

Reliance Capital Limited

Instrument	Amount (in INR Crore)	Rating Action (March 2016)
Short Term Debt Programme	7,500	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus)¹ to the Rs. 7,500 crore short term debt programme of Reliance Capital Ltd (RCL).

The rating re-affirmation reflects RCL's association with Reliance group one of India's largest business groups, comfortable Capitalization levels, comfortable ALM and liquidity profile and stable asset quality. The rating also draws comfort from high financial flexibility being part of Reliance group which has significant presence in various businesses in financial services domain like Asset Management, Life Insurance, General Insurance, Commercial & Home Finance, Broking & Distribution of Financial Products and Proprietary Investments. ICRA takes note of the company's moderate track record in commercial lending operations and moderate profitability indicators and high investment in Reliance group companies. While sizeable part of the reported net worth is invested in unlisted group companies, the intrinsic value in some of the investments, which can be witnessed in recent stake sales by RCL, partly alleviate credit concerns. ICRA also takes note of the planned transfer of Commercial Finance Division of Reliance Capital Ltd. into a separate subsidiary following which RCL will remain an investment company and apply for a Core Investment Company (CIC) license. In ICRA's view, managing the asset quality going forward with scaling up the book shall remain a key rating sensitivity.

Reliance Capital Ltd started its commercial lending operations in May 2007 and exhibited an aggressive growth initially in scaling up its portfolio before consolidating against the backdrop of challenging operating environment in FY09. However, with improvement in the lending environment, RCL reiterated its focus in the lending business by ramping up fresh disbursement in the secured lending space FY10 onwards and tightened its credit policies. During 9MFY2016, the overall credit book size (including Reliance Home Finance Ltd. book) has grown by 10% against 13% growth of FY 2015 to Rs. 16,914 crore (on book) as on Dec-15 from Rs. 15,409 crore (on book) as on Mar-15. On an AUM basis, the book was reported at ~Rs. 21,940 crore as on Dec-15 as compared to ~Rs. 19,920 crore as on Mar-15 and ~Rs. 17,350 crore as on Mar-14 reflecting ~14% annualized growth for 9MFY2016 against ~15% growth in FY2015. The growth was primarily driven by growth in the mortgage segment. The company has been using securitization as a tool to improve profitability metrics while keeping overall leverage at moderate levels. Also, the granularity of the book has improved with more thrust on SME advances in the small ticket size segment which has reduced the average ticket sizes considerably, affordable housing as well as micro-finance advances. As on Dec-15, Reliance Capital's consumer financing book was to the tune of Rs. 16,914 crore (including RHFL's home loan book), constituted ~23% by Home Loans, ~18% by Loan Against Property, ~17% by SME advances, ~12% by construction finance, ~11% by commercial vehicle, commercial equipment and auto loans, the remaining ~19% by Trade Advances & Inventory Funding, Infrastructure Advances, micro finance and other smaller advances. Going forward, ICRA expects the mix to further shift in favour of Mortgage advances with the company planning to focus aggressively on Affordable Housing segment. As on date, entire commercial finance book is secure in nature.

Reliance Capital continues to have a sizeable investment book to the tune of ~Rs 12,374 crore as on Mar-15 (~Rs 13,569 crore as on Mar-14) primarily deployed in holding companies, financial services and media companies within and outside the group. In line with its strategy to exit most of the non-core investments, the company exited some of these during FY2016 and is in process of exiting few more over the next few months. Also, going ahead, the company wants to have long term partners in all its core businesses. During FY2016, the company partly sold its stake in Reliance Life Insurance and Reliance Capital Asset Management Limited to Nippon Life Insurance at sizable valuations which will augment the capitalization levels of the company. In ICRA's view, if Reliance Capital is able to substantially exit the non-core investments profitably, it shall substantially augment the capitalization levels of the company and the ability of the company to do the same will remain a key rating sensitivity. Also, ICRA notes that significant gains could potentially be unlocked as stakes in some group companies are disinvested which could further augment capitalization levels.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



Reliance Capital's profitability indicators improved during FY2015 primarily due to profit on sale of its investments. There was also improvement in Operating Profit with an improvement in NIMs due to stable yields and decline in Cost of Funds and increase in Fee Income of the company. With slight deterioration in asset quality numbers, incremental provisioning increased during FY2015 when compared to FY2014. Driven by profit from stake sale during FY2015, on a standalone basis, the company reported a net profit of Rs. 757 crore on a total income base of Rs. 3,988 crore as compared to a net profit of Rs. 409 crore on a total income base of Rs. 3254 crore in FY2014. During 9MFY2016, Reliance Capital has reported a PAT of Rs. 451 crore on a total income of Rs. 2,768 crore. Return on Net Worth stood at ~6.3% for FY2015 (~3.5% for FY2014). RCL's asset quality indicators on a standalone basis remained stable with Gross NPA% (on AUM) at ~2.6% as on Dec-15 as compared to ~2.3% as on March 31, 2015. RCL's capitalization remains strong with CRAR, on a standalone basis, reported at 23.4% (Tier I: 18.8%) as on Dec-15 vis-à-vis 23.9% (Tier I: 19.1%) as on Mar-15.

Company Profile – Reliance Capital Limited

RCL is a part of the Reliance group. RCL supports its group companies in form of equity or debt apart from managing a proprietary investments book. RCL's subsidiaries are engaged in the business of managing a Mutual fund (which is the third largest mutual fund in the country), general & life insurance business and broking business.

RCL started its commercial finance business with a focus on secured lending and currently mortgage and SME loans form bulk of the portfolio. On standalone basis, RCL reported a net profit of Rs. 757 crore on a total income base of Rs. 3,988 crore in FY2015 as compared to a net profit of Rs. 409 crore on a total income base of Rs. 3254 crore in FY2014. During 9MFY2016, the company reported a net profit of Rs. 451 crore on a total income of Rs. 2,768 crore.

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For further details please contact:

Analyst Contacts:

Mr. Karthik Srinivasan (Tel No +91 22 6114 3444)
karthiks@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**Mobile: **9871221122**Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**Mobile: **+91 9903394664**Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500