loans and advances. Around 26.73% of loans and advances are short term advances with fixed interest rate and tenure less than one year. (i.e. redemption in FY08). Balance represents term loans having tenure upto 5 years and a lease transaction of Rs. 7.31 crore.

Total advances as on March 31, 2007 were Rs.584.96 crore. The top 5 industry exposure is as follows:

Sr. No	Industry (Rs. Cr)	Amount advances	% to total
1	Real Estate /Construction	136.5	23.3
2	Hotels/Hospitality	61.4	10.5
3	Iron & Steel	55.0	9.4
4	Pharmaceuticals	54.0	9.2
5	Infrastructure	40.1	6.9
Total		346.1	59.3
Total advances		584.1	100.0

As per the RBI guidelines for NBFCs issued in February 2007, IFIN would need to bring down the exposure to two cases namely Ashok Apparels Private Limited which belongs to Atul Ruia group and Neelkamal Central Apartment Private Limited which belongs to Dynamix Balwas group. IFIN has exceeded exposure norms in case of single borrower as well as single group of borrowers. IFIN plans to bring the exposure within limit by September 30, 2007.

Asset Quality

IFIN has in place internal rating for all proposals on a scale of 8 grades from AAA to D. As on March 31, 2007, the portfolio was more skewed towards 'A-' and 'BBB+' categories (around 56% of total advances belong to these two categories). The large individual exposures mentioned above fall within these rating categories.

IFIN has zero non performing assets as on March 31, 2007. However, it would be too premature to evaluate asset quality, considering the limited track record of IFIN.

Resource Mix

IFIN has an overall gearing of 5.1 times as on March 31, 2007. Of its total liabilities; Networth constituted 16.47 % (Rs. 102.23 crore); IL&FS Ltd has made an equity infusion of Rs. 71 crore during FY07. Also during first quarter of FY 08 IFIN received further equity infusion of Rs. 25 crore from IL&FS Ltd. IFIN availed the benefit of leveraging the existing relationship of IL&FS with various banks resulting in successful completion of its initial borrowing plan. Term loans from banks and FIs formed 83.01% (Rs.515.04 crore) of total liabilities as on March 31, 2007.

Financials

IFIN's revenue streams are diversified with a mix of fee as well as fund based activities. During FY07, fee based income contributed 46% and fund based contributed 42.9% of the total revenue of Rs.53 crore. Balance accrued from software and other income.

IFIN could leverage on substantial experience of IL&FS Ltd to get more non fund based mandates in various segments of advisory business including Corporate

Financials Results

	(Rs. Crore)	
Particulars as on / for the year ended	31.03.06	31.03.07
Interest Income (A)	2.3	21.3
Interest Expenses (B)	0.8	15.2
Net Interest Income (C) (A - B)	1.5	6.1
Fee Income (D)	0.0	24.3
Other income (E)	4.2	7.5
Total Income (G= A+D+E)	6.5	53.1
Operating Expenses	3.5	19.0
PAT	0.3	10.8
Total Assets	26.8	620.4
Loans and advances	18.6	592.8
Tangible Networth	23.3	102.2
Borrowings	0.1	515.0
Key Ratios (%)		
Int. income/ avg.Int. earning assets	7.05	6.96
Int. expense/ avg. Int. bearing liabilities	11.81	5.88
Interest Spread	(4.76)	1.08
ROCE	4.65	10.17
Cost of capital	1.99	7.16
Net Spread	2.67	3.01
NIM	3.63	1.90
PAT Margin	4.01	20.35
RONW	0.85	17.23
ROTA	0.64	3.34
Overall Debt / Networth (times)	0.15	5.07
Capital Adequacy ratio	N.A	16.54
Interest coverage (after provisions & tax)	1.32	1.71
Fee income / total income	0.00	45.77
Fund based income / total income	35.36	42.90
Oper.Expns./Av.Total Assets	8.55	5.87

Advisory, Project Finance Advisory & Project Debt Syndication. The major contributor in fee based income is Syndication fees. IFIN undertakes syndication mandates which comprises of private equity or debt mobilization for its clients. In few cases, IL&FS Ltd has been a part of the consortium. The above emphasis has resulted in generating fee income to the tune of Rs. 24.3 crore in FY07.

The top ten clients accounted for 65.9% of fee based income in FY 07, whereas Top 10 clients in fund based

segment contributed to 70.2% of the total fund based income in FY 07.

During the first year of its operations (FY07), IFIN earned a PAT of Rs. 11 crore and the ROTA stood at 3.34%. IFIN was able to generate a Net Interest Margin of 1.9% for FY07

IFIN has reported a capital adequacy ratio (entirely Tier I ratio) of 16.54% as on March 31, 2007 which is well above the required 10% stipulated by RBI for non deposit taking NBFCs. Entire Tier I capital provides substantial cushion to IFIN for raising Tier II capital in future.

Prospects

With its experienced and capable management, IFIN plans to provide innovative products and its strategy to target niche markets coupled with high demand for credit as well as need for advisory services in infrastructure sector and other sectors will enable IFIN to generate adequate income levels in near future. However, in the hardening interest rate scenario, the profitability of IFIN will also depend on its ability to get significant high yield mandates and sustain high non fund based income. IFIN has limited track record; its ability of maintain the asset quality with growing asset base needs to be observed.

For Further details please contact at :

August 2007

CREDIT ANALYSIS & RESEARCH LIMITED

4th floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: (022) 5554 3456 • Fax : (022) 5554 3457 • E-mail : care@careratings.com

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and 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. Most issuers of securities rated by CARE have paid a credit rating fee, based on the amount and type of securities issued.