DSP MUTUAL FUND

SEPT 7, 2018

Rating update for IL&FS Energy Development Company Limited (IEDCL)

IL&FS Ltd. is one of the leading infrastructure players in the country. It has strong institutions like LIC, Orix, ADIA, SBI and HDFC as shareholders. The group has built marquee infrastructure projects of strategic importance and has a long track record of building good quality assets.

The group is currently facing a temporary mismatch in its cashflows as a result of delay in asset monetization and receipt of claims from Government agencies. In our opinion, the issue is a temporary liquidity issue, and not a solvency issue as all underlying assets are fundamentally viable with many of them already generating cashflows.

To tide over the liquidity mismatch and bolster the capital structure of the group, the board has already approved a rights issue and has approached shareholders for access to additional liquidity. This will ease the current pressure within the group, and give them time to monetize its assets.

IL&FS Energy Development Company is a subsidiary of IL&FS Ltd., and is flagship company of the group in the energy vertical. The company owns operational assets of 2,800 MW through its various SPVs across wind, thermal and gas based assets. The company has a portfolio of stable and operational assets which it owns through SPVs.

We expect that IEDCL will stand to benefit from the aforementioned measures at the group.

CARE has downgraded the rating of IL&FS Energy Development Company Limited (IEDCL) from A+ to BB- on September 6, 2018.

The rating downgrade reflects the weakening in the liquidity profile of IEDCL based on the moderation in the credit profile of the promoters, IL&FS Ltd., which had been providing need based support in the past.

Why downgrade?

IEDCL, a subsidiary of IL&FS Ltd, generates cash flows through dividends or asset sales which are event based in nature. It has a relatively higher reliance on refinancing and need based support from promoters. IEDCL annually earns around Rs. 100 – 150 Crore through the fee business like consultancy income.

IEDCL's ability to refinance has been impacted due to deterioration of credit profile at IL&FS Ltd. As a result, IEDCL has delayed on a term loan.

Our assessment of the situation:

The current liquidity situation is temporary, based on the following updates received from the company:

- The board of IL&FS Ltd. has approved a Rs. 4,500 Crore rights issue to shore up capital in the board meeting dated August 29, 2018 and the rights issue would be completed by October 30, 2018. The company has also approached shareholders for liquidity support to the extent of Rs. 5,000 Crore.
- IEDCL has already started initiatives to divest its stake in operational SPVs like ONGC Tripura Power Company Limited and wind energy assets, which is expected to generate Rs. 1,400 Crore of liquidity by March, 2019 compared to repayments of Rs. 800 Crore till June, 2019. Hence, even without IL&FS Ltd. support, IEDCL can meet debt repayment obligations till June, 2019 (when our NCD matures) through the divestment proceeds.
- The major shareholders of IL&FS Ltd are strong institutions like LIC (25%), Orix Corporation of Japan (23.5%), Abu Dhabi Investment Authority (12.6%), State Bank of India (6.42%) and HDFC (9.02%). These marquee investors provide added comfort that the entity will receive the adequate support.

- IEDCL has divested part of its investments (like ONGC Tripura) in the past. It has already started efforts to divest the remaining stakes in ONGC Tripura and wind assets. Given the quality and track record of its assets, we believe that they shall be able to monetize these assets over the medium term.

Our exposure to the issuer:

Issuer	Exposure (Rs. Crore)	Maturity date
IL&FS Energy Development Company Limited	253*	June, 2019

* Holding of Rs. 253 Crore is across DSP Credit Risk Fund Rs. 224 Crore and DSP FMP Series 196 - 37 M Rs. 29 Crore

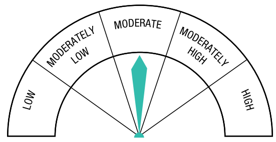
Impact on valuation:

This value of securities issued by IEDCL has been marked down by 25% today to reflect the rating action in the books of accounts, which is in accordance with the principles of fair valuation as per applicable regulations. DSP Credit Risk Fund holds 3.26% of its portflio in these securities, and the mark down will result in an impact of 0.8% to the NAV of today.

<u>This is a valuation adjustment, not permanent impact!</u>

All figures above are as at end of Aug-2018 unless specified otherwise

Product Labelling:

DSP Credit Risk Fund (An open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds). This Scheme is suitable for investor who are seeking* • Income over a medium-term to long term investment horizon • Investment predominantly in corporate bonds which are AA and below rated instruments	RISKOMETER  Investors understand that their principal will be at moderate risk
DSP FMP – Series 196 - 37M This close ended income scheme is suitable for investor who are seeking* • Income over an investment horizon of approximately 37 months term • Investments in money market and debt securities with maturities on or before the maturity of the Scheme	

*Investors should consult their financial/tax advisors if in doubt about whether the product is suitable for them.

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The portfolio of the scheme is subject to changes within the provisions of the Scheme Information Document (SID) of the schemes. For scheme specific risk factors, asset allocation and more details, please read the SID, Statement of Additional Information and Key Information Memorandum of the schemes available on ISC of AMC and also available on www.dspim.com.

Mutual Fund investments are subject to market risks, read all scheme related document carefully.