

Aditya Birla Finance Limited

Instrument	Rated Amount (In Rs. Crore)	Rating Action October 2016
Bank Lines	14,795 (enhanced from 14,535)	[ICRA]AA+(Stable)/[ICRA]A1+ assigned/outstanding
Commercial Paper Programme	10,000 (enhanced from 7,000)	[ICRA]A1+ assigned/outstanding
Long Term Debt Programme	12,000	[ICRA]AA+(Stable) outstanding
Subordinated Debt Programme	1,500	[ICRA]AA+(Stable) outstanding
Commercial Paper Programme (For IPO Financing)	2,000	[ICRA]A1+ outstanding

ICRA has assigned a rating of [ICRA]AA+(stable)/[ICRA]A1+ to Rs. 14,795 crore (enhanced from Rs. 14,535 crore) bank lines programme and [ICRA]A1+ to Rs. 10,000 crore (enhanced from Rs. 7,000 crore) commercial paper programme of Aditya Birla Finance Limited. ICRA also has a rating of [ICRA]AA+ with stable outlook outstanding on Rs. 12,000 crore long term debt programme and Rs. 1,500 crore subordinated debt programme, and a rating of [ICRA]A1+ outstanding on Rs. 2,000 crore commercial paper programme (IPO financing) of the company.

ABFL's ratings factor in the greater diversity in its the lending book, growth in its portfolio (Rs. 25,755 crore as on March 31, 2016) and good profitability (return on assets of 1.85% for FY2016) and asset quality (gross and net NPAs of 0.63% and 0.22% respectively as on March 31, 2016). The ratings continue to factor in ABFL's experienced and professional management team, its strong risk management systems, good financial flexibility reflected in its diversified funding profile and 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 infusion from the parent. The ratings continue to factor in the strategic fit and the importance of ABFL for the Aditya Birla group, which has translated into strong support in the form of regular capital infusion. Given that ABFL is the group's largest entity in the lending business, ICRA expects this support to be forthcoming going forward as well.

ABFL's portfolio has witnessed a robust growth (3 year CAGR of ~47%) through both new product offerings and geographical expansion. ABFL currently operates in four key segments, viz., Corporate Finance (syndication of loans, bill discounting and distribution of financial products), Capital Market Lending (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 segments, in particular, over the last three years, has led to greater diversification of the portfolio. As on March 31, 2016 was ~26% of the company's loan book was accounted by Mortgage Loans, ~17% by Capital Market Lending, ~27% by Corporate Finance, ~28% by Project and Structured Finance and ~2% by other loans.

Owing to its financial flexibility and healthy capital structure, ABFL enjoys a well matched asset liability maturity profile and a comfortable liquidity position. ABFL earned a blended yield of ~10.7%¹ on its portfolio during FY2016; the yield has continued to decline owing to the rising share of relatively safer mortgage loan book in its overall portfolio. With its cost of funds lower than 9%¹, the company earned net interest margins of ~3.7%¹ in FY2016 (~4.0% in FY2015), leading to healthy ROA of 1.85% in FY2016 (1.81% in FY 2015) and ROE of ~13.0% in FY2016 (~12.4% in FY2015). Going forward as well, ICRA expects ABFL's profitability (ROA) to remain at around 1.5%-2% in the medium term, provided the company is able to contain its credit costs. Going forward, though the reported gross NPA level for ABFL may increase on account of the tighter NPA recognition norms, its credit provisions are likely to remain comfortable.

¹As the balance sheet size has increased considerably in FY2016, the ratios do not portray the real picture. As per the management, the average lending yield of the company is in the range of 12.0-12.2% and the average cost of borrowing is in the range of 9.0-9.2%.

Background

ABFL is a step down subsidiary of Aditya Birla Nuvo Limited² (rated [ICRA]AA+(stable) /[ICRA]A1+) and is registered with RBI as systemically important non deposit taking NBFC. ABFL currently operates in four key segments, viz., Corporate Finance (syndication of loans, bill discounting and distribution of financial products), Capital Market Lending (promoter funding, loan against shares (LAS) and margin funding), Project & Structured Finance and Mortgage Loans. During FY2016, ABFL reported a net profit of Rs. 409 crore on a loan book of Rs. 25,755 crore as on March 31, 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 31, 2015.

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² 91% of the equity in ABFL is held by Aditya Birla Financial Services Pvt. Ltd. and 9% 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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