L&T Finance Ltd.
(Erstwhile Family Credit Ltd.)
October 6, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Commercial Paper (IPO Financing)	9000.00	**CARE A1+ [A One Plus]**	Assigned
Total Facilities	**9000.00 (Rs. Nine Thousand crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings factor in strong parentage of L&T Finance Ltd. (erstwhile Family Credit Ltd) by being a wholly owned subsidiary of L&T Finance Holdings Limited (LTFHL), the flagship financial services business holding company of the L&T group. By virtue of its parentage, the company benefits from group synergies in the form of business support from the L&T ecosystem, integrated group treasury, as well as capital, managerial and operational support. Moreover, LTF's board and senior management comprises senior executives of the L&T Financial Services group. The ratings also factor in adequate capitalization levels, average profitability and moderate asset quality. Continued support from the 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

L&T Finance Ltd (LTF). (erstwhile Family Credit Ltd) 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 June 30, 2017, L&T held 64.23% stake in L&TFHL. The credit profile of L&T Finance Ltd (LTF).(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 team

The company has an experienced management team. All the Board members are eminent professionals with long and distinguished careers in the country's leading financial and commercial organizations. The board of L&T Finance Ltd. (erstwhile Family Credit Ltd) also includes Mr. Dinanath Dubhashi who is the current MD&

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

CEO 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 L&T Finance Ltd. (erstwhile Family Credit Ltd) has remained adequate. The Total CAR and Tier I CAR was 16.82% (FY17-16.42%) and 13.76% (FY17-13.36%) respectively as on June 30, 2017. Overall gearing of the company was 7.16 times as on March 31, 2017. The company is expected to receive equity infusion as and when required from the parent LTFHL. As on June 30, 2017, the overall gearing was 6.97 times.

Liquidity profile

As a prudent strategy, the company keeps sufficient amount of undrawn bank lines on an ongoing basis to meet any liquidity requirement. Further, the L&T Financial Services Group maintains adequate liquidity at holding company level for any liquidity requirements. The group's resource raising capability through a common treasury also provides comfort.

Average Profitability*

The amalgamation of L&T Finance Limited and L&T FinCorp Limited with Family Credit Limited was done in March 2017. During FY16 (refers to the period April 1-March 31), the company reported an estimated Profit after Tax (PAT) of Rs.479 crore on a total income of Rs.3917 crore. During FY17, L&T Finance Limited (erstwhile Family Credit) reported PAT of Rs.16 crore on the total income of Rs.4145 crore. The company has made a goodwill amortization of Rs.650 crore in FY17 which has resulted in decline in reported PAT. In Q1FY18, the PAT was Rs.33 crore on total income of Rs.1,167 crore. However, the profitability of FY17 adjusted for amortization of goodwill, would have been comparable to FY16's profitability. The company has made a goodwill amortization of Rs.164 crore in Q1FY18.

** Financial figures of FY16 are estimates and do not include intercompany adjustments*

Key Rating Weakness

Moderate asset quality

The Gross and Net NPA ratio (120 d-p-d) was 6.51% and 4.02%, respectively as on March 31, 2017 [Mar'16.: 4.53% & 2.98% (150 d-p-d)], in part driven by the transition to revised NPA recognition in line with RBI requirements. The company's Reported Net NPA to tangible Net worth ratio was at 29.3% (Mar'16: 21.9%). As on June 30, 2017, the Gross and Net NPA ratio (90d-p-d) was 7.7% and 4.6%, respectively (March 2017 at 90 dpd: Gross NPA ratio -9.0% and Net NPA ratio-6.2%).

Industry Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC total assets to bank total assets. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI has revised the regulatory framework for NBFCs which broadly focuses on strengthening the structural profile of NBFC sector, wherein focus is more on safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, gradual change in the NPA recognition norms would lead to deterioration in asset quality parameters during the transition phase. Overall the revised regulations are positive for the NBFC sector making it structurally stronger, increase transparency and improve their ability to withstand asset quality shocks in the long run. Due to subdued economic environment, last three 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 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.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's policy on default recognition
Financial Ratios- Financial Sector
CARE's Criteria for NBFC
Rating of Short term instruments
Factoring Linkages in Ratings

About the Group

L&T Finance Ltd. (erstwhile Family Credit Ltd) was originally incorporated as Apeejay Finance Group Ltd. in 1993. In September, 2006, Societe Generale Consumer Finance (SGCF), a division of SocieteGenerale 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+; Stable); the flagship holding company for the financial services of the L&T Group acquired 100% shareholding in FCL. During March'17, L&TFHL has completed amalgamation of L&T Finance Limited and L&T FinCorp Limited with Family Credit Limited. The amalgamated entity is renamed as L&T Finance Limited.

As on June 30, 2017, L&T Finance Ltd. (erstwhile Family Credit Ltd) had a combined loan portfolio of Rs.30,302 crore; mainly comprising rural finance (34.64% of loan portfolio), wholesale finance (43.66% of loan portfolio), housing finance (14.07% of loan portfolio), other defocused products (7.63% of loan portfolio).

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 and as on June 30, 2017, L&T held 64.23% equity stake in L&TFHL. The group has 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). As on June 30, 2017, consolidated lending portfolio of L&TFHL stood at Rs.68,180 crore.

L&TFHL (Consolidated)

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Total income	7,471	8,572
PAT(after share of profit and minority interest)	857	1,042
Interest coverage (times)	1.51	1.59
Total Assets (adjusted for Intangible assets and Deferred Tax assets)	63,392	71,759
Net NPA (%)	2.05^	2.89&
ROTA (%) (PAT/Average Total Assets)	1.48	1.54

^150 DPD, &120 DPD; A: Audited

L&T Finance Ltd (erstwhile Family Credit Ltd)

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Total income	NM	4,145
PAT	NM	16
Interest coverage (times)	NM	1.01
Total Assets (adjusted for Intangible assets and Deferred Tax assets)	NM	32,982
Net NPA (%)	NM	4.02
ROTA (%) (PAT/Average Total Assets)	NM	NM

NM: Not meaningful; A: Audited

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 I- 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
Commercial Paper (IPO Financing)	-	-	7 days to 1 month	9000	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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.	Commercial Paper	ST	16500.00	CARE A1+	1)CARE A1+ (07-Jul-17) 2)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)	1)CARE A1+ (17-Nov-15) 2)CARE A1+ (22-Jul-15)	1)CARE A1+ (27-Aug-14)
3.	Borrowings-Secured Long Term Borrowings	LT	2300.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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)
4.	Debt-Subordinate Debt	LT	100.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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)
5.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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)
6.	Debt-Subordinate Debt	LT	50.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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)
7.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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.	Debentures-Non Convertible Debentures	LT	350.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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.	Debentures-Non Convertible Debentures	LT	750.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	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.	Debt-Subordinate Debt	LT	75.00	CARE AA+;	1)CARE AA+; Stable	1)CARE AA+; Stable	1)CARE AA+ (17-Nov-15)	1)CARE AA+ (22-Jan-15)

				Stable	(17-Apr-17)	(30-Dec-16) 2)CARE AA+ (04-Nov-16)		
11.	Debt-Subordinate Debt	LT	100.00	CARE AA+; Stable	1)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 (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 AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	1)CARE AA+; Stable (21-Mar-17)	-	-
14.	Debt-Subordinate Debt	LT	350.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	1)CARE AA+; Stable (21-Mar-17)	-	-
15.	Debentures-Non Convertible Debentures	LT	600.00	CARE AA+; Stable	1)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 AA; Stable (17-Apr-17)	1)CARE AA; Stable (21-Mar-17)	-	-
17.	Fund-based - LT-Term Loan	LT	11650.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	-	-	-
18.	Debt-Perpetual Debt	LT	150.00	CARE AA; Stable	1)CARE AA; Stable (17-Apr-17)	-	-	-
19.	Fund-based - LT-Term Loan	LT	350.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	-	-	-
20.	Debt-Subordinate Debt	LT	625.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	-	-	-
21.	Debentures-Non Convertible Debentures	LT	3625.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	-	-	-
22.	Commercial Paper-Commercial Paper (IPO Financing)	ST	9000.00	CARE A1+	-	-	-	-

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