



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Indiabulls High Yield Fund and Indiabulls Dual Advantage Commercial Asset Fund

November 6, 2017

Rating

Instrument / Facility	Amount	Rating	Rating Action
Indiabulls High Yield Fund (IBHYF)	Rs. 1000 crores	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)	Reaffirmed
Indiabulls Dual Advantage Commercial Asset Fund (IBDACAF)	Rs. 1000 crores	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)	Reaffirmed

Details of Instrument / Facility are in Annexure 1

Infomerics has reaffirmed the ratings of 'IVR AAA (AIF)' (pronounced IVR Triple A Alternative Investment Fund) assigned to Indiabulls High Yield Fund for a maximum amount of Rs.1000 crores (including a greenshoe option of Rs.500 crores) as well as to Indiabulls Dual Advantage Commercial Asset Fund for 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.

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.

Rating Rationale

The ratings derive comfort from the established stature & financial strength of the sponsor, the sponsor's commitment towards the fund, significant presence of the sponsor group in the real estate sector, gradual positioning of the Investment Manager & presence of highly



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qualified & experienced management team, robust investment & monitoring process supported by technological & operational platform and portfolio quality of the scheme. The rating also takes in to consideration the volatility in the real estate market.

List of Key Rating Drivers

- **Established stature and financial strength 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 & presence of highly qualified & experienced management team**
- **Robust investment process**
- **Detailed post-investment monitoring process, supported by well-established technological & operational platform**
- **Portfolio quality of the scheme**
- **Volatility in the real estate sector.**

Detailed Description of Key Rating Drivers

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, 2017, the Assets Under Management (AUM) was Rs.91,301 crore with mortgage finance accounting for 78% 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 company grew steadily over the last three years with an overall revenue of Rs.11702 crore and reported PAT of Rs.2906 crore for FY17. The company had a large networth base of Rs.12122 crore as on March 31, 2017.

The sponsor of the fund, registered with National Housing Bank, is one of the largest housing finance companies of the country in the private sector space. It has a versatile Board comprising 11 members, including six independent directors. Shri Sameer Gehlaut, the Founder Chairman, is at the helm of the affairs of the company and he is supported by Shri Gagan Banga, Vice Chairman & Managing Director, an experienced professional.



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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. IBHFL has committed to invest minimum Rs.50 crores in the case of both the fund schemes, i.e., 5% of the aggregate targeted fund, being higher than the regulatory requirement. In many ways including administrative support, the sponsor has been facilitating the success & positioning of its mutual fund schemes 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, along with 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.

Corporate real estate exposures accounted for 22% of IBHFL's total AUM of Rs.91,301 crore as on March 31, 2017, of which the total outstanding loans to the corporate segment stood at over Rs.23,590 crores. Indiabulls Real Estate Limited along with related entities has completed construction of 51.5 lakhs square feet (lsf). The total saleable area under construction as on June 30, 2017 is 339.1 lsf. IBREL has a total land bank of about 3634 acres (including 2588 acres of SEZ land in Nashik). Indiabulls Distribution Services Ltd. has sold over 7000 units and has a customer base of over 7 lakh with sales team of 800 associates. It has tie-ups with over 100 developers and presence in 21 cities of India.

Gradual positioning of the Investment Manager & presence of 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 has launched ten mutual fund schemes and three Alternative Investment Fund and has been gradually positioning itself in the domestic capital market. In a short span, it is ranked 23rd amongst 42 mutual funds in terms of AUM. Its AUM in ten mutual fund schemes was Rs.10577 crore and in AIF (IBHYF) of Rs.579.5 crore (Rs.396.5 crore received from



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investors and deployed) as on September 30, 2017. The AMC was able to close its first AIF (IBREF) within 13 months.

Indiabulls AMC is headed by Shri Akshay Gupta, CEO (an Engineer and a management graduate from FMS, Delhi), having over 18 years of experience in the capital market, including 12 years in mutual fund industry. The Board of the company is quite diversified with five members - the CEO, one Associate Director and three independent directors (two practising Chartered Accountants and one retired IRS). Besides CEO, the other senior managerial personnel of the AMC includes Shri Ambar Maheshwari (CEO – Private Equity, a Chartered Accountant having over 17 years of experience), Shri Uday Diwale (Head – Compliance, MMS, having 18 years of experience in compliance and information technology), Shri Malay Shah (Head - Fixed Income, MMS, having 14 years of experience in fixed income investment management) and Shri Sumit Bhatnagar (Fund Manager – Equity, MBA, having 14 years of experience in capital market).

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; such as, location of the project, size of 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 meet 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



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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. IBHYF is exposed to credit risk and hence, has step in rights in case there is any significant deviation during the progress of the project. IBDACAF is exposed to credit risk and valuation risk which are mitigated through stringent underwriting norms being followed.

The post investment monitoring involves assessment of investees on a quarterly basis in order to ascertain levels of adherence to project completion timelines, projected sales and other covenants. Monthly information from investees is sought and the operational and financial indicators are monitored. The investment team visits the investee company once in each quarter and the report is submitted to IC with a recommendation on any actionable points to the Investment Team for due consideration and subsequent action. The valuation of the portfolio is done on a semi-annual basis by one of the four well known property consultants (JLL, CRE, Cushman & Wakefield and Knight Frank) and the performance report is submitted to the investors.

Portfolio quality of the scheme

IBHYF will invest in the NCDs, structured debt instruments and / or high yielding secured debentures to be issued by portfolio entities. The investments would be made only in instruments backed by residential projects. Investments will be made in structured debt including some mezzanine investments through NCDs. The fund will determine the portfolio based on prudent norms in order to best suit the prevalent capital and real estate market conditions at the time of deal structuring.

IBDACAF will invest in commercial real estate assets by taking full control of the SPVs / corporates which own the asset. The investment in SPVs will be funded through a mixture of equity and debt, mostly in the ratio of 30:70 respectively. The SPVs will, in turn, channelise these funds to purchase the real estate asset. The properties will mostly be first hand, few of them may be resold in nature, 80% of the assets will be in completed projects and 20% of the assets will be in ongoing projects which are completed to the extent of 90%. The properties will be leased out to the maximum extent possible. IBDACAF will accrue regular income through monthly lease rentals earned from the leased properties. IBDACAF will leverage on



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the experience of Indiabulls group currently managing three commercial properties (two in Mumbai and one in Chennai). At the end of 5 years, the principal will be repaid through the sale of these properties.

The fund schemes shall not invest in any project developed by Indiabulls group entities, while also ensuring that a cover of minimum 2 times the investment is maintained. 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., 4 years for IBHYF and 5 years for IBDACAF) to ensure timely redemption of units to investors on maturity of scheme with minimal exposure to market risks. Before maturity, net cash-flows, if any, will be passed on to the unit holders as distributable surplus.

Volatility in the real estate sector.

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 of NCDs, the fund will generate additional income from the sale of dwelling units which is a part of the security cover thereby enhancing the effective IRR. The appropriation of proceeds from the sale of dwelling units to the fund is based on a mutually agreeable formula between the real estate developer and Indiabulls AMC. Any downward movement in real estate prices may affect the total return from this fund.

Analytical Approach & Applicable Criteria

Rating Methodology for Alternative Investment Fund

About the Fund Schemes

Indiabulls High Yield Fund (IBHYF) is a Category II Alternative Investment Fund (AIF) as per SEBI regulations. The tenor of the fund is four 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 pertaining to residential projects.

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.



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The final closing date is maximum of 24 months from the date of first closing. The fund will invest in commercial real estate assets by taking full control of the SPVs / corporates which own the asset.

The sponsor of the fund schemes 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

Any other information: Nil

Rating History for last three years: As per Annexure 2

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.

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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 accredited by Reserve Bank of India. It 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.

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Annexure 1: Details of Instrument / Facility

Name of Instrument / Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Indiabulls High Yield Fund	-	-	4 years (Investment manager has option to extend tenure by 1 year)	1000.00	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)
Indiabulls Dual Advantage Commercial Asset Fund	-	-	5 years (Investment manager has option to extend tenure by 2 year)	1000.00	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)

Annexure 2: Rating History

Name of Instrument	Current Ratings			Rating History		
	Type	Amount Outstanding (Rs. Crores)	Rating	Date & Rating Assigned in 2016-17	Date & Rating Assigned in 2015-16	Date & Rating Assigned in 2014-15
Indiabulls High Yield Fund	Alternative Investment Fund	1000.00	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund) (October 10, 2016)	Nil	Nil
Indiabulls Dual Advantage Commercial Asset Fund	Alternative Investment Fund	1000.00	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund)	IVR AAA(AIF) (pronounced IVR Triple A Alternative Investment Fund) (March 20, 2017)	Nil	Nil