

Rating Rationale

Brickwork Ratings assigns “BWR AA” for First Leasing Company of India Ltd.’s proposed unsecured subordinate Non-Convertible Debenture Issue of ₹ 75 Crores.

NCD Issue Rating: BWR AA

Outlook : Stable

Brickwork Ratings (BWR) has assigned **BWR AA (Pronounced BWR Double A)** with Stable outlook for First Leasing Company of India Ltd’s (FLCI) proposed Unsecured Subordinate Non- Convertible Debenture issue of ₹75 Cr. Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations.

The rating has factored, inter alia, experience of the promoters and top management, healthy asset quality, diversified funding profile and strong capital position supported by internal accruals. The rating is constrained by the company’s moderate scale of operations, high reliance on wholesale funding, volatile interest rate environment leading to pressure on margins and increasing competition from banks and NBFCs.

BWR has essentially relied upon the unaudited H1FY12 results, audited FY12 financials, projected financials, publicly available information and information and clarifications provided by the Company.

Background

First Leasing Company of India Ltd (FLCI) incorporated in 1973, is a deposit taking NBFC and offers leasing services, Hire-purchase services and loans to corporates. FLCI also operates four windmills each with a capacity of 1.36 MW, located in Gujarat, Rajasthan and Maharashtra. The windmills are operated purely from tax management perspective. The company is promoted by Mr. Farouk Irani and is the pioneer of leasing services in India. In 1998, the company received a NBFC license from RBI and was registered as an equipment leasing company and in 2006 received the status of asset finance company. FLCI was publicly listed in 2000. The company is headquartered in Chennai and has seven branches in Mumbai, Bangalore, Delhi, Pune, Coimbatore, Ahmedabad, and Trichy. The company has a professional management team headed by Mr. Irani, who is involved in the day to day operations of the company. The company has designated heads looking after credit risk, treasury functions, marketing, audit and other support functions. Mr. Irani is an expert in leasing and has been instrumental in establishing

the Association of Leasing and Financial Services Companies and has been the chairman of the association for the last 18 years.

The Board of Directors comprises of Mr. Farouk Irani (Promoter and Managing Director), Mr. A.C. Muthah (Non-Executive Director), Mr. Satish Kumar Anavgot (Non-Executive Director) and Maharaj Jai Singh (Non-Executive Director).

Terms of the Proposed NCD Issue

FLCI plans to raise ₹ Rs.75 Cr through the issue off unsecured subordinated Non-Convertible Debentures. Issue proceeds are proposed to be used to support expansion of the business activities.

Business Model

Loan Portfolio: FLCI offers Leasing services, Hire purchase services and Loans to corporates. Despite its 38 years of operations the company has recorded moderate growth in loan portfolio. The loan book has increased at a CAGR of 15.4% to Rs 1,566.3 Cr between FY08 and FY11. The AUM comprises of Net Leases ₹ 199.92 Cr (13% of Loan Book), Hire Purchase (79%) and Loans (8%). The Lease portfolio primarily comprises of plant and machinery (~85% of lease portfolio). FLCI maintains a strong asset quality supported by its conservative underwriting practices and focus on quality assets rather than aggressive loan growth. Gross NPAs declined 49% y-o-y to ₹ 3.5 Cr at FY11. Gross NPA ratio declined to 0.23% at FY11 from 0.50% at FY10. During H1FY12, Gross NPA ratio remained stable at 0.23%. FLCI maintains 100% loan loss provisioning, consequently the Net NPA ratio is nil.

Capital Adequacy Ratio: FLCIs net worth increased 27% y-o-y to Rs 307 crores as of FY11. Capital position benefitted from gain on sale of Investment of Rs 42 Cr. FLCI has a CAR of 19.38% as of FY11 up from 16.75% as of FY10. Tier 1 capital ratio was at 19.14% and Tier II capital ratio of 0.24% at FY11. The quality of capital is strong and is almost entirely comprised of shareholder equity, primarily supported by internal capital generation. Overall gearing at 3.8 times as of FY11 is comfortable down from 4.4 times at FY10. CAR further improved to 19.79% and leverage improved to 3.7 times as of H1FY12.

Funding Structure: FLCI though primarily reliant on wholesale funding to support its operations maintains a diversified funding profile. Networth totaled ₹307.16 Cr (20.8% of Total Liabilities) and Loan Funds totaled Rs 1,167 Cr (79.2% of Total Liabilities). Bank borrowing comprises the major funding source (71.4% of total loan funds), followed by unsecured borrowings (15.9%), Fixed deposits (5.3%), secured debentures (3.9%), and inter-corporate deposits (3.6%).

Earning Performance:

FLCI's PAT increased 102.9% y-o-y to Rs 70.8 Cr for FY11, mainly on account of extraordinary gains of 42 Cr related to liquidation of investments. The company reported a 5.3% decline in Income from financing operations to Rs 174 Cr in FY11 from Rs 183 Cr in FY10, mainly on account of accounting changes related to expiry of pre-AS 19 lease assets under which total lease income was recorded as income. Post AS 19 only the interest component is recorded in the P&L as finance income. Adjusted for this impact Income from finance operations increased 7.6% y-o-y to Rs 174.1 crore from Rs 161.8 Cr in FY10. Interest Expense increased 12.7% y-o-y to Rs 105.2 Cr for FY12. Net Interest Income was largely flat – up by 0.7% y-o-y to Rs 67.9 Cr for FY11. Income from wind energy declined 29.8% y-o-y to Rs 2.7 Cr in FY11. Other Income increased to Rs 56.5 Cr in FY11 from Rs 3.1 Cr in FY10, on account of non-recurring income of Rs 53.42 Cr on sale of investment. Operating Expense increased 14.3% y-o-y to Rs 22.6 Cr in FY11. The company set aside Rs 3.85 crores as provision for standard assets in line with the new RBI guidelines. Bad debts declined to Rs 3.5 Cr in FY11 from 9.2 Cr in FY10. PAT for H1FY11 increased 15% y-o-y to Rs 20.8 Cr.

Outlook

FLCI has maintained strong operational performance maintaining good asset quality and over the years. The rating would be positively affected if the company is able to expand its loan portfolio while maintaining good asset quality and interest margins in a rising interest rate scenario and maintain adequate capitalization levels. The rating would be negatively affected if there is deterioration in asset quality and weakening of capital levels.

Analysts	Media
Amit Kawle , Analyst amit.r@brickworkratings.com	Anitha G media@brickworkratings.com
Shilpi Agarwal , Analyst shilpi.a@brickworkratings.com	Relationship Contact
	K N Suvarna Senior VP – Business Development kn.suvarna@brickworkratings.com
Phone: 1-860-425-2742	

Disclaimer: Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.

Annexure I: Abridged Balance Sheet

₹ Crore

Balance Sheet	H1FY12	H1FY11	FY11	FY10	FY09
Shareholder's Fund					
Share Capital	22.8	22.8	22.8	22.8	22.8
Reserves and Surplus	305.2	236.9	284	218.8	189
Total	328.03	259.72	307	241.6	212
Loan Funds	1,228	1,128	1,167	1055.4	966
Deferred Tax Liability	108.2	96.9	104	93.3	84.55
	1,664	1,485	1,578	1,390	1,262
Application of Funds					
Fixed Assets (Net)	23.4	24.2	24.6	25.5	50.7
Investments	9.2	9.5	9.2	9.4	9.4
Current Assets, Loans and Advances					
Sundry Debtors	12.5	18.6	14.7	16.2	25.7
Cash and Bank Balance	14.3	23.3	19.3	12.1	28.6
Other Current Assets	1546.3	1385.4	1437.3	1297.0	1132.5
Loans and Advances	99.8	90.1	134.9	97.9	89.3
	1,672.9	1,517.3	1,606.2	1,423.2	1,276.1
Less : Current Liabilities and Provisions	41.0	66.0	61.9	67.8	74.3
Net Current Assets, Loans and Advances	1,631.9	1,451.4	1,544.3	1,355.4	1,201.8
Total	1,664.4	1,485.1	1,578.2	1,390.3	1,261.9

Annexure II: Abridged Profit and Loss

₹ Crore

Particulars	H1FY12	H1FY11	FY11	FY10	FY09
Income from Finance Operations*	103.1	79.9	174.1	161.8	167.4
Income from Windmill Operations	-	-	2.7	3.9	4.4
Other Income	2.9	3.7	56.5	3.1	3.0
Total Income	105.9	83.6	233.4	168.8	174.7
Operating Expenses	6.0	8.2	22.6	19.8	15.9
Interest Expense	67.9	46.9	105.2	93.4	103.8
Total	74.0	55.1	127.9	113.2	119.7
Profit before Depreciation	32.0	28.5	105.5	55.7	55.0
Less: Depreciation (vide Note No. 1(c))	1.1	1.4	2.8	2.9	3.7
Profit after Depreciation	167.4	167.4	167.4	167.4	167.4
Less: Provision for Taxation	167.4	167.4	167.4	167.4	167.4
Profit for the year	20.8	18.1	70.8	34.9	33.5

Note: *Income from finance operations have been adjusted for AS19 adjustments

Annexure III: Ratio Analysis

	H1FY12	FY11	FY10	FY09
Interest Income	103.1	173.2	160.9	160.2
Interest Expense	67.9	105.2	93.4	103.8
NII	35.1	68.0	67.5	56.4
Income from Finance Operation / Total Income	97%	74.6%	95.8%	95.8%
CRAR (%)	19.79%	19.38%	16.75%	16.45%
Leverage (x)	3.7	3.8	4.4	4.6
Gross NPA (%)	2.00%	1.06%	0.50%	0.23%
Net NPA (%)	0.00%	0.00%	0.04%	0.08%
RONW	13%	26%	15%	17.0%
Return on Assets	2.65%	4.77%	2.63%	2.85%