

Reliance Home 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
Total	3,000.00	3,000.00	

Rating action

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 3,000 crore commercial paper programme of Reliance Home Finance Limited (RHFL).

Rationale

The rating factors in RHFL'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 ~75% promoter holding. The rating also takes into consideration RHFL's experienced management profile with varied experience across financial services segments. ICRA also takes note of the healthy capitalisation and asset quality profile while noting the geographically concentrated nature of operations with a significant share of construction finance book.

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

Strategic importance of the business for Reliance Capital Limited (RCL) Group – RCL Group 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. 14,120 crore as on September 30, 2017 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. 13 lakh and 60 lakh for affordable housing and housing loans respectively. The segmental profit from RHFL formed ~14% of the group profit in H1FY2018.

Stable asset quality; however, moderate portfolio seasoning – RHFL's reported asset quality indicators remain sound with gross non-performing asset (NPA) ratio at 0.9% and net NPA at 0.6% as at September 30, 2017. The improvement in asset quality over the years is mainly on the back of 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 while growing at its targeted pace of ~35% will continue to be a key rating monitorable.

Adequate capitalisation with CRAR of 21.3% and gearing of 6.49 times as on September 30, 2017; continues to receive equity support from RCL – RHFL's capitalisation is comfortable with a capital to risk weighted assets ratio (CRAR) of ~21.3% and gearing of 6.49 times as on September 30, 2017. The net worth of RHFL improved with successive equity infusions of Rs. 200 and Rs. 600 crore during FY2017 and H1FY2018 respectively by RCL. The entity is hence adequately capitalised to meet its near to medium term growth target of ~35%.

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 (84% of the total borrowings as on September 30, 2017) with the entity having substantial unutilised bank lines to meet any short-term liquidity needs. As on September 30, 2017, the commercial paper borrowings comprised ~13% of RHFL's overall borrowings. Further, 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.

Credit weaknesses

Operating expenses continue to be high given the fast-growing operations – While the entity reported a return on equity (RoE) of ~19.7% during FY2017 and ~10.6% during H1FY2018 after accounting for successive equity infusions from RCL during FY2017 and H1FY2018 respectively, its operating expenses continue to be slightly high as the company continues to grow across locations and focus on growth of lower ticket housing and affordable housing loans. RHFL's cost to income ratio increased during FY2017 to ~57% from ~49% during FY2016. The cost to income ratio for the entity for H1FY2018 was ~49%.

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 and Delhi accounting for 43%, 16% and 14% respectively of the overall loan book. Further, the entity continues to have a high share of construction finance loans, which accounted for ~28% 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%.

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 Housing Finance 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, 2017.

RHFL reported net profit after tax of Rs. 172.59 crore on a total income base of Rs. 1,142.65 crore in FY2017 compared to net profit of Rs. 86.76 crore on a total income base of Rs. 813.54 crore in FY2016. In H1FY2018, the company had reported a net profit of Rs. 78.02 crore on a total income of Rs. 800.31 crore

Key Financial Indicators

	FY2016	FY2017	H1FY2018
Net Operating Income	132	156	-
Profit after tax	87	173	78
Networth	620	1,130	1,826
Loan Book (AUM)	7,357	11,174	14,119
Total assets	7,694	11,305	14,035
Return on assets	1.31%	1.82%	1.23%*
Return on equity	15.04%	19.73%	10.56%*
Gross NPA	0.97%	0.84%	0.90%
Net NPA	0.74%	0.68%	0.64%
Capital adequacy ratio	16.3%	19.3%	21.3%
Gearing	10.61	8.68	6.49

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:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2017			FY2016	FY2015
					Nov-16	Jul-16	Apr-16	-	Mar-15
1 Commercial Paper Programme	Short term	3,000.00	NA	[ICRA]A1+; Reaffirmed	[ICRA]A1+	[ICRA]A1+	[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+

Source: Company Data

ANALYST CONTACTS

Karthik Srinivasan

+91 22 61143444

karthiks@icraindia.com

Sahil Udani

+91 22 61143429

sahil.udani@icraindia.com

Omkar Athalekar

+91 22 61143439

omkar.athalekar@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

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (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) 6606 9999

© Copyright, 2018 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