August 31, 2019

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

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

Symbol: L&TFH

Security Code No.: 533519

<u>Kind Attn: Head - Listing Department / Department of Corporate Communications</u>

Dear Sir / Madam,

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

Please find below the disclosure pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

We wish to inform you that L&T Finance Holding Limited's (“LTFH”) long-term rating of AAA has been reaffirmed by ICRA Limited (“ICRA”).

The rating draws significant strength from LTFH’s parentage, L&T (rated AAA/Stable) holding 63.89% equity in LTFH and the expectation that support from L&T would continue and be forthcoming as and when required. LTFH 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.

The ratings take into consideration the improvement in LTFH’s business and risk profile by following rationalisation of product offerings and strengthened risk profile across businesses. The long-term ratings for the group factor in the ability to profitably grow the business volumes (the AUM grew by 16% in FY2019 and further to Rs. 99,904 crore as on June 30, 2019) while improving the share of retail loans in the overall mix and improved capitalisation profile of the group supported by the sizeable capital infusion of Rs. 3,000 crore in March 2018.

While the ratings have been reaffirmed, the outlook on the long-term rating has been revised from Stable to Negative because of the increased systemic risks in the wholesale sector.

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

Further, please find below the instrument wise details:

Instrument type	Size of the Issue (Rs. in crore)	Rating / Outlook & Rating action
Non-Convertible Debentures	1,000	[ICRA]AAA (Negative) Rating reaffirmed; Outlook revised from Stable to Negative
Commercial Paper	2,000	[ICRA]A1+ Rating reaffirmed

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

August 30, 2019

L&T Finance Holdings Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	1,000	1,000	[ICRA]AAA (Negative); reaffirmed; Outlook revised to Negative from Stable
Commercial Paper Programme	2,000	2,000	[ICRA]A1+; Reaffirmed
Total	**3,000**	**3,000**	

**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 L&T Finance Holdings Limited (LTFHL), ICRA has considered the consolidated performance of LTFHL and its finance subsidiaries (namely L&T Finance Limited (LTF), L&T Infrastructure Finance Company Limited (LTIF) & L&T Housing Finance Limited (LTHFL), collectively referred to LTFHL Group) given the strong operational and financial synergies between the companies.

The ratings continue to draw significant strength from LTFHL's parentage, with Larsen & Toubro Ltd. (L&T, rated [ICRA]AAA/Stable) holding 63.89% equity in the company as on June 30, 2019 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. The ratings take into consideration the improvement in LTFHL's business and risk profile by following rationalisation of product offerings and strengthened risk profile across businesses. Retail loans (farm equipment loan, home loans, micro loans, loans against property and two-wheeler loans) has seen increase in total book to 37% as on June 30, 2019 as compared with 30% as on March 31, 2018 with improved asset quality, portfolio diversification and market position. In wholesale businesses (Infrastructure and Real Estate), focus is on funding projects with ring-fenced structure where LTFHL also derives strength from L&T Group's expertise in these sectors. The long-term ratings for the group factor in the ability to profitably grow the business volumes (the AUM grew by 16% in FY2019 and further to Rs. 99,904 crore as on June 30, 2019) while improving the share of retail loans in the overall mix and improved capitalisation profile of the group supported by the sizeable capital infusion of Rs. 3,000 crore in March 2018. The ratings factor in ICRA's expectations of the group to maintain prudent gearing levels going forward as well. The ratings also factor in its focus on underwriting with subsequent down-selling of assets in Infrastructure projects, which provides scope for fee-based income and is likely to support overall profitability.

These strengths are, however, partially offset by the current sectoral and environment risk of the wholesale lending *(Infrastructure finance, Real Estate sector, DCM and Structured Finance Group).* 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. Within the Infrastructure finance, the focus is on sectors such as renewable, transportation and transmission, which are relatively less risky. ICRA also notes the increased share of real estate book (where large part of the portfolio is under construction and hence principal moratorium; however, there is no moratorium on interest). Exposure in Real estate is project level in six cities with focus on bigger developers spread across several projects / SPVs; which brings diversity and acts as a risk mitigant. ICRA also notes the portfolio concentration with top 20 group exposure accounting for 168% of net worth as of March 31, 2019 (down from 190% of net worth as of March 31, 2018) in wholesale book, augmenting portfolio vulnerability, however the group exposures are spread across more than 100 projects / SPVs; which brings diversity and acts as a risk mitigant. While the company has hitherto reported improvement in asset quality indicators during FY2019 and Q1FY2020, its ability to maintain the same in light of the systemic risk build-up in the real estate industry will be important from a credit perspective. ICRA has also taken note of the Group's improving profitability indicators though these are expected to remain largely at current levels in FY2019. In ICRA's opinion, LTFHL's ability to absorb higher provisioning, in addition to augmentation of capital through various avenues, would help the Group strengthen the consolidated balance sheet. Going forward, continued support from L&T, sustained financial performance, ability to run down defocussed book, reduce portfolio vulnerability and improve asset quality indicators remain key rating sensitivities.

Outlook: Negative

While the ratings have been reaffirmed, the outlook on the long-term rating has been revised to Negative because of the increased systemic risks in wholesale sector. Furthermore, given the slowdown in the economy and current challenges in the industry growth, there could be pressure on the asset quality indicators and earning profile. The outlook may be revised to Stable if the risks in the current market environment subside or the company is able to demonstrate continued performance trajectory and further improve the granularity of the book while maintaining a healthy asset quality and capitalisation profile. Any change on the likely support from parent could also warrant a rating change for the group.

Key rating drivers

Credit strengths

Strong parentage and strategic importance to L&T Group; strong management team - 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, management, technical and operational pool 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 consolidated entity present in multiple asset classes in retail and wholesale segment - LTFHL undertook a rationalisation of its product offering in FY2017 following which, certain product segments (including four-wheeler financing, commercial vehicles, construction equipment, leases, SME term loans and receivable discounting) were discontinued. Further during Q1FY2019, LTFHL has reclassified structured finance group and DCM business as defocussed book with the intention to exit these businesses after successfully exiting supply chain business during FY2019. Nonetheless, the product offering remains extensive. LTFHL benefits from the brand name of L&T, which it has leveraged to grow its corporate and retail portfolios while maintaining good profitability. LTFHL's AUM grew by 16% Y-o-Y to Rs. 99,121 crore as on March 31, 2019 from Rs. 85,354 crore as on March 31, 2018, driven by 39% growth in retail segments during FY2019, resulting in increase in share of retail segment to 36% of loan book as on March 31, 2019 (30% as on March 31, 2018). LTFHL's AUM stood at Rs. 99,904 crore as on June 30, 2019 and comprised of 37% of the loans to retail segments (Micro loans (13%), Two-wheeler (6%) & Farm Equipment (7%) and Home Loans/LAP (11%)) and balance 63% to the wholesale segments (Real Estate Finance (15%), Infrastructure Finance (39%) and the balance towards Structured Finance Group, Debt & Capital Markets book, etc).

Adequate capitalisation levels with demonstrated financial support from parent - At a consolidated level, LTFHL's capitalisation remains adequately supported by its track record of raising funds (Rs. 3,000 crore in Q4FY2018 (Rs. 2000 crore from L&T and Rs. 1000 crore through QIP)) and moderate internal capital generation (return on equity of 17.9% in FY2019 compared to 13.9% in FY2018). Post capital raising in FY2018, the gearing level of the group had come down to the moderate level of 6.80 times as on March 31, 2019 (6.60 as on March 31, 2018 and 7.90 as on March 31, 2017) which has further moderated to 6.64 times as of June 30, 2019. Consolidated CRAR as on March 31, 2019 stood at 17.85% (Tier 1: 14.56%) which has further improved to 18.38% (Tier 1:15.05%) as of June 30, 2019. 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 ability of the entity to raise capital from market, the capitalization 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 longer tenures - LTFHL 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 LTFHL is fairly diversified with a mix of non-convertible debentures, bank borrowings, and commercial paper. LTFHL has further diversified its borrowing mix by raising money through Retail NCDs and ECBs. As on March 31, 2019, overall market borrowings stood at ~61% of total borrowings. The proportion of commercial papers in the overall funding mix was ~16% as on March 31, 2019 (14% as on March 31, 2018) and has further come down to 13% as of June 30, 2019. 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 Rs. 2,000 crore credit line from L&T.

Good profitability indicators; During FY2019 the company reported a profit after tax of Rs. 2,232 crore as compared to Rs. 1,278 crore during FY2018. LTFHL's net interest margins (NIMs) improved to 4.71% in FY2019 from 4.01% in FY2018 on account increased share of relatively higher yielding retails loans in the overall portfolio as part of the retailisation strategy of the group. This coupled with lower credit costs (1.51% in FY2019 from 2.50% during FY2018), stable Fee and other income (1.88% in FY2019 from 1.94% during FY2018) and higher operating expenses on account of retailisation (1.98% in FY2019 from 1.75% during FY2018), has led the company to report return on assets (RoA) and adjusted return on equity (RoE) of 2.30% and 17.91%, respectively, during FY2019 as compared with 1.61% and 13.65%, respectively, during FY2018. Going forward, with the group's increased focus on retailisation, the blended yields are expected to improve, however, impact expected to be offset by the increase in cost of funds leading to stable NIMs and Fee income. Further, 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. LTFH group has built up macro-prudential provisions for unanticipated future event risks, which may arise in the micro loan and real estate segment (Rs.350 crore as on June 30, 2019). Factoring these macro-prudential provisions, there may not be any significant impact on profitability in such unanticipated events.

Credit challenges

Moderate asset quality indicators; high concentration in wholesale business; high systemic risk in real estate industry - At a consolidated group level, on account of transition to IND AS during FY2019, standard stressed assets had been included as part of Stage 3 over and above the Non-Performing Assets. This had resulted in Gross and Net Stage 3 Assets of 8.71% and 3.34% respectively as on March 31, 2018 (under Ind AS) as compared to Gross and Net NPA of 4.80% and 2.34% respectively as on March 31, 2018. The asset quality has improved during FY2019 and Q1FY2020 with Gross and Net Stage 3 at 5.90%/2.40% and 5.72%/2.48% respectively, supported by healthy collections and controlled slippages.

In Infrastructure finance, incremental exposure is in sectors such as renewable, transportation and transmission, which are relatively less risky though, the full benefit of this would only be visible over the medium term. The top 20 group exposures accounted for 168% of net worth as on March 31, 2019 (which has reduced from 190% as on March 31, 2018), indicates high concentration towards group exposures, which may augment portfolio vulnerability. However, these group exposures are spread across >100 projects/SPV in ring fenced structures; which brings diversity and acts as a risk mitigant for the concentration. Furthermore, high systemic risk in the real estate industry, may lead to higher credit costs over the medium term. At the same time, while the delinquencies could remain volatile in some of the retail portfolios, the macroprudential provisions built by the group could limit the impact on the profitability. 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

Relatively higher share of wholesale exposures; albeit gradually declining. Group in process of reducing the exposures under corporate/structured loan segment - At a consolidated level, LTFHL's lending book stood at Rs. 99,121 crore as on March 31, 2019 (compared to Rs. 85,354 crore as on March 31, 2018). Share of loans to retail segments has increased to 36% from 30% on annual basis primarily driven by growth in Rural and Housing segment. Nonetheless, a significant share of 64% of portfolio comprises of wholesale segments. During Q1FY20 the company has reclassified structured finance group and DCM business under defocused book, expected to be run down by the end of FY2021. Further, 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:

The liquidity profile of LTFHL is comfortable at a consolidated level. As on June 30, 2019 on a consolidated basis, cumulative outflows over the next six months stood at Rs. 20,249 crore, while collections expected from loan assets' inflows were about Rs. 12,040 crore. The company had cash and liquid investments of Rs. 4,856 crore, unutilized bank lines of Rs. 6,278 crore as on June 30, 2019 which it can use to meet the funding gaps. The liquidity is also supported by the Rs. 2,000 crore credit line from L&T. LTFHL enjoys strong financial flexibility to mobilise long term funding on the back of its established track record and parentage.

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	Parent: Larsen & Toubro Ltd. The ratings continue to draw significant strength from LTFHL's parentage, with Larsen & Toubro Ltd. (L&T, rated [ICRA]AAA/Stable) holding 63.89% equity in the company as on June 30, 2019 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. ICRA expects timely capital and liquidity support to be forthcoming from L&T, if required.
Consolidation / Standalone	While arriving at the rating for L&T Finance Holdings Limited (LTFHL), ICRA has considered the consolidated performance of LTFHL and its finance subsidiaries given the strong operational and financial synergies between the companies.

About the company:

L&T Finance Holdings Limited

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 has three wholly-owned subsidiaries, namely, L&T Infrastructure Finance Company Limited, L&T Finance Limited and L&T Housing Finance Limited, which undertake the Group's lending operations. L&T Infra Debt Fund, an NBFC-IDF, was incorporated in 2013, with LTFHL and its subsidiaries together holding a 100% stake in the company.

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. Following an initial public offering in July 2011, L&T's shareholding in LTFHL declined to 82.64% from 99.99% earlier. Following some open market transactions, L&T's shareholding reduced, currently L&T continue to holds a majority stake of 63.91% stake in LTFHL as on March 31, 2019.

On a consolidated basis, for FY2019, LTFHL reported PAT of Rs. 2,232 crore on an asset base of Rs. 1,06,055 crore compared to PAT of Rs. 1,278 crore for FY2018, on a total asset base of Rs. 87,777 crore. The consolidated entity's net worth was Rs. 13,449 crore as on March 31, 2019.

Larsen & Toubro Limited

Larsen & Toubro Limited (L&T, rated [ICRA]AAA(Stable)) is a leading engineering and construction company in India with a global presence. Headquartered in Mumbai, it has interests in infrastructure, power, metallurgical & material handling, heavy engineering, shipbuilding, electrical & automation, 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 engaged in the hydrocarbon business, IT services, financial services, and infrastructure development ventures. For FY2019, L&T reported a consolidated PAT of Rs. 10,217 crore on a total asset base of Rs. 279,134 crore as on March 31, 2019.

Key financial indicators for L&T Finance Holdings Limited (consolidated)

Particulars	FY2018	FY2019
Total Income	10,266	13,302
Profit after tax (PAT)	1,278	2,232
Net Worth	11,407	13,449
Loan Book	85,354	99,121
Total assets	87,777	106,055
Return on average total assets (PAT/ATA)	1.61%	2.30%
Return on average net worth (PAT/Avg. net worth)	13.65%	17.91%
Consolidated gearing	6.60	6.80
Gross Stage 3	8.71%	5.90%
Net Stage 3	3.34%	2.40%
Net Stage 3/Net worth	22.39%	16.17%

PY figures for FY2018 calculation as per Ind-AS as on April 1, 2017
Amount in Rs. Crore; ICRA calculations

Key financial indicators for L&T Finance Holdings Limited (standalone)

Particulars	FY2018	FY2019
Dividend Income	377	344
Total Income	478	526
Profit after tax (PAT)	266	267
Net Worth	7,674	7,830
Total assets	9,187	10,049
Return on average total assets (PAT/ATA)	3.41%	2.78%
Return on average net worth (PAT/Avg. net worth)	4.50%	3.45%
CIC leverage ratio	0.20	0.15

PY figures for FY2018 calculation as per Ind-AS as on April 1, 2017
Amount in Rs. Crore; ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2020	FY2019		FY2018	FY2017
					Aug-19	Aug-18	July-18	Oct-17	Nov-16
1	Commercial Paper Programme	Short term	2,000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Non-convertible Debenture Programme	Long term	1,000.00	-	[ICRA]AAA (negative)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper Programme	-	-	7-365 days	2,000.00	[ICRA]A1+
-	Non-convertible Debenture Programme	Yet to be placed	-	-	1,000.00	[ICRA]AAA (negative)

Source: L&T Finance Holdings Limited

Annexure-2: List of entities considered for consolidated analysis:

L&T Finance Holdings Limited
L&T Finance Limited (erstwhile Family Credit Limited)
L&T Housing Finance Limited
L&T Infra Debt Limited
L&T Infrastructure Finance Company Limited

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Manushree Saggar
+91 124 4545 316
manushrees@icraindia.com

Sandeep Sharma
+91 22 6114 3472
sandeep.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999