April 24, 2017

India Infoline Limited

Instrument *	Amount (in Rs. Crore)	Rating Action
IPO Financing Programme	500.00	[ICRA]A1+; Withdrawn
LT – Equity linked debenture programme	100.00	PP-MLD[ICRA]AA(stable); Outstanding
Short Term bank lines	650.00	[ICRA]A1+; Outstanding

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has withdrawn the rating of [ICRA]A1+ (pronounced ICRA A one plus) to Rs. 500 crore IPO Financing Programme assigned earlier (January 2017). ICRA has a rating outstanding of PP-MLD[ICRA]AA(stable) on Rs. 100 crore Long Term Equity Linked Debenture Programme and a rating outstanding of [ICRA]A1+ on Rs. 650 crore Short Term bank lines.

Rationale

While arriving at the ratings, ICRA has taken a consolidated view on credit profile of all key India Infoline group companies (collectively referred to as IIFL Group) owing to common promoters and senior management team, shared brand name, and strong financial and operation synergies shared across the group companies

Key Rating Drivers

Key Strengths

- Diversified financial services group with a presence in lending (non-banking and housing finance), capital market activities (broking and financial products distribution), and wealth management
- Diversified lending book with the mortgage segment comprising 54% of the portfolio, capital market (18%), gold (12%), commercial vehicles (CV, 12%), and healthcare and SME (4%); increasing focus on retail lending provides comfort
- Stable asset quality; however, moderate portfolio seasoning
- Diversified revenue sources; fee income (broking, distribution, PMS, commodities business) provides support to lending operations
- Adequate capitalisation of the NBFC with Tier-1 CRAR of 20.5% as at December 31, 2016
- Consolidated gearing 4.18 times as on December 31, 2016 in line with industry average; demonstrated ability of the group to raise equity. The group companies have been able to raise capital from overseas investors as evidenced by Rs. 1005 crore equity infusion in (IIFL NBFC) from CDC, UK in September 2016, and Rs. 904 crore equity infusion in (IIFL Wealth Finance) from General Atlantic, Singapore in March 2016
- Adequate liquidity and funding profile; greater stability in the funding base with a shift towards longer tenure NCDs. (NCD borrowings constituting for 35% as on Mar-16 vis-a-vis 20% as on Mar-13, and bank borrowings remaining stable at 46% as on Mar-16 vis-à-vis 43% as on Mar-13)
- Adequate risk management and operational systems

Key Challenges

- Exposure to the more risky commercial LAP and land funding segments; presence of adequate collateral mitigates risk in land funding to an extent
- High exposure to the riskier self-employed segment whose earning profile is more volatile than the salaried segment
- High growth in the loan book over past two years (CAGR of 28%); a large part of the loan book is yet to be tested for adverse economic cycles
- Consistent decline in the gold loan book over the years ; the segment remains vulnerable to operational risks (fraud, collusion, theft etc) and volatility in gold prices

Description of key rating drivers highlighted above:

While arriving at the ratings, ICRA has taken a consolidated view on credit profile of all key India Infoline group companies (collectively referred to as IIFL Group) owing to common promoters and senior management team, shared brand name, and strong financial and operation synergies shared across the group companies. The ratings factor in IIFL Group's diversified business revenues constituted by its financing, distribution and broking operations, group's robust risk management systems, healthy capitalisation profile backed by strong networth of Rs. 5,487 crore as on December 31, 2016 for IIFL Group consolidated (including minority interest).The networth was strengthened by Rs. 904 crore equity infusion from General Atlantic, Singapore Fund in March 2016 and by Rs. 1005 crore equity infusion in IIFL (NBFC) from CDC Group Plc, UK in September 2016. ICRA also notes the good profitability indicators (ROE (including minority interest) of 14.28% for 9MFY2016, for IIFL Group consolidated). However, the rating strengths are partially offset by the moderate seasoning of the financing businesses, which constitute the largest proportion of the total revenues of the group (72% for FY2016), and where steady performance through business cycles is yet to be demonstrated. Large part of the balance sheet consists of the mortgage business which has consistently increased over the past few years from 45% as on March 31, 2012 to 53% as on March 31, 2016. ICRA also takes note of comfortable asset quality indicators of the group diversification of the lending portfolio through steady growth in new business lines like Commercial Vehicle (CV) loans and SME loans, with Gross NPAs remaining consistently below 1.5% over the last few years. Although the dependence on capital market related businesses is coming down, the group's revenue and profitability indicators may get impacted by the cyclical nature of domestic capital markets. Going forward, ICRA expects full financial, managerial and operational support would continue to be available to all the group companies of IIFL Group. The ratings would be sensitive to IIFL's ability to profitably manage its relatively new lines of business, along with maintaining superior asset quality through the business cycle.

IIFL Group is operational in financing activities (carried out through NBFC and HFC), broking business (through its equity and commodity broking entities) and distribution business through its wealth management companies. The financing business of the group continues to be the key driver for the group, contributing to 74% of the total revenues of the group in 9MFY2017 (vis-à-vis 72% in FY2016). As on December 2016, the group's lending book stood at Rs. 24,020 crore (including wealth finance book), with the mortgage segment accounting for 54% of the lending portfolio, Gold loan financing 12%, Capital market lending 18% and balance being contributed by CV 12%, healthcare and SME loans 4%. The mortgage book has been the key growth driver in the lending portfolio, which has been growing steadily at a CAGR of ~35% over last 3 years (FY2013 to FY2016). The mortgage book comprises of Home Loans, which are primarily housed in India Infoline Housing Finance Limited (IIHFL) and Loans against Property (LAP), which are offered by IIHFL as well as India Infoline Finance Limited. The dependence on gold loan book has gradually come down over the years, with increased focus on mortgage segment, and currently constitutes 12% of the lending book as on Dec-16, compared to 26% in FY2015 and 36% in FY2014. The capital markets lending book constituted 15% of the total lending book as on March 2016, the same has increased to 18% (including wealth finance book) as on December 2016. The group had ventured into the CV segment in FY2012; the share of the CV, on the back of steady growth, has increased to 12% as on Dec-16. The healthcare and SME loan segment in the overall portfolio remains stable at ~4%. Going ahead, the management intends to grow the lending book at a steady pace of ~20%-25%, while maintaining their focus on the mortgage loans.

IIFL Group's reported asset quality indicators remain sound with gross non-performing assets at 1.80% of overall advances and net NPAs remain at 0.65% as on December2016. IIFL's ability to maintain the asset quality across business cycles along with the portfolio growth and the competitive pressure would be closely monitored by ICRA and it would remain a key rating sensitivity. With revision in NPA recognition norms for NBFCs, which require NBFCs to recognize NPA at 90+ overdue, albeit by FY2018 (IIFL NBFC currently recognizes NPA at 120+ DPD), the ability of the group to accelerate the recovery process, in order to keep the credit costs under check, remains a key item to monitor.

Retail broking with revenue share at 12%, remains one the three lines of business for the IIFL Group, along with financing and wealth management, this has declined from 21% in FY2013, as the financing business achieved scale. IIFL Group is one of the largest players in the retail broking segment with total market share of 2.69% in FY16 (vis-à-vis 2.73% in FY15). However, yields decreased to 1.93 bps in FY16 from 2.18 bps in FY15, on account of cash segment yields reducing to 10.40 bps from 11.99 bps. IIFL Group is also one of the large players in the distribution business with an AUM of Rs 79,413 crore as on March 31, 2016, through its Wealth management business arm. The wealth management business has steadily scaled up over past 3-4 years and contributed 17% of the total group revenue in FY2016 (vis-a-vis 16% in FY2015 and 16% in FY2014). Contribution of the wealth management business to group profitability has been good given the robust growth in the client base and assets under management.

IIFL Group's capitalization is comfortable with a gearing of 4.18 times and consolidated net worth of Rs. 5,487 crore as on December 31, 2016 (including minority interest). The net worth strengthened due to the equity infusions done by CDC Group Plc to the tune of Rs. 1,005 crore in September 2016 and Rs. 904 crore by General Atlantic, Singapore in March 2016. At the group level, the gearing is expected to remain in the 5-5.5 times range in the medium term. At the NBFC level (India Infoline Finance Limited), the reported capital adequacy - Tier I stood at 20.50% as on December 2016. Borrowings profile of the group is fairly diversified ranging from market NCDs and bank borrowings, though bank borrowings continue to form the highest share of borrowings at 46% as on March 2016.

IIFL Group witnessed a decline in its Net Interest Margins (at consolidated level) from 7.01% of Average Total Assets (ATA) in FY2015, to 5.16% of ATA in 9MFY2017, the reason being the company focused on the safer, hence, lower yielding mortgage segment, and the share of higher yielding segments like gold loans and capital markets financing reduced. The group's non-interest income also decreased on account of lower broking income. Nevertheless, decreasing cost of funds because of lower interest rates in the economy and reducing operating expenses with economies of scale and digitisation of lending operations, the group's profitability remained good with PAT/ATA of 2.81% during 9MFY2017

Analytical approach:
For arriving at the ratings, ICRA has taken a consolidated view for India Infoline Limited along with its group company – IIFL Holdings Limited (rated [ICRA]AA(Stable)/A1+) – since both have operational linkages and share a common management

Links to applicable Criteria
ICRA's Credit Rating Methodology for Non-Banking Finance Companies

ICRA

Company Profile

India Infoline Limited

India Infoline Limited is the equity broking entity of the IIFL Group. It is a fully owned IIFL Group company, with IIFL Holdings Limited holding 99.9999% stake, and 0.0001% stake held by IIFL Wealth Management Limited as on March 31, 2016.

IIFL Group

India Infoline Limited (IIL) was founded in 1995 by two professionals as an independent financial research provider. The name of the company got changed to IIFL Holdings Limited in FY14 as it became a operating holding company. The group is engaged in equity broking, portfolio management services, depository services, investment banking, distribution of mutual funds and other financial products, commodity broking, margin funding, consumer loan funding and wealth management. IIFL Group's consolidated net worth strengthened to Rs 4,096 crore as on March 31, 2016 consolidated (including minority interest).

Recent Results

IIFL Group reported a PAT of Rs 499.73 crore (after minority interest) in 9MFY17 on a total income of Rs 3,520.34 crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating					Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	FY2017			FY2017	FY2016	FY2015
				April 2017	March 2017	February 2017	September 2016	August 2015	September 2014
1	IPO Financing Programme	Short Term	500.00	[ICRA]A1+; Withdrawn	[ICRA]A1+	-	-	-	-
2	LT – Equity linked debenture programme	Long Term	100.00	PP-MLD[ICRA]AA(stable)	PP-MLD[ICRA]AA(stable)	PP-MLD[ICRA]AA(stable)	PP-MLD[ICRA]AA (stable)	PP-MLD[ICRA]AA(stable)	PP-MLD[ICRA]AA (stable); Assigned
3	Short Term Bank Lines	Short Term	650.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; Assigned	-	-

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
LT – Equity linked debenture programme*	NA	NA	NA	100.00	PP-MLD[ICRA]AA(stable)
Short Term Bank Lines – Non-fund based	NA	NA	NA	605.00	[ICRA]A1+
Short Term Bank Lines- Fund based	NA	NA	NA	45.00	[ICRA]A1+

*Source: Company Data; *Yet to be issued, Data as on February 28, 2017*

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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.
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