

Indiabulls Housing Finance Limited

September 19, 2018

Summary of rated instruments

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

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 15,000-crore retail bond programme, Rs. 45,200-crore non-convertible debenture programme, Rs. 5,000-crore subordinated debt programme and Rs. 47,000-crore long-term banking facilities of Indiabulls Housing Finance Limited (IBHFL). The outlook on the long-term rating is Stable. ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 25,000-crore commercial paper programme of IBHFL.

Rationale

The ratings factor in IBHFL's established track-record in the mortgage finance industry, strong market position being amongst the top three housing finance companies (HFCs) in the domestic mortgage finance market (portfolio of Rs. 1,25,963 crore as on June 2018), its increasing focus on the housing loans segment with a growing share of the home-loans portfolio and the consequent improvement in the granularity of the overall book. The ratings also factor in the company's stable asset quality indicators, its 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 exposures. However, the company's demonstrated ability to maintain asset quality in the corporate mortgage loan 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 the 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. Going forward, the company's ability to sustain the growth momentum while maintaining a healthy asset quality, profitability and capital structure would remain the key rating sensitive factors.

¹Secured non-convertible debenture and unsecured subordinated debt

Outlook: Stable

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

Key rating drivers

Credit strengths

Strong franchise in mortgage finance industry - IBHFL has an established track-record and strong position in the retail mortgage industry. With a total asset under management (AUM) on a consolidated basis of Rs. 1,25,963 crore as of June 2018 the company is amongst the three largest HFCs in the country in terms of AUM. IBHFL's performance in the home loan business has been consistent, reaching a loan book of Rs. 75,704 crore as on June 30, 2018 (60% of total AUM) from Rs. 19,896 crore (48% of total AUM) as on 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 its growth prospects.

Adequate capitalisation levels supported by a demonstrated ability to raise capital – IBHFL's net-worth increased to Rs. 16,418 crore as of June 30, 2018 from Rs. 13,424 crore as of March 31, 2018 due to the release of deferred tax liabilities and revaluation of the stake in OakNorth Bank following the transition to IndAS. IBHFL's capitalisation profile remains comfortable with a capital adequacy ratio (CAR) of 24.00% (adjusted for mutual fund investments) as on June 30, 2018 (FY2018: 20.82%), providing adequate cushion for growth while maintaining the regulatory CAR requirement (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). IBHFL also has the ability to raise funds from the market as demonstrated in the past. The company's gearing increased to 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 compared to 5.7 times as on March 31, 2017.

Sound liquidity position with 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 its 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. IBHFL has cash, cash equivalents and investments in liquid debt instruments comprising 13% of the balance sheet as of June 30, 2018.

Diversified funding profile with 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 banks, 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 June 30, 2018 from 38% as on March 31, 2016.

Stable asset quality indicators - IBHFL's reported asset quality remained stable with gross non-performing assets (NPAs) of 0.78% and net NPAs of 0.59% (as per IndAS, specific to stage-3) as on June 30, 2018 vis-à-vis 0.77% and 0.34%, respectively, as on March 31, 2018. The company also has an ad hoc provisioning of Rs. 1,050 crore which was not considered while calculating net NPA. 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. The company reported a net profit of Rs. 1,055 crore (as per IndAS) in 1QFY2019 (FY2018: Rs. 3,847 crore). The Profitability remained healthy with return on assets (RoA) of 3.1% of average total assets (ATA) in Q1 FY2019 (3.3% in FY2018) and return on equity (RoE) of 26.5% (as per IndAS) during the same period (30.12% (as per IGAAP) in FY2018).

Credit challenges

Managing asset quality given risks associated with relatively risky large ticket commercial real estate and LAP portfolio

– Loan against properties (LAP) and corporate mortgage loans formed 19% and 21% respectively of the company's AUM as on June 30, 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 (47% of corporate loans as on June 30, 2018), and construction finance (53%). Given the large ticket size and the high inherent risks associated with these exposures, the corporate mortgage loan book remains exposed to concentration risks.

Maintain profitability 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 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.

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), a housing finance company, was incorporated in 2005 and is 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 its focus primarily 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 – Indiabulls Housing Finance Limited (IGAAP)

	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

* Adjusted for mutual fund investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		FY2018						Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Sep-18		May-18		Sep-17		June-17		FY2017	FY2015
				[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
1 Retail bonds ¹	Long term	15,000	Nil	[ICRA]AA A (stable)	[ICRA]AA A (stable)	-	-	-	-	-	-	-	
2 Non-convertible debenture programme	Long term	45,200	18,875.4	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	Upgraded to [ICRA]AAA (stable) from [ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	
3 Long term bank facilities	Long term	47,000	Nil	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AAA (stable)	-	-	-	-	
4 Subordinated debt programme	Long term	5,000	1,500	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	[ICRA]AA A (stable)	-	-	-	-	-	
5 Commercial paper programme	Short term	25,000	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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	15	[ICRA]AAA (Stable)
INE148I07HU2	Non-convertible debenture programme	25-Jul-17	7.68%	24-Jul-20	5	[ICRA]AAA (Stable)
INE148I07HVO	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	1450	[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%	22-Sep-20	1500	[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)
INE148I07IF1	Non-convertible debenture programme	27-Dec-17	7.45%	28-Dec-18	470	[ICRA]AAA (Stable)
INE148I07IE4	Non-convertible debenture programme	27-Dec-17	7.90%	30-Aug-19	200	[ICRA]AAA (Stable)
INE148I07IG9	Non-convertible debenture programme	27-Dec-17	7.45%	24-Dec-20	25	[ICRA]AAA (Stable)
INE148I07II5	Non-convertible debenture programme	27-Dec-17	N.A.	12-Feb-21	75	[ICRA]AAA (Stable)
INE148I07IH7	Non-convertible debenture programme	27-Dec-17	8.03%	6-Apr-21	125	[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	28-Dec-17	N.A.	8-Apr-21	230	[ICRA]AAA (Stable)
INE148I07IH7	Non-convertible debenture programme	29-Dec-17	8.00%	6-Apr-21	150	[ICRA]AAA (Stable)
INE148I07IK1	Non-convertible debenture programme	29-Dec-17	N.A.	8-Apr-21	100	[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	1000	[ICRA]AAA (Stable)

INE148I07IO3	Non-convertible debenture programme	24-Jan-18	N.A.	24-Jan-20	300	[ICRA]AAA (Stable)
INE148I07IPO	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	3000	[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)
INE148I07IW6	Non-convertible debenture programme	23-Mar-18	8.40%	8-Apr-21	132	[ICRA]AAA (Stable)
INE148I07IV8	Non-convertible debenture programme	23-Mar-18	8.40%	22-Jun-21	300	[ICRA]AAA (Stable)
INE148I07IQ8	Non-convertible debenture programme	28-Mar-18	8.36%	22-Feb-28	60	[ICRA]AAA (Stable)
INE148I07IX4	Non-convertible debenture programme	25-May-18	8.68%	27-May-19	200	[ICRA]AAA (Stable)
INE148I07IY2	Non-convertible debenture programme	30-May-18	8.85%	30-May-23	100	[ICRA]AAA (Stable)
INE148I07JAO	Non-convertible debenture programme	5-Jun-18	8.85%	28-Apr-22	45	[ICRA]AAA (Stable)
INE148I07IZ9	Non-convertible debenture programme	5-Jun-18	8.85%	5-Jun-23	100	[ICRA]AAA (Stable)
INE148I07JC6	Non-convertible debenture programme	15-Jun-18	8.90%	17-Jun-19	1800	[ICRA]AAA (Stable)
INE148I07JB8	Non-convertible debenture programme	15-Jun-18	8.80%	15-Jun-20	500	[ICRA]AAA (Stable)
INE148I07IT2	Non-convertible debenture programme	15-Jun-18	8.90%	15-Jun-21	18.5	[ICRA]AAA (Stable)
INE148I07JD4	Non-convertible debenture programme	26-Jun-18	8.90%	27-Jun-19	125	[ICRA]AAA (Stable)
INE148I07IT2	Non-convertible debenture programme	29-Jun-18	8.90%	15-Jun-21	35	[ICRA]AAA (Stable)
INE148I07JAO	Non-convertible debenture programme	29-Jun-18	8.80%	28-Apr-22	4.9	[ICRA]AAA (Stable)
INE148I07JE2	Non-convertible debenture programme	30-Jul-18	8.80%	28-Jul-23	150	[ICRA]AAA (Stable)
INE148I07JF9	Non-convertible debenture programme	6-Aug-18	8.90%	4-Aug-28	1000	[ICRA]AAA (Stable)
INE148I07JG7	Non-convertible debenture programme	21-Aug-18	8.75%	21-Feb-20	1000	[ICRA]AAA (Stable)
INE148I07IT2	Non-convertible debenture programme	21-Aug-18	8.85%	15-Jun-21	44	[ICRA]AAA (Stable)
INE148I07JI3	Non-convertible debenture programme	21-Aug-18	8.85%	10-Jun-22	25	[ICRA]AAA (Stable)

INE148I07JE2	Non-convertible debenture programme	21-Aug-18	8.85%	28-Jul-23	100	[ICRA]AAA (Stable)
INE148I07JH5	Non-convertible debenture programme	21-Aug-18	8.96%	21-Feb-28	1	[ICRA]AAA (Stable)
N.A.	Proposed Non-convertible debenture programme	N.A.	N.A.	N.A.	26,324.6	[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 – proposed	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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