

August 8, 2023<sup>(Revised)</sup>

## L&T Finance Holdings Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (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

While arriving at the rating for L&T Finance Holdings Limited (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. 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 Urban Finance and SME Finance) and Wholesale Finance.

The ratings for LTFHL group favourably factor in the improved granularity of the group's loan book with increased share of retail loans in the portfolio mix (82% as on June 30, 2023, as compared with 54% as on June 30, 2022) in line with the long-term strategy (Lakshya 2026) of the group to increase the overall retail share to >80%. This increase in share of retail loan book is driven by 34% YoY growth in retail portfolio and 65% YoY decline in wholesale portfolio during the period (June 30, 2022 to June 30, 2023). The ratings continue to draw significant strength from LTFHL's parentage, with Larsen & Toubro Ltd. (L&T, rated [ICRA]AAA(Stable)/[ICRA]A1+) holding 66.1% equity in the company as on June 30, 2023 and the expectation that support from L&T in the form of capital, liquidity support and management oversight, would continue going forward as and when needed. In the past, L&T has demonstrated support to the group in the form of equity capital infusion, with latest being capital infusion of ~Rs. 1,900 crore (out of total rights issue of Rs. 3,000 crore) in FY2021.

ICRA also notes the improvement in the asset quality indicators for the group, with reported net stage 3 (consolidated) of 1.2% as on June 30, 2023 from 1.9% as on June 30, 2022 owing to improved collections across asset classes and some reduction on account of sale of delinquent wholesale accounts to asset reconstruction companies (ARCs). In addition to the stage 3 provision cover of 71%, the group also maintains a provision cover of 72% on stage 2 retail assets (2.0% of retail book) as on June 30, 2023 and created a one-time provision of Rs. 2,687 crore in Q3 FY2023, which is expected to mitigate the impact on incremental profitability. The ratings also factor in the comfortable capitalization profile, strong liquidity profile of the group supported by a diversified borrowing mix and good financial flexibility owing to the parentage.

The strengths are, however, partially offset by the modest, albeit improving asset quality and moderate profitability over the past few years due to the presence of the group in relatively riskier lending segments. The profitability profile for the group is expected to improve over the medium term supported by increasing share of higher yielding retail assets in the portfolio mix and sell-down/rundown of the wholesale portfolio. The return on assets (RoA) in the retail segment stood at 3.1% in Q1 FY2024 (2.5% in FY23); which is in line with the company's Lakshya RoA target of 2.8%-3%. While ICRA does not expect significant asset quality challenges from the infrastructure portfolio given that the portfolio majorly comprises of sectors such as renewable, roads and transmission and ~90% of the portfolio is operational, however there could be some credit costs on the real estate portfolio and investments in security receipts. Nevertheless, the group has good pre-provision profitability (4.4% in FY2023) on a consolidated basis and thus can make additional provisions, if required. ICRA takes note of the company's market share

and track record of sustainable business performance in retail loan products such as Farm Finance, Two-wheeler and Rural Business Finance, which constitutes majority proportion of retail book. Incrementally, the ability of the company to manage the asset quality in the relatively higher yielding newer unsecured products needs to be seen in the medium to long-term. Also, sustained financial performance and ability to reduce portfolio vulnerability remain key rating monitorable.

In January 2023, the Board of Directors of LTFHL had approved scheme for amalgamation of its subsidiaries by way of merger of its subsidiary lending entities - L&T Finance Ltd. and L&T Infra Credit Ltd. with the holding company. In March 2023, the RBI approved the scheme. The scheme remains subject to various other statutory and regulatory approvals. The proposed scheme is unlikely to impact the credit profile of the company, as while arriving at the ratings, ICRA has considered the consolidated performance of LTFHL and its subsidiaries.

## Key rating drivers and their description

### Credit strengths

**Strong parentage and strategic importance to L&T Group** - LTFHL is majority owned by L&T. L&T foresees LTFHL as an 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. ICRA believes that L&T will continue to maintain linkages, management oversight & control and majority shareholding on an ongoing basis. L&T's senior representatives participate in LTFHL group's credit committee, risk management committee and asset-liability management committee. Furthermore, the CEO & MD of L&T Group is the chairman of LTFHL, which ensures adequate supervision of LTFHL group's performance. Also, LTFHL group's access to L&T Group could support in resolution in wholesale accounts 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. 78,566 crore as on June 30, 2023 from Rs. 88,078 crore as on June 30, 2022 (Rs. 80,893 crore as on March 31, 2023) with the decline largely been on account of run-down of the wholesale books while retail book grew by 34% over the past 12 months. As on June 30, 2023, 82% (Rs. 64,274 crore) of LTFHL's portfolio comprised of loans to retail segments (Rural Business Finance (25%), Farmer Finance (17%), Two-wheeler (12%), Home Loans/LAP (18%) and Consumer Loans (8%), SME and acquired portfolio (3%)) while the balance 18% comprised loans to the wholesale segments (Real Estate Finance (5%), Infrastructure Finance (13%) and defocused book (0.3%)). Among the retail segment, the consumer loan product, which was started in Q3FY20, stood at Rs. 5,995 crore as on June 30, 2023 (Rs. 3,027 crore as on June 30, 2022), mainly driven by the extensive use of digitalization and cross selling to the existing customer base. Going forward, the retail book is expected to grow at a ~25% (CAGR) over the medium term while wholesale loans would continue to degrow. This is in line with the "Lakshya 2026" strategic plan targeted to maintain the retail assets proportion of >80% in medium to long-term. The growth in the retail segment could also be driven by enhancing the digital presence (e.g. PLANET App.) and leveraging data analytics.

**Comfortable capitalisation levels with demonstrated financial support from parent** - At the consolidated level, LTFHL's capitalisation is comfortable supported by its track record of raising funds, degrowth of loan book and positive internal capital generation. Degrowth of book in FY2023 and Q1FY2024 resulted in improvement in gearing to 3.9 times as on March 31, 2023 and further to 3.4 times as June 30, 2023 (4.3 times as on March 31, 2022). Consolidated CRAR remained comfortable at 25.75% (Tier 1: 23.42%) on June 30, 2023. ICRA believes that prudent capitalisation is one of the key mitigants to absorb any asset quality related shocks and expects that the company would maintain prudent capitalisation profile going forward. While given the portfolio growth plans, going forward the gearing is expected to increase gradually. 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 comfortable. 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, 2023, bank borrowings constituted for 53% of total borrowings with balance being NCDs (40%), CP (4%), and others (3%). ICRA takes comfort from the company's liquidity buffers, as well as a prudent practice of maintaining adequate unutilized bank facilities and cash flow from its short-term assets. The liquidity profile is also supported by the good financial flexibility of the LTFHL Group and the Rs. 1,000 crore revolving line of credit from L&T as a standby liquidity arrangement.

### Credit challenges

**Modest asset quality indicators, albeit improving** - The asset quality indicators for the group improved over the past year to consolidated Gross and Net Stage 3 at 4.0% and 1.2%, respectively as on June 30, 2023 (4.7% and 1.5% as on March 31, 2023) from 4.1% and 1.9% respectively as on June 30, 2022 on account of controlled slippages, recoveries and write-offs in retail segments and sale of delinquent/vulnerable wholesale accounts to ARCs. The retail segments Gross and Net Stage 3 were at 3.2% and 0.7% as on June 30, 2023 improved from 3.6% and 0.9% respectively as on June 30, 2022. From a credit cost perspective, the investment in security receipts (Rs. 6,321 crore as on March 31, 2023) could require some incremental provisions. In infrastructure finance, majority of book comprises of operational renewable energy projects which face relatively low cash flow risk. In addition to the stage 3 provision cover of 71%, the group also maintains a provision cover of 72% on stage 2 retail assets (2.0% of retail book) as on June 30, 2023 and creation a one-time provision of Rs. 2,687 crore in Q3 FY2023 which is expected to mitigate the impact on incremental profitability. LTFHL group under its "Lakshya 2026" strategy plans to extensively make use of digitization in all the functional areas of sourcing, underwriting, disbursement, servicing and collections. 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. The profitability in the retail segment has however seen an improvement; the RoA in the retail segment stood at 3.1% in Q1 FY2024 (2.5% in FY23); which is in line with the company's Lakshya RoA target of 2.8%-3%.

**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 Rural Business Finance and Two-wheeler segments customer profile is primarily from relatively weaker socio-economic background. Nonetheless, ICRA takes note of LTFHL group's long-term presence and sustained business performance in the retail loan products including Two-wheeler and Rural Business Finance. Further, seasoning on the recently launched unsecured consumer loans business is yet to be seen. While, the real estate sector's asset quality continues to be a key monitorable. LTFHL group increased the granularity of the loan book with increased share of retail business in portfolio mix (82% as on June 30, 2023 from 54% as on June 30, 2022). LTFHL's ability to manage recoveries or mitigate losses through 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 group is strong at a consolidated level. On a consolidated basis ALM profile, as on June 30, 2023, reflected positive cumulative mismatch across all buckets upto 1 year. As of June 30, 2023, the company had available liquidity in the form of cash and liquid investments of ~Rs. 12,018 crore, unutilised bank lines of ~Rs. 8,942 crore (including credit line from L&T), providing comfortable liquidity cover over the debt repayments (principal + interest) of Rs. 25,931 crore which are due over the next one year. Further, liquidity is supported by expected cash inflow of ~Rs. 41,064 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.

### Environmental and social risks

Given the service-oriented business of LTFHL Group, its direct exposure to environmental risks/material physical climate risks is not significant. Lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, though

such risks are not material for LTFHL Group as its lending operations encompass a well-diversified portfolio of products and increasing share of retailisation. There is increasing interest from policymakers towards identifying the exposure of financing companies to carbon emissions through their financing activities. This process is, however, in an early stage and ICRA expects any adverse implications to manifest only over a longer time horizon, giving financing companies adequate time to adapt and minimize the credit implications. LTFHL Group, in line with its commitment to become Carbon Neutral by 2035, has been assessing its carbon footprint across its business operations and reducing its carbon footprint.

With regard to social risks, data security and customer privacy are among the key sources of vulnerabilities for financial institutions as any material lapses could be detrimental to the reputation and invite regulatory censure. The group hasn't faced such lapses over the years which highlights its sensitivity to such risks.

## 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 a significant increase in the consolidated leverage on a sustained basis 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> <a href="#">Rating Approach - Implicit parent or group support</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group Support	Ultimate parent / Investor: Larsen & Toubro Ltd. The ratings continue to draw significant strength from LTFHL's parentage, with L&T holding 66.1% equity in the company as on June 30, 2023 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. <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 business finance, urban finance (housing, two-wheeler and consumer loans), farmer finance, SME and wholesale finance businesses. L&T holds a majority stake of 66.1% stake in LTFHL as on June 30, 2023.

On a consolidated basis, LTFHL reported a profit after tax (PAT) of Rs. 1,536 crore on an asset base of Rs. 1,06,362 crore for the year FY2023 as compared with a PAT of Rs. 1,049 crore on an asset base of Rs. 1,06,902 crore for FY2022. For Q1FY2024, the group reported a PAT of Rs. 531 crore. The consolidated entity's net worth was Rs. 22,072 crore as on June 30, 2023.

In January 2023, the Board of Directors of LTFHL had approved scheme for amalgamation of its subsidiaries by way of merger of its subsidiary lending entities - L&T Finance Ltd. and L&T Infra Credit Ltd. with the holding company. In March 2023, the RBI approved the scheme. The scheme remains subject to various other statutory and regulatory approvals.

## 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)	FY2021	FY2022	FY2023
	Audited	Audited	Audited
Total Income	14,080	12,324	13,302
Profit after tax (PAT)	949	1,049	1,536
Net Worth	18,773	19,948	21,528
Lending business Book	94,013	88,341	80,893
Total assets	108,972	106,902	106,362
Return on average total assets (PAT/ATA)	0.9%	1.0%	1.4%
Return on average net worth (PAT/Avg. net worth)	5.8%	5.5%	7.8%
Consolidated gearing (times)	4.7	4.3	3.9
Gross Stage 3	5.0%	4.1%	4.7%
Net Stage 3	1.6%	2.0%	1.5%
Net Stage 3/Net worth	7.3%	8.4%	5.5%

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	Current rating (FY2024)				Rating history for past 3 years			
		Type	Amount Rated (Rs. crore)	Amount O/s as of Jun-30-23 (Rs. crore)	Date and rating	Date and rating in FY2023	Date and rating in FY2022	Date and rating in FY2021	
					Aug-8-23	Aug-08-22	Aug-09-21	Sep-30-20	May-4-20
1	Commercial Paper Programme	Short term	2,500.00	-	[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 (stable)	[ICRA]AAA (negative)	[ICRA]AAA (negative)

Source: Company, ICRA Research

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture programme	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 as on June 30, 2023

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

Source: Company; ^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 Infra Investment Partners	Subsidiary	Full
L&T Mutual Fund Trustee Limited	Subsidiary	Full
L&T Financial Consultants Limited	Subsidiary	Full
Mudit Cement Private Limited	Subsidiary	Full

Source: Financial Results Q1FY24

#### Corrigendum

Updated the link for “Rating Approach-Consolidation” in the analytical approach section on page 4 on the document dated August 8, 2023.

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### Branches



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