

June 13, 2017

India Infoline Limited

Summary of rated instruments

Instrument *	Amount (in Rs. Crore)	Rating Action
Commercial paper programme	500.00	[ICRA]A1+; Assigned
LT – Equity linked debenture programme	100.00	PP-MLD[ICRA]AA(stable); Outstanding
Short term bank lines	650.00	[ICRA]A1+; Outstanding
Total	1250.00	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to Rs. 500 crore Commercial Paper Programme of India Infoline Limited. 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 of the company.

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

Credit strengths

- Diversified financial services group with a presence in consumer finance, capital market activities (broking and financial products distribution), wealth management and microfinance.
- Diversified lending book with the mortgage segment comprising 54% of the portfolio, capital market¹ (18%), gold (11%), commercial vehicles (11%), healthcare and SME (4%) and microfinance (1%); 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 18.13% as at March 31, 2017.
- Consolidated gearing² 4.32 times as on March 31, 2017 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. 1,005 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 39% as on March 31, 2017 vis-a-vis 20% as on March 31, 2013, and bank borrowings remaining stable at 40% as on March 31, 2017 vis-à-vis

¹ Including wealth finance book

² Including minority interest

43% as on March 31, 2013, Commercial paper borrowing declined from 37% as on March 31, 2013 to 21% as on March 31, 2017.)

- Adequate risk management and operational systems

Credit weaknesses

- 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:

To arrive at the ratings, ICRA has taken a consolidated view of the credit profiles of key India Infoline group companies (collectively referred to as IIFL group) given the common promoters and senior management team, shared brand name, and strong financial and operation synergies. The ratings factor in IIFL group's diversified business revenues constituted by its financing, distribution and broking operations, the group's robust risk management systems, healthy capitalisation profile backed by strong networth of Rs. 5,637 crore as on March 31, 2017 for IIFL group consolidated (including minority interest). The group's capitalisation was strengthened by Rs. 904 crore equity infusion in IIFL Wealth Management Limited (which was subsequently transferred to its wholly owned subsidiary, IIFL Wealth Finance Limited) from General Atlantic, Singapore Fund in March 2016 and by Rs. 1,005 crore equity infusion in IIFL (NBFC) from CDC Group Plc, UK in September 2016. ICRA also notes the group's good profitability indicators (ROE (including minority interest) of 14.59% for FY2017, for IIFL Group consolidated).

However, these credit strengths are partially offset by the moderate portfolio seasoning in the financing businesses, which contribute the largest proportion of the group revenues (74% for FY2017), and where steady performance through business cycles is yet to be demonstrated. The mortgage book accounts for a large share of the group's portfolio, consistently increasing over the past few years from 41% as at March 31, 2013 to 54% as on March 31, 2017.

ICRA also takes note of the group's comfortable asset quality indicators over the last few years, and diversification of lending portfolio through steady growth in new business lines like commercial vehicle (CV), SME loans, wealth Finance and recently micro finance business. Although the dependence on capital market related businesses has been reducing, the group's revenue and profitability indicators remain vulnerable to the cyclicity in the domestic capital markets. Going forward, ICRA expects the group companies to continue to receive financial, managerial and operational support from the promoters. The ratings would be sensitive to group's ability to profitably manage its relatively new lines of business, along with maintaining superior asset quality through business cycles.

IIFL group is engaged in financing (carried out through an NBFC and a housing finance company), broking (through its equity and commodity broking subsidiaries) and distribution (through its wealth management companies). The group's financing business continues to be the key driver of revenues, contributing to 74% of the consolidated revenues in FY2017 (vis-a-vis 72% in FY2016). As on March 31, 2017, the group's lending book stood at Rs 25,896 crore (including wealth finance book), with the mortgage segment accounting for 54% of the loan portfolio, gold loan financing 11%, capital market lending 18% ,CV 11%, healthcare and SME loans 4% and microfinance loans 1%. The mortgage book

has been the key growth driver in the lending portfolio, growing steadily at a CAGR of ~40% over the last three years (FY2014 to FY2017). 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 and India Infoline Finance Limited (IIFL). The group's concentration on gold loans has gradually reduced over the years, with increased focus on the mortgage segment, and currently constitutes 11% of the lending book as on March 31, 2017, compared with 36% as on March 31, 2014. The capital markets lending book (including wealth finance book) constituted 18% of the total lending book as on March 2017, the same has increased from 15% in FY2016. The group ventured into the CV segment in FY2012; the share of the CV, on the back of steady growth, has increased to 11% as on March 31, 2017. Going forward, the management intends to grow the lending book at a steady pace of ~20%-25% while maintaining their focus on mortgage loans.

IIFL group's reported asset quality indicators remain sound with gross NPAs at 1.80% of overall advances and net NPAs at 0.60% as at March 31, 2017. IIFL's ability to maintain its asset quality across business cycles while growing its portfolio amidst intense competitive pressures would be closely monitored by ICRA and it would remain a key rating sensitivity. With the 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.

Financing, wealth management and retail broking activities remain the key revenue contributors for the group, accounting for 74%, 14% and 12% respectively of the total income in FY2017. IIFL group is a large player in the retail broking segment with a total market share of 2.18% in FY2017. However, its yields decreased to 1.58 bps in FY2017 from 1.93 bps in FY2016, on account of both F&O yields and cash segment yields reducing to 0.54 bps and 9.70 bps in FY2017 from 0.69 and 10.40 bps in FY2016 respectively. The group is also a large player in distribution of financial products with assets under management (AUM) of Rs. 1,20,101 crore as on March 31, 2017. The wealth management business has steadily grown over the past four years and contributed 14% of the group revenues in FY2017 (vis-a-vis 11% in FY2013). Contribution of the wealth management business to group's overall revenues has been good given the robust growth in the client base and assets under management.

IIFL group's capitalisation is comfortable with a gearing³ of 4.32 times and consolidated net worth of Rs. 5,637 crore as on March 31, 2017. The net worth improved with the equity infusions of Rs. 1,005 crore by CDC Group Plc in September 2016 and Rs. 900 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. The group's resource profile is fairly diversified across bank borrowings, NCDs and CPs; however, bank borrowings continued to form the highest share at 40%.

The group's consolidated net interest margins (NIMs) declined from 7.01% of average total assets (ATA) in FY2015, to 5.43% of ATA in FY2017, with the company focused on the safer, lower yielding mortgage segment. The share of higher yielding segments like gold loans and capital markets financing reduced during this period. 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 2.90% during FY2017.

³ Including minority interest

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](#)

About the company:**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, 2017. The company is engaged in equity broking operations and financial products distribution.

IIFL Holdings Limited (formerly known as India Infoline Ltd.)

IIFL Holdings Limited (IIFL Holdings, formerly known as India Infoline Ltd.) was founded in 1995 by two professionals as an independent financial research provider. The name of the company was changed to IIFL Holdings Limited in FY2014 when it became a non-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 stood at Rs. 5,637 crore as on March 31, 2017. IIFL Holdings Limited (consolidated) reported a PAT of Rs. 822 crore in FY2017 on a total operating income of Rs. 4,925 crore.

Recent results

IIFL Group reported a PAT of Rs 686.09 crore (after minority interest) in FY2017 on a total operating income of Rs 4,924.81 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. Crores)	Date & Rating in FY18	Date & Rating in FY 17			Date & Rating in FY16	Date & rating in FY15	
				Jun-17	Mar-17	Feb-17	Sep-16	Aug-15	Sept 14	
1	Commercial paper Programme	Short Term	500	[ICRA]A1+; Assigned	-	-	-	-	-	
2	LT – Equity linked debenture programme	Long Term	100	PP-MLD [ICRA] AA(stable)	PP-MLD[ICRA]AA (stable)	PP-MLD[ICRA]AA (stable)	PP-MLD[ICRA]AA(stable)	PP-MLD [ICRA] AA(stabl e)	PP-MLD [ICRA] AA (stable)	
3	Short Term Bank Lines	Short Term	650	[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
Instrument Details

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+
Commercial Paper Programme	NA	NA	NA	500.00	[ICRA]A1+

*Source: Company Data; *Yet to be issued, Data as on May 06, 2017*

Contact Details

Analyst Contacts

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Sahil Udani

91 22 6114 3429

sahil.udani@icraindia.com

Mr. Saumya Aggarwal

+91 22 6114 3425

saumya.aggarwal@icraindia.com

Mr. Ankur Verma

+91 22 6114 3427

ankur.verma@icraindia.com

Relationship Contacts

Mr. L. Shivakumar

+91 22 6114 3406

shivakumar@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

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



Registered Office

ICRA Limited

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office

Mr. Vivek Mathur

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata

Mr. Jayanta Roy

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune

Mr. L. Shivakumar

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad

Mr. Jayanta Chatterjee

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500