

Reliance Commercial Finance Limited

February 05, 2018

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+; Reaffirmed
Short term bank lines	1,000.00	1,000.00	[ICRA]A1+; Reaffirmed
Total	4,000.00	4,000.00	

Rating action

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 3,000 crore commercial paper programme and Rs. 1,000 crore short term bank lines of Reliance Commercial Finance Limited (RCFL).

Rationale

The rating factors in RCFL's financial flexibility being a part of Reliance Anil Dhirubhai Ambani Group (ADAG) which has 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. The rating also factors in the strategic importance of the business in Reliance Capital's business mix reinforced by its 100% promoter holding. The rating also takes into consideration RCFL's experienced management profile with varied experience across financial services segments. ICRA also takes note of the moderate capitalisation and asset quality profile and will continue to monitor the ability of RCFL to contain its asset quality while growing its loan at a healthy pace.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Strong and 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 retail and commercial lending businesses. Mr. Devang Mody (CEO and Executive Director, RCFL) has an experience of over 20 years in the financial services sector and managed the business to business and business to consumer lending businesses at Bajaj Finance in his earlier role.

Strategic importance of the business for Reliance Capital Limited (RCL) Group – RCL Group started its commercial finance business in FY2007 and has a moderate track record of operations in the secured lending space. RCFL continues to be strategically important to RCL which owns 100% stake in the entity. The entity has assets under management of Rs. 16,280 crore as on September 30, 2017 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. The segmental profit from RCFL formed ~19% of the group profit in H1FY2018.

Diversified lending book; increasing focus on lower ticket exposures provides comfort – The company has a diversified lending book which stood at Rs. 16,280 crore as on September 30, 2017 with a focus on equipment and property backed small and medium enterprise (SME) loans (41%), loan against property (LAP) (13%), short term infrastructure loans (12%), loans to microfinance institutions (MFI) (8%), construction finance (CF) (8%), vehicle and construction equipment loans (10%) and trade advances and inventory funding (5%). The LAP and CF loans are being incrementally booked on Reliance Home Finance Limited. RCFL's AUM grew by ~8% during FY2017 as the management is focussing on reorganising its key asset classes towards relatively lower ticket size loans while the commercial vehicle, car and construction equipment loan book is being run-down, given the significant market competition in these segments. Going forward, the management intends to grow the lending book at a steady pace of 25-30% while maintaining its focus on SME, infrastructure (largely renewable energy) and MFI asset classes.

Liquidity and funding profile continues to be comfortable – The entity's resource profile is fairly diversified across bank borrowings, NCDs and commercial papers. The asset liability maturity profile continues to be comfortable with a high share of long term borrowings (88% of the total borrowings as on September 30, 2017) compared to the average tenure of the loan assets. As on September 30, 2017, the commercial paper borrowings comprised ~11% of RCFL's overall borrowings with the entity having substantial unutilised bank lines to meet any short term liquidity needs.

Credit weaknesses

Capital adequacy and profitability is slightly lower to support incremental loan book growth – RCFL reported a capital to risk weighted assets ratio (CRAR) of ~17.7% as on September 30, 2017 compared to ~17.2% as on March 31, 2017, given its moderate internal accruals and flat loan book growth during H1FY2018. RCFL has adequate capitalisation to meet its near-term growth targets on the basis of internal accruals and access to the securitisation market. In the medium to long term, the entity would require additional capital to meet its loan book growth forecast of ~30%. Further, the operating expenses for RCFL during H1FY2018 were higher given the tepid loan book growth during the period coupled with relatively higher operating expenses associated with lower ticket loans that the company has been gradually moving to. As a result, RCFL reported a slightly lower return on equity of ~9.5% during H1FY2018.

Asset quality indicators have worsened in the past 18-24 months basis the exposure to construction equipment and infrastructure asset classes – RCFL reported gross and net non-performing asset (NPA) ratio of ~5.2% and 4.2% respectively as on September 30, 2017. The entity's NPAs continue to be high mainly due to the poor asset quality indicators in its Vehicle, Infrastructure, Construction Equipment and Trade Advances and Inventory Funding loan portfolio. While the entity has decided to reduce its exposure to the vehicle and construction equipment asset classes, it expects resolution of some the stressed accounts in the infrastructure and inventory funding asset classes in the near term. The ability of the entity to contain its asset quality while growing at a healthy pace would remain a key rating sensitivity going ahead.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance 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. 121.16 crore on total income of Rs. 990.83 crore in H1FY2018 compared with a net profit of Rs. 295.17 crore on total income of Rs. 1,932.60 crore in FY2017.

Key Financial Indicators

	FY2017	H1FY2018
Net Operating Income	356	172
Profit after tax	295	121
Networth	2,506	2,620
Loan Book (AUM)	16,323	16,280
Total assets	13,795	15,333
Return on assets	4.26%	1.67%*
Return on equity	23.00%	9.46%*
Gross NPA	4.90%	5.24%
Net NPA	4.16%	4.23%
Capital adequacy ratio	17.2%	17.7%
Gearing ¹	4.22	4.51

Amounts in Rs. Crore, ratios as per ICRA calculations

*Annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Including minority interest

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Feb-18	FY2017 Feb-17	FY2016	FY2015
1 Commercial Paper Programme	Short term	3,000.00	NA	[ICRA]A1+;	[ICRA]A1+;	-	-
2 Short term bank lines	Short term	1,000.00	NA	[ICRA]A1+;	[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

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+
NA	Short term bank lines*	NA	NA	7-365 days	1,000.00	[ICRA]A1+

Source: Company Data

*Proposed

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