ICRA

August 11, 2017

India Infoline Limited

Summary of rated instruments

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

*Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 500 crore Commercial Paper Programme and Rs. 650 crore Short Term bank lines of India Infoline Limited (the company). ICRA has also reaffirmed the rating of PP-MLD [ICRA]AA(stable) for Rs. 100 crore Long Term Equity Linked Debenture Programme of the company.

Rationale

While arriving 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 their 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 and healthy capitalisation profile backed by a strong consolidated net worth of Rs. 4,581 crore as on June 30, 2017.

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 the group's ability to profitably manage its relatively new lines of business, while maintaining superior asset quality through business cycles.

Key rating drivers

Credit strengths

- **Diversified financial services group with presence in consumer finance, capital market activities (broking and financial products distribution), wealth management and microfinance** – 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). Apart from having a diversified loan book of Rs. 27,636 (including wealth finance book) crore as on June 30, 2017, the group is also a large player in distribution of financial products with assets under advice, management and distribution of Rs. 1,26,908 crore as on June 30, 2017. The group is among the leading players in retail broking with a total market share of 2.18% in FY2017.

- **Diversified lending book; increasing focus on retail lending provides comfort** – The company has a diversified lending book which stood at Rs. 27,636 (including wealth finance book) crore as on June

30, 2017 with the mortgage segment accounting for 54% of the portfolio followed by capital market[1] (20%), gold (10%), commercial vehicles (11%), healthcare and SME (4%) and microfinance (1%). The diversity in the portfolio has been achieved through a steady growth in new business lines like commercial vehicle (CV) financing, SME loans, wealth finance and micro finance. The mortgage book (including home loans and loans against property) has been the key growth driver for the lending portfolio, growing at a CAGR of ~40% over the last three years (FY2014 to FY2017). The group's concentration on gold loans has gradually reduced over the years, constituting 10% of the lending book as on June 30, 2017, compared with 36% as on March 31, 2014. Going forward, the management intends to grow the lending book at a steady pace of 20%-25% while maintaining the focus on mortgage loans. The group's increasing focus on retail lending provides credit comfort.

- **Stable asset quality; however, moderate portfolio seasoning** – IIFL group's reported asset quality (combined for NBFC, HFC and MFI businesses) indicators remain sound with gross NPA at 2.04% and net NPA at 0.94% as at June 30, 2017. With the revision in NPA recognition norms for NBFCs, which require them to recognise NPAs at 90+ overdue by FY2018 (IIFL NBFC moved to 90-day NPA recognition from Q1 FY2018), the ability of the group to accelerate the recovery process and keep credit costs under check, remains a key item to monitor.

- **Diverse revenue sources; fee income (broking, distribution, PMS, commodities business) provides support to lending operations –** Financing, wealth management (distribution) and retail broking activities are the key revenue contributors for the group, accounting for 74%, 14% and 12% respectively of the total income in FY2017. The share of consolidated operating income from financing and distribution activities has increased steadily over the years while the share from the capital market related activities has declined. 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). The contribution of the wealth management business to overall revenues has been good given the robust growth in client base and assets under management. Although the dependence on capital market related businesses has been reducing, the group's revenue and profitability indicators remain vulnerable to cyclicality in the domestic capital markets.

- **Adequate capitalisation with Tier-1 CRAR of 18.1% and consolidated gearing[2] of 4.50 times as on June 30, 2017; demonstrated ability of the group to raise equity** – IIFL group's capitalisation is comfortable with a gearing of 4.50 times and consolidated net worth of Rs. 4,581 crore as on June 30, 2017. The net worth improved with equity infusion of Rs. 1,005 crore (in IIFL NBFC) by CDC Group Plc in September 2016 and Rs. 904 crore (in IIFL Wealth Finance) by General Atlantic, Singapore in March 2016. At the group level, the gearing is expected to remain around 5-5.5 times in the medium term.

- **Adequate liquidity and funding profile; greater stability in funding base with a shift towards longer tenure NCDs –** The group's resource profile is fairly diversified across bank borrowings, NCDs and commercial papers. The share of market based borrowings increased with NCDs constituting 35% of the total borrowings as on June 30, 2017 vis-a-vis 20% as on March 31, 2013. The share of bank borrowings reduced slightly to 42% as on June 30, 2017 from 43% as on March 31, 2013 while that of commercial paper declined to 23% as on June 30, 2017 from 37% as on March 31, 2013.

- **Profitability metrics continue to be good despite the shift in focus towards lower yielding loan products** – The group's consolidated net interest margins (NIMs) declined to 5.43% of average total

[1] Including wealth finance book
[2] Including minority interest

assets (ATA) in FY2017, from 7.01% of ATA in FY2015, with the company focussing 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, as the retail broking yields decreased to 1.58 bps in FY2017 from 1.93 bps in FY2016, on account of both F&O 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. Nevertheless, with decreasing cost of funds because of lower interest rates in the economy and reducing operating expenses with an increase in scale and digitisation of lending operations, the group's profitability remained good with PAT/ATA of 2.90% during FY2017 compared with 2.63% during FY2016.

Credit weaknesses

- **Exposure to the more risky commercial LAP and land funding segments and high exposure to the riskier self-employed segment** – The group continues to have some exposure to the more risky commercial LAP and land funding segments. However, the presence of adequate collateral mitigates risk in land funding to some extent. The group, like most of its peers, also has 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; a large part of the loan book is yet to be tested for adverse economic cycles** – The high growth in the loan book over the past two years (CAGR of 27%) has resulted in a moderately seasoned portfolio. Given the moderate seasoning in the financing businesses, which contribute the largest proportion of group revenues (74% for FY2017), 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.

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
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. 4,581 crore as on June 30, 2017. IIFL Holdings Limited (consolidated) reported a PAT of Rs. 822 crore (Rs 686 crore after minority interest) in FY2017 on a total operating income of Rs. 4,925 crore. Further, the company reported a PAT of Rs. 252 crore (Rs 198 crore after minority interest) in Q1 FY2018 on a total operating income of Rs. 1,478 crore.

Key Financial Indicators (Consolidated for IIFL Holdings)

	FY2016	FY2017	Q1 FY2017	Q1 FY2018
Net Operating Income	2,283	2,833	577	907
Profit after tax	555	822	158	252
Networth	3,352	4,382	3,502	4,581
Loan Book (AUM)	19,615	25,896	18,560	27,636
Total assets	22,877	33,763	24,605	35,755
Return on assets	2.63%	2.90%	-	-
Return on equity	17.51%	15.66%	-	-
Gross NPA	1.44%	1.82%*	1.97%	2.04%#
Net NPA	0.54%	0.58%*	0.91%	0.94%#
Capital adequacy ratio	17.7%	20.7%	17.8%	20.6%
Gearing[3]	3.89	4.32	4.30	4.50

Amounts in Rs. crore
**NPA recognition at 120 days past due (dpd) compared with 150 dpd during FY2016*
 # NPA recognition at 90 days past due (dpd) compared with 120 dpd during Q1 FY2017

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

[3] Including minority interest

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 FY18	Date & Rating in FY 17			Date & Rating in FY16	Date & rating in FY15
				Aug-17	Jun-17	Mar-17	Feb-17	Sep-16	Aug-15	Sept 14
1	Commercial paper Programme	Short Term	500	[ICRA]A1+; reaffirmed	[ICRA]A1+; Assigned	-	-	-	-	-
2	LT – Equity linked debenture programme	Long Term	100	PP-MLD[ICRA]AA(stable); reaffirmed	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)
3	Short Term Bank Lines	Short Term	650	[ICRA]A1+; reaffirmed	[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

ISIN Number	Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
NA	LT – Equity linked debenture programme*	NA	NA	NA	100.00	PP-MLD[ICRA]AA(stable)
NA	Short Term Bank Lines – Non-fund based - Unallocated	NA	NA	NA	605.00	[ICRA]A1+
NA	Short Term Bank Lines- Fund based - Unallocated	NA	NA	NA	45.00	[ICRA]A1+
NA	Commercial Paper Programme	NA	NA	7-365 days	500.00	[ICRA]A1+

*Source: Company Data; *Yet to be issued*

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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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