

CARE/HO/RL/2018-19/5279

Mr. Amarnath B.S.

Group Treasurer

IIFL Home Finance Ltd.

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March 09, 2019

Confidential

Dear Sir,

Credit rating of NCD issue

On the basis of recent developments including operational and financial performance of your company for FY18 (A) and 9MFY19 (UA), our Rating Committee has reviewed the following rating:

Facilities	Amount (Rs. crore)	Amount O/s* (Rs. Cr)	Rating ¹	Rating Action
Non-convertible Debentures Issue	400 (Rupees Four hundred crore Only)	22.0	CARE AA; Stable [Double A; Outlook: Stable]	Revised from CARE AA; Positive [Double A; Outlook: Positive]

* As on February 28, 2019

2. The brief rationale for this rating is attached in **Annexure - I**.
3. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
4. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.

5. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
6. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

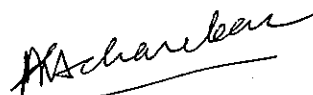
Yours faithfully,



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Encl.: As above

Disclaimer

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In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure - I - Press Release

IIFL Home Finance Limited (erstwhile India Infoline Housing Finance Limited)

Ratings:

Facilities/Instruments	Amount (Rs. Cr)	Amount O/s* (Rs. Cr)	Rating²	Rating Action
Non-Convertible Debentures (NCD)	400 (Rs. Two Thousand Crore only)	22.0	CARE AA; Stable [Double A; Outlook: Stable]	Revised from CARE AA; Positive [Double A; Outlook: Positive]
Total	400.00 (Rs. Four Hundred Crore only)			

* As on February 28, 2019

Details of instruments / facilities given in Annexure – 1

Detailed Rationale and Key Rating drivers

IIFL Home Finance Limited (IIFL Home) is a 100% subsidiary of India Infoline Finance Limited. The rating assigned to debt instruments of IIFL Home takes into consideration the strategic importance of housing finance business for India Infoline Finance Limited (IIFL Finance) and strong operational, managerial and financial linkages with the parent along with a shared brand name.

The rating assigned to various debt instruments and bank facilities of India Infoline Finance Limited (IIFL Finance) takes into consideration comfortable solvency position, strong institutional ownership, stable profitability parameters, experienced management team, diversified resource base, comfortable liquidity profile and healthy asset quality. The rating also factors in the moderate seasoning of the portfolio as well as concentration risk in loan portfolio. Asset quality, capital adequacy, concentration risk and profitability are the key rating sensitivities.

Outlook: Stable

The revision in outlook to 'Stable' is on account of moderation in asset quality with slippages during Q3FY19 (refers to period from October 01 to December 31), especially in the construction & real estate book. While the company has continued to maintain the granularity of its loan portfolio, the asset quality parameters of the company have seen some moderation in the recent scenario of tightened funding for the NBFC sector and stagnant demand in the real estate sector.

CARE Ratings has taken note of the announcement of reorganization of IIFL group's finance, wealth and capital business into three separate entities viz. IIFL Finance, IIFL Wealth and IIFL Securities. The reorganization is subject to regulatory and shareholders' approval. CARE will continue to monitor the development on the demerger process and take an appropriate rating action, if required, subsequent to the assessment of the revised business and operational plans of the independent demerged entities, post the completion of the demerger process. CARE Rating has also taken note of the recent announcement made by the company that it has executed definitive agreement with Indostar Capital Finance Limited [rated 'CARE AA-; Positive' (Double A Minus; Outlook: Positive)] for the sale of its vehicle financing business as a going concern on a slump sale basis. Appropriate rating action, if required, will be taken upon receiving further clarity on the transaction and CARE's assessment of the likely impact, if any.

² Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Sale of vehicle finance business as a going concern on a slump sale basis

On February 04, 2019, IIFL Finance had announced that it has executed a definitive agreement with Indostar Capital Finance Limited for the purchase of IIFL Finance's vehicle financing business as a going concern on a slump sale basis. The acquisition includes the entire CV finance AUM of Rs.3,949 crore as on December 31, 2018 (Rs.2,450 crore of loan portfolio and Rs.1,499 crore of securitization / assignment portfolio), along with vehicle finance business teams located in 161 branches spread over 18 states. The boards of both companies have approved the above transaction and expected date of completion of the sale is on or prior to March 31, 2019.

Detailed description of the key rating drivers:

Key Rating Strengths

Comfortable solvency parameters with demonstrated ability to raise capital

The company has been able to raise equity capital and rope in institutional investors which has helped the company to report comfortable solvency parameters. IIFL Finance reported Capital Adequacy Ratio (CAR) (standalone) of 16.32% (March 31, 2017: 20.71%) with Tier I CAR of 14.97% (March 31, 2017: 18.13%). The overall gearing as on March 31, 2018 stood at 6.60 times (consolidated) as on March 31, 2018 (P.Y.: 5.43 times). As on December 31, 2018, the company reported CAR of 20.7% (Tier I CAR: 17.4%) with overall gearing (consolidated) of 7.63 times (unaudited).

As on September 30, 2018, IIFL Home on standalone basis reported adequate CAR of 16.9% (March 31, 2018) with Tier I ratio of 12.1% (March 31, 2018: 13.1%) and overall gearing ratio of 10.45 times (March 31, 2018: 9.30 times)

Strong institutional ownership

As on December 31, 2018, the majority shareholding was held by IIFL Holdings Limited (84.53%) [currently the listed holding company of the India Infoline group], CDC group (15.43%) and employees (0.04%).

Post draft scheme of reorganization, Fairfax and CDC group are expected to have significant shareholding of 29.92% and 15.49%³ respectively along with the promoters holding of 24.45%.

IIFL Home is a wholly owned subsidiary of IIFL Finance.

Stable profitability parameters

During FY18 (refers to period from April 01 to March 31), the company reported a Profit after Tax (PAT) (consolidated) of Rs.554 crore on total income of Rs.3,857 crore as against PAT of Rs.423 crore on total income of Rs.3,168 crore during FY17. Interest income from financing activities grew by 20% in FY18. Net Interest Margin (NIM) increased from 5.47% in FY17 to 5.61% in FY18 supported by lower borrowing cost and rising yields. Gearing level stood at 6.60 times as on March 31, 2018 as compared to 5.43 times as on March 31, 2017. Operating expense to average adjusted assets ratio increased to 2.37% in FY18 from 2.31% in FY17 due to higher increase in operating expense due to expansion of branch network and subsequent increase in manpower. Return on Total Assets (ROTA) improved marginally from 1.99% during FY17 to 2.04% in FY18 which was driven by slight improvement in NIM.

During 9MFY19 (refers to period from April 01 to December 31), the company reported Profit after Tax (PAT) of Rs.469 crore on total income of Rs.3,711 crore as compared to PAT of Rs.315 crore on total income of Rs.2,957 crore during 9MFY18. Profitability during 9MFY19 was impacted on account of higher operating cost and credit costs.

³ Shareholding of CDC Group to remain 15.49% immediately after demerger; It would become 14.8% when ESOPs are exercised

On standalone basis, IIFL Home reported PAT of Rs.197.41 crore in FY18 vis-à-vis Rs.83.56 crore in FY17, a growth of 136% on account of higher NIM of 3.79% in FY18 as against 3.35% in FY17 and 47% increase in AUM.

Lending portfolio at consolidated level

During FY18, the total AUM grew by 40% from Rs.22,281 crore to Rs.31,134 crore which was primarily driven by small ticket size home loans, MSME loans and microfinance loans. The home loan book continued to be the largest segment in the portfolio mix contributing 28% of total AUM as against 24% during FY17. Other business segments such as Gold loans, Construction Finance also showed stable growth in FY18. The growth in Loan against Property (LAP) portfolio was subdued; as a result, the book remained relatively stagnant whereas capital markets book declined during FY18.

As on December 31, 2018, the total AUM (consolidated) stood at Rs.36,400 crore primarily driven by affordable home loans, small business loans, gold loans and micro loans. The home loan book continued to be the largest segment in the portfolio mix contributing 30% of total AUM. The break-up of total AUM (consolidated) as on December 31, 2018 is Home Loans (30%), LAP (16%), Construction & Real Estate (14%), Gold (15%), Commercial Vehicle (11%), Capital Markets (2%), Microfinance (5%) and MSME & Others⁴ (7%).

Experienced management team

IIFL Finance continues to have experienced professionals on its Board and key management team with strong experience in respective business segment. Mr. Nirmal Jain, Executive Chairman of IIFL Holdings Limited has founded and led IIFL since 1995. Mr. R Venkatraman, Managing Director of IIFL Holdings is the co-promoter of IIFL since 1999. The operations of the NBFC are headed by Mr. Sumit Bali who was appointed as Chief Executive Officer (CEO) of IIFL Finance w.e.f. June 25, 2018, and the operations of the housing finance company are headed by Mr. Monu Jagdishwar Singh Ratra (CEO of IIFL Home Finance) who joined the company in August 2014.

Mr. S Sridhar is Chairman of IIFL Home. He was earlier associated with NHB as Chairman and MD. IIFL Home Finance being a subsidiary of IIFL Finance, enjoys support of management team of IIFL Finance. Apart from promoters Mr. Nirmal Jain and Mr. R. Venkataraman, the Board of director constitutes of eminent industry veterans.

Comfortable Liquidity profile at consolidated level

IIFL Finance on standalone as well as consolidated basis had comfortable liquidity profile as on December 31, 2018 as it had no negative cumulative mismatches in buckets of up to one year. Further, around 85% of the loan portfolio was retail in nature and around 47% qualifies as priority sector lending (PSL) portfolio for banks which provides the option to raise funds through securitization of loan portfolio. IIFL Finance also has sufficient undrawn bank lines which provide liquidity comfort. As of December end, IIFL Finance, on consolidated level, had unutilized cash credit limit of Rs.276 crore from various banks and Rs.4,390 crore sanctioned through direct assignment/ securitization.

Diversified resource profile

IIFL Finance has a diversified resource profile; consisting a mix of short term and long term debt instruments. As on March 31, 2018, the borrowing mix consisted of Commercial Paper (29%), Non-Convertible Debentures (18%), Subordinated Debt (5%), Term Loans (34%), CBLO/ICD (2%) and Securitization/Direct assignment/Banking Correspondent (12%).

As on December 31, 2018, IIFL Finance reduced its borrowing through Commercial Paper to 12% whereas increased its borrowing through Term Loans which increased to 40% and Securitization/Direct

⁴ MSME & Other includes Healthcare Equipment, SME and Digital Finance

assignment/Banking Correspondent which increased to 27%. Remaining funding profile remained relatively same as on December 31, 2018.

IIFL Home on a standalone basis has diversified borrowing profile with NCD (29%), Term Loan (40%), Loan from NHB (7%), CP (17%) and short term Bank Loans (7%). The management has indicated that they will reduce the CP borrowing to 10% of total borrowing in near future.

Key Rating Weaknesses

Moderate asset quality

In last 3 years, IIFL Finance moved from 180dpd NPA recognition norm in FY16 to 120dpd NPA recognition norm in FY17 and 90dpd NPA recognition norm in FY18 without any undue rise in overall Gross NPA (GNPA) levels. After change in NPA recognition norm in FY18, the company reported GNPA ratio of 1.71% (90dpd) [P.Y.: 1.82% (120dpd)] and Net NPA (NNPA) ratio of 0.79% [P.Y.: 0.58%] as on March 31, 2018.

As on December 31, 2018, asset quality depreciated with GNPA ratio of 3.74% and NNPA ratio of 1.49%. During Q3FY19, the asset quality parameters of the company have seen deterioration in the recent scenario of tightened market liquidity and stagnant demand in the real estate sector. Construction & Real Estate segment reported NNPA ratio of 2.7% as on December 31, 2018 against NNPA ratio of 1.4% as on March 31, 2018. With the implementation of Expected Credit Loss method under IND AS, provision coverage on NPA stood at 60% and at 1.81% on standard assets as on December 31, 2018.

Limited seasoning of portfolio

The company has limited track record in retail mortgage (housing loans), CV, Health Care and SME portfolios. IIFL's retail mortgage portfolio has low seasoning where the company has been focusing for past few years. Within the mortgage segment, the company is focusing on providing lower ticket home loans to salaried segment which has increased the granularity of its retail portfolio. The management has successfully managed to reduce its wholesale portion of mortgage portfolio from 36% as on March 31, 2015 to 15% as on March 31, 2018. From last two years IIFL group is focusing on retail mortgage loans targeted towards individual borrower. As on March 31, 2018, 58.7% of retail mortgage portfolio comprised of loans with ticket size of Rs.1 crore or less (45.3% as on March 31, 2017).

The IIFL Home has grown its loan portfolio in past four years from Rs.904 crore in FY14 to about Rs.14,397 crore as on September 30, 2018. So the portfolio is yet to season as Home Loan are long tenure loans.

High concentration in mortgage loans

As on September 30, 2018, the exposure to top 20 borrowers of IIFL Finance (consolidated) stood at Rs.3,103 crore constituting around 10% of total loan portfolio and 75% of tangible net worth (consolidated).

As on September 30, 2018, on standalone basis, top 20 borrowers as % of tangible net worth of IIFL Home stood at 68% as against 81% as on March 31, 2018 and 60.7% as on March 31, 2017.

Analytical Approach:

CARE has based its view on the consolidated financial profile of IIFL Finance and its subsidiaries. Further, CARE has also taken into account the synergies enjoyed by IIFL Finance as part of the India Infoline group. CARE has also taken note of the proposed demerger scheme of the group wherein there will be three listed entities – India Infoline Finance Limited (IIFL), IIFL Wealth and IIFL Securities. CARE will continue to monitor the development on the demerger process take an appropriate rating action, if required, subsequent to the assessment of the revised business and operational plans of the independent demerged entities, post the completion of the demerger process.

Subsidiaries considered as a part of consolidated financials:

- India Infoline Finance Limited

- India Infoline Housing Finance Limited
- Samasta Microfinance Limited
- Others:
 - Clara Developers Private Limited (direct subsidiary)
 - Ayusha Dairy Private Limited (indirect subsidiary)

Liquidity Profile:

IIFL Finance had comfortable liquidity profile. The standalone as well as consolidated asset liability maturity (ALM) profile as on December 31, 2018 had no negative cumulative mismatches in buckets of up to one year.

IIFL Finance also has sufficient undrawn bank lines which provide liquidity comfort. As of December end, IIFL Finance, on consolidated level, had unutilized cash credit limit of Rs.276 crore from various banks and Rs.4,390 crore sanctioned through direct assignment/ securitization.

On standalone basis, IIFL Home had cumulative negative mismatch of Rs.178 crore in 1 to 2 months bucket which is backed by unutilised cash credit facility of Rs.72 crore from various banks and Rs.500 crore sanctioned through Direct Assignment/ securitization.

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings

CARE Policy on Default Recognition

Rating Methodology: Factoring Linkages in Ratings

Rating Methodology- Housing Finance Companies

Financial ratios - Financial Sector

About India Infoline Finance Limited:

India Infoline Finance Ltd. (IIFL Finance) is systemically important RBI registered non deposit taking NBFC with focus on affordable home loans, small business loans, gold loans and micro loans. IIFL Finance is a subsidiary of IIFL Holdings Ltd. (IIHL) (84.59% shareholding as on December 31, 2018).

IIFL Finance, on consolidated basis, reported Assets Under Management (AUM) of Rs.36,400 crore as on December 31, 2018 (Rs.31,134 crore as on March 31, 2018). IIFL Finance has wholly owned subsidiary, IIFL Home Finance Limited (housing finance company registered with NHB), engaged in retail mortgage finance. During FY17, IIFL ventured into the microfinance segment with the acquisition of Bengaluru-based microlender Samasta Microfinance Ltd (NBFC-MFI) registered with RBI. As on September 30, 2018, AUM of Samasta Microfinance Ltd was Rs.1,753 crore (Rs.840 crore as on March 31, 2018).

In January 2018, the board of directors of IIFL Holdings Limited (IIHL) approved the draft scheme of reorganization of its finance, wealth and capital business into three separate entities which is IIFL Finance, IIFL Wealth and IIFL Securities respectively. As per the draft scheme of demerger, IIFL Holdings will be renamed as "IIFL Finance Ltd". As per the company's disclosures, owner of 7 shares of "IIFL Holdings" (the listed company) will have 7 shares of IIFL Finance, 7 shares of IIFL Securities and 1 share of IIFL Wealth post reorganization. Fairfax will be the "most significant" non-promoter shareholder in all the three companies. These new entities will be listed in a year.

About IIFL Home Finance Limited (IIFL Home):

IIFL Home, a wholly owned subsidiary of India Infoline Finance Ltd. (IIFL Finance), is National Housing Bank (NHB) registered Housing Finance Company (HFC). IIFL Home caters to a vast segment of retail and corporate customers through its loan offering - this includes home loans, construction finance and loans against property, with the key focus area being housing loans to individuals against the security of residential collaterals.

DMF

The company has rapidly grown in the past few years and asset under management (AUM) of the company stood at Rs.14,341 crore as on March 31, 2018 (PY: Rs.9,769 crore) which further increased to Rs.16,796 crore as on September 30, 2018. The company is headed by Mr. Monu Ratra (Executive Director & Chief Executive Officer). Mr. Ratra has about 20 years of experience in the mortgage industry. Prior to joining IIFL Home, he has served in leading positions with HDFC Ltd., ICICI bank, Indiabulls Housing Finance Ltd.

As on March 31, 2018, 75+ branches of the India Infoline Group network were dedicated for the IIFL Home business. Post Reorganization of IIFL Holdings Ltd., IIFL Finance Ltd. will continue to hold 100% shareholding in IIFL Home.

Brief Financials (IIFL Finance):
(Rs. crore)

(Rs.

Particulars	FY17 (A)	FY18 (A)
Total income	1,379	1,893
PAT	423	554
Total Assets*	23,392	30,948
Asset Under Management (AUM)	22,281	31,134
Net NPA (%)	0.58 [!]	0.79 [@]
ROTA# (%)	1.99	2.04

A: Audited; !:120dpd; @: 90dpd

*: Total assets are Net of Intangibles, Deferred Tax Assets & Goodwill on consolidation;

#: Calculated on Total Average Assets.

Brief Financials (IIFL Home):
(Rs. crore)

(Rs.

Particulars	FY17 (A)	FY18 (A)
Total income	906	1,269
PAT	84	197
Total Assets*	8,448	12,413
Asset Under Management (AUM)	9,769	14,341
Net NPA (%)	0.28	0.25
ROTA# (%)	1.20	1.89

A: Audited;

*: Total assets are Net of Intangibles, Deferred Tax Assets & Goodwill on consolidation;

#: Calculated on Total Average Assets.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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