

February 02, 2017

## Reliance Commercial Finance Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Short Term Bank Lines	1,000.0	[ICRA]A1+assigned
Commercial Paper Programme	3,000.0	[ICRA]A1+assigned

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A One plus)<sup>1</sup> to the Rs. 1,000.0 crore Short Term Bank Lines and Rs. 3,000.0 crore Commercial Paper programme of Reliance Commercial Finance Limited (RCFL).

### Rationale

The rating, at current level, factors in RCFL's association with Reliance group, one of India's largest business groups, high financial flexibility being part of Reliance group which has significant presence in various businesses in financial services domain like Asset Management, Life Insurance, General Insurance, Commercial & Home Finance, Broking & Distribution of Financial Products and Proprietary Investments and strong parentage of Reliance Capital Limited (RCL) (rated [ICRA]A1+) which holds 100% stake in RCFL. The ratings factor in planned transfer of Commercial Finance Division of RCL into RCFL. RCL will remain an investment company and apply for a Core Investment Company (CIC) license following the transfer. The rating takes into consideration comfortable asset liability profile of RCL and stable asset quality indicators of the lending business of the company. ICRA also takes note of the company's moderate track record in commercial lending operations (started in May 2007) and moderate profitability indicators of Reliance Capital Limited.

### Key Rating Drivers

#### Key Strengths

- Strong parentage of Reliance Capital Limited (RCL) (rated [ICRA]A1+) which is promoted by the Reliance ADA Group
- Strong presence of parent in almost all the spheres of financial services (excluding banking operations) and being among the top players in business such as mutual fund, General insurance, Life insurance etc.
- Strong and experienced management team with varied experience in financial services segment
- Lending book, which will be transferred to RCFL, is retail in nature which is inherently less riskier when compared to wholesale lending business
- Asset quality indicators of lending book, which will be transferred to RCFL, remain comfortable despite slight deterioration in the past two years

#### Key Challenges

- Moderate track record in commercial lending operating (started in May 2007) of the parent
- Ability to control credit costs while growing the loan book

### Description of key rating drivers highlighted above:

RCL is primarily into secured lending space with a focus on retail borrowers. This lending business will be transferred to RCFL in January 2017 post which RCL will remain an investment company. RCFL will be 100% subsidiary of RCL in the near term. As per the management, RCL will, initially, infuse capital of Rs. 1,800-2,000 crore in RCFL and will provide additional capital support as and when required. RCL also has a wholly owned housing finance subsidiary, Reliance Home Finance Limited (RHFL), under which home loans and part of Loan against Property (LAP) is booked. In September 2016, RHFL proposed to get listed on the stock exchange in next few quarters.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

During FY2016, the overall credit book size (including RHFL portfolio) had grown by 15% to Rs 17,731 as on March 31, 2016 from Rs 15,409 crore as on March 2015. The portfolio further grew to Rs 19,126. crore (Asset under management of 24,872 crore) as on September 2016 driven by the growth in home loans and loans towards SMEs. As on September 30, 2016, the on book portfolio constituted ~27% by home loans (booked under RHFL), ~13% by LAP (of which 4% booked in RHFL), ~20% by SME advances, ~14% by construction finance (of which 8% booked under RHFL), ~6% by commercial vehicle, commercial equipment and auto loans, the remaining ~20% by Trade Advances & Inventory Funding, Infrastructure Advances, micro finance and other smaller advances. RCL has been using securitization as a tool to improve profitability metrics while keeping overall leverage at moderate levels. Also, the granularity of the book has improved with more thrust on SME advances in the small ticket size segment and affordable housing segment in the home loan portfolio. Going forward, the company intends to grow aggressively in home loans segment and focus on SME loans, supply chain financing and agri-loans while being cautious on growing LAP and vehicle financing and equipment financing portfolio. As on date, almost the entire commercial finance book is secured in nature. The ability of the company to grow its portfolio while containing the credit cost would remain a key rating sensitivity.

RCL continues to have a sizeable albeit declining investment book to the tune of ~Rs 11,246 crore as on March 31, 2016 (~Rs 12,375 crore as on March 31, 2015) primarily deployed in holding companies, financial services and media companies within and outside the group. Asset quality indicators of lending business of RCL on a standalone basis (commercial finance division) deteriorated slightly with Gross NPA% (on AUM) increasing from ~2.7% as on March 31, 2015 to ~3.2% as on March 31, 2016 and further to ~3.6% as on September 2016 due to stress in infrastructure segments. The borrowings of RCFL are likely to be mainly bank borrowings initially with some portion of borrowings being commercial paper borrowing. However, in the medium term, there will be mix of debentures, bank borrowings and commercial papers in borrowings.

**Analytical approach:** The ratings for RCFL derive support from its parentage and any change in the support could warrant a rating change for the company.

#### **Links to applicable Criteria**

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

#### **Company Profile**

Reliance Commercial Finance Limited (RCFL) is a part of the Reliance Group and is 100% subsidiary of Reliance Capital Limited (RCL). The lending business of RCL will get transferred into RCFL in January 2017 post which RCL will act as an investment company with investments in group as well as non-group entities. RCL's subsidiaries are engaged in various businesses like Asset Management, Life Insurance, General Insurance, Commercial & Home Finance, Equity Broking, Distribution of Financial Products and Proprietary Investments. In September 2016, RHFL proposed to get listed on the stock exchange in next few quarters which would reduce the stake of RCL in the company to around 51%. 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 portfolio currently.

On standalone basis, RCL reported a net profit of Rs. 977 crore on a total income base of Rs. 4076 crore in FY2016 compared to a net profit of Rs. 757 crore on a total income base of Rs. 3948 crore in FY2015.

#### **Recent Results**

In H1FY2017, RCFL reported a net profit of Rs 343 crore on a total income of Rs 1882 crore.

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

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	February 2017	-	-	-
1	Unallocated Bank Limits	Short Term	1,000.0	[ICRA]A1+			
2	Commercial Paper Programme	Short Term	3,000.0	[ICRA]A1+			

**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**
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Unallocated Bank Limits	-	-	-	1,000.0	[ICRA]A1+
Commercial Paper Programme	-	-	-	3,000.0	[ICRA]A1+

Source: Company Data

**Name and Contact Details of the Rating Analyst(s):**
Analyst Contacts:

**Mr. Karthik Srinivasan**  
(Tel. No. +91 22 6114 3444)  
karthiks@icraindia.com

**Mr. Kushal Modi**  
(Tel. No. +91 22 6114 3428)  
kushal.modi@icraindia.com

**Mr. Mohit Gupta**  
(Tel. No. +91 22 6114 3449)  
mohit.gupta@icraindia.com

**Name and Contact Details of Relationship Contacts:**

**Mr. L. Shivakumar**  
(Tel. No. +91 22 6114 3406)  
shivakumar@icraindia.com

**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](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500