Reliance Home Finance Limited

March 05, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	3,000.00	3,000.00	[ICRA]A1@ downgraded from [ICRA]A1+; Placed on Watch with Negative Implications
Total	**3,000.00**	**3,000.00**	

@On rating Watch with Negative Implications

Rationale

The primary rating drivers for the downgrade in the ratings of Commercial paper programme from ICRA A1+ to [ICRA]A1@. (the ratings are put on watch with negative implications), for Reliance Capital Limited (RCL) and its subsidiaries companies are as follows:

- Increasing refinancing risks given that the company has a large quantum of short term debt maturing in the short term.
- Slow pace of monetization of RCL's non-core investments (non-financial services businesses).
- While ICRA notes that RCFL and RHFL have been able to raise funding in the securitization market in the past six months, its current on balance sheet liquidity is modest in relation to the size of the borrowings
- RCL's key NBFC subsidiaries namely Reliance Commercial Finance Limited (RCFL) and Reliance Home Finance Limited (RHFL), have witnessed an increase in exposure towards higher ticket clients. The exposures are concentrated, and the top 10 exposures for RCFL contribute to ~21% of total AUM as of December 31,2018. The top 10 exposures for RHFL contribute to 8% of total AUM as of March 31,2018.
- Reliance Communications Limited (rated ICRA [D)] has filed for bankruptcy proceedings in the National Company Law Tribunal (NCLT) and the overall financial stress to the Reliance group companies remains to be weak.

The ratings continue to factor in the company's status as a holding company for its financial services businesses which have presence across various verticals like Asset Management, Life Insurance, General Insurance, Commercial & Home Finance, Broking & Distribution of financial products and Proprietary Investments. The rating also takes into consideration RCL's experienced management profile with varied experience across financial services segments. ICRA notes that RCL has substantial exposure towards the Reliance Group's various non-financial companies in the media, entertainment & infrastructure businesses. RCL has been making efforts to divest some of its potentially core and non-core investments in order to reduce its debt. The divestments schedule has been adversely impacted in CY2018, due to the adverse capital market movements, and the liquidity crunch faced by the NBFC sector from September 2018 onwards.

ICRA takes note of the moderate profitability indicators of RCL. Going ahead, the ability of RCL to successfully and timely monetise some of its investment exposures in its media & entertainment businesses and shore up its liquidity profile would continue to be key rating monitorable.

The rating continues to factor in experienced management in place, healthy net interest margins, low GNPA ratio, and operational flexibility in terms of synergies with RCL.

RCL's lending business entities, RCFL & RHFL reported a significant decline in its disbursements in Q3 FY2019 amid tightening liquidity for the company and significant debt repayments during September 2018 to January 2019. The liquidity position continues to be moderate going forward, given significant debt repayments due over the course of next 6 months, at standalone RCL level, as well at RCFL's & RHFL's standalone level. ICRA, however, notes that the company has been regular in meeting all its debt obligations and has raised funds through sizeable securitisation and assignment of loan assets ~Rs.6200 crore since Q2FY2019 .

The ratings are on Rating Watch with Negative Implications due to the longer time frame taken to monetise non core investments at RCL and reduction in financial flexibility at RCL and its lending subsidiaries. ICRA will closely monitor the progress in terms of divesting its core and non-core assets to improve upon its liquidity profile

Outlook: Not Applicable

Key rating drivers

Credit strengths

Experienced management team with significant experience in financial services segment – The company is led by an experienced senior management team consisting of seasoned industry professionals with demonstrated experience in mortgage lending businesses. The senior management team has a proven track record for handling retail portfolio for a leading private sector banks.

Strategic importance of the business for Reliance Capital Limited (RCL) Group – RCL started its home finance business in FY2009 and has a moderate track record of operations with a moderately seasoned loan book. RHFL continues to be strategically important to RCL which owns ~48% stake in the entity with the total promoter holding being ~75%. The entity has assets under management of Rs. 16,464 crore as on September 30, 2018 with a focus on lower ticket home and construction finance loans. Within housing loan segment, RHFL primarily offers loans to the self-employed category with an average ticket size of Rs. 15 lakh and 72 lakh for affordable housing and housing loans respectively.

Stable asset quality; however, moderate portfolio seasoning – RHFL's reported asset quality indicators remain sound with gross non-performing asset (NPA)[1] ratio at 0.80% and net NPA at 0.58% as at September 30, 2018. The stability in asset quality over the years is mainly on the back of continual focus on improvement in collection processes as the collections team starts focusing on delinquent accounts starting from 1 day past due (dpd) to contain stress on higher buckets. RHFL's ability to contain the asset quality amidst slowdown in the pace of growth will be a key rating monitorable.

Adequate capitalisation with CRAR of 20% and gearing of 7.2 times as on September 30, 2018– RHFL's capitalisation is comfortable with a capital to risk weighted assets ratio (CRAR) of ~ 20 % and gearing of 7.2 times as on September 30, 2018. The net worth of RHFL improved with successive equity infusions of Rs. 200 and Rs. 600 crore during FY2017 and H1FY2018 (equity infusions of Rs. 600 Cr includes shares worth ~ Rs. 252 Cr allotted pursuant to Scheme of Arrangement) respectively by RCL .The entity is adequately capitalised, given the slowdown in its pace of business in the wake of tightening liquidity and rising cost of funds.

[1] On the books portfolio

Credit challenges

Geographically concentrated portfolio coupled with a significant share of construction financing book – The company has a geographically concentrated loan portfolio with the regions of Maharashtra, Gujarat, Tamil Nadu & Delhi accounting for 26%, 24%, 14% & 10% respectively of the overall loan book. Further, the entity continues to have a high share of construction finance loans, which accounted for ~36% of the overall loan book. The risk associated with the construction finance loans is mitigated to some extent as the entity primarily finances project s which are more than 50% constructed and sale of units is nearing completion while offering lower LTVs of under 50%.

Liquidity and funding profile has moderated – The entity's resource profile has been fairly diversified across bank borrowings, NCDs and commercial papers. However, the company ability to garner new sanctioned bank lines has diminished, as the perceived risk on the NBFC/HFC sector as a whole has become high, which has constrained its fund raising capabilities. The asset liability maturity profile continues to be moderate, as its current on balance sheet liquidity is modest in relation to the size of the borrowings. However, the entity has access to the securitisation market and is an active participant in the same, which lends further liquidity comfort in order to meet short term capital requirements.

High client concentration and sector risks –The top 10 exposures account for 8% of total AUM as of March 31, 2018. ICRA notes that some of the top 10 exposures are not central to RHFL's strategy of shifting towards a more granular lower average ticket size portfolio. Any slippages on these accounts would result in a sharp deterioration in profitability and capitalization metrics.

Liquidity Position:

RHFL has been able to manage their liquidity position largely through the securitization market (Pass through certificates, and direct assignments of loans) apart from inflows from maturity of its advances. With limited fresh business generation and sizeable securitization and assignment of loan assets, the pool eligible for sell down has also been declining, thereby reducing RHFL's ability to refinance through securitization.

As on January 31, 2019 RHFL had a liquidity cushion of around Rs. 140 crore in the form of unencumbered cash and deposits, Rs. 230 crore of drawable bank lines, as well as estimated inflows of ~Rs. 953 crore from advances' inflows (till April 2019). The debt repayments for the period till April 2019 is ~Rs. 641 crore.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation / Standalone	While arriving at the rating for Reliance Home Finance (RHFL), ICRA has considered the consolidated performance of RCL and its subsidiaries carrying businesses as finance companies (namely Reliance Commercial Finance Limited, Reliance Home Finance Limited, Reliance Financial Limited, Reliance Asset Reconstruction Company Limited, Reliance Commodities Limited & Reliance Securities Limited, collectively referred to RCL group) given the strong operational and financial synergies between the companies.

About the company

Reliance Home Finance Limited (RHFL) is a subsidiary of Reliance Capital Limited (RCL) and was incorporated in FY2009. RHFL is registered as a Housing Finance Company with National Housing Bank and is engaged in mortgaged based lending operations. RHFL was listed on the stock exchanges in India in the second half of September 2017 after it was hived off from RCL, basis which RCL's stake in the entity reduced to ~48%, while the overall promoter holding in the entity was ~75% as on December 31, 2018.

RHFL reported net profit after tax of Rs. 123 crore on a total income base of Rs. 875 crore in H1FY2019 compared to net profit of Rs. 181 crore on a total income base of Rs. 1671 crore in FY2018. In FYFY2017, the company had reported a net profit of Rs. 173 crore on a total income of Rs. 1145 crore.

Reliance Capital Limited

Reliance Capital Limited (RCL) is a part of the Reliance group. RCL's subsidiaries have a significant presence across various financial services businesses like Asset Management, Life Insurance, General Insurance, Commercial & Home Finance, Broking & Distribution of financial products and Proprietary Investments. RCL started its commercial finance business in May 2007 with a focus on secured lending and mortgage and SME loans form the bulk of its commercial finance business portfolio currently. In March 2017, RCL de-merged its commercial finance business into Reliance Commercial Finance Limited, its wholly owned subsidiary, and RCL is in a process to become a core investment company with investments in group as well as non-group entities.

RCL's reported a consolidated PAT of Rs. 246 crore in Q3FY2019, as against Rs. 309 crore in Q2FY2019, and Rs 39 crore in Q3FY2018. For 9MFY2019, PAT stood at Rs. 850 crore, as against a loss of Rs. 478 crore (Rs. 881 crore profit as per iGAAP) due to impact of ECL provisioning and fair valuation of investments as per Ind-AS.

Key Financial Indicators

	FY2017	FY2018	H1FY2019*
Total Income	1,144.68	1,670.52	875.00
Profit after tax	172.59	180.58	123.00
Networth	1129.60	1929.13	1880.00
Loan Book (AUM)	11,174	16379	16464.00
Total assets	11346.65	15684	16305
Return on assets	1.81%	1.34%	1.54%
Return on equity	19.73%	11.81%	12.92%
Gross NPA	0.84%	0.87	0.8%
Net NPA	0.68%	0.67	0.58%
Capital adequacy ratio	19.3%	19.7%	19.4%
Gearing	8.67	6.90	7.20

Amounts in Rs. Crore, ratios as per ICRA calculations

**Annualised*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2018	FY2017		FY2016
					March-19	Feb-18	Nov-16	Apr-16	Mar-15
1	Commercial Paper Programme	Short term	3,000.00	NA	[ICRA]A1@; downgraded from [ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

@On rating Watch with Negative Implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	NA	7-365 days	3,000.00	[ICRA]A1@

Source: Company Data

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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