Family Credit Ltd.

March 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Non-Convertible Debentures	4,400	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Assigned**
Subordinated Debt	350	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Assigned**
Non-Convertible Debentures (Public Issue)	1,000	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Assigned**
Perpetual Debt	250	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**
Commercial Paper	11000 (enhanced from 6,500)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

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 completed amalgamation of L&T Finance Limited and L&T FinCorp Limited with Family Credit Limited. The amalgamated entity is being renamed as L&T Finance Limited. 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.

Detailed description of the key rating drivers

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 the 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.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage in the form of L&T Financial Services Group

Family Credit Ltd. (FCL) is a wholly-owned subsidiary of L&T Finance Holdings Ltd (LTFHL), the flagship holding company for the L&T financial services group. Larsen & Toubro Ltd. (L&T) one of India's leading engineering company, is the ultimate parent of FCL. As on June 30, 2016, L&T held 66.70% stake in L&TFHL. The credit

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

profile of FCL derives significant strength from its parentage and the resultant financial, operational and management support.

Experienced management team

The company has an experienced team to manage the operations of the company. All the Board members are eminent professionals with long and distinguished careers in the country's leading financial and commercial organizations. The board of Family Credit Ltd. also includes Mr. Dinanath Dubhashi who is the current MD of L&T Finance Holdings Limited. Mr. Dubhashi has more than 25 years of experience across multiple domains in financial services industry.

Adequate capitalization levels

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%). Overall gearing of the company increased to 7.76 times in FY16 from 6.15 times in FY15. As on December 31, 2016, company's total CAR stood at 19.21% with Tier I CAR at 14.26%.

Key Rating Weakness

Moderate Asset quality

Asset quality parameters of FCL saw deterioration during FY16. 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)], in part driven by the transition to revised NPA recognition in line with RBI requirements. The company's Net NPA to tangible Net worth ratio stood at 29.2% (P.Y.: 7.8%).

As on December 31, 2016, GNPA and NNPA ratios (at 120 d-p-d) were at 8.91% and 5.31% respectively. NNPA (120 d-p-d) to Net-worth ratio stood at 37.23% as on December 31, 2016.

Analytical approach: Consolidated

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE Policy on Default Recognition
Non Banking Financial Companies
Financial ratios - Financial Sector

About the Company

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.

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%). During 9MFY17, FCL reported PAT of Rs.64 crore on the total income of Rs.654 crore. During 9MFY17, FCL's ROTA stood at 1.66%.

About L&T Finance Holdings Ltd. (parent company)

L&TFHL (erstwhile L&T Capital Holdings Ltd.) is RBI registered Non-Banking Finance Company - Core Investment Company (NBFC – CIC) and holding company for the financial entities of the L&T group. The board and senior management of L&TFHL has representation from the senior management of L&T. The company came up with an Initial Public Offer (IPO) during FY12 (refers to the period April 01 to March 31) and as on June 30, 2016, L&T held 66.70% equity stake in L&TFHL. Going forward, the group would focus on three key business segments, namely rural finance (comprising farm equipment, two wheeler and microfinance), housing finance (comprising home loans, LAP and real estate finance) and wholesale lending (comprising infra finance and structured corporate loans). The group has discontinued lending to some of the segments such as commercial vehicles, construction equipment, car loans etc., which together constituted around Rs.4,405 crore of loan portfolio as on June 30, 2016. As on June 30, 2016, consolidated lending portfolio of L&TFHL stood at Rs.57,736 crore.

The company reported a consolidated Profit After Tax (PAT) of Rs.857 crore on a total income of Rs.7,471 crore in FY16 and reported GNPA and NNPA ratio (150 d-p-d) of 3.05% and 2.05% as on March 31, 2016. In 9MFY17, the company reported PAT of Rs.726 crore on total income of Rs.6,334 crore. During 9MFY17, company's ROTA stood at 1.51%. As on December 31, 2016 GNPA and NNPA ratio (120 d-p-d) stood at 4.85% and 3.10% respectively.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1:

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-Convertible Debentures	-	-	-	4,400	**CARE AA+; Stable**
Subordinated Debt	-	-	-	350	**CARE AA+; Stable**
Non-Convertible Debentures (Public Issue)	-	-	-	1,000	**CARE AA+; Stable**
Perpetual Debt	-	-	-	250	**CARE AA; Stable**
Commercial Paper	-	-	7-364 days	11000	**CARE A1+**

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Non Convertible Debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (27-Aug-14)	1)CARE AA (21-Mar-14) 2)CARE AA (21-Feb-14) 3)CARE AA (13-Nov-13) 4)CARE AA (15-Oct-13)
2.	Commercial Paper	ST	11,000	CARE A1+	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (04-Nov-16) 3)CARE A1+ (30-Jun-16)	1)CARE A1+ (17-Nov-15) 2)CARE A1+ (22-Jul-15)	1)CARE A1+ (27-Aug-14)	1)CARE A1+ (21-Feb-14) 2)CARE A1+ (13-Nov-13) 3)CARE A1+ (15-Oct-13)
3.	Secured Long Term Borrowings	LT	2300.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (27-Aug-14) 2)CARE AA (30-Jun-14)	1)CARE AA (21-Feb-14) 2)CARE AA (13-Nov-13) 3)CARE AA (15-Oct-13)
4.	Subordinate Debt	LT	100.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (27-Aug-14)	1)CARE AA (21-Mar-14)
5.	Non Convertible Debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (27-Aug-14)	1)CARE AA (27-Mar-14)
6.	Subordinate Debt	LT	50.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (27-Aug-14) 2)CARE AA	-

					2)CARE AA+ (04-Nov-16)		(30-Jun-14)	
7.	Non Convertible Debentures	LT	400.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (27-Aug-14) 2)CARE AA (30-Jun-14)	-
8.	Non Convertible Debentures	LT	350.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (27-Aug-14) 2)CARE AA (01-Jul-14)	-
9.	Non Convertible Debentures	LT	750.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (22-Jan-15)	-
10.	Subordinate Debt	LT	75.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (22-Jan-15)	-
11.	Subordinate Debt	LT	100.00	CARE AA+; Stable	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16) 3)CARE AA+ (06-Apr-16)	-	-	-
12.	Perpetual Debt	LT	100.00	CARE AA; Stable	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (04-Nov-16) 3)CARE AA (06-Apr-16)	-	-	-
13.	Non Convertible Debentures	LT	4400.00	CARE AA+; Stable	-	-	-	-
14.	Subordinate Debt	LT	350.00	CARE AA+; Stable	-	-	-	-
15.	Non Convertible Debentures (Public Issue)	LT	1000.00	CARE AA+; Stable	-	-	-	-
16.	Perpetual Debt	LT	250.00	CARE AA; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691