Religare Finvest Limited

March 13, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Debt Programme	300	300 (outstanding Rs. 220 crore)	[ICRA]BB@; rating outstanding
Bank Limits	9,000	9,000 (outstanding Rs. 3,617.53 crore)	[ICRA]BB@/[ICRA]A4@; rating outstanding
Total	**9,300**	**9,300** **(outstanding Rs.3837.53 crore)**	

Rationale

ICRA has long-term ratings outstanding of [ICRA]BB (pronounced ICRA double B) and short-term rating outstanding of [ICRA]A4 (pronounced ICRA A four) for the various debt programmes of Religare Finvest Limited (RFL). Both the long-term and short-term ratings are on watch with negative implications. The ratings for RFL factor in the stretched liquidity profile, significantly reduced financial flexibility of the company owing to delay in equity infusion and challenges in raising of incremental funding. Further, there has not been any fresh business since FY2017 and there has been significant deterioration in the asset quality for RFL with the entire corporate book being classified as non-performing asset (NPA) and increased slippages in the SME book. Consequently, the financial profile of RFL has deteriorated sharply, largely owing to elevated credit costs and the company has reported a capital adequacy of 11.37% as on December 31, 2018, significantly lower than the regulatory norm of 15%. ICRA notes that RFL has been repaying all its liabilities, so far, through collections, foreclosures, sale of strategic investments, income tax refunds and prepayments on the existing loan book and some sale of loans. ICRA has also noted that some of the lenders of the company have increased the lending rates for RFL, which the company has disputed and has put in requests for reversal and is working with the lenders to resolve the dispute. Also, there are sizable repayments due in the month of March 2019, which can only be repaid through a mix of inflows on the loan book as well as the sale of assets. The company is in talks with some of the lenders for sale of its SME loan book and timely assignment of those loans would be critical for the company to meet the liquidity gaps. In the absence of the sale of loans and equity infusion, the company may not be able to meet its debt obligations in a timely manner. The company is also in talks with the lenders regarding the restructuring plans to support the revival of the company, however it is at nascent stages as of now. ICRA will continue to cautiously monitor the situation with specific focus on liquidity position, and sale of loan book and hence the ratings continue to be on watch with negative implications.

Key rating drivers

Credit challenges

Stretched liquidity and reduced financial flexibility – A longer-than-expected delay in proposed capital infusion and challenges in raising incremental funds led to a deterioration in RFL's financial flexibility and liquidity profile. The liquidity profile was further negatively impacted by the recent SEBI order and with Lakshmi Vilas Bank (LVB) adjusting the Rs. 791-crore fixed deposits due to RFL against the loans granted by LVB to RHC Holding Pvt. Ltd and Ranchem Pvt. Ltd. The matter is currently sub judice. ICRA notes that the company has been repaying all its liabilities through collections, foreclosures, sale of strategic investments, income tax refunds and prepayments till now and was also looking at alternate funding sources such as the sale of assets. However, given the current challenges in the operating environment and the recent SEBI order prohibiting the sale of assets, the sustainability of these options is difficult to ascertain. Also, there are sizable repayments due in the month of March 2019, which can only be repaid through a mix of inflows on the loan book as well as the sale of assets. The company is in talks with some of the lenders for sale of its SME loan book and timely assignment of those loans would be critical for the company to meet the liquidity gaps. In the absence of the sale of loans and equity infusion, the company may not be able to meet its debt obligations in a timely manner.

Sizeable corporate loan book - ICRA takes note of the qualifications made by the RBI and RFL's auditors regarding the material weakness in the credit worthiness of the borrowers and internal controls in RFL's corporate loan book (Rs. 2,397 crore as on December 31, 2018). Almost entire corporate loan book was classified as NPA as on December 31,2018 and has been provided for to the extent of over 80%. ICRA has taken note of the steps taken by the management to resolve the corporate loan book though the extent and timeliness of recovery remain uncertain.

Deteriorating asset quality – The recognition of the majority of the corporate loan book as NPA and the shrinking of the asset base led to an increase in the gross NPA ratio to ~53% as on December 31, 2018. For the SME book, the gross NPA ratio further increased to ~28% as on December 31, 2018 from ~13.4% as on March 31, 2018. Any further deterioration in the asset quality, and hence collections, could further impact RFL's credit profile and liquidity position given that it has not been doing any fresh business since the last couple of years.

Deteriorating financial profile and weak capitalisation – With no fresh business since FY2017 and sharply deteriorating asset quality and hence higher credit costs, the profitability of RFL has significantly declined with company reporting a loss of Rs. 1173 crore in 9MFY2019. Consequently, the company has also reported a breach in the capital adequacy ratio with a total capital adequacy of 11.37% as on December 31, 2018, significantly lower than the regulatory requirement of 15%. With the company still being under "corrective action plan' by RBI and in the absence of fresh capital infusion, the financial and credit profile of the company is likely to remain under pressure in the near term.

Shrinking asset base with no fresh disbursements - Given the challenges in raising incremental funds, RFL has curtailed disbursements since FY2017. Also, the Reserve Bank of India (RBI), in its letter dated January 18, 2018, prohibited the company from expanding its credit/investment portfolio other than investment in Government securities. The lack of disbursements led to a decline in the managed loan book to Rs. 8,310 crore as on December 31, 2018.

Liquidity position

The liquidity position of the company is currently stretched with owing to longer than expected delay in capital infusion and challenges in raising incremental funding. Also, there are sizable repayments due in the month of March 2019, which can only be repaid through a mix of inflows on the loan book as well as the sale of assets. The company is in talks with some of the lenders for sale of its SME loan book and timely assignment of those loans would be critical for the company to meet the liquidity gaps. In the absence of the sale of loans and equity infusion, the company may not be able to meet its debt obligations in a timely manner

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Company
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Religare Finvest Limited (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 Religare Enterprises Limited. It had a total managed portfolio outstanding of Rs. 8,310 as on December 31, 2018 (Rs. 9,797 crore as on March 31, 2018).

In FY2018, RFL reported a net loss of Rs. 1,103 crore on an asset base of Rs. 12,532 crore compared to a net loss of Rs. 341 crore on an asset base of Rs. 17,158 crore in FY2017. The company's gross NPA stood at 34.3% and CRAR at 17.5% as on March 31, 2018. For the nine months ended December 31, 2018, the company reported a net loss of Rs. 1,173 crore on an asset base of Rs.7,795 crore.

Key financial indicators (Audited)

Particulars	FY2017	FY2018
PAT	-341	-1,103
Net Worth	3,041	1,938
Total Portfolio	13,974	9,797
RoA (return on average assets)	-1.8%	-17.6%
RoE (return on average equity)	-11.6%	-113.8%
Gearing	4.4	4.5
Gross NPA%	4.7%	34.3%
Net NPA%	3.4%	23.7%
Net NPA/Net Worth	15.4%	103.2%
Net Worth/Total Assets	17.7%	15.5%

Source: Company and ICRA research; Amount in Rs. crore
CRAR: Capital to risk-weighted assets ratio, NPA: Non-performing asset

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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)	Rating	Rating	Rating	FY2018				FY2017			FY2016
					Mar-19	Oct-18	Oct-18	Jan-18	Dec-17	Nov-17	Jul-17	Dec-16	Dec-16	Oct-16	Nov-15
1	Long-term Debt Programme	Long Term	300	220	[ICRA] BB@	[ICRA] BB@	[ICRA]BBB-@	[ICRA] BBB &	[ICRA] A&	[ICRA] A+&	[ICRA] A+&	[ICRA] AA-(Stable)	[ICRA] AA-(Stable)	[ICRA] AA-(Stable)	[ICRA] AA-(Stable)
2	Bank Limits	Long Term/ Short Term	9,000	3,617.53	[ICRA] BB @ / [ICRA] A4 @	[ICRA] BB @ / [ICRA] A4 @	[ICRA]BBB-@ / [ICRA]A3 @	[ICRA] BBB & /[ICRA] A3&	[ICRA] A&/ [ICRA] A1	[ICRA]A+&/ [ICRA] A1	[ICRA] A+&/ [ICRA] A1	[ICRA] AA-(Stable)/ [ICRA] A1	[ICRA] AA-(Stable)/ [ICRA] A1	[ICRA]AA-(Stable)/ [ICRA]A1	[ICRA] AA-(Stable)/ [ICRA]A1

@ - Rating Watch with Negative Implications, & - Rating Watch with Developing 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE958G08955	Non-convertible Debentures	12-Oct-12	12.20%	12-Oct-22	50.00	[ICRA]BB @
INE958G08963	Non-convertible Debentures	21-Jan-13	12.20%	21-Jan-23	42.00	[ICRA]BB @
INE958G08989	Non-convertible Debentures	25-Feb-13	12.00%	25-Feb-23	8.00	[ICRA]BB @
INE958G08997	Non-convertible Debentures	28-Mar-13	12.05%	28-Mar-23	20.00	[ICRA]BB @
INE958G08AA3	Non-convertible Debentures	30-Sep-15	10.68%	30-Apr-21	100.00	[ICRA]BB @
NA	Bank Lines	Sep-12 to Mar-17	NA	Dec-18 to Feb-24	9,000	[ICRA]BB@/ [ICRA]A4@

Source: Religare Finvest Limited
@ - Rating Watch with Negative Implications

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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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