

L&T Infrastructure Finance Company Limited

Instrument	Rated Amount (In Rs. Crore)	Rating Action October 2016
Non-Convertible Debenture (Infra Bonds) Programme	1,665.03	[ICRA]AA+ (stable); reaffirmed
Non-Convertible Debenture Programme	6,034.00	[ICRA]AA+ (stable); reaffirmed
Perpetual Debt Programme	400.00	[ICRA]AA (stable); reaffirmed
Subordinated Bonds Programme	1,500.00	[ICRA]AA+ (stable); reaffirmed
Bank Lines	7,000.00	[ICRA]AA+ (stable)/[ICRA]A1+; reaffirmed
Commercial Paper Programme	500.00	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the ratings of [ICRA]AA+ (pronounced ICRA double A plus) assigned earlier to the Rs. 1,665.03 crore non-convertible debentures (Infra Bonds), Rs. 6,034 crore non-convertible debentures and Rs. 1,500 crore subordinated debt programmes of L&T Infrastructure Finance Company Limited (LTIF)[†]. ICRA has also reaffirmed the [ICRA]AA (pronounced ICRA double A) for the Rs. 400 crore perpetual debt programme and the [ICRA]A1+ (pronounced ICRA A one plus) rating for the Rs. 500 crore commercial paper programme of LTIF. ICRA has also reaffirmed the [ICRA]AA+/[ICRA]A1+ ratings for the Rs.7,000 crore bank lines of LTIF. 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 ratings factor in the support and strategic leverage the company derives from its ultimate parent –Larsen & Toubro Limited (L&T, rated [ICRA]AAA (Stable)) – and the funding and capital support its receives from its immediate parent – L&T Finance Holdings Limited (LTHFL, rated [ICRA]AA+ (Stable)). Given the inherent nature of infrastructure financing business, the company's portfolio concentration is high, albeit lower than in earlier years owing to a shift towards renewable sector where ticket sizes are relatively smaller. ICRA also takes note of the management focus towards operational projects (under both energy and road sector) and towards the renewable energy sector. ICRA notes that while this could lead to some softening of yields, it would reduce the company's portfolio vulnerability. Nevertheless, given its strong financial flexibility and demonstrated ability to tap long-term funding at competitive rates, the company is likely to report steady net interest margins. Further, its expertise in appraisal of infrastructure projects, and focus on underwriting with subsequent down-selling of assets provides scope for fee based income, which is likely to support overall profitability (RoA of 1.1% and ROE of 8.9% for FY2016). The ratings also factor in the LTIF's adequate capitalisation levels in relation to portfolio risks and its growth plans. ICRA takes note of the deterioration in LTIF's asset quality, with its gross NPAs increasing from 1.91% (180+ dpd basis) as on March 31, 2015 to 2.36% (150+ dpd basis) as on March 31, 2016 and further to 3.19% (120+ dpd basis) as on June 30, 2016, driven by challenging operating environment and transition to revised NPA recognition norms. Going forward, the company' ability to manage recoveries as well as contain fresh slippages will be an important rating consideration. Also, LTIF's ability to manage its outstanding exposure to the thermal power sector (comprising of ~17% of total portfolio as on June 30, 2016), will be an important rating consideration. The company's ability to maintain its asset quality, and improve income from fee-based business will be key determinants of its future profitability.

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

Company Profile

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 hold 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 the business of 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. Formed with an initial equity of Rs. 500 crore from the parent, 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 FY2016, LTIF reported a profit after tax (PAT) of Rs. 240 crore over an asset base of Rs. 24,231 crore as compared with a PAT of Rs. 225 crore over an asset base of Rs. 21,151 crore for FY2015. As on March 31, 2016, the company had a net worth of Rs. 2,863 and gross NPAs of 2.36% and net NPAs of 1.64%.

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 Ltd (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 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 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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