Reliance Home Finance Limited
October 08, 2018

Ratings

Facilities/Instruments*	Amount (Rs. Crore)	Rating	Rating Action
NCD (with detachable warrants)	2,000	**CARE AA (Double A) (Credit watch with developing implications)**	**Revised from 'CARE AA+' (Double A Plus) and continues to be on credit watch with developing implications**
Principal Protected Market Linked Debenture	300	**CARE PP-MLD AA (PP-MLD Double A) (Credit watch with developing implications)**	**Revised from 'PP-MLD CARE AA+' (PP-MLD Double A Plus) and continues to be on credit watch with developing implications**
Long-term Debt Programme	10,000	**CARE AA (Double A) (Credit watch with developing implications)**	**Revised from 'CARE AA+' (Double A Plus) and continues to be on credit watch with developing implications**
Subordinated Debt	400	**CARE AA (Double A) (Credit watch with developing implications)**	**Revised from 'CARE AA+' (Double A Plus) and continues to be on credit watch with developing implications**
NCD public issue	3,000	**CARE AA (Double A) (Credit watch with developing implications)**	**Revised from 'CARE AA+' (Double A Plus) and continues to be on credit watch with developing implications**
Upper Tier II Bonds public issue^	500	**CARE AA- (Double A Minus) (Credit watch with developing implications)**	**Revised from 'CARE AA' (Double A) and continues to be on Credit watch with developing implications**
Upper Tier II Bonds Pvt. Placement^	100	**CARE AA- (Double A Minus) (Credit watch with developing implications)**	**Revised from 'CARE AA' (Double A) and continues to be on Credit watch with developing implications**
NCD issue	1,000	**CARE AA (Double A) (Credit watch with developing implications)**	**Revised from 'CARE AA+' (Double A Plus) and continues to be on credit watch with developing implications**
Total	**17,300 (Rupees Seventeen thousand three hundred crore only)**		

*Details of instruments/facilities in Annexure-1

^CARE has rated the aforesaid Upper Tier II bonds after taking into consideration their increased sensitivity to the Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in the instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to other debt instruments.

Detailed Rationale & Key Rating Drivers

The rating revision follows the revision in rating of the parent company, Reliance Capital Ltd. (RCL). Revision in RCL's rating takes into account the delay in sale of group assets/investments as per timelines provided by Reliance Capital Ltd. (RCL) to pare down its debt levels. The ratings remain under credit watch with developing implications due to RCL's continued exposure towards Reliance Communications Ltd. (Telecom Company of the ADAG group; rated 'CARE D') and its group companies. Further, the ratings also take into account RCL's sizeable exposure to group companies in the non-

financial business segments having weak financial profiles and requiring continued support from RCL. While some of these group entities have been identified by RCL for divestment, timely exit from these investments will be critical for reducing the leverage at RCL level.
The ratings of Reliance Home Finance Limited (RHFL) factor in the strategic importance of the mortgage finance business to the parent group and expected managerial and financial support from the parent. RHFL benefits from group synergies in the form of business support from RCL ecosystem, integrated treasury and capital, managerial and operational support from the parent. The ratings also take into account increase in scale of company's operations over the past few years, experienced management, average capitalization, moderate profitability and good asset quality parameters of RHFL. The ratings further factor in limited seasoning of RHFL's mortgage finance portfolio and concentration risk arising from large ticket construction finance exposures. Continued parentage & support from RCL, capitalization, gearing, asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths
Strategic importance of the mortgage finance business in the overall business framework of the parent
RHFL is promoted by Reliance Capital Ltd. (RCL) which is a flagship company of Reliance Group led by Mr. Anil Dhirubhai Ambani. The group has business interests in various sectors like financial services, telecommunications, defence, generation and distribution of power, infrastructure, media, entertainment and health care. The overall promoter stake in RHFL stood at 74.99% (including 47.91% stake of RCL) as on March 31, 2018. The rating factors in RHFL's experienced management team, strong operational linkages with the parent and strategic importance of the home finance business to the parent group.

Moderate profitability
The outstanding loan portfolio of the company grew by 47% during FY18 and stood at Rs.14,655 crore as on March 31, 2018 from Rs.9,984 crore on March 31, 2017. In FY18, RHFL reported PAT of Rs.181 crore on a total income of Rs.1671 crore as against PAT of Rs.173 crore on a total income of Rs. 1145 crore in FY17 registering a year on year growth of 46% in total income. The increase in PAT was marginal as there was a rise in interest and operating expenses. Net Interest Margin increased from 2.51% in FY17 to 3.45% in FY18 as the interest income has increased from Rs.983 crore in FY17 to Rs.1492 crore in FY18. Operating expenses to Total Assets improved from 2.19% in FY17 to 2.04% in FY18. Cost to income ratio improved from 51.62% in FY17 to 42.45% in FY18. Credit cost to total assets ratio increased from 0.58% in FY17 to 0.70% in FY18. Thus, Return on Total Assets declined from 1.85% in FY17 to 1.56% in FY18.
The AUM stood at Rs.15,640 crore as on June 30, 2018. RHFL reported PAT of Rs.48 crore on a total income of Rs.411 crore in Q1FY19.

Increase in scale of operations; however, limited seasoning of the portfolio
The outstanding loan portfolio of RHFL has grown at a healthy CAGR of 47% from FY16 to FY18. The outstanding loan portfolio of the company grew by 47% during FY18 and stood at Rs.14,655 crore as on March 31, 2018. The company's AUM stood at Rs.16,379 crore as on March 31, 2018 (FY17: Rs.11,175 crore). The company's outstanding securitized portfolio stood at Rs.1,724 crore as on March 31, 2018 (FY17: Rs.1,191 crore). Due to very high growth in disbursements during the past few years, the outstanding portfolio of the company has limited seasoning.

Good asset quality
In FY18, RHFL's Gross NPA and Net NPA stood at 0.87% (FY17: 0.84%) and 0.67% (FY17: 0.58%) respectively. In absolute terms, gross and net NPA stood at Rs.128 crore (P.Y.: Rs. 84 crore) and Rs.98 crore (P.Y.: Rs. 58 crore), respectively. The Net NPA to tangible net worth ratio improved to 6.34% as on March 31, 2018 as against 6.55% as on March 31, 2017.
In Q1FY19, the Gross NPA stood at 0.8%. Given the company's strong portfolio growth in past few years and the resultant low seasoning, the asset quality of new disbursements remains to be seen.

Adequate Capitalization
The company reported capital adequacy ratio (CAR) of 19.83% (P.Y.: 19.24%) with a Tier I CAR of 12.76% (P.Y.: 9.62%) at the end of FY18. The overall gearing of the company as on March 31, 2018 stood at 8.48x (P.Y.: 11.16x). There was capital infusion of Rs.373 crore by RCL in RHFL on September 4, 2017 and the company issued 25.27 crore equity shares at face value of Rs.10 each to existing shareholders of RCL on September 7, 2017. Total capital infusion stood at Rs.626 crore in FY18. Consequently, there is improvement in company's gearing and capitalization levels.
In Q1FY19, CAR stood at 21.00% with Tier I CAR at 13.80%.

Key Rating Weaknesses

Exposure of its parent to Reliance Communications

RCL (parent company of RHFL) has exposure towards RCOM (rated 'CARE D') and its group companies which forms around 11% (Fund based: 8% and Non-fund based: 3%) of RCL's networth as on March 31, 2018. The management was confident of recovering majority of this exposure post completion of strategic transactions. However, there has been delay in recovery of the same.

Concentration risk arising from large ticket construction finance and geographical concentration

As on March 31, 2018, construction finance accounted for 30% of the outstanding AUM. The company's top 10 exposures (all belonging to construction finance segment) as on March 31, 2018, accounted for 9% and 81% of outstanding loan portfolio and tangible net worth. The company's average ticket size in construction finance segment stood at Rs.15 crore as on March 31, 2018. Considering the higher ticket sizes of its construction finance book, slippages in few large accounts can have an adverse impact on asset quality. However, risk in construction finance segment is mitigated to some extent on account of lower LTV (loan to value ratio) of the outstanding portfolio.

The company also faces geographical concentration risk with majority of the outstanding portfolio in Maharashtra, Gujarat and Tamil Nadu region. The outstanding portfolio in Maharashtra, Gujarat and Tamil Nadu region as on March 31, 2018 stood at 43.11%, 14.52% and 5.73% respectively.

Industry Prospects

HFCs are expected to maintain their good profitability on the basis of strong business growth and stable asset quality over the medium term. However, rising competition and the resultant possible dilution in credit underwriting norms, long term funding and asset quality are the key challenges for the sector.

For RHFL, continued parentage support, capitalization, gearing, asset quality and profitability are the key rating sensitivities.

Analytical approach: CARE has analyzed RHFL on the basis of standalone financials along with its strong linkages to its parent, RCL

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Factoring linkages in ratings
Financial ratios – Financial sector
CARE's criteria for Housing Finance Companies

About the Company

RHFL was incorporated in June 2008 and is promoted by Reliance Capital Ltd. (RCL). RCL holds 47.91% stake in the company as on March 31, 2018. The overall promoter stake in the company (including RCL) stood at 74.99% as on March 31, 2018. The company was listed on stock exchanges on September 22, 2017. RHFL had gross loan portfolio of Rs.14,655 crore and assets under management (AUM) of Rs.16,379 crore as on March 31, 2018. Out of the AUM as on March 31, 2018, home loans, construction finance, LAP and others accounted for 49%, 30%, 20% and 1% of the portfolio, respectively. The company's portfolio is spread across 25 states with major concentration in Maharashtra, Gujarat and Tamil Nadu. The company is present in over 125 locations through 'hub and spoke' model and caters to over 45,000 customers.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1079	1603
PAT	173	181
Interest coverage (times)	1.2	1.3
Total Assets	11059	15337
Net NPA (%)	0.6	0.7
ROTA (%)	1.9	1.6

A: Audited

All analytical ratios are based on CARE's calculations.