

# Loan Against Property Portfolio

# 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
Average Age of Business	7 years
Basis of Credit Appraisal	Business cash flow analysis based

**Cash flow based underwriting:** *Loan repayment is from underlying business cash flows and not from refinancing*

# 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
- **For three years now IBHFL has been getting all of its incremental LAP loans graded by CRISIL (a Standard and Poor's Company) and ICRA (a Moody's Investors Service Company)**
  - ICRA 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.
  - CRISIL 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 is building into a comprehensive risk model**
  - Portfolio performance and delinquency is tracked against loan grades
  - Proactive customer management: retention, upsell/ cross-sell, delinquency management
  - Learnings are going towards improving loan underwriting and continuously upgrade lending policy

# CRISIL LAP Grading Methodology

Detailed assessment of key factors determining quality of LAP loans

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>

# CRISIL LAP Grading

Grading			Segment Characteristics			
Grading Scale	Quality of LAP Loans <sup>#</sup>	Disbursals Apr 15 – Sep 18	Interest Service Coverage Ratio [ISCR]	Total Outstanding Liabilities/ Total Networth	Loan to Value [LTV]	EBITDA Margins
LAP1	Highest	8.48%	10.4 – 13.5	1.3 – 1.4	49%	15% – 19%
LAP2	High	82.19%	8.2– 10.3	2.0 – 2.1	50%	12% – 16%
LAP3	Average	8.94%	7.9 – 9.9	2.8 – 3.0	53%	9% – 12%
LAP4	Below Average	0.18%	13.4 – 18.2	1.7 – 1.8	47%	13% – 16%
LAP5	Poor	0.22%	8.8– 11.4	2.3 – 2.4	50%	12% - 16%

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

- For three years now, incremental LAP loans are graded by CRISIL Ratings
- Sourcing quality sustained through demonetisation and GST transition
- 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 86% of the disbursals from Apr 15 to Sep 18

# 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]

- Three years ago in H1FY16, IBHFL tied up with rating agency ICRA to grade its incremental LAP loans
- ICRA LAP Grading reflects ICRA's assessment of the credit quality of the LAP loan on a ICRA developed customised scale

### Grading Assessment Parameters

#### Business and Business Owner

- Fixed obligation to income ratio [FOIR]
- Past payment track record
- Credit bureau check
- Nature of business and financial parameters
- Due diligence checks
  - Field credit investigation
  - Personal discussion
  - Reference checks

#### Collateral Quality and Enforceability

- Loan to value ratio [LTV]
- Nature of property
  - Residential
  - Commercial
- Usage of property
  - Self occupied
  - Rented
  - Vacant
- Property location
- Quality of construction
- Adherence to sanction plans

#### Loan Attributes

- Ticket Size
- Sourcing channel
- Lending scheme
- Loan tenure

# ICRA LAP Grading

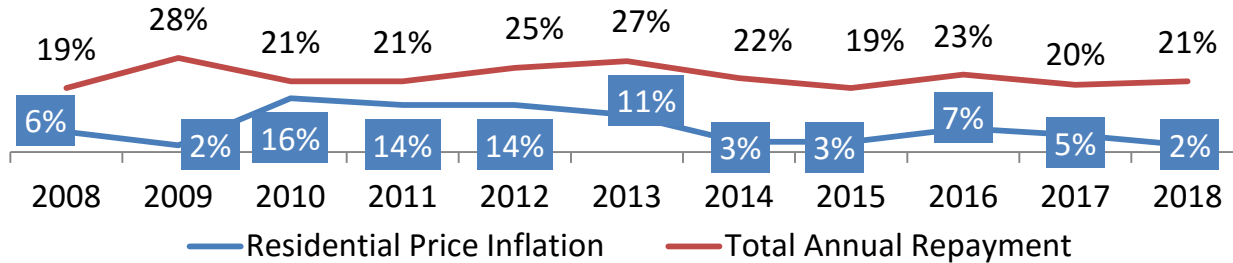
Grading			Characteristics	
Grading Scale	Level of credit worthiness	Grading Distribution	Median LTV	Median FOIR
LAP1	Excellent	12.2%	25%	32%
LAP2	Good	67.5%	54%	50%
LAP3	Average	20.1%	65%	58%
LAP4	Below Average	0.1%	61%	64%
LAP5	Inadequate	-	-	-

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

- For nearly three years, incremental LAP loans are graded by ICRA
- Sourcing quality sustained through demonetisation and GST transition
- 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



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

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

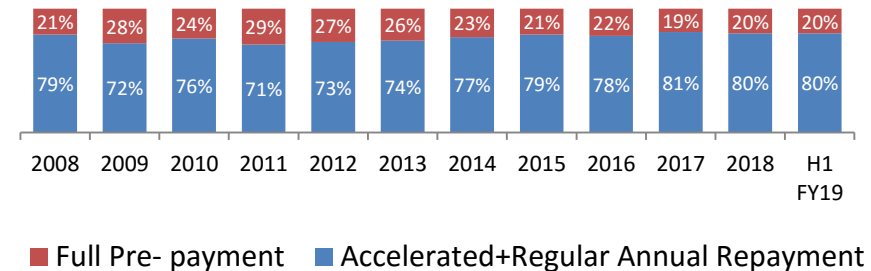
Fluctuation in property price inflation has no direct correlation with the repayment capability of LAP borrowers

## 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 <sup>2</sup>	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

NHB: National Housing Bank, sector regulator for housing finance institutions

LTV: Loan to value



# Static Performance of LAP Portfolio

- Four cycles are through for the LAP product where average repayment period is about 3 years
- Pre-FY11 LAP portfolio has amortised 94%, is of 8 years vintage with 90+DPD% (incl. write-off) of only 0.24%

## Evident in Portfolio Performance

	Disbursal (₹ Bn)	POS (₹ Bn)	Amortization	Average LTV	Avg MoB	90+DPD (incl. write off) (₹ Mn)	90+DPD% (of disbursal)
FY 2007	7.5	-	100.0%	48.0%	138.0	-	-
FY 2008	21.4	0.3	98.7%	51.1%	124.7	-	-
FY 2009	10.6	0.3	96.8%	55.5%	120.0	11	0.10%
FY 2010	25.5	1.8	92.9%	50.9%	106.6	36	0.14%
FY 2011	41.9	3.9	90.6%	46.7%	91.4	134	0.32%
<b>LAP Pre-FY11</b>	<b>106.8</b>	<b>6.4</b>	<b>94.0%</b>	<b>48.6%</b>	<b>98.6</b>	<b>180</b>	<b>0.24%</b>
FY 2012	37.0	5.9	83.9%	47.7%	82.1	172	0.46%
FY 2013	36.7	8.6	76.5%	43.7%	70.6	256	0.70%
FY 2014	37.8	11.5	69.6%	46.0%	58.6	254	0.67%
FY 2015	56.9	25.1	55.8%	49.6%	46.6	253	0.45%
FY 2016	64.4	36.9	42.6%	50.1%	34.1	139	0.22%
FY 2017	66.9	46.4	30.6%	50.3%	21.0	60	0.09%
FY 2018	79.3	66.5	16.1%	49.7%	10.3	7	0.01%
H1 FY19	34.5	33.2	3.8%	44.7%	3.1	-	-
<b>LAP Post-FY11</b>	<b>413.4</b>	<b>234.2</b>	<b>43.3%</b>	<b>48.7%</b>	<b>25.5</b>	<b>1,141</b>	<b>0.26%</b>
<b>Grand Total</b>	<b>520.2</b>	<b>240.6</b>	<b>53.7%</b>	<b>48.7%</b>	<b>27.4</b>	<b>1,321</b>	<b>0.25%</b>

# Monthly Monitoring Report of ₹ 124.8 Bn of Sold Down Portfolio as on September 30, 2018



- Pool collections monitored at an account level
- CRISIL, a Standard & Poor's Company, ICRA, a Moody's Investors Service Company and CARE publishes pool performance of 14 PTC pools rated by them
- The summary report of the LAP pools:
  - Average vintage of sold down pools of ₹ 124.8 Bn of principal is 36 months
  - The pools have amortised 60% since disbursement
  - The cumulative collection ratio [CCR] is at 99.8% and the monthly collection ratio [MCR] is at 100.6%

Summary	Number of Pools	Initial Pool Details			of Initial POS				CCR	MCR
		Disbursement (₹ Bn)	Sold Down Principal (₹ Bn)	Months on Book	Pool Principal (₹ Bn)	Amortisation	90+ dpd %	180+ dpd %		
DA Pools	40	126.4	102.4	36	47.8	62%	0.05%	0.04%	99.8%	100.4%
PTC Pools	7	24.4	22.4	37	12.5	49%	0.00%	0.00%	99.8%	101.0%
<b>Total</b>	<b>47</b>	<b>150.8</b>	<b>124.8</b>	<b>36</b>	<b>60.3</b>	<b>60%</b>	<b>0.04%</b>	<b>0.03%</b>	<b>99.8%</b>	<b>100.6%</b>

# LAP Pool Performance Factsheet

## Pass-Through Certificates

Sr No	Investor	Initial Pool Details				of Initial POS							
		Sold Down Date	Disbursement [₹ Mn]	Sold Down Principal [₹ Mn]	MPS	Pool Principal [₹ Mn]	Amortisation#	90+ dpd %	180+ dpd %	CCR	MCR	QCR	Outstanding Rating from
1	Bank 2	30-Dec-13	1,114.1	986.0	57	132.3	88%	0.00%	0.00%	99.8%	108.3%	100.1%	CARE
2	Bank 2	20-Mar-14	4,403.3	3,850.0	54	481.8	89%	0.00%	0.00%	99.7%	103.6%	97.8%	CARE
3	Bank 3	31-Mar-16	2,279.9	2,091.0	29	894.9	61%	0.00%	0.00%	99.8%	101.6%	100.2%	CARE
4	Bank 9	27-Sep-17	6,640.4	6,096.8	11	5,194.1	22%	0.00%	0.00%	99.8%	99.9%	99.8%	ICRA
5	Bank 14	30-Sep-16	1,437.3	1,359.8	23	515.1	64%	0.00%	0.00%	99.6%	98.2%	99.2%	CRISIL
6	Bank 9	30-Dec-16	5,458.2	5,126.9	20	3,217.8	41%	0.00%	0.00%	99.8%	99.7%	100.4%	CRISIL
7	Bank 9	27-Mar-17	3,100.7	2,923.5	17	2,064.9	33%	0.00%	0.00%	99.9%	100.6%	100.4%	CRISIL

# LAP Pool Performance Factsheet: CRISIL Direct Assignments [Sold Down]

Sr. No	Investor	Initial Pool Details			of Initial POS							
		Sold Down Date	Disbursement [₹ Mn]	Sold Down Principal [₹ Mn]	MPS	Pool Principal [₹ Mn]	Amortisation#	90+ dpd %	180+ dpd %	CCR	MCR	QCR
1	Bank 3	31-Dec-13	2,244.2	1,786.4	56	96.1	95%	0.01%	0.00%	100.0%	97.5%	97.5%
2	Bank 10	07-Feb-14	4,298.2	3,298.3	56	311.9	92%	0.01%	0.01%	99.9%	100.6%	101.9%
3	Bank 4	28-Mar-14	2,716.0	2,144.5	54	193.9	92%	0.00%	0.00%	99.9%	110.2%	102.9%
4	Bank 4	20-Jun-14	2,310.9	1,893.7	50	160.1	92%	0.07%	0.07%	99.8%	97.2%	101.9%
5	Bank 4	27-Jun-14	1,854.7	1,535.7	50	312.5	81%	0.11%	0.11%	99.9%	99.0%	101.1%
6	Bank 10	29-Dec-14	4,540.4	3,716.1	44	618.2	85%	0.13%	0.13%	99.9%	102.4%	101.1%
7	Bank 2	30-Mar-15	10,671.9	8,695.3	41	1,913.2	80%	0.06%	0.06%	99.9%	100.5%	100.5%
8	Bank 4	30-Jun-15	1,450.6	1,127.7	38	198.5	85%	0.09%	0.00%	100.0%	99.1%	101.1%
9	Bank 12	28-Sep-15	2,201.9	1,807.1	35	371.7	81%	0.00%	0.00%	100.0%	100.0%	102.7%
10	Bank 12	28-Sep-15	2,345.4	2,002.8	35	541.0	74%	0.27%	0.27%	99.8%	104.3%	100.1%
11	Bank 1	28-Sep-15	3,594.8	2,849.6	35	600.7	81%	0.00%	0.00%	99.9%	99.7%	101.7%
12	Bank 8	29-Sep-15	4,302.8	3,641.3	36	845.4	78%	0.17%	0.17%	99.8%	97.0%	98.5%
13	Bank 12	09-Dec-15	333.1	241.5	33	52.1	83%	0.00%	0.00%	99.9%	100.0%	101.5%
14	Bank 12	09-Dec-15	506.3	434.9	33	176.0	61%	0.00%	0.00%	100.0%	100.0%	100.0%
15	Bank 12	23-Dec-15	1,561.8	1,336.9	32	325.6	77%	0.00%	0.00%	99.9%	100.0%	101.6%
16	Bank 1	31-Dec-15	1,203.8	997.7	33	275.1	75%	0.00%	0.00%	99.9%	100.9%	99.4%
17	Bank 1	31-Dec-15	2,785.4	2,224.8	33	486.0	81%	0.00%	0.00%	99.7%	107.1%	104.5%
18	Bank 1	03-Mar-16	956.7	774.4	30	239.4	72%	0.00%	0.00%	99.9%	100.0%	100.0%
19	Bank 12	10-Mar-16	1,753.5	1,499.8	30	373.5	76%	0.00%	0.00%	99.9%	99.6%	101.9%
20	Bank 9	30-Jun-16	2,503.4	2,094.0	26	881.5	61%	0.37%	0.37%	99.7%	98.6%	98.6%
21	Bank 10	30-Jun-16	4,059.2	3,314.6	26	1,221.6	67%	0.36%	0.14%	99.9%	99.4%	100.0%
22	Bank 13	26-Sep-16	1,523.7	1,248.0	24	507.8	63%	0.00%	0.00%	99.7%	97.0%	97.9%
23	Bank 13	26-Sep-16	2,162.9	1,748.0	24	444.2	77%	0.00%	0.00%	100.0%	100.0%	100.3%
24	Bank 8	30-Sep-16	3,311.7	2,733.2	23	981.8	67%	0.04%	0.00%	99.8%	98.7%	102.4%
25	Bank 14	30-Mar-17	4,158.7	3,405.1	17	1,918.2	49%	0.00%	0.00%	99.8%	99.5%	99.9%
26	Bank 1	20-Mar-12	2,360.3	2,223.4	78	123.1	95%	0.00%	0.00%	100.0%	112.6%	103.2%

# LAP Pool Performance Factsheet: CRISIL Direct Assignments [Sold Down]

Sr. No	Investor	Initial Pool Details			MPS	Pool Principal [₹ Mn]	Amortisation#	of Initial POS			CCR	MCR	QCR
		Sold Down Date	Disbursement [₹ Mn]	Sold Down Principal [₹ Mn]				90+ dpd %	180+ dpd %				
27	Bank 8	30-Jun-17	4,060.1	3,327.2	15	2,301.5	37%	0.00%	0.00%	99.74%	99.57%	98.1%	
28	Bank 10	28-Jun-17	6,265.8	4,694.4	14	2,805.5	50%	0.00%	0.00%	99.7%	100.2%	99.4%	
29	Bank 5	26-Sep-17	12,376.8	9,477.0	11	6,630.0	40%	0.07%	0.00%	99.7%	99.6%	99.6%	
30	Bank 5	26-Sep-17	7,061.2	5,808.2	11	3,813.3	40%	0.00%	0.00%	99.7%	100.3%	100.4%	
31	Bank 5	29-Dec-17	4,367.6	3,569.0	8	2,835.0	28%	0.00%	0.00%	99.5%	99.2%	99.7%	
32	Bank 5	29-Dec-17	4,445.9	3,539.8	8	2,939.2	27%	0.03%	0.00%	98.3%	97.0%	97.7%	
33	Bank 12	29-Dec-17	1,606.3	1,298.1	8	1,076.9	26%	0.00%	0.00%	99.8%	98.2%	99.4%	
34	Bank 12	29-Dec-17	2,171.3	1,719.8	8	1,082.6	45%	0.00%	0.00%	99.9%	105.6%	100.0%	
35	Bank 12	01-Mar-18	1,365.6	1,154.3	6	974.4	21%	0.00%	0.00%	100.0%	100.0%	100.0%	
36	Bank 12	01-Mar-18	895.0	713.9	6	610.2	24%	0.00%	0.00%	100.0%	100.0%	100.0%	
37	Bank 15	29-Jun-18	5,152.9	4,281.4	3	4,091.5	12%	0.00%	0.00%	99.7%	100.1%	99.7%	
38	Bank 12	29-Jun-18	1,960.1	1,663.3	3	1,601.5	9%	0.00%	0.00%	99.9%	99.7%	99.9%	
39	Bank 12	29-Jun-18	1,825.8	1,477.1	3	1,412.8	14%	0.00%	0.00%	99.5%	99.5%	99.5%	
40	Bank 8	28-Jun-18	1,127.5	865.4	3	817.6	19%	0.00%	0.00%	99.7%	99.4%	99.7%	

Thank you