

Reliance Home Finance Limited

March 29, 2019

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]A2@; downgraded from [ICRA]A1@; Continues to be on Watch with Negative Implications
Total	3,000.00	3,000.00	

@On rating Watch with Negative Implications

*Instrument details are provided in Annexure-1

Rationale

ICRA has downgraded the short term -rating for various instruments of Reliance Capital Limited (RCL) and its subsidiaries to [ICRA]A2@ (pronounced ICRA A two) from [ICRA] A1@ (pronounced ICRA A one). The ratings continue to be on Watch with Negative Implications. The ratings' downgrade reflects the increasing refinancing risks as the company has a large amount of short-term debt maturing over the next three months. The rating downgrade also reflects the slow pace of monetisation of RCL's non-core investments (non-financial services businesses).

The downgrade is driven by no material improvement on the liquidity profile as compared to earlier expectations. With weakening financial flexibility amidst large quantum of short term borrowings due for repayment in the near term, the timeliness of receipt of funds from divestments of some of its potentially core and non-core investments remains critical. At the same time, while the management remains confident, they have not provided clarity on the timely recoverability of funds extended to certain groups by RCFL and RHFL, and also the funds extended to the Reliance group by RCL, which now is critical to ensure timely repayment of debt obligations.

ICRA notes that while RCFL and RHFL have been able to raise funds in the securitisation market in the past six months, their respective current on-balance sheet liquidity is modest in relation to the size of borrowings. RCL's key NBFC subsidiaries, RCFL and RHFL, have witnessed an increase in exposure towards higher ticket-size loans to some companies. 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 11% of total AUM as of December 31,2018 ICRA also notes that Reliance Communications Limited (rated ICRA [D]) has filed for bankruptcy proceedings in the National Company Law Tribunal (NCLT) and overall, Reliance ADAG group companies have been under financial stress.

The rating continues to factor in RCL's status as a holding company for its financial services businesses, which have a presence across various verticals like asset management, life insurance, general insurance, commercial and home finance, broking and 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 ADAG group's various non-financial companies in the media, entertainment and infrastructure businesses. RCL has been making efforts to divest some of its core and non-core investments to reduce its debt. The divestment schedule was affected in CY2018 by the adverse capital market movements and the liquidity crunch faced by the NBFC sector post September 2018.

ICRA takes note of RCL's moderate profitability indicators. Going forward, RCL's ability to successfully and timely monetise some of its investment exposures in its media and entertainment businesses and shore up its liquidity profile would continue to be a 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 February 2019. The liquidity position continues to be moderate going forward, given significant debt repayments due over the course of next six 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 September 2018.

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

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 mortgage lending businesses. The senior management team has a proven track record for handling retail portfolio for a leading private sector banks.

Strategic importance of the business for Reliance Capital Limited (RCL) Group – RCL started its home finance business in FY2009 and has a moderate track record of operations with a moderately seasoned loan book. RHFL continues to be strategically important to RCL which owns ~48% stake in the entity with the total promoter holding being ~75%. The entity has assets under management of Rs. 16,464 crore as on September 30, 2018 with a focus on lower ticket home and construction finance loans. Within housing loan segment, RHFL primarily offers loans to the self-employed category with an average ticket size of Rs. 15 lakh and 72 lakh for affordable housing and housing loans respectively.

Stable asset quality; however, moderate portfolio seasoning – RHFL's reported asset quality indicators remain sound with gross non-performing asset (NPA)¹ ratio at 0.80% and net NPA at 0.58% as at September 30, 2018. The stability in asset quality over the years is mainly on the back of continual focus on improvement in collection processes as the collections team starts focusing on delinquent accounts starting from 1 day past due (dpd) to contain stress on higher buckets. RHFL's ability to contain the asset quality amidst slowdown in the pace of growth will be a key rating monitorable.

Adequate capitalisation with CRAR of 20% and gearing of 7.2 times as on September 30, 2018– RHFL's capitalisation is comfortable with a capital to risk weighted assets ratio (CRAR) of ~ 20 % and gearing of 7.2 times as on September 30,

¹ On the books portfolio

2018. The net worth of RHFL improved with successive equity infusions of Rs. 200 and Rs. 600 crore during FY2017 and H1FY2018 (equity infusions of Rs. 600 Cr includes shares worth ~ Rs. 252 Cr allotted pursuant to Scheme of Arrangement) respectively by RCL. The entity is adequately capitalised, given the slowdown in its pace of business in the wake of tightening liquidity and rising cost of funds.

Credit challenges

Geographically concentrated portfolio coupled with a significant share of construction financing book – The company has a geographically concentrated loan portfolio with the regions of Maharashtra, Gujarat, Tamil Nadu & Delhi accounting for 26%, 24%, 14% & 10% respectively of the overall loan book. Further, the entity continues to have a high share of construction finance loans, which accounted for ~36% of the overall loan book. The risk associated with the construction finance loans is mitigated to some extent as the entity primarily finances projects which are more than 50% constructed and sale of units is nearing completion while offering lower LTVs of under 50%.

Liquidity and funding profile has moderated – The entity's resource profile has been fairly diversified across bank borrowings, NCDs and commercial papers. However, the company's ability to garner new sanctioned bank lines has diminished, as the perceived risk on the NBFC/HFC sector as a whole has become high, which has constrained its fund raising capabilities. The asset liability maturity profile continues to be moderate, as its current on balance sheet liquidity is modest in relation to the size of the borrowings. However, the entity has access to the securitisation market and is an active participant in the same, which lends further liquidity comfort in order to meet short term capital requirements.

High client concentration and sector risks – The top 10 exposures account for ~11% of total AUM as of December 31, 2018. ICRA notes that some of the top 10 exposures are not central to RHFL's strategy of shifting towards a more granular lower average ticket size portfolio. Any slippages on these accounts would result in a sharp deterioration in profitability and capitalization metrics.

Liquidity Position:

RHFL has been able to manage their liquidity position largely through the securitization market (Pass through certificates, and direct assignments of loans) apart from inflows from maturity of its advances. With limited fresh business generation and sizeable securitization and assignment of loan assets, the pool eligible for sell down has also been declining, thereby reducing RHFL's ability to refinance through securitization.

As on March 18, 2019 RHFL had a liquidity cushion of around Rs. 158 crore in the form of unencumbered cash and deposits, Rs. 4 crore of drawable bank lines, as well as estimated inflows of ~Rs. 1,399 crore from advances' inflows (till June 2019). The debt repayments for the period till June 2019 is ~Rs. 1701 crore.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation / Standalone	While arriving at the rating for Reliance Home Finance (RHFL), 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 Home Finance Limited (RHFL) is a subsidiary of Reliance Capital Limited (RCL) and was incorporated in FY2009. RHFL is registered as a Housing Finance Company with National Housing Bank and is engaged in mortgaged based lending operations. RHFL was listed on the stock exchanges in India in the second half of September 2017 after it was hived off from RCL, basis which RCL's stake in the entity reduced to ~48%, while the overall promoter holding in the entity was ~75% as on December 31, 2018.

RHFL reported net profit after tax of Rs. 123 crore on a total income base of Rs. 875 crore in H1FY2019 compared to net profit of Rs. 181 crore on a total income base of Rs. 1671 crore in FY2018. In FYFY2017, the company had reported a net profit of Rs. 173 crore on a total income of Rs. 1145 crore.

Reliance Capital Limited

Reliance Capital Limited (RCL) is a part of the Reliance group. 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 is 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 39 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

	FY2017	FY2018	H1FY2019*
Total Income	1,144.68	1,670.52	875.00
Profit after tax	172.59	180.58	123.00
Networth	1129.60	1929.13	1880.00
Loan Book (AUM)	11,174	16379	16464.00
Total assets	11346.65	15684	16305
Return on assets	1.81%	1.34%	1.54%
Return on equity	19.73%	11.81%	12.92%
Gross NPA	0.84%	0.87	0.8%
Net NPA	0.68%	0.67	0.58%
Capital adequacy ratio	19.3%	19.7%	19.4%
Gearing	8.67	6.90	7.20

Amounts in Rs. Crore, ratios as per ICRA calculations

*Annualised

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)	Date & Rating		FY2018	FY2017		FY2016
					Mar-19	Mar-19		Feb-18	Nov-16	
1	Commercial Paper Programme	Short term	3,000.00	NA	[ICRA]A2@; downgraded from [ICRA]A1@	[ICRA]A1@	[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	Commercial Paper Programme	NA	NA	7-365 days	3,000.00	[ICRA]A2@

Source: Company Data

ANALYST CONTACTS

Karthik Srinivasan

+91 22 61143444
karthiks@icraindia.com

Rohan Rustagi

+91 22 61143414
Rohan.rustagi@icraindia.com

Sahil Udani

+91 22 61143429
sahil.udani@icraindia.com

Neha Parikh

+91 22 61143426
neha.parikh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office

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

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 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 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