
Rating Rationale for Indiabulls Financial Services Limited's proposed Long term debt issuance of upto Rs 4000 Cr (INR Four thousand crores only)

NCD Issue Rating: BWR AA+

Outlook : Stable

Brickwork Ratings (BWR) has assigned the rating of BWR AA+ (Pronounced BWR Double A plus) with a stable outlook for the long term debt issuance of upto Rs 4000 Cr of Indiabulls Financial Services Ltd (IBFSL).

The rating “BWR AA+” stands for an instrument that is are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

The rating, inter alia, factored increased focus towards low risk mortgages, growth in NII over last five years, lower dependence on short term borrowings, adequate capitalization, and significant amount of liquidity on the balance sheet.

However, the rating is constrained by lack of seasoning of the retail mortgage book; especially given the high growth in assets under management of CAGR of 24 per cent over the last three years. Exposure to commercial credit which is more susceptible to economic downturns and volatile interest rate scenario is also a constraining factor. Another constraining factor is the competition in the housing finance business from other housing finance companies and banks.

BWR has essentially relied upon the audited financial results of IBFSL, projected financials, publicly available information and information and clarification provided by the company management.

Background: Established in January 2000, Indiabulls Financial Services Ltd (IBFSL) is a systematically important non-deposit taking NBFC focused on secured asset classes, such as mortgages, commercial vehicle, and commercial credit loans. As on June 2011,

Promoter and promoter group holds 32.3% stake in company, FII's hold 33%, and individuals hold 24.2%.

Indiabulls Housing Finance Ltd., is a wholly owned subsidiary of IBFSL and mainly offers home loans to both self employed & salaried segments.

Business Model: IBFSL's has moved from unsecured lending like personal loans and SME loans to more secured business model which is more mortgage centric. Mortgages include Housing loans majorly given to salaried customers, Loan against property given to small businesses against mortgage of their residential / commercial property and big ticket corporate loans typically given to developers for residential and commercial projects. Retail mortgage loans, including Home Loans and Loans against Property, accounted for 68% of the disbursements in FY 2010-11 and 71% of the loan portfolio. The Corporate Credit segment is about 18% of the loan book, Commercial Vehicles around 8% and SME loans at about 2% of the loan portfolio. Corporate loans are given for Lease Rental Discounting, Residential projects, and general corporate purposes.

Financial Performance: The consolidated borrowings grew from Rs 7850 Cr in FY10 to Rs 19319 Cr in FY11. The balance sheet saw almost Rs 5000 Cr of liquidity in form of cash and liquid mutual funds said to be due to borrowings in last quarter of FY11. Trend of last three years shows that IBFSL maintains adequate liquidity in excess of Rs 1500 Cr on its balance sheet. Net worth grew from Rs 4310 Cr in FY10 to Rs 4539.7 Cr in FY11. This was after a dividend payout amounting to Rs 361 Cr (including corporate dividend tax).

The adjusted gearing stood at 4.26 vs 1.82 for FY10. If adjusted for cash & cash equivalents and investments in liquid mutual funds the net gearing was at 3.1 vs 1.5 in FY10. As per our discussions the company intends to keep its net gearing (net of cash and equivalents) below 5 in medium term. The CRAR stood at 20.09% as on March 31, 2011 vs regulatory requirement of 15%.

Amongst mortgages about 50% was towards Loan against property and remaining 50% was into housing loans. Geographically, the mortgages portfolio is more inclined towards North, West and South. Similarly corporate finance and commercial vehicle loans are also inclined towards these three regions and miniscule part is into east and central India.

At group level, IBFSL do not have any balance sheet exposure to any of Indiabulls group/associate companies. A very small portion of housing loan portfolio consists of loans given to customers of Indiabulls real estate.

IBFSL's sources of funds are more of bank loans with 69% of total borrowings coming from major banks. The composition of lenders is diversified with a total of 54 lenders which consists of 21 PSU banks, 11 Private and Foreign banks and 22 other Mutual Funds, Provident Funds, Pension Funds and Insurance Companies. Approximately, 20% of IBFSL's borrowings are from bond market and rest from commercial papers. IBFSL also securitizes part of its portfolio to generate additional funding, if required. As per our discussions, the Company also keeps adequate amount of unutilized bank lines in form of cash credit for uncertain outflow requirements.

IBFSL's, NPA levels have also reduced due to the company's efforts to increase the proportion of low risk mortgage portfolio that have low delinquencies. The company's gross non-performing assets were at 1.03% as on March 31, 2011, against 1.92% as on March 31, 2010. Net NPAs, computed by excluding the RBI mandated 0.25% standard asset provisions and the Rs. 50 Cr floating provisions, stood at 0.38% in FY11 vs 0.9% for FY10. Provisioning Coverage Ratio (PCR), which is total provisions, excluding standard asset provisions, divided by the gross NPAs stood at 88.12%.

Looking at earnings, consolidated IBFSL reported total income of Rs 2510 Cr of which Rs 2124 Cr was income from financing activities. The Net interest income grew from Rs 815 Cr in FY10 to Rs 1225 Cr in FY11 representing growth of 50.3%. IBFSL has a spread of about 6.4% in FY11. The net profit after tax for FY11 was at Rs 750.9 Cr vs Rs 307.5 Cr in

FY10 representing an increase of 144%. This was mainly due to 53.5% increase in total income vs 30% increase in total expenses (excluding taxes).

Rating Outlook: IBFSL has reduced its portfolio risk over last few years by reducing its unsecured loan book and focusing on low risk mortgages. The Company is focussed on mortgage loans with specific emphasis on Home Loans to the salaried segment, through its wholly owned subsidiary Indiabulls Home Finance Ltd. IBFSL has also improved its resource profile by way of diversified borrowings and low dependence on short term borrowings. The Company is also adequately capitalized. IBFSL's ability to remain adequately capitalized, , scale up its operations in highly competitive housing loan market while maintaining the quality of the assets and earnings profile and keep gearing within projected level are key rating sensitivities.

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Key Financials

Annexure I: Indiabulls Financial Services Ltd – Consolidated Balance Sheet

	FY08	FY09	FY10	FY11
Networth	3,405.77	3,460.74	4,310.07	4,540
Secured Loans	3,883.59	4,544.09	4,499.53	17,168.5
Unsecured Loans	7,338.00	2,285.00	3,350.00	2,150.10
Loan Funds	11,222	6,829	7,850	19,319
TOTAL	14,779.4	10,358.8	12,245.3	23,907.6
Fixed assets & CWIP	49.78	44.97	44.49	44.43
Investments	512.74	1,195.52	1,168.34	3,089.37
Sundry Debtors	14.44	8.41	22.17	7.66
Cash and Bank Balances	7,209.47	2,433.97	1,231.27	2,141.3
Other Current Assets	86.72	118.04	124.84	209.11
Loans and Advances	8,303.94	7,049.92	10,905.64	19,663.2
Total Current Assets and Loans & Advances	15,614.57	9,610.35	12,283.92	22,021.2
Current Liabilities	931.00	231.86	840.63	593.7
Provisions	466.65	240.09	410.72	653.7
Total Current Liabilities & Provisions	1,397.65	471.95	1,251.35	1,247.4
Net Current Assets	14,216.92	9,138.40	11,032.57	20,773.8
TOTAL	14,779.4	10,378.8	12,245.3	23,907.6

Annexure II: Indiabulls Financial Services Ltd – Consolidated Profit & Loss

	FY08	FY09	FY10	FY11
Revenue from Operations	1,686.2	2,003.09	1,625.6	2,472.7
Other Income	2.52	2.70	9.39	37.25
INCOME	1,688.76	2,005.79	1,635.04	2,509.96
<i>Growth</i>		18.8%	-18.5%	53.5%
EXPENDITURE				
Operating Expenses	42.63	22.71	17.20	28.30
Personnel Costs	238.92	166.89	136.36	165.62
Administrative and Other Expenses	176.76	602.26	417.64	414.09
EBITDA	1,230	1,214	1,064	1,902
EBIT	831	177	457	991
Interest and Finance Charges	392.26	1,028.66	598.08	899.47
Depreciation / Amortisation	7.16	7.81	8.44	10.99
Profit before tax	831.04	177.46	457.32	991.49
Provision for Taxation	248.24	71.50	149.85	240.56
Profit After Tax	580.64	106.34	307.48	750.92
<i>Growth</i>		-81.7%	189.1%	144.2%