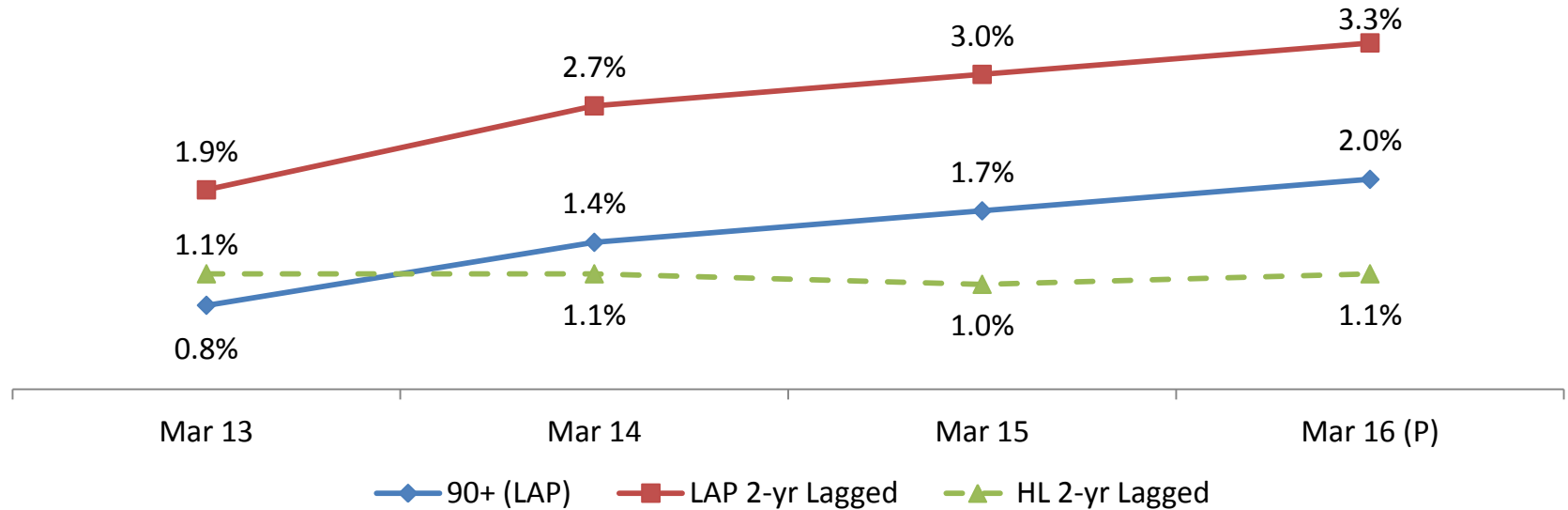


# **Loan Against Property Portfolio**

# Concern in LAP Portfolio at Industry Level



Source: Leading Rating Agency Data

- Ticket sizes are increasing
- LTVs are rising
- Funding against non-residential property is increasing
- Large volume of balance transfers masks true delinquency

	Outstanding LAP Portfolio <sup>^</sup> (₹ Bn)	90+ %
<b>Total</b>	<b>1,864</b>	<b>2.4%</b>
Indiabulls Housing Finance	139	0.3%
Private Banks	468	1.1%
Public Sector Banks	202	4.7%
NBFC	594	2.7%
HFC (incl IB)	470	1.9%
Others	131	3.6%

Source: Credit Bureau of India Limited (CIBIL) data, March 2015

<sup>^</sup> Data is for individual non-housing loan mortgage loans

IBHFL data is company information

# Portfolio Performance that is Externally Validated

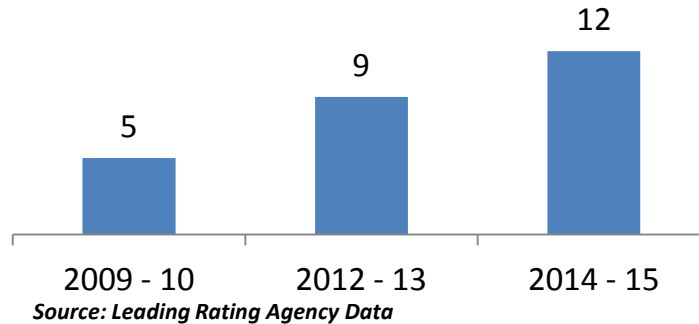
Quality and performance of 64% of the entire LAP portfolio and 100% of all incremental loans FY16 onwards is externally validated at an account level

	Portfolio Size (₹ Bn)	Avg MoB (months)	90+ % of POS	% of Portfolio	
<b>Total LAP Portfolio</b>	<b>173.1</b>	<b>18.3</b>	<b>0.30%</b>	<b>100.0%</b>	
Sourced in FY16	60.5	6.2	-	34.9%	Case level LAP grading by CRISIL and ICRA
Pre-FY16 Portfolio	112.6	24.9	0.46%	65.1%	
Total Sold Down Pool	36.0	32.0	0.20%	20.8%	
<i>covered in pool performance publications</i>	7.2	46.3	1.01%	4.1%	Pool performance publication of respective Rating Agencies
<i>'Direct Assignment' pools published by CARE</i>	12.7	37.4	-	7.4%	Direct Assignment pool performance monitoring by CARE
<i>DA pools sold down in last 12 months</i>	16.1	22.2	-	9.3%	Recently sold down pools
Pools in process of being sold	15.0	14.0	-	8.7%	Pools that will be sold down in Q1FY17 being vetted by investors and rating agencies
Remainder Portfolio	61.6	23.4	0.73%	35.6%	

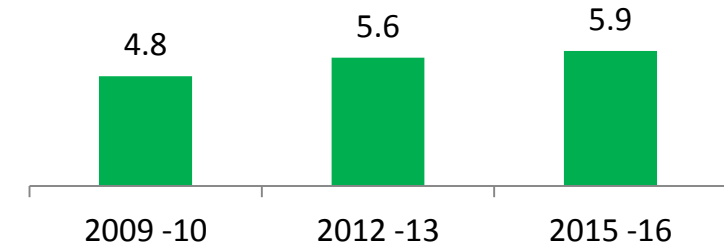
# How is Indiabulls' LAP Different?

Industry

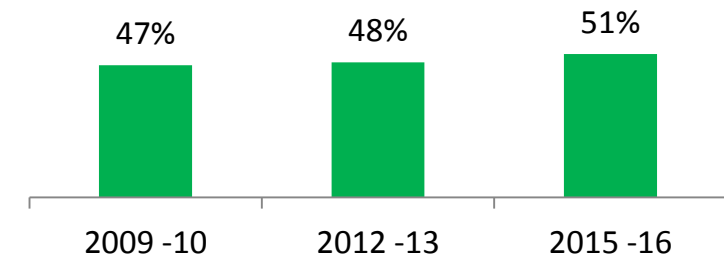
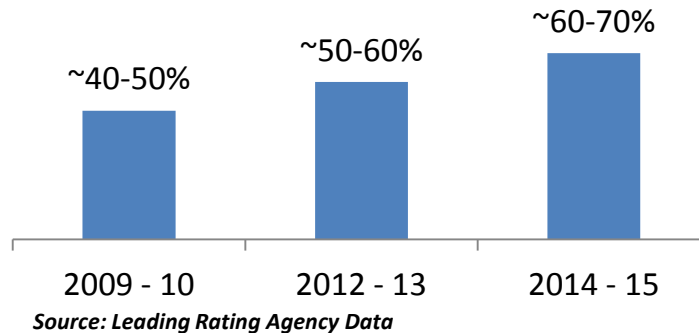
Median Ticket Size (₹ Mn)



Indiabulls Housing Finance



Loan to Value



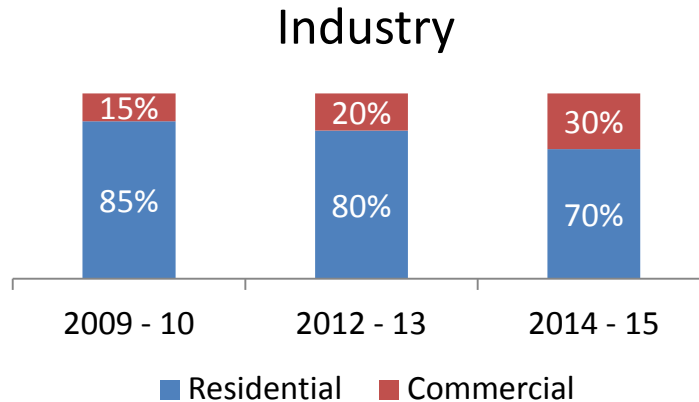
**Industry-level concern:** one-third of incremental lending is either high-ticket (> 20 Mn) or high LTV (>65%)

**Indiabulls Housing:**

- Median ticket sizes have only moderately increased, roughly in line with inflation
- LTVs have remained stable
- Incremental sourcing where ticket size is > 20 Mn and/or LTV is greater than 65% is only 17% compared to 30%+ for the industry

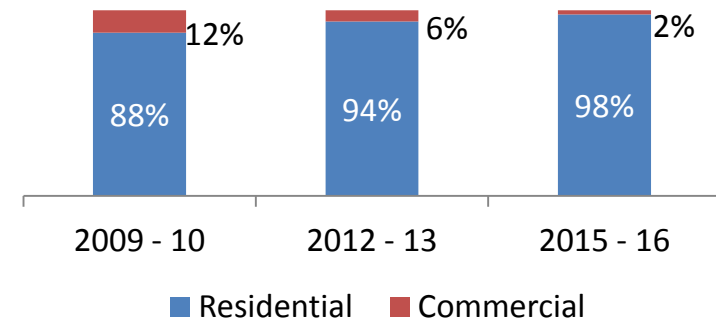
# How is Indiabulls' LAP Different?

Share of Commercial Property

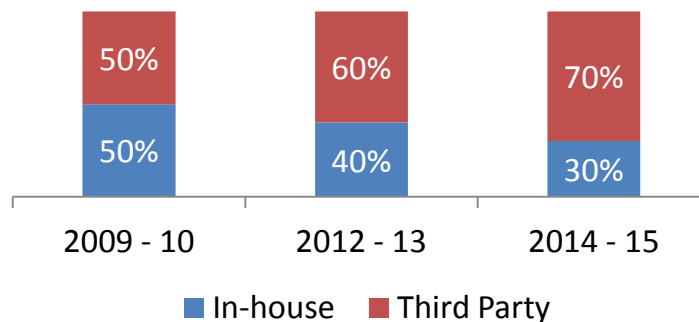


Source: Leading Rating Agency Data

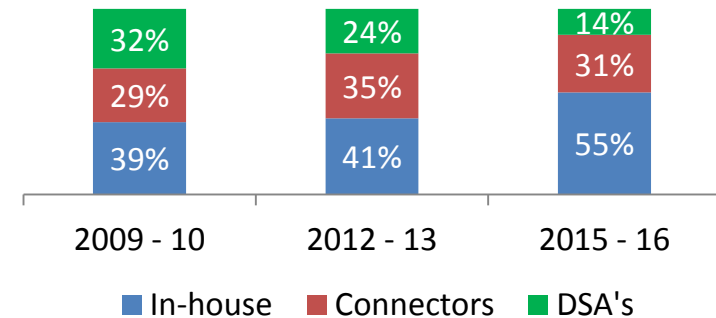
### Indiabulls Housing Finance



Share of Intermediaries



Source: Leading Rating Agency Data



## Industry-level concern

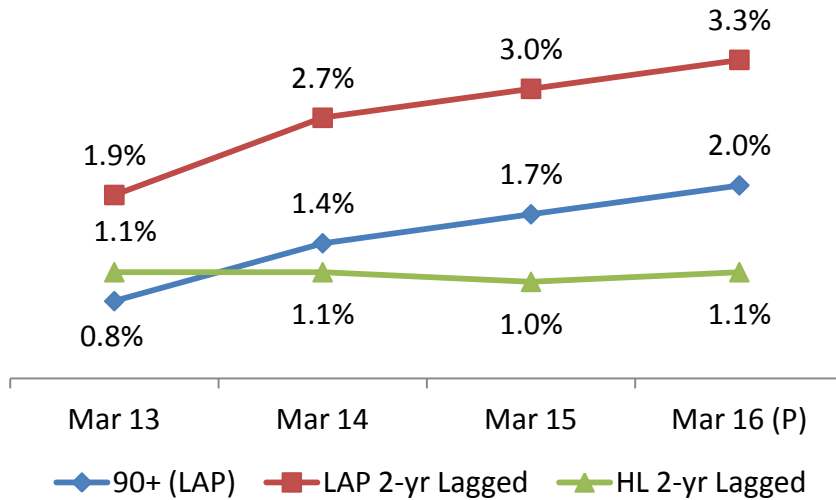
- Share of residential collateral decreasing
- Share of intermediaries increasing reducing control on credit and pushing up balance transfers

## Indiabulls Housing Finance

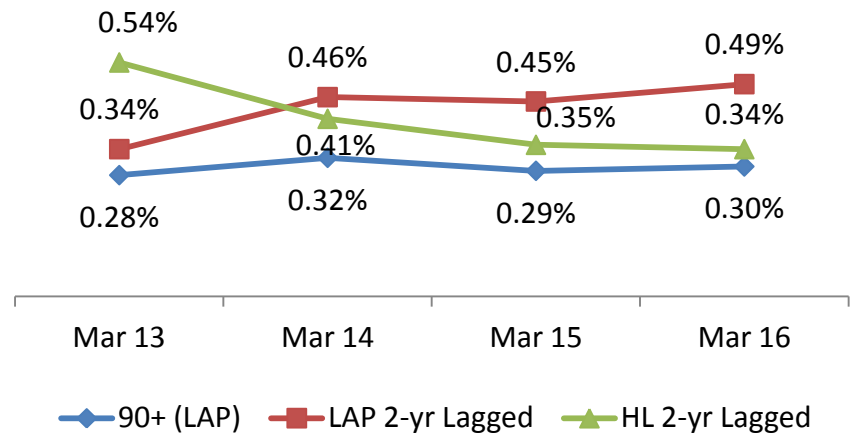
- Credit standards have not been diluted
- Strength of portfolio relies on funding against residential property for productive deployment in business
- Large direct sales team (DST) originally built up for housing loans is increasingly also sourcing LAP

# Evident in Portfolio Performance

## Industry



## Indiabulls Housing Finance



Source: Leading Rating Agency Data

**Industry-level concern:** LAP 2-year lagged delinquencies steeply increasing and is almost 3x that of housing loans

**Indiabulls Housing:**

- 2-year lagged delinquency for LAP is stable and only marginally higher than that of housing loans

# Conservative Loan Against Property Profile

Average Loan Size	₹ 7.3 Mn
Maximum Loan to Value	65%
Average Loan to Value	49% (at origination)
Average Loan Term	7 years
Primary Security	Mortgage of property financed
Repayment Type	Monthly amortizing
Basis of Credit Appraisal	Business cash flow analysis based

# Loan Against Property Myths

## LAP Myth 1: LAP loans' credit appraisal is mainly asset value based

- IBHFL LAP loans are underwritten on a cash flow based appraisal model
- **First of its kind initiative in India: IBHFL enters into a LAP grading engagement with CRISIL (a Standard and Poor's Company) and ICRA (a Moody's Investors Service Company)**
  - CRISIL grades the loans on aspects such as past payment track record; nature of business and financial parameters; nature of property; and loan attributes like ticket size, sourcing channel, lending scheme, loan tenure, etc.
  - ICRA grades the loans on aspects such as financial strength; business and management; collateral strength quality and enforceability; and attributes of the loan itself
  - Engagement with CRISIL was initiated in Q1FY16 and ICRA in Q2FY16
- **Concurrent grading by multiple rating agencies**
  - Offers IBHFL a broader and deeper perspective and a means to further improve loan portfolio
  - Rating agencies are important stakeholders: exercise will increase comfort and transparency on the asset class
- **Grading exercise will build into a comprehensive risk model**
  - Portfolio performance and delinquency will be tracked against loan grades
  - Proactive customer management: retention, upsell/ cross-sell, delinquency management
  - Learnings will feed back to improve loan underwriting and continuously upgrade lending policy



# CRISIL LAP Grading Methodology

Detailed assessment of key factors determining credit worthiness

Financial Strength	Business Management
<ul style="list-style-type: none"> <li>• Interest and debt service cover</li> <li>• Revenues, margin and profitability</li> <li>• Networth and leverage</li> <li>• Growth track of key financial parameters</li> </ul>	<ul style="list-style-type: none"> <li>• Business sector and sectoral prospects</li> <li>• Business duration and track record</li> <li>• Debt service track record</li> <li>• Experience and qualification of promoters and proprietors</li> <li>• Management strength and experience</li> </ul>
Collateral Quality	Underwriting Process Adherence
<ul style="list-style-type: none"> <li>• Property type and location</li> <li>• Valuation of property</li> <li>• Ownership and title chain of property</li> <li>• Adherence to local zoning and planning permissions</li> </ul>	<ul style="list-style-type: none"> <li>• Independent verification and valuation</li> <li>• Third party database checks               <ul style="list-style-type: none"> <li>– CERSAI</li> <li>– Registrar of companies</li> <li>– Credit bureau checks</li> <li>– CIBIL mortgage checks</li> <li>– RBI willful defaulter list</li> <li>– Experian Hunter fraud check</li> </ul> </li> </ul>

Grading			Segment Characteristics			
Grading Scale	Quality of LAP Loans <sup>#</sup>	Disbursals 12M FY16*	Interest Service Coverage Ratio (ISCR)	Total Outstanding Liabilities/ Total Networth	Loan to Value (LTV)	EBITDA Margins
LAP1	Highest	6.48%	8.9 – 11.6	1.3 – 1.7	42%	13% – 16%
LAP2	High	79.47%	9.2 – 12.0	2.0 – 2.3	38%	11% – 14%
LAP3	Average	13.00%	11.6 – 14.0	2.9 – 3.5	34%	9% – 12%
LAP4	Below Average	0.38%	11.5 – 13.2	1.0 – 1.3	29%	14% - 16%
LAP5	Poor	0.67%	12.2 – 16.5	1.6 – 1.8	35%	13% - 15%

99% of incremental LAP loans are within the top three grades

- Incremental LAP loans from FY16 onwards are graded by CRISIL Ratings
- Grading is based on customized scale developed by CRISIL Ratings for IBHFL's LAP loans to small business owners
- CRISIL grades the loans on aspects such as financial strength; business and management; collateral; and underwriting process

\*CRISIL LAP grading engagement began in Q1FY16 and up till the publication of this earnings update, CRISIL had graded 71% of the disbursals for 12MFY16 period.

# Adjudged by CRISIL in relation to other LAP loans extended to other borrowers

# ICRA LAP Grading Methodology

## (2<sup>nd</sup> rating agency to grade LAP loans)

- In Q2 FY 2015-16, IBHFL tied up with rating agency ICRA to grade all of its incremental LAP loans
- ICRA LAP Grading reflects ICRA's assessment of the credit quality of the loan on a ICRA developed customised scale

### Grading Assessment Parameters

Business and Business Owner	Collateral Quality and Enforceability	Loan Attributes
<ul style="list-style-type: none"> <li>• Fixed obligation to income ratio (FOIR)</li> <li>• Past payment track record</li> <li>• Credit bureau check</li> <li>• Nature of business and financial parameters</li> <li>• Due diligence checks                             <ul style="list-style-type: none"> <li>– Field credit investigation</li> <li>– Personal discussion</li> <li>– Reference checks</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Loan to value ratio (LTV)</li> <li>• Nature of property                             <ul style="list-style-type: none"> <li>– Residential</li> <li>– Commercial</li> </ul> </li> <li>• Usage of property                             <ul style="list-style-type: none"> <li>– Self occupied</li> <li>– Rented</li> <li>– Vacant</li> </ul> </li> <li>• Property location</li> <li>• Quality of construction</li> <li>• Adherence to sanction plans</li> </ul>	<ul style="list-style-type: none"> <li>• Ticket Size</li> <li>• Sourcing channel</li> <li>• Lending scheme</li> <li>• Loan tenure</li> </ul>

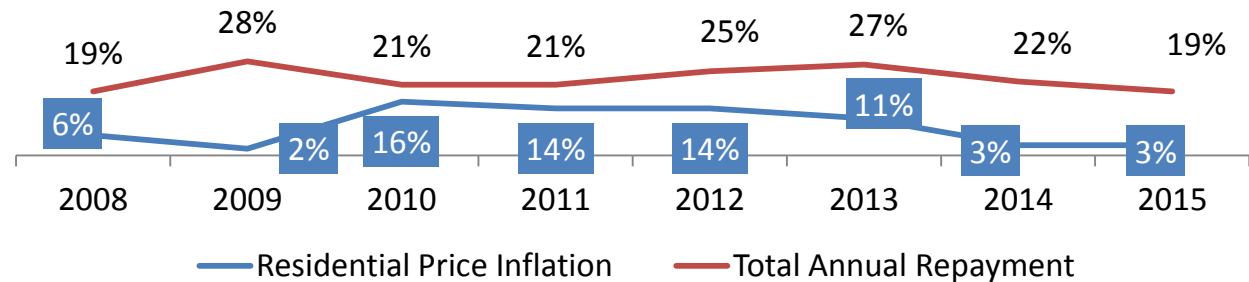
Grading			Characteristics	
Grading Scale	Level of credit worthiness	Grading Distribution	Median LTV	Median FOIR
LAP1	Excellent	13.3%	25%	34%
LAP2	Good	65.9%	48%	50%
LAP3	Average	20.5%	61%	61%
LAP4	Below Average	0.4%	61%	66%
LAP5	Inadequate	-	-	-

Over 99% of incremental LAP loans are within the top three grades

- Incremental LAP loans from FY16 onwards are graded by ICRA
- Grading is based on customized scale developed by ICRA for IBHFL's LAP loans to small business owners
- ICRA grades the loans on aspects such as business and business owner quality; collateral quality enforceability; and loan strengths

# Loan Against Property Myths

## LAP Myth 2: Asset inflation is mainly responsible for LAP portfolio quality



Residential price inflation is from NHB Residex weighed with population of constituent cities

3-Year Amortization Experience for IBHFL	
Contracted Amortization	23%
Actual Amortization	51%

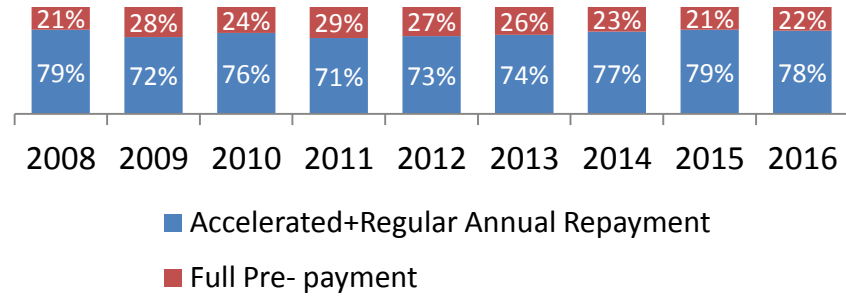
Fluctuation in property price inflation has no direct correlation with the repayment capability of LAP borrowers

## LAP Myth 3: Real Estate Price Deflation will Inflate LTVs

	At Disbursal	2 Years Later	
Property Value	100	70	Price deflation by 30% over 2 years
Loan Amount	50	32	Repayment of 20% per annum
LTV	50%	46%	Real LTV

- Assuming an extreme case 30% price deflation over a two year period, repayment rate of 20% per annum will mean that actual LTV will not rise

## LAP Myth 4: Refinance drives LAP repayment rates



- Full pre-payment, a proxy for refinance, has been low
- An average of 76% of repayments are from clients' business cash flows, not from loans being refinanced

# Static Performance of LAP Portfolio

- Two cycles are through for the LAP product where average repayment period is about 4 years
- Pre-FY11 LAP portfolio has amortised 85%, is of 6 years' vintage with 90+% (incl write-off) of only 0.48%

## Evident in Portfolio Performance

	Disbursal (₹ Mn)	POS (₹ Mn)	Amortization	Avg LTV	Avg MoB	90+ (incl write off) (₹ Mn)	90+% (of disb)
FY 2006-07	7,528	-	100%	48.6%	114	22	0.29%
FY 2007-08	21,411	1,576	93%	52.2%	102	179	0.84%
FY 2008-09	10,550	1,391	87%	51.7%	94	101	0.96%
FY 2009-10	25,487	4,253	83%	46.5%	77	102	0.40%
FY 2010-11	41,863	8,413	80%	50.3%	65	112	0.27%
<b>LAP &gt; 5 Years</b>	<b>1,06,838</b>	<b>15,633</b>	<b>85%</b>	<b>49.6%</b>	<b>74</b>	<b>516</b>	<b>0.48%</b>
FY 2011-12	36,986	12,206	67%	46.0%	53	58	0.16%
FY 2012-13	36,666	17,437	52%	42.6%	43	24	0.07%
FY 2013-14	37,786	23,061	39%	43.7%	28	6	0.02%
FY 2014-15	56,902	44,266	22%	45.6%	17	2	0.00%
FY 2015-16	64,367	60,485	6%	47.3%	6	1	0.00%
<b>LAP &lt; 5 Years</b>	<b>2,32,707</b>	<b>1,57,455</b>	<b>32%</b>	<b>45.7%</b>	<b>20</b>	<b>91</b>	<b>0.04%</b>
<b>Total</b>	<b>3,39,545</b>	<b>1,73,088</b>	<b>49%</b>	<b>46.0%</b>	<b>25</b>	<b>607</b>	<b>0.18%</b>

# Sell Down Pool Performance: Loan Against Property

## LAP: Data for Apr-2016 Payout

Sr. No.	Investor	Sold Down Date	Disbursement (₹ Mn)	Sold Down Principal (₹ Mn)	Months on Book	Present Principal (₹ Mn)	Total Amortization	Of Initial POS		Cumulative Collection Ratio%
								90+ %	180+ %	
1	IDBI Bank	29-Sep-11	3,677	3,355	70	504	85.0%	0.32%	0.00%	99.6%
2	IDBI Bank	28-Dec-11	2,675	2,503	63	419	83.2%	0.06%	0.06%	99.8%
3	Dena Bank	20-Mar-12	2,360	2,223	68	408	81.7%	0.04%	0.04%	99.5%
4	IDBI Bank	22-Mar-12	2,852	2,596	62	406	84.4%	0.04%	0.04%	99.8%
5	Yes Bank	28-Mar-13	1,115	1,024	55	217	78.8%	0.00%	0.00%	99.7%
6	Yes Bank	28-Mar-13	5,687	4,932	62	1,295	73.8%	0.27%	0.26%	99.6%
7	IDBI Bank	30-Dec-13	1,114	986	50	333	66.3%	1.17%	0.34%	99.1%
8	IDBI Bank	20-Mar-14	4,403	3,849	47	1,511	60.8%	0.60%	0.08%	99.4%
9	UCO Bank	30-Jun-15	1,451	1,128	27	822	27.1%	0.00%	0.00%	99.9%
10	Vijaya Bank	28-Sep-15	2,345	2,003	22	1,647	17.7%	0.00%	0.00%	100.0%
11	Vijaya Bank	28-Sep-15	2,202	1,807	24	1,493	17.4%	0.00%	0.00%	99.6%
12	Dena Bank	28-Sep-15	3,595	2,850	23	2,331	18.2%	0.00%	0.00%	99.6%
13	SBI	29-Sep-15	4,303	3,641	25	2,910	20.1%	0.00%	0.00%	99.9%
14	Vijaya Bank	9-Dec-15	333	242	21	234	3.0%	0.00%	0.00%	100.0%
15	Vijaya Bank	9-Dec-15	506	435	20	423	2.7%	0.00%	0.00%	99.0%
16	Vijaya Bank	29-Dec-15	1,562	1,337	20	1,249	6.6%	0.00%	0.00%	100.0%
17	Dena Bank	31-Dec-15	1,204	998	20	896	10.2%	0.00%	0.00%	100.0%
18	Dena Bank	31-Dec-15	2,785	2,225	21	1,964	11.7%	0.00%	0.00%	99.5%
19	Dena Bank	3-Mar-16	957	774	17	731	5.6%	0.00%	0.00%	100.0%
20	Vijaya Bank	10-Mar-16	1,754	1,500	19	1,355	9.6%	0.00%	0.00%	100.0%
21	Yes Bank	31-Mar-16	2,280	2,091	18	2,079	0.5%	0.00%	0.00%	100.0%
<b>Total</b>			<b>49,159</b>	<b>42,497</b>	<b>41</b>	<b>23,227</b>	<b>45.3%</b>	<b>0.15%</b>	<b>0.05%</b>	<b>99.7%</b>

## LAP: DA Pools Under Surveillance by CARE

1	Yes Bank	31-Dec-13	2,244	1,786	48	684	61.7%	0.00%	0.00%	99.8%
2	Central Bank of India	7-Feb-14	4,298	3,298	50	1,150	63.0%	0.00%	0.00%	98.8%
3	UCO Bank	27-Mar-14	2,716	2,145	46	893	59.3%	0.00%	0.00%	99.9%
4	UCO Bank	20-Jun-14	2,311	1,894	39	855	54.8%	0.00%	0.00%	99.9%
5	UCO Bank	27-Jun-14	1,855	1,536	39	792	48.4%	0.00%	0.00%	99.7%
6	Central Bank of India	29-Dec-14	4,540	3,716	37	2,427	34.6%	0.00%	0.00%	99.6%
7	IDBI Bank	30-Mar-15	10,672	8,695	32	5,924	31.9%	0.00%	0.00%	99.9%
<b>Total</b>			<b>28,636</b>	<b>23,070</b>	<b>39</b>	<b>12,725</b>	<b>44.8%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>99.8%</b>

<b>Grand Total</b>			<b>77,795</b>	<b>65,567</b>	<b>41</b>	<b>35,952</b>	<b>45.2%</b>	<b>0.09%</b>	<b>0.03%</b>	<b>99.7%</b>
--------------------	--	--	---------------	---------------	-----------	---------------	--------------	--------------	--------------	--------------

Thank you