

May 17, 2021

## Religare Finvest Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bonds/NCD/LTD	220	220	[ICRA]D; reaffirmed
Long-term/Short-term Fund-based Bank Limits	9,000	9,000	[ICRA]D/ [ICRA]D; reaffirmed
<b>Total</b>	<b>9,220</b>	<b>9,220</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating takes into account the ongoing delays in the servicing of Religare Finvest Limited's (RFL) debt obligations. In January 2018, RFL was put under the Corrective Action Plan (CAP) by the Reserve Bank of India (RBI), under which it is prohibited from expanding its credit/investment portfolio other than investments in Government securities. From April 2019 onwards, RFL delayed/did not repay its bank loans on account of the proposed resolution plan. The company also defaulted on its principal (Rs. 100 crore) and interest repayment of unsecured non-convertible debentures due to Axis Bank, maturing on April 30, 2021. The company has currently proposed a revised Debt Resolution Plan (DRP) to its lenders for the restructuring of its debt, to revive its business and to ensure proper alignment of its asset-liability profile, with its parent company Religare Enterprises Limited (REL) continuing as its promoter. Going forward, REL is expected to continue as the promoter of RFL and the business operations are only expected to revive post the implementation of the DRP and the removal of CAP imposed by the RBI.

The rating factors in the company's poor liquidity position and strained financial flexibility on account of its weak asset quality profile and the lack of business growth in the last few years. While some of the existing debt is expected to be converted into longer-tenure debt post the restructuring, RFL would also require capital support from its parent (REL) and additional credit lines from lenders to fund fresh business as well as stabilise its deteriorated capitalisation profile. The company's asset quality remains weak (gross non-performing advances (GNPA)% of 63.3% as on December 31, 2020) due to high delinquencies in its non-core asset book and partly due to the shrinking SME loan book. Going forward, the implementation of the DRP would be critical for RFL to improve its credit profile.

### Key rating drivers and their description

#### Credit challenges

**Poor liquidity and reduced financial flexibility** – Given the ongoing DRP and the Religare Group-related challenges, including the outstanding inter-group liabilities, delayed capital support from REL and the significant money currently under litigation due to erstwhile promoter entities, RFL's liquidity position remains poor with significant asset-liability mismatches resulting in a delay in its debt repayments. RFL's financial flexibility remains adversely impacted on account of its weak asset quality profile and the lack of business growth in the last few years. The company is currently not in a position to service its debt obligations and has proposed a revised DRP to its lenders to restructure its existing debt.

**Shrinking asset base with no fresh disbursements** – RFL's business operations have been curtailed since it was put under the CAP by the RBI in January 2018, under which it is prohibited from expanding its credit/investment portfolio other than investments in Government securities. With no fresh disbursements in the last few years, RFL's gross loan book has run down to Rs. 5,096 crore as on December 31, 2020 from Rs. 7,085 crore as on March 31, 2019 and it would require capital support from the parent to fund fresh business and to stabilise its deteriorated capitalisation profile.

**Weak asset quality** – RFL’s asset quality indicators remain weak with a high GNPA% of 63.3% as on December 31, 2020 (61.4% as on March 31, 2020) primarily due to the high delinquencies in the non-core asset book and partly due to the shrinking SME loan book. Though some recovery is expected from the sale of a portion of the delinquent loan book, the company’s ability to make further recoveries from the remaining loan book would be important to improve its financial position.

## Liquidity position: Poor

RFL’s liquidity position is currently poor owing to the challenges in raising incremental funds and the Group-related issues, including the outstanding inter-group liabilities, delayed capital support from REL and the significant money currently under litigation due to erstwhile promoter entities. The company has negative cumulative mismatches across all maturity buckets of its Asset-Liability Management statement as on March 31, 2021. As the standard assets (where inflows are coming and/or are eligible for sale) are far lower than the liabilities, the company would not be able to repay the entire debt without the implementation of the DRP and capital support.

## Rating sensitivities

**Positive factors** – Timely debt repayment on a sustained basis could be a positive trigger.

**Negative factors** – Not applicable

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA’s Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">ICRA’s Policy on Default Recognition</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

RFL was originally incorporated as Skylark Securities Private Limited in 1995. It was converted into a public limited company, Fortis Finvest Limited, in 2004. In March 2006, the company changed its name to Religare Finvest Limited. RFL is a subsidiary of Religare Enterprises Limited. The company’s on-balance sheet portfolio stood at Rs. 5,096 crore as on December 31, 2020 (Rs. 5,306 crore as on March 31, 2020). The company is in the business of providing loans to small & medium enterprises in the form of loan against property (LAP) and working capital (WC) loans.

In FY2020, RFL reported a net loss of Rs. 897 crore on an asset base of Rs. 5,404 crore compared to a net loss of Rs. 1,548 crore on an asset base of Rs. 6,958 crore in FY2019. In 9M FY2021, RFL reported a net loss of Rs. 431 crore on an asset base of Rs. 5,431 crore. Its net worth was negative (Rs. -382 crore) as on December 31, 2020.

## Key financial indicators

RFL	FY2019	FY2020	9M FY2021
	Audited	Audited	Provisional
Profit after tax (Rs. crore)	-1,548.1	-896.8	-430.7
Net worth (Rs. crore)	946.9	48.7	-382.3
Loan book^ (Rs. crore)	7,085.1	5,306.4	5,095.9
Total assets (Rs. crore)	6,957.5	5,404.2	5,430.6
Return on assets (%)	-17.0%	-14.5%	-10.6%
Gearing (times)	6.17	99.67	Not Meaningful
Gross NPA (%)	54.4%	61.4%	63.3%
Net NPA (%)	30.5%	28.5%	28.5%
Solvency (Net NPA/Net worth)	149.2%	1635.3%	-194.6%

Source: Company, ICRA research; All ratios as per ICRA calculations; ^Gross value

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019			
				May 17, 2021	Apr 06, 2020	Jul 19, 2019	May 08, 2019	Mar 13, 2019	Oct 26, 2018	Oct 04, 2018	Jun 12, 2018
Long-term Debt Programme	Long Term	220	220	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]B B@	[ICRA] BB@	[ICRA] BBB-@	[ICRA] BBB &
Bank Limits	Long Term/ Short Term	9,000	2,786.4*	[ICRA]D/[ICRA]D	[ICRA]D/[ICRA]D	[ICRA]D / [ICRA]D	[ICRA]D / [ICRA]D	[ICRA]B B@ / [ICRA]A 4@	[ICRA] BB@ / [ICRA] A4@	[ICRA] BBB-@ / [ICRA] A3 @	[ICRA] BBB & / [ICRA] A3&

@ On Watch with Negative Implications; \*As on December 31, 2020

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Bonds/NCD/LTD	Very Simple
Long-term/Short-term Fund-based Bank Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [www.icra.in](http://www.icra.in)

#### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE958G08955	NCD	Oct 12, 2012	12.20	Oct 12, 2022	50.00	[ICRA]D
INE958G08963	NCD	Jan 21, 2013	12.20	Jan 21, 2023	42.00	[ICRA]D
INE958G08989	NCD	Feb 25, 2013	12.00	Feb 25, 2023	8.00	[ICRA]D
INE958G08997	NCD	Mar 28, 2013	12.05	Mar 28, 2023	20.00	[ICRA]D
INE958G08AA3	NCD	Sep 30, 2015	10.68	Apr 30, 2021	100.00	[ICRA]D
NA	Bank Lines	Sep-12 to Mar-17	NA	Mar-20 to Feb-24	9000.00	[ICRA]D/ [ICRA]D

Source: RFL

#### Annexure-2: List of entities considered for consolidated analysis – Not applicable

## ANALYST CONTACTS

**Karthik Srinivasan**  
+91-22-6114 3444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Manushree Saggar**  
+91-124-4545 316  
[manushrees@icraindia.com](mailto:manushrees@icraindia.com)

**Abhinav Hans**  
+91-124-4545 383  
[abhinav.hans@icraindia.com](mailto:abhinav.hans@icraindia.com)

**Neha Kadiyan**  
+91-124-4545 321  
[neha.kadiyan@icraindia.com](mailto:neha.kadiyan@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91-22- 61143406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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