

Indiabulls Housing Finance Limited

May 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Retail Bonds Programme	-	15,000	[ICRA]AAA (Stable); assigned
Commercial Paper Programme	18,000	25,000	[ICRA]A1+; assigned
Subordinated Debt Programme	5,000	5,000	[ICRA]AAA (Stable); Outstanding
Non-convertible Debenture Programme	45,200	45,200	[ICRA]AAA (Stable); Outstanding
Long term Bank Facilities	47,000	47,000	[ICRA]AAA (Stable); Outstanding
Total	1,15,200	1,37,200	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs 15,000 crore retail bonds programme of Indiabulls Housing Finance Limited (IBHFL or 'company'). The outlook on the rating is 'Stable'. ICRA has also assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 25,000 crore (enhanced from Rs. 18,000 crore) commercial paper programme of IBHFL.

ICRA has a rating of [ICRA]AAA outstanding on the Rs. 5,000 crore subordinated debt programme; the Rs. 45,200 crore non-convertible debenture programme, and the Rs. 47,000 crore long term bank facilities of IBHFL. The outlook on the ratings is Stable.

Rationale

The ratings factor in IBHFL's strong franchise in the mortgage finance industry as one of the three largest housing finance companies in the domestic mortgage finance market (portfolio of Rs. 1,22,578 crore as on March 31, 2018), its increasing retail portfolio, driven by the consistent performance of its housing finance segment and the consequent improvement in the granularity of the overall book. The ratings also take into account the company's stable asset quality indicators, healthy financial profile with strong profitability indicators and adequate capitalisation and its well diversified resource profile. IBHFL's sound liquidity position, with a stated policy of maintaining adequate liquid funds along with its demonstrated ability to raise capital further enhances its financial flexibility. 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 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 ratings, at the 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.

Outlook: Stable

ICRA believes that IBHFL will continue to benefit from its robust franchise as one of the three largest housing finance companies in the domestic mortgage finance market and hence the outlook is stable. The outlook may be revised to Negative if there is significant deterioration in the company's asset quality and profitability indicators, thereby adversely affecting its financial risk profile.

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. 1,22,578 crore as on March 31, 2018 from Rs. 41,169 crore as on March 31, 2014, clocking a compounded annual growth rate (CAGR) of 31.36%. 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 consistent performance in its home loan business, reaching a loan book of Rs. 72,668 crore as on March 31, 2018 from Rs. 19,896 crore as on March 31, 2014 at CAGR of 38.24%. Supported by the healthy growth, the share of the home loan book in the company's AUM has increased to 59% as of March 31, 2018 from 48% as of March 31, 2014. With the home loan segment emerging as the key focus area for the company, its share in 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 growth prospects.

Adequate capitalisation levels supported by a demonstrated ability to raise capital - IBHFL remains well capitalised with a tangible net worth of Rs. 13,366 crore on a consolidated basis as on March 31, 2018. The company's gearing was 8.25 times as on March 31, 2018 compared to 7.08 times as of March 31, 2017. However, adjusting the cash and bank balances and investments, the company's net gearing stood at 7.0 times as on March 31, 2018 as compared with 5.7 times as on March 31, 2017. IBHFL's capitalisation profile remains comfortable with a capital adequacy ratio (CAR) of 20.82% as on March 31, 2018 (Tier I: 15.07%), providing adequate cushion for growth while maintaining the regulatory capital adequacy requirement (CAR of 12%). The flexibility to securitise a part of the loan portfolio provides the company with an alternate avenue for raising capital in addition to shoring up the 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 the 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, 2018. 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 as reported by the company increased to 53% as on March 31, 2018 from 38% as on March 31, 2016.

Stable asset quality indicators with gross and net NPA at 77 bps and 34 bps respectively as on March 31, 2018 - IBHFL's reported asset quality remained stable with gross non-performing assets (NPAs) of 0.77% and net NPAs of 0.34% as on March 31, 2018 vis-a-vis 0.85% and 0.36%, respectively, as on March 31, 2017. In the key business segment of home loans, the company's delinquency level remained very low, at 0.25% as on March 31, 2018. 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 - IBHFL's net interest margin (NIM) remains healthy, despite a rapid increase in the company's asset base with NIM improving marginally to 4.33% of average total assets (ATA) in FY2018 from 4.24% in FY2017. IBHFL's profitability indicators remained robust with consolidated PAT at Rs. 3,847 crore (3.3% of ATA) in FY2018, a 32% rise from Rs. 2,906 crore in FY2017 (3.2% of ATA).

Credit challenges

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 corporate mortgage loans formed 19% and 21%, respectively of the company's AUM as on March 31, 2018. 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 (50% of corporate loans as on March 31, 2018), and construction finance (50%). 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 applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit 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 the mortgage and home finance business. As on March 31, 2018, the company had assets under management of Rs. 1,22,578 crore.

On a consolidated basis, the company reported a net profit of Rs. 3,847 crore on a total income base of Rs. 14,640 crore during FY2018 compared to a net profit of Rs. 2,906 crore on a total income base of Rs. 11,702 crore during FY2017. The company had a tangible net worth of Rs. 13,366 crore and a CRAR of 20.82% as on March 31, 2018.

Key financial indicators

	FY 2017	FY 2018
Net interest income*	3,819	5,103
Profit before tax	3,772	4,976
Profit after tax	2,906	3,847
Loan Assets	91,301	1,22,578
Total Assets	103,705	131,903
% Tier 1	17.29%	15.07%
% CRAR	20.97%	20.82%
Net Gearing (times)	5.7	7.0
% Net profit/Average total assets	3.23%	3.27%
% Return on net worth	25.48%	30.12%
% Gross NPAs	0.85%	0.77%

Source: Company and ICRA research; Amounts in Rs. Crore

*Net Interest Income is calculated as sum of interest income from financing activities and fixed deposit, and other operating charges less the interest expenses

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)		FY2018			FY2017		FY2016	
				May-18	Sep-17	Sep-17	June-17	Mar-17	Dec-16		
1 Retail bonds/ non-convertible debenture programme	Long term	15,000	-	[ICRA]AAA (stable)	-	-	-	-	-	-	
2 Non-convertible debenture programme	Long term	45,200	15,657	[ICRA]AAA (stable)	[ICRA]A AA (stable)	[ICRA]A AA (stable)	Upgraded to [ICRA]A A (stable) from [ICRA]AA+ (stable)	[ICRA]AA + (stable)	[ICRA]AA + (stable)	-	
3 Long term bank facilities	Long term	47,000	Nil	[ICRA]AAA (stable)	[ICRA]A AA (stable)	[ICRA]A AA (stable)	[ICRA]AA A (stable)	-	-	-	
4 Subordinated debt programme	Long term	5,000	1,500	[ICRA]AAA (stable)	[ICRA]A AA (stable)	[ICRA]A AA (stable)	-	-	-	-	
5 Commercial paper programme	Short term	25,000	Nil	[ICRA]A1+	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE148I07HR8	Non-convertible debenture programme	15-Jun-17	7.85%	14-Jun-19	25	[ICRA]AAA (Stable)
INE148I07HQ0	Non-convertible debenture programme	16-Jun-17	7.85%	17-Jun-19	1,100	[ICRA]AAA (Stable)
INE148I07HS6	Non-convertible debenture programme	25-Jul-17	7.40%	24-Aug-18	325	[ICRA]AAA (Stable)
INE148I07HT4	Non-convertible debenture programme	25-Jul-17	7.60%	25-Jul-19	60	[ICRA]AAA (Stable)
INE148I07HU2	Non-convertible debenture programme	25-Jul-17	7.68%	24-Jul-20	365	[ICRA]AAA (Stable)
INE148I07HV0	Non-convertible debenture programme	25-Jul-17	7.82%	25-Jul-22	100	[ICRA]AAA (Stable)
INE148I07HX6	Non-convertible debenture programme	8-Sep-17	8.03%	8-Sep-27	1,450	[ICRA]AAA (Stable)
INE148I07HY4	Non-convertible debenture programme	12-Sep-17	7.37%	12-Sep-19	125	[ICRA]AAA (Stable)
INE148I07HZ1	Non-convertible debenture programme	22-Sep-17	7.45%	20-Sep-19	500	[ICRA]AAA (Stable)
INE148I07IA2	Non-convertible debenture programme	22-Sep-17	7.55%	20-Sep-20	1,500	[ICRA]AAA (Stable)
INE148I07IB0	Non-convertible debenture programme	7-Nov-17	7.48%	7-Dec-18	415	[ICRA]AAA (Stable)
INE148I07IC8	Non-convertible debenture programme	7-Nov-17	7.77%	7-Nov-22	290	[ICRA]AAA (Stable)
INE148I07ID6	Non-convertible debenture programme	22-Dec-17	7.88%	14-Mar-19	250	[ICRA]AAA (Stable)
INE148I07II5	Non-convertible debenture programme	27-Dec-17	N.A.	12-Feb-21	75	[ICRA]AAA (Stable)
INE148I07IF1	Non-convertible debenture programme	27-Dec-17	7.45%	28-Dec-18	470	[ICRA]AAA (Stable)
INE148I07IG9	Non-convertible debenture programme	27-Dec-17	7.45%	24-Dec-20	25	[ICRA]AAA (Stable)
INE148I07IE4	Non-convertible debenture programme	27-Dec-17	7.90%	30-Aug-19	200	[ICRA]AAA (Stable)
INE148I07IH7	Non-convertible debenture programme	27-Dec-17	8.03%	6-Apr-21	125	[ICRA]AAA (Stable)
INE148I07IK1	Non-convertible debenture programme	28-Dec-17	N.A.	8-Apr-21	230	[ICRA]AAA (Stable)
INE148I07IJ3	Non-convertible debenture programme	28-Dec-17	7.92%	28-Dec-18	550	[ICRA]AAA (Stable)
INE148I07IK1	Non-convertible debenture programme	29-Dec-17	N.A.	8-Apr-21	100	[ICRA]AAA (Stable)
INE148I07IH7	Non-convertible debenture programme	29-Dec-17	8.00%	6-Apr-21	150	[ICRA]AAA (Stable)
INE148I07IL9	Non-convertible debenture programme	29-Dec-17	8.00%	9-Jul-21	340	[ICRA]AAA (Stable)

INE148I07IM7	Non-convertible debenture programme	29-Dec-17	8.00%	22-Oct-21	250	[ICRA]AAA (Stable)
INE148I07IN5	Non-convertible debenture programme	29-Dec-17	8.12%	29-Dec-22	1,000	[ICRA]AAA (Stable)
INE148I07IO3	Non-convertible debenture programme	24-Jan-18	N.A.	24-Jan-20	300	[ICRA]AAA (Stable)
INE148I07IP0	Non-convertible debenture programme	24-Jan-18	8.12%	24-Jan-25	225	[ICRA]AAA (Stable)
INE148I07IQ8	Non-convertible debenture programme	22-Feb-18	8.43%	22-Feb-28	3,000	[ICRA]AAA (Stable)
INE148I07IR6	Non-convertible debenture programme	23-Feb-18	8.43%	23-Feb-28	25	[ICRA]AAA (Stable)
INE148I07IK1	Non-convertible debenture programme	13-Mar-18	N.A.	8-Apr-21	45	[ICRA]AAA (Stable)
INE148I07IS4	Non-convertible debenture programme	19-Mar-18	8.40%	19-Mar-21	600	[ICRA]AAA (Stable)
INE148I07IT2	Non-convertible debenture programme	19-Mar-18	8.40%	15-Jun-21	250	[ICRA]AAA (Stable)
INE148I07IU0	Non-convertible debenture programme	20-Mar-18	7.92%	21-Mar-19	500	[ICRA]AAA (Stable)
INE148I07IV8	Non-convertible debenture programme	23-Mar-18	8.40%	22-Jun-21	300	[ICRA]AAA (Stable)
INE148I07IW6	Non-convertible debenture programme	23-Mar-18	8.40%	8-Apr-21	132	[ICRA]AAA (Stable)
INE148I07IQ8	Non-convertible debenture programme	28-Mar-18	8.36%	22-Feb-28	60	[ICRA]AAA (Stable)
N.A.	Proposed Non-convertible debenture programme	N.A.	N.A.	N.A.	29,743	[ICRA]AAA (Stable)
INE148I08306	Subordinate Debt Programme	27-Mar-18	8.80%	27-Mar-28	1,500	[ICRA]AAA (Stable)
N.A.	Subordinate Debt Programme- Proposed	N.A.	N.A.	N.A.	3,500	[ICRA]AAA (Stable)
N.A.	Long Term Bank Facilities	N.A.	N.A.	N.A.	47,000	[ICRA]AAA (Stable)
N.A.	Commercial Paper programme	N.A.	N.A.	7-365 Days	25,000	[ICRA] A1+
N.A.	Proposed Retail bonds	N.A.	N.A.	N.A.	15,000	[ICRA]AAA (Stable)

Source: Company

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