L&T Finance Limited (erstwhile Family Credit Limited)

April 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme (IPO financing)	9,000.00	0.00	[ICRA]A1+; Withdrawn
Non-Convertible Debenture Programme	6,519.00	6,519.00	[ICRA]AA+ (stable); Outstanding
Non-Convertible Debenture Programme (Public Issuance)	681.70	681.70	[ICRA]AA+ (stable); Outstanding
Subordinated Debt Programme	1,325.00	1,325.00	[ICRA]AA+ (stable); Outstanding
Perpetual Debt Programme	600.00	600.00	[ICRA]AA (stable); Outstanding
Commercial Paper Programme	18,500.00	18,500.00	[ICRA]A1+; Outstanding
Total	36,625.70	27,625.70	

*Instrument details are provided in Annexure-1

Rating action

ICRA has withdrawn the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 9,000 crore commercial paper programme (for IPO financing) of L&T Finance Limited (erstwhile Family Credit Limited; LTF) [1] as there is no amount outstanding against the rated instrument. The withdrawal is at the request of the company.

ICRA has ratings of [ICRA]AA+ (pronounced ICRA double A plus) outstanding for the Rs. 6,519 crore non-convertible debenture programme, the Rs. 681.70 crore non-convertible debenture programme (public issuance) and the Rs. 1,325 crore subordinated debt programme, and rating of [ICRA]AA (pronounced ICRA double A) outstanding for the Rs. 600 crore perpetual debt programme and rating of [ICRA]A1+ outstanding for the Rs. 18,500 crore commercial paper programme of LTF. The outlook on the long term rating 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. The domestic regulatory norms for hybrid debt capital instruments need regulatory approvals from the Reserve Bank of India for debt servicing (including principal repayments) in case the company was to report a loss and is not liable to service the debt in case the company breaches the minimum regulatory capitalization norms.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA believes LTF will continue to benefit from it being a part of the L&T Finance Holdings Group, its demonstrated track record of scaling its operations and its ability to raise funds at competitive rates. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in the company's financial risk profile supported by improvement in its asset quality indicators. The outlook may be revised to 'Negative' if there is significant deterioration in the asset quality and profitability indicators of LTF, thereby adversely affecting its financial risk profile or if there is a significant deterioration in the performance of the L&T Finance Holdings Group which would impact the overall risk profile of the group companies given their close linkages.

Rationale

The ratings continue to draw substantial support from the strategic leverage the company derives from its ultimate parent – Larsen & Toubro Limited (L&T, rated [ICRA]AAA with stable outlook) – and the funding, liquidity and capital support it receives from its immediate parent – L&T Finance Holding Limited (LTFHL, rated [ICRA]AA+(Stable)). The ratings also take into consideration the change in LTFHL's business profile during FY2017, following a rationalisation of product offerings, the amalgamation of L&T FinCorp Limited and L&T Finance Limited, with Family Credit Limited (FCL) and the dissolution of the two former entities. FCL was subsequently rechristened L&T Finance Limited. While the combined entity, along with L&T Housing Finance Limited, is the group's primary vehicle for retail financing, it will also provide non-infrastructure related financing to corporates. The ratings also factor in the capital funding, management, systems and infrastructure support that the company receives from LTFHL and other group companies. ICRA expects the company to be adequately capitalised in relation to its growth plans over the medium term, supported by timely capital infusion by LTFHL.

Key rating drivers

Credit strengths

Expectation of continued support from the ultimate parent, L&T; experienced management team, with strong leadership across functions - LTF is a wholly owned subsidiary of LTFHL, which in turn is majority owned by L&T. LTFHL and its subsidiaries, while operating independently, benefit from the brand name of L&T. LTF also receives capital and management support from its parent. Thus, LTF's ratings draw significant strength from L&T and LTFHL and any change in the rating of the parent and/or support from the group could warrant a rating change. LTF also has a strong management team in place with considerable experience across functions in retail lending.

Diversified product mix with portfolio growth supported by well established franchise, superior market knowledge and standing as a part of the L&T group – LTFHL undertook a rationalization of its product offering in FY2017 post which certain product segments (including 4 wheeler financing, commercial vehicles, construction equipment, leases, SME term loans and receivable discounting) were discontinued. Nonetheless the product offering of LTF remains extensive. Also as part of restructuring, L&T Finance Limited and L&T FinCorp Limited were merged with Family Credit Limited and the merged entities were rechristened L&T Finance Limited. Going forward, LTF along with L&T Housing Finance, will be one of the group's primary vehicle for retail financing, while it will also extend non-infrastructure loans to corporates. LTF's portfolio stood at Rs. 29,246 crore as on March 31, 2017 and Rs. 35,082 crore as on December 31, 2017. LTF benefits from the brand name of L&T, which has a long track record in the Indian corporate space which it has leveraged to grow its corporate and retail portfolios while maintaining adequate profitability.

Comfortable capitalisation levels with committed financial support from the parent, LTFHL – LTF's capital adequacy ratio stood at 15.34% as on December 31, 2017, above the 15% level stipulated by the Reserve Bank of India. The gearing as on December 31, 2017 was 4.7 times. While the internal capital generation is likely to be subdued in the medium term due to the proposed amortization of goodwill of Rs. 2,826 crore (as on March 31, 2017) over the next 5 years, the strategic importance of the company to the group and the track record of capital infusion from LTFHL to its subsidiary companies supports capitalisation. ICRA's opinion is that the capital support from the parent should remain forthcoming as and when required by the company.

Strong financial flexibility enables the company to raise funding at competitive rates of interest; comfortable liquidity position – LTF has a fairly diversified funding mix with 56% of the funding as on December 31, 2017 raised from the capital markets (NCD's, subordinated debt perpetual debt and commercial papers). Given the operational track record and the strong parentage, LTF is able to raise funding at competitive rates which supports the profitability. The company also maintains a healthy liquidity profile with no negative mismatches in the one year ALM profile. Further the unutilised bank limits and liquidity support from the immediate parent adds to the comfort.

Credit challenges

Moderation in asset quality indicators given the stress in operating environment for some of the asset classes – The asset quality indicators for LTF moderated during 9M FY2018 due to migration to stricter NPA recognition norms and due to slippages in few product segments during the year. The gross and net NPA's were reported at 7.4% and 3.9% (recognized at 90+ dpd) respectively as on December 31, 2017 as compared to 6.5% and 4.0% (recognized at 120+ dpd) respectively as on March 31, 2017. Going forward, ability of the company to improve its asset quality would impact its profitability and would remain a key 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 Limited

L&T Finance Limited (LTF), erstwhile Family Credit Limited) was originally incorporated as Apeejay Finance Group Ltd in 1993. In December 2012, L&T Finance Holdings Limited (LTFHL) acquired 100% equity in the entity, subsequent to which its name was changed to Family Credit Limited. In FY2017, as a part of the LTFHL's business restructuring, L&T Finance Limited and L&T FinCorp Limited (both entities now dissolved) were amalgamated with Family Credit Limited and the amalgamated entity was rechristened L&T Finance Limited.

For FY2017, LTF's reported PAT was Rs. 16.04 crore on an asset base of Rs. 35,977 crore. However, adjusted for the impact of goodwill amortisation, PAT was estimated at Rs.454 crore for FY2017. In 9MFY2018, LTF reported a PAT of Rs. 72.35 crore. As on December 31, 2017, the company had a total loan book of Rs. 35,082 crore, comprising of 36% of corporate finance portfolio, 17% micro loans, 15% farm equipment, 14% housing finance, 8% two wheelers and balance towards supply chain finance and other retail products.

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). 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 64.2% 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. 7,894 crore as on March 31, 2017. During 9M FY2018, the company reported a consolidated PAT of Rs. 1,053 crore as compared to a consolidated PAT of Rs. 726 crore during 9M FY2017.

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 9M FY2018, L&T reported a net profit of Rs. 2,941.94 crore.

Key financial indicators for L&T Finance Limited (audited)

	FY2016	FY2017	9M FY2018(UA)
Total Income	773	4,145	3,778
Profit after tax (PAT)	87.40	16.04	154.22
Net Worth	632	6,879^	7,055^
Total managed portfolio	5,152	29,246	35,082
Total managed assets	5,404	35,977	41,725
Return on managed assets (PAT/AMA)	-	-	-
Return on average net worth (PAT/Avg. net worth)	-	-	-
Gearing	7.1	4.0	4.7
Gross NPA%	5.0%	6.5%	7.4%
Net NPA%	3.5%	4.0%	3.9%
CRAR%	17.0%	16.4%	15.34%

Note: Financials for FY2016 are standalone numbers for L&T Finance Limited (erstwhile Family Credit Limited) while FY2017and 9MFY18 financials is for the amalgamated entity (L&T Finance Limited (erstwhile Family Credit Limited), L&T Finance Limited and L&T FinCorp Limited)
^Includes goodwill
#AMA – average managed asset
Amount 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 (FY2019) Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	April 2018	Chronology of Rating History for the past 3 years FY2018 Mar-18	FY2017 Mar-17	FY2016 Mar-16
1.	CP Programme (IPO financing)	Short Term	9,000	0	[ICRA]A1+ (withdrawn)	[ICRA]A1+ (assigned)	-	-
2.	NCD Programme	Long Term	6,519	5385.75	[ICRA] AA+ (stable)	[ICRA] AA+ (stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (stable)
3.	NCD Programme (public issuance)	Long Term	681.70	457.85	[ICRA] AA+ (stable)	[ICRA] AA+ (stable)	[ICRA] AA+ (Stable)	-
4.	Sub-Debt Programme	Long Term	1,325	840.00	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (stable)
5.	Perpetual Debt Programme	Long Term	600	250.00	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA] AA (Stable)	[ICRA] AA (stable)
6.	CP Programme	Short Term	18,500	10,330	[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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate (In %)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE523E07830	Non-Convertible Debenture	4/5/2013	9.1	4/5/2018	400	[ICRA]AA+ (stable)
INE523E07BC6		4/17/2015	8.9	4/12/2018	2	[ICRA]AA+ (stable)
INE523E07BD4		4/17/2015	8.9	4/16/2018	60	[ICRA]AA+ (stable)
INE523E07BE2		4/17/2015	8.9	4/17/2018	110	[ICRA]AA+ (stable)
INE523E07BF9		4/17/2015	8.9	4/19/2018	22	[ICRA]AA+ (stable)
INE523E07BG7		4/17/2015	8.9	4/24/2018	18	[ICRA]AA+ (stable)
INE523E07BO1		5/20/2015	8.9	5/14/2018	6	[ICRA]AA+ (stable)
INE523E07BP8		5/20/2015	8.9	5/15/2018	30	[ICRA]AA+ (stable)
INE523E07BQ6		5/20/2015	8.9	5/18/2018	15	[ICRA]AA+ (stable)
INE523E07BR4		5/20/2015	8.9	6/11/2018	47	[ICRA]AA+ (stable)
INE523E07BS2		5/20/2015	8.9	5/20/2020	26	[ICRA]AA+ (stable)
INE523E07BV6		5/20/2015	8.9	5/22/2018	32	[ICRA]AA+ (stable)
INE523E07CQ4		7/8/2015	8.9	7/2/2018	35	[ICRA]AA+ (stable)
INE523E07CR2		7/8/2015	8.9	7/5/2018	35	[ICRA]AA+ (stable)
INE523E07CS0		7/8/2015	8.9	7/6/2018	60	[ICRA]AA+ (stable)
INE523E07CT8		7/8/2015	8.9	7/17/2018	26	[ICRA]AA+ (stable)
INE523E07DC2		3/29/2016	8.9	4/29/2019	185	[ICRA]AA+ (stable)
INE523E07DD0		4/13/2016	8.6	3/28/2018	145	[ICRA]AA+ (stable)
INE523E07DE8		4/13/2016	8.7	3/12/2019	170	[ICRA]AA+ (stable)
INE523E07DF5		4/13/2016	8.7	4/12/2019	10	[ICRA]AA+ (stable)
INE523E07DG3		4/13/2016	8.7	5/31/2019	25	[ICRA]AA+ (stable)
INE523E07DH1		4/13/2016	8.7	6/13/2019	275	[ICRA]AA+ (stable)
INE523E07DI9		4/13/2016	8.7	9/12/2019	75	[ICRA]AA+

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate (In %)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
						(stable)
INE523E07DJ7		4/13/2016	8.7	9/30/2019	4	[ICRA]AA+ (stable)
INE759E07822		6/13/2016	8.8	6/13/2019	10	[ICRA]AA+ (stable)
INE759E07830		6/13/2016	8.8	6/11/2021	10	[ICRA]AA+ (stable)
INE523E07DN9		6/14/2016	8.7	6/14/2019	50	[ICRA]AA+ (stable)
INE523E07DO7		6/29/2016	8.7	6/28/2019	130	[ICRA]AA+ (stable)
INE523E07DP4		6/29/2016	8.7	7/22/2019	3	[ICRA]AA+ (stable)
INE027E07337		8/5/2016	8.7	8/3/2018	10	[ICRA]AA+ (stable)
INE027E07345		8/5/2016	8.7	8/5/2019	5	[ICRA]AA+ (stable)
INE759E07871		9/8/2016	8.3	9/6/2019	50	[ICRA]AA+ (stable)
INE759E07889		9/12/2016	8.3	9/12/2019	200	[ICRA]AA+ (stable)
INE523E07DV2		1/19/2017	7.7	1/18/2019	50	[ICRA]AA+ (stable)
INE523E07DW0		1/19/2017	7.8	1/20/2020	150	[ICRA]AA+ (stable)
INE027E07386		3/29/2017	7.9	4/29/2020	100	[ICRA]AA+ (stable)
INE027E07394		3/31/2017	8.1	5/29/2020	300	[ICRA]AA+ (stable)
INE027E07402		4/10/2017	7.7	4/10/2019	150	[ICRA]AA+ (stable)
INE027E07410		4/10/2017	7.8	5/8/2020	100	[ICRA]AA+ (stable)
INE027E07436		5/25/2017	7.9	5/25/2020	25	[ICRA]AA+ (stable)
INE027E07543		8/8/2017	7.7	8/8/2022	465	[ICRA]AA+ (stable)
INE027E07550		10/6/2017	7.7	10/6/2022	310	[ICRA]AA+ (stable)
INE027E07584		11/24/2017	7.9	12/11/2020	305	[ICRA]AA+ (stable)
INE027E07592		12/4/2017	7.9	12/4/2020	750	[ICRA]AA+ (stable)
INE027E07600		12/6/2017	7.8	1/6/2021	215	[ICRA]AA+ (stable)
INE027E07618		12/12/2017	8.0	12/12/2022	85	[ICRA]AA+ (stable)

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate (In %)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE027E07626		12/29/2017	8.0	11/27/2020	100	[ICRA]AA+ (stable)
		NA	NA	NA	1133.25^	[ICRA]AA+ (stable)
INE523E07459	Retail Debentures (Public Issue)	9/17/2009	10.24	9/17/2019	457.85	[ICRA]AA+ (stable)
		NA	NA	NA	223.85^	[ICRA]AA+ (stable)
INE027E08079	Perpetual Debt	3/30/2016	10.1	3/30/2026	50	[ICRA]AA (stable)
INE523E08NG0		12/30/2011	11.5	12/30/2021	200	[ICRA]AA (stable)
		NA	NA	NA	350.00^	[ICRA]AA (stable)
INE523E08NH8	Subordinated Debt	12/21/2012	9.8	12/21/2022	275	[ICRA]AA+ (stable)
INE759E08036		9/9/2015	9.25	9/9/2025	100	[ICRA]AA+ (stable)
INE027E08038		6/30/2014	10.4	6/28/2024	40	[ICRA]AA+ (stable)
INE759E08028		3/30/2015	9.95	3/28/2025	50	[ICRA]AA+ (stable)
INE027E08020		3/27/2014	10.9	3/27/2024	50	[ICRA]AA+ (stable)
INE523E08NI6		3/27/2014	10.35	3/27/2024	50	[ICRA]AA+ (stable)
INE759E08044		3/23/2016	9.3	3/23/2026	100	[ICRA]AA+ (stable)
INE027E08061		3/4/2016	9.48	3/4/2026	50	[ICRA]AA+ (stable)
INE027E08053		2/9/2016	9.35	2/9/2026	18	[ICRA]AA+ (stable)
INE027E08046		1/29/2016	9.35	1/29/2027	32	[ICRA]AA+ (stable)
		NA	NA	NA	485.00^	[ICRA]AA+ (stable)
-	Commercial Paper	NA	NA	7-365 days	18500	[ICRA]A1+

^Yet to be placed
Source: L&T Finance 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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