

Update on IL&FS Group exposures

Quick Note

We continue to believe that the IL&FS Group's financial position remains stressed, leading to the recent rating downgrades, and the +INR900bn of system borrowings is large considering it reported a loss of +INR20bn in FY18. While we had estimated bank-wise exposures in our [earlier report yesterday](#), we have got further data from debenture placement documents which are relatively more updated and reliable and have got exposure on some additional companies as well.

Impact on banks: As highlighted earlier as well, our interaction with banks suggests that a good part of IL&FS Group would be sitting as standard assets for most banks, except for NPA recognition of a large power exposure of the group. We now have INR380bn of bank-wise exposures vs. INR360bn.

Among our covered corporate banks, Bank of Baroda's (BOB IN, Buy) exposure at 0.9% of its FY18 loans is the highest followed by Punjab National Bank (PNB IN, Reduce) and Union Bank (UNBK IN, Buy) at 50-80bps of loans. Axis Bank's (AXSB IN, Buy) exposure is 0.2% of loans while State Bank of India (SBIN IN, Buy) and ICICI Bank (ICICIBC IN, Buy) have low/negligible exposure. Among the other banks, exposure to IL&FS Group is material for Yes Bank (YES IN, Buy; 0.8% of loans) and Indusind Bank (IIB IN, Buy; 0.4% of loans). HDFC Bank (HDFCB IN, Buy) and Kotak Mahindra Bank (KMB IN, Buy) have no/negligible exposure to the group.

IL&FS Group – bank-level exposure

- **Of the INR910bn of debt** (Fig. 1), nearly 30-35% has been raised through debentures/CPs and **INR570bn has been raised through bank loans**.
- **Of the INR570bn of bank loans**, we could get bank-level exposure of INR380bn of debt. We did fine-tune some of the numbers through debenture placement documents which may be more updated and reliable but we would highlight that a large part of these exposures are estimated from debt charge documents, and current exposure of banks may vary from the below estimates.
- **Among retail banks**, only IIB seems to have material exposure of around 40-45bps of FY18 loan book while HDFCB also has a negligible exposure towards the group.
- **Among corporate private banks**, ICICI seems to have negligible exposure while Axis's exposure is ~0.2% of FY18 (standard in its book, in our view). Yes Bank has a large exposure in IL&FS Energy Development Company and ITNL standalone and we estimate Yes Bank's exposure to be 80-90bps of its FY18 loans.
- **Among PSU banks**, SBI's exposure is at 10bps of loans, and we think that half of it is already an NPA or a part of watchlist accounts. BOB seems to have a much larger exposure at INR37bn (0.9% of loans) and its exposure is spread across major companies in the group. Other larger PSUs such as PNB, Union Bank and Bank of India (BOI IN, Not rated) also have larger exposure of around 70-85bps of loans.

Global Markets Research

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Research analysts

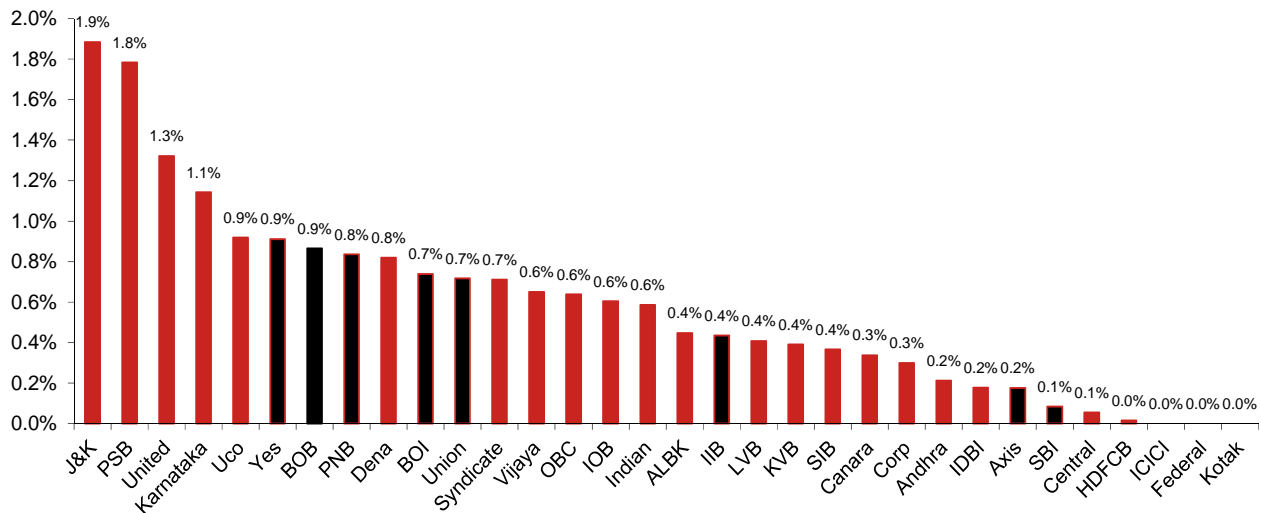
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Fig. 1: Bank-wise exposure to IL&FS based on MCA data and debenture documents (% of FY18 loans)



Source: Company data, Nomura research

Fig. 2: IL&FS limited consolidated debt

FY18	Long term		Total	Debt mix (%)	
	Short term	Current			Non-current
Debentures	-	29,775	213,194	242,968	26.7%
Term Loans	43,774	89,194	425,732	558,700	61.3%
Cash Credit from Banks	14,522	-	-	14,522	1.6%
Sub-ordinated Debt	-	-	13,633	13,633	1.5%
Inter Corporate Deposits	19,778	3,293	102	23,172	2.5%
Commercial Papers	57,519	-	-	57,519	6.3%
Finance Lease Obligation	-	124	275	399	0.0%
Total	135,592	122,386	652,935	910,913	100.0%

Source: Company data, Nomura research

Fig. 3: Rating downgrade of IL&FS Group companies in last 2-3 months

ICRA ratings	Jun-15	Jul-15	Jan-16	Jul-16	Jan-17	Mar-17	Nov-17	Apr-18	Jul-18	Aug-18	Sep-18
IL&FS Transportation Networks											
CP	A1	A1	A1	A1	A1	A1	A1	A1	A2+	A4	Issuer not
NCD	A	A	A	A	A-	A-	A-	A-	BB-	BB-	co-
Bank loans					A-	A-	A-	A-	BB-	BB-	operative
IL&FS Financial services											
CP							A1+	A1+	A1+	A1+	A4
NCD							AAA	AAA	AAA	AAA	BB
Bank loans							AAA	AAA	AAA	AAA	BB
IL&FS Tamil Nadu Power											
NCD							A+	A+			
Bank loans			BBB	BBB+							

Source: ICRA, Nomura research

Fig. 4: Financials of IL&FS and its key subsidiaries

IL&FS group consolidated	2014	2015	2016	2017	2018
Operating Profit	50,874	56,859	68,545	83,394	72,673
Interest	39,707	45,175	54,979	65,157	79,228
PBDT	11,167	11,684	13,565	18,237	-6,555
Depreciation	3,721	4,640	8,357	12,060	14,537
PBT	7,446	7,044	5,208	6,177	-21,092
Consolidated debt	486,713	631,140	703,744	800,177	910,913
Interest (% of EBITDA)	78%	79%	80%	78%	109%
Debt to EBITDA	9.57	11.10	10.27	9.60	12.53

ITNL consolidated	2014	2015	2016	2017	2018
Operating Profit	21,156	24,908	28,427	35,947	43,349
Interest	14,815	18,582	25,740	31,041	37,603
PBDT	6,342	6,327	2,687	4,906	5,747
Depreciation	1,510	1,521	1,964	3,657	4,130
PBT	4,831	4,805	723	1,249	1,617
Consolidated Debt	191,442	238,691	270,611	321,946	377,282
Interest (% of EBITDA)	70%	75%	91%	86%	87%
Debt to EBITDA	9.05	9.58	9.52	8.96	8.70

EL&FS EDC Limited - Mainly includes Subsidiary TamilNadu power company	2014	2015	2016	2017	2018
Operating Profit	3,854	7,961	13,298		
Interest	3,471	7,075	9,511		
PBDT	383	886	3,787		
Depreciation	1,324	1,871	2,805		
PBT	-941	-985	982		
Consolidated debt	65,192	147,496	169,132		
Interest (% of EBITDA)	90%	89%	72%		
Debt to EBITDA	16.92	18.53	12.72		

IL&FS financial services Ltd	2014	2015	2016	2017	2018
Net worth	19,453	20,312	23,068	24,071	
Liabilities/borrowings	120,031	132,720	154,841	169,566	
Total B/S size	139,484	153,033	177,909	193,637	
PPOP (% of assets)		4.43%	3.32%	2.87%	
Provisions (% of assets)		1.69%	1.37%	1.13%	
PBT (% of assets)		2.74%	1.95%	1.74%	

Source: Company data, Nomura research

Appendix A-1

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Axis Bank	AXSB IN	INR 650	11-Sep-2018	Buy	Neutral	15-Dec-2016	N/A
Bank of Baroda	BOB IN	INR 140	11-Sep-2018	Buy	Neutral	29-Jun-2017	N/A
HDFC Bank	HDFCB IN	INR 2000	11-Sep-2018	Buy	Rating Suspended	08-Jul-2014	N/A
ICICI Bank	ICICIBC IN	INR 326	11-Sep-2018	Buy	Rating Suspended	08-Jul-2014	N/A
Indusind Bank	IIB IN	INR 1826	11-Sep-2018	Buy	Rating Suspended	08-Jul-2014	N/A
Kotak Mahindra Bank	KMB IN	INR 1206	11-Sep-2018	Buy	Neutral	01-May-2018	N/A
Punjab National Bank	PNB IN	INR 81	11-Sep-2018	Reduce	Neutral	16-May-2018	N/A
State Bank of India	SBIN IN	INR 282	11-Sep-2018	Buy	Rating Suspended	08-Jul-2014	N/A
Union Bank	UNBK IN	INR 80	11-Sep-2018	Buy	Neutral	05-Feb-2018	N/A
Yes Bank	YES IN	INR 316	11-Sep-2018	Buy	Rating Suspended	08-Jul-2014	N/A

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