

IVL Finance Limited

May 24, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper (CP) programme	1,000.00	[ICRA]A1+; Assigned
Total	1,000.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,000-crore commercial paper (CP) programme of IVL Finance Limited (IVLFL, or 'the company').

Rationale

The assigned rating factors in the company's strong parentage, by virtue of being a part of the Indiabulls Group, with a common brand name for the lending platform. The rating considers the company's healthy capitalization, sound liquidity policy and comfortable asset-liabilities maturity profile. Indiabulls Ventures Limited (IVL), plans to deploy a sizeable part of the funds raised by it through its recent rights and preferential issuance (~Rs. 3,900 crore of which Rs. 500 crore was infused in IVLFL in March 2018) to IVLFL, which would further bolster IVLFL's capital profile. The rating also takes into account the company's strong management consisting of seasoned industry professionals and its adequate systems and processes facilitated through the use of technology and analytics. While assigning the rating, ICRA has taken note of the nascent stages of the company's operations, the consequent unseasoned loan-book, the large share of unsecured loans in the total portfolio and low diversification in the borrowing profile. Going forward, the company's ability to scale up its operations while maintaining healthy asset quality and profitability would remain critical from a credit perspective.

Key rating drivers

Credit strengths

Strong parentage with operational support from Indiabulls Group: IVLFL is a wholly-owned subsidiary of Indiabulls Ventures Limited (IVL) which is a part of Indiabulls Group. The Group has extensive experience in the lending business, particularly in the mortgage finance business. IVLFL has also brought on board experienced people from Indiabulls Group and the industry to lead key functions and verticals. ICRA takes comfort from the company's strong operational linkages with the Group, demonstrated support from the Group at the managerial and strategic level and the presence of a shared brand name with Indiabulls Group. IVLFL also has adequate risk management systems and processes which are in line with those at Group companies.

Strong capitalisation with regular capital infusion from parent – As of March 31, 2018, IVL had infused ~Rs. 1,250 crore of capital in the company which resulted in a robust capital to risk-weighted assets ratio (CRAR) of 40.00% (Tier 1 of 39.61%). In Q4 FY2018, IVL raised capital worth Rs 2,000 crore through a rights issue out of which at least Rs 1,400 crore is expected to be infused into IVLFL; including Rs 500 crore was infused in March 2018. The rest will be transferred during this financial year. Additionally, IVL raised Rs 2,000 crore through a preferential issue in May 2018 which will be infused into IVLFL.

Comfortable liquidity and asset- liability management profile – The company has a conservative and prudent policy for matching funding to assets resulting in positive cashflow mismatches across all short-term maturity buckets. The company has a policy to maintain liquidity in excess of 20% of loan-book, which further enhances the liquidity.

Adequate profitability – IVLFL reported net profit of Rs 191.52 crore during FY2018 led by increase in the loan book. Profitability indicators are comfortable with PAT/ATA and return on average net worth of 6.68% and 20.30%, respectively. The lending processes with origination and credit appraisal are facilitated through the use of technology and analytics is expected to help the company control its operating expenses with the increase in scale of operations. The company's ability to maintain its asset quality and keep credit cost under a prudent level would be instrumental to ensure consistently healthy profitability levels.

Credit weaknesses

Limited seasoning of portfolio given the short operation history – IVLFL started its lending operations in FY2018 and there has been a significant ramp-up in the company's operations. As of March 31, 2018, the company had a loan book size of Rs 4,002 crore with personal loan, unsecured SME loans and secured SME loans contributing to 32%, 21% and 47%, respectively, of the loan-book. The company has a high proportion of unsecured book forming 53% of the overall loan book. Given the nascent stages of operations and the recent vintage of the loan-book, the company is yet to establish a longer-term performance track record in this key product segment.

To maintain asset quality indicators given the relatively risky nature of the asset mix – IVLFL has a high proportion of unsecured loan book (53% of overall loan book) consisting of personal loans (32%) and unsecured SME loans (21%). While assigning the rating ICRA has taken note of the inherent risk profile of the asset class given the sizeable share of unsecured loans. Gross NPA as of March 31, 2018 was comfortable at 0.05%. However, the loan book is unseasoned and yet to establish a long-term performance record. The company's internal processes and risk management processes, which are based on the established underwriting and monitoring processes of the Group provides comfort. Nevertheless, going forward, with the gradual seasoning of the portfolio coupled with the scale-up of operations, the company's ability to assess SME cashflows and maintain a healthy asset quality would remain critical.

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

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company

IVL Finance Limited

IVL Finance Limited (IVLFL or company), a wholly owned subsidiary of Indiabulls Ventures Limited (IVL), is non deposit accepting non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). The company commenced lending operation in FY2018 and is engaged in providing personal loans and funding to small and medium enterprises (SME). The company was incorporated on October 27, 1999 as a non-banking financial company without accepting public deposit (NBFC-ND). The company is a wholly owned subsidiary of Indiabulls Ventures Limited. Currently, IVLFL is focused on lending business as a non-banking financial company. IVLFL had a loan book of Rs. 4,002 crore as on March 31, 2018. For the financial year ending March 31, 2018, IVLFL reported a net profit of Rs. 192 crore on a total income (adjusting for brokerage and commission expenses) of Rs. 675 crore.

Indiabulls Ventures Limited

Indiabulls Ventures Limited (IVL) is a financial services company providing securities and derivative broking services. IVL started its operations in FY2000 and has a customer base of over 7,00,000 clients. IVL Finance Limited is a 100% subsidiary of Indiabulls Ventures Limited. During FY2018, IVL reported a consolidated net profit of Rs. 237 crore on a total revenue of Rs. 1,054 crore as compared with a consolidated net profit of Rs. 102 crore on a total revenue of Rs. 509 crore during FY2017.

Key Financial Indicators of IVL Finance Limited

	FY2017	FY2018
Total Income	48	675
Operating Income	48	538
Profit after tax (PAT)	7	192
Total Loan Book	92	4,002
Borrowings	-	3,772
Net worth	209	1,678
Total Assets	217	5,521
Return on average assets	4.3%	6.7%
PAT/ Average Net worth (ROE)	4.5%	20.3%
Gearing (times)	-	2.25
Net Gearing* (times)		1.46

Source: IVL Finance Limited and ICRA Research; Amounts in Rs. Crore; * adjusting for cash and investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	May-18	FY2018	FY2017	FY2016
1 Commercial paper programme	Short Term	1,000.00	NA	[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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper programme	-	-	7-365 days	1,000.00	[ICRA]A1+

Source: IVL Finance Limited

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