

## India Ratings Assigns IL&FS Financial Services' Loans and Additional NCDs 'IND AAA'/Stable

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India Ratings and Research (Ind-Ra) has assigned IL&FS Financial Services Ltd's (IFIN) debt facilities the following ratings:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)	-	-	-	INR6	IND AAA/Stable	Assigned
Subordinated debt	-	-	-	INR1	IND AAA/Stable	Assigned
Bank loans	-	-	-	INR7.5875	IND AAA/Stable	Assigned

### Key Rating Drivers

**Parent Support:** IFIN's ratings factor in support from its parent and are equated with those of Infrastructure Leasing & Financial Services Ltd. (IL&FS; 'IND AAA'/Stable/'IND A1+') 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. However, in 1HFY18, IFIN had to support IL&FS group entities by providing short-term loans, taking the related party exposure to 33% of the total credit exposure. 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 INR13.8 billion (about 19% of short-term outflows). Moreover, it can access liquidity at the group level, if required. IFIN's liquidity policy stipulates the maintenance of sufficient liquidity buffer by way of cash, liquid investments and undrawn bank lines to meet the liability dues for four-five months.

**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 (2QFY18: 4.5% 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 8.8x in 2QFY18 (FY17: 8.2x, FY16: 7.8x; FY15: 6.5x). However, after considering debt net of cash and cash equivalent, leverage stands at 7.8x in 2QFY18 (FY17: 6.7x; FY16: 7.1x; FY15: 5.5x). IFIN plans to gradually reduce leverage in the next few years. Tier 1 ratio was 11.56% in 2QFY18.

**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	5 October 2017	1 September 2016	22 March 2016
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	INR56	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Subordinated debt*	Long-term	INR11	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Short-term debt/commercial paper	Short-term	INR7	IND A1+	IND A1+	IND A1+	IND A1+
Bank loans	Long-term	INR7.5875	IND AAA/Stable	-	-	-

\* 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

### NCDs

ISIN	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	9.60	28 August 2019	INR372.50	IND AAA/Stable	Affirmed
INE121H07AE0	28 August 2014	9.55	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
INE121H07A11	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		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	8.90	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
INE121H07BG3	21 June 2016	8.80	21 June 2023	INR300.00	IND AAA/Stable	Affirmed
INE121H07B19	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 2022	INR1,500.00	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

ISIN	Date of Issue	Coupon (%)	Date Of Maturity	Outstanding as on 27 September 2017 (million)	Rating/Outlook	Rating Action
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
			<b>Utilised NCDs</b>	<b>INR34,636.5</b>		
			<b>Unutilised NCDs</b>	<b>INR21,363.5</b>		
			<b>Total</b>	<b>INR56,000.0</b>		

#### Subordinated Debt

ISIN	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
			<b>Utilised sub debt</b>	<b>INR10,000</b>		
			<b>Unutilised sub debt</b>	<b>INR1,000</b>		
			<b>Total</b>	<b>INR11,000</b>		

## APPLICABLE CRITERIA

### Financial Institutions Rating Criteria

### Non-Bank Finance Companies Criteria

### Rating FI Subsidiaries and Holding Companies

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