Reliance Commercial Finance Limited

November 16, 2018

Summary of rated instruments

Trust Name	Instrument*	Initial Principal (Rs. Cr.)	Principal O/s previous rating exercise (Rs. Cr.)	Principal O/s after Sep-18 Payout (Rs. Cr.)	Rating Action
Indian Receivable Trust 10	PTC Series A	151.93	23.32	16.89	Reaffirmed at [ICRA]AAA(SO)

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the rating for PTCs backed by a mortgage loan pool of Reliance Commercial Finance Limited (RCFL), as tabulated above.

Rationale

The pool comprises of receivables from Loan Against Property (LAP) contracts. The receivables have been transferred "at par" to a Special Purpose Vehicle (SPV) and the Trust had issued a single series of PTCs, backed by the same. The PTC yield is linked to an external benchmark (the Base Rate of the investor). Given that the Pool yield and the PTC yield are linked to different benchmarks for the pool, basis risk exists in this transaction.

The rating reaffirmation is based on the performance of the underlying pools till date and the expected performance over their balance tenure, as well as the credit enhancement available for the rated PTCs. The performance of these transactions till September 2018 payouts, are mentioned in the table below.

A summary of the performance of the pools after September 2018 payouts has been tabulated below.

Parameter	IRT 10
Months post securitization	60
Pool Amortization	88.88%
PTC Amortization	88.88%
Monthly Collection Efficiency[1] for Jun-18	88.20%
Monthly Collection Efficiency for Jul-18	95.50%
Monthly Collection Efficiency for Aug-18	94.17%
Cumulative Collection Efficiency[2]	99.35%
Loss cum 90+ dpd[3] (% of initial Pool)	0.82%
Loss cum 180+ dpd[4] (% of initial Pool)	0.72%
90+ dpd[5] (% of Balance Pool)	6.75%

[1] *(Total Current and Overdue collections for the month as a % of Total Billing for the month)*

[2] *(Cumulative Current and Overdue Collections till date)/ (Cumulative Billing till date + Opening Overdues at the start of the transaction)*

[3] *Inclusive of Unbilled and Overdue Principal portion of delinquent contracts for more than 90 days, as a % of Initial Pool Principal*

[4] *Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal*

[5] *Inclusive of Unbilled Principal portion of contracts delinquent (Future POS) for more than 90 days, as a % of Balance Principal*

Parameter	IRT 10
Cumulative Cash Collateral Utilization	0.00%
Breakeven Collection Efficiency[6] for PTC A	20.99%
Credit Collateral (% of Balance Pool)	103.44%
Excess Interest Spread (% of Balance Pool) for PTC A[7]	22.66%

Credit strengths

- The cumulative collection efficiency of the pool is more than 99%
- The pool is highly amortized at 89%. Thus, the credit enhancement cover over the balance pool principal has built-up over the months post securitisation.
- The delinquencies in the pool has stayed low with the 90+ dpd level of ~0.8% and 180+ dpd levels ~0.7% post August 2018 collections

Credit challenges

- High prepayment rate may lead to reduction in excess interest spread availability. However, this also leads to rapid amortisation and hence higher cash collateral build-up.

Description of key rating drivers highlighted above:

The pool has completed 60 months post securitisation and is presently amortized by 89%. The underlying contracts in the pool have variable interest rate. Given that the Pool yield and the PTC yield are linked to different benchmarks for the pool, some basis risk exists in these transactions. The residual EIS in the transaction leaks out to the originator. The pool has performed well with cumulative collection efficiency of more than 99% and range bound 90+ and 180+ delinquencies. Given the strong performance of these pools and the presence of EIS, there has been no CC utilization till date.

Overall, the credit enhancement available for meeting balance payouts to the investors – after downward reset of cash collateral in the transaction - is sufficient to reaffirm the ratings in the transaction. ICRA will continue to monitor the performance of this transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations

In ICRA's opinion, the level of credit enhancement is sufficient to protect the investors from delinquencies and credit losses even under significantly stressed loss assumptions.

Key Rating Assumptions

ICRA's cash flow modeling for surveillance of MBS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

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[6] *(Balance Cashflows payable to investor– Cash collateral available)/ Balance Pool Cashflows*

[7] *(Pool Cashflows – Cashflows to PTC A)/ Pool Principal outstanding*

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Indian Receivable Trust 10	0.5%-1.0%	20%-30% p.a.

Analytical approach: The rating actions are based on the performance of the pools till August 2018 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

Links to applicable criteria:
Rating Methodology for Securitisation Transactions

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.

RCFL has ratings outstanding of [ICRA]A1+ for its Commercial paper programme and Short term bank lines.

Key financial indicators

	FY2017	FY2018
Operating Profit	388	421
Profit after tax	295	208
Networth	2,506	3,107
Total assets	13,795	15,942
Return on assets	4.26%	1.40%
Return on equity	23.00%	7.43%
Gross NPA	4.90%	3.05%
Net NPA	4.16%	2.43%
Capital adequacy ratio	17.2%	19.3%
Gearing**	4.22	3.91

Amounts in Rs. crore, ratios as per ICRA calculations
**Annualised*
***Including minority interest*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.No	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019 November 2018	Date & Rating in FY2018 Oct 2017	Date & Rating in FY2017 Sep 2016	Date & Rating in FY2016 Sep 2015	Date & Rating in FY2015 May 2014
1	Indian Receivable Trust 10	PTC Series A	151.93	16.89	[ICRA]AAA (SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)

Complexity level of the rated instrument: Highly Complex

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 I

Detail of Instruments

Trust Name	Instrument Name	Date of Issuance	Current Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore[8])	Current Rating
Indian Receivable Trust 10	PTC Series A	Sep 2013	Floating (linked to investor base rate)	Nov 2033	16.89	[ICRA]AAA(SO)

** Scheduled maturity at transaction initiation; may change on account of prepayment and yield change*

[8] *100 lakh = 1 crore = 10 million*

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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.

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