

Ratings

Rating Rationale

September 10, 2019 | Mumbai

Indiabulls Commercial Credit Limited

Long term rating downgraded to 'CRISIL AA+' ; Rating revised to 'Watch with Developing Implications'

Rating Action

Total Bank Loan Facilities Rated	Rs.2500 Crore
Long Term Rating	CRISIL AA+ (Downgraded from 'CRISIL AAA'; Revised to 'Rating Watch with Developing Implications' from 'Rating Watch with Negative Implications')

Rs.2000 Crore Non Convertible Debentures*	CRISIL AA+ (Downgraded from 'CRISIL AAA'; Revised to 'Rating Watch with Developing Implications' from 'Rating Watch with Negative Implications')
Rs.500 Crore Non Convertible Debentures@	CRISIL AA+ (Downgraded from 'CRISIL AAA'; Revised to 'Rating Watch with Developing Implications' from 'Rating Watch with Negative Implications')
Rs.3000 Crore Non Convertible Debentures*	CRISIL AA+ (Downgraded from 'CRISIL AAA'; Revised to 'Rating Watch with Developing Implications' from 'Rating Watch with Negative Implications')
Non-Convertible Debentures Aggregating Rs.1450 Crore	CRISIL AA+ (Downgraded from 'CRISIL AAA'; Revised to 'Rating Watch with Developing Implications' from 'Rating Watch with Negative Implications')
Rs.500 Crore Subordinated Debt	CRISIL AA+ (Downgraded from 'CRISIL AAA'; Revised to 'Rating Watch with Developing Implications' from 'Rating Watch with Negative Implications')
Rs.3000 Crore Commercial Paper Programme	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

*public issue of retail secured redeemable non-convertible debenture

@ public issue of retail unsecured redeemable non-convertible debenture

Detailed Rationale

CRISIL has revised its rating on the long-term bank facilities and debt instruments of Indiabulls Commercial Credit Limited (ICCL) wholly owned subsidiary of Indiabulls Housing Finance Limited (IBHFL) to '**CRISIL AA+**' from 'CRISIL AAA'. The long-term rating and debt instruments are on '**Rating Watch with Developing Implications**'. The rating on the commercial paper (CP) issue and the short-term non-convertible debenture programme has been reaffirmed at 'CRISIL A1+'.

The rating revision factors in the continued challenging operating environment for non-banking financiers {non-banking financial companies (NBFCs) including housing finance companies (HFCs)} with issues in funding access, especially for those with a wholesale lending book. Interest from debt investors in the NBFC / HFC sector has reduced in the recent past, and a material turnaround is not expected in the near term. Although IBHFL has been raising resources since September 2018 on an ongoing basis, the ease of raising resources and the cost of these resources have been impacted and improvements on this front have not materialized as expected. The reduction in recent resource raising can nevertheless be partly attributed to management's conscious decision to limit incremental borrowings, especially term borrowings, as they await regulatory approvals on the impending merger with The Lakshmi Vilas Bank Limited (LVB). The company raised around Rs 12,500 crore between April 1, 2019 and August 31, 2019 as compared to around Rs 17,000 crore raised in the quarter ended March 31, 2019.

IBHFL has applied for regulatory approvals for the proposed merger of IBHFL alongwith its wholly owned subsidiary, Indiabulls Commercial Credit Limited into and with LVB. The company has received the approval from the Competition Commission of India (CCI) for this. It is possible that the credit profile of the merged entity as a bank could be relatively weaker, at least in the short term given the potential transition challenges, especially in establishing its liabilities franchise to compete effectively with existing large private sector banks. Further, while IBHFL today has a strong market position in the HFC space and is among the larger HFCs, on conversion to a bank it will be a relatively mid-sized bank.

Given the evolving situation on the bank transition and challenges on the funding access front for non-banks, the ratings are on 'Watch with developing implications'.

CRISIL will resolve the rating watch and take a final rating action once there is clarity on the regulator's stance on the proposed merger, the organisational structure and business strategy of the merged entity. CRISIL will also continue to monitor the fund raising by IBHFL, both in terms of the quantum as well as the cost.

From an industry perspective for non-banks, the budgetary announcement of Government support to public sector banks for buying asset pools from NBFCs / HFCs, should bring some respite. However, it may take some time for the funding access situation to reach normalcy.

Further, with rising borrowing costs and slowdown in disbursements by non-banks - mainly to wholesale borrowers, refinancing risks for real estate players has increased, resulting in greater vulnerability of this portfolio. This is also reflected in increase in gross non-performing assets (NPAs) in IBHFL's loan portfolio to 1.47% as on June 30, 2019 from 0.88% as on March 31, 2019; this was primarily

driven by the commercial real estate book. However, this can be partly attributed to the management's decision to proactively recognize some accounts in the commercial real estate book as NPAs due to reduction in collateral values even though they are not overdue by more than 90 days. IBHFL has also been reducing its commercial real estate exposure, with limited disbursements compared to refinance and prepayments; proportion of commercial real estate portfolio to total assets under management (AUM) reduced to 15% as on June 30, 2019 from 21% as on March 31, 2018. The company is taking steps to reduce the commercial real estate exposures further in the near term and is in advanced talks with investors/financial institutions to refinance a few of these. Further, recoveries from some stressed commercial real estate exposures also testify to IBHFL's strong capabilities on this front.

However, any sharp increase in NPAs, mainly in the commercial real estate portfolio and/or tightening in the resource profile, will remain key rating sensitivity factors.

Analytical Approach

The ratings reflect the support that ICCL receives from its parent, IBHFL given the strategic importance of the entity, shared name and 100% direct shareholding by the parent. Also, IBHFL and ICCL have extensive business, managerial and operational linkages common brand and being a wholly owned subsidiary, ICCL's financials are consolidated with IBHFL's.

Key Rating Drivers & Detailed Description

Strengths

*** Expectation of support from the parent, IBHFL**

ICCL is an important subsidiary for IBHFL, as it undertakes loan against property and Commercial Real Estate business and supports IBHFL's product offering and revenue profile. Further, there exists strong operational and managerial integration between ICCL and IBHFL. The latter benefits from the robust retail franchise and nation-wide branch infrastructure of the parent. ICCL also has board representation from IBHFL. ICCL is the wholly own subsidiary of IBHFL and CRISIL believes IBHFL will provide both funding and capital assistance to ICCL if & when required. The extensive business and financial linkages, along with 100% holding and shared brand name, imply a support from IBHFL to ICCL.

*** Diversified resource profile:**

The resource profile of ICCL is diversified as borrowing mix primarily comprises of Capital market (24%) and Banks (76%) as at March 31, 2019. Being a part of Indiabulls group, company has successfully tapped into the debt capital markets by raising medium- and long-term debt from several investors. Cost of borrowing, was at 8.5% during fiscal 2019 (7.97% as of March 31, 2018), which compares well with peers.

*** Comfortable capitalisation:**

ICCL is well capitalised, with networth and gearing of Rs 4375 crore and 2.5 times, respectively, as on March 31, 2019. The overall and tier-I capital adequacy ratio stood at 28.4% and 25.9%, respectively, as on same date. Given the healthy asset quality, asset side risk cover also remains comfortable, with a networth to net NPA ratio at 29 times as on March 31, 2019. Capitalisation is expected to remain comfortable backed by steady internal cash accrual, and capital support from IBHFL as and when needed.

Weakness:

***Susceptibility to asset quality risks, arising from high proportion of Commercial Real Estate portfolio**

Asset-quality risks arising from the sizeable large-ticket Commercial Real Estate portfolio persist, and could impact the company's portfolio performance in an economic downturn scenario. Given the chunkiness of loans in this segment (average ticket size of Rs 150 crore), stress in even a few large accounts could impact asset quality. Nevertheless, the company follows prudent lending practises and also ensures sufficient collateral cover against these loans. While the delinquencies in the commercial lending portfolio remains low, it will continue to be a key monitorable over the medium term.

Liquidity: Strong

Liquidity is comfortable with sufficient cash and cash equivalent and investments to cover the upcoming repayments for the next three months until September 30, 2019. The asset liability management profile was comfortable as on March 31, 2019, with positive cumulative mismatches in the up to 1 year bucket. The company also benefits being wholly owned subsidiary of IBHFL. As on June 30, 2019 at IBHFL consolidated level, against the total debt of ~Rs 6,000 crore maturing till September 30, 2019, IBHFL had total liquidity available of Rs 28,511 crore, as investments in mutual funds and certificate of deposits of Rs 11,930 crore, bank balances/fixed deposits of Rs 11,802 crore and other investments of Rs 4,779 crore. ICCL continues to tap the debt capital market for fresh issuances.

Rating Sensitivity Factors:

Upward Scenario

*Upward revision in CRISIL's view on IBHFL's credit profile

*Increase in fund mobilizations to pre-September 2018 levels on a steady state basis

-Significant improvement in ICCL's asset quality with gross NPA <1.0% on a sustained basis while improving earnings profile

Downward Scenario

* Continued funding access challenges for non-banks sector with limited fund-raising by ICCL

* Deterioration in asset quality with gross NPA increasing to above 4%, over an extended period, thereby also impacting profitability

About the Company

ICCL was incorporated in 2006 and is a wholly owned subsidiary of IBHFL, with total assets of Rs 17,106 crore as on March 31, 2019. ICCL is a Non-Banking Finance Company (NBFC), registered with Reserve Bank of India (RBI). The company, continues to focus on asset classes such as LAP and Commercial Real Estate. As of March 31, 2019 LAP constituted 49% of the book and remaining 51% was Commercial real Estate.

For the fiscal 2019, ICCL had a profit after tax (PAT) of Rs 323.0 crore on a total income of Rs 1761 crore as against a PAT of Rs 269 crore on a total income of Rs 928 crore for the previous fiscal.

About IBHFL

Indiabulls Financial Services Ltd was reverse-merged with IBHFL from April 1, 2012. The process was completed on March 8, 2013, following the Delhi High Court's approval on December 12, 2012. After the merger, IBHFL continues to operate as a housing finance company registered with the National Housing Bank. The company will continue to focus on asset classes such as mortgages and Commercial Real Estate. As on March 31, 2019, the promoter group held 21.5% stake in the company

Key Financial Indicators

Particulars	Unit	2019	2018
Total Assets	Rs. Cr.	17106	13246
Total income	Rs. Cr.	1761	656
Profit After Tax	Rs. Cr.	323	183
Gross NPA	%	1.3	0.62
Return on average assets	%	2.5	3.36

Any other information

ICCL gross non-performing assets (NPAs) and net NPAs stood at 1.12% and 0.84%, respectively, as on March 31, 2019. ICCL has sound credit underwriting and collection practices.

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Outstanding rating with Outlook
INE244L07028	Non-Convertible Debentures	8-Jul-16	9.05%	7-Jul-23	40	CRISIL AA+/Watch Developing
NA	Non-Convertible Debentures*	NA	NA	NA	6160	CRISIL AA+/Watch Developing
NA	Non-Convertible Debentures@*	NA	NA	NA	500	CRISIL AA+/Watch Developing
NA	Subordinated Debt	NA	NA	NA	500	CRISIL AA+/Watch Developing
NA	Term Loan	NA	NA	19-Dec-19	150	CRISIL AA+/Watch Developing
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2350	CRISIL AA+/Watch Developing
NA	Commercial Paper#	NA	NA	7-365 days	3000.0	CRISIL A1+

*Not yet issued

#Total rated amount

@Unsecured

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	3000.00	CRISIL A1+/(Watch) Developing	15-07-19	CRISIL A1+	16-08-18	CRISIL A1+	29-12-17	CRISIL A1+	19-12-16	CRISIL A1+	CRISIL A1+
				09-04-19	CRISIL A1+			29-11-17	CRISIL A1+	23-06-16	CRISIL A1+	
				16-01-19	CRISIL A1+			29-04-17	CRISIL A1+			
								20-03-17	CRISIL A1+			
								20-02-17	CRISIL A1+			
Non Convertible Debentures	LT	40.00 09-09-19	CRISIL AA+/(Watch) Developing	15-07-19	CRISIL AAA/Watch Negative	16-08-18	CRISIL AAA/Stable	29-12-17	CRISIL AAA/Stable	19-12-16	CRISIL AA+/Stable	CRISIL AA+/Stable
				09-04-19	CRISIL AAA/Watch Developing			29-11-17	CRISIL AAA/Stable	23-06-16	CRISIL AA+/Stable	
				16-01-19	CRISIL AAA/Stable			29-04-17	CRISIL AA+/Positive			
								20-03-17	CRISIL AA+/Stable			
								20-02-17	CRISIL AA+/Stable			
Subordinated Debt	LT	0.00 09-09-19	CRISIL AA+/(Watch) Developing	15-07-19	CRISIL AAA/Watch Negative	16-08-18	CRISIL AAA/Stable	29-12-17	CRISIL AAA/Stable		--	--
				09-04-19	CRISIL AAA/Watch Developing							
				16-01-19	CRISIL AAA/Stable							
Fund-based Bank Facilities	LT/ST	2500.00	CRISIL AA+/(Watch) Developing	15-07-19	CRISIL AAA/Watch Negative	16-08-18	CRISIL AAA/Stable	29-12-17	CRISIL AAA/Stable	19-12-16	CRISIL AA+/Stable	CRISIL AA+/Stable
				09-04-19	CRISIL AAA/Watch Developing			29-11-17	CRISIL AAA/Stable	23-06-16	CRISIL AA+/Stable	
				16-01-19	CRISIL AAA/Stable			29-04-17	CRISIL AA+/Positive			
								20-03-17	CRISIL AA+/Stable			
								20-02-17	CRISIL			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Long Term Bank Facility	150	CRISIL AA+/Watch Developing	Long Term Bank Facility	150	CRISIL AAA/Watch Negative
Proposed Long Term Bank Loan Facility	2350	CRISIL AA+/Watch Developing	Proposed Long Term Bank Loan Facility	2350	CRISIL AAA/Watch Negative
Total	2500	--	Total	2500	--

Links to related criteria[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[Rating Criteria for Finance Companies](#)[CRISILs Criteria for rating short term debt](#)[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)**For further information contact:**

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