

# India Ratings Assigns IL&FS Financial Services' Additional Proposed NCDs & Sub-debt 'IND AAA'/Stable

Sep 01, 2016 | Financial Institution

India Ratings and Research (Ind-Ra) has assigned IL&FS Financial Services Ltd's (I-Fin) additional proposed INR10bn non-convertible debentures (NCDs) and IND1bn sub-debt an 'IND AAA' rating with a Stable Outlook. A list of I-Fin's outstanding ratings is at the end of this commentary.

I-Fin is 100% owned by Infrastructure Leasing & Financial Services Limited (IL&FS; 'IND AAA'/Stable).

## Key Rating Drivers

**Support-driven Rating:** I-Fin's ratings factor in support from its parent and are equated with those of IL&FS as it is considered core to IL&FS' business. I-Fin, which was a division of IL&FS until 2008, has strong operational and management linkages with its parent, and its treasury and risk management are centralised at IL&FS. Its debt syndication desk provides critical support to the group's project development business. I-Fin accounted for about one-fifth of IL&FS's revenue (net of interest expense and preference dividend) in FY16 (FY15: 27%); IL&FS expects to continue holding a 100% stake in I-Fin.

**Concentrated Lending Portfolio:** I-Fin has a fairly concentrated lending portfolio (FY16: top 20 exposures constituted 39% of the total exposure, FY15: 44%), where a significant proportion of its credit exposure is to borrowers with moderate-to-modest credit profiles, though reasonably covered through collaterals. The company has developed significant experience in managing these exposures, helping it operate with controlled credit costs.

**Average Capitalisation:** I-Fin's capitalisation is average, considering its fairly concentrated lending portfolio. However, a part of the portfolio is well covered by reasonably liquid collaterals where loss given default is likely to be low. Leverage increased in FY16 to 7.2x (FY15: 6.1x).

**Subdued Profitability:** Profitability has come under pressure in recent years partly on account of higher provisioning costs, a sizeable 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 of its credit costs.

**Diversified Funding Profile:** I-Fin's funding is fairly diversified among a large number of banks and the capital market. Its assets liability tenors are largely matched though there were minor gaps in short-term buckets in 1QFY17. The company has unutilised bank lines which it can tap into, and can also access liquidity at group level, if required.

## Rating Sensitivities

I-Fin's ratings are linked with that of IL&FS. Any downward movement in IL&FS' rating will lead to a similar movement in I-Fin's rating. Any dilution in the ownership, together with a re-evaluation of I-Fin's importance to IL&FS, could lead to the delinking of the long-term ratings of the two companies.

The lower Tier 2 subordinated bonds have been rated at the same level as the long-term ratings based on Ind-Ra's rating criteria 'Rating of Bank Legacy Hybrids and Sub-Debt'.

## Company Profile

I-Fin is a systemically important non-banking finance company, providing credit as well as other services such as debt syndication and corporate advisory.

**I-Fin's ratings (including the above) are as follows:**

- Long-Term Issuer Rating: 'IND AAA'/Stable
- Short-Term Issuer Rating: 'IND A1+'
- INR40bn\* (increased from INR30bn) NCDs : 'IND AAA'/Stable
- INR10bn (increased from INR9bn) lower Tier 2 subordinated debt: 'IND AAA'/Stable
- INR7bn short-term debt: 'IND A1+'

\*Earlier mentioned as long-term debt

## **APPLICABLE CRITERIA**

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### **Financial Institutions Rating Criteria**

### **Non-Bank Finance Companies Criteria**

### **Rating FI Subsidiaries and Holding Companies**

### **Rating of Bank Legacy Hybrids and Sub-Debt**

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