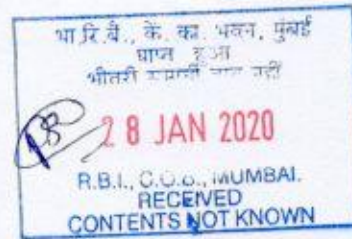


No: 12466/ITSL/OPR/2019-20

Date: 27 January 2020

Deposited
F.M. Ad. Co.
Hand Delivery/ Courier

To,

Reserve Bank of India
Post Bag No. 901,
Main Building,
Shahid Bhagat Singh Marg,
Mumbai - 400 001.**Kind Attn: Shri B K Mishra/ Shri Saurav Sinha**

Subject: Initiation of insolvency and liquidation proceedings of Reliance Home Finance Limited ("RHF") pursuant to Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudicating Authority) Rules, 2019 ("FSP Rules")

Dear Sirs,

1. IDBI Trusteeship Services Limited ("ITSL") is a public limited company incorporated under the Companies Act, 1956 and is a debenture trustee registered under the Securities and Exchange Board of India (Debenture Trustee) Regulations, 1993 ("**Debenture Trustee Regulations**"). ITSL, in its capacity as a debenture trustee, acts as a custodian for the benefit of various debenture holders, to safeguard the rights and interests of the debenture holders.
2. RHF is a public limited company incorporated under the Companies Act, 1956 and is a housing finance company registered under the National Housing Bank Act, 1987.
3. ITSL *vide* the present letter requests Reserve Bank of India ("RBI") to initiate insolvency and liquidation proceedings of RHF under FSP Rules to protect and safeguard the interests of public at large.

I. Relevant Facts

4. In accordance with applicable laws, ITSL *vide* debenture trustee agreement dated 10 November 2016 ("**Debenture Trustee Agreement**") provided consent to RHF to act as the debenture trustee in trust for the benefit of debenture holders of all series of non-convertible debentures ("NCDs") aggregating to INR 3500 Crores as issued by RHF from time to time. A copy of the Debenture Trustee Agreement is annexed hereto and marked as **Annexure "A"**.
5. RHF *vide* its shelf prospectus offered to the public, secured NCDs carrying face value of INR 1000/- each, aggregating up to INR 3,00,000 Lakhs and unsecured NCDs carrying face value of INR 1000/- each, aggregating up to INR 50,000 Lakhs. A copy of the shelf prospectus is annexed hereto and marked as **Annexure "B"**.



6. Consequently, RHF, Reliance Capital Limited (“RCL”) and ITSL executed a debenture trust deed dated 2 January 2017 in respect of secured NCDs (“**Secured Debenture Trust Deed**”), wherein ITSL is acting as the debenture trustee to the public issue of secured NCDs carrying respective coupon interest rates payable annually aggregating to INR 2618,27,41,000/- (Indian Rupees Two Thousand Six Hundred Eighteen Crores Twenty Sevens Lakhs Forty One Thousand only) issued by RHF and subscribed by **18,959 debenture holders** under respective ISINs, as detailed below. A copy of the Secured Debenture Trust Deed is annexed hereto and marked as **Annexure “C”**.

Sr. No.	ISIN	Principal Redemption Date	Coupon Interest Rate (payable annually) (%)
1.	INE217K07AB6 (“NCD Series 1A”)	3 January 2020	8.70
2.	INE217K07AC4 (“NCD Series 1B”)	3 January 2020	8.90
3.	INE217K07AD2 (“NCD Series 2A”)	3 January 2022	8.90
4.	INE217K07AE0 (“NCD Series 2B”)	3 January 2022	9.05
5.	INE217K07AF7 (“NCD Series 3A”)	3 January 2027	9.00
6.	INE217K07AG5 (“NCD Series 3B”)	3 January 2027	9.15

7. Under the Secured Debenture Trust Deed, the following charge was created in relation to the secured NCDs:
- First ranking *pari passu* hypothecation charge on all book debts and receivables of RHF, save and except for those book debts and receivables charged/ to be charged in favour of National Housing Bank (“NHB”) for refinance availed/ to be availed from NHB;
 - First ranking *pari passu* hypothecation charge on all present and future book debts and business receivables (including the current assets and investments) of RCL, except security created/ to be created towards securing term loans and cash credit limits.
8. Additionally, RHF and ITSL executed a debenture trust deed dated 2 January 2017 in respect of unsecured NCDs (“**Unsecured Debenture Trust Deed**”), wherein ITSL is acting as the debenture trustee to the public issue of unsecured NCDs carrying coupon interest rates payable annually aggregating to INR 435,70,93,000/- (Indian Rupees Four Hundred Thirty Five Crores Seventy Lakhs Ninety Three Thousand only) issued by RHF and subscribed by **1,348 debenture holders** under respective ISINs, as detailed below. A copy of the Unsecured Debenture Trust Deed is annexed hereto and marked as **Annexure “D”**.



Sr. No.	ISIN	Principal Redemption Date	Coupon Interest Rate (payable annually) (%)
1.	INE217K08271 ("NCD Series 4A")	3 January 2032	9.25
2.	INE217K08269 ("NCD Series 4B")	3 January 2032	9.40

9. The credit rating in respect of the NCDs of RHF was 'AA+' at the time of respective issues of the NCDs. The credit rating of NCDs of RHF was downgraded to 'C' on 26 April 2019, and which was subsequently downgraded to 'D' on 12 September 2019. Copies of CARE reports dated 26 April 2019 and 12 September 2019 are annexed hereto and marked as **Annexure "E"** and **Annexure "F"**, respectively.
10. RHF *vide* its letter dated 27 April 2019 addressed to BSE and NSE stated that as a result of timing mismatch in respect of ongoing further securitization/ monetisation proposals with banks etc., RHF has delayed principal repayments to various banks aggregating to INR 542,00,00,000/- (Indian Rupees Five Hundred Forty Two Crores), and that RHF shall regularize all such repayments shortly. A copy of letter dated 27 April 2019 is annexed hereto and marked as **Annexure "G"**.
11. Furthermore, RHF *vide* its letter dated 29 June 2019 addressed to BSE and NSE stated that in view of the continuing severe liquidity crisis in the housing finance sector, the maturity of certain debentures of INR 400,00,00,000/- (Indian Rupees Four Hundred Crores) has been extended till 31 October 2019, with the formal written consent of the concerned debenture trustees and debenture holders. A copy of letter dated 29 June 2019 is annexed hereto and marked as **Annexure "H"**.
12. RHF's admitted inability to pay its material debts, as evidenced from letters dated 27 April 2019 and 29 June 2019 constituted events of defaults under Secured Debenture Trust Deed and Unsecured Debenture Trust Deed, respectively.
13. RHF *vide* letter dated 19 September 2019 addressed to NSE and BSE stated that RHF has been directed by the lenders led by the Lead Bank to service only the interest obligation across all lenders and that debt servicing towards principal repayment irrespective of type of facility is to be made on parity. A copy of letter dated 19 September 2019 is annexed hereto and marked as **Annexure "I"**.
14. RCL *vide* letters dated 28 September 2019 informed BSE and NSE that RCL has sold its shares in Reliance Capital Trustee Co. Limited and Reliance Capital AIF Trustee Company Private Limited and Reliance Nippon Asset Management Limited to Nippon Life Insurance Company. Copies of letters dated 28 September 2019 are annexed hereto and marked as **Annexure "J"** and **Annexure "K"**.
15. The audited financial results as of quarter and financial year ended 31 March 2019 ("**31 March 2019 Financial Results**") and unaudited financial results as of quarter ended 30 June 2019 ("**30 June 2019 Financial Results**") were announced and submitted by RHF to BSE



and NSE on 13 August 2019. The statutory auditor of RHF qualified its opinion in respect of 31 March 2019 Financial Results and 30 June 2019 Financial Results, *inter-alia*, as follows:

- a. RHF advanced loans worth INR 7,849.89 crores as on 31 March 2019 which increased to INR 8,078.06 crores as on 30 June 2019 as "*General-Purpose Corporate Loans*" with significant deviations to certain bodies corporate which have been used towards repayment of financial obligations of some group companies; (Note No. 7 of 31 March 2019 Financial Results);
 - b. Over-dues of INR 566.3 crores as on 31 March 2019 increased to INR 1,553 crores as on 30 June 2019 for which sufficient audit evidence could not be obtained. Additionally, no sufficient evidence was provided by RHF to ascertain recoverability of principal and interest including time frame for the recovery of over-dues;
 - c. Material shift in primary business of RHF from housing finance to non-housing finance which comprise more than 50% of total loan portfolio raising concern about RHF continuing as a housing finance company (Observation on para no. 3 of Auditors Report of 31 March 2019 Financial Results);
 - d. Delayed payments to bank borrowings caused due to recent developments adversely impacted financial flexibility of RHF. Furthermore, RHF's ability to meet its obligations depends upon material uncertain events including restructuring of loan portfolio and inter-creditor agreement ("*ICA*") for the resolution of the debt in accordance with circular dated 7 June 2019 issued by RBI on Prudential Framework for Resolution of Stressed Assets ("*RBI Circular*");
 - e. Debenture redemption reserve ("*DRR*") maintained by RHF in respect of NCDs issued through public issue is INR 436.71 crores. RHF is yet to deposit a sum equivalent to 15% of the amount of NCDs maturing during the year ending on 31 March 2020.
16. Furthermore, Dhiraj & Dheeraj Chartered Accountants, the statutory auditors of RHF qualified the unaudited financial results for quarter and half year ended 30 September 2019 ("**30 September 2019 Financial Results**"), wherein the loans advanced under "*General Purpose Corporate Loan*" product as at 30 September 2019 stood at INR 7,949.34 crores and the over-dues as on 30 September 2019 arose to INR 2,880.31 crores (including Non-Performing Assets ("*NPA*s") amounting to INR 2,259.16 crores).

Copies of 31 March 2019 Financial Results, 30 June 2019 Financial Results and 30 September 2019 Financial Results are annexed hereto and marked as **Annexure "L1"**, **Annexure "L2"** and **Annexure "L3"**, respectively.

17. Owing to various events of defaults committed by RHF as detailed hereinabove and having received the requisite consent of the debenture holders, ITSL *vide* its letters dated 19 November 2019 and 17 December 2019 addressed to RHF declared occurrence of Event of Default under Secured Debenture Trust Deed and Unsecured Debenture Trust Deed, respectively. Accordingly, ITSL called upon RHF to make payment of principal amounts and all interests payable by RHF to secured NCD holders aggregating to INR 2822,12,18,791/- (Indian Rupees Two Thousand Eight Hundred Twenty Two Crores Twelve



Lakhs Eighteen Thousand Seven Hundred Ninety One only) and to unsecured NCD holders aggregating to INR 476,29,09,292/- (Indian Rupees Four Hundred Seventy Six Crores Twenty Nine Lakhs Nine Thousand Two Hundred and Ninety Two only). Copies of letters dated 19 November 2019 and 17 December 2019 are annexed hereto and marked as **Annexure "M"** and **Annexure "N"**, respectively.

18. On 3 January 2020, principal amount and interests in respect of NCD Series 1A and NCD Series 1B became due and payable by RHF to the respective debenture holders. Additionally, annual interests in respect of NCD Series 2A, NCD Series 2B, NCD Series 3A, NCD Series 3B, NCD Series 4A and NCD Series 4B became due and payable by RHF to the respective debenture holders.
19. RHF *vide* its letter dated 3 January 2020 addressed to BSE and NSE informed that as directed by the lead bank to the ICA, the amounts due and payable by RHF on 3 January 2020 in respect of Secured NCDs and Unsecured NCDs are delayed. A copy of the letter dated 3 January 2020 is annexed hereto and marked as **Annexure "O"**.
20. ITSL *vide* notice dated 4 January 2020 called upon RHF and RCL to forthwith jointly and severally make payment of the principal amount, interests and all other monies to debenture holders in respect of all secured NCDs aggregating to INR 2850,78,79,727/- (Indian Rupees Two Thousand Eight Hundred Fifty Crores Seventy Eight Lakhs Seventy Nine Thousand Seven Hundred Twenty Seven only). Furthermore, ITSL *vide* notice dated 4 January 2020 called upon RHF to forthwith make payment of the principal amount, interests and all other monies to debenture holders in respect of all unsecured NCDs aggregating to INR 476,29,09,292/- (Indian Rupees Four Hundred Seventy Six Crores Twenty Nine Lakhs Nine Thousand Two Hundred and Ninety Two only). Copies of notices dated 4 January 2020 are annexed hereto and marked as **Annexure "P"** and **Annexure "Q"**.
21. RHF *vide* its letter dated 6 January 2020 addressed to BSE and NSE informed that the total financial indebtedness of RHF including short-term and long-term debt is aggregating to INR 11,891.24 crores. A copy of letter dated 6 January 2020 is annexed hereto and marked as **Annexure "R"**.

II. Legal action taken by ITSL

22. Having received no response to notices dated 4 January 2020, on 9 January 2020, ITSL in its capacity as a debenture trustee filed applications under section 71(10) of the Companies Act, 2013 before National Company Law Tribunal ("NCLT"), Mumbai for redemption of secured NCDs and unsecured NCDs ("**Company Petitions**").
23. The Company Petitions are presently pending before NCLT, Mumbai.

III. Accession to inter-creditor agreement ("ICA")

24. Importantly, pursuant to RBI Circular, the lenders of RHF entered into an ICA to arrive at a debt resolution plan. Pertinently, upon instructions of the debenture holders, until date ITSL has not acceded to the ICA.
25. Admittedly, the debenture holders of RHF collectively represent 60% of total debt of RHF. Individuals, mutual funds, insurance companies, trusts and partnership firms forming majority of the debenture holders, are not covered under the ambit of "*lenders*" as defined



under paragraph 3 of RBI Circular. In view thereof, such entities can neither participate in the debt resolution plan nor accede to the ICA.

IV. Payments to third parties by RHF

26. Moreover, from RHF's letter dated 19 September 2019, it is clear and unambiguous that RHF has been acting upon the directions of the lead bank to make payments of interest due to lenders only, unfairly and prejudicially. The letter dated 19 September 2019 further evidences that the assets of RHF are iniquitously in control of the lenders to the ICA.
27. The discriminatory payments by RHF to service interest obligations of lenders is an outright travesty of justice, where lenders are bypassing debenture holders, as creditors of respected pedigree who hold investor funds on a fiduciary and pass through basis.

V. Disposal of security provided to ITSL by RHF and RCL

28. The secured NCDs are secured by a first ranking *pari passu* charge by way of hypothecation over the receivables, current assets and investments of RHF and RCL. Admittedly, *vide* its letter dated 27 April 2019 RHF stated that it is currently in the process of unwinding its loan book which essentially tantamount to extinguishing the security created for due repayment/redemption of the secured NCDs. Furthermore, RCL is also in process of selling and disposing off its assets and investments. The claim of the debenture holders shall be defeated if RHF and RCL are unable to maintain the requisite statutory cover by disposing off their assets and investments.
29. In the event such disposals and monetization by RHF and RCL is permitted, the debenture holders will be left without any security and consequently any recourse.

VI. RHF's admitted inability to repay its debt

30. RHF's letters dated 27 April 2019, 29 June 2019, 3 January 2020 and 6 January 2020 confirm in undisputable and unequivocal terms defaults committed by RHF in respect of debts owed to various lenders and creditors, including the debenture holders. RHF has repeatedly admitted and expressed its inability to repay its debt and oblige with its commitments towards its debtors.
31. ITSL reiterates that the rating agencies downgraded the debt instruments of RHF to "D". The admitted defaults in payments to various creditors including and especially the debenture holders has consequently negatively affected the net asset value ("NAV") of the respective schemes held by various debenture holders. Inevitably, the negative impact on the NAV of the schemes of the debenture holders has resulted in a substantial loss on the investments made by multitude of public investors. Non-redemption of NCDs by RHF has jeopardized lakhs of people and their hard-earned savings.
32. Failure of RHF to make payments to the debenture holders has heavily thwarted the sentiments of the public. It is pertinent to consider that the defaults by RHF ultimately affect the public at large i.e. the multitude of investors consisting of a large part of retail investors participating directly or through mutual fund schemes. The degrading financial health of RHF is admittedly due to several adverse events in the financial services sectors in the recent past for which the public cannot be made to suffer and it is essential that public interest is



paramount and protected. It is only just and equitable that the interests of debenture holders are secured and safeguarded necessarily.

VII. Power and jurisdiction of RBI to initiate insolvency and liquidation proceedings of RHF

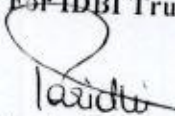
33. In exercise of the powers conferred under section 227 read with section 239(2)(zk) of the Insolvency and Bankruptcy Code, 2016 ("IBC"), the Central Government by enacting FSP Rules, empowered the appropriate regulator to initiate insolvency and liquidation proceedings against financial service providers. *Vide* notification dated 18 November 2019, Central Government appointed RBI as the appropriate regulator of non-banking finance companies (including housing finance companies) with asset size of INR 500 crores or more, as per latest audited balance sheet.
34. As per the audited financial statements of RHF for quarter and year ended 31 March 2019, RHF has assets aggregating to INR 18,125.44 crores. Accordingly, RBI has the power and jurisdiction to initiate insolvency and liquidation proceedings of RHF. A copy of the audited financial statements for quarter and year ended 31 March 2019 is annexed hereto and marked as **Annexure "S"**.
35. Given the peculiar facts of the matter at hand, deteriorating financial condition of RHF and the admitted defaults in respect of inability to repay its debts by RHF, ITSL strongly believes that it is only appropriate that RBI in its capacity as the appropriate regulator initiate insolvency and liquidation proceedings of RHF under FSP Rules.

VIII. Power of RBI to supersede the board of directors of RHF

36. Owing to merited public interest, worsening financial stability of RHF and affairs of RHF being conducted in a manner detrimental to the debenture holders, ITSL firmly urges RBI to take necessary interim steps to ensure that no drastic steps in derogation of the rights of debenture holders are taken by RHF upon directions of the lead bank to the ICA.
37. Therefore, till such time that insolvency and liquidation proceedings of RHF are initiated by RBI, it is necessary and equitable in the interest of public that RBI supersede the board of directors of RHF for such period of time as it may deem fit under Section 45-IE (1) of Reserve Bank of India Act, 1934 ("RBI Act"). Accordingly, upon such supersession of the board of directors of RHF, RBI may appoint a suitable person as an administrator for such period as it may determine.
38. In light of the aforementioned compelling facts and circumstances surrounding RHF, ITSL earnestly supplicates RBI to protect the interests of the debenture holders and public at large by taking necessary steps including supersession of board of directors of RHF under RBI Act and initiation of insolvency and liquidation proceedings of RHF under FSP Rules.

Yours truly,

For IDBI Trusteeship Services Limited



Authorized Signatory
Encl. as above

