

India Ratings Assigns I-Fin's Proposed NCDs 'IND AAA'/Stable

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India Ratings and Research (Ind-Ra) has assigned IL&FS Financial Services Ltd's (I-Fin; 100% owned by Infrastructure Leasing & Financial Services Limited – IL&FS – 'IND AAA'/Stable) additional proposed INR10bn long-term debt an 'IND AAA' rating with a Stable Outlook. A list of I-Fin's outstanding ratings is at the end of this commentary.

Key Rating Drivers

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.

I-Fin has a fairly concentrated lending portfolio, where a significant proportion of its credit exposure is into moderate to modest credit profile borrowers, but well-covered through collaterals. The company has developed significant experience in managing these exposures, helping it operate with controlled credit costs.

I-Fin's funding is fairly diversified among banks and the capital market. Its liquidity is comfortable with a matched asset-liability tenure. This is further supported by the sizeable liquid assets on its balance sheet.

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

Profitability has come under pressure in recent years partly on account of higher provisioning costs, a sizeable part of which is for a general contingency provision over and above the specific provisions required. The company intermittently utilises this contingency provision to absorb some of its credit costs.

Rating Sensitivities

Any dilution in ownership, together with a re-evaluation of I-Fin's importance to IL&FS, could lead to the de-linking 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+'
- INR30bn (increased from INR20bn) long-term debt: 'IND AAA'/Stable

- INR9bn lower Tier 2 subordinated debt: 'IND AAA/Stable
- INR7bn short-term debt: 'IND A1+'

APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

Rating FI Subsidiaries and Holding Companies

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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