CARE RATINGS PRESS RELEASE

May 21, 2020

Name Of The Company	Instruments	Rating	Amount (Rs.Cr.)
India Infoline Finance Limited	Bank Facilities NCD Preference Shares Subordinated Debt	Withdrawn Withdrawn Withdrawn Withdrawn	--- --- --- ---
IIFL Finance Limited (merged subsidiary India Infoline Finance Limited)	Bank Facilities NCD Subordinated Debt	CARE AA; Negative CARE AA; Negative CARE AA; Negative	400 825 100
IIFL Home Finance Limited	NCD	CARE AA; Negative [Outlook revised from Stable]	400
Nandi Economic Corridor Enterprises Limited	Bank Facilities	CARE BBB+; Stable [Outlook revised from Positive]	1225.77

***Provisional Rating**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at**www.careratings.com.**

Investors/**market** ***intermediaries /regulators or others are welcome to write to*** **care@careratings.com** ***for any clarifications***

Explanatory notes regarding rating symbols of CARE

Symbol	Explanation	Symbol	Symbol	Explanation		*Symbol*	
CARE A1	Superior	CARE AAA	CARE AAA (FD)	Best Quality	High Investment Grade	CCt 1	Very high project execution capability[
CARE A2	Strong	CARE AA	CARE AA (FD)	High Quality	-do-	CCt 2	High project execution capability
CARE A3	Adequate	CARE A	CARE A (FD)	Adequate Safety	Investment Grade	CCt 3	Moderate project execution capability
CARE A4	Risk prone	CARE BBB	CARE BBB (FD)	Moderate Safety	-do-	CCt 4	Inadequate project execution capability
CARE D	Default	CARE BB	CARE BB (FD)	Inadequate safety	Speculative Grade	CCt 5	Poor project execution capability
		CARE B	CARE B (FD)	Risk Prone	-do-		
		CARE C	CARE C (FD)	High Risk	Poor Grade		
		CARE D	CARE D(FD)	Default	-do-		

Disclaimer

India Infoline Finance Limited
May 21, 2020

Ratings

Facilities/Instruments	Amount (Rs. Cr)	Rating[1]	Rating Action
Non-ConvertibleDebentures (NCD)	-	-	Withdrawn*
Long Term Bank Facilities	-	-	
Preference Shares	-	-	
Subordinated Debt	-	-	

* In line with CARE Withdrawal Policy, post the merger of India Infoline Finance Limited with IIFL Finance Limited w.e.f March 30, 2020 all the liabilities and consequently the above mentioned CARE debt instruments will now be transferred to the parent entity i.e IIFL Finance Limited. Details of instruments / facilities given in **Annexure – 1**

Detailed Rationale and Key Rating drivers:
CARE has withdrawn the rating assigned to the various debt instruments of India Infoline Finance Limite with immediate effect, as the company has merged into it's parent entity i.e IIFL Finance Limited w.e.f March 30, 2020 and subsequent to the merger all the liabilities and consequently the above mentioned CARE debt instruments will now be transferred to the parent entity i.e IIFL Finance Limited. This is in line with CARE's Withdrawal policy.

Analytical approach: Not Applicable

Applicable Criteria
Policy on Withdrawal of ratings

About the Company
India Infoline Finance Limited was incorporated in 2004 under the flagship of IIFL Finance Limited. India Infoline is a systematically important, non-deposit accepting non-banking financial company (NBFC-ND-SI), catering to the credit requirements of underserved markets through its diversified offerings which include core products: Home Loans, Gold Loans, Small Business Loans and Microfinance; and other products: Developer and Construction Finance and Capital Market Finance. The Company reported AUM of Rs.36,015 crore with core growth segments accounting for around 69% of AUM as on December 31, 2019. (Rs.34,904 crore as on March 31, 2019).
IIFL Finance has wholly owned subsidiary, IIFL Home Finance Limited (housing finance company registered with NHB), engaged in retail mortgage finance. During FY17, IIFL ventured into the microfinance segment with the acquisition of Bengaluru-based microlender Samasta Microfinance Ltd (NBFC-MFI) registered with RBI. As on December 31, 2019, AUM of Samasta Microfinance Ltd was Rs.2,973 crore (Rs.2,285 crore as on March 31, 2019).

Brief Financials – India Infoline Finance Limited (Consolidated) (Rs. crore)

Particulars*	FY18 (A)	FY19 (A)
Total Income	3,921	5,016
PAT	465	729#
Total Assets*	31,649	32,859
Net NPA (%)	0.64	0.63
ROTA (%)	1.96	2.26

*as per IND AS. A: Audited; #: Including profit from sale of CV business; *: Net of Intangibles and Deferred Tax Assets (DTA). All ratios are as per CARE's calculations

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer **Annexure-2**

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Annexure-1: Details of Instruments/Facilities

Instrument Type	ISIN No	Date Of Maturity	Amount (Rs. Cr)	Coupon (%)	Existing Rating
Non-Convertible Debenture (NCD)	-	-	-	-	Withdrawn
Non-Convertible Debenture (NCD)	-	-	-	-	Withdrawn
Non-Convertible Debenture (NCD)	-	-	-	-	Withdrawn
Non-Convertible Debenture (NCD)	-	-	-	-	Withdrawn
Non-Convertible Debenture (NCD)	-	-	-	-	Withdrawn
Non-Convertible Debenture (NCD)	-	-	-	-	Withdrawn
Proposed Non-Convertible Debenture (NCD)	-	-	-	-	
Subordinated Debt	-	-	-	-	Withdrawn
Proposed Subordinated Debt	-	-	-	-	Withdrawn
LT-Bank Facility-Term Loan	-	-	-	-	Withdrawn
LT-Bank Facility Cash Credit	-	-	-	-	Withdrawn
LT-Bank Facility Cash Credit	-	-	-	-	Withdrawn
LT-Bank Facility Cash Credit	-	-	-	-	Withdrawn
LT-Bank Facility Cash Credit	-	-	-	-	Withdrawn
LT-Bank Facility-Proposed	-	-	-	-	Withdrawn
Non-Convertible Redeemable Preference Share	-	-	-	-	Withdrawn
	-	-	-	-	Withdrawn
Total					

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)
3.	Fund-based - LT-Term Loan	LT	-	Withdrawn	-	1)CARE AA; Stable (08-Jan-20)	1)CARE AA; Stable (14-Mar-19) 2)CARE AA; Positive (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)
4.	Fund-based - LT-Cash Credit	LT	-	Withdrawn	-	1)CARE AA; Stable (08-Jan-20)	1)CARE AA; Stable (14-Mar-19) 2)CARE AA; Positive (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)
5.	Debentures-Non Convertible Debentures	LT	-	Withdrawn	-	1)CARE AA; Stable (08-Jan-20)	1)CARE AA; Stable (14-Mar-19) 2)CARE AA; Positive (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)
6.	Preference Shares-Non Convertible Redeemable Preference Share	LT	-	Withdrawn	-	1)CARE AA (RPS); Stable (08-Jan-20)	1)CARE AA (RPS); Stable (14-Mar-19) 2)CARE AA (RPS); Positive (08-Jan-19)	1)CARE AA (RPS); Positive (09-Feb-18) 2)CARE AA (RPS); Positive (11-Jul-17)
7.	Debt-Subordinate Debt	LT	-	Withdrawn	-	1)CARE AA; Stable (08-Jan-20)	1)CARE AA; Stable (14-Mar-19) 2)CARE AA;	1)CARE AA; Positive (09-Feb-18)

							Positive (08-Jan-19)	2)CARE AA; Positive (17-Nov-17)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

IIFL Finance Limited (merged subsidiary India Infoline Finance Limited)
May 21, 2020

Rating:

Facilities/Instruments	Volume (Rs. Cr)	Rating	Rating Action
Non-Convertible Debentures (NCD)	825.00 (Eight hundred and twenty five crore only)	CARE AA; Negative	Assigned
Subordinated Debt	100.00 (One Hundred crore only)	CARE AA; Negative	
Bank Facilities (Fund based -ST)	400.00 (Four Hundred crore only)	CARE AA; Negative	

***Refer to Annexure I for further details.**

Detailed Rationale and Key Rating drivers:

The rating assigned to the various debt instruments and bank facilities of IIFL Finance Limited (merged subsidiary India Infoline Finance Limited) takes into consideration the strong operational, managerial and financial linkages with the IIFL Group along with a shared brand name. CARE continues to factor in the comfort derived from the comfortable solvency position at the consolidated level, strong institutional ownership (with shareholding of Fairfax Group of 29.87%), experienced management team, stable profitability parameters, and diversified resource base. The ratings also factors in moderation in asset quality parameters of IIFL Finance Limited on account of increase in slippages especially in the construction and real estate lending, moderate seasoning of the portfolio as well as concentration risk in loan portfolio. The ratings also reflect the adequate liquidity profile of the company with majority of it's portfolio retail in nature. Going forward, asset quality particularly in the real estate book, capital adequacy and profitability are the key rating sensitivities.

Key Event:

Pursuant to Composite Scheme of Arrangement, under which IIFL Finance Limited had reorganised the Group structure and demerged IIFL Wealth Management Limited and IIFL Securities Limited in May 2019 thereby creating three distinct listed entities viz IIFL Finance Limited, IIFL Wealth Management Limited and IIFL Securities Limited; the Committee of Board of Directors of IIFL Finance Limited (Formerly known as IIFL Holdings Limited) at its meeting held on March 30, 2020, approved the effecting of the merger of India Infoline Finance Limited with the Company. IIFL Finance Limited (Holding Company) obtained an NBFC license in March 2020 post which India Infoline Finance Limited has been merged with IIFL Finance Limited. The merger was completed on March 30, 2020.

Rating Sensitivities:

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in profitability with ROTA exceeding 3% on sustained basis.
- Sustained improvement in overall asset quality parameters.

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade

- Further deterioration in asset quality with Net NPA to Networth ratio exceeding 10%
- Deterioration in profitability with ROTA falling below 1.00%.

Outlook: Negative

The revision in outlook to 'Negative' reflects the company's exposure to vulnerable asset class such as LAP, Developer financing and SME financing which are likely to impact the asset quality & collection metrics of the company due to the COVID related disruption in economic activities. While the company has continued to maintain the granularity of its loan portfolio, the trend in asset quality parameters of the company have seen some moderation. While on a consolidated level, the company seems to have adequate liquidity to manage the repayments during the next 3 months, the collection and trend in asset quality mainly to the aforementioned vulnerable segments shall be key monitorables going forward. The outlook may be revised to Stable if the company manages to maintain stable asset quality parameters (in the MSME, LAP, HL and Developer & Construction Finance segment) and profitability parameters.
CARE Ratings has taken note of the announcement of merger of India Infoline Finance ltd with its parent IIFL Finance Ltd.

Detailed description of the key rating drivers
Key Rating Strengths
Comfortable Solvency Parameters with ability to raise capital.
The company reported CRAR of 21.4% with Tier I of 17.9% as of December 31, 2019 (CRAR: 19.2% Tier I CAR: 16.0% as on March 31, 2019) compared to CRAR of 20.7% with Tier I CAR of 17.4% as on December 31, 2018. The improvement in capitalization levels were mainly attributed to improving internal accruals resulting in increase in tangible net-worth. Also, the subsidiaries remained adequately capitalized with IIFL Home Finance reporting CRAR and Tier I of 23.01% and 18.11%, respectively as on December 31, 2019, (21.02% and 15.82%, respectively, as on March 31, 2019) and Samasta Microfinance reporting CRAR and Tier I of 27.59% and 20.71%, respectively (20.51% and 13.51%, respectively, as on March 31, 2019). The company's overall gearing position improved from 6.68x at FYE2019 to 5.18x at Q3FY20 reflecting subdued environment for NBFC's to borrow as well as improvement in capital levels as mentioned above.

Strong Institutional Ownership and experienced managed team
As on March 31, majority shareholding of IIFL Finance Limited was held by Fairfax group at 29.87%, Promoters (24.94%), Foreign Investors (12.69 %), CDC Group PLC (15.46%), NRI (Repat) (4.20%) and Public & Others (12.84 %) . IIFL Finance Limited continues to have experienced professionals on its Board and key management team with strong experience in respective business segment. After the scheme of arrangement, Mr. Nirmal Jain and Mr. R Venkatraman continued to be part of the top common management. Mr. A.K. Purwar is the Independent Director of IIFL Finance Limited. He was the Chairman of State Bank of India the largest Bank in the country from November, 2002 to May, 2006. Mr. Chandran Ratnaswami is the Non-Executive Director of the company. He is a director and CEO of Fairfax India Holdings Corporation. Mr. R Venkatraman, is co-promoter and Managing Director of IIFL Finance Limited since 1999. Mr. N. Srinivasan representing CDC Group PLC on the Board of the Company.
Mr. Sumit Bali is the CEO of IIFL Finance Limited having more than 24 years of banking experience, including heading the retail asset portfolio of Kotak Mahindra Bank, Mr. Monu Ratra is the CEO IIFL Home Finance Limited and Mr. N. Venkatesh is the CEO of Samasta Microfinance Limited.

Diversified loan portfolio
IIFL Finance Limited caters to the credit requirements of a diverse customer base with a variety of products such as: Home Loans (34% of AUM at December 31, 2019), Gold Loans (21% of AUM), Small Business Loans (23% of AUM), Microfinance (8% of AUM), Developer and Construction Finance (13% of AUM) and Capital Market Finance (1% of AUM). The Company reported AUM of Rs.36,015 crore with core growth segments accounting for around 69% of AUM on December 31, 2019 (which includes Home Loans, Gold Loans, SME and MFI). Also, ~61% of HL, 48% of Business loans and 92% of microfinance loans were PSL compliant as on December 31, 2019. The Company's Retail : Wholesale proportion stood at 87 : 13 as on December 31, 2019.

Stable profitability parameters
The Company reported total income of Rs.5,016 crore during FY19 compared to Rs.3,921 crore during FY18. The improvement in profitability was attributed to increase in interest income mainly from products such as gold loans (18% of AUM as on March 31, 2019 compared to 13% of AUM as on March 31, 2017), business loans (24% of AUM as on March 31, 2019 compared to 30% of AUM as on March 31, 2017) and microfinance (7% of AUM as on March 31, 2019 compared to 1% of AUM as on March 31, 2017) segment. On the expense side, the Company's cost of borrowing increased during FY19 and 9MFY20 due to challenging environment, particularly for NBFC's to raise funds.
During 9MFY20, company reported PAT of Rs.444 crore (after adjusting for the impact of change in the rate of opening/deferred tax worth Rs.99 crore) on total income of Rs.3,498 crore against PAT of Rs.490 crore on total income of Rs.3,643 crore during 9MFY19. NIM increased to 6.82% as on March 31, 2019 compared to 5.79% as on March 31, 2018 and was 5.68% as on December 31, 2019. Return on Total Assets (ROTA) improved marginally from 1.69% as on March 31, 2018 to 2.26% as on March 31, 2019 and declined as on December 31, 2019 to 1.21%.

Diversified resource profile
Company has a diversified resource profile with declining reliance on short-term funding and increasing dependence on securitization/assignment. As majority of portfolio including 61% of home loans, 48% of business loans and 92% of microfinance loans are priority sector eligible assets, the Company has been able to securitize these assets in times of challenging funding environment. Company's share of funding through securitization/assignment increased from 14% as on March 31, 2017 to 27% as on March 31, 2019 and increased to 38% as on December 31, 2019.

Since FY19, company has raised Rs.300 crore through on-lending route with banks and Rs.244 crore from Public issue of bonds along with $100mn 5-year ECB during H1FY20. Post September 2019, upto March 2020, the company managed to raise to Rs.3,445 crore through Term loans and refinancing, Rs.975 crore through public issue of bonds and Rs.2,855 crore through ECB in the form of Medium Term Notes , along with funding of Rs.4,689 crore through securitization route. In terms of short-term borrowing, the Company's had Nil dependence as on December 31, 2019.

Key Rating Weaknesses

Moderate Asset Quality

The Company's asset quality challenges emanates mainly through its real estate book comprising of Developer Financing (9.6% of AUM at Q3FY20), LAP (14% at Q3FY20), and construction Finance (3.3% of AUM at Q3FY20). GNPA deteriorated for LAP segment from 1.72% at FY2019 to 2.15% at Q3FY20. The borrowers under the LAP segment are generally self employed or small business owners whose businesses are likely to be impacted due to the COVID related lockdown. As such, the collection and asset quality metrics are likely to suffer in this segment. The GNPA in Developer financing remains at elevated level of 5.1% at Q3FY20. While the company has restricted incremental funding under this segment, we believe the lockdown may lead to additional stress as sales velocity of the projects decline and the developers face refinancing challenges. The asset quality in MSME & others portfolio (8.1% of AUM at Q3FY20) has also worsened with GNPA's increasing from 5.78% at FY2019 to 6.52% at Q3FY20. We believe the asset quality in this portfolio is also likely to be impacted due to the lockdown. While the overall GNPA was 2.27% at Q3FY20 as against 1.96% at FY19, we believe that LAP, MSME and Developer financing may have a material impact on the asset quality going forward.

Limited seasoning of portfolio

Over the years, the Company has increased its share of high yielding products i.e. gold loans, business loans and microfinance. During March 31, 2017 to December 31, 2019, Gold loans have increased from 13% to 21% of AUM, Business loans increased from 30% to 22% of AUM whereas microfinance segment increased from 1% to 8% of AUM. Although gold loans have average tenor of less than 1 year, but business loans and home loans have longer tenor where the seasoning of the portfolio is yet to be witnessed.

Liquidity Profile: Adequate

The ALM statement of the Company as on December 31, 2019, showed no negative cumulative mismatch up-to 1-year bucket. The company had total contractual debt maturity of Rs.10,869 crore and inflows of Rs.11,568 crore from advances as on December 31 2019. The company has debt maturity of Rs.2,279 crore from April 2020 upto December 31, 2020, out of which Rs.865 crore is in the form of NCDs, and the balance is long term borrowing from banks, against which the Company had cash and cash equivalent of Rs.1,825 crore and unutilized bank lines of Rs.3,600 crore. Post September 2019, upto March 2020, the company managed to raise to Rs.3,445 crore through Term loans and refinancing, Rs.975 crore through public issue of bonds and Rs.2,855 crore through ECB in the form of Medium Term Notes, along with funding of Rs.4,689 crore through securitization route.

Analytical Approach:

CARE Ratings had earlier rated various debt instruments of India Infoline Finance Limited by considering the consolidated financials of below mentioned subsidiaries. After the merger of India Infoline finance limited with IIFL Finance Limited we continue the approach and consider the consolidated financials of IIFL Finance Limited (including merged subsidiary India Infoline Finance Limited). Further, we also factor in the synergies that IIFL Finance Limited will have with other IIFL group companies in terms of shared brand name and common promoters.

Subsidiaries considered as a part of consolidated financials:

- IIFL Home Finance Limited (100% holding)
- Samasta Microfinance Limited (98.89% holding)
- Clara Developers Private Limited (100% holding)

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings]
[CARE policy on Default Recognition]
[Rating Methodology: Factoring Linkages in Ratings]
[Rating Methodology-Non Banking Finance Companies (NBFC)]
[Rating Methodology-Housing Finance Companies]
[Financial ratios-Financial Sector]

About the Company

IIFL Finance Limited (Erstwhile "IIFL Holdings Limited") (Bloomberg Code: IIFL IN, NSE: IIFL, BSE: **532636**) is one of the leading players in the Indian financial services space. Prior to the Composite Scheme of Arrangement, IIFL Finance Limited was engaged in the business of financing, asset and wealth management, retail and institutional broking, financial products distribution and investment banking through its various subsidiaries. IIFL Finance Limited is a first generation venture which started as a research firm in 1995. IIFL Finance Limited was a pioneer in the retail equity broking industry with its launch of 5paisa trading platform which offered the lowest brokerage in the industry and freedom from traditional ways of transacting. IIFL's evolution from an entrepreneurial start-up in 1995 to a full range diversified financial services group is a story of steady growth by adapting to the dynamic business environment, without losing focus on its core domain of financial services.

Post obtaining an NBFC license and merger of India Infoline Finance Limited with the Company (NBFC-ND-SI) in March 2020, IIFL Finance Limited became a systematically important, non-deposit accepting non-banking financial company (NBFC-ND-SI) and continues to cater to the credit requirements of underserved markets through its diversified offerings which include core products: Home Loans, Gold Loans, Small Business Loans and Microfinance; and other products: Developer and Construction Finance and Capital Market Finance. The Company reported AUM of Rs.36,015 crore with core growth segments accounting for around 69% of AUM as on December 31, 2019. (Rs.34,904 crore as on March 31, 2019).

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Brief Financials – IIFL Finance Limited (Consolidated) (Rs. crore)

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Net NPA (%)	0.64	0.63
ROTA (%)	1.96	2.26

*as per IND AS. A: Audited; #: Including profit from sale of CV business; *: Net of Intangibles and Deferred Tax Assets (DTA). All ratios are as per CARE's calculations

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure II

Annexure I: Instrument Details

Instrument Type	ISIN No	Date Of Maturity	Amount (Rs. Cr)	Coupon (%)	Existing Rating
Non-Convertible Debenture (NCD)	INE866I07750	02-Nov-20	287.50	10.20%	CARE AA; Negative
Non-Convertible Debenture (NCD)	INE866I07750	02-Nov-21	287.50	10.20%	CARE AA; Negative
Non-Convertible Debenture (NCD)	INE866I07BL1	29-Apr-21	250.00	8.00%	CARE AA; Negative
Total			**825.00**		
Subordinated Debt	INE866I08246	19-Nov-27	100.00	8.70%	CARE AA; Negative
Total			**100.00**		
Bank Facilities- (Fund Based-ST)	-	-	400.00		
Total			**400.00**		

Annexure II: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	825.00	CARE AA; Negative	-	-	-	-
2.	Debt-Subordinate Debt	LT	100.00	CARE AA; Negative	-	-	-	-
3.	Bank Facilities (Fund Based-ST)	ST	400.0	CARE AA; Negative	-	-	-	-

Note on complexity levels of the rated instrument
CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks 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 entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

IIFL Home Finance Limited
May 21, 2020

Rating:

Facilities/Instruments	Volume (Rs. Cr)	Rating	Rating Action
Non-Convertible Debentures (NCD)	400 (Four Hundred Crore only)	CARE AA; Negative (CARE Double AA: Outlook: Negative)	Rating reaffirmed and outlook revised from Stable to Negative

***Details of instruments in Annexure I**

Detailed Rationale and Key Rating drivers:
IIFL Home Finance Limited is a 100% subsidiary of IIFL Finance Limited (India Infoline Finance Limited-the erstwhile parent has merged into IIFL Finance Limited w.e.f March 31, 2020). The rating assigned to debt instruments of IIFL Home Finance Limited takes into consideration the strategic importance of housing finance business (which accounted for 34% of the Total AUM as on December 31, 2019) for IIFL Finance Limited and strong operational, managerial and financial linkages with the parent along with a shared brand name.
CARE continues to factor in the comfort derived from the parent entity's comfortable solvency position, strong institutional ownership (with shareholding of Fairfax Group of 29.87%), experienced management team, stable profitability parameters, and diversified resource base. The ratings also factors in moderation in asset quality parameters of IIFL Finance Limited on account of increase in slippages especially in the construction and real estate lending, moderate seasoning of the portfolio as well as concentration risk in loan portfolio. The ratings also reflect the adequate liquidity profile of the company with majority of it's portfolio retail in nature.
Going forward, asset quality particularly in the real estate book, capital adequacy and profitability are the key rating sensitivities.

Key Update
Pursuant to Composite Scheme of Arrangement, under which IIFL Finance Limited had reorganised the Group structure and demerged IIFL Wealth Limited and IIFL Securities, thereby creating three distinct listed entities viz IIFL Finance Limited, IIFL Wealth Limited and IIFL Securities Limited in March 2019; the Committee of Board of Directors of IIFL Finance Limited (Formerly known as IIFL Holdings Limited) at its meeting held on March 30, 2020, approved the effecting of the merger of India Infoline Finance Limited with the Company. IIFL Finance Limited (Holding Company) obtained an NBFC license in March 2020 post which India Infoline Finance Limited has be merged in IIFL Finance. The merger was completed on March 31, 2020.

Rating Sensitivities:
Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:
- Improvement in profitability with ROTA exceeding 3% on sustained basis.
- Sustained improvement in overall asset quality parameters.

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade
- Further deterioration in asset quality with Net NPA to Networth ratio exceeding 10%
- Deterioration in profitability with ROTA falling below 1.00%.

Outlook: Negative
The revision in outlook to 'Negative' reflects the company's exposure to vulnerable asset class such as LAP, Developer financing and SME financing which are likely to impact the asset quality & collection metrics of the company due to the COVID related disruption in economic activities. While the company has continued to maintain the granularity of its loan portfolio, the trend in asset quality parameters of the company have seen some moderation. While on a consolidated level, the company seems to have adequate liquidity to manage the repayments during the next 3 months, the collection and trend in asset quality mainly to the aforementioned vulnerable segments shall be key monitorables going forward. The outlook may be revised to Stable if the company manages to maintain stable asset quality parameters (in the MSME, LAP, HL and Developer & Construction Finance segment) and profitability parameters.
CARE Ratings has taken note of the announcement of merger of India Infoline Finance ltd with its parent IIFL Finance Ltd.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable Solvency Parameters with ability to raise capital.

The company reported CRAR of 21.4% with Tier I of 17.9% as of December 31, 2019 (CRAR: 19.2% Tier I CAR: 16.0% as on March 31, 2019) compared to CRAR of 20.7% with Tier I CAR of 17.4% as on December 31, 2018. The improvement in capitalization levels were mainly attributed to improving internal accruals resulting in increase in tangible net-worth. Also, the subsidiaries remained adequately capitalized with IIFL Home Finance reporting CRAR and Tier I of 23.01% and 18.11%, respectively as on December 31, 2019, (21.02% and 15.82%, respectively, as on March 31, 2019) and Samasta Microfinance reporting CRAR and Tier I of 27.59% and 20.71%, respectively (20.51% and 13.51%, respectively, as on March 31, 2019). The company's overall gearing position improved from 6.68x at FYE2019 to 5.18x at Q3FY20 reflecting subdued environment for NBFC's to borrow as well as improvement in capital levels as mentioned above.

Strong Institutional Ownership and experienced managed team

As on March 31, majority shareholding of IIFL Finance Limited was held by Fairfax group at 29.87%, Promoters (24.94%), Foreign Investors (12.69 %), CDC Group PLC (15.46%), NRI (Repat) (4.20%) and Public & Others (12.84 %) . IIFL Finance Limited continues to have experienced professionals on its Board and key management team with strong experience in respective business segment. After the scheme of arrangement, Mr. Nirmal Jain and Mr. R Venkatraman continued to be part of the top common management. Mr. A.K. Purwar is the Independent Director of IIFL Finance Limited. He was the Chairman of State Bank of India the largest Bank in the country from November, 2002 to May, 2006. Mr. Chandran Ratnaswami is the Non-Executive Director of the company. He is a director and CEO of Fairfax India Holdings Corporation. Mr. R Venkatraman, is co-promoter and Managing Director of IIFL Finance Limited since 1999. Mr. N. Srinivasan representing CDC Group PLC on the Board of the Company.

Mr. Sumit Bali is the CEO of IIFL Finance Limited having more than 24 years of banking experience, including heading the retail asset portfolio of Kotak Mahindra Bank, Mr. Monu Ratra is the CEO IIFL Home Finance Limited and Mr. N. Venkatesh is the CEO of Samasta Microfinance Limited.

Diversified loan portfolio

IIFL Finance Limited caters to the credit requirements of a diverse customer base with a variety of products such as: Home Loans (34% of AUM at December 31, 2019), Gold Loans (21% of AUM), Small Business Loans (23% of AUM), Microfinance (8% of AUM), Developer and Construction Finance (13% of AUM) and Capital Market Finance (1% of AUM). The Company reported AUM of Rs.36,015 crore with core growth segments accounting for around 69% of AUM on December 31, 2019 (which includes Home Loans, Gold Loans, SME and MFI). Also, ~61% of HL, 48% of Business loans and 92% of microfinance loans were PSL compliant as on December 31, 2019. The Company's Retail : Wholesale proportion stood at 87 : 13 as on December 31, 2019.

Stable profitability parameters

The Company reported total income of Rs.5,016 crore during FY19 compared to Rs.3,921 crore during FY18. The improvement in profitability was attributed to increase in interest income mainly from products such as gold loans (18% of AUM as on March 31, 2019 compared to 13% of AUM as on March 31, 2017), business loans (24% of AUM as on March 31, 2019 compared to 30% of AUM as on March 31, 2017) and microfinance (7% of AUM as on March 31, 2019 compared to 1% of AUM as on March 31, 2017) segment. On the expense side, the Company's cost of borrowing increased during FY19 and 9MFY20 due to challenging environment, particularly for NBFC's to raise funds.

During 9MFY20, company reported PAT of Rs.444 crore (after adjusting for the impact of change in the rate of opening/deferred tax worth Rs.99 crore) on total income of Rs.3,498 crore against PAT of Rs.490 crore on total income of Rs.3,643 crore during 9MFY19. NIM increased to 6.82% as on March 31, 2019 compared to 5.79% as on March 31, 2018 and was 5.68% as on December 31, 2019. Return on Total Assets (ROTA) improved marginally from 1.69% as on March 31, 2018 to 2.26% as on March 31, 2019 and declined as on December 31, 2019 to 1.21%.

Diversified resource profile

Company has a diversified resource profile with declining reliance on short-term funding and increasing dependence on securitization/assignment. As majority of portfolio including 61% of home loans, 48% of business loans and 92% of microfinance loans are priority sector eligible assets, the Company has been able to securitize these assets in times of challenging funding environment. Company's share of funding through securitization/assignment increased from 14% as on March 31, 2017 to 27% as on March 31, 2019 and increased to 38% as on December 31, 2019.

Since FY19, company has raised Rs.300 crore through on-lending route with banks and Rs.244 crore from Public issue of bonds along with $100mn 5-year ECB during H1FY20. Post September 2019, upto March 2020, the company managed to raise to Rs.3,445 crore through Term loans and refinancing, Rs.975 crore through public issue of bonds and Rs.2,855 crore through ECB in the form of Medium Term Notes , along with funding of Rs.4,689 crore through securitization route. In terms of short-term borrowing, the Company's had Nil dependence as on December 31, 2019.

Key Rating Weaknesses
Moderate Asset Quality
The Company's asset quality challenges emanates mainly through its real estate book comprising of Developer Financing (9.6% of AUM at Q3FY20), LAP (14% at Q3FY20), and construction Finance (3.3% of AUM at Q3FY20). GNPA deteriorated for LAP segment from 1.72% at FY2019 to 2.15% at Q3FY20. The borrowers under the LAP segment are generally self employed or small business owners whose businesses are likely to be impacted due to the COVID related lockdown. As such, the collection and asset quality metrics are likely to suffer in this segment. The GNPA in Developer financing remains at elevated level of 5.1% at Q3FY20. While the company has restricted incremental funding under this segment, we believe the lockdown may lead to additional stress as sales velocity of the projects decline and the developers face refinancing challenges. The asset quality in MSME & others portfolio (8.1% of AUM at Q3FY20) has also worsened with GNPA's increasing from 5.78% at FY2019 to 6.52% at Q3FY20. We believe the asset quality in this portfolio is also likely to be impacted due to the lockdown. While the overall GNPA was 2.27% at Q3FY20 as against 1.96% at FY19, we believe that LAP, MSME and Developer financing may have a material impact on the asset quality going forward.

Limited seasoning of portfolio
Over the years, the Company has increased its share of high yielding products i.e. gold loans, business loans and microfinance. During March 31, 2017 to December 31, 2019, Gold loans have increased from 13% to 21% of AUM, Business loans increased from 30% to 22% of AUM whereas microfinance segment increased from 1% to 8% of AUM. Although gold loans have average tenor of less than 1 year, but business loans and home loans have longer tenor where the seasoning of the portfolio is yet to be witnessed.

Liquidity Profile: Adequate
The ALM statement of the Company as on December 31, 2019, showed no negative cumulative mismatch up-to 1-year bucket. The company had total contractual debt maturity of Rs.10,869 crore and inflows of Rs.11,568 crore from advances as on December 31 2019. The company has debt maturity of Rs.2,279 crore from April 2020 upto December 31, 2020, out of which Rs.865 crore is in the form of NCDs, and the balance is long term borrowing from banks, against which the Company had cash and cash equivalent of Rs.1,825 crore and unutilized bank lines of Rs.3,600 crore. Post September 2019, upto March 2020, the company managed to raise to Rs.3,445 crore through Term loans and refinancing, Rs.975 crore through public issue of bonds and Rs.2,855 crore through ECB in the form of Medium Term Notes, along with funding of Rs.4,689 crore through securitization route.

Analytical Approach:
CARE Ratings had earlier rated various debt instruments of India Infoline Finance Limited by considering the consolidated financials of below mentioned subsidiaries. After the merger of India Infoline finance limited with IIFL Finance Limited we continue the approach and consider the consolidated financials of IIFL Finance Limited (including merged subsidiary India Infoline Finance Limited). Further, we also factor in the synergies that IIFL Finance Limited will have with other IIFL group companies in terms of shared brand name and common promoters.
Subsidiaries considered as a part of consolidated financials:

- IIFL Home Finance Limited (100% holding)
- Samasta Microfinance Limited (98.89% holding)
- Clara Developers Private Limited (100% holding)

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Non Banking Finance Companies (NBFC)
Rating Methodology-Housing Finance Companies
Financial ratios-Financial Sector

About the Company

IIFL Finance Limited (Erstwhile "IIFL Holdings Limited") (Bloomberg Code: IIFL IN, NSE: IIFL, BSE: **532636**) is one of the leading players in the Indian financial services space. Prior to the Composite Scheme of Arrangement, IIFL Finance Limited was engaged in the business of financing, asset and wealth management, retail and institutional broking, financial products distribution and investment banking through its various subsidiaries. IIFL Finance Limited is a first generation venture which started as a research firm in 1995. IIFL Finance Limited was a pioneer in the retail equity broking industry with its launch of 5paisa trading platform which offered the lowest brokerage in the industry and freedom from traditional ways of transacting. IIFL's evolution from an entrepreneurial start-up in 1995 to a full range diversified financial services group is a story of steady growth by adapting to the dynamic business environment, without losing focus on its core domain of financial services.

Post obtaining an NBFC license and merger of India Infoline Finance Limited with the Company (NBFC-ND-SI) in March 2020, IIFL Finance Limited became a systematically important, non-deposit accepting non-banking financial company (NBFC-ND-SI) and continues to cater to the credit requirements of underserved markets through its diversified offerings which include core products: Home Loans, Gold Loans, Small Business Loans and Microfinance; and other products: Developer and Construction Finance and Capital Market Finance. The Company reported AUM of Rs.36,015 crore with core growth segments accounting for around 69% of AUM as on December 31, 2019. (Rs.34,904 crore as on March 31, 2019).

IIFL Finance has wholly owned subsidiary, IIFL Home Finance Limited (housing finance company registered with NHB), engaged in retail mortgage finance. During FY17, IIFL ventured into the microfinance segment with the acquisition of Bengaluru-based microlender Samasta Microfinance Ltd (NBFC-MFI) registered with RBI. As on December 31, 2019, AUM of Samasta Microfinance Ltd was Rs.2,973 crore (Rs.2,285 crore as on March 31, 2019).

IIFL Home Finance Limited

IIFL Home Finance Limited is a 100% subsidiary of India Infoline Finance Limited registered with NHB. It majorly provides home loans to customers for purchasing affordable homes. The Company also offers loans for home renovation and home construction, LAP (provided to SMEs) for working capital requirement, business use and to acquire commercial property and construction financing. IIFL Home Finance is mainly in the affordable home loan segment present in Tier 2 and Tier 3 cities catering the informal income segment for owning first home. The Company's focus is primarily on small-ticket loans in affordable home segment to both salaried and self-employed sections.

Brief Financials – IIFL Finance Limited (Consolidated) (Rs. crore)

Particulars*	FY18 (A)	FY19 (A)
Total Income	3,921	5,016
PAT	465	729#
Total Assets*	31,649	32,859
Net NPA (%)	0.64	0.63
ROTA (%)	1.96	2.26

*as per IND AS. A: Audited; #: Including profit from sale of CV business; *: Net of Intangibles and Deferred Tax Assets (DTA). All ratios are as per CARE's calculations

Brief Financials (IIFL Home Finance Limited) as per IND AS: (Rs. crore)

Particulars	FY18 (A)	FY19 (A)
Total income	1,351	1,846
PAT	232	306
Total Assets*	12,905	14,564
Asset Under Management (AUM)	8,600	12,200
Net NPA (%)	0.25	0.66
ROTA# (%)	2.11	2.23

A: Audited; *: Total assets are Net of Intangibles, Deferred Tax Assets & Goodwill on consolidation; #: Calculated on Total Average Assets.

Annexure I: Instrument Details

Instrument Type	ISIN No	Date of Issuance	Date Of Maturity	Amount (Rs. Cr)	Coupon (%)	Existing Rating
Non-Convertible Debenture (NCD)	INE477L07701	3-Nov-16	02-Nov-21	5.0	8.9%%	CARE AA; Negative
Non-Convertible Debenture (NCD)	INE477L08030	24-Jul-15	26-Jul-21	17.0	10.20%	CARE AA; Negative
Proposed- Non-Convertible Debenture (NCD)	-	-	-	378.0	-	-
Total				**400.0**	**-**	**CARE AA; Negative**

Annexure II: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)
2.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA; Negative	-	1)CARE AA; Stable (08-Jan-20)	1)CARE AA; Stable (15-Mar-19) 2)CARE AA; Positive (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

Nandi Economic Corridor Enterprises Limited
May 21, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[2]**	**Rating Action**
Long Term Facilities	1225.77	**CARE BBB+; Stable (CARE Triple B plus; Outlook:Stable)**	**Reaffirmed and outlook revised from Positive**
Total	**1225.77 (Rupees One Thousand Two Hundred twenty five crores and seventy seven Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The reaffirmation of rating assigned to the bank facilities of Nandi economic Corridor Enterprise Ltd (NECE) continues to derive strength from its experienced and resourceful promoters (the Kalyani Group of Pune) and strategic location of the project at Bangalore-Hosur-Mysore Corridor with favorable traffic mix. The toll road serves traffic along an important route, Bangalore-Mysore-Bangalore and Mumbai-Chennai-Mumbai, and facilitates movement of heavy vehicular traffic along this corridor, by allowing heavy vehicles to bypass the city of Bangalore. The rating also continues to derive comfort from the creation of debt service reserve account (DSRA) to the tune of Rs.40 crore in the form of non-fund based bank guarantee extended to the bankers and comfortable liquidity.
The rating strengths are constrained by inherent risks associated with the toll based nature of the project, impact of Covid-19 pandemic leading to disruptions in toll road operations and reduced traffic, moderate debt coverage metrics, awaited handover of land parcels for the balance expressway construction of 8.50 km, which is pending with the Government of Karnataka (GoK) and the regulatory risk associated with state highway projects.
Rating Sensitivities

Positive factors:
- Significant growth in toll collections of more than 20% from FY20 levels on a sustained basis
- Any steep reduction in debt resulting in improved coverage indicators

Negative Factor:
- Significantly lower toll collection as compared to current estimates due to lower than envisaged traffic or unforeseen suspension of toll operations.
- Significantly higher than anticipated major maintenance and concretization expense.
- Any potential liabilities arising out of various pending legal matters pertaining to the toll business and real estate business
- Non-maintenance or non-concretization of the road when it is due (after Government fulfilling its obligations) attracting penalty.

Outlook: Stable. The revision in outlook to the bank facilities of NECE factors in decline in the toll collection during FY20 (refers to the period April 1 to March 31) as compared to the envisaged levels due to no toll hike as anticipated during FY20 and enforcement of Nationwide Lockdown during March 2020 (w.e.f. 24th March 2020) further expected de-growth in the toll collection during FY21 on account of Covid-19 pandemic. The Covid-19 outbreak resulted in suspension of toll activities between March 24, 2020 to April 20, 2020 and reduced traffic on the toll road post resumption on account of lockdown & economic slowdown.

Detailed description of the key rating drivers
Key Rating Strength
Strong Parentage
NECE is a Kalyani Group company which is one of the leading business houses in India with high technology, engineering and manufacturing capability. Mr. Ashok Kumar Kheny is the Managing Director (MD) of NECE and has to his credit an experience of over three decades across infrastructure development, transportation projects and telecommunication sector in the USA. Mr. Kheny is also the founder of SAB Engineering and Construction Inc.

[2] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

NECE has a well-defined organization structure supported by qualified and experienced second tier management empowered with decision making powers. This brings in high degree of professional management and operational expertise. Nandi Infrastructure Corridor Enterprise Limited (NICE), the immediate holding company of NECE is held by BF Utilities Limited (BFUL, 75% of the holding) an important Kalyani Group company. BFUL was incorporated on September 15, 2000 through a demerger with BFL. The Investments (listed as well as unlisted; which were transferred to another company BF Investment Ltd in 2009) and Wind Mills Division & infrastructure of BFL were demerged and transferred to BFUL.

Strategic location of the project stretch and favorable traffic volumes

Bangalore and Mysore are the two largest urban areas in state of Karnataka. These two cities are approximately 140 kms apart and are connected by two State highways viz., SH-17 and SH-86. Hitherto, the radial layout of the Bangalore city compelled the Bangalore-Mysore traffic to move through the interiors of Bangalore city. Scope of the project included construction of three toll roads: 41 km of Peripheral Road around the city of Bangalore connecting NH-4 (Mumbai- Bangalore-Chennai) to NH-7 (Hyderabad-Bangalore-Chennai) with 7 interchanges (IC 7/7 at NH4 to IC 1/7 at NH7) on the road, 9.1 km of the Link Road from existing ring road to the interchange IC 4/7 at Peripheral Road and 13 km of the Bangalore-Mysore expressway from the interchange IC 4/7.

The Expressway, Link Road and the Peripheral Road are expected to bypass Bangalore city and save both travel time by around two hours, besides preventing M&HCVs from congesting roads of Bangalore. Given the substantial commercial traffic between the two cities, constructing and developing this particular stretch becomes an imperative for industrial development within the State.

The concession agreement provides for annual toll rate escalation by 10% unlike other road projects wherein the revision is linked to economic factors like inflation/WPI. Furthermore, the toll road connects the road coming from Mumbai to the one going to Chennai, thereby enabling to bypass the heavy city traffic. As a result, it attracts huge traffic of heavy vehicles. On an average, around over 27 lakh vehicles of all the types use the toll road each month.

Operational status of the toll road project

Major Part of the toll road construction for the project has been completed. As per Lenders' Independent Engineer (LIE) report dated June 2018. NECE has completed 41km of Peripheral road, 8.51 km of Link road and 5 km of Expressway. The company started tolling of completed stretches from Dec 2008 (as per toll notification dated 18th Dec 2008).

The total toll revenues grew by 12% y-o-y with Rs.354.80 crore in FY19 from Rs.317.10 crore in FY18 on account of vehicular volume growth of 8.94% in FY19 on Y-O-Y basis along with an average toll hike of about 16% during July 2017, the full effect of which was received in FY19. However, the company reported a toll collection revenue of Rs.348.35 crs in FY20 which was marginally lower than the FY19 levels due to excessive rainfall resulting in damage to the roads and lower traffic, no toll hike as anticipated, and further enforcement of lockdown during March 2020, led to non-achievement of estimated toll collections for the year.

The sustainability of vehicle volume growth in the wake of regulatory risk on tolling of cars and ability to hike toll rate in the future years, remains a key rating sensitivity.

During FY19, revenues from the Peripheral road segment and link road segment registered an year-on-year growth of 12.74% and 11.10% respectively with Rs.318.66 crore from peripheral road segment (accounting for 89.90% of total toll revenues) and Rs.35.78 crore from the link road segment (accounting for 10.10% of total toll revenues). The total debt as on March 31, 2019 stood at Rs.1578.62 crore with a negative networth of Rs.143.39 crore [Rs. (170.24 crore) as on March 31, 2018]

The company is expected to do concretization of road to reduce major maintenance cost. It has already concretized 14.3 km of the road. The total estimated cost of remaining construction for concretization of the expressway is expected to be of Rs.494 crore and it was expected to be done in 5 years start from FY20-to-FY24. However, the company could not do any concretization in FY20 due to un-envisaged major maintenance expense incurred during the year on account of damage to the roads caused by excessive rainfall. Going forward, concretization will be staggered given expected lower revenues during FY21, subject to necessary approvals from lenders.

Creation of DSRA

As per the sanction terms, NECE has to create a DSRA of Rs.40 crore either in fund based or non-fund based form. NECE has created DSRA in the form of non-fund based bank guarantee of Rs.40 crore (through IDFC). Creation of DSRA provides comfort in case of shortfall in toll collections or in case of any exigencies for meeting debt obligation.

Liquidity: Adequate

Liquidity is marked by healthy accruals (GCA) from toll segment and liquid investments to service the repayment obligations. The company's cash and bank balance including liquid investments was comfortable at Rs.193.00 crs as on March 31, 2020.

CARE Ratings also takes note of the fact that NECE has applied for the moratorium for its loan obligations which is approved by the lenders as per the lender's feedback, on the basis of measures announced by The Reserve Bank of India on March 27, 2020. Hence the moratorium period for loans is in effect and a non-payment of principal/interest on loans is not a credit event.

Key Rating Weaknesses

Status of acquisition of land for the toll project

The scope of the project includes acquisition and development of 6,173 acres of land of which 1,575 acres of land is towards the construction of three roads while the balance 4,598 acres of land is for the development of the real estate and construction of proposed township. The total land constitutes government land of 2,090 acres and the private land of 4,083 acres.

Of the land requirement of 1,575 acres for the construction of roads, NECE has already acquired majority of the land i.e. 1,546 acres of the land while the balance land acquisition of 29 acres is pending (14 acres of government land and 15 acres of private land). The same pertains to the land required for the toll road construction of the remaining 2.5 kms of the express way.

The real estate activities include development of the seven interchanges on the peripheral road, development of one interchange at link road and development of the township near express way.

Of the total land requirement of 4,598 acres for the real estate activities, NECE has acquired the entire land (However 1,864 acres on land in area notified u/s 28(4) pending for charge in 7/12). NECE has extended advances towards land acquisition to the tune of Rs.279.42 crore as on March 31, 2019, of which NECE has extended advances to the tune of Rs.122 crore to Karnataka Industrial Areas Development Board (KIADB). The balance amount of advances has been extended to various private parties for the land acquisition adjacent to peripheral road and express ways. Due to expected increase in compensation to land losers, NECE is expected to pay additional of about Rs.570 crore for acquisition of KIADB land over the tenure of 9 years to acquire land of 1,961 acres land in area notified u/s 28(4) pending for change in 7/12 (this includes 1,864 acres land for real estate and 97 acres land for toll road). The company is expected to incur additional land acquisition expenditure majorly from real estate income. Timely acquisition of land in the express way is important for the completion of the road construction of express way and is crucial from credit perspective.

Issue raised by Public Works Department (PWD), the Government of Karnataka on Implementation of Framework Agreement

The Public Works Department (PWD), Government of Karnataka (GoK), had earlier issued Notice to NECE on concretization issues and toll related issues in the Project. The Hon. Supreme Court of India has recently rejected / dismissed some contentions taken by the State Government in its earlier notice to NECE. The Notice issued by the GoK is "stayed" by the Hon. High Court of Karnataka and as such the matter is "sub-judice". The petition filed in 2013 against the company regarding the legality and validity of framework agreement has been dismissed by the Hon. Supreme Court in September 2018.

Real estate business and legal issues

In view of the delays in granting of approvals for development of land by the Government of Karnataka (GoK) and awaiting the judgments of the Honorable High Court of Karnataka and Hon. Supreme Court of India, the sale from real estate business development has been Nil in FY18 and FY19. The company awaits approvals in the real estate business vertical.

Inherent traffic risk

For any toll project, there is an inherent risk associated with the sustainability and growth of traffic. Revenue in a toll based road project is simultaneously dependent on rate of traffic growth, traffic-mix and growth in toll rates, all of which are estimates based on surveys carried out at the time of bidding for a specified period and thereafter adjusted for seasonal factors thereby exposing the company to the uncertainties with respect to revenue. Further, the toll concession agreement has a provision of in-built fixed 10% increase in toll rates on an annual basis. This is expected to continue to provide impetus to the toll revenues thereby also insulating the project from any minor decline in traffic growth. However, ability of the company to implement the toll rate hike as anticipated remains a key rating sensitivity.

Operation & maintenance and interest rate risk

The company remains exposed to the risk related to variations in interest rate on the project debt on account of external factors. Additionally, the Debt coverage metrics remained moderate at a DSCR of 1.20x over the medium term. However, company has already created DSRA of Rs.40 crore in the form of non-fund based bank guarantee which would be utilized only in case of a shortfall in cash flows for meeting debt service requirements from time to time and also there exists a waterfall mechanism with restrictive covenants for appropriation of cash from toll revenue.

NECE is also exposed to the Operations and Maintenance (O&M) risk associated with Built-Operate-Transfer (BOT) project. The sponsor undertaking to fund the incremental O&M expense over and above the allocated funds by lenders mitigates the risk to a certain extent. Further, comfort can be drawn from the sponsor support agreement, which aids any cost over-run.

Regulatory risk

CARE has observed that ratings assigned to the debt of state highways projects are exposed to regulatory risk in case toll exemption of Cars is announced by the State Governments. Although the Government is required to compensate the concessionaire for the loss of revenue due to toll exemption, delay in finalization of modalities for release of compensation and release of funds from State Government exposes projects to cash flow risk.

NECE had significant revenue from Cars segment in the past fiscals and as such this remains a key rating monitorable.

Impact of COVID-19 outbreak on the toll operations of the company

Due to situation of lockdown after the outbreak of COVID-19 the toll collections of the company were stopped in the month of March 2020. The total toll revenue for FY20 remained Rs.348.35 crore against Rs.359.38 crore in FY19. The toll collections were impacted for 9 days in March 2020 and 19 days in April 2020 when no toll collection was done. However, from April 20, 2020 onwards the toll road has resumed collections but the ADTC (Average Daily Toll Collection) was about Rs.25 lakh as against Rs.95 lakh in FY20. Further, the ADTC has improved to about Rs.50-55 lakh in the month of May 2020 and is largely from commercial vehicles.

Industry Outlook

Amid outbreak of Covid-19, traffic on the roads has seen considerable slowdown since mid of March 20. Subsequently, toll collections have also been suspended by Ministry of Road Transport and Highways (MoRTH) from March 25, 2020 during lockdown period. Sustained intensity of Covid-19 pandemic in India with possibilities of prolonged lockdown is expected to impact the traffic volume of majority of its operational toll roads. Further, migration of labor, travel restrictions and demand destruction for non-essential goods are impending barriers for traffic growth in the medium term.

The toll collections will witness a decline of 2.5% in FY20 on y-o-y basis and continue to be dismal in FY21. The decline in toll collection is expected to be around 10-12% in FY21 even on declined toll base of FY20 due to restricted vehicle movement, global economic slowdown and subdued pick up in in construction and mining activity post monsoon (around September 2020) considering prolonged lockdown duration and intensity of Covid-19. Covid-19 outbreak being epidemic in nature may be treated as a non-political FM event under relevant concession agreement clauses. Resultantly as fallout of this, SPVs might be eligible only for extension of concession period to compensate for the loss of revenue owing to sustained decline in traffic despite resumption of toll collection at later stages.

Analytical Approach – Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Rating

CARE's Policy on Default Recognition

Factoring Linkages in Rating

Financial Ratios-Non Financial Sectors

Rating Methodology-Toll Road Projects

About the Company

Nandi Economic Corridor Enterprises Limited (NECE) is a special purpose vehicle (SPV) promoted by Nandi Infrastructure Corridor Enterprise Limited (NICE; 54.22% of the stake as on March 31, 2018) for the development of Stage-I of the Bangalore Mysore Infrastructure Corridor (BMIC). NICE is held by BF Utilities ltd (BFUL, 75% of the holding), an important Kalyani Group Company, which in turn is the subsidiary of Bharat Forge Limited (BFL, Flagship Company of Kalyani group rated 'CARE A1+' unaccepted as on date and, rated ICRA AA+ (stable); A1+, reaffirmed on July 27, 2018). The scope of the work includes construction of the three toll roads: Peripheral road: 41km of peripheral road around the city of Bangalore linking NH-4 to NH-7, Link road: 9.1 km of the link road from existing ring road to the proposed interchange at peripheral road and Expressway: 13 km of the Bangalore-Mysore expressway along with the development and sale of land in real estate segment. NECE has completed 41km of Peripheral road during 2008 and commenced toll operations in December 2008, 8.51 km of Link road and commenced toll operations in October 2009 and 4.5 km of Expressway (total to be constructed 13 km) is constructed and remaining is pending due to delays in the acquisition of the land. The company started tolling of completed road portions and currently collects toll on the Peripheral road and link road section.

The land required for both the toll road operation and the real estate aggregates to 6,173 acres (1,575 acres for toll road and 4,598 acres for real estate) of which land to the tune of 1,546 acres and 4,598 acres has been acquired for toll road operations and real estate segment respectively as on March 31, 2018.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	319.10	359.38
PBILDT	245.77	279.59
PAT	3.61	39.38
Overall gearing (times)	NM	NM
Interest coverage (times)	1.22	1.46

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	942.96	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	282.81	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	942.96	CARE BBB+; Stable	-	1)CARE BBB+; Positive (07-Oct-19)	1)CARE BBB+; Stable (26-Sep-18)	1)CARE BBB; Stable (20-Sep-17)
2.	Fund-based - LT-Term Loan	LT	282.81	CARE BBB+; Stable	-	1)CARE BBB+; Positive (07-Oct-19)	1)CARE BBB+; Stable (26-Sep-18)	1)CARE BBB; Stable (20-Sep-17)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification**.**

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