ICRA

September 22, 2017

IDFC Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,500	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 1,500 crore commercial paper programme of IDFC Limited (IDFC).

Rationale

The rating factors in IDFC's good standing and its considerable financial flexibility, by virtue of being the main holding company of the IDFC Group. IDFC holds 100% stake in IDFC Financial Holding Company Limited (IDFC FHCL), which in turn holds equity stake in IDFC Bank (rated [ICRA]AAA(stable)/[ICRA]A1+), IDFC Alternatives Limited, IDFC Asset Management Company Limited, IDFC Securities Limited and IDFC Infrastructure Finance Limited (rated [ICRA]AAA(stable)/[ICRA]A1+). The good market value of the company's holdings in IDFC Bank and the strategic holdings in the unlisted companies of the Group strengthen IDFC's liquidity profile. This coupled with investments in mutual funds and cash and cash equivalents of around Rs. 650 crore as on March 31, 2017 provides considerable liquidity cushion. The rating also factors in IDFC's good capitalisation levels, with a net worth of Rs. 9,650 crore on a standalone basis as on March 31, 2017. ICRA, however, takes note of the company's dependence on dividend income from investee companies as the primary source of income.

ICRA has taken note of the arrangement between the IDFC Group and Shriram Capital Limited to evaluate the merger or take-over of key entities in the Shriram Capital Group by the IDFC Group. Both parties would undertake due diligences and discussions during the exclusivity period, and approach their respective Boards again to take forward the process. The process would be subject to shareholder and regulatory approvals. ICRA will take an appropriate rating action as and when more clarity emerges on the merger process.

Key rating drivers

Credit strengths

- **Strong market position by virtue of being a key holding company of IDFC Bank and other Group entities -** The structure of the IDFC Group was revamped following the demerger. IDFC, through IDFC FHCL (100% subsidiary of IDFC), holds significant stakes in IDFC Bank (rated [ICRA]AAA(stable)/[ICRA]A1+), IDFC Alternatives Limited, IDFC Asset Management Company Limited, IDFC Securities Limited and IDFC Infrastructure Finance Limited (rated ICRA[AAA(stable)/[ICRA]A1+).
- **Registration as NBFC- Investment Company provides flexibility to undertake purchase and sale of capital market instruments -** During FY2016, IDFC received the non-banking financial company (NBFC-IC) licence from the Reserve Bank of India (RBI). The company now has the flexibility to buy and sell capital market instruments, which provides an additional source of revenue.
- **Comfortable liquidity -** The company has a comfortable liquidity profile given the good market value of IDFC's holdings in IDFC Bank and in unlisted companies in the Group. This coupled with investments in mutual funds and cash and cash equivalents of around Rs.650 crore provide considerable cushion.

- **Strong capitalisation** – IDFC, on a standalone basis, had a strong net worth of Rs. 9,650 crore as on March 31, 2017 with negligible gearing of 0.02x. The strong current capitalisation and the low gearing target going forward, are credit positives. ICRA expects the company to maintain prudent capitalisation levels going forward as well.

Credit weaknesses

- **Cash flows largely dependent on dividend income from investee companies** – Dividend income from investee companies is the primary source of income for IDFC. Any contraction in income of the investee companies would impact the cash flows of the entity.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
ICRA Rating Methodology for Non Banking Finance Companies
ICRA's Approach for Rating Commercial Papers

About the company:
In April 2014, IDFC Limited was granted an in-principle approval by the Reserve Bank of India to set up a new private sector bank, as per the Guidelines for Licensing of New Banks in the Private Sector. Subsequently, a Scheme of Arrangement was filed with the Madras High Court for Demerger of Financial Undertaking (the lending business of IDFC) to IDFC Bank. All the requisite approvals were obtained and the Madras High Court approved this demerger by its order dated June 25, 2015.

IDFC Limited, currently registered as an NBFC- IC holds 100% stake in IDFC Non-Operating Financial Holding Company (IDFC FHCL) which in turn, holds equity in IDFC Bank, IDFC Alternatives Limited, IDFC Asset Management Company Limited, IDFC Securities Limited and IDFC Infra Debt Fund Limited.

On a standalone basis, the company reported a profit after tax (PAT) of Rs.55.75 crore in FY2017 as compared with a PAT of Rs. 141.70 crore in FY2016. The PAT for FY2016 is the profit from continuing operations. On adding the discontinued operations, the company's reported losses stood at Rs. 1,162 crore in FY2016. The loss was on account of the specific provisions created against identified assets of Rs. 2,500 crore prior to its conversion to a commercial bank.

For Q1FY2018, the company reported a PAT of Rs. 1.78 crore.

Key Financial Indicators - Standalone

	FY2016	**FY2017**
Operating Income	208	105
Profit after tax	142	56
Networth	9.589	9,650
Total managed assets	9,620	9,879
Return on managed assets (RoA)	NM	0.57%
Return on equity (RoE)	NM	0.58%
Gearing	nil	0.02 times
Capital Adequacy Ratio (CAR)	92.53%	67.07%

NM= Not meaningful
Amounts in Rs. Crore
Source: IDFC; ICRA Research

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 (Rs. crore)	September 2017	FY2017	FY2016	FY2015
					August 2016		
1	Commercial Paper Programme	Short Term	1,500	[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-

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper Programme	-	-	-	1,500	[ICRA]A1+

Source: IDFC 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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