



Infomerics Valuation and Rating Pvt Ltd

Press Release

Indiabulls Dual Advantage Commercial Asset Fund

March 20, 2017

Rating

Instrument	Amount	Rating	Rating Action
Alternative Investment Fund (AIF)	Rs.1000 crores	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)	Assigned

Details of Instrument are in Annexure 1

Infomerics has assigned a rating of IVR AAA(AIF) (pronounced IVR triple A Alternative Investment Fund) to the Indiabulls Dual Advantage Commercial Asset Fund (IBDACAF) upto a maximum amount of Rs.1000 crores (including a greenshoe option of Rs.500 crores). The asset selection ability and asset management capabilities in the respective segments/sectors for these funds are expected to be very good.

Detailed Rationale

The aforesaid rating derives comfort from the established stature of the sponsor (Indiabulls Housing Finance Ltd.), its financial strength, its position of being one of the largest private sector housing finance companies of the country, commitment towards the fund and its (alongwith its group companies) significant presence in the real estate sector; gradual positioning of the Investment Manager in the domestic mutual fund industry & presence of highly qualified and experienced management team, robust investment process and detailed post-investment monitoring mechanism supported by well-established technological & operational platform. The rating also factors in the stated investment strategy & demonstrated adherence of investment out of first two AIFs to the deal selection criteria, expected portfolio quality of the scheme particularly because this AIF envisages majorly in fully constructed properties, the fact that the actual investment and modalities of IBDACAF are yet to be tested



Infomerics Valuation and Rating Pvt Ltd

and volatility in the real estate sector leading to uncertainties of future success of real estate investment. Continuous support from the sponsor, adherence to existing investment process & risk management system and credit quality of the future portfolio of the scheme are the major drivers for the rating.

List of Key Rating Drivers

- Established stature of the sponsor
- Sponsor's commitment towards the fund
- Significant presence of the sponsor group in the real estate sector
- Gradual positioning of the Investment Manager & its having highly qualified & experienced management team
- Robust investment process
- Detailed post-investment monitoring process, supported by well-established technological & operational platform
- Stated investment strategy of the Fund & demonstrated adherence of investment of past AIFs
- Expected portfolio quality of the scheme
- Actual investment and modalities of IBDACAF are yet to be tested
- Volatility in the real estate sector leading to uncertainties of future success of real estate investment.

Detailed Description of Key Rating Drivers

Rating Strengths

Established stature of the sponsor

The sponsor, Indiabulls Housing Finance Ltd. (IBHFL), has been in operation since 1999, mainly in the areas of mortgage finance and corporate loans. As on March 31, 2016, the Assets Under Management (AUM) was of the size of Rs.68,683 crores with mortgage finance accounting for 77% of AUM. The company is widely present across 220 locations in 20 states and/or Union Territories of India, with international presence in London and Dubai. The business level of the company grew steadily over the last three years with FY2016 witnessed a revenue booking of Rs.9225.6 crores and reported PAT of Rs.2344.7 crores. The company has a large network base - Rs.10693.2 crores as on the aforesaid date.



Infomerics Valuation and Rating Pvt Ltd

Sponsor's commitment towards the fund.

As per the SEBI regulations for AIF, the sponsor's commitment requirement is 2.5% of the targeted fund or Rs.5 crores, whichever is less. However, the management has indicated that the sponsor will invest upto Rs.50 crores in this AIF. i.e., 2.5% of the fund size subject to a maximum of Rs.50 crores, being higher than the regulatory requirement. In many ways including administrative support, the sponsor has been facilitating the success & positioning of its mutual funds and AIFs.

Significant presence of the sponsor group in the real estate sector

The Indiabulls group has established presence in the real estate domain. IBHFL, the sponsor, alongwith its two major group companies, Indiabulls Real Estate Ltd. (real estate development company) and Indiabulls Distribution Services Ltd. (residential property broking company), provides an integrated solution to the buyers by virtue of its presence in the entire real estate eco system.

Gradual positioning of the Investment Manager & its having highly qualified & experienced management team

Indiabulls Asset Management Co. Ltd., the Investment Manager of the fund, is relatively a new entrant in the mutual fund & related space. After having established in 2012, it manages 10 mutual fund schemes with an average AUM of Rs.10,226 crores as on December 31, 2016, in addition to two AIFs, India Bulls Real Estate Fund and Indiabulls High Yield Fund, having an aggregate AUM of Rs.761.8 crs., as on a recent date. In terms of size (data provided by AMFI), Indiabulls AMC ranks 20th (improved from 24th position post-September, 2016) in the Indian mutual fund industry (out of total 42 AMCs).

Robust investment process

The AMC follows very rigid & robust investment process. The investment process encompasses deal sourcing & evaluation, financial due diligence, feasibility study, investment committee review and detailed due diligence.

The network of the management team is the primary source for potential deals. All potential deals are evaluated on several parameters (total 63); such as, location of the project, size of



Infomerics Valuation and Rating Pvt Ltd

investment, developer profile, deal structure, development bye-laws, execution, regulatory & legal risks and micro market profile. Further, site visits are carried out by the investment team to physically evaluate each property. The investment team then performs a detailed financial due diligence for projects that meets the initial evaluation criteria. The team then negotiates with the builders for the proposals which qualify for detailed due diligence. The broad terms of negotiation with developers are recorded in a term sheet. Post negotiations with the developers, the investment team prepares an Investment Note for the review of the Investment Committee (IC). Approval of all IC members is required for any proposal to be cleared before any investment is made out of the funds of the scheme.

Detailed post-investment monitoring process, supported by well-established technological & operational platform

Investment team monitors investment portfolio on a monthly basis in order to ascertain level of adherence to regulatory requirements, financial and other covenants and to identify early warning signals. The fund is exposed to credit risk and valuation risk which is mitigated through stringent underwriting norms being followed.

Stated investment strategy of the Fund & demonstrated adherence of investment of past AIFs

The strategy of IBDACAF is to invest primarily in commercial, office, commercial mixed use, I.T. Parks, industrial parks or similar assets in geographies with proven market depth, high pent up demand and in projects with medium to low execution risks. The investments will cover primarily commercial or mixed use projects in Class X and Class Y cities as defined by Government of India under recommendation of Sixth Central Pay Commission. The earlier two AIFs of the same asset manager and sponsor has demonstrated adherence to the stated investment strategy.

Expected portfolio quality of the scheme

Asset tenure is expected to closely match the scheme maturities and shall be held to maturity. The maturity of investments will be equal to or less than maturity of the scheme (i.e., 5 years) to ensure timely redemption of units to investors on maturity of scheme with minimal exposure to market risks. Also, Investment Manager will have an option to extend tenure by two years



Infomerics Valuation and Rating Pvt Ltd

based on approvals to be received from investors. Before maturity, net cash-flows, if any, will be passed on to the unit holders as distributable surplus. Further, the scheme envisages investing mainly in fully constructed commercial properties.

Rating Weaknesses

Actual investment and modalities of IBDACAF are yet to be tested

The fund is yet to make any investment. Thus, the benefits of a seasoned portfolio are not available in this case. While this needs to be time tested, this is somewhat mitigated by the fact that the fund will follow well laid down processes, backed by strong IT system.

Volatility in the real estate sector leading to uncertainties of future success of real estate investment.

The real estate sector in India is inherently volatile and it is a function of regional dynamics. As iterated earlier, apart from the regular income through lease rentals, the fund will repay principal from sales proceeds of the invested properties. Any downward movement in real estate prices may affect the total returns from this fund.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Alternative Investment Fund

About the Fund

Indiabulls Dual Advantage Commercial Asset Fund (IBDACAF) is a Category II Alternative Investment Fund (AIF) as per SEBI regulations. The tenor of the fund is five years from the date of final closing. The final closing date is maximum of 24 months from the date of first closing.

The fund will invest in NCDs / OCDs / Mezzanine / equity of real estate SPVs and/or real estate corporates.

The sponsor of the fund is Indiabulls Housing Finance Company Ltd (IBHFL) and the investment manager is Indiabulls Asset Management Company Ltd.

Status of non-cooperation with previous CRA: Not applicable



Infomerics Valuation and Rating Pvt Ltd

Any other information: Not applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Shri Sarnambar Roy

Tel: (022) 40036966

Email: sroy@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: : Infomerics' Alternative Investment Fund rating is not a recommendation to buy, sell, or hold a security / fund. It neither comments on the current market price, suitability for a particular investor nor on the prospective performance of the fund with respect to appreciation, volatility of net asset value (NAV), or yield of the fund. The ratings do not address the fund's ability to meet the payment obligations to the investors. The ratings are based on current information furnished to Infomerics by the issuer or obtained by Infomerics from sources it considers reliable. Infomerics does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Infomerics does not perform an audit in connection with any rating and may, on certain occasions, rely on. The ratings may be changed, suspended, or withdrawn as a result of changes in, or non-availability of, such information, or based on other circumstances / information. Funds rated by Infomerics have paid a rating fee.

Annexure 1: Details of Instrument

Name of Instrument	Date of issuance	Coupon Rate/ IRR	Maturity Date	Size of issuance (Rs Crores)	Rating Assigned/ Outlook
--------------------	------------------	------------------	---------------	------------------------------	--------------------------



Infomerics Valuation and Rating Pvt Ltd

Alternative Investment Fund	NA	NA	5 years (Investment manager has option to extend tenure by 2 years)	1000.00	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)
-----------------------------	----	----	---	---------	--