

May 09, 2022

Religare Finvest Limited: Rating withdrawn for matured instruments

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures (NCDs)	120	120	[ICRA]D; outstanding
NCDs	100	-	[ICRA]D; reaffirmed and withdrawn
Long-term/Short-term Fund-based Bank Limits	9,000	9,000	[ICRA]D/ [ICRA]D; outstanding
Total	9,220	9,120	

*Instrument details are provided in Annexure-1

Rationale

ICRA has withdrawn the rating on Religare Finvest Limited's (RFL) Rs. 100-crore NCD programme as no amount is outstanding against the rated instrument. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

The rating for RFL takes into account the ongoing delays in the servicing of its 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, RFL delayed/did not repay its bank loans on account of the proposed resolution plan.

The company has proposed a revised Debt Resolution Plan (DRP) to its lenders for the restructuring of its debt, to revive its business and to ensure the proper alignment of its asset-liability profile, with its parent company, i.e. Religare Enterprises Limited (REL), continuing as its promoter. However, the RBI has advised that the restructuring of the company cannot be implemented with REL continuing as its promoter since the company has been declared a 'fraud' exposure by the lenders. The company has filed a writ petition before the Delhi High Court seeking a stay of operation of the aforesaid order besides seeking other relief and the matter is sub-judice. Business operations are expected to revive only after the resolution of the existing borrowings and the removal of the 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. RFL's asset quality remains weak (gross non-performing advances (GNPA)% of 79.3% as on December 31, 2021) due to high delinquencies in its non-core asset book and partly due to the shrinking small and micro enterprise (SME) loan book as company is not allowed new business due to RBI CAP. Going forward, the resolution of the existing borrowings and the revival of the business 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 current status of the DRP, delayed capital support from REL and the significant amount of funds currently under litigation due to the erstwhile promoter entities, RFL's liquidity position remains poor. The substantial asset-liability mismatches have led to a delay in its debt repayments. RFL's financial flexibility remains adversely impacted by its weak asset quality profile and the lack of business growth in the last few years. The company is not in a position to service its debt obligations at present and has proposed a revised DRP to its lenders to restructure its existing debt. However, the RBI has advised that the restructuring of the company cannot be implemented with REL continuing as its

promoter since the company has been declared a ‘fraud’ exposure by the lenders. RFL filed a writ petition before the Delhi High Court seeking stay of operation of the aforesaid order besides seeking other relief and the matter is sub-judice.

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. 4,321 crore as on December 31, 2021 from Rs. 4,873 crore as on March 31, 2021. The company would require capital support from the parent to fund fresh business and to stabilise its capitalisation profile, which has since deteriorated.

Weak asset quality – RFL’s asset quality indicators remain weak with a high GNPA% of 79.3% as on December 31, 2021 (70.0% as on March 31, 2021) primarily due to the significant 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 and restart of its core lending business would be important to improve its financial position.

Liquidity position: Poor

RFL’s liquidity position is currently poor owing to the misappropriation of funds by the erstwhile promoters and their associates and the challenges in raising incremental funds. It has negative cumulative mismatches across all the maturity buckets of its asset-liability profile. Moreover, 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 any capital support. Accordingly, company has proposed One Time Settlement (OTS) to the lenders which is under consideration.

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	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies ICRA’s Policy on Default Recognition Policy on Withdrawal of Credit Ratings
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 REL. The company’s on-balance sheet portfolio stood at Rs. 4,321 crore as on December 31, 2021 (Rs. 4,873 crore as on March 31, 2021). RFL provides loans to SMEs in the form of loan against property (LAP) and working capital (WC) loans.

Key financial indicators

	FY2019	FY2020	FY2021	9M FY2022
	Audited	Audited	Audited	Provisional
Total Income	796	433	296	129
PAT	-1,549	-897	-576	-1,007
Net Worth	947	49	-525	-1,531
Gross Loan Book	4,627	2,793	4,873	4,321
Total Assets	6,962	5,404	7,558	7,551
Return on Average Assets	-17.0%	-14.5%	-8.9%	-13.3%
Return on Average Equity	-107.4%	-180.2%	241.9%	98.0%
Gearing (times)	6.17	99.67	NA	NA
CRAR (%)	-3.70%	-40.82%	-78.3%	-175.7%
Gross Stage 3 (%)	54.4%	61.4%	70.0%	79.3%
Net Stage 3 (%)	30.5%	28.5%	39.1%	28.7%
Solvency (Net Stage 3/Net Worth (%))	149%	1635%	NA	NA

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	
				May 09, 2022	Mar 28, 2022	May 17, 2021	Apr 06, 2020	Jul 19, 2019	May 08, 2019
Long-term Debt Programme	Long Term	120	120	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
Long-term Debt Programme	Long Term	100	-	[ICRA]D; withdrawn	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
Bank Limits	Long Term/ Short Term	9,000	2,667	[ICRA]D/ [ICRA]D	[ICRA]D/ [ICRA]D	[ICRA]D/ [ICRA]D	[ICRA]D/ [ICRA]D	[ICRA]D / [ICRA]D	[ICRA]D / [ICRA]D

*As on February 28, 2022

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

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; withdrawn
NA	Bank Lines	Sep 2012 to Mar 2017	NA	Mar 2020 to Feb 2024	9,000.00	[ICRA]D/[ICRA]D

Source: RFL; As on March 31, 2022 for bank lines and as on May 06, 2022 for NCDs

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

Manushree Sagar
+91-124-4545 316
manushrees@icraindia.com

Samarth Khare
+91 124 4545 833
samarth.khare@icraindia.com

Jesse Vishwanathan
+91 124 4545 324
jesse.vishwanathan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91-22- 61143406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

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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