



## CREDIT ANALYSIS & RESEARCH LTD.

4<sup>th</sup> Floor, Godrej Coliseum,  
Somaiya Hospital Road,  
Off Eastern Express Highway,  
Sion (East), Mumbai - 400 022, INDIA.  
☎ : 67543456 Fax : (022) 67543457  
E-mail : care@careratings.com  
www.careratings.com

**Mr. Krishna Ghag,**  
**Company Secretary,**  
**IL&FS Transportation Networks Ltd.**  
The IL&FS Financial Centre,  
Plot C-22, G Block  
Bandra-Kurla Complex,  
Bandra (E),  
**Mumbai – 400 051.**

February 17, 2010

### **Confidential**


Dear Sir,

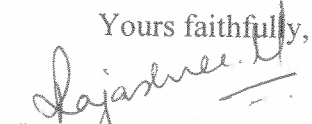
### **IPO Grading**

Please refer to our letter dated January 25, 2010, on the above subject.

2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.
4. We request you to peruse the Rationale and Press Release 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 February 23, 2010, will proceed on the basis that you have no comments to offer.
5. CARE IPO grading is not a recommendation to buy, sell, or hold any security.
6. If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

  
[Rajshree Ganguly]  
Analyst

Yours faithfully,  
  
[Rajashree Murkute]  
Manager

Encl: As above

**Annexure-I**

**Grading Rationale**

**IL&FS Transportation Networks Ltd.**

**IPO Grading**

**CARE IPO Grade 4**

CARE has assigned a 'CARE IPO Grade 4' to the proposed (Initial Public Offer) IPO of IL&FS Transportation Networks Ltd (ITNL). CARE IPO Grade 4 indicates above average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer. ITNL proposes an IPO aggregating Rs.700 crore including an Offer for Sale by Trinity Capital (Two) Ltd. of 42,78,844 equity shares and the balance constituting fresh equity issue.

*The grading factors in the strong promoter background and support, professional management, well-entrenched position in the domestic road sector, diverse road project portfolio, foray into other surface transport segments, extensive and advanced execution capabilities, established global presence through its subsidiary, Elsamex, S.A and sustained Government focus on development of infrastructure in India.*

*The grading is however, constrained by project execution risk of its SPVs, impending support towards its road SPVs which are at a nascent stage of operations and inherent risks associated with various road projects with long gestation period.*

*Further, any delay in the implementation of projects, exposure to vagaries in global economy and successful integration with Elsamex, S.A. operations would have a bearing on the financial risks on ITNL.*

**Background of the company**

ITNL is an established surface transportation infrastructure company with expertise in development, operation and facilitation of BOT Road Projects. It was incorporated in 2000 by Infrastructure Leasing & Financial Services Limited (IL&FS), an infrastructure development and finance company, in order to consolidate its existing road infrastructure projects and to pursue various new project initiatives in the area of surface transportation

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infrastructure. Since inception, ITNL has been involved in the development, operation and maintenance of national and state highways, roads (including urban roads), flyovers and bridges across India. In March 2008, ITNL commenced its international operations through the acquisition of Elsamex S.A. (Elsamex), a provider of maintenance services primarily for highways and roads based in Spain and having operations in few other countries. The acquisition of Elsamex not only complemented with ITNL's BOT toll operations business along with their maintenance capabilities but also facilitated the latter's entry into international markets such as Spain and Latin America.

ITNL has developed the following skill sets in the road sector:

- Project sponsorship/Investment ;
- Project Development;
- Construction Management;
- Management of Toll Roads; and
- Advisory Services.

### **Management**

The organization structure at ITNL comprises two Executive Directors in ITNL viz., Mr. K. Ramchand, Managing Director and Mr. Mukund Sapre, Executive Director. They are in turn supported by a team of qualified professionals in the field of construction, project execution and finance.

### **Corporate Governance**

The company's Board of Directors comprises 12 Directors, of which two are Executive Directors and the remaining being Non-Executive Directors. ITNL has four Independent Directors (one-third of the Board) thereby complying with the Clause 49 of the listing agreement for Corporate Governance requirements. The non-Executive Directors on Board have relevant experience in infrastructure development, especially roads. The appointment of Independent Directors and constitution of various committees was done on June 30, 2009.

### **Operations**

ITNL is engaged in the development, operation and maintenance of national and state highways, roads (including urban roads), flyovers and bridges and has a pan India presence particularly in Andhra Pradesh, Delhi, Gujarat, Maharashtra, Karnataka, Uttar Pradesh, Kerala and Rajasthan. It has been selected for the development of the 4.9 km

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track of elevated metro rail link project in Gurgaon (Haryana) and also operates and maintains the Nagpur city bus services on a BOT basis.

ITNL acquired Elsamex, a provider of maintenance services primarily for highways and roads in Spain and other countries in 2008 to establish its international operations across Spain, Portugal and Latin American markets and complement its BOT road operations with Elsamex's maintenance capabilities. Elsamex is essentially based in Spain, with operations in Portugal, Columbia and Mexico. Apart from providing consulting services in terms of quality control, safety, health and environment parameters for roads and water supply projects, it also conducts R&D for road maintenance projects, particularly bitumen technology.

### **IPO Issue Details**

#### ***Size of the Issue***

ITNL is proposing to make an IPO aggregating Rs.700 crore including an Offer for Sale by Trinity Capital (Two) Ltd. of 42,78,844 equity shares and the balance constituting fresh equity issue.

#### ***Terms of the issue***

- Company is exploring the possibility of the Pre-IPO Placement. If the Pre-IPO Placement is completed, the number of Equity Shares issued pursuant to the Pre-IPO Placement will be reduced from the Fresh Issue, subject to a minimum Issue size of 10% of the post-Issue share capital and the Issue aggregating to at least Rs.100 crore. The Pre-IPO Placement is at the discretion of the Company.
- In the event of over-subscription, allocation shall be made on a proportionate basis, subject to valid Bids being received at or above the Issue Price.
- Under-subscription, if any, in the Non-Institutional Portion and the Retail Portion would be allowed to be met with spill-over from other categories or a combination of categories, at the sole discretion of the Company and the Selling Shareholder, in consultation with Book Running Lead Managers and the Co-Book Running Lead Managers.
- If at least 60% of the Issue cannot be allotted to QIBs, then the entire application money will be refunded forthwith.

A handwritten signature in dark ink, appearing to be a stylized 'S' or 'J' followed by a horizontal line.

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### ***Purpose of the issue***

ITNL will not receive any proceeds from the Offer for Sale. The activities for which funds are being raised by ITNL through the Fresh Issue are:-

- Funding pre-payment and repayment of a portion of debt availed by the Company; and
- General Corporate Purposes.

### **Pending legal cases & their status**

There are no pending litigations against ITNL and its Directors. There are however 23 civil cases (barring one criminal lawsuit) filed against its subsidiaries, associates and joint venture companies.

1. Litigation involving promoter company IL&FS – The pending litigation profile mix of IL&FS includes a criminal suits, civil suits, consumer suits, debt recovery proceedings, arbitration proceedings, Income Tax related and imposition of past penalties.
2. Litigation involving group companies and subsidiaries – While there are pending criminal cases against ITNL's group companies and subsidiaries, the remaining legal suits have arisen in the ordinary course of business operations.

### **Consolidated Financials**

(Rs.crore)

Particulars	FY08	FY09
	Audited	
Total Operating Income	296.59	1,058.72
Total Income	437.45	1,332.01
PBILDT*	248.89	289.99
Depreciation	7.61	35.34
PBIT	241.28	254.65
Interest & finance charges	106.95	174.30
PBT	134.33	80.35
PAT <sup>#</sup>	93.26	27.88
Networth	992.08	958.43
Loan Funds	1,613.74	1,854.20
Total Capital Employed	2,605.82	2,812.63
Fixed Assets	900.79	861.32
Investments	201.98	201.01
ROCE (%)	10.81	9.40
Interest Coverage (times)	2.26	1.46
Overall Gearing Ratio (times)	1.63	1.93

\*including non-operating income

<sup>#</sup> after adjustment of minority interest and share in loss / profit of associates

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### **Comments**

The financial numbers of ITNL in FY09 are not comparable with that of FY08 due to acquisition of Elsamex, SA, a road maintenance company on March 18, 2008. Elsamex contributed substantially to the operating income of ITNL in FY09 by way of O&M income to the tune of Rs.759.35 crore. ITNL also benefited from Foreign exchange fluctuation to the extent of Rs.27.22 crore and profit from sale of its investments in Kohinoor CTNL Infrastructure Company Ltd. in FY08 and FY09. ITNL's investments primarily constitute those made in associates.

### **Contingent Liabilities (Standalone)**

As on March 31, 2009, ITNL had a total contingent liability of Rs.333.70 comprising 41% of its tangible Networth. ITNL has provided a corporate guarantee to Elsamex's loan of Euro 47.50 million (approx. Rs.331 crore) during H1FY10. The company has also extended a line of credit of Rs.100 crore to one of its subsidiaries.

### **Industry outlook**

According to the Planning Commission, projected investments in the roads sector during the Eleventh Plan has been established at US\$ 92 billion. NHAI has set a target of developing 20 km of roads per day in the near future as against existing development of 2-3 km per day. Besides, it is further estimated that nearly 85% of the road projects will be on Public Private Partnership basis. Consequently the outlook of the roads sector appears positive.

### ***Urban Transportation***

With growing emphasis on eco friendly modes of transportation and traffic decongestion, the construction of metro railways is a positive step towards achievement of this goal. Further, with its positioning as a complementary mode of transport rather than being competitive coupled with growing need for alternative transport routes arising out of high density population (particularly the metro cities) is likely to face minimal resistance with regard to acceptance both by daily commuters and other transport operators. Consequently with planned investments being made in the urban surface transport over the medium term with metro rail projects being undertaken by Chennai and Mumbai, the growth and opportunities associated with metro railways is bound to grow manifold in the coming years.



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### ***Airport***

Presently, India is ranked ninth in the global aviation market and has 449 airports/civil enclaves and airstrips. Considering the growing passenger and cargo traffic in India, to meet the country's huge demand for capacity addition in the aviation space, it has been estimated that investments to the tune of US\$9 billion for the development of airports would be required by 2013-14. Of this, about US\$6.9bn is estimated to come from Public Private Partnership (PPP), thereby leading to an increased focus on the modernization of existing airports as well as the construction of new ones.

### **Prospects**

The future growth prospects of the company mainly depend on the successful bidding processes of the upcoming projects and execution of SPVs. The increasing impetus on infrastructure development has thrown open vast opportunities for players like ITNL, who can capitalize on the present situation with their expertise. However, prudent financial management policies and cautious bidding will enable ITNL to accelerate its growth prospects. Any delay in the financial closure, approvals, and clearances of its projects may result in financial risk in terms of time and cost over-run and subsequent low profitability than envisaged.

#### **DISCLAIMER:**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not 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. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

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## Annexure II

### Press Release

#### **CARE assigns 'CARE IPO Grade 4' to the proposed Initial Public Offering of IL&FS Transportation Networks Ltd.**

CARE has assigned a '**CARE IPO Grade 4**' to the proposed Initial Public Offering (IPO) of IL&FS Transportation Networks Ltd (ITNL). 'CARE IPO Grade 4' indicates above average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

ITNL proposes an IPO aggregating Rs.700 crore including an Offer for Sale by Trinity Capital (Two) Ltd. of 42,78,844 equity shares and the balance constituting fresh equity issue.

<b>Instrument</b>	<b>Rating</b>
<b>IPO Grade</b>	<b>'CARE IPO Grade 4'</b>

#### **Rating Rationale**

The grading factors in the strong promoter background and support, professional management, well-entrenched position in the domestic road sector, diverse road project portfolio, foray into other surface transport segments, extensive and advanced execution capabilities, established global presence through its subsidiary, Elsamex, S.A and sustained government impetus on infrastructure in India.

The grading is however, constrained by project execution risk of its SPVs, impending support towards its road SPVs which are at a nascent stage of operations and inherent risks associated with various road projects with long gestation period.

Further, any delay in the implementation of projects, exposure to vagaries in global economy and successful integration with Elsamex, S.A. operations would have a bearing on the financial risks on ITNL.

#### **Company Profile**

ITNL was incorporated in 2000, by Infrastructure Leasing & Financial Services Limited (IL&FS), in order to consolidate its existing road infrastructure projects and to pursue various

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new project initiatives in the area of surface transportation infrastructure. ITNL is an established surface transportation infrastructure company with expertise in development, operation and facilitation of BOT Road Projects. It has also been involved in the development, operation and maintenance of national and state highways, roads (including urban roads), flyovers and bridges across India. The company has a pan India presence and successfully established its global footprint through the acquisition of Elsamex S.A. (Elsamex), a provider of maintenance services primarily for highways and roads based in Spain and having operations in the international markets of Latin America. The maintenance capabilities of Elsamex are likely to complement ITNL's BOT toll operations business in the future. Over the years, ITNL has developed its skills set in project sponsorship & development, construction and toll roads management and advisory services.

ITNL is spearheaded by Shri K Ramchand, Managing Director and Shri Mukund Sapre, Executive Director. They in turn are supported by a team of qualified professionals in the field of construction, project execution and finance.

The consolidated financial numbers of ITNL in FY09 are not comparable with that of FY08 due to acquisition of Elsamex, SA, which contributed substantially to the operating income of ITNL in FY09 by way of O&M income to the tune of Rs.759.35 crore. ITNL reported a PAT of Rs.27.88 crore during FY09 on consolidated basis on total income of Rs.1,332.01 crore. The consolidated networth as on March 31, 2009 was Rs.958.43 crore.

**Analyst Contact**

Name: Rajashree Murkute

Tel # 022-67543459

Mobile # 98206 07459

Email: [rajashree.murkute@careratings.com](mailto:rajashree.murkute@careratings.com)

*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 clarification*

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