

## IndoStar Home Finance Private Limited

January 08, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	200	[ICRA]A1+; assigned
<b>Total</b>	<b>200</b>	

\*Instrument details in Annexure

### Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 200 crore commercial paper programme of IndoStar Home Finance Private Limited (IHFPL)<sup>1</sup>.

### Rationale

The rating draws significant strength from the company's strong parentage for being a wholly-owned subsidiary of IndoStar Capital Finance Limited (ICF, rated [ICRA]A1+) and the operational synergies with the parent. The company is expected to benefit from ICF's experience in retail lending, real-estate lending and its relationships with developers. IHFPL will also benefit from access to the branch network of ICF and established internal and risk-management systems of the parent, which will help the company in keeping its operating expenses under control compared to companies with similar vintage. The rating also factors in the comfortable capitalisation of the parent (net worth of Rs. 2,023.36 crore and a gearing of 1.6 times as on September 30, 2017) and the committed equity support of Rs. 100 crore to IHFPL (Rs. 15 crore infused and the balance Rs. 85 crore to be infused in the next few months). The rating also draws comfort from the parent's stated policy of maintaining adequate liquidity back-up and supporting IHFPL in case of requirement. ICRA notes the expected growth and diversification in the retail-lending space (retail asset finance, home loans and SME) which would result in an improvement in granularity in the Group's overall loan book over the medium term.

ICRA takes note of the limited track record of ICF in the retail customer segment. While the company has hired seasoned industry professionals with prior experience in retail lending, the company's ability to grow the book while maintaining asset quality would be a key rating factor.

### Outlook: Not Applicable

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

## Key rating drivers

### Credit strengths

**Management support and operational synergies with the parent** - The company benefits from the operational synergies with the parent, IndoStar Capital Finance, given the latter's experience in retail lending, real-estate lending and its relationships with developers. While the parent has a relatively small share of retail lending (~20% SME lending book), in the overall portfolio at present, ICRA notes the expected growth and diversification in the retail-lending space which would result in an improvement in granularity in the Group's overall loan book over the medium term. The company also benefits from the operational support in terms of access to branch network of ICF and established internal and risk-management systems of the parent. Further, it receives management support with the management team of the parent presiding over the Board of IHFPL.

**Strong and experienced management team** - IHFPL has taken on board seasoned industry professionals with prior experience in retail lending. The company aims to leverage the experience of the management to ramp up the retail loan book and maintain strong underwriting practices.

**Committed capital support from the parent; gearing expected to increase with scale** - The company has received equity of Rs. 15 crore from its parent with commitment to receive additional Rs. 85 crore in the next few months. Capitalisation of the parent continues to remain strong with net worth of Rs. 2,023.36 crore and a gearing of 1.6 times as on September 30, 2017. Consequently, the company enjoys good financial flexibility.

**Sound liquidity policy at the parent level** - ICF has a sound policy of maintaining ~15% of net worth in liquid investments and undrawn bank lines at all times. With the comfortable liquidity at the parent level, ICRA expects ICF to provide liquidity support to IHFPL as and when required.

### Credit challenges

**Nascent stage of operations** - The company has started its housing-finance operations in September, 2017 and had a portfolio of Rs. 6.3 crore as on November 30, 2017. ICRA notes its early stage of operations in the housing-finance business. With the planned branch expansion, the ability of the company to grow its portfolio while maintaining control over credit underwriting and achieve profitability would remain key rating factors.

**Limited track record of the Group in retail lending** - While the Group has moderate track record of six years in wholesale lending and real estate, its experience in the retail customer segment is limited to 2.75 years in the SME business. ICRA, however, draws comfort from the experienced management team hired from the industry.

**Ability to build a diversified funding mix:** IHFPL does not have any borrowings at present. The company's ability to raise funds at competitive rates to build a diversified funding profile and manage ALM given the long-term nature of assets would be important rating considerations.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Rating Methodology for Housing Finance Companies](#)

[ICRA's Approach for Rating Commercial Papers](#)

## About the company:

IndoStar Home Finance Pvt. Ltd. (IHFPL) was incorporated in January, 2016 as a housing finance company (HFC) and is registered with the National Housing Bank (NHB). It is a wholly-owned subsidiary of IndoStar Capital Finance Limited. IHFPL provides housing loans to the affordable housing segment with ticket sizes ranging from Rs. 3 lakh to Rs. 30 lakh and regular home loans with an average ticket size of ~Rs. 50 lakh. The company has received equity of Rs. 15 crore from the parent. After adjusting for losses of Rs. 2.24 crore in H1FY2018, the net worth stood at Rs. 13.30 crore as on September 30, 2017.

## About Indostar Capital Finance Limited:

IndoStar Capital Finance Limited (ICF) was originally incorporated as R V Vyapaar Private Ltd. in July, 2009. The company's name was changed to IndoStar Capital Finance Private Limited in November, 2010 and to IndoStar Capital Finance Limited in April, 2014. The company is registered with the Reserve Bank of India (RBI) as a Systemically Important Non-deposit Accepting Non-banking Financial Company. The company is sponsored by a group of financial institutions including Everstone Capital, Goldman Sachs Group, Baer Capital Partners and ACPI Investment Managers.

Indostar Capital (ICF Mauritius), a company incorporated in Mauritius, has a majority shareholding in ICF with 90.74% stake as on March 31, 2017. The balance shareholding in ICF is held by employees and other corporate bodies. ICF Mauritius is promoted by the sponsors of ICF. The company started operations with a strong net worth of USD 200 million (Rs. 891 crore). ICF provides wholesale loans to both real estate and non-real estate segment. It also provides SME loans (loans against property). The company also has a housing finance subsidiary, Indostar Home Finance Private Limited which will begin operations in FY2018.

In FY2017, the company reported a net profit of Rs. 209.04 crore on an asset base of Rs. 5,485.36 crore compared to a net profit of Rs. 191.02 crore on an asset base of Rs. 4,692.25 crore in FY2016.

In H1FY2018, the company reported a net profit of Rs. 112.94 crore on an asset base of Rs. 5,390.30 crore.

The company's net worth stood at Rs. 2,023.36 crore and its loan book at Rs 4,522 crore as on September 30, 2017. ICF's advances to the real-estate sector accounted for around 35% of the book, wholesale loans across other sectors accounted for 44% and the balance 21% comprised loans against property to SMEs.

## Key financial indicators (Unaudited)

The entity started operations in FY2018. Hence, the key financial indicators are not provided for previous periods.

	<b>H1FY2018</b>
Portfolio	0.4
Total assets	13.9
Gearing	0.00
% Gross NPAs	0.0%
% Net NPAs	0.0%

*Amount is Rs. crore*

Source: IHFPL; ICRA research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Jan 2018	FY2017	FY2016	FY2015
1 Commercial Paper	Short Term	200	NA	[ICRA]A1+	-	-	-

Source: IHFPL; ICRA research

**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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
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NA	Commercial Paper Programme	NA	NA	7-365 days	200	[ICRA]A1+
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Source: IHFPL

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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.

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