

India Ratings Affirms IL&FS Financial Services and its NCDs at 'IND AAA'/Stable

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India Ratings and Research (Ind-Ra) has affirmed IL&FS Financial Services Ltd's (IFIN) Long-Term Issuer Rating at 'IND AAA' and Short-Term Issuer Rating at 'IND A1+'. The Outlook is Stable. The instrument-wise rating actions are as follows.

| Instrument Type | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (billion) | Rating/Outlook | Rating Action |
|--|------------------|-----------------|---------------|------------------------------|----------------|---------------|
| Non-convertible debentures (NCDs) | - | - | - | INR50 (increased from INR40) | IND AAA/Stable | Affirmed |
| Subordinated debt | - | - | - | INR10 | IND AAA/Stable | Affirmed |
| Short-term debt/commercial paper programme | - | - | - | INR7 | IND A1+ | Affirmed |

Key Rating Drivers

Parent Support: IFIN's ratings factor in support from its parent and are equated with those of Infrastructure Leasing & Financial Services Limited (IL&FS; 'IND AAA'/Stable) as Ind-Ra considers it as core to IL&FS, which has multiple investments across group companies. IFIN, which was a division of IL&FS until 2008, has strong operational and management linkages with its parent. The treasury and risk management operations function in co-ordination with IL&FS. IFIN shares its parent's brand name. Moreover, the chairman, vice chairman and CEO of IL&FS are on the board of IFIN. Its debt syndication desk provides critical support to the group's project development business. Moreover, IFIN has provided funding support to the group's various projects. Related party exposure, about 15% of the total credit exposure at FYE15, rose to 36% at FYE16 and then fell to 25% at FYE17. The contribution of IFIN was about one-fourth to IL&FS's revenue (net of interest expense and preference dividend) in FY17 (FY16: 20%). IL&FS intends to continue holding 100% stake in IFIN.

Reasonable Access to Funding: IFIN's funding profile is well diversified. Bank borrowings constitute 50% of the total borrowings, followed by capital market borrowings (28%) and money market instruments and inter corporate deposits (22%). Bank funding is fairly spread among various lenders. The company maintains largely matched asset liability tenures. It has unutilised bank lines of INR11.5 billion (about 17% of short-term outflows). Moreover, it can access liquidity at the group level, if required.

Fairly Concentrated Lending Portfolio: IFIN's top 20 exposures were 248% of equity in 4QFY17. The majority of its credit exposure is to borrowers with moderate-to-modest credit profiles, backed by reasonable collateral cover. Slippages in few top accounts could exert material stress on the company, affecting its profitability. However, the company has additional general contingency provisions of 3.6% (FY17) of credit exposure, which provides some comfort.

Slippages Prone to High Volatility but IFIN Managed Well: IFIN's moderate-to-modest borrower profile result in volatile slippages that require careful monitoring. GNPA (on a 120dpd basis) improved to 3.3% in 4QFY17 (1QFY18: 3.3% on a 90dpd basis) after slipping to 5.2% in 3QFY17. IFIN's pre-provision operating profit buffer declined with a rise in credit cost (excluding provision for general contingency) (FY17: 2.4x; FY14-FY16 average: 4.6x). In FY17, a general contingency provision of INR900 million was created. The provision is 0.5% of average assets (FY16: INR1.2 billion; 0.7% of average assets). Ind-Ra factors in IFIN's extensive experience in managing such exposure. Slippages from standard restructured assets (1.9% of the credit exposure as of March 2017) have the potential to increase delinquencies.

Modest Capitalisation: IFIN's capitalisation is modest, considering its fairly concentrated and modest credit profile exposure. Leverage adjusted for redeemable preference shares and accompanying redemption premium increased to 8.2x in 4QFY17 (FY16: 7.8x; FY15: 6.5x).

However, after considering debt net of cash and cash equivalent, leverage stands at 6.7x in 4QFY17 (FY16: 7.1x; FY15: 5.5x). IFIN plans to gradually reduce leverage in the next few years. Tier 1 ratio was 12.39% in 1QFY18.

Subdued Profitability: Profitability has come under pressure in recent years (return on assets: FY17: 1.1% and FY16: 1.2%) on account of high provisioning costs, a part of which is for general contingency provision over and above the specific provision requirements. The company intermittently utilises this contingency provision for absorbing some credit costs.

Rating Sensitivities

IFIN's ratings are linked with those of IL&FS. Any downward movement in IL&FS's ratings will lead to a similar movement in IFIN's ratings. Any dilution in the ownership, together with a re-evaluation of IFIN's importance to IL&FS, could lead to the delinking of the Long-term ratings of the two companies. In addition, high delinquencies or continued elevated leverage of IFIN, which, in the agency's view, requires a quantum of support that is considered onerous for IL&FS, can lead to a rating downgrade.

Company Profile

IFIN is a systemically important non-banking finance company that provides credit and other services such as debt syndication and corporate advisory.

FINANCIAL SUMMARY

| Particulars | FY17 | FY16 |
|------------------------------|---------|---------|
| Total assets (INR million) | 193,632 | 177,902 |
| Total equity (INR million) | 19,578 | 18,909 |
| Net income (INR million) | 2,088 | 1,928 |
| Return on average assets (%) | 1.13 | 1.17 |
| Tier 1 capital (%) | 13.2 | 12.7 |
| Source: IFIN | | |

Rating History

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | | |
|----------------------------------|------------------------|------------------------|------------------------|---------------------------|------------------------|------------------------|
| | Rating Type | Rated Limits (billion) | Rating | 1 September 2016 | 22 March 2016 | 18 August 2014 |
| Issuer rating | Long- /short-term | - | IND AAA/Stable/IND A1+ | IND AAA/Stable/IND A1+ | IND AAA/Stable/IND A1+ | IND AAA/Stable/IND A1+ |
| NCDs* | Long-term | INR50 | IND AAA/Stable | IND AAA/Stable | IND AAA/Stable | IND AAA |
| Subordinated debt* | Long-term | INR10 | IND AAA/Stable | IND AAA/Stable | IND AAA/Stable | IND AAA |
| Short-term debt/commercial paper | Short-term | INR7 | IND A1+ | IND A1+ | IND A1+ | IND A1+ |

* Details are given in Annexure

Complexity Level of the Instruments

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

Annexure – NCDs

| ISIN Number | Date of Issue | Coupon (%) | Date Of Maturity | Outstanding as on 27 September 2017 (million) | Rating/Outlook | Rating Action |
|--------------|-------------------|------------|------------------------|---|----------------|---------------|
| INE121H07885 | 28 September 2012 | 9.54 | 28 September 2022 | INR500.00 | IND AAA/Stable | Affirmed |
| INE121H07901 | 7 January 2013 | 9.60 | 7 January 2018 | INR289.00 | IND AAA/Stable | Affirmed |
| INE121H07935 | 17 September 2013 | 10.50 | 17 September 2018 | INR1,750.00 | IND AAA/Stable | Affirmed |
| INE121H07950 | 18 September 2013 | 10.50 | 28 August 2018 | INR500.00 | IND AAA/Stable | Affirmed |
| INE121H07992 | 28 January 2014 | 9.90 | 28 January 2019 | INR1,075.00 | IND AAA/Stable | Affirmed |
| INE121H07AB6 | 3 July 2014 | 9.50 | 3 July 2019 | INR2,530.00 | IND AAA/Stable | Affirmed |
| INE121H07AC4 | 3 July 2014 | | 3 July 2024 | INR470.00 | IND AAA/Stable | Affirmed |
| INE121H07AD2 | 28 August 2014 | | 28 August 2019 | INR372.50 | IND AAA/Stable | Affirmed |
| INE121H07AE0 | 28 August 2014 | | 28 August 2024 | INR60.00 | IND AAA/Stable | Affirmed |
| INE121H07AH3 | 18 September 2014 | 9.65 | 18 September 2019 | INR2,000.00 | IND AAA/Stable | Affirmed |
| INE121H07AI1 | 30 September 2015 | 8.70 | 30 September 2018 | INR1,500.00 | IND AAA/Stable | Affirmed |
| INE121H07AL5 | 21 March 2016 | 8.90 | 21 March 2019 | INR370.00 | IND AAA/Stable | Affirmed |
| INE121H07AM3 | 21 March 2016 | | 21 March 2021 | INR180.00 | IND AAA/Stable | Affirmed |
| INE121H07AO9 | 28 March 2016 | 8.90 | 28 March 2019 | INR250.00 | IND AAA/Stable | Affirmed |
| INE121H07AP6 | 28 March 2016 | | 28 March 2021 | INR900.00 | IND AAA/Stable | Affirmed |
| INE121H07AQ4 | 28 March 2016 | | 28 March 2023 | INR580.00 | IND AAA/Stable | Affirmed |
| INE121H07AR2 | 28 March 2016 | 8.85 | 28 March 2026 | INR510.00 | IND AAA/Stable | Affirmed |
| INE121H07AS0 | 31 March 2016 | 8.90 | 31 March 2021 | INR50.00 | IND AAA/Stable | Affirmed |
| INE121H07AT8 | 31 March 2016 | 8.85 | 31 March 2026 | INR700.00 | IND AAA/Stable | Affirmed |
| INE121H07AV4 | 3 June 2016 | 8.75 | 3 December 2018 | INR150.00 | IND AAA/Stable | Affirmed |
| INE121H07AW2 | 3 June 2016 | | 3 June 2019 | INR150.00 | IND AAA/Stable | Affirmed |
| INE121H07AX0 | 3 June 2016 | | 3 June 2021 | INR550.00 | IND AAA/Stable | Affirmed |
| INE121H07BA6 | 9 June 2016 | 8.75 | 9 June 2021 | INR500.00 | IND AAA/Stable | Affirmed |
| INE121H07BC2 | 14 June 2016 | 8.75 | 14 June 2019 | INR50.00 | IND AAA/Stable | Affirmed |
| INE121H07BD0 | 14 June 2016 | | 14 June 2021 | INR290.00 | IND AAA/Stable | Affirmed |
| INE121H07BE8 | 14 June 2016 | | 14 June 2023 | INR110.00 | IND AAA/Stable | Affirmed |
| INE121H07BF5 | 21 June 2016 | 8.78 | 21 June 2021 | INR1,000.00 | IND AAA/Stable | Affirmed |
| | | 8.80 | | | | |
| INE121H07BG3 | 21 June 2016 | | 21 June 2023 | INR300.00 | IND AAA/Stable | Affirmed |
| INE121H07BI9 | 28 June 2016 | 8.78 | 28 June 2021 | INR250.00 | IND AAA/Stable | Affirmed |
| INE121H07BK5 | 18 July 2016 | 8.65 | 18 July 2021 | INR750.00 | IND AAA/Stable | Affirmed |
| INE121H07BM1 | 1 August 2016 | 8.90 | 1 August 2026 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H07BL3 | 1 August 2016 | 8.75 | 1 August 2021 | INR250.00 | IND AAA/Stable | Affirmed |
| INE121H07BN9 | 5 August 2016 | 8.60 | 5 August 2021 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H07BP4 | 16 August 2016 | 8.75 | 16 August 2026 | INR600.00 | IND AAA/Stable | Affirmed |
| INE121H07BQ2 | 12 September 2016 | 8.51 | 12 September 2026 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H07BR0 | 28 September 2016 | 8.22 | 28 September 2021 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H07BS8 | 30 September 2016 | 8.50 | 30 September 2026 | INR350.00 | IND AAA/Stable | Affirmed |
| INE121H08107 | 6 December 2016 | 8.65 | 6 June 2021 | INR750.00 | IND AAA/Stable | Affirmed |
| | 6 December 2016 | 8.65 | 6 June 2022 | INR750.00 | IND AAA/Stable | Affirmed |
| INE121H08115 | 6 December 2016 | 8.65 | 6 December 2021 | INR3,000.00 | IND AAA/Stable | Affirmed |
| INE121H08123 | 6 December 2016 | 8.68 | 6 December 2023 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H08131 | 6 December 2016 | 8.68 | 6 December 2026 | INR500.00 | IND AAA/Stable | Affirmed |
| INE121H07BT6 | 20 February 2017 | 8.50 | 20 February 2027 | INR500.00 | IND AAA/Stable | Affirmed |
| INE121H07BU4 | 5 April 2017 | 8.23 | 5 April 2027 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H07BV2 | 22 June 2017 | 8.00 | 22 June 2024 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H07BX8 | 1 August 2017 | 7.75 | 1 August 2022 | INR400.00 | IND AAA/Stable | Affirmed |
| INE121H07BZ3 | 1 September 2017 | 7.75 | 1 September 2022 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H07BY6 | 1 September 2017 | 7.80 | 1 September 2024 | INR850.00 | IND AAA/Stable | Affirmed |
| | | | Total | INR34,636.5 | | |
| | | | Unutilised NCDs | INR15,363.5 | | |

Annexure – Subordinated Debt

| ISIN Number | Date of Issue | Coupon (%) | Date Of Maturity | Outstanding as on 27 September 2017 (million) | Rating/Outlook | Rating Action |
|--------------|-------------------|------------|-------------------|---|----------------|---------------|
| INE121H08016 | 28 December 2011 | 10.30 | 28 December 2021 | INR2,000.00 | IND AAA/Stable | Affirmed |
| INE121H08024 | 22 March 2012 | 10.30 | 22 March 2022 | INR2,000.00 | IND AAA/Stable | Affirmed |
| INE121H08032 | 29 June 2012 | 10.15 | 29 June 2022 | INR2,000.00 | IND AAA/Stable | Affirmed |
| INE121H08057 | 27 November 2012 | 9.55 | 27 November 2022 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H08065 | 28 February 2013 | 9.55 | 28 February 2023 | INR1,000.00 | IND AAA/Stable | Affirmed |
| INE121H08073 | 27 January 2016 | 8.90 | 27 January 2026 | INR350.00 | IND AAA/Stable | Affirmed |
| INE121H08081 | 22 March 2016 | 9.03 | 22 March 2026 | INR650.00 | IND AAA/Stable | Affirmed |
| INE121H08099 | 29 September 2016 | 8.69 | 29 September 2026 | INR1,000.00 | IND AAA/Stable | Affirmed |
| | | | Total | INR10,000 | | |

APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

Rating FI Subsidiaries and Holding Companies

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