

L&T Infra Debt Fund Limited

February 07, 2018

Summary of rated instruments

Instrument*		Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Programme	Debenture	0.00	3,000.00	[ICRA]AAA (stable); Assigned
Non-Convertible Programme	Debenture	4,000.00	4,000.00	[ICRA]AAA (stable); Outstanding
Commercial paper programme		500.00	500.00	[ICRA]A1+; Outstanding
Total		4,500.00	7,500.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs. 3,000 crore non-convertible debenture programme of L&T Infra Debt Fund Limited (LTIDF). The outlook on the long-term rating is "Stable".

ICRA also has a rating of [ICRA]AAA (stable) (pronounced ICRA triple A with a stable outlook) outstanding for the Rs. 4,000 crore non-convertible debenture programme and the rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding for the Rs. 500 crore commercial paper programme of LTIDF.

Rationale

The rating reflects LTIDF's parentage, with L&T Infrastructure Finance Company Limited (which has a long track record of operating in India and is rated [ICRA]AA+ (Stable)) holding 48.36% stake in the company and the balance held by other group entities of Larsen & Toubro Limited (L&T, rated [ICRA]AAA (Stable)). The rating also factors in the tight regulatory framework governing IDF - NBFCs, which is expected to provide a high degree of certainty to LTIDF's business profile; and LTIDF's technical and operational expertise in the infrastructure space and its experienced core management team. ICRA derives comfort from the group's longstanding experience in infrastructure financing with good underwriting norms and risk mitigants, and the operational and business synergies within the group and comfortable liquidity at the entity and group level.

Outlook: Stable

ICRA believes LTIDF will continue to benefit from it being a part of the L&T Finance Holdings Group and from Larsen and Toubro's parentage and its credit profile would be supported by its focus on maintaining a high share of government guaranteed portfolio and having operational assets with longer track record than the minimum regulatory requirement for IDFs. The outlook may be revised to 'Negative' if there is significant deterioration in the asset quality and hence profitability indicators of LTIDF, thereby adversely affecting its financial risk profile.

Key rating drivers

Credit strengths

Strong parentage and experienced management team – LTIDF is owned by companies within the L&T Finance Holdings Limited (LTFHL) group with L&T Infrastructure Finance Company Limited (LTIF) being the largest shareholder (48.36% as on September 30, 2017) and the balance being held by L&T Finance Limited (erstwhile Family Credit Limited; held 28% stake) L&T Finance Holdings Limited (LTFHL; held 23% stake). LTIDF thus enjoys significant operational synergies through its association with the LTFHL group. Also, the group's ultimate parent, L&T is the country's largest engineering and construction group and the market leader in infrastructure development, with expertise gained over the past seven decades of operations. The parent's committed support to the group in the form of capital, management, technical and operational pool considerably reinforces the credit profile of LTIDF. The company also has an experienced senior management team with considerable experience in the infrastructure financing space. ICRA believes that the synergies with the parent and the strong management team would support the company's ability to expand profitably.

Strong business model; majority portfolio covered under tripartite agreements - The earlier RBI guidelines for infrastructure debt funds (IDFs) necessitated IDF-NBFCs to invest in debt securities of only Public-Private Partnership (PPP) infrastructure projects with a project authority, that had completed at least one year of commercial operations. For each exposure, IDF-NBFCs were required to have a tripartite agreement with the concessionaire and the project authority for ensuring a compulsory buyout with termination payment. The revised guidelines issued by RBI in FY2016, however, widened the scope of financing by IDFs to include investments in PPP projects without a project authority and non-PPP projects with minimum one year of commercial operations. ICRA notes that absence of tripartite agreements would expose the IDFs to the risk associated with the project in the event of termination with the risk partly mitigated by the presence of adequate collateral (including movable and immovable assets) cover, liquidity buffer in the form of debt service reserve accounts (DSRA) for periods ranging from 6-12 months and ability of the Group to take over operations. Construction and execution risk continues to be mitigated (on account of the minimum one year of successful operations post COD continuing to be required) and no fuel supply risk given the focus of the company on renewable projects. Projects with government guarantee or support accounted for a significant majority of LTIDF's total portfolio (total portfolio size was Rs. 5,206 crore) as on September 30, 2017. Going forward as well, PPP projects with tripartite agreement are likely to continue to account for a large share in the portfolio thus supporting the credit profile of LTIDF.

Comfortable capitalization levels – LTIDF remains adequately capitalized with a net worth of Rs. 765 crore as on September 30, 2017 and a capital to risk weighted assets ratio (CRAR) of 30.31% as against the regulatory requirement of 15% (tier II capital to not exceed tier I capital for NBFC-IDF's). The company's capitalization remains further supported by healthy internal capital generation (return on equity of 14.21% in FY2017) and expectation of further equity commitment from the parent as and when required.

Strong borrowing profile with a diversified investor base and comfortable liquidity profile - The funding profile of LTIDF benefits from the good standing of the L&T group in the capital markets as well as the regulatory requirement of raising resources primarily through issuance of bonds of minimum a 5 year maturity (shorter tenure bonds and commercial papers to not exceed 10% of outstanding debt). LTIDF has also raised substantial funds (> 45%) with maturity of 10 years or beyond, to match with the long duration of its assets. Since an IDF-NBFC can invest only in projects that have completed at least one year of commercial operations, cash flows start immediately after disbursement. The liquidity profile of LTIDF is hence expected to remain comfortable. Also, majority of the assets and liabilities of LTIDF earn/bear a fixed rate of interest which negates, to a great extent, the interest rate risk associated with the portfolio. Going forward, LTIDF will gradually increase its leverage from current level of ~6 times as the

portfolio is scaled up. ICRA notes that LTIDF's business is integral to L&T Financial Services group and expects the group to infuse additional equity in line with growth requirements.

Synergies with group and tax exemption status supports profitability - LTIDF's profitability is benefited by its low operating expenses due to the wholesale nature of its lending business and due to the operational synergies from its association with L&T and LTIF which have significant track record in the infrastructure development and infrastructure financing business respectively. LTIDF's profitability is also supported by its low credit costs due to its NIL non-performing assets as on September 30, 2017. Also, subject to compliance of conditions stipulated by Central Board of Direct Taxes (CBDT), an IDF-NBFC's income is exempt from tax, which also supports its profitability. With scaling up of the portfolio, LTIDF saw its operating income increase to Rs. 78 crore during FY2017 from Rs. 41 crore during FY2016. During FY2017, LTIDF reported a net profit of Rs. 94 crore translating to a return on asset (RoA) and a return on equity (RoE) of 2.76% and 14.21% respectively. The removal of tax exemption status for IDF's would have some impact on profitability.

Credit challenges

Concentration risk given the wholesale nature of LTIDF's lending business, however majority of the projects are backed by guarantees from government agencies – While regulations require all Infra Debt Funds (IDFs) to take exposure only in operational projects with at least one year of commercial operations which eradicates construction and execution risk, the inherent nature of business of infrastructure financing means the exposures are chunky and hence the portfolio of LTIDF would remain vulnerable to asset quality shocks in case of slippages in few key exposures which may adversely affect its profitability. The share of top 20 borrowers for LTIDF in its overall portfolio was 79% as on March 31, 2017. ICRA however takes notes of the high share of government guaranteed projects in the business mix, the longer operational track record of projects in LTIDF's books, the group's longstanding experience in infrastructure lending and strong credit protection measures built into the company's lending model which act as risk mitigants.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company

L&T Infra Debt Fund

L&T Infra Debt Fund Limited (LTIDF) is an Infrastructure Debt Fund (IDF) under non-banking finance company structure, set up in March 2013 and operating after receipt of Certificate of Incorporation from RBI in Oct 2013. L&T Infrastructure Finance Company Limited, being the Sponsor of LTIDF, holds 48.36% equity stake in the company, with the balance stake being owned by L&T Finance Holdings Limited, its parent company and L&T Finance Limited (erstwhile Family Credit Limited).

LTIDF had an asset base of Rs. 5,481 crore and a loan book of Rs. 5,206 crore as on September 30, 2017. The company reported net profit of Rs. 69.01 crore on a total income of Rs. 255.68 crore in H1FY2018.

L&T Infrastructure Finance Company Limited

LTIF was formed as a 100% subsidiary of Larsen & Toubro Limited (L&T) in April 2006 and began operations in January 2007. L&T formed L&T Financial Holdings Limited (LTFHL, formerly known as L&T Capital Holdings Limited) to house all its investments in financial services including that in LTIF. Consequently, the entire shareholding was transferred to LTFHL in

March 2009. LTIF is registered as an NBFC-IFC (Infrastructure Finance Company) and is engaged in financing infrastructure projects, including power, roads, communication, and social and commercial infrastructure among others.

In June 2011, the company was recognised as a public financial institution (PFI), which among other things allows it access to the provisions of the SARFAESI Act for recoveries from delinquent customers. The company leverages L&T's domain knowledge in the engineering and construction space to provide infrastructure financing solutions through a mix of debt, sub-debt, quasi-equity and equity participation. LTIF operates from its offices in Mumbai, Delhi, Chennai and Hyderabad.

During FY2017, LTIF reported a profit after tax (PAT) of Rs. 42 crore over an asset base of Rs. 24,865 crore as compared with a PAT of Rs. 240 crore over an asset base of Rs. 24,231 crore for FY2016. As on March 31, 2017, the company had a net worth of Rs. 2,881 and gross NPAs of 5.3% and net NPAs of 2.9%. In H1FY2018, LTIF reported a PAT of Rs. 69.89 crore as compared to a PAT of Rs. 80.83 crore during H1FY2017. The total loan book of the company stood at Rs. 21,044 crore as on September 30, 2017 and comprised of 62% loans to the energy sector, 17% to transportation sector, 13% towards the non-infrastructure segment while the balance towards the other infrastructure segments (communication, water & sanitation, social and commercial infrastructure, etc).

Larsen & Toubro Limited

Larsen & Toubro Limited (L&T, rated [ICRA] AAA (Stable)) is a leading engineering and construction company in India with a nationwide and international presence. It is headquartered in Mumbai, and has interests in infrastructure, power, metallurgical & material handling, heavy engineering, shipbuilding, electrical & automation, machinery and industrial products and realty. Apart from India, it has a significant presence in the Middle East. Through its subsidiaries, associate companies and joint ventures, the group is engaged in hydrocarbon business, IT services, financial services, and infrastructure development ventures.

For FY2017, L&T reported a standalone PAT of Rs. 5,453.74 crore as compared with a PAT of Rs. 4,999.58 crore for FY2016. During H1FY2018, L&T reported a consolidated net profit of Rs. 3,048.60 crore.

Key financial indicators (audited)

	FY2016	FY2017	H1FY17	H1FY18
Total Income	114.07	46.24	148.58	255.68
Profit after tax (PAT)	39.29	94.11	45.33	69.01
Net Worth	621.20	703.62	659.77	765.46
Total managed portfolio	2,370	4,004	2,942	5,206
Total managed assets	2,622	4,213	3,261	5,481
Return on managed assets (PAT/AMA)	2.21%	2.75%	3.08%	2.85%
Return on average net worth (PAT/Avg. net worth)	8.09%	14.21%	14.16%	18.79%
Gearing	3.1	4.8	3.7	5.8
Gross NPA%	0.0%	0.0%	0.0%	0.0%
Net NPA%	0.0%	0.0%	0.0%	0.0%
CRAR%	51.38%	39.32%	45.87%	30.31%

#AMA – average managed asset

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years					
			Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Jan-18	FY2018	FY2017		FY2016	FY2015
						Oct-17	Oct-16	Oct-16	Dec-15	
1.	Non-Convertible Debenture Programme	Long Term	3,000	NA	[ICRA] AAA (stable) assigned	-	-	-	-	-
2.	Non-Convertible Debenture Programme	Long Term	4,000	2,885.25	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable) assigned	-
3.	Commercial Paper Programme	Short Term	500	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+ assigned	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Non-Convertible Debenture	NA	NA	NA	4114.75^	[ICRA]AAA(stable)
INE235P07167	Non-Convertible Debenture	22-Feb-16	8.70%	24-Feb-21	100.00	[ICRA]AAA(stable)
INE235P07175	Non-Convertible Debenture	22-Feb-16	8.70%	24-Feb-23	55.00	[ICRA]AAA(stable)
INE235P07183	Non-Convertible Debenture	22-Feb-16	8.73%	24-Feb-26	135.00	[ICRA]AAA(stable)
INE235P07191	Non-Convertible Debenture	22-Feb-16	8.73%	24-Feb-31	5.00	[ICRA]AAA(stable)
INE235P07209	Non-Convertible Debenture	22-Feb-16	8.73%	22-Feb-36	5.00	[ICRA]AAA(stable)
INE235P07217	Non-Convertible Debenture	26-Feb-16	8.70%	26-Feb-21	50.00	[ICRA]AAA(stable)
INE235P07225	Non-Convertible Debenture	21-Mar-16	8.75%	22-Apr-21	40.00	[ICRA]AAA(stable)
INE235P07233	Non-Convertible Debenture	21-Mar-16	8.75%	22-Mar-23	20.00	[ICRA]AAA(stable)
INE235P07241	Non-Convertible Debenture	21-Mar-16	8.75%	20-Mar-26	90.00	[ICRA]AAA(stable)
INE235P07274	Non-Convertible Debenture	29-Mar-16	8.72%	27-Mar-26	300.00	[ICRA]AAA(stable)
INE235P07282	Non-Convertible Debenture	12-Apr-16	8.70%	12-Apr-21	25.00	[ICRA]AAA(stable)
INE235P07290	Non-Convertible Debenture	4-May-16	8.65%	6-May-21	32.00	[ICRA]AAA(stable)
INE235P07308	Non-Convertible Debenture	4-May-16	8.67%	5-May-23	1.00	[ICRA]AAA(stable)
INE235P07316	Non-Convertible Debenture	4-May-16	8.67%	6-May-26	20.00	[ICRA]AAA(stable)
INE235P07340	Non-Convertible Debenture	12-May-16	8.65%	12-May-21	5.00	[ICRA]AAA(stable)
INE235P07373	Non-Convertible Debenture	10-Jun-16	8.70%	10-Jun-21	125.00	[ICRA]AAA(stable)
INE235P07399	Non-Convertible Debenture	10-Jun-16	8.75%	10-Jun-26	10.00	[ICRA]AAA(stable)
INE235P07431	Non-Convertible Debenture	16-Jun-16	8.80%	17-Jun-26	50.00	[ICRA]AAA(stable)
INE235P07456	Non-Convertible Debenture	23-Jun-16	8.80%	23-Jun-26	105.00	[ICRA]AAA(stable)
INE235P07506	Non-Convertible Debenture	3-Oct-16	8.43%	1-Oct-26	102.25	[ICRA]AAA(stable)
INE235P07514	Non-Convertible Debenture	3-Oct-16	8.43%	3-Oct-31	25.00	[ICRA]AAA(stable)
INE235P07530	Non-Convertible Debenture	13-Oct-16	8.25%	13-Oct-23	75.00	[ICRA]AAA(stable)
INE235P07548	Non-Convertible Debenture	13-Oct-16	8.30%	13-Oct-26	75.00	[ICRA]AAA(stable)
INE235P07563	Non-Convertible Debenture	8-Nov-16	8.05%	8-Dec-21	125.00	[ICRA]AAA(stable)
INE235P07571	Non-Convertible Debenture	15-Nov-16	8.15%	13-Nov-26	25.00	[ICRA]AAA(stable)
INE235P07589	Non-Convertible Debenture	28-Nov-16	7.85%	28-Dec-21	50.00	[ICRA]AAA(stable)
INE235P07597	Non-Convertible Debenture	29-Nov-16	7.85%	29-Dec-21	50.00	[ICRA]AAA(stable)
INE235P07605	Non-Convertible Debenture	15-Dec-16	8.05%	15-Dec-23	25.00	[ICRA]AAA(stable)
INE235P07613	Non-Convertible Debenture	13-Jan-17	7.95%	11-Feb-22	15.00	[ICRA]AAA(stable)
INE235P07621	Non-Convertible Debenture	17-Jan-17	7.95%	17-Feb-22	14.00	[ICRA]AAA(stable)
INE235P07639	Non-Convertible Debenture	10-Feb-17	7.89%	10-Feb-22	36.00	[ICRA]AAA(stable)
INE235P07647	Non-Convertible Debenture	13-Apr-16	7.90%	13-May-20	190.00	[ICRA]AAA(stable)
INE235P07654	Non-Convertible Debenture	13-Apr-16	8.02%	13-May-22	75.00	[ICRA]AAA(stable)
INE235P07662	Non-Convertible Debenture	24-Apr-16	7.90%	29-Apr-20	5.00	[ICRA]AAA(stable)
INE235P07670	Non-Convertible Debenture	24-Apr-16	8.00%	24-May-22	40.00	[ICRA]AAA(stable)
INE235P07688	Non-Convertible Debenture	4-May-17	8.08%	3-May-24	125.00	[ICRA]AAA(stable)
INE235P07696	Non-Convertible Debenture	11-May-17	8.00%	11-May-22	55.00	[ICRA]AAA(stable)
INE235P07704	Non-Convertible Debenture	16-May-17	8.08%	16-May-24	40.00	[ICRA]AAA(stable)
INE235P07712	Non-Convertible Debenture	22-May-17	8.00%	1-Jun-22	25.00	[ICRA]AAA(stable)
INE235P07720	Non-Convertible Debenture	31-May-17	8.07%	31-May-24	35.00	[ICRA]AAA(stable)
INE235P07738	Non-Convertible Debenture	31-May-17	8.20%	31-May-32	105.00	[ICRA]AAA(stable)

ISIN No	Instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE235P07746	Non-Convertible Debenture	8-Jun-17	8.01%	8-Jun-22	90.00	[ICRA]AAA(stable)
INE235P07753	Non-Convertible Debenture	8-Jun-17	8.08%	10-Jun-24	100.00	[ICRA]AAA(stable)
INE235P07761	Non-Convertible Debenture	14-Jun-17	8.00%	14-Jun-22	35.00	[ICRA]AAA(stable)
INE235P07779	Non-Convertible Debenture	14-Jun-17	8.07%	14-Jun-24	25.00	[ICRA]AAA(stable)
INE235P07787	Non-Convertible Debenture	16-Jun-17	8.00%	16-Jun-22	100.00	[ICRA]AAA(stable)
INE235P07795	Non-Convertible Debenture	16-Jun-17	8.07%	14-Jun-24	50.00	[ICRA]AAA(stable)
-	Commercial Paper	NA	NA	7-365 days	500.00	[ICRA]A1+

^Yet to be placed

Source: L&T Infra Debt Fund Limited

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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