

IL&FS FINANCIAL SERVICES LIMITED
Ratings

Instrument/Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Non Convertible Debentures	500	CARE AAA (Triple A)	Assigned
Non Convertible Debentures	500	CARE AAA (Triple A)	Reaffirmed
Subordinated debt	800	CARE AAA (Triple A)	Reaffirmed
Short term Debt programme	750	CARE A1+ (A One Plus)	Reaffirmed

Rating Rationale

The ratings factor in IFIN's strong parentage (IFIN is the wholly owned subsidiary of IL&FS Ltd.). By virtue of strong parentage, IFIN benefits from group synergies in the form of business support, integrated treasury, capital, managerial and operational support. The ratings also factor in healthy capitalisation levels, strong risk management systems which draw linkage to its parent and comfortable liquidity position. The rating also considers some deterioration in asset quality due to overall stressed economic environment. Continued support from the parent IL&FS Ltd., asset quality, concentration risk and profitability are the key rating sensitivities.

Background

Incorporated in September 1995, IL&FS Financial Services Ltd. (IFIN) is a 100% subsidiary of IL&FS Ltd. IFIN's business profile is broadly divided into investment banking business (asset & structured finance), Project debt syndication business and corporate advisory services business. As on Sept. 30, 2013, IFIN had a balance sheet size of Rs.13,636 crore with a tangible network of Rs.1,780 crore.

IFIN has international presence through its wholly owned subsidiaries in Singapore, United Kingdom, Hong Kong and Dubai. These subsidiaries were set up mainly to assist corporates to raise overseas borrowings, through debt syndication and advisory services.

Credit Risk Assessment

Strong parentage & integrated treasury- IFIN is the wholly owned subsidiary of IL&FS Ltd., one of India's leading infrastructure development companies and rated CARE AAA. By virtue of being IL&FS Ltd.'s subsidiary, the company enjoys capital support and high financial flexibility. The rating further derives strength from benefits arising out of group synergies in the form of IL&FS expertise in infrastructure domain, integrated treasury function, IL&FS brand name as well as operational, business and managerial support from the parent.

IFIN also receives guidance and strategic direction by the experienced Board of Directors, some of which are drawn from IL&FS Ltd and other independent directors. At the management level, IFIN is a professionally run company with experienced & qualified professionals. At the helm of affairs are Mr. Ramesh Bawa (Managing Director & CEO), Mr. Milind Patel (DMD) & Mr. Rajesh Kotian (ED).

Healthy capitalisation levels- IFIN continues to have healthy capitalisation levels with overall CAR being 21.60% as on Sept. 30, 2013 and 22.24% as on Dec. 31, 2013. Tier I CAR is comfortable at 14.04% as on Sept. 30, 2013.

Comfortable liquidity position- As on Dec. 31, 2013, IFIN's overall liquidity profile was comfortable with positive cumulative mismatches in most time buckets. The cumulative liquidity mismatches in upto 1 year time bucket is positive 23.35% of cumulative outflows. Further, IFIN had unutilised working capital and undrawn bank lines amounting to Rs.870 crore as buffer liquidity arrangement. Besides, parent support as well as strong resource raising ability provides additional support to the liquidity profile.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

On the resources front, bank loans form a prominent funding source for IFIN. Bank loans constituted 76% of total borrowings as on March 31, 2013 [P.Y.: 79%] and 67% of total borrowings as on Sept.30, 2013 with the rest being market borrowings. The proportion of long term borrowings (comprising bank loans and subordinated debt) in the resources profile stood at 84% as on March 31, 2013 [P.Y.: 83%].

Subdued financial performance- Amid muted macroeconomic environment and economic slowdown, there has been a conscious credit curtailment by IFIN. Consequently, IFIN's loan book growth (including credit substitutes) decelerated to 16.6% during FY13 [P.Y.: 41%] to Rs.9874 crore as on March 31, 2013. In tandem with slowdown in loan portfolio growth, interest income growth also slowed to 30% during FY13 [P.Y.: 53%] to Rs.1520 crore. However, IFIN's NIM improved by 21bps on y-o-y basis to 3.32% primarily due to decline in cost of borrowings. Other fund-based income declined to Rs.36 crore during FY13 [P.Y.: Rs.65 crore] on account of losses in sale of investments of Rs.30 crore. Better margins and provision writeback on investments led to 36.7% y-o-y growth in PAT to Rs.350 crore during FY13.

During H1 FY14, IFIN's loan portfolio (incl. credit substitutes) declined by 1.47% to Rs.9729 crore as on Sept. 30, 2013 on account of conscious curtailment by the company. During H1 FY14, IFIN's profits dipped to Rs.46 crore [P.Y.: Rs.107 crore] primarily due to higher provisioning. Provisioning costs increased to Rs.94 crore during H1 FY14 [P.Y.: Rs.6 crore] led by provision for diminution in investments of Rs.39 crore and specific credit provisions of Rs.37 crore. Out of the aforementioned specific credit provisions, the company reversed provisions of Rs.13 crore during Q3 FY14 on account of recoveries. Additionally, the company provided further Rs.15 crore as provision for contingencies taking total contingency provisions to Rs.295 crore.

During 9M FY14, IFIN reported PBT of Rs.211 crore on total income of Rs.1241 crore.

Concentration risk- A significant part of IFIN's funding is towards promoter loans and infrastructure loans which leads to concentration risk in the portfolio. As on Sept. 30, 2013, the top 15 individual borrowers constituted around 34% of the total loan portfolio [March 2012: 34%]. On the promoter funding side, top 15 exposures accounted for around 78% of promoter funding book as on Sept. 30, 2013 [March 2012: 73.7%]. Though the concentration risk is on higher side, the same is mitigated by robust risk management systems and expertise in infrastructure projects credit appraisal as well as IL&FS Ltd.'s experience in monetizing infrastructure investments.

Asset quality- IFIN's GNPA, as percent of credit exposures, deteriorated from 1.05% as on March 31, 2013 [PY: 0.60%] to 3.11% as on September 30, 2013 in line with the general economic stress. GNPA ratio stood at 3.16% as on December 31, 2013, at similar levels to September 2013. While reported NNPA on credit exposure have also deteriorated from 0.85% as on March 31, 2013 [P.Y.:0.44%] to 2.68% as on September 30, 2013, IFIN conservatively makes contingency provisions and NNPA% would be Nil considering these provisions. Restructured assets stood at 3.17% as percent of credit exposure as on September 30, 2013.

Prospects

Over the last few years, Non-Banking Financial Companies (NBFCs) have increased in size and importance considering the rising proportion of credit flow from the NBFCs in the entire financial system. During FY13, NBFC assets as a proportion of Bank assets increased to 13%. Based on various policy actions, it is evident that the sector has become systemically important for the Reserve Bank of India and hence is expected to attract the related support and regulatory scrutiny. Stronger regulatory environment in terms of capitalization and provisioning norms, containing liquidity risks as well as shift towards secured and diverse product segments have been some of the key positive changes in NBFC segment. The sector has become more heterogeneous with growth of newer asset classes like loan against property, gold loans, SME loans, infrastructure loans and corporate loans along with the relatively traditional commercial vehicle (CV) and construction equipment (CE) loans. While the capitalization levels of NBFCs continued to remain comfortable during FY13, profitability was under pressure due to high interest rate environment and higher provisioning on account of asset quality stress. While the emerging asset classes like loans against property continue to have lower seasoning, loans to certain segments like infrastructure, construction equipment, commercial vehicle, business loans to SME are witnessing asset quality stress due to continued subdued economic environment.

Continued support from the parent IL&FS Ltd., asset quality, concentration risk and profitability are IFIN's key rating sensitivities.

Standalone Financials

(Rs. Crore)

Particulars as on / for the period ended	FY11	FY12	FY13
Interest Income	760	1165	1520
Interest Expenses	455	860	1119
Net Interest Income	305	305	401
Other Fund Based Income	83	65	36
Total fund based income	843	1230	1556
Fee Income	258	194	197
Other income	5	3	2
Total Income	1106	1427	1755
Operating Expenses	113	122	139
Provisions	66	69	47
PBT	471	377	450
PAT	326	256	350
Total Assets	8408	11230	12950
Loans & advances	4945	7424	8969
Loans & advances (Incl. credit substitutes)	5987	8470	9874
Investments	2517	3138	3163
Tangible Network	1529	1611	1738
Borrowings	6178	8855	10391
Key Ratios (%)			
Int. income/ avg. Int. earning assets	14.20	15.41	15.96
Int. expense/ avg. Int. bearing liabilities	8.40	11.44	11.63
Interest Spread	5.80	3.97	4.33
NIM	4.04	3.11	3.32
ROTA	4.31	2.60	2.89
Overall Debt / Networth (times)	4.04	5.50	5.98
CAR	21.19	20.24	21.98
Tier I CAR	19.94	15.21	14.20
Interest coverage (after provisions & tax)	1.72	1.30	1.31
Oper. Expns./ Av.Total Assets	1.50	1.24	1.15
Gross NPA (%)*	1.72	0.60	1.05
Net NPA (%)*	1.44	0.44	0.85
Net NPA to Networth (%)	5.59	2.29	4.83

*Calculated on the basis of loan portfolio (incl. credit substitutes) (This follows our brief rational for entity published on 27 February, 2014)

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 (This follows our brief rational for entity published on **January 31, 2014**)

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