

Reliance Commodities Limited

March 05, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank facilities	200.00	200.00	[ICRA]A1@; downgraded from [ICRA]A1+; Placed on Watch with Negative Implications
Total	200.00	200.00	

@On rating Watch with Negative Implications

Rationale

The primary rating drivers for the downgrade in the ratings of Commercial paper programme from ICRA A1+ to [ICRA]A1@. (the ratings are put on watch with negative implications), for Reliance Capital Limited (RCL) and its subsidiaries companies are as follows:

- Increasing refinancing risks given that the company has a large quantum of short term debt maturing in the short term.
- Slow pace of monetization of RCL's non-core investments (non-financial services businesses).
- While ICRA notes that RCFL and RHFL have been able to raise funding in the securitization market in the past six months, its current on balance sheet liquidity is modest in relation to the size of the borrowings
- RCL's key NBFC subsidiaries namely Reliance Commercial Finance Limited (RCFL) and Reliance Home Finance Limited (RHFL), have witnessed an increase in exposure towards higher ticket clients. The exposures are concentrated, and the top 10 exposures for RCFL contribute to ~21% of total AUM as of December 31,2018. The top 10 exposures for RHFL contribute to 8% of total AUM as of March 31,2018.
- Reliance Communications Limited (rated ICRA [D]) has filed for bankruptcy proceedings in the National Company Law Tribunal (NCLT) and the overall financial stress to the Reliance group companies remains to be weak.

The ratings continue to factor in the company's status as a holding company for its financial services businesses which have presence across various verticals like Asset Management, Life Insurance, General Insurance, Commercial & Home Finance, Broking & Distribution of financial products and Proprietary Investments. The rating also takes into consideration RCL's experienced management profile with varied experience across financial services segments. ICRA notes that RCL has substantial exposure towards the Reliance Group's various non-financial companies in the media, entertainment & infrastructure businesses. RCL has been making efforts to divest some of its potentially core and non-core investments in order to reduce its debt. The divestments schedule has been adversely impacted in CY2018, due to the adverse capital market movements, and the liquidity crunch faced by the NBFC sector from September 2018 onwards.

ICRA takes note of the moderate profitability indicators of RCL. Going ahead, the ability of RCL to successfully and timely monetise some of its investment exposures in its media & entertainment businesses and shore up its liquidity profile would continue to be key rating monitorable.

RCL's lending business entities, RCFL & RHFL reported a significant decline in its disbursements in Q3 FY2019 amid tightening liquidity for the company and significant debt repayments during September 2018 to January 2019. The liquidity position continues to be moderate going forward, given significant debt repayments due over the course of next 6 months, at standalone RCL level, as well at RCFL's & RHFL's standalone level. ICRA, however, notes that the company has been regular in meeting all its debt obligations and has raised funds through sizeable securitisation and assignment of loan assets ~Rs.6200 crore since H1FY2019 .

The ratings are on Rating Watch with Negative Implications due to the longer time frame taken to monetise non core investments at RCL and reduction in financial flexibility at RCL and its lending subsidiaries. ICRA will closely monitor the progress in terms of divesting its core and non-core assets to improve upon its liquidity profile

Outlook: Not Applicable

Key rating drivers

Credit strengths

Parentage of Reliance Capital Limited – RCoL is a 100% subsidiary of RCL, the financial services arm of the Reliance ADA Group and is involved in commodity broking business. RCoL is one of the large players in commodity broking with a sizeable market share. Going ahead, the rating of RCoL will remain sensitive to the credit rating of its parent RCL and also the importance of RCoL to its parent.

Adequate capitalisation – RCoL's capitalisation is adequate for its current scale of operations with a net worth of Rs. 10.94 crore as on December 31, 2018 (Rs. 11.47 crore as on March 31, 2018). RCoL's capital requirement is mainly for meeting margin requirement at the exchange houses. The gearing increased from 0.61 times as on March 31, 2018 to 1.29 times in 9MFY2019.

Credit challenges

Losses reported in 9MFY2019 – With elevated operating expenses and the company reporting provisions of Rs. 0.12 crore in FY2018 the company reported a net loss of Rs. 0.11 crore in FY2018 as compared to net profit of Rs. 0.25 crore in FY2017. Further, the company reported a net loss of Rs. 0.04 crore in 9MFY2019.

Elevated cost structure – In ICRA's view, RCoL's cost structure remains elevated when compared to many other ICRA-rated brokerage houses, with the cost-to-income ratio of the company being reported at ~109% during 9MFY2019 vis-a-vis ~99% during FY2018.

Liquidity Position:

RCoL has a liquid assets cover of ~0.95 times of its total external liabilities as on December 31, 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Brokerage Houses
Parent/Group Support	Parent / Investor: Not Applicable
Consolidation / Standalone	While arriving at the rating for Reliance Capital Limited (RCL), ICRA has considered the consolidated performance of RCL and its subsidiaries carrying businesses as finance companies (namely Reliance Commercial Finance Limited, Reliance Home Finance Limited, Reliance Financial Limited, Reliance Asset Reconstruction Company Limited, Reliance Commodities Limited & Reliance Securities Limited, collectively referred to RCL group) given the strong operational and financial synergies between the companies.

About the company

Reliance Commodities Limited

Incorporated in 2005, Reliance Commodities Limited (RCoL) is a wholly-owned subsidiary of Reliance Capital Limited (RCL) and is involved in commodity broking. As on December 31, 2018, the company had a net worth of Rs. 10.94 crore. During FY2018, the company reported a net loss of Rs. -0.11 crore on a net operating income of Rs. 11.02 crore as compared to a net profit of Rs. 0.25 crore on a net operating income of Rs. 8.71 crore during FY2017. During 9MFY2019, the company reported a net loss of Rs. 0.04 crore on a net operating income of Rs. 6.18 crore.

Key financial indicators (Audited)

	FY2017	FY2018	9M FY2019
Brokerage Income (net)	6.53	8.18	4.11
Net Interest Income	1.67	1.65	0.64
Other Non-Interest Income	0.51	1.18	1.43
Net Operating Income	8.71	11.02	6.18
Trading Income	0.07	0.06	0.63
Total Operating Expenses	8.58	10.91	6.72
Profit After Tax	0.25	-0.11	-0.04
Net Worth	11.53	11.47	10.94
Cost to Income Ratio	98.48%	99.02%	108.68%
PAT /Average Total Assets	1.04%	-0.13%	-0.12%
Return on Net Worth	3.48%	-0.48%	-0.60%
Total Debt / Net worth (times)	0.00	0.61	1.29

Note: Amount in Rs. crore; Source: Company Data and ICRA research

Reliance Capital Limited

Reliance Capital Limited (RCL) is a part of the Reliance ADAG. RCL's subsidiaries have a 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. 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 commercial finance business portfolio currently. In March 2017, RCL de-merged its commercial finance business into Reliance Commercial Finance

Limited, its wholly owned subsidiary, and RCL is in a process to become a core investment company with investments in group as well as non-group entities.

RCL's reported a consolidated PAT of Rs. 246 crore in Q3FY2019, as against Rs. 309 crore in Q2FY2019, and Rs 37 crore in Q3FY2018. For 9MFY2019, PAT stood at Rs. 850 crore, as against a loss of Rs. 478 crore (Rs. 881 crore profit as per iGAAP) due to impact of ECL provisioning and fair valuation of investments as per Ind-AS.

Key Financial Indicators

RCL (Standalone)	FY2017	FY2018	H1FY2019
Net Operating Income	202	467.00	308.00
Profit on sale on investments	253	774.00	-
Profit after tax	419	828.00	308.00
Networth	13,701	14,168	13,289
Investment Book	18,834	21,108	23,272
Total assets	33,266	36,352	36,697
Return on assets	1.20%	2.37%	1.69%
Return on equity	3.11%	5.94%	4.49%
Capital adequacy ratio	38.0%	47.00%	31.69%(Dec-18)
Gearing ¹	1.41	1.52	1.75

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 (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Mar-19	FY2018	FY2017	FY2016
					Jan-18	Dec-16	Jul-15
Short-term non-fund based bank facilities	Short Term	200.00	200.00	[ICRA]A1@; downgraded from [ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

@On rating Watch with Negative Implications

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	Short-term non fund-based bank facilities	NA	NA	<1year	200.00	[ICRA]A1@

Source: Company Data

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