

August 9, 2021

National Stock Exchange of India Limited

Exchange Plaza,
Plot No. C/1, G Block,
Bandra - Kurla Complex, Bandra (East),
Mumbai - 400 051.

Symbol: L&TFH

BSE Limited

Corporate Relations Department,
1st Floor, New Trading Ring,
P. J. Towers, Dalal Street,
Mumbai - 400 001.

Security Code No.: 533519

Kind Attn: Head - Listing Department / Department of Corporate Communications

Dear Sir / Madam,

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Regulations"), we hereby inform you that ICRA Limited (ICRA), the credit rating agency, has reaffirmed the credit rating of following instrument(s) of the Company and the outlook on the long-term rating has been revised to 'Stable' from 'Negative'.

The summary of rating action is given below:

Instrument type	Current Rated Amount (Rs. in Crore)	Rating action
Non-convertible debentures	1,000	[ICRA]AAA (Stable); reaffirmed; outlook revised to 'Stable' from 'Negative'
Commercial papers	2,500	[ICRA]A1+; reaffirmed

Please refer the report issued by ICRA attached as enclosure A for complete details on the rating rationale.

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

For **L&T Finance Holdings Limited**



Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

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August 09, 2021

L&T Finance Holdings Limited: Ratings reaffirmed; Outlook on long-term ratings revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	1,000.00	1,000.00	[ICRA]AAA(Stable); reaffirmed; outlook revised to Stable from Negative
Commercial Paper Programme	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
Total	3,500.00	3,500.00	

*Instrument details are provided in Annexure-1

Rationale

L&T Finance Holdings Limited (LTFHL) is a holding company with a diversified business profile in the financial services space. LTFHL's wholly-owned subsidiaries operate in rural, housing and wholesale finance and asset management businesses. While arriving at the rating for LTFHL, ICRA has considered the consolidated performance of LTFHL and its finance subsidiaries (collectively referred to LTFHL Group) given the strong operational and financial synergies between the companies.

The revision in the outlook factors in the increased granularity in the group's loan book with increased share of retail business in portfolio mix (45% as on June 30, 2021, as compared with 36% as on March 31, 2019), the improvement in the capitalization profile supported by recent equity capital raise by way of rights issue of ~Rs. 3,000 crore in FY2021 and management's stated intention of maintaining prudent capitalization going forward as well. The ratings continue to draw significant strength from LTFHL's parentage, with Larsen & Toubro Ltd. (L&T, rated [ICRA]AAA/Stable) holding 63.59% equity in the company as on June 30, 2021 and the expectation that support from L&T in the form of both capital support and management oversight, would continue going forward as well. The ratings also draw comfort from the LTFHL Group's increased strategic importance to the parent with financial services being a focus area for the L&T group demonstrated by latest equity capital infusion of ~Rs. 1,900 crore in FY2021. The ratings also factor in the comfortable liquidity profile of the group supported by a diversified borrowing mix. The strengths are, however, partially offset by the moderate asset quality, presence of the group in relatively riskier lending segments and portfolio vulnerability arising out of wholesale book especially real estate lending (where large part of the portfolio is under construction, and hence under moratorium; however, there is no moratorium on the interest portion). In this regard, ICRA takes note that the group has gradually been reducing the real estate loans in the overall mix and adopting a selective approach in taking new exposures. Also, with the strengthened capital position the concentration risk has moderated to some extent with share of top 20 group advances in relation to net worth reducing to 124% as on March 31, 2021 from 168% as on March 31, 2019. Within the infrastructure finance segment, the focus is on sectors such as renewable, roads and transmission, ~75% of the portfolio is operational and there have been limited slippages in the book originated since 2012. Within the retail segments, where asset quality risks have heightened due to the covid-19 pandemic, the delinquencies in especially micro loans and the two-wheeler segment, could increase in the short-term. The company's ability to maintain the asset quality considering the systemic risk build-up in the real estate industry will be important from a credit perspective. ICRA notes that the group has strengthened the balance sheet through sizeable built-up of additional/macro-prudential (over and above ECL on GS3, standard assets provisions and provisions on OTR assets) provisions of Rs. 1,403 crore as on June 30, 2021 (in addition to improving the provision cover on stage 3 assets to 65% as on June 30, 2021) which should absorb / limit the incremental impact of additional slippages on the profitability. At the same time, the group has good pre-provision profitability (4.5% in FY2021) on a consolidated basis and thus can make additional provisions, if required. In ICRA's opinion, LTFHL's ability to absorb higher provisioning, in addition to augmentation of capital through various avenues would help the Group support the consolidated balance sheet. Going forward, continued support from L&T, sustained financial performance, reduced portfolio vulnerability and improving asset quality indicators remain key rating monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage and strategic importance to L&T Group - LTFHL is majority owned by L&T (rated [ICRA]AAA (stable)). L&T foresees LTFHL as a critical and integral part of L&T Group's long-term strategy. It is one of the key growth and core value drivers for L&T Group over the long-term. LTFHL and its subsidiaries, while operating independently, benefit from the brand name of L&T. The parent's demonstrated support in the form of capital (latest equity capital infusion of ~Rs. 1,900 crore in FY2021 and earlier Rs. 2,000 crore in FY2018), management and technical support, presence of liquidity lines, considerably strengthens LTFHL group's credit profile. LTFHL group's access to other L&T Group companies also provides advantages in terms of business sourcing avenues, better assessment of risks, support in stress resolution and availability of sector and industry expertise. L&T is also directly engaged in LTFHL's operations through board and committee representations. ICRA believes that the strategic importance of the company to L&T and the presence of these synergies would ensure continued support to the company. Thus, LTFHL's ratings draw strength from L&T and any change in the rating of the parent and/or support from the parent company could warrant a rating change. LTFHL also has a strong management team in place with considerable experience across functions. L&T is expected to maintain strategic linkages, management oversight & control and majority shareholding on an ongoing basis.

Diversified portfolio mix with group present in multiple asset classes in retail and wholesale segment - At a consolidated level, LTFHL's lending book size decline by ~11% on y-o-y basis to Rs. 88,440 crore as on June 30, 2021 from Rs. 98,879 crore as on June 30, 2020 due to reduction in wholesale loan book. Consequently, the share of retail segments had increased to 45% on June 30, 2021 from 40% on June 30, 2020 (43% on March 31, 2021) driven by growth in farm equipment by 27% and 2-wheeler financing segments by 8% on y-o-y basis and decline in real estate finance by 19% and defocused book by 48% on y-o-y basis. LTFHL group also benefits from the brand name of L&T, which it has leveraged to grow its corporate and retail portfolio. As on June 30, 2021, 45% LTFHL's portfolio comprised of loans to retail segments (Micro loans (13%), Farm Equipment (12%), Two-wheeler (8%) and Home Loans/LAP (12%) and consumer loans (1%)) while the balance 55% comprised loans to the wholesale segments (Real Estate Finance (14%), Infrastructure Finance (38%) and defocused book (3%)). Going forward, the growth in loan book is expected to moderate from past levels following the impact of Covid-19 on the overall economy and the company has also been following a cautious approach for incremental disbursements. Over the medium to long-term, the group plans to increase the share of retail to 60%.

Adequate capitalisation levels with demonstrated financial support from parent - At the consolidated level, LTFHL's capitalisation remains adequately supported by its track record of raising funds and good internal capital generation. Muted business growth in FY2021 and equity capital raise of Rs. 3,000 crore through rights issue in Q4FY2021 resulted in improvement in gearing to 4.4 times as on June 30, 2021 from 6.3 times on June 30, 2020 (4.7 times as on March 31, 2021). Consolidated CRAR improved to 24.56% (Tier 1: 19.42%) on June 30, 2021 from 21.18% (Tier 1: 17.23%) on June 30, 2020. ICRA believes that prudent capitalisation is one the key mitigants to absorb any asset quality related shocks and expects that the company would maintain prudent capitalisation profile going forward. Nonetheless, given the strong parentage and the demonstrated ability of the entity to raise capital from market, the capitalisation profile of the LTFHL is expected to remain adequate. ICRA expects the support from L&T would be forthcoming as and when required.

Comfortable liquidity position supported by diversified funding mix and ability to raise funds at competitive rates and for relatively longer tenures - The group enjoys good financial flexibility in raising funds at competitive rates, with the strong brand name of L&T and its track record of raising funds from banks and capital markets. The funding profile of the group is fairly diversified with a mix of non-convertible debentures, bank borrowings, and commercial paper. As on June 30, 2021, overall market borrowings stood at ~60% of total borrowings. At the same time, the proportion of commercial papers in the overall funding mix remained low at 7% as on June 30, 2021. ICRA takes comfort from the company's liquidity buffers, cash flow from its short-term assets and policy of maintaining adequate unutilised bank facilities as a liquidity backup. The liquidity profile is also supported by the good financial flexibility of the Group and the Rs. 2,000 crore credit line from L&T.

Credit challenges

Moderate asset quality indicators - The asset quality indicators for the group had improved in FY2021 with consolidated Gross and Net Stage 3 at 4.97% and 1.57%, respectively as on March 31, 2021 as compared to 5.36% and 2.28% respectively as on March 31, 2020 on account of controlled slippages, recoveries and write-offs in retail segments and improvement in asset quality indicators for infrastructure financing business. However, given the challenges in the operating environment due to the pandemic and impact on cashflows of borrowers, there could be some short-term stress in the key lending segments, especially micro loans, as the livelihood and cash flows of the underlying borrowers have been impacted. Nonetheless, as on June 30, 2021, the group had built up additional/macro-prudential provisions (over and above ECL on GS3, standard assets provisions and provisions on OTR assets) of Rs. 1,403 crore for unanticipated future event risks and given that some business segments are currently under stress, these provisions, are expected to mitigate the impact on profitability going forward to some extent. Further, the one-time restructuring scheme announced by the Reserve Bank of India (RBI) is expected to provide additional support to the affected underlying borrowers in the current environment. As per the management, the loans that have been restructured under the OTR 1.0 and OTR 2.0 (as of Jun-21) scheme is ~Rs. 2,333 crore (provisions held against the same is Rs. 324 crore). Overall, the Group's ability to profitably grow business volumes while improving the asset quality would have a bearing on its overall financial profile and would be a key monitorable.

Presence in relatively riskier lending segments, albeit gradually declining share of wholesale exposures - Given the challenges in the operating environment, the portfolio vulnerability remains high in some key business segments. In the micro loans segment and 2-wheeler segment, as the livelihood and cash flows of the underlying borrowers where the customer profile is primarily from relatively weaker socio-economic background have been significantly impacted; hence these segment is likely to witness some delinquencies in the near term. The real estate sector is witnessing slowdown and experiencing heightened refinancing risk, and therefore the asset quality in this segment is a key monitorable. While the company has large ticket size exposures in Infrastructure finance, the focus is on sectors such as renewable, roads and transmission, which face relatively lower cash flow risk. Nevertheless, the group's sell down strategy facilitates room for disbursement in infrastructure financing segment without increase in capital allocation to the segment. Furthermore, with the strengthened capital position the concentration risk has moderated, with share of top 20 group advances in relation to net worth reducing from 168% as on March 31, 2019, to 124% as on March 31, 2021. LTFHL group has been focusing on increasing the granularity in the loan book with increased share of retail business in portfolio mix (45% as on June 30, 2021, as compared with 36% as on March 31, 2019). LTFHL's ability to manage recoveries or mitigate losses through the enforcement of security while arresting fresh slippages and thus keeping a check on the credit costs will have a bearing on its earning profile.

Liquidity position: Strong

The liquidity profile of LTFHL group is comfortable at a consolidated level. ALM profile, as on June 30, 2021, reflected positive cumulative mismatch across all buckets upto 1 year. As of June 30, 2021, the company had available liquidity in the form of cash and liquid investments of ~Rs. 12,073 crore, unutilised bank lines of ~Rs. 9,248 crore (including Rs. 2,000 crore credit line from L&T), providing comfortable liquidity cover over the principal debt repayments of ~Rs. 11,866 crore which are due over the next six months. Further, liquidity is supported by expected cash inflow of ~Rs. 11,518 crore from the advances (excluding interest) in the above mentioned period. LTFHL enjoys strong financial flexibility to mobilise long term funding on the back of its established track record and parentage.

Rating sensitivities

Positive factors – Not applicable.

Negative factors - Any significant change in the likelihood of support from the parent or a deterioration in the parent's credit profile could warrant a rating revision. Pressure on the ratings could emerge in case of an increase in the consolidated leverage on a sustained basis to over 7.5 times and/or the weakening of the asset quality leading to a deterioration in the solvency profile (Net stage 3/Net worth >20%) on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Ultimate parent / Investor: Larsen & Toubro Ltd. The ratings continue to draw significant strength from LTFHL's parentage, with L&T holding 63.59% equity in the company as on June 30, 2021 and the expectation that support from L&T would continue and be forthcoming as and when required. The ratings also draw comfort from the LTFHL Group's increased strategic importance to the parent with financial services being a focus area for the L&T group and LTFHL being the holding company for L&T Group's financial services business.
Consolidation/Standalone	While arriving at the rating, ICRA has considered the consolidated performance of LTFHL and its subsidiaries carrying businesses as finance companies, given the strong operational and financial synergies between the companies. <i>Please refer to annexure 2</i>

About the company

L&T Finance Holdings Limited (LTFHL) was originally incorporated as L&T Capital Holdings Ltd in May 2008 and its name was subsequently changed in September 2010. The company is registered as an NBFC-CIC with the RBI. It is promoted by Larsen & Toubro Limited (L&T) as the holding company of L&T Group's financial services companies.

LTFHL, through its subsidiaries, offers a diverse range of financial products and services across rural, housing and wholesale finance businesses. It also offers fund management and other non-fund based services, such as insurance and mutual fund distribution and financial advisory services (project finance and pre-bid advisory), through its subsidiaries. L&T holds a majority stake of 63.59% stake in LTFHL as on June 30, 2021.

On a consolidated basis, LTFHL reported PAT of Rs. 177 crore on total income of Rs. 3,201 crore in Q1FY2022 compared to PAT of Rs. 147 crore for Q1FY2021 on a total income base of Rs. 3,398 crore. The consolidated entity's net worth was Rs. 18,993 crore as on June 30, 2021.

L&T Limited

L&T is a leading engineering and construction company in India with a nationwide as well as international presence. It has interests in infrastructure, power, metallurgical and material handling, heavy engineering, shipbuilding, machinery and industrial products, and realty. Apart from India, it has a significant presence in the Middle East. Through its subsidiaries, associate companies and joint ventures, the Group is involved in the hydrocarbon business, IT services, financial services and infrastructure development ventures.

Key financial indicators

L&T Finance Holdings Limited (consolidated)	FY2019	FY2020	FY2021
Total Income	13,302	14,477	14,080
Profit after tax (PAT)	2,232	2,174*	949
Net Worth	13,449	14,692	18,773
Lending business Book	99,121	98,384	94,013
Total assets	106,055	109,545	108,972
Return on average total assets (PAT/ATA)	2.30%	2.02%*	0.86%
Return on average net worth (PAT/Avg. net worth) #	17.91%	15.45%*	5.80%
Consolidated gearing (times)	6.80	6.39	4.72
Gross Stage 3	5.90%	5.36%	4.97%
Net Stage 3	2.40%	2.28%	1.57%
Net Stage 3/Net worth	16.17%	14.14%	7.33%

* Prior to deduction of one-time DTA of Rs. 473.38 crore during FY2020 post transition to new tax regime. Net of one-time DTA impact, PAT during FY2020 stood at Rs. 1,700 crore translating into RoA and RoE of 1.58% and 12.08%.

#Excluding minority interest

Source: Company, ICRA Research Amount in Rs. Crore; ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.no.	Instrument	Current rating (FY2022)				Rating history for past 3 years						
		Type	Amount Rated (Rs. crore)	Amount O/s as of Jun-30-21 (Rs. crore)	Date and rating	Date and rating in FY2021			Date and rating in FY2020		Date and rating in FY2019	
						Aug-09-21	Sep-30-20	May-4-20	Mar-31-20	Aug-30-19	Aug-28-18	July-6-18
1	Commercial Paper Programme	Short term	2,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2	Non-convertible Debenture Programme	Long term	1,000.00	-	[ICRA]AAA (stable)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture programme	Very Simple
Commercial paper programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate (In %)	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA^	Commercial Paper	NA	NA	7-365 days	2,500.00	[ICRA]A1+
NA^	Non-Convertible Debenture	NA	NA	NA	1,000.00	[ICRA]AAA (stable)

Source: Company; ^Yet to be placed/unutilised

Annexure-2: List of entities considered for consolidated analysis [prior to amalgamation]

Company Name	Ownership	Consolidation Approach
L&T Finance Holdings Limited	Holding Company	Full
L&T Finance Limited	Subsidiary	Full
L&T Infra Debt Fund Limited	Subsidiary	Full
L&T Infra Investment Partners Advisory Private Limited	Subsidiary	Full
L&T Infra Investment Partners Trustee Private Limited	Subsidiary	Full
L&T Investment Management Limited	Subsidiary	Full
L&T Mutual Fund Trustee Limited	Subsidiary	Full
L&T Financial Consultants Limited	Subsidiary	Full
Mudit Cement Private Limited	Subsidiary	Full
L&T Infra Investment Partners	Subsidiary	Full

Source: Annual report for FY2021

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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