

August 08, 2022<sup>(Revised)</sup>

## L&T Finance Holdings Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                                | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                 |
|--|--------------------------------------|-------------------------------------|-------------------------------|
| <b>Non-convertible Debenture Programme</b> | 1,000.00                             | 1,000.00                            | [ICRA]AAA(Stable); reaffirmed |
| <b>Commercial Paper Programme</b>          | 2,500.00                             | 2,500.00                            | [ICRA]A1+; reaffirmed         |
| <b>Total</b>                               | <b>3,500.00</b>                      | <b>3,500.00</b>                     |                               |

\*Instrument details are provided in Annexure-1

### Rationale

L&T Finance Holdings Limited (LTFHL) is a holding company with a diversified business profile in the financial services space. LTFHL's wholly-owned subsidiaries operate in retail finance (rural business finance, farmer finance and urban finance – comprising of HL/LAP, TW and Consumer loans) and wholesale finance and asset management businesses. While arriving at the rating for LTFHL, ICRA has considered the consolidated performance of LTFHL and its finance subsidiaries (collectively referred to LTFHL Group) given the strong operational and financial synergies between the companies.

The ratings for LTFHL group continue to draw significant strength from LTFHL's parentage, with Larsen & Toubro Ltd. (L&T, rated [ICRA]AAA(Stable)/[ICRA]A1+) holding 66.2% equity in the company as on June 30, 2022 and the expectation that support from L&T in the form of both capital, liquidity support and management oversight, would continue going forward as well. In the past, L&T has demonstrated support to the group in the form of capital infusion, with latest being capital infusion of ~Rs. 1,900 crore (out of total rights issue of Rs. 3,000 crore) in FY2021. The ratings also factor in the adequate capitalization profile, comfortable liquidity profile of the group supported by a diversified borrowing mix and good financial flexibility owing to the parentage. The ratings also favorably factor in the improved granularity of the group's loan book with increased share of retail loans in the portfolio mix (54% as on June 30, 2022, as compared with 43% as on March 31, 2021) driven by the long-term strategy of the group to increase the overall retail share to over 80% by FY2026. ICRA also notes the improvement in the asset quality indicators for the group, with reported gross stage 3% (consolidated) of 4.08% as on June 30, 2022, as compared with 6.67% as on June 30, 2021 owing to improved collections across assets classes and some reduction on account of sale of delinquent accounts to asset reconstruction companies (ARCs). Further, the group also had an overall standard restructured book of Rs. 2,019 crore as on June 30, 2022. The group maintains management overlay provisions of ~Rs. 1,450 crore and thus incremental impact on the profitability may be limited even if there were to be significant slippages from the restructured loan book. The strengths are, however, partially offset by the moderate profitability of the group and the presence of the group in relatively riskier lending segments and portfolio vulnerability arising out of wholesale book especially real estate lending. ICRA however notes that the group plans to gradually rundown the real estate book over the medium term and the infrastructure financing would also be done on a selective basis, operating on an asset light model. While ICRA does not expect significant asset quality challenges from the infrastructure portfolio given that the focus is on sectors such as renewable, roads and transmission, ~80% of the portfolio is operational and there have been limited slippages in the book originated since 2012, however there could be some credit costs from the real estate portfolio. Nevertheless, the group has good pre-provision profitability (~4% in FY2022) on a consolidated basis and thus can make additional provisions, if required. Incrementally, the ability of the company to manage the asset quality in the retail segments, especially relatively higher yielding unsecured products would be a key monitorable. Also, continued support from L&T, sustained financial performance and ability to reduce portfolio vulnerability remain key rating monitorable.

## Key rating drivers and their description

### Credit strengths

**Strong parentage and strategic importance to L&T Group** - LTFHL is majority owned by L&T (rated [ICRA]AAA (stable)). L&T foresees LTFHL as a critical and integral part of L&T Group's long-term strategy. LTFHL and its subsidiaries, while operating independently, benefit from the brand name of L&T. The parent's demonstrated support in the form of capital (equity capital infusion of ~Rs. 1,900 crore in FY2021 and earlier Rs. 2,000 crore in FY2018), management and technical support, presence of liquidity lines, strengthens LTFHL group's credit profile. While with the change in the long-term strategy for LTFHL group towards retail segments, the extent of operational synergies between LTFHL and L&T could reduce, nevertheless, ICRA believes that L&T will continue to maintain linkages, management oversight & control and majority shareholding on an ongoing basis. Also, LTFHL group's access to other L&T Group companies could support in stress resolution especially in the real estate portfolio. Thus, LTFHL's ratings continue to draw strength from L&T and any change in the rating of the parent and/or support from the parent company would be a key rating sensitivity.

**Diversified portfolio mix with increasing share of retail loans** - At a consolidated level, LTFHL's lending book moderated to Rs. 88,078 crore as on June 30, 2022 from Rs. 88,341 crore as on March 31, 2022 (Rs. 94,013 crore as on March 31, 2021) with the decline largely been on account of run-down of the wholesale books while retail loans continued to grow. As on June 30, 2022, 54% LTFHL's portfolio comprised of loans to retail segments (Rural business loans (16%), Farm Equipment (13%), Two-wheeler (9%), Home Loans/LAP (13%) and consumer loans (3%)) while the balance 46% comprised loans to the wholesale segments (Real Estate Finance (11%), Infrastructure Finance (34%) and defocused book (1%)). Going forward, the retail book is expected to grow at a higher pace while wholesale loans would continue to degrow. LTFS has introduced some new allied products to existing product suite of retail segment and launched new SME finance business during FY22. As per LTFS "Lakshya 2026" strategic plan LTFS has targeted to increase the retail assets proportion to 80% in medium to long-term, which is currently at 54% (June 30, 2022). Also, the retail portfolio reported the highest ever quarterly disbursement and had grown by 19% Y-o-Y to Rs. 47,794 crore as on June 30, 2022. Among the retail segment, the consumer loan product, which was started in Q3FY20, stood at Rs. 3,027 crore as on June 30, 2022 (Rs. 780 crore as on June 30, 2021), mainly driven by the extensive use of digitalization.

**Comfortable capitalisation levels with demonstrated financial support from parent** - At the consolidated level, LTFHL's capitalisation remains adequately supported by its track record of raising funds and good internal capital generation. Muted business growth in FY2022 and equity capital raise of Rs. 3,000 crore through rights issue in Q4FY2021 resulted in improvement in gearing to 4.4 times as on March 31, 2022 and further to 4.1 times as June 30, 2022 (4.7 times as on March 31, 2021). Consolidated CRAR remained stable at 23.12% (Tier 1: 19.98%) on June 30, 2022. ICRA believes that prudent capitalisation is one the key mitigants to absorb any asset quality related shocks and expects that the company would maintain prudent capitalisation profile going forward. Nonetheless, given the strong parentage and the demonstrated ability of the entity to raise capital from market, the capitalisation profile of the LTFHL is expected to remain adequate. ICRA expects the support from L&T would be forthcoming as and when required.

**Good financial flexibility and diversified borrowing mix** - The group enjoys good financial flexibility in raising funds at competitive rates, with the strong brand name of L&T and its track record of raising funds from banks and capital markets. The funding profile of the group is fairly diversified with a mix of non-convertible debentures, bank borrowings, and commercial paper. As on June 30, 2022, overall market borrowings stood at ~53% of total borrowings with balance being bank borrowings. At the same time, the proportion of commercial papers in the overall funding mix remained low at 8% as on June 30, 2022. ICRA takes comfort from the company's liquidity buffers, cash flow from its short-term assets and policy of maintaining adequate unutilized bank facilities as a liquidity backup. The liquidity profile is also supported by the good financial flexibility of the Group and the Rs. 1,800 crore revolving line of credit from L&T as a standby liquidity arrangement.

## Credit challenges

**Moderate asset quality indicators, albeit improving** - The asset quality indicators for the group improved further in FY2022 with consolidated Gross and Net Stage 3 at 4.1% and 1.9%, respectively as on June 30, 2022 as compared with 6.7% and 2.3% respectively as on June 30, 2021 on account of controlled slippages, recoveries and write-offs in retail segments and improvement in asset quality indicators for infrastructure financing business. Furthermore, LTFS had an OTR book of Rs. 2,019 crore outstanding as on June 30, 2022. From a credit cost perspective, the investment in security receipts (Rs. 4,886 crore as on March 31, 2022) could have some bearing on the earning profile owing to incremental provisioning requirements, as and when required. ICRA notes that the group has maintained additional/macro-prudential provisions (over and above ECL on GS3, standard assets provisions) of Rs. 1,450 crore as on June 30, 2022 for unanticipated future event risks and given that some business segments are currently under moratorium, these provisions, are expected to mitigate the impact on profitability going forward to some extent. Overall, the profitability remained moderate in FY2021 and FY2022 on account of high credit costs incurred over the past 2 years. LTFS under its "Lakshya 2026" strategy plans to extensively make use of digitization in all the functional areas of sourcing, underwriting, disbursement, and collections. As per LTFS management, the focus on digitization will help in better servicing of customer and maintain good credit quality. Overall, the Group's ability to profitably grow business volumes while improving the asset quality would have a bearing on its overall financial profile and would be a key monitorable.

**Presence in relatively riskier lending segments, albeit gradually declining share of wholesale exposures** - The overall portfolio vulnerability remains high for the group in some key business segments. In the micro loans segment and 2-wheeler segment, as the livelihood and cash flows of the underlying borrowers where the customer profile is primarily from relatively weaker socio-economic background have been somewhat impacted; hence these segments are likely to remain vulnerable given the rising inflation and interest rates. Nonetheless, the collection performance post covid-19 periods has improved for both these business segments. Also, the real estate sector continues to witness some stress and therefore the asset quality in this segment is a key monitorable. While the company has large ticket size exposures in Infrastructure finance, the focus is on sectors such as renewable, roads and transmission, which face relatively lower cash flow risk. Nevertheless, the group's sell down strategy facilitates room for disbursement in infrastructure financing segment without increase in capital allocation to the segment. LTFHL group has been focusing on increasing the granularity in the loan book with increased share of retail business in portfolio mix (54% as on June 30, 2022, as compared with 43% as on March 31, 2021). LTFHL's ability to manage recoveries or mitigate losses through the enforcement of security while arresting fresh slippages and thus keeping a check on the credit costs will have a bearing on its earning profile.

## Liquidity position: Strong

The liquidity profile of LTFHL is comfortable at a standalone as well as at a consolidated level. On a consolidated basis ALM profile, as on June 30, 2022, reflected positive cumulative mismatch across all buckets upto 1 year. As of June 30, 2022, the company had available liquidity in the form of cash and liquid investments of ~Rs. 7,770 crore, unutilised bank lines of ~Rs. 4,168 crore (including Rs. 1,800 crore credit line from L&T as on June 30, 2022), providing comfortable liquidity cover over the principal debt repayments of Rs. 29,342 crore which are due over the next one year. Further, liquidity is supported by expected principal cash inflow of ~Rs. 31,737 crore from the advances in the above mentioned period. LTFHL enjoys strong financial flexibility to mobilise long term funding on the back of its established track record and parentage.

## Rating sensitivities

**Positive factors** - Not applicable.

**Negative factors** - Any significant change in the likelihood of support from the parent or a deterioration in the parent's credit profile could warrant a rating revision. Pressure on the ratings could emerge in case of an increase in the consolidated leverage on a sustained basis to over 7.5 times and/or the weakening of the asset quality leading to a deterioration in the solvency profile (Net stage 3/Net worth >20%) on a sustained basis.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable Rating Methodologies | <a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a><br><a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a><br><a href="#">Rating approach - Consolidation</a>   |
| Parent/Group Support            | Ultimate parent / Investor: Larsen & Toubro Ltd.<br>The ratings continue to draw significant strength from LTFHL's parentage, with L&T holding 66.23% equity in the company as on June 30, 2022 and the expectation that support from L&T would continue and be forthcoming as and when required. The ratings also draw comfort from the LTFHL Group's increased strategic importance to the parent with financial services being a focus area for the L&T group and LTFHL being the holding company for L&T Group's financial services business. |
| Consolidation/Standalone        | While arriving at the rating, ICRA has considered the consolidated performance of LTFHL and its subsidiaries carrying businesses as finance companies, given the strong operational and financial synergies between the companies.<br><i>Please refer to annexure 2</i>   |

## About the company

L&T Finance Holdings Limited (LTFHL) was originally incorporated as L&T Capital Holdings Ltd in May 2008 and its name was subsequently changed in September 2010. The company is registered as an NBFC-CIC with the RBI. It is promoted by Larsen & Toubro Limited (L&T) as the holding company of L&T Group's financial services companies.

LTFHL, through its subsidiaries, offers a diverse range of financial products and services across rural, housing and wholesale finance businesses. It also offers fund management and other non-fund based services, such as insurance and mutual fund distribution and financial advisory services (project finance and pre-bid advisory), through its subsidiaries. L&T holds a majority stake of 66.2% stake in LTFHL as on June 30, 2022.

On a consolidated basis, LTFHL reported a profit after tax (PAT) of Rs. 1,049 crore on an asset base of Rs. 1,06,902 crore for the year FY2022 as compared with a PAT of Rs. 949 crore on an asset base of Rs. 1,08,972 crore for FY2021. For Q1FY2023, the group reported a PAT of Rs. 262 crore. The consolidated entity's net worth was Rs. 20,193 crore as on June 30, 2022.

### L&T Limited

L&T is a leading engineering and construction company in India with a nationwide as well as international presence. It has interests in infrastructure, power, metallurgical and material handling, heavy engineering, shipbuilding, 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 involved in the hydrocarbon business, IT services, financial services and infrastructure development ventures.

## Key financial indicators

| L&T Finance Holdings Limited (consolidated)        | FY2020  | FY2021  | FY2022  |
|--|---------|---------|---------|
| Total Income                                       | 14,477  | 14,080  | 12,324  |
| Profit after tax (PAT)                             | 2,174*  | 949     | 1,049   |
| Net Worth  | 14,692  | 18,773  | 19,948  |
| Lending business Book                              | 98,384  | 94,013  | 88,341  |
| Total assets                                       | 109,545 | 108,972 | 106,902 |
| Return on average total assets (PAT/ATA)           | 2.0%*   | 0.9%    | 1.0%    |
| Return on average net worth (PAT/Avg. net worth) # | 15.5%*  | 5.8%    | 5.5%    |
| Consolidated gearing (times)                       | 6.4     | 4.7     | 4.3     |
| Gross Stage 3                                      | 5.4%    | 5.0%    | 3.8%    |
| Net Stage 3  | 2.3%    | 1.6%    | 2.0%    |
| Net Stage 3/Net worth                              | 14.1%   | 7.3%    | 8.4%    |

\* Prior to deduction of one-time DTA of Rs. 473.38 crore during FY2020 post transition to new tax regime. Net of one-time DTA impact, PAT during FY2020 stood at Rs. 1,700 crore translating into RoA and RoE of 1.58% and 12.08%.

#Excluding minority interest

Source: Company, ICRA Research Amount in Rs. Crore; ICRA calculations

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

**Any other information: None**

### Rating history for past three years

| S.no. | Instrument                          | Type       | Current rating (FY2023)  |  |                    | Rating history for past 3 years |                           |                      |                           |                      |
|-------|-------------------------------------|------------|--------------------------|--|--------------------|---------------------------------|---------------------------|----------------------|---------------------------|----------------------|
|       |                                     |            | Amount Rated (Rs. crore) | Amount O/s as of Jun-30-22 (Rs. crore) | Date and rating    | Date and rating in FY2022       | Date and rating in FY2021 |                      | Date and rating in FY2020 |                      |
|       |                                     |            |                          |  | Aug-08-22          | Aug-09-21                       | Sep-30-20                 | May-4-20             | Mar-31-20                 | 30-Aug-19            |
| 1     | Commercial Paper Programme          | Short term | 2,500.00                 | -                                      | [ICRA]A1+          | [ICRA]A1+                       | [ICRA]A1+                 | [ICRA]A1+            | [ICRA]A1+                 | [ICRA]A1+            |
| 2     | Non-convertible Debenture Programme | Long term  | 1,000.00                 | -                                      | [ICRA]AAA (stable) | [ICRA]AAA (stable)              | [ICRA]AAA (negative)      | [ICRA]AAA (negative) | [ICRA]AAA (negative)      | [ICRA]AAA (negative) |

Source: Company, ICRA Research

### Complexity level of the rated instrument

| Instrument                          | Complexity Indicator |
|-------------------------------------|----------------------|
| Non-convertible debenture programme | Very Simple          |
| Commercial paper programme          | Very Simple          |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

#### Annexure-1: Instrument details

| ISIN No         | Instrument Name           | Date of Issuance / Sanction | Coupon Rate (In %) | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|-----------------|---------------------------|-----------------------------|--------------------|---------------|--------------------------|----------------------------|
| NA <sup>^</sup> | Commercial Paper          | NA                          | NA                 | 7-365 days    | 2,500.00                 | [ICRA]A1+                  |
| NA <sup>^</sup> | Non-Convertible Debenture | NA                          | NA                 | NA            | 1,000.00                 | [ICRA]AAA (stable)         |

Source: Company; <sup>^</sup>Yet to be placed/unutilised

#### Annexure-2: List of entities considered for consolidated analysis

| Company Name   | Ownership       | Consolidation Approach |
|--|-----------------|------------------------|
| L&T Finance Holdings Limited                           | Holding Company | Full                   |
| L&T Finance Limited                                    | Subsidiary      | Full                   |
| L&T Infra Credit Limited                               | Subsidiary      | Full                   |
| L&T Infra Investment Partners Advisory Private Limited | Subsidiary      | Full                   |
| L&T Infra Investment Partners Trustee Private Limited  | Subsidiary      | Full                   |
| L&T Investment Management Limited                      | Subsidiary      | Full                   |
| L&T Mutual Fund Trustee Limited                        | Subsidiary      | Full                   |
| L&T Financial Consultants Limited                      | Subsidiary      | Full                   |
| L&T Infra Investment Partners                          | Subsidiary      | Full                   |

Source: Annual report for FY2022

#### Corrigendum

Updated the link for “Rating Approach-Consolidation” in the analytical approach section on page 4 on the document dated August 8, 2022.

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Manushree Saggar**

+91 124 4545 316

[manushrees@icraindia.com](mailto:manushrees@icraindia.com)

**Sandeep Sharma**

+91 124 4545 820

[sandeep.sharma@icraindia.com](mailto:sandeep.sharma@icraindia.com)

**Balram Yadav**

+91 22 6114 3400

[balram.yadav@icraindia.com](mailto:balram.yadav@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001  
Tel: +91-11-23357940-45



### Branches



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