Aditya Birla Finance Limited

Instrument	Rated Amount	Rating Action
	(In Rs. Crore)	June 2016
Commercial Paper Programme	7,000.00 (enhanced from 6,000.00)	[ICRA]A1+ assigned/outstanding
Bank Lines	13,469.00	[ICRA]AA+(Stable)/[ICRA]A1+ outstanding
Long Term Debt Programme	12,000	[ICRA]AA+(Stable) outstanding
Subordinate Debt Programme	950	[ICRA]AA+(Stable) outstanding
Commercial Paper Programme (For IPO Financing)	2,000	[ICRA]A1+ outstanding

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 7,000 crore (enhanced from Rs. 6,000.00 crore) Commercial Paper programme of Aditya Birla Finance Limited (ABFL). ICRA has an outstanding rating of [ICRA]AA+ (pronounced as ICRA Double A Plus) with stable outlook on Rs. 12,000 crore Long Term Debt Programme and Rs. 950 crore Subordinate Debt Programme and the rating of [ICRA]A1+ on the Rs. 2000 crore Commercial Paper Programme (For IPO Financing) of ABFL. ICRA also has an outstanding rating of [ICRA]AA+(stable)/[ICRA]A1+ on Rs. 13,469 crore Bank Lines of ABFL.

ABFL's ratings factor in improved diversification of the lending book, the company's ability to scale up its portfolio (Rs. 25,755 crore as on March 31, 2016) while maintaining good profitability indicators (Return on Assets of 1.85% for FY2016) and stable asset quality (Gross and Net NPA of 0.63% and 0.22% respectively as on March 31, 2016). The ratings continue to factor in ABFLs experienced and professional management team, strong risk management systems, good financial flexibility given its diversified funding profile at competitive costs, and comfortable liquidity profile. ABFL's capitalisation profile has been supported by adequate internal capital generation (ROE of 13.01% in FY2016) and regular capital infusions from the parent. The ratings continue to factor in strategic fit and the importance of ABFL for Aditya Birla Group, which have demonstrated their support to ABFL in the form of regular capital infusions. The strategic importance for the group is further augmented by the fact that ABFL is the Aditya Birla Group's largest entity in the lending space, and also supports the revenues from Financial Services Business for the group. Owing to the strong group support, strategic importance of ABFL, large pool of liquid investments at holding company levels, support should be forthcoming for the entity going forward as well.

ABFL's portfolio has witnessed a robust growth at a 3 year CAGR of ~ 47% though expansion in product offerings as well as geographical expansion. ABFL presently has operations across four key verticals, viz., Corporate Finance Group (syndication of loans, bill discounting activities and distribution of financial products), Capital Market Group (promoter funding, loan against shares (LAS) and margin funding), Project & Structured Finance and Mortgage Loans. A robust growth in the mortgage and project & structured finance segment, in particular, over past 2-3 years, has led to an improved diversification of the portfolio across business segments. Of the total loan book as on March 2016, the Mortgage Book contributed ~26%, Capital Market Group contributed ~17%, Corporate Finance ~27%, Project and Structured finance constituted ~28% and other loans constituted ~2%.

Owing to its financial flexibility and a good capital structure, ABFL enjoys a well matched asset liability maturity profile and therefore a comfortable liquidity position. ABFL earned a blended yield of ~10.7%[1] on its portfolio during FY2016 which has declined over the years, owing to rising share of relatively safer mortgage book in its overall portfolio. With the cost of funds below 9%[1], the company earned Net Interest Margins of ~3.7%[1] in FY2016 (~4.0% in FY2015), leading to healthy ROE of ~13.0% in FY2016 (~12.4% in FY2015). Going forward as well, ICRA expects ABFLs profitability indicators (ROA) to remain at around 1.5%-2% in the medium term provided the company is able to keep its credit costs under control. Going forward, though the reported Gross NPA for ABFL may increase in line with the change in RBI guidelines, its credit provisions and profitability indicators are likely to remain stable.

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[1]Since the balance sheet size has increased considerably in FY2016, the ratios do not portray the real picture. As per the management, average lending yields for the company are in the range of 12.0-12.2% and average cost of borrowings is in the range of 9.0-9.2%.

Background

ABFL is a step down subsidiary of Aditya Birla Nuvo Limited[2] (rated [ICRA]AA+(stable) /[ICRA]A1+) and is registered with RBI as systemically important non deposit taking NBFC. Currently ABFL has operations across four key verticals, viz., Corporate Finance Group (syndication of loans, bill discounting activities and distribution of financial products), Capital Market Group (promoter funding, loan against shares (LAS) and margin funding), Project & Structured Finance and Mortgage (LAP, LRD and Construction Finance). During FY2016, ABFL reported a net profit of Rs. 409 crore on a loan book of Rs. 25,755 crore as on March 2016, as compared to a net profit of Rs. 271 crore in FY2015 on a loan book of Rs. 17,588 crore as on March 2015.

June 2016

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[2] ABFL is a 91% held by Aditya Birla Financial Services Pvt. Ltd. and 9% held by Aditya Birla Nuvo Ltd. as on March 31, 2016; Aditya Birla Financial Services Pvt. Ltd. is a 100% subsidiary of Aditya Birla Nuvo Ltd.

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