

RATING RATIONALE

21Oct 2022

Indiabulls Rural Finance Private Limited

Brickwork Ratings withdraws the rating for the proposed Bank Loan facility/Non-Convertible Debentures and proposed Commercial paper aggregating to Rs 275 Crs and downgrades the ratings for the Non-Convertible Debenture of Rs 50 Crs of Indiabulls Rural Finance Private Limited.

Particulars

Facility/ Instrument**	Amount Rated (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (26 May 2021)	Present
Proposed Long term (BLR/NCD)	200	0	Long Term	BWR A/Stable (Reaffirmed)	Withdrawn on non utilization
Proposed Commercial Paper (CP)	75.00	0	Short Term	BWR A1 (Reaffirmed)	Withdrawn on non utilization
Non Convertible Debentures (NCDs)	50.00	50.00	Long Term	BWR A/Stable (Reaffirmed)	BWR BBB+/Stable (Downgraded)
Total	325.00	50.00	Rupees Fifty Crores only		

The press release for the delay in rating review was published on 10 June 2022.

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of NCDs are provided in Annexure I & II.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) withdraws the rating of the proposed Bank loan facilities/Non-Convertible Debentures (NCDs) amounting to Rs 200 Crs and proposed commercial paper amounting to Rs.75 Crs of Indiabulls Rural Finance Pvt Ltd. (IRFPL or the company) at the request of the company confirming that the proposed rated facilities/instruments were not raised till date, and had no plans to raise it in the near term.

BWR downgrades the rating of the NCDs of Rs.50 Crs as tabulated above, of IRFPL. BWR has principally relied on audited financials upto FY22, unaudited financial statements for June 2022, publicly available information and information/clarifications provided by the company.

The downgrade in the rating factors in the deterioration in the asset quality i.e. Stage 3 assets (%) on own book (%) from 0.48% as of 31 March 2021 to 1.91% as on 31 March 2022 and 2.26% as on 30 June 2022, coupled with decline in profitability, with degrowth in the Asset Under Management (AUM) from Rs 238 Crs as on 31 March 2021 to Rs 220 Crs as on 31 March 2022 primarily on account of lower disbursements in FY22. Stage 3 assets (%) on AUM was 3.25% as on 31 March 2022 as against 0.78% as on 31 March 2021. The company reported revenue from operations of Rs 21 Crs for FY22 as against Rs 35 Crs in FY21 with a net profit of Rs 5.34 Crs in FY22 as against Rs



11.82 Crs in FY21, and the operating income was Rs 4.71 Crs with a net profit of Rs 1.57 Crs for Q1FY23. The company had earned an income of Rs 10.56 Crs from assignment transactions through the sell-down of assets amounting to Rs 102 Crs in FY21, while no such assignment transactions were done in FY22, impacting the total income. Furthermore, the company's revenues and profitability for audited FY22 were substantially lower than those estimated by the company for FY22 due to subdued/flat disbursements. The total CRAR (Capital to Risk Weighted asset ratio) reduced from 61% in FY21 to 20% in FY22 due to decline in the Tier I Capital on account of loans given to the group company.

The rating, however, derives comfort from the experienced promoters and management team, operational and financial synergies with group companies, shared brand name of Indiabulls, ability of promoters to infuse capital and low gearing level.

The Stable outlook indicates a low likelihood of rating changes over the medium term; BWR believes that IRFPL's risk profile will be maintained over the medium term. However, BWR shall monitor the company's financial performance for any significant decline in the profitability metrics, CRAR and asset quality.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Nil

KEY RATING DRIVERS

Credit Strengths:-

- **Ownership and support from Indiabulls Group:**
IRFPL was a wholly owned subsidiary of SORIL Infra Resources Limited (SORIL), a BSE/NSE listed company. Subsequent to FY21-22, the company ceased to be the wholly owned subsidiary of SORIL and became a wholly owned subsidiary of Indiabulls Enterprises Limited with effect from 3 August 2022 where Sameer Gehlaut has a ~60.97% shareholding. Being part of Indiabulls Group, IRFPL receives strong support and shares the Indiabulls brand name, as well as derives operational and managerial synergies and financial flexibility in the form of capital support.
- **Low dependence on external debt, coupled with improving net worth and low gearing level:**
With the ploughing back of profit into the business, the tangible net worth of the company has been consistently improving and was at Rs 139 Crs as on 31 March 2022 as against Rs 136 Crs as on 31 March 2021.
As on 31 March 2022, the gearing was low at 0.35x as on 31 March 2022 as the company does not have long-term debt other than the NCD of Rs 50 Crs maturing in June 2023. However, the company had fully repaid inter corporate deposits (ICD) of Rs 83.30 Crs from the SORIL (then holding company) in FY21, and as on 31 March 2022, there was no borrowing from related parties.

The company had given loans of Rs 74.60 Crs in FY22 (Rs 47.24 Crs in FY21) to related parties, viz., SORIL (previous holding company) Rs 69 Crs and Store One Infra Resources Limited (subsidiary of previous holding company) Rs 5.25 Crs. Outstanding loans as on 31 March 2022 was Rs 115 Crs (PY Rs 43 Crs). As per RBI guidelines, the loans given to related parties were reduced from the capital while calculating the CRAR, and therefore, the total Tier I capital reduced from Rs 102.36 Crs in

FY21 to Rs 34.78 Crs in FY22 with a simultaneous dip in the CRAR from 60.73% as on 31 March 2021 to 20.03% as on 31 March 2022. However, the CRAR was above the minimum regulatory guidelines of 15%.

Going forward, the company's ability to recover the loans granted to the previous holding company and maintaining the CRAR above the regulatory guidelines shall remain a key monitorable.

Credit Risks:-

- **Declining profitability metric coupled with moderate AUM:**

The company had down sold Rs 102 Crs of assets in FY21 and earned an income of Rs 10.56 Crs from assignment. While no assignment was done in FY22 and therefore the profit reduced from Rs 11.82 Crs in FY21 to Rs 5.34 Crs in FY22.

The company had disbursed Rs 90 Crs in FY22 as against Rs 124 Crs in FY21. On account of lower disbursement in its own book, the AUM had declined from Rs 238 Crs as on March 21 to Rs 220 Crs on March 22. On account of lower disbursements in FY22, the Interest Income from the own book had also reduced from Rs 22.49 Crs in FY21 to Rs 18.90 Crs in FY22. With the reduction in interest income, average yield on the portfolio had come down from 13.91% in FY21 to 8.26% in FY22, and the Net Interest Margin (NIM%) reduced from 14.35% in FY21 to 7.76% in FY22. Return on managed Assets and Return on Equity was at 2.05% and 3.85% in FY22 as against 4.98% and 8.70% in FY22, respectively.

The ability of the company to improve its profitability by improving the disbursements would be a key rating monitorable

- **Moderate asset quality, coupled with low seasoning of the portfolio:**

The company started operations in February 2019 and completed one full year of operations in February 2020. The company was primarily focused on providing affordable housing loans under Tier 1 and Tier 2 cities. Housing Loan constituted 70% of the portfolio as of March 2019, which reduced to 21% as of March 2022. Financing under LAP- MSME had improved from 30% in FY19 to 79% in FY22. The average tenor of the housing loan is 12 years and LAP is ~8 years. Since the portfolio had not completed one full cycle, the asset quality remains susceptible to deteriorating further with the seasoning of the book.

At present GNPA level (Stage 3 assets) at owned portfolio was 1.91% as on 31 March 2022 as against 0.48% as on March 2021. The GNPA (Stage 3 assets) on the AUM was 3.25% as on 31 March 2022 as against 0.78% as on 31 March 2021. Although the company expects the GNPA level going forward to be at a similar level to that in March 22, BWR expects the GNPA to moderate with the seasoning of the portfolio. PCR (%) for stage 3 assets was also low at 33.33%, and the NNPA level at 1.27% as on March 22 as against PCR of 62.96% and NNPA of 0.18% on 31 March 2021.

Going forward, the company's ability to improve the profitability with the improvement in PCR and its ability to better the recoveries from the NPAs shall be the rating monitorables.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financial profile of IRFPL and has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).



RATING SENSITIVITIES

The company's ability to improve the overall AUM and manage asset quality and profitability while maintaining liquidity, improving the overall financial risk profile and raising adequate capital to strengthen the capital structure will be key rating sensitivities.

Positive: IRFPL's ability to scale up its operations, improve the profitability and improve upon the asset quality as the portfolio gets seasoned will be key rating positives.

Negative: The rating may be downgraded if there is a further deterioration in asset quality, liquidity position, inability to tie up funds in a timely manner and overall weakening in the financial risk profile.

LIQUIDITY POSITION: STRETCHED

There are no cumulative negative mismatches across various buckets upto 5 years. As on 31 March 2022, the company had cash and bank balance of Rs 0.79 Crs and investment in mutual funds of Rs 17.63 Crs. The company expects the receivables in over 6 months to 1 year bucket to address the repayments due in June 2023 of Rs. 53 Crs. However, the same shall be dependent on actual collection of these receivables. The company has average quarterly collections of Rs. 8 Crs, and also has average disbursements of Rs.8 Crs, which is not funded through any debt as of now. Therefore, the net available cash flows are marginal to meet the future debt obligations; the liquidity seems stretched. Furthermore, the available cash and equivalents, liquid investments and available collections till March 2022 were Rs. 18.42 Crs.

COMPANY PROFILE

Indiabulls Rural Finance Private Limited (IRFPL) which was a 100% subsidiary of SORIL Infra Resources Limited (SORIL) and is a group company of Indiabulls, is an RBI-registered NBFC that provides loans to MSME and rural housing finance majorly in tier I and tier II cities. On 25 January 2019, SORIL acquired a 100% stake in M/s Littleman Fiscal Services Private Limited, a Non-Banking Finance Company registered with the RBI, to foray into the financial services business with the primary focus on financing in rural markets, and after a change in ownership on 25 January 2019, as per RBI approval, the new management started operations February 2019 onwards. Subsequent to FY21-22, the company ceased to be a wholly owned subsidiary of SORIL and became a wholly owned subsidiary of Indiabulls Enterprises Limited with effect from 3 August 2022.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY21 IndAs	FY 22 IndAs
Result Type		Audited	Audited
Total Income	(Rs in Crs)	35.49	21.01
Net Profit	(Rs in Crs)	11.82	5.34
Tangible Net Worth	(Rs in Crs)	136	139
Gearing	(in times)	0.36	0.35
Total CRAR	(%)	60.73%	20.03%
Total AUM	(Rs in Crs)	238	220
Own portfolio	(Rs in Crs)	170	171
Gross NPA (Stage 3)- Own book	(%)	0.48%	1.91%
Gross NPA (Stage 3)- AUM	(%)	0.78%	3.25%
Net NPA	(%)	0.18%	1.27%

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

Sr. No.	Name of Facility/ Instrument	Current Rating (2022)			Rating History for the past 3 years		
		Type	Amount (Rs. Crs)	Rating	2021 26 May 2021	2020 (27 April 2020)	2019 (10 July 2019)
1	NCD	Long Term	50	BWR BBB+/Stable (Downgraded)	BWR A/Stable (Reaffirmed)	BWR A/Stable (Reaffirmed) 16 Jan 2020 Rs 250 Crs BWR A/Stable Assigned	NA
2	Proposed Bank Loans/ NCD	Long Term	0	Withdrawn on non utilization Rs 200 Crs	BWR A/Stable (Reaffirmed)	BWR A/Stable (Reaffirmed) 16 Jan 2020 Rs 250 Crs BWR A/Stable Assigned	
3	Proposed Commercial Paper	Short Term	0	Withdrawn on non utilization Rs 75 Crs	BWR A1 (Reaffirmed)	BWR A1 (Reaffirmed) 16 Jan 2020 BWR A1 Assigned	NA
	TOTAL		50	Rupees Fifty Crores only			

Withdrawn the rating for proposed Bank Loan/ NCD of Rs 200 Crs & proposed Commercial paper on account of non utilization as confirmed by the client.

COMPLEXITY LEVELS OF THE INSTRUMENTS

NCD- Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Approach to financial ratios](#)

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Indiabulls Rural Finance Pvt Ltd.

ANNEXURE I - Details of Bank Facilities rated by BWR: Not Applicable

ANNEXURE II - INSTRUMENT (NCD) DETAILS

Instrument	Issue Date	Amount (Rs in Crs)	Coupon Rate (%)	Maturity Date	ISIN
NCD	26 June 2020	50	10.50%	26 Jun 2023	INE06DK07016
TOTAL		50			

ANNEXURE III

List of entities consolidated : NA



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