

## Reliance Capital Limited

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

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus)<sup>1</sup> to the Rs. 7,500 crore short term debt programme of Reliance Capital Limited (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 (started in May 2007) 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 RCL 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.

The company is primarily into secured lending space with a focus on retail borrowers. It also has a wholly owned housing finance subsidiary, Reliance Home Finance Limited (RHFL), under which home loans and part of Loan against Property (LAP) is booked. In September 2016, RHFL proposed to get listed on the stock exchange in next few quarters which would reduce the stake of RCL in the company to around 51%. During FY2016, the overall credit book size (including RHFL portfolio) had grown by 15% to Rs 17,731 as on March 31, 2016 from Rs 15,409 crore as on March 2015. The portfolio further grew to Rs 19,126. crore (Asset under management of 24,872 crore) as on September 2016 driven by the growth in home loans and loans towards SMEs. As on September 30, 2016, the on book portfolio constituted ~27% by home loans (booked under RHFL), ~13% by LAP (of which 4% booked in RHFL), ~20% by SME advances, ~14% by construction finance (of which 8% booked under RHFL), ~6% by commercial vehicle, commercial equipment and auto loans, the remaining ~20% by Trade Advances & Inventory Funding, Infrastructure Advances, micro finance and other smaller advances. 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 and affordable housing segment in the home loan portfolio. Going forward, the company intends to grow aggressively in home loans segment and focus on SME loans, supply chain financing and agri-loans while being cautious on growing LAP and vehicle financing and equipment financing portfolio. As on date, almost the entire commercial finance book is secured in nature. The ability of the company to grow its portfolio while containing the credit cost would remain a key rating sensitivity.

RCL continues to have a sizeable albeit declining investment book to the tune of ~Rs 11,246 crore as on March 31, 2016 (~Rs 12,375 crore as on March 31, 2015) 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 in future. 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 valuation which has augmented 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.

RCL's asset quality indicators on a standalone basis (commercial finance division) deteriorated slightly with Gross NPA% (on AUM) increasing from ~2.7% as on March 31, 2015 to 3.4% as on March 31, 2016 and

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

further to 3.6% as on September 2016 due to stress in commercial vehicle and infrastructure segments. RCL's capitalization remains strong with CRAR, on a standalone basis, reported at 22.8% as on September 30, 2016 vis-à-vis 23.9% as on March 31, 2016.

As for the profitability, there was improvement in the profitability indicators during FY2016 primarily due to profit on sale of its investments. In FY2016, the company also saw expansion in net interest margins (NIMs) due to improving yields and stable cost of funds. With stable credit cost and operating expense aided by the profits on sale of investment, the company was able to report a healthy growth in net profit to Rs 977 crore in FY2016 compared to Rs 757 crore in FY2015. In FY2016, the company reported a return on assets of 2.7% (2.1% in FY2015) and return on networth of 7.6% (6.3% in FY2015).

#### **Company Profile – Reliance Capital Limited**

Reliance Capital Limited is a part of the Reliance Group. RCL's subsidiaries are engaged in various businesses like Asset Management, Life Insurance, General Insurance, Commercial & Home Finance, Equity Broking, Distribution of Financial Products and Proprietary Investments. In September 2016, RHFL proposed to get listed on the stock exchange in next few quarters which would reduce the stake of RCL in the company to around 51%.

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 portfolio currently. On standalone basis, RCL reported a net profit of Rs. 977 crore on a total income base of Rs. 4076 crore in FY2016 compared to a net profit of Rs. 757 crore on a total income base of Rs. 3948 crore in FY2015. In H1FY2017, the company reported a net profit of Rs 343 crore on a total income of Rs 1882 crore.

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