

October 11, 2017

L&T Finance Holdings Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Commercial Paper Programme	1,500.00	[ICRA]A1+; Assigned
Non-Convertible Debenture Programme	1,000.00	[ICRA]AA+ (stable); Outstanding
Total	2,500.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,500 crore commercial paper programme of L&T Finance Holdings Limited (LTFHL).

ICRA also has a rating outstanding of [ICRA]AA+ (pronounced ICRA double A plus) for the Rs. 1,000 crore non-convertible debenture programme of LTFHL. The outlook on the long-term ratings is Stable.

Rationale

The rating draws significant strength from LTFHL's parentage, with Larsen & Toubro Ltd. (L&T, rated [ICRA]AAA/Stable) holding 64.23% (as on March 31, 2017) equity in the company, and LTFHL's strategic importance for the parent given that it is the holding company for the financial services business of the group. The rating factors in ICRA's expectation of continued commitment by L&T in the form of management, liquidity and capital support to LTFHL. LTFHL is a non-operating holding company with a well-diversified business profile in the financial services space with its wholly owned subsidiaries operating in rural, housing and wholesale finance and asset management businesses. LTFHL subsidiaries have successfully leveraged L&T's strong brand reputation, franchise and long track record in the engineering and infrastructure sectors to expand their businesses and build a good market presence along with building a good resource profile. ICRA expects the company's liquidity profile to remain comfortable on the back of adequate dividend flow from subsidiaries, access to liquidity from investments in liquid funds and other marketable investments as well as its strong refinancing ability. The rating also factors in the adequate standalone capitalisation levels for the company with the company reporting a gearing¹ of 0.50 times and a regulatory leverage ratio² of 0.27 times as on March 31, 2017. ICRA also notes that LTFHL has the flexibility to raise additional capital to support the business plans of its subsidiaries, while continuing to retain a majority stake in the entities. Going forward, continuation of support from L&T and the sustained financial performance and asset quality indicators of its subsidiaries will remain key rating sensitivities.

¹ (Total Debt + Preference shares) / Reported Net worth

² Outside liabilities / Adjusted Net worth

Key rating drivers

Credit strengths

- **Strong parentage and strategic importance of the financial service business to the L&T group; strong management team with considerable experience in the financial services space** - L&T is the country's largest engineering and construction group and the market leader in infrastructure development, with expertise gained over seven decades of operations. The parent's committed support in the form of capital, management, technical and operational pool considerably strengthens the credit profile of LTFHL. LTFHL's access to other L&T group companies also provides advantages in terms of referrals, better assessment of risks, and availability of sector or industry expertise from the group. L&T is also directly engaged in LTFHL's operations through board representation and deputation of senior management. ICRA believes that the strategic importance of the company to L&T and the presence of these synergies would ensure continued support to the company. LTFHL also has a strong management team in place with considerable experience across functions in retail and wholesale lending.
- **Diversified operations with the consolidated entity offering multiple loan products in addition to non-fund based services through its investment and wealth management arms** - LTFHL, through its subsidiaries, is present in a range of businesses in the financial services space. Through its subsidiary L&T Infrastructure Finance Company Limited (LTIF), which is registered as an infrastructure finance company – non-banking finance company (IFC-NBFC), it offers wholesale lending products including infrastructure finance and structured corporate loans. L&T Housing Finance Limited (LTHFL) is a registered housing finance company (HFC) offering home loans, construction loans and loans against property. L&T Finance Limited (LTF, erstwhile Family Credit Limited), which is a registered as a non-banking finance company (NBFC), offers retail products including farm equipment loans, microfinance loans, two-wheeler loans, supply chain finance and corporate finance loans. L&T Infra Debt Fund (LTIDF) is registered as an infrastructure debt fund – non-banking finance company (IDF-NBFC) offering wholesale financing to operational infrastructure projects. L&T Investment Management Limited (LTIML) is the investment manager for L&T Mutual Fund. On a consolidated level, the lending book of LTFHL stood at Rs. 66,648 crore as on March 31, 2017 (as compared to Rs. 57,831 crore as on March 31, 2016) while its assets under management stood at Rs. 39,300 crore (as compared to Rs. 25,945 crore for the quarter ended March 31, 2016).
- **Comfortable liquidity supported by strong financial flexibility of raising funds at competitive rates** - LTFHL's primary revenue source is dividends upstreamed by its subsidiaries and interest income on financing extended to subsidiaries. Given the low standalone leverage levels of the company, these cash flows are sufficient for meeting its financial obligations. Also, with the strong brand name of L&T and its track record of raising funds from banks and the capital markets, LTFHL enjoys sufficient financial flexibility to raise funding at attractive rates. The company also has a significant liquid investment book which can be monetized to meet its obligation during contingencies.
- **Core Investment Company (CIC) leverage ratio comfortably within stipulated limits** – The standalone capitalization of LTFHL remains adequately supported by the track record of raising funds (most recently in FY2016 through issuance of preference shares to Bain Capital) and moderate internal capital generation (return on equity of 6.15% in FY2017 as compared to 10.05% in FY2016). LTFHL's CIC leverage ratio as on March 31, 2017 was reported at 0.27 times as against the regulatory limit of 1.50 times. On the consolidated level, the leverage for the group remains moderate (7.8 times as on March 31, 2017) given that significant proportion (~62%) of the lending book consists of wholesale lending. ICRA expects the group to maintain prudent capitalisation and expects that support from L&T would be forthcoming as and when required.

Credit weaknesses

- **Asset quality in lending business adversely impacted by the challenging operating environment and the migration to stricter NPA recognition norms** – ICRA takes note of the increase in non-performing assets in the subsidiary companies given the challenging operating environment and the migration to stricter NPA recognition norms for NBFC by 2018 (NPAs to be recognized at 90+ days past due March 2018 onwards). As on March 31, 2017, the GNPA and NNPA on the overall lending book of the group was 4.94% and 2.89% respectively (as compared to 4.85% and 3.82% respectively as on March 31, 2016)³. Going forward, the group's ability to improve asset quality would have a bearing on the bottom line and would thus remain a key monitorable.
- **Concentration on account of high share of wholesale lending book** – A significant portion of LTFHL's portfolio constitutes wholesale loans (Rs. 41,403 crore constituting 62% of the overall book as on March 31, 2017) of which 79% is towards the infrastructure sector. Wholesale loans are chunkier and carry higher concentration risk with further construction and execution risk associated with infrastructure lending. The risk is however partly mitigated by LTFHL's parentage and its long track record of infrastructure lending and their strategic shift towards the renewable energy sector (where gestation periods are shorter) and towards operational projects.
- **Moderate albeit improving consolidated profitability**–The profitability levels of the LTHFL group at a consolidated level have been moderate. In FY2017 however, the company implemented a change in strategy which included rationalization of the products and streamlining of the group structure. ICRA notes that with the implementation of the new strategy, profitability indicators of the company have improved in FY2017 vis-à-vis FY2016. The return on equity during FY2017 improved to 13.81% from 12.44% in FY2016 however they remain at moderate levels, partly due to company making voluntary provisions as a measure, over and above the prescribed norms. Going forward, ability of the company to maintain its margins and keep credit costs under control would have a bearing on its profitability and would be a monitorable.

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 Finance Holdings Limited

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-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. LTFHL has three wholly owned subsidiaries namely, L&T Infrastructure Finance Company Limited, L&T Finance Limited and L&T Housing Finance Limited which undertake lending operations for the group. L&T Infra Debt Fund, an NBFC-IDF, was incorporated in 2013, with LTFHL 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 and other non-fund based services such as insurance and mutual fund distribution and financial advisory services (project finance and pre-bid advisory).

³ GNPA and NNPA as on March 31, 2016 and March 31, 2017 is recognized at 120+ days past due

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, L&T holds 64.23% stake in LTFHL.

As on March 31, 2017, the company reported a (standalone) PAT of Rs. 249 crore on an asset base of Rs. 6,378 crore against a PAT of Rs. 378 crore on an asset base of Rs. 5,955 crore in FY2016. The standalone net worth of the company stood at Rs. 5,324 crore as on March 31, 2017. On a consolidated basis, for FY2017, LTFHL reported a PAT of Rs. 1,042 crore on an asset base of Rs. 72,514 crore as compared with a PAT of Rs. 857 crore on an asset base of Rs. 63,746 crore in FY2016. The net worth of the consolidated entity was Rs. 9,107 crore as on March 31, 2017. During Q1FY2018, the company reported a consolidated PAT of Rs. 309 crore as compared to a consolidated PAT of Rs. 205 crore during Q1FY2017.

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 Q1FY2018, L&T reported a consolidated net profit of Rs. 1,028 crore.

Financial Indicators (Consolidated):

	FY2016	FY2017
Total Income	7,471	8,572
Profit after tax (PAT)	857	1,042
Net Worth [^]	7,195	7,894
Total managed portfolio	58,256	66,648
Total managed assets	63,746	72,514
Return on managed assets (PAT/AMA)	1.47%	1.53%
Return on average net worth (PAT/Avg. net worth)	12.44%	13.81%
Consolidated gearing	7.4	7.8
CIC Leverage ratio	0.20	0.27
Gross NPA%*	4.85%	4.94%
Net NPA%*	3.82%	2.89%
Net NPA/Net worth	16%	23%

*Gross NPA and Net NPA as on March 31, 2016 and March 31, 2017 is recognised at 120+ days past due

[^]Net worth does not include capital raised through preference shares

#AMA – average managed asset

Source: Company; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years
Table:

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated Amount		FY2018	FY2017	FY2016
			(Rs. crore)	Oct-17	Jun-17	Nov-16	Jan-16
1	CP Programme	Short Term	1,500.00	[ICRA] A1+ assigned	-	-	-
2	NCD Programme	Long Term	1,000.00	[ICRA]AA+ (stable)	[ICRA]AA+ (stable) assigned	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)

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	*	*	*	1,000.00	[ICRA]AA+(stable)
-	Commercial Paper	NA	NA	7-365 days	1,500.00	[ICRA]A1+

*Unplaced

Source: L&T Finance Holdings Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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