

February 8, 2017

IIFL Facilities Services Limited

Instrument *	Amount (in Rs. Crore)	Rating Action
Short Term Debt Programme	700.00 (Enhanced from Rs. 500.00 crore)	[ICRA]A1+; Assigned
Unsecured Debt Programme	50.00	[ICRA]AA(stable); Outstanding
Long Term Debt Programme	700.00	[ICRA]AA(stable); Outstanding
IPO Financing Programme	1,200.00	[ICRA]A1+; Outstanding

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to Rs. 700 crore (Enhanced from Rs. 500 crore) Short Term Debt Programme. ICRA has a rating outstanding of [ICRA]AA(stable) on Rs. 50 crore Unsecured Debt Programme. ICRA has a rating outstanding of [ICRA]AA(stable) on Rs. 700 crore Long Term Debt Programme and a rating outstanding of [ICRA]A1+ on Rs. 500 crore Short Term Debt programme of IIFL Facilities Services Limited (erstwhile IIFL Realty Limited). ICRA also has a rating outstanding of [ICRA]A1+ to Rs. 1,200 crore IPO Financing Programme 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

Key Strengths

- Established presence in capital market business
- Diversified revenue stream with significant income being contributed by broking (equities and commodities); net interest income from various financing activities; wealth management and distributions. Reliance on capital markets related income moderating
- Diversified financing book with the company lending towards mortgage, gold , capital market , CV, healthcare and SME loan segments
- Comfortable asset quality, though portfolio seasoning is moderate
- Strong run rate of fee income (broking, distribution, PMS, commodities business) provides strong support to NBFC operations and helps improve profitability
- Adequate capitalization levels at the NBFC level with CRAR of 18% as at March 31, 2016
- Adequate risk management and operational systems employed by the company

Key Challenges

- High operating expenses for the gold loan business via branches may ensure pressure on profitability if book size declines significantly.
- Gold loans business susceptible to operational risks such as fraud, collusion, theft etc. Volatility in gold prices present headwinds in terms of possible asset quality issues
- Exposure to commercial segment, which is considered more risky in the mortgage book. The company is also into riskier segment of land funding, though it maintains adequate collateral for the same.
- Higher exposure to self employed segment whose earning profile is more volatile as compared to the salaried segment and hence is considered riskier
- High gearing levels – 6.4 times for India Infoline Finance Limited and ~3.9 times at the consolidated level.
- To maintain and upgrade risk management while growing the business volumes
- To maintain sufficient margins to protect against credit losses in adverse market conditions
- To maintain interest spreads in the light of prevailing competition and interest rate scenario

Description of key rating drivers highlighted above:

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. 4,096 crore as on March 31, 2016 for IIFL Group consolidated (including minority interest). The capitalisation was further bolstered by the Rs 1000 cr equity infusion in IIFL (NBFC) from CDC Plc. ICRA also notes the good profitability indicators (ROE of 13.55% for FY2016, 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.¹

Analytical approach:

For arriving at the ratings, ICRA has taken a consolidated view for IIFL Facilities Services 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

Company Profile**IIFL Facilities Services Limited (erstwhile IIFL Realty Limited)**

IIFL Facilities Services Limited primarily owns the IIFL Group's real estate investments which in turn the company leases to other group companies and external entities and collects lease rentals on the same. Apart from this, they are also into real estate broking and advisory. It is a 100% subsidiary of IIFL Holdings Limited.

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 365.4 crore in H1FY17 on a total income of Rs 2,246.71 crore compared to a PAT of Rs 267.6 crore on a total income of Rs 1,877.87 crore in the corresponding period last fiscal

¹ Please refer to ICRA's release for IIFL Facilities Services Limited published in October 2016 for a detailed rationale

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	FY2014	
					January 2017	September 2016				
				February 2017	January 2017	September 2016	September 2015	July 2014	December 2013	
1	IPO Financing Programme	Short Term	1,200.00	[ICRA]A1+	[ICRA]A1+	-	-	-	-	
2	Unsecured Debt Programme	Long Term	50.00	[ICRA]AA(stable)	[ICRA]AA(stable)	-	-	-	-	
3	Long Term Debt Programme	Long Term	700.00	[ICRA]AA(stable)	[ICRA]AA(stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	Upgraded to [ICRA]AA (Stable)	[ICRA]AA-(Stable); Assigned	
4	Short Term Debt Programme	Short Term	700.00	[ICRA]A1+; Assigned (Enhanced from Rs. 500 crore)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

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
Short Term Debt Programme	NA	NA	7-365 days	700.00	[ICRA]A1+
IPO Financing Programme	NA	NA	7-30 days	1,200.00	[ICRA]A1+
Long Term Debt Programme	30-Dec-13	9.43%	05-Dec-18	225.00	[ICRA]AA(stable)
Long Term Debt Programme	07-Aug-15	Zero Coupon	14-Sep-18	80.00	[ICRA]AA(stable)
Long Term Debt Programme*	NA	NA	NA	395.00	[ICRA]AA(stable)
Unsecured Debt Programme (Unplaced)	NA	NA	NA	50.00	[ICRA]AA(stable)

Source: Company Data; *yet to be issued

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