

October 4, 2010

**CARE REAFFIRMS RATING ASSIGNED TO ST PROGRAMME OF
IL&FS FINANCIAL SERVICES LTD.**

CARE has reaffirmed 'PR1+' [PR One Plus] rating for the short term borrowing programme (including commercial paper) of IL&FS Financial Services Ltd (IFIN) for the limit of Rs 750 crore. The above rating is for instruments with maturity up to one year.

Instrument	Amount (Rs. crore)	Rating
Short Term Borrowing Programme (enhanced from Rs.500 crore)	750	PR1+

The rating factors in strong parentage (IFIN is a wholly owned subsidiary of IL&FS), expertise and experience of IL&FS in infrastructure projects and track record of profitable operations. It also takes in to account presence of experienced professionals and senior management team drawn from the IL&FS group, comfortable capitalization level, profitability and satisfactory liquidity position. However its ability to maintain spreads and asset quality of its portfolio and its ability to unlock value from its investments in various PE (Private Equity) funds are key rating sensitivities.

Background

IL&FS Financial Services Ltd. (IFIN) is a 100% subsidiary of IL&FS Ltd. IFIN was incorporated in September 1995. The company's business profile initially comprised rendering of advisory services. However, since FY07 the company commenced lending operations on its books. In order to create distinct verticals for each business, IL&FS demerged and transferred its investment banking assets and liabilities to IFIN in FY08. Post demerger, IFIN's business profile is broadly divided into investment banking business (asset & structured finance), Project debt syndication business, Corporate advisory services business and project finance advisory.

Sharp growth in fee income and net interest income coupled with fall in provisioning expenses has helped IFIN in recording surge in PAT from Rs.123 crore in FY09 to Rs.315 crore in FY10. Asset quality continues to be comfortable with Gross NPA ratio at 1.57% (Mar 31, 2009: 1.26%). Net NPA/Networth was low at 2.17% as of Mar 31, 2010 (Mar 31, 09: 1.61%). The NPA ratios show a marginal rise mainly on account of shrinking of the loan book. IFIN continues to report healthy capitalisation levels. CAR as of Mar 31, 2010 stood at 25.99%, with Tier I CAR at 24.74%.

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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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