

IL&FS Financial Services Ltd

Update

Ratings

Long-Term Issuer Rating	IND AAA
Short-Term Issuer Rating	IND A1+
Long-Term Debt	IND AAA
Lower Tier 2 Subordinated Debt	IND AAA
Short-Term Debt	IND A1+

Outlook

Long-Term Issuer Rating	Stable
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Financial Data

IL&FS Financial Services Ltd.		
	31 Mar 14	31 Mar 13
Total assets (USDm)	2,325.0	2,378.9
Total assets (INRm)	138,935.7	129,294.4
Total equity (INRm)	18,080.0	17,383.7
Net income (INRm)	2,650.8	3,496.1
RoAA (%)	2.0	2.9
RoAE (%)	15.0	20.9
Equity/assets (%)	13.0	13.5

Key Rating Drivers

Core to IL&FS: India Ratings & Research (Ind-Ra) has equated the ratings of IL&FS Financial Services Ltd. (I-Fin) with those of its parent - Infrastructure Leasing & Financial Services Ltd. (IL&FS, 'IND AAA'/Stable), as it is deemed core to the parent's business. I-Fin's strong and experienced debt syndication desk provides assistance to the entire IL&FS group, including critical support to the project development business, boosting IL&FS's competitiveness in the infrastructure space. I-Fin also accounts for majority of dividend received by IL&FS from group companies.

Strong Linkages: I-Fin's treasury and risk management are centralised at IL&FS and with strong overall oversight by the parent. Six of I-Fin's seven non-executive directors are from IL&FS. IL&FS also takes active interest in the discussions on the company's large exposures. I-Fin is 100% owned by IL&FS and IL&FS's management intends to continue to retain it as a wholly owned subsidiary.

Modest Asset Quality: I-Fin's credit exposures reflect high single name concentration (top 10 exposures comprised 140% of the equity as on March 2014) and a slightly higher risk appetite. The company takes significant high yielding exposure both in loans as well as investments, mostly backed by healthy collaterals, and then actively manages those exposures through careful oversight.

In line with general economic stress, I-Fin's stressed assets increased with total stressed assets increasing to 4.1% of loans and investments in FY14 (2.4% in FY13). The stressed assets may see further build-up if the economic conditions remain sluggish, especially given the substantial amount of exposure at more than 90dpd. This could also impact the credit cost and investment losses which have already seen a spike in spite of low specific GNPLs provision coverage (FY14: 22%). The updated guidelines from RBI which require a gradual shift to 90dpd NPLs recognition by FY18 may significantly push the credit costs up during the transition phase.

The rise in NPLs together with low provision coverage resulted in net NPLs to equity increasing to 10.4% in FY14 (4.8% in FY13). The company however maintains contingency provisions (FY14: 16.7% of equity) which provide a buffer for higher losses on stressed assets.

Modest Growth to Support Capitalization: I-Fin's current capitalisation (FY14 Tier 1:14.1%, equity to assets at 13.0%) together with its internal accruals should be able to support its modest loan growth target for FY15. The updated guidelines from RBI requiring the minimum tier 1 capital at 10% from FY18 is unlikely to have any immediate impact as the company operates at a level higher than the minimum prescribed in the revised guidelines. Nevertheless, the shift to higher growth is likely to entail demand on capital especially in view of its moderate internal accruals.

Diversity of Revenue: I-Fin earns a significant proportion of its revenue from fee income generated by its non-fund businesses (debt syndication and advisory business). Both of which support I-Fin's profitability as well as add to diversity. Nevertheless, this revenue has higher cyclicity and has declined in the recent years, adding volatility to profitability.

Analysts

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Wholesale Funding: I-Fin is largely dependent on banks for its funding requirement, which is spread over multiple banks with no large concentration. The proportion of debt market funding is modest though has improved in FY14. Liquidity is supported by a matched funding profile.

Rating Sensitivities

Group Linkages: Any significant dilution in I-Fin's importance to IL&FS or a sizeable reduction in shareholding, leading to a reappraisal of I-Fin's core status, could lead to a difference between I-Fin's rating and that of IL&FS.

Applicable Criteria

[Financial Institutions Rating Criteria
\(September 2012\)](#)

[Non-Bank Finance Companies Criteria
\(September 2012\)](#)

[Rating FI Subsidiaries and Holding Companies
\(September 2012\)](#)

[Rating of Bank Legacy Hybrids and Sub-Debt
\(September 2012\)](#)

IL&FS Financial Services Limited

**Income Statement Analysis
(Stand Alone Financials)**

	Year End USDm	31-Mar-14 INRm	Average Earning Assets	31-Mar-13 INRm	Average Earning Assets	31-Mar-12 INRm	Average Earning Assets	31-Mar-11 INRm	Average Earning Assets
1. Interest earned	266.3	15,912.5	12.9	15,490.2	13.7	11,830.2	13.1	7,768.6	11.9
2. Interest expended	193.4	11,554.7	9.4	11,188.3	9.9	8,602.0	9.6	4,552.4	7.0
3. NET INTEREST REVENUE	72.9	4,357.9	3.5	4,301.9	3.8	3,228.3	3.6	3,216.2	4.9
4. Other Operating Income	37.4	2,237.3	1.8	2,060.8	1.8	2,448.9	2.7	3,287.2	5.0
5. Personnel Expenses	9.2	550.2	0.4	597.2	0.5	545.5	0.6	466.9	0.7
6. Operating Expenses	15.3	916.7	0.7	763.0	0.7	598.6	0.7	666.7	1.0
7. Pre-Provision Operating Profit	85.8	5,128.2	4.2	5,002.5	4.4	4,533.0	5.0	5,369.8	8.2
8. Provisions for Losses & Contingencies	26.4	1,577.5	1.3	499.4	0.4	759.8	0.8	662.3	1.0
9. Operating Profit after Provisions	59.4	3,550.8	2.9	4,503.1	4.0	3,773.2	4.2	4,707.5	7.2
10. Other Non-operating Income			-		-		-		-
11. Exceptional Items			-		-		-		-
12. Pre-Tax Profit	59.4	3,550.8	2.9	4,503.1	4.0	3,773.2	4.2	4,707.5	7.2
13. Taxes	15.1	900.0	0.7	1,007.0	0.9	1,215.7	1.4	1,450.8	2.2
14. Net Income	44.4	2,650.8	2.2	3,496.1	3.1	2,557.5	2.8	3,256.7	5.0
RATIO ANALYSIS			31-Mar-14		31-Mar-13		31-Mar-12		31-Mar-11
I. PROFITABILITY									
1. Net Income/Equity (avg.)		%	14.9		20.9		16.3		22.4
2. Net Income/Total Assets (avg.)		%	2.0		2.9		2.6		4.3
3. Non-interest Expenses/Net Interest Revenue + Other Op. Income		%	22.2		21.4		20.2		17.4
4. Net Interest Revenue/Total Assets (avg.)		%	3.2		3.6		3.3		4.3
5. Pre-provision Operating Profit/Total Assets (avg.)		%	3.8		4.1		4.6		7.1
6. Operating Profit after Provision/Total Assets (avg.)		%	2.6		3.7		3.8		6.2
7. Interest Expenses/Total Borrowings (avg.)		%	10.7		11.6		11.4		8.4
II. CAPITAL ADEQUACY									
1. Net Profit - Dividends/Prior Period Equity		%	5.4		10.1		5.6		11.0
2. Equity/Total Assets		%	13.0		13.4		14.4		18.2
3. Equity/Loans		%	20.2		19.4		21.7		31.0
4. Tier - I Capital Ratio		%	14.1		14.2		15.2		19.9
5. Tier - II Capital Ratio		%	7.5		7.8		5.0		1.3
6. Senior Debt/Total Capital		times	4.0		3.8		4.2		4.0
7. Short term borrowings/Total Borrowings		%	19.2		16.3		16.8		27.5
III. ASSET QUALITY									
1. Provision for losses/avg. Earning Assets		%	1.3		0.4		0.8		1.0
2. Provision for loan losses/Pre-provision operating Profit		%	30.8		10.0		16.8		12.3
3. Gross NPLs/Gross Loans + Debentures		%	2.6		1.1		0.7		1.8
4. Loan loss Reserves(incl. contingency)/Gross NPLs		%	146.5		287.5		482.7		207.3
5. Net NPLs/Equity		%	10.4		4.8		2.3		5.6

Source: I-Fin

IL&FS Financial Services Limited

Balance Sheet Analysis (Stand alone financials)

	31 Mar 14		31 Mar 13		31 Mar 12		31 Mar 11		As % of Assets
	Year End USDm	Year End INRm	As % of Assets	Year End INRm	As % of Assets	Year End INRm	As % of Assets	Year End INRm	
A. LOANS									
1. Secured Loans	1,279.0	76,429.6	55.01	85,933.0	66.46	70,637.1	62.97	46,778.0	55.70
2. Unsecured Loans	229.3	13,701.9	9.86	3,756.7	2.91	3,604.7	3.21	2,667.6	3.18
3. Hire Purchase Assets	-	-	-	-	-	-	-	-	-
4. Financial Leases	-	-	-	-	-	-	-	-	-
5. Bills Discounted	-	-	-	-	-	-	-	-	-
6. (Loan Loss Reserves)	9.2	548.4	0.39	207.6	0.16	136.6	0.12	113.9	0.14
TOTAL A	1,499.1	89,583.1	64.48	89,482.0	69.21	74,105.2	66.06	49,331.7	58.75
B. OTHER EARNING ASSETS									
1. Debentures	149.8	8,953.7	6.44	9,150.1	7.08	9,471.4	8.44	8,076.8	9.62
2. Other Investments	444.6	26,567.1	19.12	22,482.6	17.39	21,909.0	19.53	17,090.7	20.35
3. Operating Leases	n.a	-	-	-	-	-	-	-	-
TOTAL B	594.4	35,520.8	25.57	31,632.7	24.47	31,380.4	27.97	25,167.4	29.97
C. TOTAL EARNING ASSETS (A+B)	2,093.5	125,103.8	90.04	121,114.7	93.67	105,485.6	94.04	74,499.1	88.71
D. FIXED ASSETS	1.1	67.0	0.05	91.1	0.07	107.3	0.10	156.0	0.19
E. NON-EARNING ASSETS									
1. Cash	91.6	5,476.3	3.94	1,950.1	1.51	1,107.3	0.99	3,319.2	3.95
2. Others	138.7	8,288.6	5.97	6,138.5	4.75	5,474.0	4.88	6,001.6	7.15
F. TOTAL ASSETS	2,325.0	138,935.7	100.00	129,294.4	100.00	112,174.1	100.00	83,975.9	100.00
G. SHORT-TERM FUNDING									
1. Unsecured	260.9	15,593.3	11.22	11,535.9	8.92	9,108.8	8.12	12,530.5	14.92
2. Secured	99.3	5,934.7	4.27	5,379.9	4.16	5,753.6	5.13	4,434.6	5.28
H. LONG-TERM DEBT DUE IN ONE YEAR	-	27,810.8	20.02	24,044.1	18.60	-	-	-	-
I. LONG-TERM FUNDING									
1. Long term borrowings	913.5	54,590.2	39.29	54,947.5	42.50	69,689.9	62.13	44,810.0	53.36
2. Public Deposits	-	-	-	-	-	-	-	-	-
3. Subordinated Debt	133.9	8,000.0	5.76	8,000.0	6.19	4,000.0	3.57	-	-
TOTAL I	1,047.4	62,590.2	45.05	62,947.5	48.69	73,689.9	65.69	44,810.0	53.36
J. OTHER (Non-interest bearing)	34.2	2,042.4	1.47	1,698.7	1.31	1,920.6	1.71	1,735.6	2.07
K. PROVISIONS	115.2	6,884.3	4.96	6,304.7	4.88	5,585.8	4.98	5,160.7	6.15
L. EQUITY	302.6	18,080.0	13.01	17,383.7	13.45	16,115.5	14.37	15,304.5	18.22
M. TOTAL LIABILITIES & EQUITY	2,325.0	138,935.7	100.00	129,294.4	100.00	112,174.1	100.00	83,975.9	100.00
Exchange Rate	1 = 59.758								

Source: I-Fin

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