

Family Credit Limited

	Amount (In Rs. Crore)	Rating Action (October 2016)
Non-Convertible Debenture Programme	1,500	[ICRA]AA+ (stable); reaffirmed
Subordinated Debt Programme	325	[ICRA]AA+ (stable); reaffirmed
Perpetual Debt Programme	100	[ICRA]AA (stable); reaffirmed

ICRA has reaffirmed the rating of [ICRA]AA+ (stable) (pronounced ICRA double A plus) for the Rs. 1,500 crore non-convertible debenture programme and the Rs. 325 crore subordinated debt programme of Family Credit Limited (FCL)[†]. ICRA has also reaffirmed the rating of [ICRA]AA (stable) (pronounced ICRA double A) for the Rs. 100 crore perpetual debt programme of the company. The outlook on the long term ratings is 'Stable'.

The one notch lower rating assigned to the perpetual debt programme as compared with the [ICRA]AA+ rating to the other long-term debt programmes of the company reflects the specific features of these instruments wherein the debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. As per the domestic regulatory norms for hybrid debt capital instruments, the company needs an approval from the Reserve Bank of India for debt servicing (including principal repayments) if it were to report a loss; further, the company will not be liable to service the perpetual debt if it breaches the minimum regulatory capitalisation norms.

The reaffirmation of the ratings takes into consideration the stabilization of FCL's operations post its integration with the financial services entities of L&T Holdings Finance Limited (LTHFL). ICRA notes that FCL has been able to leverage the group's strong franchise, management and systems and its enhanced financial flexibility to achieve its targeted growth; the company's loan book has increased from Rs. 3,525 crore as on March 31, 2015 to Rs. 5,152 crore as on March 31, 2016. ICRA also notes that FCL's key product segment of two-wheeler financing is an important extension of the existing bouquet of financial products offered by the group, leading to improved synergies and operating leverage for the group. FCL therefore is strategically important for the group and ICRA expects the parent (ultimately owned by Larsen & Toubro Limited (L&T), rated at [ICRA]AAA with stable outlook) to provide adequate support, in case of need, to ensure full and timely servicing of FCL debt obligations. ICRA also takes note of the change in LTHFL's business, including a rationalisation of product offerings and the proposed amalgamation of L&T FinCorp Limited and L&T Finance Limited (both rated at [ICRA]AA+ (stable)), with FCL, subject to regulatory and other approvals. While the combined entity will be the group's primary vehicle for retail financing, along with L&T Housing Finance, it will also engage in in non-infra related financing to corporates. The ratings also factor in the capital funding, management, systems and infrastructure support that the company gets from LTFHL and group companies. ICRA expects the company to be adequately capitalised in relation to its growth plans over the medium term, supported by timely capital infusions by LTFHL.

The ratings also factors in the company's demonstrated ability to scale business volumes while maintaining reasonable returns. FCL's loan portfolio grew by ~46% in FY2016 to stand at Rs. 5,152 crore as on March 31, 2016 as compared with Rs. 3,525 crore as on March 31, 2015, supported by growth in its corporate loan book during the year. Two-wheeler loans accounted for 34% of the book as on March 31, 2016 while mid-corporate loan, vehicle financing and loan against shares accounted for 23%, 18% and 8% respectively. During FY2016, despite a reduction in cost of funds, FCL's NIMs moderated on account of a decline in its yields on advances due to increased share of corporate advances in its book. The company's operating expenses continued to decline with the cost to income ratio moderating to 46% during FY2016 from 54% during FY2015. Its credit costs however were impacted mainly on account of transition to revised NPA recognition and asset quality moderation. The company reported GNPA and NNPA at 5.2% and 3.4% respectively as on March 31, 2016 (as per 150+ dpd NPA recognition norm), compared to 3.0% and 1.1% as on March 31, 2015 (as per 180+ dpd NPA recognition norm). The company's profitability thus declined marginally with RoA and RoE reported at 1.9% and 14.8% respectively in FY2016 as compared to an RoA and an RoE of 2.0% and 14.3% in FY2015. The company's gearing also increased to 7.3 times as on March 31, 2016 from 5.8 times as on March 31,

[†] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

2015. Going forward, the new strategic road map, proposed amalgamation, and streamlining of business operations of the company would remain a key monitorable.

Company Profile

Family Credit Limited

Family Credit Limited (FCL) was originally incorporated as Apeejay Finance Group Ltd in 1993. In December 2012, L&T Finance Holdings Limited (LTFHL) acquired 100% shareholding in the entity. FCL is an NBFC engaged in vehicle financing and corporate lending.

For FY2016, the company reported net profit of Rs. 87.40 crore on a total income base of Rs. 778.22 crore as against a net profit of Rs. 72.86 crore on a total income base of Rs. 639.23 crore in FY2015. As on March 31, 2016, the company reported a capital adequacy of 16.36% with a tier I capital of 11.95%.

For Q1FY2017, FCL reported a PAT of Rs. 13.41 crore on an asset base of Rs. 5,445 crore as against a PAT of Rs. 11.18 crore on an asset base of Rs. 4,006 crore during Q1FY2016. As on June 30, 2015, the company had a net worth of Rs. 645 crore with a CRAR of 16.33% (tier I capital of 11.87%).

L&T Finance Holdings Limited

L&T Finance Holdings Limited (LTFHL) was originally incorporated as L&T Capital Holdings Ltd in May 2008 and subsequently changed its name in September 2010. The company is registered as an NBFC-Core Investment Company with the RBI. The company is promoted by Larsen & Toubro Limited (L&T) as the holding company of the group's financial services companies. L&T transferred its investments in L&T Infrastructure Finance Company Limited (LTIF), L&T Finance Limited (LTF) and L&T FinCorp Limited (L&T FinCorp) to LTFHL; these three companies are wholly owned subsidiaries of LTFHL. In October 2012 LTFHL acquired Indo Pacific Housing Finance Limited, which was renamed as L&T Housing Finance Limited and also acquired Family Credit Limited from Societe General Consumer Finance. L&T Infra Debt Fund (L&T IDF), an NBFC-IDF, was incorporated in 2013, with L&T Finance Holdings and its' subsidiaries together holding 100% stake in the company.

LTFHL through its subsidiaries offers a diverse range of financial products and services across rural, housing and wholesale finance businesses. LTFHL through its subsidiaries also offers fund management services and other non-fund based services such as insurance and mutual fund distribution and financial advisory services (project finance and pre-bid advisory).

Following an initial public offering in July 2011, L&T's shareholding in LTFHL declined to 82.64% from 99.99% earlier. Subsequently, following some open market transactions, L&T's shareholding reduced to 72.95% as on March 31, 2015. Currently, the L&T group holds 66.68% stake in the company post a stake sale to Bain Capital in September 2015.

As on March 31, 2016 the company (standalone) reported a PAT of Rs. 378 crore on an asset base of Rs. 5,955 crore against a PAT of Rs. 262 crore on an asset base of Rs. 5,614 crore in FY2015. The standalone net worth of the company stood at Rs. 3,856 crore as on March 31, 2016. On a consolidated basis, for FY2016, LTFHL reported a PAT of Rs. 857 crore on an asset base of Rs. 63,746 crore as compared with a PAT of Rs. 855 crore on an asset base of Rs. 52,742 crore in FY2015. The consolidated net worth of the consolidated entity was Rs. 7,195 crore as on March 31, 2016.

During H1FY2017, LTFHL, reported a consolidated PAT of Rs. 456 crore as compared with a PAT of Rs 408 crore during H1FY2016.

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 FY2016, L&T on a standalone basis reported a PAT of Rs 5311.46 crore as compared with a PAT of Rs. 5056.18 crore for FY2015. During Q1FY2017 L&T on a standalone basis reported a PAT of Rs 546.74 crore on a total revenue of Rs. 12,150.02 crore.

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