

March 14, 2017

Indiabulls Housing Finance Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	15,000 (enhanced from 3,000)	[ICRA]A1+; reaffirmed
Non-Convertible Debenture programme	200	[ICRA]AA+(stable); reaffirmed
Non-Convertible Debenture programme	12,000	[ICRA]AA+(stable); withdrawn

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]AA+ (pronounced ICRA double A plus) with a stable outlook for the Rs. 200 crore non-convertible debenture (NCD) programme and has withdrawn the rating on the Rs. 12,000 crore NCD programme of Indiabulls Housing Finance Limited (IBHFL) as there is no amount outstanding against the rated instrument. ICRA has also reaffirmed a short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 15,000 crore (enhanced from Rs. 3,000 crore) commercial paper programme of the company.

Rationale

The ratings reflect IBHFL's franchise as the third largest housing finance company in the domestic mortgage finance market (portfolio of Rs. 81,422 crore as on December 31, 2016), its comfortable capitalisation and its demonstrated ability to raise capital. The ratings also factor in the company's stable asset quality over the years, its well diversified resource profile, and sound liquidity position with a policy of maintaining adequate liquid funds. IBHFL's credit strengths are partially offset by the relatively moderate seasoning in the overall credit portfolio and the concentration and credit risks associated with its large ticket size commercial credit. ICRA notes that IBHFL's ability to maintain profitability and asset quality while maintaining good capitalisation will be important from a credit perspective. ICRA also notes that while the group has a presence in other businesses such as real estate and capital markets, those businesses are managed independently. Going forward as well, ICRA expects the businesses to be operated independently without any intermingling of cash flows between IBHFL and any other group or associate companies event in the event of distress.

Credit Strengths

- Demonstrated ability to grow in a competitive mortgage finance market
- Adequate capitalisation levels supported by a demonstrated ability to raise capital
- Diversified funding profile and good liquidity position, with a comfortable mix of long and short term borrowings
- Good profitability supported by good net interest margins, low operating and credit costs

Credit Challenges

- To protect margins and ensuring business growth in an extremely competitive environment
- To maintain asset quality indicators in the relatively risky large ticket commercial real estate and loans against properties portfolio

Description of key rating drivers highlighted above:

IBHFL's assets under management registered a CAGR of 26% from March 2013 to December 2016, to stand at Rs. 81,422 crore as on December 31, 2016. As on December 31, 2016, 56% of the loan book was on account of home loans, 23% from loans against property (LAP) and the remaining 21% corporate mortgage loans. Over the past two years, the share of retail mortgage loan book in the company's portfolio remained stable at ~79%. The company discontinued fresh disbursement of commercial vehicle loans in FY2014 and this loan book has largely run down since then. Within home loans, the company continues to focus on the salaried segment (~75% of the housing book). While the LAP segment is comparatively risky, the company has strong systems and processes to manage this business. The corporate mortgage loan book includes lease rental discounting (LRD) loans to builders (59% of corporate loans as on December 31, 2016), and construction finance (41%). Given the large ticket size and the high inherent risks associated with these exposures, the corporate mortgage loan book remains exposed to concentration risks. Moreover, recoveries in this segment take longer time and may not be as easy as in case of retail mortgage loans. IBHFL's reported asset quality indicators remained stable with gross and net NPAs of 0.85% and 0.36% respectively as on December 31, 2016 (0.84% and 0.35% respectively as on March 31, 2016).

IBHFL remains well capitalised with a tangible net worth of Rs. 11,786 crore on a consolidated basis as on December 31, 2016. The company has a gearing of 7.06 times as of December 31, 2016 as compared with 7.53 times as of March 31, 2015. IBHFL's capitalisation profile remains comfortable with a capital adequacy ratio of 22.02% as on December 31, 2016, providing adequate cushion for growth while maintaining the regulatory capital adequacy requirement (of CAR of 12%).

IBHFL has a diversified resource profile with a rising share of debt market instruments in its overall funding profile. The share of debt market instrument increased from 38% as on March 31, 2015 to 56% as on December 31, 2016. As on December 31, 2016, bank loans and bonds met almost 41% and 44% respectively of the IBHFL's borrowing requirements with commercial papers and external commercial borrowings forming 12% and 3% respectively of the total borrowings. IBHFL's liquidity profile is also supported by its policy to maintain un-utilised short term bank lines and liquid investments in the form of fixed deposits and investments in liquid mutual funds, together accounting for disbursements over the next six months.

IBHFL's average yields declined slightly during FY2016 to 14.4% from 14.6% during FY2015 with an easing of interest rates on the incremental loans disbursed. Supported by a 32 bps decline in cost of funds, the interest spreads increased to 5.1% for FY2016 from 4.5% for FY2015. The company's operating expenses remained low at 0.9% of ATA in FY2016. Stable net interest margins (4.8% for FY2016), non-interest income (1.6% for FY2016), and operating expenses (0.9% for FY2016) led to a stable operating profitability (5.4% for FY2016) for the company. IBHFL's profitability indicators remained robust with consolidated PAT at Rs. 2,345 crore (3.5% of ATA) in FY2016, a 23% rise from Rs. 1,901 crore in FY2015 (3.7% of ATA). During 9M FY2017, the company reported a consolidated PAT of Rs. 2,066 crore (3.1% of ATA).

Analytical approach:

For arriving at the ratings, ICRA has taken a standalone view for Indiabulls Housing Finance Limited with no support to be provided to other group companies.

Links to applicable Criteria

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

Company Profile

Indiabulls Housing Finance Limited (IBHFL) was incorporated in 2005 and is a housing finance company registered with National Housing Bank. During March 2013, the parent company Indiabulls Financial Services Limited merged with IBHFL. The company provides mortgage loans, lease rental discounting and construction finance with a prime focus on mortgage and home finance business. As on December 31, 2016, the company had assets under management of Rs. 81,422 crore.

Recent Results

On a consolidated basis, the company reported a net profit of Rs. 2,066 crore on a total income base of Rs. 8,477 crore during 9M FY2017. The company had a networth of Rs. 11,786 crore and a CRAR of 22.02% as on December 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	March 2017	FY2017	FY2016	FY2015
1	Commercial Paper Programme	Short term	15,000.00	[ICRA]A1+;	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non Convertible Debenture programme	Long term	200.00	[ICRA]AA+ (stable);	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
2	Non Convertible Debenture programme	Long term	12,000.00	[ICRA]AA+ (stable); withdrawn	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)

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. crore)	Current Rating and Outlook
Commercial Paper	NA	NA	7-365	15,000	[ICRA]A1+
Non-Convertible Debenture programme	20-Aug-14	10.00%	18-Aug-17	35	[ICRA]AA+ (stable)
Non-Convertible Debenture programme - Unplaced	NA	NA	NA	165	[ICRA]AA+ (stable)

Source: Company

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