

September 05, 2017

Indiabulls Housing Finance Limited

Summary of rated instruments

Instrument *	Amount (in Rs. crore)	Rating Action
Subordinated Debt Programme	5,000	[ICRA]AAA (Stable); Assigned
Non-Convertible Debenture Programme	45,200 (revised from 50,200)	[ICRA]AAA (Stable); Outstanding
Long Term Bank Facilities	50,000	[ICRA]AAA (Stable); Outstanding
Commercial Paper Programme	15,000	[ICRA]A1+; Outstanding
Total	1,15,200	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs. 5,000 crore subordinated debt programme of Indiabulls Housing Finance Limited (IBHFL). ICRA has the rating of [ICRA]AAA outstanding for the Rs. 45,200 crore (revised from Rs. 50,200 crore) Non-convertible debenture programme and Rs. 50,000 crore Long Term Bank Facilities of IBHFL. The outlook on the rating is 'Stable'. ICRA also has the rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding for the Rs. 15,000 crore commercial paper programme of the company.

Rationale

The 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 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. 94,451 crore as on June 30, 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.

Key rating drivers

Credit strengths

- **Consistent growth in the housing finance segment, resulting in an increasing share in the overall loan-book** - IBHFL has registered a steady growth over the years, with its assets under management (AUM) increasing to Rs. 94,451 crore as on June 30, 2017 from Rs. 41,169 crore as on March 31, 2014, clocking a compounded annual growth rate (CAGR) of 29%. 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 with a CAGR of 36%, reaching a loan book of Rs.53,503 crore as on June 30, 2017 from Rs. 19,896 crore as on March 31, 2014. Supported by the healthy growth, the share of home loan book in the company's AUM has increased to 57% as of June 30, 2017 from 48% as of March 31, 2014. 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.

- **Adequate capitalisation levels supported by a demonstrated ability to raise capital** - IBHFL remains well capitalised with a tangible net worth of Rs. 12,153 crore on a consolidated basis as on June 30, 2017. The company has a gearing of 7.32 times as on June 30, 2017 as compared with 5.75 times as of March 31, 2016. However, adjusting the liquid assets, the company's net gearing stood at 5.9 times as on June 30, 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%). The flexibility to securitise part of the loan portfolio provides the company with an alternate avenue of raising capital in addition to shoring up return on equity (RoE).
- **Sound liquidity position with a policy of maintaining adequate liquid funds** - The Company has mobilised most of the borrowings in the form of long-term bonds and bank loans to match tenure of growing long-term mortgage assets. As a result, there were no cumulative negative mismatches in any of the maturity buckets as on March 31, 2017. Furthermore, IBHFL's liquidity profile is supported by its policy of maintaining unutilised short term bank lines and liquid investments in the form of fixed deposits and investments in liquid mutual funds.
- **Diversified funding profile with a comfortable mix of long and short term borrowings** - IBHFL has a diversified resource profile with a rising share of debt market instruments in its overall funding profile. Over the years, the company has developed strong relationships with a diverse set of lenders, including public sector, private and foreign banks, and other investors such as mutual funds, provident funds, pension funds and insurance companies. The share of debt market instruments increased to 58% as on June 30, 2017 from 38% as on March 31, 2015.
- **Stable asset quality indicators with gross and net NPA at 85 bps and 36 bps respectively as on March 31, 2017** - IBHFL's reported asset quality remained stable with gross non-performing assets (NPAs) of 0.80% and net NPAs of 0.31% as on June 30, 2017 vis-a-vis 0.84% and 0.35% as on March 31, 2016. In the key business segment of home loans, the company's delinquency level remained very low, at 0.23% as of March 31, 2017. While the company follows strong underwriting practices, low delinquencies also reflect the relatively moderate level of portfolio seasoning given the long loan tenures.
- **Robust profitability supported by good net interest margins, low operating and credit costs** - With a rapid increase the company's asset base, its net interest margin (NIM) declined from 4.78% of the average total assets (ATA) in FY2016 to 4.24% in FY2017; despite the decline, the NIM continues to remain healthy. 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). Overall, ICRA expects the company to maintain an incremental spread of around 3%-4% in FY2018, and incremental return on net worth of ~25%, provided that its credit costs remain steady.

Credit weaknesses

- **To protect margins while ensuring business growth in an extremely competitive environment** – There has been an increase in the number of new entrants in the housing finance market, including HFCs promoted by existing NBFCs, new companies started by entrepreneurs and supported by private equity players. This has led to increased competition in the industry across segments with the

players operating in traditional home loan and loan against property (LAP) segments as well as the affordable segment. The competitive intensity in the industry, particularly the affordable housing segment, is expected to remain high over the medium term.

- **To maintain asset quality indicators in the relatively risky large ticket commercial real estate and loans against properties (LAP) portfolio** - 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.

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:

[Rating Methodology for Housing Finance Companies](#)

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

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 June 30, 2017, the company had assets under management of Rs. 94,451 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.

Key Financial Indicators

	FY2016	FY2017
Net interest income	3,188	3,819
Profit before tax	3,121	3,770
Profit after tax Error! Bookmark not defined.	2,345	2,906
Loan Book	68,683	91,301
Total assets	76,370	103,638
% Tier 1	20.36%	17.25%
% CRAR	23.38%	20.91%
Net Gearing	4.7	5.7
% Net profit/Average total assets	3.51%	3.23%
% Return on net worth	27.28%	25.63%
% Gross NPAs	0.84%	0.85%
% Net NPAs	0.35%	0.36%

Amounts in Rs. crore

Source: Company and ICRA research

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)	September 2017	FY2018	FY2017		FY2016	FY2015
					June 2017	March 2017	December 2016	-	July 2014
1	Non-Convertible Debenture Programme	Long Term	45,200	[ICRA]AAA (stable)	Upgraded to [ICRA]AAA (stable) from [ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	-	[ICRA]AA+ (stable)
2	Long Term Bank Facilities	Long Term	50,000	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-	-	-
3	Subordinated Debt Programme	Long Term	5,000	[ICRA]AAA (stable)	-				
4	Commercial Paper Programme	Short Term	15,000	[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
Instrument Details

ISIN No.	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
NA	Subordinated Debt Programme – Proposed	NA	NA	NA	5,000.00	[ICRA]AAA (Stable)
	Non-convertible debenture programme	20-Aug-14	10.00%	23-Mar-17	5.00	[ICRA]AAA (Stable)
	Non-convertible debenture programme	20-Aug-14	10.00%	20-Apr-17	30.00	[ICRA]AAA (Stable)
INE148I07HR8	Non-convertible debenture programme	15-Jun-17	7.85%	14-Jun-19	25.00	[ICRA]AAA (Stable)
INE148I07HQ0	Non-convertible debenture programme	16-Jun-17	7.85%	17-Jun-19	1,100.00	[ICRA]AAA (Stable)
INE148I07HS6	Non-convertible debenture programme	25-Jul-17	7.40%	24-Aug-18	325.00	[ICRA]AAA (Stable)
INE148I07HT4	Non-convertible debenture programme	25-Jul-17	7.60%	25-Jul-19	60.00	[ICRA]AAA (Stable)
INE148I07HU2	Non-convertible debenture programme	25-Jul-17	7.68%	24-Jul-20	365.00	[ICRA]AAA (Stable)
INE148I07HV0	Non-convertible debenture programme	25-Jul-17	7.82%	25-Jul-22	100.00	[ICRA]AAA (Stable)
NA	Non-convertible debenture programme – Proposed	NA	NA	NA	43,190.00	[ICRA]AAA (Stable)
NA	Long Term Bank Facilities	NA	NA	NA	50,000.00	[ICRA]AAA (Stable)
NA	Commercial paper programme	NA	NA	7-365 days	15,000.00	[ICRA]A1+

Source: Company

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