

## Reliance Commercial Finance Limited

May 03, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	1,200	1,200	[ICRA]D; downgraded from [ICRA]A4@; removed from Watch with Negative Implications
Short term bank lines	1,000	0	[ICRA]D; downgraded from [ICRA]A4@; removed from Watch with Negative Implications; withdrawn
<b>Total</b>	<b>2,200.00</b>	<b>1,200.00</b>	

\*Instrument details are provided in Annexure-1

@On rating Watch with Negative Implications

### Rationale

ICRA has downgraded the short term -rating for various instruments of Reliance Commercial Finance Limited to [ICRA]D (pronounced ICRA D) from [ICRA] A4@ (pronounced ICRA A four). The ratings have been removed from Watch with Negative Implications.

The rating revision takes into account delays in debt servicing on some of its bank lines. The company however has confirmed, that there have been no delays in repayments in the commercial paper programme till date.

ICRA has withdrawn the short-term rating of [ICRA]D (pronounced as ICRA D) on the Rs. 1,000 crore short term bank facilities at the request of the company and as the rating is unutilised. The rating has been withdrawn in accordance with ICRA's policy on withdrawal and suspension.

ICRA's last rating rationale can be accessed here: <https://www.icra.in/Rationale/ShowRationaleReport/?Id=79892>

### Outlook: Not Applicable

### Key rating drivers

#### Credit strengths:

**Not Applicable**

#### Credit challenges

**High concentration of exposures on the top clients, and geographic concentration:** RCFL's SME loans constitutes ~81% of total loan book as of September 30, 2018. The top 10 exposures over 21% of AUM as on December 31, 2018. Any slippages in these accounts would result in sharp deterioration to the bottom line, and capitalization metrics. In addition ICRA also notes the geographic concentration in the state of Maharashtra, which forms ~ 76% of the total loan book as of September 30, 2018.

**Moderating liquidity profile and low funding flexibility-** RCFL's balance sheet liquidity is modest in relation to the size of its borrowings and quantum of maturing liabilities. However, ICRA 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. 2,000 crore in H2 FY2019).

### Liquidity Position:

RCL Group's lending companies, RCFL & RHFL, have 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 their advances. RCL has lent to its non-operating subsidiaries directly, or by way of Compulsorily Convertible Debentures (CCD), where some of the corporate loan exposures were transferred. The proceeds from these corporate loans are up streamed to RCL as dividends, and on direct loans RCL receives interest and principal repayments, which in turn it uses to meet its debt obligations. The corporate loan has been on a run-down mode over the past one year and supported RCL's liquidity at a standalone level. However, going forward the role of asset monetization becomes even more critical for RCL to meet its debt obligations. 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 and RCFL's ability to refinance through securitization.

As on March 31, 2019 RCL has a liquidity cushion of around Rs. 48 crore in the form of unencumbered cash and deposits, as well as estimated inflows of Rs. 59 crore in May 2019 and Rs. 31 crore in June 2019 (largely interest repayments on the loans and debentures to the group companies). The liquidity profile is modest in relation to the near-term debt maturities (borrowings of ~Rs. 1059 crore still due for maturity in May 2019, and ~Rs 738 crore maturing in June 2019).

RCL expects proceeds from sale of its Radio business, stake sale in Reliance Nippon Asset Management Company Limited (RNAM) to Nippon Life Insurance, monetisation of its stake in Reliance General Insurance Company Limited (RGICL) via an offer for sale to the extent of 49%, etc. These proceeds if completed in a timely manner will shore up RCL's liquidity buffer and enable it to service its debt in a timely manner.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	While arriving at the rating for Reliance Capital Limited (RCL), 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 Commercial Finance Limited (RCFL) is a part of the Reliance Capital group and is a 100% subsidiary of Reliance Capital Limited (RCL). The commercial lending business of RCL was de-merged into RCFL in Q4FY2017 while RCL is in a process to become a core investment company. The entity started its commercial finance business in May 2007 and is primarily into secured lending space with a focus on equipment and property backed small and medium enterprise loans, loan against property, short term infrastructure loans and loans to microfinance institutions.

RCFL earned a net profit of Rs. 108 crore on total assets of Rs. 17,511 crore in H1FY2019 compared with a net profit of Rs. 208 crore on total assets of Rs. 15,941 crore in FY2018.

## 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 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
Net Operating Income	356	360	281
Profit after tax	295	208	108
Networth	2,506	3,106	3,264
Loan Book (AUM)	16,323	16,475	17,693
Total assets	13,795	15,941	17511
Return on assets	4.26%	1.4%	1.29%
Return on equity	23.00%	7.43%	6.75%
Gross NPA	4.90%	3.05%	3.37%
Net NPA	4.16%	2.43%	1.57%
Capital adequacy ratio	17.2%	19.3%	19.1%
Gearing <sup>1</sup>	4.22	3.91	4.1

Amounts in Rs. Crore, ratios as per ICRA calculations

\*Annualised

<sup>1</sup> Including minority interest

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	May-19	Apr-19	FY2019		FY2018	FY2017
							Mar-19	Mar-19	Feb-18	Feb-17
1	Commercial Paper Programme	Short term	1,200.00	NA	[ICRA]D; downgraded from [ICRA]A4@	[ICRA]A4@	[ICRA]A2@	[ICRA]A1@	[ICRA]A1+	[ICRA]A1+
2	Short term bank lines	Short term	1,000.00	NA	[ICRA]D; downgraded from [ICRA]A4@; withdrawn	[ICRA]A4@	[ICRA]A2@	[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](http://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	1,200.00	[ICRA]D
NA	Short term bank lines*	NA	NA	NA	1,000.00	[ICRA]D; downgraded from [ICRA]A4@; withdrawn

Source: Company Data

\* proposed

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