

L&T Finance Holdings Limited

October 04, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings	Rating Action
Preference Shares	2,836 (enhanced from 2,271)	CARE AAA(RPS); Stable [Triple A (RPS); Outlook: Stable]	Reaffirmed
Total	2,836 (Rs. Two thousand eight hundred and thirty six crores only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to factor in the strategic importance of L&T Finance Holdings Limited (LTFHL) to the L&T group as the flagship holding company of the group's financial services business. The same is reflected through maintaining of ownership, sharing of the L&T brand name along with continued financial and management support.

Further, the ratings continue to draw comfort from experienced management and LTFHL's strong resource raising ability coupled with comfortable liquidity position. CARE has also taken into account the diversified revenue streams through various subsidiaries in the wholesale and retail lending segment, with increasing proportion of retail portfolio, though at present the wholesale portfolio constitutes a larger share.

The ratings also take into account moderate but improving asset quality and strong growth with improving profitability. On a consolidated basis, the high concentration in the wholesale portfolio along with the high growth in the relatively riskier asset classes including micro loans, two wheeler and real estate and will remain as key rating monitorable. The ratings also take into account relatively high gearing levels on a consolidated basis. LTFH management expects gearing levels to not significantly increase from the existing levels, considering healthy internal accruals and relatively lower growth in the loan portfolio.

Continued support from L&T, maintaining profitability and asset quality considering the change in the product-mix are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Ownership of L&T and financial and management support along with brand linkages

L&T is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. L&T operates in sectors like hydrocarbon, infrastructure, power, process industries and defence for customers in over 30 Countries around the World. L&T's total consolidated debt stands at Rs.1256 billion as on March 31, 2019 with a market capitalization of approx. Rs.1953 billion. As on March 31, 2019, market capitalization to overall debt ratio was at ~1.55x. LTFHL is in the financial service space and group's flagship holding co. L&T group considers LTFHL group strategically important, which is reflected through brand linkages and financial and managerial support. Besides LTFHL also benefits from the expertise of L&T Limited in infrastructure segment, however LTFHL does not lend against any infrastructure projects of L&T. In terms of representation from L&T, Mr.R. Shankar Raman (currently serving a whole-time director and CFO at L&T Limited) is on L&TFH board as a non-executive director and he is also a member of CSR Committee and Risk Management Committee. Also, Mr. Thomas Mathew (who is an independent director at L&T Ltd) is an independent director at LTFHL and also a chairperson in Nomination and Remuneration Committee and Audit Committee. Further there has been instances of equity infusion in the past & extension of credit line of Rs.2000 crores which indicate continuous support from the parent. L&T Ltd had recently infused equity capital of Rs.2000 crores in FY18.

Strong growth in portfolio along with improving profitability

During FY19, the LTFHL consolidated PAT stood at Rs.2232 crores as against Rs.1278 crores (reinstated) as compared to FY18 showing a y-o-y growth of 74%. There has been also a strong growth in the loan portfolio which stood at Rs.91,325 crores as on March 31, 2019 as against Rs.77,088 crores as on March 31, 2018 showing a y-o-y rise of 18%. The fee income has increased because of increased contribution from retail businesses. The fee income is well diversified with major contributions from sell-down, cross sell, advisory fee & fee income from mutual fund business. During FY19, LTFHL has done incremental provisions and macro-prudential provisions to take care of any additional volatility in asset performance going forward. During FY19, NIM stood at 5.67% as against 4.76% in FY18. This is primarily because of the increase in proportion of portfolio fetching higher yields. Operating expenses as a % of total assets has increased from 1.67% (reinstated) in FY18 to 1.93% in FY19. This is primarily on account of rise in the retail book which has increased the employee as well as other

operational costs. For the FY19, ROTA and RONW stood at 2.29% and 21.01% respectively, as against 1.60% and 12.12% in FY18.

Strong Resource Raising Ability and Capital Position

The consolidated capital adequacy ratio stands at 17.85% as on March 31, 2019 (Tier I Ratio stands at 14.56%). Thus, there is sufficient headroom to raise Tier II capital. As on March 31, 2019, Tangible networth stood at Rs. 11632 crores. In terms of resource mobilization, company has been able to raise Rs.2500 crores through retail NCD's in two tranches ie in Mar 19 & April 19 respectively. It has also raised Rs.1152 crores from IFC. It has plans to further diversify its borrowings through ECB's, USD Bonds and Masala bonds. The Company also has through its subsidiaries entered into a definitive agreement with Apis Growth Fund-II for a minority stake sale of upto 25.1% in L&T Infra Debt Fund Ltd; of this equity infusion around 70% will be towards primary capital infusion.

Comfortable liquidity profile

The consolidated ALM profile as on June 30, 2019 had cumulative positive mismatches upto 1year bucket. As on 30th June, 2019, Rs. 13,134 Cr of liquidity is maintained in the form of cash, FD and other liquid assets aggregating to Rs.4856 crores, undrawn bank lines of Rs.6278 crore alongwith back up line from L&T of Rs.2000 crore.

Diversified revenue streams through direct and indirect subsidiaries that have moderate track record albeit growth coming from the high yielding segments and relatively riskier asset class

LTFHL has presence across various financial services like corporate and retail finance and infrastructure through its subsidiaries and investment management services through step-down subsidiaries. In retail finance, company primarily deals in two wheeler, micro loans, farm equipment and housing loans, whereas in wholesale, it primarily does infrastructure finance and real estate finance. The remaining wholesale book has been classified as defocused book ie DCM and Structured Finance book which stands at Rs.9403 crores as on June 30, 2019.

The growth in FY19 has come from retail segment with two wheeler and micro loans showing higher growth and from real estate in the wholesale segment. In the micro loans, the customer profile is from lower socio economic background; hence this segment is prone to event risks such as political, socio-economic and natural calamities. The asset quality is highly volatile during occurrence of such event risks. In the farm equipment financing, cashflows are subjected to volatilities in the rainfall conditions in any geographies. The real estate sector is witnessing slowdown and experiencing heightened refinancing risk, and therefore the asset quality in this segment is a key monitorable. To mitigate, the risks in the real estate book, exposure has been taken on the basis of evaluation of the project, developer, location and stage of construction, sales velocity etc. Further it has control over cashflows through creation of escrow accounts, control over vendor payment and focussed & continuous monitoring of the project.

Key Rating Weakness

Moderate Asset Quality

From FY19 onwards, company adopted ECL model for classification of advances in Stage I, Stage II and Stage III and consequent provisioning on the same. The company has post adoption of ECL model, done incremental provisioning of around Rs.1800 crores through reserves as on April 01, 2017. The GNPA and NNPA of FY18 pre-adoption of IndAs stood at 4.80% and 2.34%. Post adoption of IndAs, Gross stage 3 and Net Stage 3 stands at 8.71% and 3.34% as on March 31, 2018. Gross stage 3 and Net Stage 3 reduced to 5.90% and 2.4% respectively as on March 31, 2019.

Even the provision coverage ratio has increased from 55.5% as on March 31, 2018 to 61% as on March 31, 2019. During FY19, company has made net incremental provisions of Rs.700.88 crores.

Relatively high gearing but capitalization is supported by timely equity infusion from parent

As on March 31, 2019, gearing (debt to tangible networth) at consolidated levels stood at 7.87x. Furthermore, the gearing had reduced to 7.6 times as on June 30, 2019. As per the LTFH management, the gearing levels are not expected to significantly increase from the existing levels also on account of healthy internal accruals and relatively lower growth in the loan portfolio. The Interest coverage has shown an increase from 1.27x times as on March 31, 2018 to 1.44x as on March 31, 2019.

Concentration in wholesale book

The lending activity of L&T Group can be divided primarily into 2 broad classes. Rural finance which comprises of farm equipment, housing loans, two wheeler and micro loans. Wholesale book comprises of DCM, Structured Finance Corp, Real Estate and Infrastructure Finance. Company has classified DCM and Structured Finance Corp as a defocused book. However, it still continues to remain 9.41% of the outstanding book as on June 30, 2019. Wholesale book occupies 63% of the outstanding book as on June 30, 2019. Though the company has plans to increase its retail book going forward, but currently wholesale including the defocused group continues to remain a larger part of the outstanding portfolio.

Liquidity Profile- Strong: The consolidated ALM profile as on June 30, 2019 had cumulative positive mismatches upto 1year bucket. As on 30th June,2019, Rs. 13,134 Cr of liquidity is maintained in the form of cash, FD and other liquid assets aggregating to Rs.4856 crores, undrawn bank lines of Rs.6278 crore alongwith back up line from L&T of Rs.2000 crore. The liquidity is maintained against the repayment of Rs.28,035 crores in the next one year. The group's resource raising capability through integrated treasury also provides comfort.

Analytical approach:

L&T Finance Holdings Ltd the flagship company of the L&T group, owns 100% in most of its subsidiaries and the management/line functions for these businesses is common with significant operational and financial integration among them. Accordingly, CARE has considered a consolidated view for arriving at the rating. The list of the subsidiaries considered for consolidation are as per Annexure 3.

Applicable Criteria

[Criteria on assigning outlook to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Rating Methodology- Non Banking Finance Companies](#)

[Financial Ratios-Financial Sector](#)

[Factor Linkages in Ratings](#)

[Rating of Short term instruments](#)

About the Company

LTFHL is RBI registered Non-Banking Finance Company - Core Investment Company (NBFC – CIC) and holding company for the financial services entities of the L&T group. As on March 31, 2019, L&T held 64.01% equity stake in LTFHL. The group has three key business segments, namely rural finance (comprising farm equipment, two wheeler and micro loans), housing finance (comprising home loans, LAP and real estate finance) and wholesale lending (comprising infra finance and structured corporate loans).

Brief Financials (Rs. crore)	FY18(A)*	FY19(A)*
Total income	10,266	13,302
PAT	1,277	2,232
Interest coverage (times)	1.27	1.44
Total Assets	87,776	1,06,055
Net NPA (%)	3.3	2.4
ROTA (%)	1.6	2.29

A: Audited *Financials as per Ind-AS

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure 1- Instrument Details

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Redeemable Preference shares	06-May-15	8.15%	06-May-20	600.0	CARE AAA (RPS); Stable
Redeemable Preference shares	12-Oct-18	8.95%	12-Oct-21	250.0	CARE AAA (RPS); Stable
Redeemable Preference shares	17-May-19	8.00%	17-Nov-22	145.4	CARE AAA (RPS); Stable
Redeemable Preference shares	03-Jun-19	7.95%	02-Dec-22	63.7	CARE AAA (RPS); Stable
Redeemable Preference shares	-	-	-	1776.90	CARE AAA (RPS); Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (21-Aug-19)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (26-Feb-18) 2)CARE AA+; Positive (09-Oct-17) 3)CARE AA+; Stable (13-Jul-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
2.	Commercial Paper	ST	2000.00	CARE A1+	1)CARE A1+ (21-Aug-19)	1)CARE A1+ (26-Jun-18) 2)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Feb-18) 2)CARE A1+ (14-Nov-17) 3)CARE A1+ (09-Oct-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (04-Nov-16) 3)CARE A1+ (16-Sep-16)
3.	Preference Shares-Non Convertible Redeemable Preference Share	LT	2271.00	CARE AAA (RPS); Stable	1)CARE AAA(RPS); Stable (21-Aug-19)	1)CARE AAA(RPS); Stable (08-Oct-18)	1)CARE AAA (RPS); Stable (26-Feb-18) 2)CARE AA+ (RPS); Positive (09-Oct-17) 3)CARE AA+ (RPS); Stable (13-Jul-17)	1)CARE AA+ (RPS); Stable (30-Dec-16) 2)CARE AA+ (RPS) (04-Nov-16)

Annexure 3: List of subsidiaries/associates considered for consolidation as on 31st March 2019

Sr. No	Name of Company
1	L&T Infrastructure Finance Company Limited
2	L&T Investment Management Limited
3	L&T Mutual Fund Trustee Limited
4	L&T Financial Consultants Limited (erstwhile known as L&T Vrindavan Properties Limited)
5	L&T Infra Investment Partners Advisory Private Limited
6	L&T Infra Investment Partners Trustee Private Limited
7	L&T Finance Limited (erstwhile known as Family Credit Limited)
8	L&T Housing Finance Limited
9	L&T Capital Markets Limited
10	L&T Infra Debt Fund Limited
11	Mudit Cements Private Limited
12	Grameen Capital India Private Limited

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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