

## IL&FS Financial Services Limited

March 28, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	3,000.00	4,000.00	[ICRA]A1+; assigned
<b>Total</b>	<b>3,000.00</b>	<b>4,000.00</b>	

\*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. 4,000 crore<sup>1</sup> (enhanced from Rs. 3,000 crore) commercial paper programme of IL&FS Financial Services Limited (IFIN)<sup>2</sup>.

### Rationale

The rating takes factors in IFINs strong parentage being a wholly owned subsidiary of Infrastructure Leasing and Financial Services Limited (IL&FS; rated [ICRA]AAA(stable)/[ICRA]A1+), its strategic importance to the IL&FS Group by virtue of being the key non-banking financial company (NBFC) for the group and the consequent expected operational and financial support from the parent. The rating also factors in the group's substantial experience and strong franchise in the execution and funding of infrastructure projects, company's diversified resource profile, adequate capitalization and liquidity position. The rating also takes into account the attendant the credit and concentration risks associated with the wholesale funding business model, deterioration in asset quality and consequently subdued profitability indicators. The company's conservative provisioning policy, however, provides some comfort. Going forward, the company's ability to ramp up and diversify its loan-book and improve its asset quality and profitability indicators would remain critical from a credit perspective.

### Key rating drivers

### Credit strengths

**Strong parentage by virtue of being a subsidiary of IL&FS (rated [ICRA]AAA(Stable) / [ICRA]A1+) – IFIN**, registered as a non-banking finance company (NBFC), is a wholly owned subsidiary of IL&FS which has diverse business interest in the infrastructure space. IFIN acts as the key financial service and infrastructure advisory company of the group and houses the asset and structured finance business, syndication business and corporate and project advisory business, in addition to its lending operations. The company draws significant support from the IL&FS group in terms of operational and managerial assistance.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

**Group's strong franchise in infrastructure-related project development** - The IL&FS group, which refers to IL&FS along with its subsidiaries, associates and joint ventures, is a diversified infrastructure developer with presence across sectors like surface transportation, urban infrastructure, energy (thermal and renewable), education, and maritime & ports. The group is engaged in all aspects of project development including project sponsorship, development and advisory services, investment banking, corporate advisory, asset management and advisory services in environmental and social management. The IL&FS group has a long history of business operations, spanning over three decades, and has been able to establish a strong brand name within this space supported by its demonstrated track record as well as domain expertise of its senior management. The company draws the advantage of being part of the IL&FS group by catering to the in-house demand for infrastructure advisory and resource syndication services, which has helped drive the company's fee based income which in-turn has supported its profitability levels in the past.

**Adequate capitalisation and comfortable liquidity profile** - IFIN's regulatory capital adequacy remains adequate at 18.52% as of September 30, 2017 (tier I of 11.56%), albeit lower than 21.08% (Tier 1 of 13.15%) as on March 31, 2017. ICRA however takes note of the increase in gearing levels to 7.95 times as of September 30, 2017, up from 7.56 times as on March 31, 2017 (from 6.18 times as on March 31, 2015). In ICRA's view however, given the importance of the entity to the parent coupled with IFIN's moderate growth targets, capital is not expected to be a constraint over near to medium term. IFIN maintains comfortable short-term liquidity profile with large part of the loan book with residual maturity of less than one year, adequate proportion of long term borrowings and unutilised bank lines. The liquidity profile is further enhanced with IFIN having access to the surplus liquidity at the group level as the treasury operations are integrated with IL&FS.

**Strategic importance to the overall IL&FS portfolio** - IL&FS considers the financial services operations crucial for their business and thus considers IFIN strategically important to the group. Given the group's presence in infrastructure segment, involving long-gestation capital-intensive projects, the IFIN's support to the group, in its capacity as a lender and advisor, remains critical. Additional, IFIN remains a major source of dividend income to IL&FS. The presence of key senior executives and directors of IL&FS on the board of IFIN further underscores its relevance to the group.

## Credit challenges

**Relatively risky wholesale lending model with high concentration in loan-book** - The company largely caters to corporates (including group companies) operating in the infrastructure and real estate space in its lending business. IFIN's loan-portfolio increased to Rs. 14,470 crore as of September 30, 2017, up from of Rs. 12,415 crore as of March 31, 2017, driven by disbursements in the infrastructure segment. Infrastructure, promoter funding, real-estate and other segments attributed to 39%, 20%, 17% and 23% of the loan-book respectively as on March 31, 2017. The client concentration in the loan-book remains high with the top ten group exposures (excluding related party lending) attributing to 28% of the loan-book as of March 31, 2017 (25% of loan book as of March 31, 2016).

**Ability to manage asset quality of the portfolio** - IFIN's asset quality moderated in FY2014, precipitated by the general economic stress. The trend continued in the following years, with a further deterioration in asset quality. The company's gross non-performing asset (NPA) increased to Rs. 410 crore as of March 31, 2017 from Rs. 350 crore as of March 31, 2016. NPAs in relation to the advances, as defined by gross NPA to gross advances increased to 3.30% from 2.80% in the same period, and further to 4.48% as of September 30, 2017. The company's conservative provisioning policy, however, provides some comfort. The company has created a provision for general contingency (Rs. 500 crore as on September 30, 2017) in addition to the specific provision and standard asset provisions as required under RBI regulations. Given the high risk profile of these segments, large ticket size nature of advances and the high concentration in the portfolio, more vulnerable to a lumpy deterioration in asset quality in case of any slippages.

**Modest financial profile** - The company reported a total revenue of Rs. 2,347 crore in FY2017 as against Rs. 1,922 crore in FY2016 registering a growth of 22% driven by healthy increase in interest income. Fee based income registered a growth in FY2017 of Rs. 185 crore as against Rs. 170 crore in FY2016). IFIN's net profitability continues to remain under pressure on the back of increase in credit costs and other provisions; the total provisions and write offs (including contingency provisioning) increased to 2.00% of ATA in FY2017 vis-à-vis 1.28% in FY2016. IFIN's profit after tax (PAT) dipped to 1.11% of ATA in FY2017 from 1.15% in FY2016. On an absolute basis, IFIN reported profit after tax of Rs. 208.8 crore in FY2017 (Return on equity or RoE of 9.91%) as against Rs. 192.8 crore in the previous fiscal (RoE of 9.43%). The company reported an operating income of Rs. 1,101 crore H1 FY2018 and the profitability continued to remain subdued with RoA of 0.92% and RoE of 8.51%. Going forward, the company's ability to maintain a high level of fee income would be instrumental in supporting the profitability levels.

**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](#)

[ICRA's Approach for Rating Commercial Papers](#)

## About the company

### IL&FS Financial Services Limited

IL&FS Financial Services Ltd. (IFIN) is a wholly owned subsidiary of Infrastructure Leasing and Financial Services Limited (IL&FS) (rated [ICRA]AAA (stable) and [ICRA]A1+). IFIN was initially incorporated as IL&FS Asset Management Company (AMC) in 1997. After IL&FS sold the AMC business to UTI in 2004, the company obtained a NBFC license in 2005 and was renamed as IL&FS Finvest Ltd. In line with the overall strategy of the group to create distinct verticals for each business, the banking team from IL&FS and the syndication team from IL&FS Investsmart Ltd. were integrated under IL&FS Finvest Limited and subsequently the name of the integrated entity was changed to IL&FS Financial Services Ltd. IFIN commenced its new business activities in October 2006, in the various business lines like asset and structured finance business, syndication business, and corporate and project advisory business.

During FY2017, IFIN reported a net profit after tax of Rs. 209 crore on a total income base of Rs 2,346 crore as compared to a net profit of Rs. 193 crore on a total income base of Rs 1,921 crore in FY2016. During H1 FY2018, IFIN reported a net profit of Rs. 92 crore on a total income of Rs. 1,101 crore.

### Infrastructure Leasing and Financial Services Limited

IL&FS Limited was incorporated in 1987 with the objective of promoting infrastructure projects in the country. IL&FS was promoted by the Central Bank of India (CBI), Housing Development Finance Corporation Limited (HDFC) and Unit Trust of India (now, Specified Undertaking of Unit Trust of India - SUUTI). While SUUTI has largely exited (stake of 0.82% as on December 31, 2016), the shareholding has broadened over the years with the participation of many institutional shareholders. As on March 31, 2017, Life Insurance Corporation of India (LIC) and ORIX Corporation Japan were the largest shareholders in IL&FS with their stake holding at 25.34% and 23.54% respectively, while Abu Dhabi Investment Authority (ADIA), HDFC, CBI and SBI stake holding are at 12.56%, 9.02%, 7.67% and 6.42% respectively.

Over the years IL&FS' focus has steadily shifted from project sponsorship to that of project advisory and project facilitator for development and implementation of projects. IL&FS acts as the main holding company of the IL&FS Group with most business operations domiciled in separate companies. IL&FS's group companies are currently involved in infrastructure related project sponsorship, development & advisory, investment banking, corporate advisory, asset management and advisory services in environmental and social management, with presence across sectors like surface

transportation, urban infrastructure, energy (thermal and renewable), education, maritime & ports etc. The group has a long history of business operations, spanning over three decades, in the infrastructure domain and has been able to establish a strong brand name within this space supported by its demonstrated track-record as well as domain expertise of its senior management.

During FY2017, on a standalone basis, IL&FS reported a net profit of Rs. 383 crore on a total income of Rs. 1,787 crore.

### Key financial indicators (audited)

	FY2016	FY2017	H1 FY2018 (limited review)
Total Income	1,921	2,346	1,101
Profit after tax (PAT)	193	208	92
Net Worth <sup>^</sup>	2,057	2,157	2,169
Total managed portfolio	12,523	12,415	14,470
Total managed assets	17,956	19,563	20,722
Return on managed assets (PAT/AMA)	1.15%	1.11%	0.92%
Return on average net worth (PAT/Avg. net worth)	9.43%	9.91%	8.51%
Gearing (times)	7.23	7.56	7.95
Gross NPA%	2.80%	3.30%	4.48%
Net NPA%	2.20%	2.36%	3.13%
Net NPA/Net worth	13%	13%	21%

<sup>^</sup>Net worth does not include preference share capital with premium; Total Debt = Borrowings + preference share capital + Interest accrued on borrowings

#AMA – average managed asset

Amounts in Rs. crore

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

### Any other information: None

### Rating history for last three years:

Instrument	Type	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
		Rated amount (Rs. crore)	Amount Outstanding (Rs Crore)	Mar-18	FY2018		FY2017		FY2016
					Feb-18	Nov-17	Mar-17	Mar-16	Dec-15
1. Commercial Paper Programme	Short Term	4,000	NA	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

### 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	NA	NA	7-365 days	4,000.00	[ICRA]A1+

Source: IL&FS Financial Services Limited

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

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

**Samriddhi Chowdhary**

+91 22 6114 3462

[samriddhi.chowdhary@icraindia.com](mailto:samriddhi.chowdhary@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

[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

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

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

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

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents