



IL&FS Financial Services Ltd

RATING HISTORY

	Amount Outstanding	Maturity date	Rating Outstanding	Previous Ratings	
			August 2008	June 2008	March 2008
Rs. 5 billion Short-Term Debt		One year from the date of placement	A1+	A1+ (Rs 5 billion)	A1+ (Rs 3 billion)

ICRA has re-affirmed an A1+ (pronounced A one plus) rating to the Rs. 5 billion short-term debt programme of IL&FS Financial Services Limited (IFIN). The rating indicates highest-credit-quality rating assigned by ICRA to short-term debt instruments. Instruments rated in this category carry the lowest credit risk in the short term. The rating factors in strong parentage of IL&FS (rated LAAA by ICRA) and its substantial experience in infrastructure projects, favorable asset quality, adequate risk mitigation measures, comfortable capitalisation, and new initiatives to target niche areas through innovative product facility. The rating also takes into consideration the business re-organisation wherein IFIN's parent IL&FS evolved as a holding company with discreet business being domiciled into separate business entities. While the business re-structuring is expected to give greater operating flexibility to IFIN, IFIN's rating would be sensitive to its ability to manage higher scale of operations maintaining the superior asset quality.

Over the years, IL&FS had been growing its business as a single entity with multiple businesses domiciled therein.

In order to have a better focus and higher operating flexibility for each business vertical, IL&FS has transferred its business operations to its subsidiaries with itself becoming a holding company. IFIN would be used as a delivery platform for the IL&FS group to undertake the financing activities in addition to infrastructure related advisory services.

IFIN commenced its business operations of asset & structured finance, debt syndication, corporate & project advisory and investment banking in Oct 2006. However, on account of its relatively small capital base, IFIN used to undertake financing activities on a smaller scale while big ticket sized funding deals were booked at the parent IL&FS. Pursuant to re-organisation, IL&FS transferred most of its loan assets and liquid investments to IFIN. Consequently, its asset base grew to Rs 83.27 billion as on March 31, 2008 from Rs 6.51 billion as on March 31, 2007 while its credit portfolio increased to Rs 64.93 billion as on March 31, 2008 from Rs 5.86 billion as on March 31, 2007. IL&FS also provided an additional equity support of Rs 10.25 billion in FY07-08, which, supported by the accretion to reserves,

strengthened IFIN's network to Rs 12.61 billion as on March 31, 2008 from Rs 1.09 billion as on March 31, 2007.

Leveraging upon the group's accumulated experience in Infrastructure domain, IFIN has planned to position itself in the niche financing segments through its products like Mezzanine credit facility and pooled municipal debt obligation in participation with several nationalised banks. During FY07-08, IFIN structured Rs 1.67 billion of funds under Mezzanine credit facility and closed six transactions aggregating to USD 545 million. In addition to the fund based revenues, such products would strengthen IFIN's fee based income sources.

IFIN has exhibited improving profitability on account of higher scale of operations and balanced revenue mix. While IFIN reported a net interest income of Rs 1,730.66 million in FY07-08 as compared to Rs 53.62 million in FY06-07, its fee income strengthened to Rs 1,770.40 million in FY07-08 from Rs 258.00 million in FY06-07. With the operating expenses growing in line with the business expansion, IFIN booked a net profit of Rs 1,684.00 million in FY07-08 on a total income of Rs 9,630.76 million as compared to a net



profit of Rs 108.09 million booked on a total income of Rs 531.25 million in FY06-07. IFIN's gearing increased to 5.17 times as on March 31, 2008 from 4.74 times as on March 31, 2007, despite increased networth, on account of higher borrowings.

IFIN's asset quality remains comfortable with gross NPA % and net NPA % at 0.82% and 0.42% respectively as on March 31, 2008. To mitigate the credit risk inherent with the funding activities, IFIN has implemented same risk management systems, operations policies and collection mechanisms as followed by the parent IL&FS. While, changes in external environment, including slowdown in infrastructure growth, some weakness in debt servicing capability of underlying borrowers and in recoverability from delinquent accounts, may lead to some deterioration in IFIN's asset quality, ICRA draws some comfort from the parent IL&FS's demonstrated ability in the past of maintaining good asset quality.

IFIN's liquidity profile is comfortable with improved networth, moderate gearing and un-utilised credit lines from various sources. Further, being associated to the IL&FS group, it enjoys financial flexibility that partially alleviates short term liquidity concerns. IFIN's capital adequacy is comfortable at 17.08% as on March 31, 2008. However with Reserve Bank of India revising the capital adequacy guidelines for NBFCs, IFIN will have to raise fresh capital in order to scale up its operations.

About the company

IL&FS Financial Services Ltd. (IFIN) is a wholly – owned subsidiary of IL&FS which was initially incorporated as IL&FS Asset Management Company (AMC) in 1997. After IL&FS sold the AMC business to UTI in 2004, the company obtained a NBFC license in 2005 and was renamed to IL&FS Finvest Ltd. In line with the overall strategy of the group to create distinct verticals for each business, banking team from IL&FS and the syndication team from IL&FS Investsmart

Ltd were integrated under IL&FS Finvest Limited and subsequently the name was changed to IL&FS Financial Services Ltd. IFIN commenced its new business activities in Oct 2006, in the various business lines like asset & structured finance, debt syndication, corporate & project advisory business and investment banking and is registered as systemically important non-deposit taking NBFC with RBI. IFIN has focused to move out of the plain vanilla lending business yielding low spreads to innovative financial products by increased linkages between the financial services business and infrastructure initiatives to ensure maximum utilisation of its skills and resources.

Post business re-organisation, IL&FS transferred a part of its business to IFIN in FY07-08. Consequently, IFIN booked a net profit of Rs 1,684 million in FY07-08 on a total income of Rs 9,630.76 million as compared to a net profit of Rs 108.09 million booked on a total income of Rs 531.24 million in FY06-07.

August 2008



KEY FINANCIALS

IL&FS Financial Services Ltd	Unit	31.03.08	31.03.07	31.03.06
Equity Capital	Rs million	10,656.7	556.7	100.0
Net Worth	Rs million	12,608.2	1,087.5	168.3
Total Assets	Rs million	83,272.4	6,511.6	401.9
Total Income	Rs million	9,630.8	531.2	64.9
PBT	Rs million	2,458.4	177.6	10.9
PAT	Rs million	1,684.0	108.1	2.6
PAT / Net Worth	%	13.36%	9.94%	1.53%
Expenses (including Provisions)/Total Assets Deployed	%	1.51%	2.92%	8.68%
Total Debt / Net Worth	Times	5.17	4.74	0.90

(Financials are not comparable across years as IL&FS transferred a part of its business to IFIN in F07-08)

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