

September 4, 2018

To

The General Manager  
BSE Limited  
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Mumbai- 400 001  
Tel: 022-22721234, Fax-2272 3121

The Manager  
Listing Department  
National Stock Exchange of India Limited  
Exchange Plaza, 5<sup>th</sup> Floor,  
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**Registered Office**  
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CIN L45201AP1988PLC008624

**Scrip Code: 532907**
**Scrip Code: IL&FSENGG**
**Sub: Revision in Credit Rating**
**Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Dear Sir/Madam :


This is to inform that CARE Ratings has revised the credit rating of the Company for Long / Short Term Bank Facilities aggregating to Rs 3,091.33 Crore as per the following details :

Facility	Amount (Rs Crore)	Ratings	Remarks
Long-term facilities	902.81	CARE BB; Negative (Double B; Outlook : Negative)	Revised from CARE BBB-; Stable (Triple B Plus Minus; Outlook : Stable)
Short-term facilities	2,188.52	CARE A4 (A Four)	Revised from CARE A3 (A Three)
Total Bank Facilities	3,091.33		

Please find enclosed the rating rationale issued by CARE Ratings

Submitted for your information please

Thanking You  
For IL&FS Engineering and Construction Company Limited

  
Sushil Dudeja  
Company Secretary

Encl: As above



CARE/HO/RL/2018-19/2698

Mr. Sambhu Mukherjee,  
Chief Financial Officer,  
IL&FS Engineering & Construction Company Limited  
D.No. 8-2-120/113/3,4<sup>th</sup> Floor,  
Sanali Info Park, Road No. 2,  
Banjara Hills, Hyderabad- 500 003

August 29, 2018

**Confidential**

Dear Sir

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of IL&FS Engineering and Construction Company Limited for FY18 (audited) and Q1FY19 (unaudited), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Facilities	902.81	CARE BB; Negative (Double B; Outlook: Negative)	Revised from 'CARE BBB-; Stable (Triple B Plus Minus; Outlook: Stable)
Short-term Facilities	2,188.52	CARE A4 (A Four)	Revised from CARE A3 (A Three)
<b>Total facilities</b>	<b>Bank</b>	<b>Rs.3,091.33 crore (Rupees Three Thousand Ninety One Crore and Thirty Three Lakh only)</b>	

- Refer **Annexure 1** for details of rated facilities.
- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by August 31, 2018, we will proceed on the basis that you have no any comments to offer.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,  
Yours faithfully,

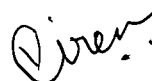


**Suhani Gupta**

Analyst

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Encl.: As above



**Viren Shah**

Associate Director

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**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. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is 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.

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**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Limited)

**Annexure 1**  
**Details of Rated Facilities**

**1. Long-term bank facilities**

**1. A. Rupee Term Loans**

(Rs. crore)

Sr. No.	Name of the Bank	Rated Amount	Remarks (Outstanding/ Sanctioned / Proposed)	Debt Repayment Terms
1.	Allahabad Bank	15.94	Outstanding as on December 31, 2017	Repayment as mentioned below
2.	Bank of India	1.95		
3.	Bank of Maharashtra	9.42		
4.	ICICI Bank Limited	66.15		
5.	IDBI Bank Limited	8.65		
6.	Indian Overseas Bank	5.45		
7.	Punjab National Bank	4.03		
8.	State Bank of Hyderabad	8.05		
9.	State Bank of India	27.45		
10.	Vijaya Bank	5.72		
11.	ICICI Bank Limited-Term loan 2017	39.00	Sanctioned	
12.	Proposed*	161.00	Proposed	
	<b>Total</b>	<b>352.81</b>		

\* Proposed represents WC/NBF/fund based loans assessed by the consortium and are in different stages of sanction

Term loan repayment is as under:

Principal repayment	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Term Loans (CDR package) FY11 of Rs.300.00 crore	20%	20%	20%	20%	20%	-	-	-	-
Term loans FY15 of Rs.128.44 crore	-	-	15%	35%	40%	10%	-	-	-
Term loans FY18 of Rs. 39.00 crore	-	-	-	-	-	5%	25%	35%	35%

**Total long-term facilities (1.A) is Rs. 352.81 crore**

**1. B. Fund Based limits**

(Rs. crore)

Sr. No.	Name of the Bank	Fund Based Limits (Cash Credit)
1.	Allahabad Bank	63.09
2.	Bank of India	17.00
3.	Bank of Maharashtra	24.23
4.	ICICI Bank Limited	65.75
5.	IDBI Bank Limited	22.71
6.	Indian Overseas Bank	33.00
7.	Punjab National Bank	53.00
8.	State Bank of Hyderabad	77.27
9.	State Bank of India	106.05
10.	Vijaya Bank	34.85
11.	Proposed *	53.05
	<b>Total</b>	<b>550.00</b>

\* Proposed represents WC/NBF/fund based loans assessed by the consortium and are in different stages of sanction

Total long-term bank facilities (1.B) is Rs.550.00 crore

Total long-term bank facilities (1.A) + (1.B) is Rs.902.81 crore

**2. Short-term bank facilities**

(Rs. crore)

Sr. No.	Name of the Bank	Non Fund Based Limits (Bank Guarantee/Letter of Credit)
1.	Allahabad Bank	167.98
2.	Bank of India	139.00
3.	Bank of Maharashtra	147.91
4.	ICICI Bank Limited	766.47
5.	IDBI Bank Limited	40.86
6.	Indian Overseas Bank	28.00
7.	Punjab National Bank	186.00
8.	State Bank of Hyderabad	72.81
9.	State Bank of India	136.22
10.	Vijaya Bank	15.27
11.	Proposed*	488.00
	<b>TOTAL</b>	<b>2,188.52</b>

\* Proposed represents WC/NBF/fund based loans assessed by the consortium and are in different stages of sanction

Total short-term bank facilities (2) is Rs. 2,188.52 crore

Total rated bank facilities (1+ 2) is Rs. 3,091.33 crore

**Annexure 2  
Press Release**

**IL&FS Engineering and Construction Company Limited**

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long-term Facilities	902.81	CARE BB; Negative (Double B; Outlook: Negative)	Revised from 'CARE BBB-; Stable (Triple B Plus Minus; Outlook: Stable)
Short-term Facilities	2,188.52	CARE A4 (A Four)	Revised from CARE A3 (A Three)
<b>Total Bank facilities</b>	<b>Rs.3,091.33 crore (Rupees Three Thousand Ninety One Crore and Thirty Three Lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rating Rationale and Key rating drivers**

*The revision in the ratings assigned to IL&FS Engineering and Construction Company Limited (IECCL) factors in the moderation in the credit profile of the promoter group, Infrastructure Leasing and Financial Services and IL&FS Financial Services Limited (IL&FS and IFIN; rated 'CARE AA+; CreditWatch with negative implications / CARE A1+ revised from 'CARE AAA; Stable/CARE A1+') and its high reliance on the promoter group to meet its operating and financial obligations as the operating performance continue to remain subdued.*

*The rating continues to be tempered by deterioration in the financial profile marked by overall high leverage and weak debt coverage ratios. Furthermore, the ratings also takes into consideration its working capital intensive nature of operations and relatively large amount of Inter-Corporate Deposits (ICDs) given by the company vis-à-vis its net worth.*

*The rating derives comfort from its experienced management and diverse order book position in various segments yielding revenue visibility in the medium term.*

*Going forward, IECCL's ability to improve its operating performance, realization of claims along with timely support from the promoter will remain the key rating sensitivities.*

**Outlook: Negative**

CARE has revised the outlook to negative as IECCL's constrained liquidity position may impact IECCL's ability to execute its order book in the medium term which may lead to further deterioration in the operating performance.

The outlook will be revised to stable if IECCL has been able to improve its operating performance that enhances its liquidity position, which could moderate its dependence on the promoter group.

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## Detailed description of the key rating drivers

### Key Rating Weaknesses

#### ***Moderation in the credit profile of the parent, IL&FS group***

IECCL is promoted by IL&FS group (equity stake of 42.25%, rated 'CARE AA+; Credit watch with negative implications / CARE A1+ revised from 'CARE AAA; Stable/CARE A1+) which is one of the leading infrastructure development and finance companies in India. IECCL is also supported by the Saudi Bin Laden Group (SBG) which has diversified interest in infrastructure, airports, real estate development and power generation.

Since assuming responsibility, IL&FS group as a promoter has infused funds in IECCL to provide liquidity support, worked aggressively by developing a comprehensive and implementable business plan. On the cumulative basis, up till now, IL&FS group has invested sum of Rs.2,089 crore as on March 31, 2018(Rs.1,681.53 crore as on March 31, 2017) as support in the form of equity and debt into IECCL.

However, IECCL's operating performance still remains subdued and achievement of sustainability of operations remain critical. Therefore, the moderation in the credit profile of the promoter group and the promoter's strategies to reduce exposure in the group companies becomes a key rating monitorable.

#### ***Subdued operating performance***

In FY18, on consolidated basis, IECCL revenue grew by 9.00 % y-o-y basis (-10.56% of de-growth in FY17) part of which has come from accrued contractual claims and accrued interest income amounting to Rs. 317.82 crore. IECCL recorded net profit of Rs.15.16 crore in FY18 on account of increased non operating income (tax refund in Joint venture) against net losses of Rs.46.29 crore in FY17. On standalone basis, the revenue increased from Rs.1938.10 crore in FY17 to Rs. 2112.25 crore in FY18 with net profit of Rs.6.92 crore(Rs.5.03 crore in FY17).

However, the losses had significantly increased in Q1FY19 on standalone basis to Rs.133.43 crore from of Rs.37.05 crore in Q1FY18. The subdued performance was majorly on account of increased subcontracting cost and overhead expenses along with accounting adjustment for recognized claims. For IECCL, Q1 is also a seasonally weak quarter; however the net losses have seen a steep increase in Q1FY19 because of the reasons mentioned above.

As at June 30, 2018, IECCL have accrued proportionate revenue to the extent of percentage of completion in various projects of which balance of contractual claims amounts to Rs. 374.39 crore along with interest of Rs.355.59 crore. This recognition of accrued claims and interest had partly increased the operating income in historical years.

Going forward, the receipt of recorded claim amount in timely manner along with trend in the operating performance remain a key rating monitorable

***Weak financial risk profile with high leverage and stressed debt coverage indicators***

Due to legacy issues, there is a huge debt burden on the balance sheet of IECCL. Further, networth of IECCL on consolidated basis has eroded due to continuous operational losses; because of which networth continue to remain negative. IECCL is dependent upon its promoter i.e. IL&FS group to provide timely support for debt repayments and to carry out business operations. On consolidated basis, interest coverage for the last 3 annuals had remained below unity, resulting from the subdued operating performance and high interest expense.

***Working capital intensive nature of operations***

IECCL's working capital bank limits are fully utilized and average creditors days had increased from 168 days as on March 31, 2015 to 279 days as on March 31, 2018 by stretching payments of the subcontractors, thus demonstrating strain in the liquidity position of IECCL. Working capital borrowings have almost doubled from Rs. 354.27 crore as on March 31, 2015 to Rs. 769.52 crore as on March 31, 2018.

IECCL is into EPC segment where it executes projects in various segment like rails, irrigations, road with relatively longer project life cycle make its operations working-capital intensive in nature.

***Relatively large amount of ICDs given by the company vis-à-vis IECCL's net worth***

The company had outstanding ICDs of Rs.343.78 crore as on March 31, 2018 (Rs.343.78 crore as on March 31, 2017) given to the then Satyam Computer Services Ltd (SCSL). The amount of ICDs is relatively large in comparison to the present networth of the company and recovery of the same would be crucial from the credit perspective.

***Key Rating Strengths***

***Part of established IL&FS Group***

IECCL draws managerial support from the group which helps in attaining better business synergies with group companies like ITNL(IL&FS Transportation Networks Limited, CARE BB; Negative/CARE A4) which helps in reducing the competition and helps in cost optimization.

***Order book position with revenue visibility in the medium term***

IECCL is having an outstanding order book position of Rs.9,698 crore(4.52 times of total sales) as on June 30, 2018 against Rs.11,167 crore as on September 30, 2017 .Of the total order book, 27% of orders are from irrigation and roads each along with 17% of orders from rail(metro works). Despite having a stable order book, delays in various clearances have resulted in slower progress/deferment of the orders in



hand. However, timely execution and implementation of the existing projects, receipt of adequate and timely support from promoter group remain crucial for the company.

**Analytical approach:** CARE has taken a consolidated approach as IECCL has obligation to support its subsidiaries. For arriving at the ratings, CARE has factored in the fund based timely support from IL&FS group extended to IECCL for operations and debt servicing.

#### **Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology -Infrastructure Sector Ratings

Rating Methodology: Factoring Linkages in Ratings

Financial ratios – Non -Financial Sector

#### **About the Company**

IECCL is engaged in infrastructure development which includes construction and project management services operating across different countries.

Subsequent to the Satyam Scam, in September 2009, Infrastructure Leasing and Financial Services group was inducted by Company Law Board (CLB) of India as the new promoter of IECCL (erstwhile Maytas Infra Limited) with the mandate to put the company back on track. As on June 30, 2018, IL&FS group holds 42.25% in the company.

In 2009, along with induction of IL&FS as the new promoter, IECCL got a Corporate Debt Restructuring (CDR) package approved, whereby lenders agreed to convert the existing facilities into fresh loans, preference and equity shares. In 2010, Saudi Bin Laden Group of Saudi Arabia (SBG, holds 27.87% of equity share capital) was inducted as the second major shareholder.

Since assuming charge, IL&FS has worked aggressively and rebuilt the company by developing a comprehensive and implementable business plan for the company, finalized a restructuring package enabling the organization to grow, securing new orders to enhance the profitability. IECCL presently undertakes construction of roads, industrial structures, irrigation canals and dams, rural and urban electrification and power projects. The company has forayed into new business segments such as sea ports, rail and rail based systems including metros, oil and gas sector, water treatment, and power transmission and distribution.

<b>Brief Financials - consolidated Limited review financials</b>	<b>FY17(A)</b>	<b>FY18(A)</b>
	<b>(Rs. crore)</b>	<b>(Rs. crore)</b>
Total operating income	1938.44	2112.25
PBILDT	263.79	399.74
PAT	(46.29)	15.16
Overall gearing (times)	NM	NM
Interest coverage (times)	0.76	0.98

A: Audited and reinstated as per IND AS

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not applicable

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**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.

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**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	-	-	-	352.81	CARE BB; Negative
Fund-based - LT-Working Capital Limits	-	-	-	550.00	CARE BB; Negative
Non-fund-based - ST-Working Capital Limits	-	-	-	2188.52	CARE A4

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	352.81	CARE BB; Negative	1)CARE BBB-; Stable (04-Apr-18)	-	1)CARE BBB-; Stable (09-Feb-17)	1)CARE BBB- (21-Jan-16) 2)CARE BBB- (22-Apr-15)
2.	Fund-based - LT-Working Capital Limits	LT	550.00	CARE BB; Negative	1)CARE BBB-; Stable (04-Apr-18)	-	1)CARE BBB-; Stable (09-Feb-17)	1)CARE BBB- (21-Jan-16) 2)CARE BBB- (22-Apr-15)
3.	Non-fund-based - ST-Working Capital Limits	ST	2188.52	CARE A4	1)CARE A3 (04-Apr-18)	-	1)CARE A3 (09-Feb-17)	1)CARE A3 (21-Jan-16) 2)CARE A3 (22-Apr-15)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+ (SO)	1)CARE A1+ (SO) (04-Apr-18)	1)CARE A1+ (SO) (20-Jul-17) 2)Provisional CARE A1+ (SO) (12-Jul-17) 3)Provisional CARE A1+ (SO) (29-Jun-17)	-	-