

Reliance Capital Limited

February 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	4,000.00	4,000.00	[ICRA]A1+; Reaffirmed
Total	4,000.00	4,000.00	

Rating action

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 4,000 crore commercial paper programme of Reliance Capital Limited (RCL).

Rationale

The rating factors in RCL'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 takes into consideration RCL's experienced management profile with varied experience across financial services segments. ICRA takes note of the transfer of Commercial Finance Division of RCL into Reliance Commercial Finance Limited (RCFL), a wholly owned subsidiary of RCL, in March 2017. The rating also factors in RCL's proposed conversion into a Core Investment Company (CIC) coupled with the entity's sustained efforts to divest some of its potentially valuable investments in order to reduce its debt. ICRA also takes note of the moderate profitability indicators of RCL.

Going ahead, the ability of RCL to successfully and timely divest some of its investment exposures and maintain a healthy liquidity profile would continue to be key rating monitorable.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Diversified financial services group with presence in lending, asset management, insurance and capital market activities (broking and financial products distribution) – RCL has wholly owned subsidiaries which are into secured lending businesses – Reliance Home Finance Limited (RHFL), a housing finance company under which home loans (including affordable housing loans), construction finance and Loan against Property (LAP) loans are booked and Reliance Commercial Finance Limited (RCFL), which is primarily into equipment financing and property backed loans to SME, Loan Against Property, Trade Advances & Inventory Funding, Infrastructure Advances and Micro Finance advances with a focus on retail borrowers. Further, RCL's asset management, general and life insurance businesses continue to be leading players in their respective industries, which together with the lending businesses offer considerable financial flexibility and diversity of business streams to RCL.

Large unrealized gains in RCL's investment book with sustained efforts to monetise the potential value of these investments – RCL continues to have a sizeable investment book of ~Rs 18,834 crore as on March 31, 2017 primarily in the form of equity and compulsory convertible debentures in group companies. In line with its strategy to exit most of the non-core investments, the company exited most of these during FY2016 and FY2017 and is in process of exiting few more in future and reduce debt on its balance sheet. The company expects proceeds from sale of its Radio business and liquidation of assets of Reliance MediaWorks and Reliance Big Entertainment Limited (held through its group companies). During FY2016, the company partly sold its stake in its life insurance and asset management businesses to Nippon Life Insurance at sizable valuation and successively got its asset management business listed on the stock exchanges in November 2017. Further, the company expects to monetise ~25% of its investment in Reliance General Insurance through an offer for sale by the end of February 2018. In ICRA's view, apart from monetising some proportion of its group investments, if RCL is able to substantially exit its non-core investments profitably, it shall substantially improve the liquidity profile and pare down the debt levels of the company and the ability to do the same will remain a key rating monitorable.

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 lending, asset management and insurance businesses.

Credit weaknesses

Moderate gearing level due to incremental market borrowings during FY2017 – The entity has a moderate gearing level of 1.41 times as on March 31, 2017 given that the company freshly borrowed funds from the market in H2FY2017 to comply with the CIC investment guidelines and house the non-group investments and corporate loan exposures in its subsidiaries. RCL's capital adequacy stood at 38% as on March 31, 2017. As on September 30, 2017, RCL had a gearing of 1.44 times.

Profitability indicators continue to be moderate – Post the demerger of Reliance Commercial Finance Limited from RCL effective from April 01, 2016, RCL's net interest margins contracted given that the relatively lower yielding corporate loans were retained on its books, while the cost of funds remained stable. Further, there was a reduction in profit from sale of investments and interest income from investments which together lead to a lower return on equity of ~3.1% during FY2017 compared to ~7.6% during FY2016.

Exposure to Reliance Communications Limited – The sale of Reliance Communications' wireless business to Reliance Jio Infocomm is expected to conclude in the near future, which is likely to reduce RCL's loan exposure to the entity. ICRA expects RCL to have adequate liquidity going ahead provided that RCL is able to monetise its exposures to the media and entertainment businesses in a timely manner.

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 Non-Banking Finance Companies](#)

About the company

Reliance Capital Limited (RCL) is a part of the Reliance ADAG. 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 started its commercial finance business in May 2007 with a focus on secured lending and mortgage and SME loans form the bulk of its commercial finance business portfolio currently. In March 2017, RCL de-merged its commercial finance business into Reliance Commercial Finance Limited, its wholly owned subsidiary, and RCL is in a process to become a core investment company with investments in group as well as non-group entities.

On standalone basis, RCL reported a net profit of Rs. 419 crore on a total income base of Rs. 2,071 crore in FY2017 compared to a net profit of Rs. 977 crore on a total income base of Rs. 4,145 crore in FY2016. Further, RCL reported a net profit of Rs. 403 crore in H1FY2018 compared to Rs. 223 crore during H1FY2017.

Key Financial Indicators

	FY2016	FY2017	H1FY2017	H1FY2018
Net Operating Income	588	202	-	-
Profit on sale on investments	677	253	-	-
Profit after tax	977	419	223	403
Networth	13,281	13,701	13,624	13,743
Investment Book	11,246	18,834	11,737	20,834
Total assets	36,354	33,266	38,517	34,746
Return on assets	2.71%	1.20%	1.19%*	2.37%*
Return on equity	7.55%	3.11%	3.32%*	5.87%*
Capital adequacy ratio	24.8%	38.0%	-	-
Gearing ¹	1.67	1.41	1.75	1.44

Amounts in Rs. Crore, ratios as per ICRA calculations

*Annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Including minority interest

Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2018	FY2017		FY2016	FY2015
				Feb-18	Apr-17	Nov-16	Apr-16	-	Mar-15
1 Commercial Paper Programme	Short term	4,000.00	NA	[ICRA]A1+;	[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	4,000.00	[ICRA]A1+

Source: Company Data

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