

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	IND AAA
Short-Term Debt	IND A1+

Outlook

Long-Term Issuer Rating	Stable
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Financial Data

IL&FS Financial Services Ltd.

	30 Sep 2012 (6 mths)	31 Mar 2012
Total assets (USDm)	2,482	2,188
Total assets (INRm)	130,792	111,954
Total equity (INRm)	17,165	16,115
Net income (INRm)	1,073	2,557
RoAA (%)*	1.78	2.61
RoAE (%)*	12.90	16.28
Equity / Assets (%)	13.12	14.39

*annualised

Key Rating Drivers

Core to IL&FS: The ratings of IL&FS Financial Services Ltd. (I-Fin) are equated 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.

Supports Group's Infrastructure Business: I-Fin's debt syndication desk provides critical support to the group's project development business and boosts IL&FS's competitiveness with clients in the infrastructure sector. Prior to being spun off as a 100% subsidiary in FY08 after IL&FS decided to convert itself into a core investment company, I-Fin functioned as a division of IL&FS.

Strong Operational Linkages: I-Fin's treasury and risk management are centralised at IL&FS and overall oversight by the parent is very strong. The audit committee of IL&FS's board routinely examines I-Fin's financials. I-Fin's senior management has previously worked with IL&FS and now operates closely with group companies.

Wholly Owned: I-Fin is likely to remain 100% owned by IL&FS. The board is dominated by representatives from the parent – nine of the 10 board members are IL&FS officials.

Contribution to IL&FS' Profits: I-Fin accounted for 60% of the dividends received by IL&FS in FY12. While the proportion may reduce as other operating companies in the group mature, I-Fin is likely to remain the single largest contributor to IL&FS's non-divestment cash inflows in the medium term.

Strong Fee Income: Fees from the debt syndication and advisory business boost I-Fin's profitability and lend diversity to its income. Net interest margins are susceptible to tight money market conditions and were impacted by rising borrowing costs in FY12.

Wholesale Funded: I-Fin depends on the wholesale market for its funding and liquidity requirements. A consortium of 24 commercial banks form the largest source of funding for the company, aided by the group's long relationship with them and the strong profile of IL&FS's institutional shareholders. Liquidity is supported by a matched funding profile.

Loans Aligned to IL&FS: I-Fin's credit exposures are to investment companies collateralised by equity shares or to project companies with whom the group has a relationship. While the portfolio carries single-name concentrations, credit losses are adequately covered by general contingency reserves. India Ratings & Research (Ind-Ra) consolidates I-Fin's financial statements with that of IL&FS when conducting a credit stress test on the parent.

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, may 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 \(September 2012\)](#)

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Figure 1

IL&FS Financial Services Limited

Income Statement Analysis (Stand Alone Financials)

	31-Mar-12 INRm	Average Earning Assets	31-Mar-11 INRm	Average Earning Assets	31-Mar-10 INRm	Average Earning Assets	31-Mar-09 INRm	Average Earning Assets
1. Interest earned	11,830.2	13.15	7,768.6	11.89	8,520.4	14.56	10,471.4	34.37
2. Interest expended	8,602.0	9.56	4,552.4	6.97	4,123.3	7.04	7,006.0	23.00
3. NET INTEREST REVENUE	3,228.3	3.59	3,216.2	4.92	4,397.1	7.51	3,465.4	11.37
4. Other Operating Income	2,448.9	2.72	3,287.2	5.03	1,820.9	3.11	515.7	1.69
5. Personnel Expenses	545.5	0.61	466.9	0.71	539.3	0.92	364.1	1.20
6. Operating Expenses	672.9	0.75	666.7	1.02	540.6	0.92	605.5	1.99
7. Pre-Provision Operating Profit	4,458.7	4.95	5,369.8	8.22	5,138.0	8.78	3,011.5	9.88
8. Provisions for Losses	685.5	0.76	662.3	1.01	463.7	0.79	1,201.8	3.94
9. Operating Profit after Provisions	3,773.2	4.19	4,707.5	7.21	4,674.3	7.99	1,809.7	5.94
10. Other Non-operating Income	-	-	-	-	-	-	-	-
11. Exceptional Items	-	-	-	-	-	-	-	-
12. Pre-Tax Profit	3,773.2	4.19	4,707.5	7.21	4,674.3	7.99	1,809.7	5.94
13. Taxes	1,215.7	1.35	1,450.8	2.22	1,528.2	2.61	575.7	1.89
14. Net Income	2,557.5	2.84	3,256.7	4.99	3,146.1	5.38	1,234.0	4.05
RATIO ANALYSIS	31-Mar-12		31-Mar-11		31-Mar-10		31-Mar-09	
I. PROFITABILITY								
1. Net Income/Equity (avg.)	%	16.28	%	22.37	%	23.92	%	19.76
2. Net Income/Total Assets (avg.)	%	2.61	%	4.32	%	4.74	%	3.74
3. Non-interest Expenses/Net Interest Revenue + Other Op. Income	%	21.46	%	17.43	%	17.37	%	24.35
4. Net Interest Revenue/Total Assets (avg.)	%	3.29	%	4.27	%	6.62	%	10.49
5. Pre-provision Operating Profit/Total Assets (avg.)	%	4.55	%	7.13	%	7.74	%	9.12
6. Operating Profit after Provision/Total Assets (avg.)	%	3.85	%	6.25	%	7.04	%	5.48
7. Interest Expenses/Total Borrowings (avg.)	%	11.44	%	8.40	%	8.67	%	28.85
II. CAPITAL ADEQUACY								
1. Net Profit - Dividends/Prior Period Equity	%	5.61	%	11.03	%	12.29	%	
2. Equity/Total Assets	%	14.37	%	18.22	%	20.70	%	18.90
3. Equity/Loans	%	21.75	%	31.02	%	33.04	%	28.76
4. Tier - I Capital Ratio	%	15.21	%	19.94	%	24.74	%	20.95
5. Tier - II Capital Ratio	%	5.03	%	1.25	%	1.25	%	1.25
6. Senior Debt/Total Capital	times	4.05	times	3.86	times	3.21	times	3.60
7. Short term borrowings/Total Borrowings	%	16.78	%	27.46	%	18.75	%	29.89
III. ASSET QUALITY								
1. Provision for losses/avg. Earning Assets	%	0.76	%	1.01	%	0.79	%	3.94
2. Provision for loan losses/Pre-provision operating Profit	%	15.37	%	12.33	%	9.03	%	39.91
3. Gross NPLs/Gross Loans + Debentures	%	0.60	%	1.76	%	1.43	%	0.65
4. Loan loss Reserves (incl. contingency)/Gross NPLs	%	482.69	%	207.25	%	441.12	%	848.08
5. Net NPLs/Equity	%	2.28	%	5.59	%	2.17	%	1.75

Figure 2

IL&FS Financial Services Limited

Balance Sheet Analysis (Stand alone financials)

	31 Mar 12			31 Mar 11			31 Mar 10			31 Mar 09		
	Year End USDm	Year End INRm	As % of Assets	Year End INRm	As % of Assets	Year End INRm	As % of Assets	Year End INRm	As % of Assets			
A. LOANS												
1. Secured Loans	1,380.8	70,637.1	62.97	46,778.0	55.70	41,603.6	62.36	41,645.0	63.03			
2. Unsecured Loans	70.5	3,604.7	3.21	2,667.6	3.18	417.9	0.63	1,848.4	2.80			
3. Hire Purchase Assets	-	-	-	-	-	-	-	-	-			
4. Financial Leases	-	-	-	-	-	-	-	-	-			
5. Bills Discounted	-	-	-	-	-	-	-	-	-			
6. (Loan Loss Reserves)	2.7	136.6	0.12	113.9	0.14	216.0	0.32	69.0	0.10			
TOTAL A	1,451.3	74,105.2	66.06	49,331.7	58.75	41,805.5	62.66	43,424.4	65.73			
B. OTHER EARNING ASSETS												
1. Debentures	185.1	9,471.4	8.44	8,076.8	9.62	2,209.0	3.31	2,435.0	3.69			
2. Other Investments	428.3	21,909.0	19.53	17,090.7	20.35	12,109.3	18.15	15,074.8	22.82			
3. Operating Leases	n.a	-	-	-	-	-	-	-	-			
TOTAL B	613.4	31,380.4	27.97	25,167.4	29.97	14,318.3	21.46	17,509.8	26.50			
C. TOTAL EARNING ASSETS (A+B)	2,064.7	105,485.6	94.04	74,499.1	88.71	56,123.8	84.12	60,934.2	92.23			
D. FIXED ASSETS	2.1	107.3	0.10	156.0	0.19	225.6	0.34	276.8	0.42			
E. NON-EARNING ASSETS												
1. Cash	21.6	1,107.3	0.99	3,319.2	3.95	7,391.4	11.08	2,609.6	3.95			
2. Others	107.0	5,474.0	4.88	6,001.6	7.15	2,979.7	4.47	2,249.2	3.40			
F. TOTAL ASSETS	2,192.8	112,174.1	100.00	83,975.9	100.00	66,720.5	100.00	66,069.8	100.00			
G. SHORT-TERM FUNDING												
1. Unsecured	178.1	9,108.8	8.12	12,530.5	14.92	8,025.0	12.03	14,514.4	21.97			
2. Secured	112.5	5,753.6	5.13	4,434.6	5.28	712.6	1.07	-	-			
H. LONG-TERM DEBT DUE IN ONE YEAR	-	-	-	-	-	-	-	-	-			
I. LONG-TERM FUNDING												
1. Long term borrowings	1,362.3	69,689.9	62.13	44,810.0	53.36	37,860.0	56.74	33,647.4	50.93			
2. Public Deposits	-	-	-	-	-	-	-	-	-			
3. Subordinated Debt	78.2	4,000.0	3.57	-	-	-	-	400.0	0.61			
TOTAL I	1,440.5	73,689.9	65.69	44,810.0	53.36	37,860.0	56.74	34,047.4	51.53			
J. OTHER (Non-interest bearing)	37.5	1,920.6	1.71	1,735.6	2.07	2,072.8	3.11	1,902.7	2.88			
K. PROVISIONS	109.2	5,585.8	4.98	5,160.7	6.15	4,236.6	6.35	3,117.3	4.72			
L. EQUITY	315.0	16,115.5	14.37	15,304.5	18.22	13,813.6	20.70	12,488.0	18.90			
M. TOTAL LIABILITIES & EQUITY	2,192.8	112,174.1	100.00	83,975.9	100.00	66,720.5	100.00	66,069.8	100.00			
Exchange Rate		USD 1 = INR 51.15		USD 1 = INR 44.65		USD 1 = INR 45.13		USD 1 = INR 50.95				

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