

Rating Rationale

October 16, 2019 | Mumbai

Indiabulls Commercial Credit Limited

Long term rating removed from 'Watch Developing'; assigned 'Negative' outlook

Rating Action

Total Bank Loan Facilities Rated	Rs.2500 Crore
Long Term Rating	CRISIL AA+/Negative (Removed from 'Rating Watch with Developing Implications' ; Rating Reaffirmed)

Rs.2000 Crore Non Convertible Debentures*	CRISIL AA+/Negative (Removed from 'Rating Watch with Developing Implications' ; Rating Reaffirmed)
Rs.500 Crore Non Convertible Debentures@	CRISIL AA+/Negative (Removed from 'Rating Watch with Developing Implications' ; Rating Reaffirmed)
Rs.3000 Crore Non Convertible Debentures*	CRISIL AA+/Negative (Removed from 'Rating Watch with Developing Implications' ; Rating Reaffirmed)
Non-Convertible Debentures Aggregating Rs.1450 Crore	CRISIL AA+/Negative (Removed from 'Rating Watch with Developing Implications' ; Rating Reaffirmed)
Rs.500 Crore Subordinated Debt	CRISIL AA+/Negative (Removed from 'Rating Watch with Developing Implications' ; Rating Reaffirmed)
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 removed 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) from 'Rating Watch with Developing Implications' and assigned a 'Negative' outlook on the same. The ratings on these instruments have been reaffirmed at 'CRISIL AA+' while the rating on the rating on the commercial paper (CP) programme has been reaffirmed at 'CRISIL A1+'.

Earlier, on September 10, 2019, CRISIL had revised its rating on the long-term debt instruments of IBHFL to 'CRISIL AA+' from 'CRISIL AAA' while short-term ratings were reaffirmed at 'CRISIL A1+'. The long-term ratings were put on 'Watch with Developing Implications'. The action on the long-term rating was on account of 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, including IBHFL. Furthermore, the ratings continued on watch given the proposed merger of IBHFL along with its wholly owned subsidiary, ICCL into and with The Lakshmi Vilas Bank (LVB); the transaction was awaiting regulatory approvals.

The watch resolution follows the announcement by IBHFL on October 09, 2019 that the Reserve Bank of India (RBI) has not approved the voluntary amalgamation of IBHFL and ICCL with LVB.

The long-term ratings have been assigned 'Negative' outlook on account of possibilities of funding access challenges continuing due to the non-fructification of the proposed merger with LVB as well as the public interest litigation (PIL) recently filed against the company which can have an impact on investor confidence. Further, the outlook also reflects the potential impact on the financial flexibility of the company due to the recent sharp fall in its equity price.

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 so far as expected. The company raised around Rs 7,500 crore in the second quarter of fiscal 2020 as compared to around Rs 10,000 crore raised in the first quarter of fiscal 2020 and around Rs 17,000 crore in last quarter of fiscal 2019.

However, there seem to be signs of improvement in first fortnight of October 2019 with IBHFL having received sanctions to raise ~Rs. 5200 crore via term loans, working capital lines, commercial papers and securitization lines, of which around Rs 3195 crore has been in the past one week. With the proposed merger no longer on the cards, the company has started tapping the banking channels once again and plans to increase the quantum of fund raising significantly going forward. CRISIL will continue to monitor the fund raising by IBHFL, in terms of the quantum, the cost, as well as the diversity of sources. CRISIL will also closely monitor the progress on proceedings pertaining to the public interest litigation (PIL) recently filed against the company. The company, on its part, has strongly refuted the allegations against it in the PIL. Any potential adverse impact on the company's ability to raise funding in the near to medium term on account of these developments will be monitored closely.

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. While IBHFL has been managing its wholesale portfolio well till now and has also been reducing its proportion, there has been some 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 slippages of a few accounts in its commercial real estate book. However, this can also 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 for IBHFL.

IBHFL continues to maintain strong liquidity with cash and cash equivalents at around 20% of total assets as on October 10, 2019. The company has aggregate liquidity of more than Rs 18,500 crore as on October 10, 2019, which provides around 100% cover over IBHFL's debt repayments till September 2020. The company is expected to maintain liquidity at these levels on a steady state basis.

Rating on the bank facilities and debt instruments of ICCL continue to reflect the ICCL's strategic importance to, and expectation of support from its parent, IBHFL (rated 'CRISIL AA+/Negative/CRISIL A1+'). The ratings also factor in ICCL's diversified resource profile and comfortable capitalisation. These strengths are partially offset by high proportion of exposure to large-ticket commercial credit portfolio.

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 remains comfortable as IBHFL maintains a sufficient amount as liquid investments at any point in time, to cover the debt repayments for the next twelve months at a minimum. As on September 30, 2019, against the total debt of ~Rs 4,300 crore maturing till December 31, 2019, IBHFL had total liquidity available in excess of Rs 18,500 crore, as investments in mutual funds and certificate of deposits of Rs 10,000 crore, bank balances/fixed deposits of Rs 3,350 crore and other liquid investments of Rs 5150 crore. IBHFL continues to tap the debt capital market for fresh issuances. Around Rs 500 crore and Rs 650 crore were raised through commercial paper and bonds, respectively, in the quarter ended September 30, 2019. Further, IBHFL has also raised Rs 750 crore through securitisation and ~Rs 5,600 crore from banks (including ECBs) in the same period.

Outlook: Negative

CRISIL believes ICCL will continue to benefit from the managerial, operational and financial linkages with IBHFL and will maintain its comfortable capitalisation and resource profile. Rating may be downgraded if there is significant change in the extent of the IBHFL's ownership of ICCL, or diminution in the expected support from the parent or continued challenges in fund raising for ICCL or significant deterioration in ICCL's asset quality thereby impacting its earning profile. The outlook may be revised to stable if there is upward revision in IBHFL's credit profile or sustained improvement in fund mobilization to pre-September 2018 levels or significant improvement in ICCL's asset quality.

Rating Sensitivity Factors:

Upward Factors:

- * 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 Factors:

- * 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
- * Potential weakening of earnings profile with changes in business model

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	40.00	CRISIL AA+/Negative
INE244L08034	Non-Convertible Debentures	5-Jan-18	8.45%	5-Jan-28	50.00	CRISIL AA+/Negative
INE244L08042	Non-Convertible Debentures	28-Mar-18	8.85%	28-Mar-28	100.00	CRISIL AA+/Negative
INE244L08059	Non-Convertible Debentures	2-May-18	8.80%	2-May-28	100.00	CRISIL AA+/Negative
INE244L07044	Non-Convertible Debentures	29-Jun-18	IDFC MCLR LINKED	29-Jun-21	200.00	CRISIL AA+/Negative
INE244L07051	Non-Convertible Debentures	11-Oct-18	8.90%	11-Oct-20	0.10	CRISIL AA+/Negative
INE244L07077	Non-Convertible Debentures	24-Sep-18	8.80%	24-Sep-21	0.07	CRISIL AA+/Negative
INE244L07093	Non-Convertible Debentures	24-Sep-18	8.80%	24-Sep-21	901.09	CRISIL AA+/Negative
INE244L07101	Non-Convertible Debentures	24-Sep-18	8.90%	24-Sep-21	947.32	CRISIL AA+/Negative
INE244L07069	Non-Convertible Debentures	25-Sep-18	8.90%	25-Sep-20	8.73	CRISIL AA+/Negative
INE244L07085	Non-Convertible Debentures	25-Sep-18	8.90%	25-Sep-21	19.07	CRISIL AA+/Negative
INE244L07127	Non-Convertible Debentures	25-Sep-18	8.66%	25-Sep-23	20.73	CRISIL AA+/Negative
INE244L07135	Non-Convertible Debentures	25-Sep-18	8.90%	25-Sep-23	0.91	CRISIL AA+/Negative
INE244L07143	Non-Convertible Debentures	25-Sep-18	9%	25-Sep-23	75.22	CRISIL AA+/Negative
INE244L07150	Non-Convertible Debentures	25-Sep-18	8.75%	25-Sep-28	0.06	CRISIL AA+/Negative
INE244L07168	Non-Convertible Debentures	25-Sep-18	8.84%	25-Sep-28	12.40	CRISIL AA+/Negative
INE244L07176	Non-Convertible Debentures	25-Sep-18	9.10%	25-Sep-28	0.35	CRISIL AA+/Negative
INE244L07184	Non-Convertible Debentures	25-Sep-18	9.20%	25-Sep-28	13.96	CRISIL AA+/Negative
NA	Non-Convertible Debentures*	NA	NA	NA	3710	CRISIL AA+/Negative
NA	Non-Convertible Debentures@*	NA	NA	NA	500	CRISIL AA+/Negative
NA	Subordinated Debt*	NA	NA	NA	500	CRISIL AA+/Negative
NA	Term Loan	NA	NA	19-Dec-19	50	CRISIL AA+/Negative
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2450	CRISIL AA+/Negative
NA	Commercial Paper#	NA	NA	7-365 days	3000	CRISIL A1+

*Not yet issued

#Total rated amount

@Unsecured

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	3000.00	CRISIL A1+	11-09-19	CRISIL A1+	16-08-18	CRISIL A1+	29-12-17	CRISIL A1+	19-12-16	CRISIL A1+	CRISIL A1+
				10-09-19	CRISIL A1+			29-11-17	CRISIL A1+	23-06-16	CRISIL A1+	
				15-07-19	CRISIL A1+			29-04-17	CRISIL A1+			
				09-04-19	CRISIL A1+			20-03-17	CRISIL A1+			
				16-01-19	CRISIL A1+			20-02-17	CRISIL A1+			
Non Convertible	LT	6700.10 16-10-19	CRISIL AA+/Negative	11-09-19	CRISIL AA+/Watch	16-08-18	CRISIL AAA/Stable	29-12-17	CRISIL AAA/Stable	19-12-16	CRISIL AA+/Stable	CRISIL AA+/Stable

Debtures				Developing								
				10-09-19	CRISIL AA+/Watch Developing			29-11-17	CRISIL AAA/Stable	23-06-16	CRISIL AA+/Stable	
				15-07-19	CRISIL AAA/Watch Negative			29-04-17	CRISIL AA+/Positive			
				09-04-19	CRISIL AAA/Watch Developing			20-03-17	CRISIL AA+/Stable			
				16-01-19	CRISIL AAA/Stable			20-02-17	CRISIL AA+/Stable			
Subordinated Debt	LT	500.00 16-10-19	CRISIL AA+/Negative	11-09-19	CRISIL AA+/Watch Developing	16-08-18	CRISIL AAA/Stable	29-12-17	CRISIL AAA/Stable		--	--
				10-09-19	CRISIL AA+/Watch Developing							
				15-07-19	CRISIL AAA/Watch Negative							
				09-04-19	CRISIL AAA/Watch Developing							
				16-01-19	CRISIL AAA/Stable							
Fund-based Bank Facilities	LT/ST	2500.00	CRISIL AA+/Negative	11-09-19	CRISIL AA+/Watch Developing	16-08-18	CRISIL AAA/Stable	29-12-17	CRISIL AAA/Stable	19-12-16	CRISIL AA+/Stable	CRISIL AA+/Stable
				10-09-19	CRISIL AA+/Watch Developing			29-11-17	CRISIL AAA/Stable	23-06-16	CRISIL AA+/Stable	
				15-07-19	CRISIL AAA/Watch Negative			29-04-17	CRISIL AA+/Positive			
				09-04-19	CRISIL AAA/Watch Developing			20-03-17	CRISIL AA+/Stable			
				16-01-19	CRISIL AAA/Stable			20-02-17	CRISIL AA+/Stable			

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	50	CRISIL AA+/Negative	Long Term Bank Facility	50	CRISIL AA+/Watch Developing
Proposed Long Term Bank Loan Facility	2450	CRISIL AA+/Negative	Proposed Long Term Bank Loan Facility	2450	CRISIL AA+/Watch Developing
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](#)

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