DECEMBER 30, 2016

CARE REAFFIRMS RATINGS TO THE VARIOUS INSTRUMENT OF FAMILY CREDIT LTD WISH STABLE OUTLOOK.

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Non-Convertible Debentures	2,100	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Subordinated Debt	325	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Long term Borrowing Programme	2,300	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Perpetual Debt	100	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Commercial Paper	3,500	**CARE A1+ (A One Plus)**	**Reaffirmed**

CARE has rated the aforesaid Perpetual Debt after taking into consideration their increased sensitiveness to the Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in the instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to other debt instruments.

Key Developments

L&TFHL has proposed an amalgamation of L&T Finance Limited and L&T FinCorp Limited with Family Credit Limited, subject to regulatory and other approvals. The merged entity is proposed to be renamed as L&T Finance Ltd. All the three entities involved are wholly owned subsidiaries of L&TFHL. The amalgamation will not have any impact on consolidated financials of L&TFHL, and is expected to be completed during the current fiscal year.

Rating Rationale

The ratings factor in strong parentage of Family Credit Ltd. (FCL) by virtue of the fact that L&T Finance Holdings Limited (LTFHL), the flagship financial services business holding company of the L&T group, holds 100% stake in it. By virtue of strong parentage, the company benefits from group synergies in the form of business support from the L&T ecosystem, integrated treasury, as well as capital, managerial and operational support. Moreover, FCL's board and senior management comprises senior executives of the L&T Financial Services group. The ratings also factor in adequate capitalization levels, increased scale of business, improvement in earnings profile, moderate asset quality and business concentration. The rating also factors proposed amalgamation of L&T Finance and L&T Fincorp with Family Credit Ltd all being 100% subsidiaries of LTFHL. Continued support from parent, ability to generate new business, profitability and asset quality are the key rating sensitivities.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Outlook: Stable

Background

Family Credit Ltd. (FCL) was originally incorporated as Apeejay Finance Group Ltd. in 1993. In September, 2006, Societe Generale Consumer Finance (SGCF), a division of Societe Generale Group, France, acquired 45% stake in the company and gradually increased its stake to 100% by October 2007. Subsequently, the company's name was changed to Family Credit Limited. In December 2012, L&T Finance Holding Limited (LTFHL) (rated CARE AA+); the flagship holding company for the financial services of the L&T Group acquired 100% shareholding in FCL. As on June 30, 2016, FCL had a loan portfolio of Rs.5,005 crore; comprising two wheeler loans (35% of loan portfolio), car loans (17% of loan portfolio), mid corporate loans (26% of loan portfolio) and loan against shares (8% of loan portfolio). As part of the new business strategy, the group would focus on segments like farm equipment, two wheeler, microfinance, housing finance and real estate finance, and wholesale finance. The group has discontinued lending to some of the segments such as commercial vehicles, construction equipment, car loans etc. and plans to exit these businesses during the current year.

The loan portfolio of FCL increased to Rs.5,149 crore during FY16 as compared to Rs.3,525 crore during FY15. Consequently, the company reported 22% y-o-y growth in total income during FY16. The company's cost to income ratio improved to 46% during FY16 from 54% during FY15. However, the company's provisions and write-offs increased significantly to Rs.118 crore during FY16 as against Rs.68 crore during FY15. The company reported Profit After Tax (PAT) of Rs.87 crore in FY16 as against Profit After Tax (PAT) of Rs.73 crore in FY15 registering 20% y-o-y growth. The Return on Total Assets (ROTA) for FY16 was 1.92% (P.Y: 2.09%). The company's Gross and Net NPA ratio (150 d-p-d) increased to 5.19% and 3.35%, respectively as on March 31, 2016 [(P.Y.: 2.99% & 1.14% (180 d-p-d)]. The capitalisation level of FCL remained adequate as on March 31, 2016 with Capital Adequacy Ratio (CAR) of 16.36% (Tier I CAR: 11.95%).
In Q1FY17, the company reported Profit After Tax (PAT) of Rs.14 crore as against Profit After Tax (PAT) of Rs.11 crore in Q1FY16 registering 22% y-o-y growth. As on June 30, 2016, GNPA and NNPA ratios (at 120 d-p-d) were at 7.71% and 5.02% respectively As on June 30, 2016, company's total CAR stood at 16.33% with Tier I CAR at 11.87%.

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****For detailedRationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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