

## Rating Rationale

### Reliance Commercial Finance Limited

29 April 2019

Brickwork Ratings revises the ratings for the various existing debt instruments of Reliance Commercial Finance Limited (“RCFL” or “Company”) and continues the rating on Credit Watch with Negative Implications.

#### Particulars

| Instruments#      | Rated Amount<br>(Rs in Crs) | Tenure   | Rating*  |   |
|-------------------|-----------------------------|--|--|---|
|                   |                             |  | Previous   | Present   |
| <b>Fund Based</b> |                             |  |  |   |
| Secured NCD       | 2000.00                     | Long Term  | BWR A+<br>(Pronounced as BWR Single A Plus)<br>Credit Watch with Negative Implications   | BWR C<br>(Pronounced as BWR C)<br>Credit Watch with Negative Implications<br>'Downgraded'   |
| Subordinated Debt | 500.00                      |  |  |   |
| PP-MLD            | 100.00                      |  | BWR PP MLD A+<br>(Pronounced as BWR Principal Protected Market Linked Debentures Single A Plus)<br>Credit Watch with Negative Implications | BWR PP MLD C<br>(Pronounced as BWR Principal Protected Market Linked Debentures C)<br>Credit Watch with Negative Implications<br>'Downgraded' |
| Commercial Paper  | 3000.00                     | Short Term                                       | BWR A1+<br>(Pronounced as BWR A One Plus)  | BWR A4<br>(Pronounced as BWR A Four)<br>'Downgraded'  |
| <b>Total</b>      | <b>5600.00</b>              | <b>INR Five Thousand Six Hundred Crores Only</b> |  |   |

\* Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#ISIN-wise details of NCDs are available in Annexure

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating revision factors the delay in principal repayments to some banks (bank facilities are not rated by BWR) as confirmed by the company, increasing the risk of delays in instruments rated by BWR.

The delays in principal repayments of bank facilities are on account of deterioration in liquidity profile of the group due to challenges faced by Rcap and its key lending subsidiaries, Reliance Commercial Finance Limited (RCFL) and Reliance Home Finance Limited (RHFL) to raise funds through traditional bank lines and debt market instruments. RCFL has relied upon securitisation of assets and has raised ~Rs 2250 Crs through securitisation / assignment of loans between Oct 2018 to March 2019. The company has been affected by timing mismatch in regard to expected inflows from securitisation / monetisation proposals and repayment obligations.

The financial flexibility of RCFL and RHFL has moderated and it has curtailed disbursements to conserve liquidity which has impacted the growth in business. The tightened liquidity position and increase in cost of funds for RCFL would impact the profitability going forward. No clarity has been provided on quantum of loans extended by RCFL to group companies and timely recoverability of funds is critical to ensure timely repayment of debt obligations. BWR notes that timely receipt of funds from sale or exit from the core and non-core investments and recovery of loans given by Rcap to non-financial group entities is critical to support its subsidiaries in the financial services segment.

The ratings continue to be on 'Credit Watch with Negative Implications' given the overall financial stress due to loans and investments by parent company in non-financial group entities and BWR will monitor group's ability to raise funds from diversified resources, timely service repayment obligations, build up liquidity and restart fresh disbursements through its lending subsidiaries viz. RCFL and RHFL.

Going forward, the support from Rcap, ability to raise funds from diversified sources, timely servicing of repayment obligations, build-up liquidity, restart fresh disbursements, maintain asset quality, sustain profitability and maintain healthy capitalisation will be the key rating sensitivities.

## **Key Rating Drivers**

**Delay in servicing of repayment obligations:** As per the company's filing to the exchanges on 27 April 2019, there are delays in principal repayment obligations aggregating to ~ Rs 477 Crs to 5-6 banks. Company expects to regularise it shortly. Company has been regular in servicing of all interest payments and regular in principal repayments on all its capital market borrowings.

**Concentration of exposures:** RCFL has significant large exposures to some borrowers. Top 20 exposures in RCFL constitute ~35% of total exposure of the company as on March 31, 2018. The company has not provided clarity on these large exposures and any slippages in these accounts will significantly impact the asset quality, profitability and net worth of the company.

**Liquidity Position:** RCFL's financial flexibility has moderated and it has curtailed disbursements to conserve liquidity. Liquidity position is managed largely through securitisation and direct assignment of loans apart from inflows from loans & advances. RCFL has raised ~Rs 2250 Crs through securitisation /



assignment of loans between Oct 2018 to March 2019. RCFL has total outflows of ~ Rs 1100 Crs in April, May and June 2019. As on March 14, 2019, RCFL had a cash & bank balance of ~Rs 173 Crs.

**Strong Parentage:** RCFL is a wholly owned subsidiary of Rcap. The company is strategically important to the parent company. RCFL benefits from the group's experienced management team and operational synergies with Rcap.

**Diversified Portfolio:** The company is present in ~ 150 cities and offers SME loans, Loan against Property, Vehicle Loans, Infra Loans, Construction Finance and Microfinance. SME Loans constitute 72% of total portfolio as on Dec 31, 2018.

**Healthy Net Interest Margins:** The company's net interest margins improved from 5.6% in FY17 to 5.9% in FY18. The company reported net interest margin of 5.5% in Q3FY19.

**Increase in Provisions and write-offs:** The total provisions and write-offs has increased from Rs 236.8 Crs in FY17 to Rs 324.3 Crs in FY18. The provisions and write-offs during the first 9 months of FY19 stood at Rs 183.2 Crs. The gross NPA and Net NPA stood at 2.9% and 1.5% respectively as on Dec 31, 2018.

### **Analytical Approach**

For arriving at its ratings, BWR has evaluated the risk profile of RCFL on a standalone basis and factored strong linkages with the parent company, Reliance Capital Limited. Rcap currently holds 100% in RCFL as on Dec 31, 2018. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **About the Company**

Reliance Commercial Finance Limited (RCFL) is a wholly owned subsidiary of Reliance Capital Limited (Rcap). RCFL, formerly known as Reliance Gilts Ltd was incorporated on 17 Aug 2000 & subsequently in May 2009 was registered with RBI as NBFC without accepting public deposits. The commercial finance business of Rcap has been demerged into its wholly owned subsidiary viz. RCFL w.e.f. April 1, 2016. RCFL is a public limited company and is engaged in lending activities and offers a wide range of products which include SME Loans, Microfinance, Loans Against Property (LAP), Infrastructure Finance, Agriculture Loans, Supply Chain Finance, Two-wheeler Financing and Used Car Loans. The company has a strong distribution network with presence in approx. 150 cities with over 1000 distribution points across the country. The company's total AUM stood at Rs 17257 Crs as on Dec 31, 2018. The loan portfolio stood at Rs 15527 Crs as on Dec 31, 2018.

### **Financial Performance**

As per audited financials for FY18 of RCFL, total income stood at Rs 2133.61 Crs compared to Rs 1953.34 Crs for FY17, a y-o-y growth of ~10%. The company recorded Net Interest Margin (NIM) of 5.9% for FY18. The Company reported PAT of Rs 208 Crs in FY18 as compared to Rs 295 Crs in FY17. The decline in PAT is mainly due to loss incurred on loans sold to Asset Reconstruction Company and some write-offs during the year. RCFL has reported total income of ~ Rs 1563.10 Crs during first 9 months of FY19 (unaudited).

### Key Financials : Standalone

| Key Financial Indicators | Unit      | FY17 Audited | FY18 Audited |
|--------------------------|-----------|--------------|--------------|
| Total Income             | Rs in Crs | 1953.34      | 2133.61      |
| PAT                      | Rs in Crs | 295.17       | 208.37       |
| Tangible Net Worth       | Rs in Crs | 2505.72      | 3106.83      |
| AUM                      | Rs in Crs | 16760        | 16474        |
| Loan portfolio           | Rs in Crs | 12436        | 13670        |
| CRAR                     | %         | 17.19        | 19.30        |
| Gross NPA                | %         | 3.70         | 2.60         |
| Net NPA                  | %         | 3.10         | 2.0          |

### Rating History :

| Sl. No | Instrument / Facility | Current Rating (29 April 19) |                 |   | Rating History   |                                    |                                    |  |                                    |
|--------|-----------------------|------------------------------|-----------------|---|--|------------------------------------|------------------------------------|--|------------------------------------|
|        |                       | Type                         | Amount (Rs Crs) | Rating  | 19 April 19  | 15 Feb 19                          | 28 Sep 18                          | 31 Mar 18, 14 May 18                                   | 8 May 17, 26 Oct 17                |
| 1)     | Secured PP-MLD        | Long Term                    | 100             | BWR PP MLD C<br>Credit Watch with Negative Implications | BWR PP MLD A+<br>Credit Watch with Negative Implications | BWR PP MLD AA<br>(Outlook -Stable) | BWR PP MLD AA+<br>(Outlook-Stable) | NA   | NA                                 |
| 2)     | Enhanced NCD          | Long Term                    | 500             | BWR C<br>Credit Watch with Negative Implications        | BWR A+<br>Credit Watch with Negative Implications        | BWR AA<br>(Outlook - Stable)       | BWR AA+<br>(Outlook-Stable)        | BWR AA+<br>(Outlook-Stable)<br>(assigned on 14 May 18) | NA                                 |
| 3)     | Enhanced NCD          | Long Term                    | 500             | BWR C<br>Credit Watch with Negative Implications        | BWR A+<br>Credit Watch with Negative Implications        | BWR AA<br>(Outlook - Stable)       | BWR AA+<br>(Outlook-Stable)        | BWR AA+<br>(Outlook-Stable)<br>(assigned on 31 Mar 18) | NA                                 |
| 4)     | Commercial Paper      | Short Term                   | 3000            | BWR A4  | BWR A1+  | BWR A1+                            | BWR A1+                            | BWR A1+  | BWR A1+<br>(assigned on 26 Oct 17) |
| 5)     | Secured NCD           | Long Term                    | 1000            | BWR C<br>Credit Watch with                              | BWR A+   | BWR AA<br>(Outlook - Stable)       | BWR AA+<br>(Outlook-Stable)        | BWR AA+<br>(Outlook-Stable)                            | BWR AA+                            |

|   |                  |           |     |                       |   |  |  |  |   |
|---|------------------|-----------|-----|-----------------------|---|--|--|--|---|
| 6)  | Subordinate Debt | Long Term | 500 | Negative Implications | Credit Watch with Negative Implications |  |  |  | (Outlook- Stable)<br>(assigned on 8 May 17) |
| <b>Rs. 5600 (INR Five Thousand Six Hundred Crores only)</b> |                  |           |     |                       |   |  |  |  |   |

**Status of non-cooperation with previous CRA : NA**

**Any Other Comments: NA**

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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**Annexure**  
**ISIN details of Secured NCDs**

| Instruments | ISIN         | Issue date | Maturity  | Coupon Rate p.a. | Coupon Frequency | Amount Raised (Rs. Crs) | O/s as on 31.03.19 (Rs. Crs) |
|-------------|--------------|------------|-----------|------------------|------------------|-------------------------|------------------------------|
| Secured NCD | INE126D07016 | 15 May 17  | 14 May 27 | 8.66             | Semi-Annual      | 25.00                   | 25.00                        |
|             | INE126D07024 | 16 May 17  | 16 May 24 | 8.52             | Semi-Annual      | 10.00                   | 10.00                        |
|             | INE126D07032 | 18 May 17  | 17 May 24 | 8.52             | Semi-Annual      | 6.00                    | 6.00                         |
|             | INE126D07040 | 23 May 17  | 21 May 27 | 8.66             | Semi-Annual      | 10.00                   | 10.00                        |
|             | INE126D07057 | 21 Aug 17  | 21 Aug 24 | 8.52             | Semi-Annual      | 38.00                   | 38.00                        |
|             | INE126D07065 | 13 Oct 17  | 13 Oct 22 | 9.03             | Annually         | 400.00                  | 400.00                       |
|             | INE126D07073 | 13 Oct 17  | 13 Oct 27 | 9.23             | Annually         | 500.00                  | 500.00                       |
|             | INE126D07123 | 4 Apr 18   | 5 Apr 23  | 9.50             | Annually         | 500.00                  | 500.00                       |
|             | INE126D07131 | 25 Apr 18  | 28 Mar 22 | 9.10             | Annually         | 15.20                   | 15.20                        |
|             | INE126D07131 | 25 Apr 18  | 28 Mar 23 | 9.10             | Annually         | 15.20                   | 15.20                        |
|             | INE126D07131 | 25 Apr 18  | 28 Mar 24 | 9.10             | Annually         | 15.20                   | 15.20                        |
|             | INE126D07131 | 25 Apr 18  | 28 Mar 25 | 9.10             | Annually         | 15.20                   | 15.20                        |
|             | <b>Total</b> |            |           |                  |                  | <b>1549.80</b>          | <b>1549.80</b>               |

**ISIN details of Subordinated NCDs**

| Instruments        | ISIN         | Issue date | Maturity  | Coupon Rate p.a. | Coupon Frequency | Amount Raised (Rs. Crs) | O/s as on 31.03.19 (Rs. Crs) |
|--------------------|--------------|------------|-----------|------------------|------------------|-------------------------|------------------------------|
| Subordinated NCD's | INE126D08014 | 15 Sep 17  | 20 Sep 27 | 8.69             | Semi-Annually    | 20.00                   | 20.00                        |
|                    | INE126D08022 | 4 Oct 17   | 6 Oct 27  | 8.69             | Semi-Annually    | 2.00                    | 2.00                         |
|                    | INE126D08022 | 6 Oct 17   | 6 Oct 27  | 8.69             | Semi-Annually    | 2.00                    | 2.00                         |
|                    | INE126D08022 | 6 Oct 17   | 6 Oct 27  | 8.69             | Semi-Annually    | 8.00                    | 8.00                         |
|                    | INE126D08030 | 8 Nov 17   | 31 Jul 25 | 8.70             | Semi-Annually    | 5.00                    | 5.00                         |
|                    | INE126D08048 | 8 Nov 17   | 8 Nov 27  | 9.07             | Semi-Annually    | 6.00                    | 6.00                         |
|                    | INE126D08055 | 18 Jan 18  | 19 Jan 28 | 9.40             | Annually         | 17.00                   | 17.00                        |
|                    | INE126D08055 | 18 Jan 18  | 19 Jan 28 | 9.40             | Annually         | 10.00                   | 10.00                        |
|                    | INE126D08055 | 18 Jan 18  | 19 Jan 28 | 9.40             | Annually         | 4.00                    | 4.00                         |

|  |              |           |           |      |          |              |              |
|--|--------------|-----------|-----------|------|----------|--------------|--------------|
|  | INE126D08055 | 18 Jan 18 | 19 Jan 28 | 9.40 | Annually | 2.00         | 2.00         |
|  | INE126D08063 | 2 Feb 18  | 2 Feb 28  | 9.40 | Annually | 3.00         | 3.00         |
|  | INE126D08063 | 2 Feb 18  | 2 Feb 28  | 9.40 | Annually | 2.00         | 2.00         |
|  | <b>Total</b> |           |           |      |          | <b>81.00</b> | <b>81.00</b> |

### **ISIN details of Market Linked Debentures**

| <b>Instruments</b>       | <b>ISIN</b>  | <b>Issue date</b> | <b>Maturity</b> | <b>Amount Raised (Rs. Crs)</b> | <b>O/s as on 31.03.19 (Rs. Crs)</b> |
|--------------------------|--------------|-------------------|-----------------|--------------------------------|-------------------------------------|
| Market Linked Debentures | INE126D07149 | 28 Sep 18         | 23 Oct 20       | 13.40                          | 13.40                               |
|                          | INE126D07156 | 1 Oct 18          | 28 Feb 22       | 4.00                           | 4.00                                |
|                          | INE126D07156 | 9 Oct 18          | 2 Dec 19        | 3.80                           | 3.80                                |
|                          | INE126D07164 | 30 Oct 18         | 28 Feb 22       | 4.05                           | 4.05                                |
|                          | INE126D07164 | 6 Oct 18          | 2 Dec 19        | 2.00                           | 2.00                                |
|                          | <b>Total</b> |                   |                 | <b>27.25</b>                   | <b>27.25</b>                        |

### **ISIN details of Commercial Paper**

| <b>Instrument</b> | <b>ISIN</b>  | <b>Issue date</b> | <b>Actual Maturity date</b> | <b>Amount o/s as on 31.03.19 (Rs in Crs)</b> |
|-------------------|--------------|-------------------|-----------------------------|--|
| Commercial Paper  | INE126D14384 | 19 Sep 18         | 16 Sep 19                   | 640.00                                       |
| <b>Total</b>      |              |                   |                             | <b>640.00</b>                                |

#### **For print and digital media**

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#### **Note on complexity levels of the rated instrument:**

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