

June 07, 2017

Indiabulls Housing Finance Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long Term Bank Facilities	50,000.00	[ICRA]AAA (Stable); assigned
Non-convertible debenture programme	50,000.00	[ICRA]AAA (Stable); assigned
Non-convertible debenture programme	200.00	[ICRA]AAA (Stable); upgraded from [ICRA]AA+ (Stable)
Commercial paper programme	15,000.00	[ICRA]A1+; reaffirmed
Total	1,15,200.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the rating on the Rs. 200 crore non-convertible debenture programme of Indiabulls Housing Finance Limited (IBHFL) to [ICRA]AAA (pronounced ICRA triple A)¹ from [ICRA]AA+ (pronounced ICRA double A plus). The outlook on the rating is 'Stable'. ICRA has also assigned the rating of [ICRA]AAA (stable) to Rs. 50,000 crore Non-convertible debenture programme and Rs. 50,000 crore Long Term Bank Facilities of IBHFL. ICRA has also reaffirmed the rating on the company's Rs. 15,000 crore commercial paper programme at [ICRA]A1+ (pronounced ICRA A one plus).

Rationale

The upgrade in the long-term rating factors in IBHFL's increasing retail portfolio, driven by the consistent performance of the housing finance segment of the company, consequent improvement in the granularity of the overall book, and stable asset quality indicators. The rating upgrade also takes into account the company's healthy financial profile with strong profitability indicators and adequate capitalisation. Its demonstrated ability to raise capital coupled with the sound liquidity position, with a policy of maintaining adequate liquid funds, provides the company with enhanced financial flexibility. The ratings continue to factor in IBHFL's franchise as one of the three largest housing finance companies in the domestic mortgage finance market (portfolio of Rs. 91,301 crore as on March 31, 2017) and its well diversified resource profile. While assigning the ratings, ICRA has taken note of the concentration and credit risks associated with IBHFL's large ticket size commercial credit. However, the company's demonstrated ability to maintain asset quality in the commercial credit book over the quarters coupled with its increasing focus on the housing finance business provides comfort. ICRA also notes that while the Indiabulls group has a presence in other businesses such as real estate and capital markets, these are managed independent of IBHFL. 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 even in the event of distress. The rating, at current level, also reflects the comparative standing of the company with other ICRA rated housing finance companies. Going forward, the company's ability to sustain the growth momentum while maintaining healthy asset quality, profitability and capital structure would remain the key rating sensitivity.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Key rating drivers

Credit strengths

- Consistent growth in the housing finance segment, resulting in an increasing share in the overall loan-book
- Demonstrated ability to grow in a competitive mortgage finance market
- Adequate capitalisation levels supported by a demonstrated ability to raise capital
- Sound liquidity position with a policy of maintaining adequate liquid funds
- Diversified funding profile with a comfortable mix of long and short term borrowings
- Stable asset quality indicators with gross and net NPA at 85 bps and 36 bps respectively as on March 31, 2017
- Robust profitability supported by good net interest margins, low operating and credit costs

Credit weaknesses

- To protect margins while 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 (LAP) portfolio

Description of key rating drivers:

IBHFL registered a steady growth over the past three years, with its assets under management (AUM) increasing to Rs. 91,301 crore as of March 31, 2017 from Rs. 41,169 crore as of March 31, 2014, clocking a compounded annual growth rate (CAGR) of 30%. The company has a demonstrated track record in the housing finance business and a strong market position as one of the three largest housing finance companies. IBHFL has reported a consistent performance in its home loan business, reaching a loan book of Rs. 50,687 crore as of March 31, 2017, at a CAGR of 37% over the past three years. Supported by the healthy growth, the share of home loan book in the company's AUM has increased to 56% as of March 31, 2017 from 48% as of March 31, 2014. Within home loans, the company continues to focus on the salaried customer segment (~75% of the housing book). With the home loan segment emerging as the key focus area for the company, its share in the overall AUM is expected to increase further. The company's presence in the low to middle income segment of the market, the positive outlook for affordable housing in the country and the various policy initiatives of the government, further enhance the growth prospects.

LAP and the corporate mortgage loans formed 22% each of the company's AUM as on March 31, 2017. 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 (61% of corporate loans as on March 31, 2017), and construction finance (39%). Given the large ticket size and the high inherent risks associated with these exposures, the corporate mortgage loan book remains exposed to concentration risks. However, ICRA takes comfort from the company's strong underwriting processes and its ability to maintain its asset quality in corporate mortgage book over the years. IBHFL's reported asset quality indicators remained stable with gross and net NPAs of 0.85% and 0.36% respectively as on March 31, 2017 (0.84% and 0.35% respectively as on March 31, 2016).

The company's profitability remained healthy, even as it expanded its operations. IBHFL's profitability indicators remained robust with consolidated PAT at Rs. 2,906 crore (3.2% of ATA) in FY2017, a 24% rise from Rs. 2,345 crore in FY2016 (3.5% of ATA). Return on average networth remained healthy at 25.5% during FY2017 (27.1% during FY2016).



IBHFL has a diversified resource profile with a rising share of debt market instruments in its overall funding profile. The share of debt market instruments increased to 56% as on March 31, 2017 from 38% as on March 31, 2015. IBHFL's liquidity profile is also supported by its policy of maintaining 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 remains well capitalised with a tangible net worth of Rs. 12,055 crore on a consolidated basis as on March 31, 2017. The company has a gearing of 7.39 times as of March 31, 2017 as compared with 5.99 times as of March 31, 2016. However, adjusting the liquid assets, the company's net gearing stood at 5.7 times as on March 31, 2017 as compared with 4.7 times as on March 31, 2016. IBHFL's capitalisation profile remains comfortable with a capital adequacy ratio (CAR) of 20.91% as on March 31, 2017 (Tier I: 17.25%), providing adequate cushion for growth while maintaining the regulatory capital adequacy requirement (of CAR of 12%).

Analytical approach: For arriving at the ratings, ICRA has taken a standalone view of Indiabulls Housing Finance Limited with no support provided to other promoter held businesses.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Housing Finance Companies](#)

About the company:

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 March 31, 2017, the company had assets under management of Rs. 91,301 crore.

On a consolidated basis, the company reported a net profit of Rs. 2,906 crore on a total income base of Rs. 11,702 crore during FY2017 as compared with a net profit of Rs. 2,345 crore on a total income base of Rs. 9,226 crore during FY2016. The company had a net worth of Rs. 12,055 crore and a CRAR of 20.91% as on March 31, 2017.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

**Rating history for last three years:
Table:**

S. No.	Instrument	Current Rating (2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	June 2017	FY2017		FY2016	FY2015
						March 2017	December 2016	-	July 2014
1	Non-Convertible Debenture Programme	Long Term	50,000.0	-	[ICRA]AAA (stable)				
2	Long Term Bank Facilities	Long Term	50,000.0	-	[ICRA]AAA (stable)				
3	Non-Convertible Debenture Programme	Long Term	200.0	-	Upgraded to [ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	-	[ICRA]AA+ (stable)
4	Commercial Paper Programme	Short Term	15,000.0	-	[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
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Non-convertible debenture	20-Aug-14	10.00%	23-Mar-17	5.0	[ICRA]AAA (stable)
Non-convertible debenture	20-Aug-14	10.00%	20-Apr-17	30.0	[ICRA]AAA (stable)
Non-convertible debenture [^]	NA	NA	NA	50,165.0	[ICRA]AAA (stable)
Unallocated bank limits [^]	NA	NA	NA	50,000.0	[ICRA]AAA (stable)
Commercial paper	-	-	7-365 days	15,000.0	[ICRA]A1+

[^]Proposed

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