L&T Finance Ltd.

(Erstwhile Family Credit Ltd.)

May 23, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Market Linked Debenture	1000 (Rs. One thousand crore only)	CARE PP-MLD AAA; Stable [PP-MLD Triple A; Outlook: Stable]	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors in the strategic importance of L&TFHL group to the L&T group as the flagship holding company of the group's financial services business, sharing of the L&T brand name, experienced management and L&TFHL's strong resource raising ability. The rating further factors in L&TFHL's well-diversified business profile in the financial sector through its subsidiaries that have a good presence and track record in segments like rural finance, housing finance, wholesale finance and asset management services, profitable track record of its subsidiaries and moderate asset quality. The continued support from L&T, profitability and asset quality are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and strategic importance for the parent company/group

L&TFHL is promoted by Larsen and Toubro Ltd (L&T), which is one of India's leading engineering and construction companies, with interests in projects, infrastructure development, manufacturing, IT & financial services. L&TFHL, being the group's flagship holding company in the financial services field, has a strategic importance for the L&T group and L&T is expected to continue to hold a majority stake and provide support in times of stress.

LTF 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 LTF. As on March 31, 2019, L&T held 63.91% equity stake in L&TFHL. The credit profile of L&T Finance Ltd (L&TF) (erstwhile Family Credit Ltd) derives significant strength from its parentage and the resultant financial, operational and management support. The company also benefits from the integrated treasury operations of L&T Financial Services Group.

Experienced management and brand value of L&T

The board and senior management of L&TFHL has representation from the senior management of L&T group. The company is led by Mr. Dinanath Dubhashi, the Managing Director and CEO of the company, who has extensive experience in the financial services industry. The company has a board comprising eminent industry personnel with extensive Industry Experience, including Mr.S.Haribhakti (Non-Executive Chairman), and Mr. R. Shankar Raman, CFO, L&T Ltd. (Non-Executive Director).

Strong resource raising ability and capital position

During Q4FY18, Rs.3,000 crore of equity was infused in L&TFHL, where Rs.1,000 crore was raised through qualified institutional placement (QIP) and Rs.2,000 crore was infused by L&T Limited. On a consolidated basis, L&TFHL's tangible net-worth stood at Rs.11,538 crore as on March 31, 2018. Post the equity infusion, on a consolidated basis, L&T Finance Holdings Limited (L&TFHL) is one of the few non-banking financial services group in India with such a large capital base. As on March 31, 2018, the overall gearing was 6.29 times (P.Y.: 8.55 times) on a consolidated basis because of rise in borrowings. On a consolidated basis, L&THFL reported net worth of Rs. 13,449 crore as on March 31, 2019. The gearing level stood at 6.80 times as on March 31, 2019.

The capitalization level of L&TF has remained adequate. The tangible net worth of the company was Rs. 6807 crore as on March 31, 2019. Overall gearing of the company was 6.74 times as on March 31, 2019 as compared to 6.32 times as on March 31, 2018. The company is expected to receive equity infusion as and when required from the parent LTFHL.

Diversified revenue streams through subsidiaries that have established track record

L&TFHL, through its subsidiaries has presence across various financial services like rural finance, housing finance, wholesale finance and asset management services. The company has revised its portfolio strategy with renewed focus on rural, housing and retail loan book.

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

Financial Performance

On a consolidated basis, the outstanding portfolio of L&TFHL grew by 18% during FY19 to Rs.99,121 crore as on March 31, 2019. On a consolidated basis, L&TFHL reported PAT of Rs.2232 crore on total income of Rs.13,302 crore in FY19 as compared to PAT of Rs.1,278 crore on a total income of Rs.10,266 crore in FY18 (as per Ind-AS). Return on Total Assets (RoTA) was 2.30% in FY19 (FY18: 1.6%) on consolidated basis.

In FY19, L&TF reported PAT of Rs.845 crore on the total income of Rs.7383 crore as compared to PAT of Rs.117 crore on the total income of Rs.5071 crore in FY18. The NIM was 7.4% in FY19. As on March 31, 2019, the loan portfolio of L&TF stood at Rs. 48947 crore.

Liquidity profile of L&T Finance Ltd (erstwhile Family Credit Ltd)

On a consolidated basis, the ALM profile as on March 31, 2019 had cumulative positive mismatches in all the time brackets which included the undrawn bank lines of Rs. 10988 crore comprising of Rs. 8988 crore in the form of unutilised bank lines and Rs. 2000 crore of back up line from L&T Limited. The company keeps undrawn bank lines on an ongoing basis to meet any liquidity requirement. Also the Company expects inflows due to sell down of assets. Furthermore, the group's resource raising capability through a common treasury provides comfort.

As on March 31, 2019, the liquidity profile of L&TF stood comfortable as the company maintained cumulative positive mismatches in all time frames which included the undrawn bank lines of Rs. 4281 crore comprising of Rs. 3281 crore in the form of unutilised bank lines and Rs.700 crore of back up line from L&T Limited

Key Rating Weaknesses

Moderate asset quality

On a consolidated basis, L&TFHL's Gross Stage 3 and Net Stage 3 ratio was 5.90% and 2.40% respectively as on March 31, 2019, as compared to GNPA and NNPA ratio (90 d-p-d) of 4.80% and 2.34% as on March 31, 2018. The Net Stage 3 (90d-p-d) to Net-worth ratio was 16.17% as on March 31, 2019 as against 14.67% as on March 31, 2018. On a standalone basis, L&TF's Gross and Net Stage 3 ratio (90 d-p-d) was 3.6% and 1.2%, respectively as on March 31, 2019 [March 2018: 6.07% and 2.82%(90 d-p-d)]. The Net Stage 3 to tangible Net worth ratio was at 8.54% as on March 31, 2019 (March 2018: 17.52%).

Industry Prospects

Due to subdued economic environment, last few years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 day NPA recognition norm.

Analytical Approach:

L&T Finance Holdings Ltd, the holding company of L&T Financial Services 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 ratings. The list of the subsidiaries considered for consolidation is as per Annexure III.

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 L&T Finance Holdings Ltd. (parent company)

L&TFHL 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. 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 and as on March 31, 2018, L&T held 63.91% equity stake in L&TFHL. The group has three key business segments, namely rural finance (comprising farm equipment, two wheeler and microloans), housing finance (comprising home loans, LAP and real estate finance) and wholesale lending (comprising infra finance and structured corporate loans). As on March 31, 2019, the gross loan portfolio stood at Rs. 99,121crore.

L&TFHL (Consolidated)

Brief Financials (Rs. crore) (as per Ind-AS)	FY18 (A)	FY19(A)
Total income	10,266	13,302
PAT(after share of profit and minority interest)	1,278	2,232
Overall Gearing (times)	6.4	6.6
Total Assets (adjusted for Deferred Tax assets)	87,777	1,06,055
Gross Stage 3 (%)	8.71	5.90
ROTA (%) (PAT/Average Total Assets)	1.6	2.30

A: Audited

About L&TF

L&TF 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 (FCL). In December 2012, L&T Finance Holding Limited (LTFHL) (rated CARE AAA; Stable); the flagship holding company for the financial services of the L&T Group acquired 100% shareholding in FCL. During March'17, L&T Finance Limited (pre-merger) and L&T FinCorp Limited amalgamated with Family Credit Limited. The amalgamated entity was renamed as L&T Finance Limited. As on March 31, 2019, L&TF had loan portfolio of Rs. 48947 crore.

L&T Finance Ltd (erstwhile Family Credit Ltd)

Brief Financials (Rs. crore) (as per Ind-AS)	FY18 (A)	FY19(A)
Total income	5071	7,383
PAT	117	846
Overall Gearing (times)	6.32	6.74
Total Assets (adjusted for Intangible assets and Deferred Tax assets)	41496	53,754
Gross Stage 3 (%)	6.1#	3.6
ROTA (%) (PAT/Average Total Assets)	0.42	1.78

A: Audited #Gross NPA

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: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Principle Protected Market Linked debentures	-	-	-	1000	CARE PP-MLD AAA; 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	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (16-Mar-18) 2)CARE AA+; Positive (09-Oct-17) 3)CARE AA+; Stable (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
2.	Commercial Paper	ST	18500.00	CARE A1+	-	1)CARE A1+ (08-Oct-18)	1)CARE A1+ (26-Feb-18) 2)CARE A1+ (09-Oct-17) 3)CARE A1+ (07-Jul-17) 4)CARE A1+ (17-Apr-17)	1)CARE A1+ (21-Mar-17) 2)CARE A1+ (30-Dec-16) 3)CARE A1+ (04-Nov-16) 4)CARE A1+ (30-Jun-16)
3.	Borrowings-Secured Long Term Borrowings	LT	2300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18) 2)CARE AAA; Stable (08-Mar-19)	1)CARE AAA; Stable (30-Mar-18) 2)CARE AAA; Stable (26-Feb-18) 3)CARE AA+; Positive (09-Oct-17) 4)CARE AA+; Stable (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
4.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)

5.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
6.	Debt-Subordinate Debt	LT	50.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
7.	Debentures-Non Convertible Debentures	LT	400.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
8.	Debentures-Non Convertible Debentures	LT	350.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
9.	Debentures-Non Convertible Debentures	LT	750.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)
10.	Debt-Subordinate Debt	LT	75.00	CARE AAA; Stable	-	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	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16)

							(17-Apr-17)	
11.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (30-Dec-16) 2)CARE AA+ (04-Nov-16) 3)CARE AA+ (06-Apr-16)
12.	Debt-Perpetual Debt	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (26-Feb-18) 2)CARE AA; Positive (09-Oct-17) 3)CARE AA; Stable (17-Apr-17)	1)CARE AA; Stable (30-Dec-16) 2)CARE AA (04-Nov-16) 3)CARE AA (06-Apr-16)
13.	Debentures-Non Convertible Debentures	LT	4400.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (08-Mar-18) 2)CARE AA+; Positive (09-Oct-17) 3)CARE AA+; Stable (17-Apr-17)	1)CARE AA+; Stable (21-Mar-17)
14.	Debt-Subordinate Debt	LT	350.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (21-Mar-17)
15.	Debentures-Non Convertible Debentures	LT	600.00	CARE AAA; Stable	-	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 (17-Apr-17)	1)CARE AA+; Stable (21-Mar-17)
16.	Debt-Perpetual Debt	LT	250.00	CARE AA+; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AA+; Stable (26-Feb-18) 2)CARE AA; Positive (09-Oct-17)	1)CARE AA; Stable (21-Mar-17)

							3)CARE AA; Stable (17-Apr-17)	
17.	Fund-based - LT-Term Loan	LT	18450.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18) 2)CARE AAA; Stable (08-Mar-19)	1)CARE AAA; Stable (30-Mar-18) 2)CARE AAA; Stable (26-Feb-18) 3)CARE AA+; Positive (09-Oct-17) 4)CARE AA+; Stable (17-Apr-17)	-
18.	Debt-Perpetual Debt	LT	150.00	CARE AA+; Stable	-	1)CARE AAA; Stable (08-Oct-18)	1)CARE AA+; Stable (26-Feb-18) 2)CARE AA; Positive (09-Oct-17) 3)CARE AA; Stable (17-Apr-17)	-
19.	Fund-based - LT-Term Loan	LT	5250.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Oct-18) 2) CARE AAA; Stable (08-Mar-19)	1)CARE AAA; Stable (30-Mar-18) 2)CARE AAA; Stable (26-Feb-18) 3)CARE AA+; Positive (09-Oct-17) 4)CARE AA+; Stable (17-Apr-17)	-
20.	Debt-Subordinate Debt	LT	625.00	CARE AAA; Stable	-	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 (17-Apr-17)	-
21.	Debentures-Non Convertible Debentures	LT	3625.00	CARE AAA; Stable	-	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	-

							(17-Apr-17)	
22.	Commercial Paper-Commercial Paper (IPO Financing)	ST	0.00	Withdrawn	-	1)CARE A1+ (25-Jul-18) 2)Withdrawn (23-Jul-18) 3)Withdrawn (21-Jun-18) 4)CARE A1+ (21-Jun-18)	1)CARE A1+ (30-Mar-18) 2)Withdrawn (08-Mar-18) 3)CARE A1+ (16-Jan-18) 4) Withdrawn (07-Dec-17) 5)CARE A1+ (09-Oct-17)	-
23.	Debentures-Market Linked Debentures	LT	500.00	CARE PP-MLD AAA; Stable	-	1)CARE PP-MLD AAA; Stable (08-Oct-18)	1)CARE PP-MLD AAA; Stable (26-Feb-18) 2)CARE PP-MLD AA+; Positive (05-Dec-17)	-
24	Debenture-Non-Convertible Debentures	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Sept-18)	-	-
25	Debenture- Non-Convertible Debentures/ Subordinate Debt	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (31-Dec-18) 2)CARE AAA; Stable (25-Dec-18)	-	-
26	Debenture-Non-Convertible Debentures	LT	4375	CARE AAA; Stable	-	1) CARE AAA; Stable (08-Mar-19)	-	-
27	Debentures-Market Linked Debentures	LT	1000	CARE PP-MLD AAA; Stable	-	-	-	-

Annexure III: List of subsidiaries/associates considered for consolidation

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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