DECEMBER 30, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO VARIOUS DEBT INSTRUMENTS AND BANK FACILITIES OF L&T FINANCE LTD WITH STABLE OUTLOOK

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Non-Convertible Debentures	6725.00 (Rupees Six Thousand Seven Hundred & Twenty Five Crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Subordinated Debt	575.00 (Rupees Five Hundred & Seventy Five Crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long-term Bank Facilities	7650 (Rupees Seven thousand six hundred and fifty crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Perpetual Debt	200.00 (Rupees Two Hundred Crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Commercial Paper / Short term Debt programme	7000.00 (Rupees Seven Thousand crore only)	CARE A1+ (A One Plus)	Reaffirmed
Short-term Bank Facilities	350.00 (Rupees three hundred and fifty crore only)	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 instrument. The rating factors in the additional risk arising due to the existence of the lock-in clause in the instrument. 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

Amalgamation of L&T FinCorp, L&T Finance and Family Credit Limited

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 L&T Finance Ltd. (LTF) 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, LTF benefits from group synergies in the form of business support from L&T ecosystem; L&T brand

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

identity, integrated treasury and capital, managerial & operational support. Moreover, LTF's board of directors and senior management comprises senior executives of the L&T Financial Services group. The rating is supported by the established track record of LTF, well-diversified revenue streams, comfortable capital adequacy and stable profitability. The rating also factors proposed amalgamation of L&T Finance and L&T Fincorp with Family Credit Ltd all being 100% subsidiaries of LTFHL. The rating is constrained by pressure on asset quality in some business segments due to the prevailing weak business environment. Continued support from the parent, capital adequacy, asset quality and profitability are the key rating sensitivities.

Outlook: Stable

Background

LTF is classified as a systemically important – Non Deposit taking NBFC (Asset Finance Company-Non Deposit Taking) by the Reserve Bank of India (RBI). LTF is a wholly-owned subsidiary of L&T Finance Holdings Ltd (LTFHL) which is the flagship holding company of the financial services business of the L&T group. L&T, the ultimate parent, held a stake of 66.70% in L&T Finance Holdings as on June 30, 2016. LTFHL is into the business of retail and wholesale asset financing and LTF is the major entity in the retail financing portfolio. LTF is present into various segments like financing of rural products (primarily tractors), term loan to corporates, SME/supply chain financing and microfinance. 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 stood at Rs.14,032 crore as on June 30, 2016.

LTF reported a Profit after Tax (PAT) of Rs.207 crore during FY16 on total income of Rs.2,352 crore and a PAT of Rs.47 crore during Q1FY17. Capital adequacy was comfortable at 17.04% with a Tier I CAR at 14.49% at the end of FY16. The company reported Gross NPA of 4.99% (on a 150+ dpd) and Net NPA/net worth at 24.3% as on March 31, 2016. Gross NPA was impacted by transition from 150+ dpd to 120+ dpd, and was at 8.75% (on a 120+ dpd) as on June 30, 2016.

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