

DECEMBER 31, 2016

**CARE REAFFIRMS THE RATING OF VARIOUS DEBT INSTRUMENTS OF
RELIANCE HOME FINANCE LIMITED**

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Upper Tier II Bonds –Private Placement	100 (Rupees Hundred Crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long term debt	8,000 (Rupees eight thousand crore only)	CARE AA+; Stable (Double A Plus; Outlook:Stable)	Reaffirmed
Non-Convertible Debentures public issue	3,000 (Rupees Three Thousand crore only)	CARE AA+; Stable (Double A Plus; Outlook:Stable)	Reaffirmed
Principal Protected Market Linked Debentures	300 (Rupees Three hundred Crore Only)	CARE PP-MLD AA+; Stable (PP-MLD Double A Plus; Outlook: Stable)	Reaffirmed
Subordinate debt	400 (Rupees Four hundred crore only)	CARE AA+; Stable (Double A Plus; Outlook:Stable)	Reaffirmed
Upper Tier II Bonds -Public issue	500 (Rupees Five hundred Crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total	12300 (Rupees Twelve thousand and three hundred crore only)		

CARE has rated the aforesaid Upper Tier II bonds after taking into consideration their increased sensitiveness 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.

Rating Rationale

The ratings are based on strong parentage (Reliance Home Finance Ltd. (RHFL) is currently a wholly owned subsidiary of Reliance Capital Ltd (RCL) - rated CARE AAA under credit watch, management support, access to operational systems and direct brand linkage with RCL, strategic importance of the mortgage finance business in the overall business framework of the parent. The ratings also take into account increase in scale of company's operations over past few years, recent equity infusion and expected capital support by the parent in future. The rating also factors average capitalization, profitability and asset quality parameters of RHFL. The ratings further factors RHFL's limited seasoning of its mortgage finance portfolio. Continued parentage support, capitalization, gearing, asset quality and profitability are the key rating sensitivities.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Outlook: Stable**Background**

RHFL was incorporated in June 2008 and is the wholly-owned subsidiary of Reliance Capital Ltd. (RCL). The top management team as well as the operational executive team of RHFL has been carved out of the parent resulting in strong linkages and seamless functioning of both the entities. The company primarily concentrates on housing loans to individuals. RHFL had gross loan portfolio of Rs.6791 crore and assets under management (AUM) of Rs.7,357 crore as on March 31, 2016. Out of the outstanding loan portfolio as on March 31, 2016, home loans, LAP and construction finance accounted for 62%, 12% and 20% of the portfolio, respectively. The company has also extended loans to small medium enterprises which account for 6% of outstanding loan book as on March 31, 2016. Further, RCL plans to demerge its real estate lending portfolio into RHFL going forward.

During FY16 (refers to period from April 1, 2015 to March 31, 2016), gross loan portfolio registered a year on year growth of 34%. In FY16, RHFL reported total income of Rs.815 crore as against total income of Rs.513 crore in FY15 registering a year on year growth of 59%. Growth in total income is on account of higher disbursements and better portfolio yield. Company reported PAT of Rs.87 crore in FY16 as against PAT of Rs.69 crore in FY15 registering a year on year growth of 26%. The Company's RoTA in FY16 stood at 1.32% as against RoTA of 1.49% in FY15. The company has reported comfortable capital adequacy ratio of 16.34% with a Tier I CAR of 10.51% at the end of FY16. As on March 31, 2016, asset quality parameters of RHFL remained stable with Gross and Net NPA ratio at 0.97% (P.Y.: 1.04%) and 0.74% (P.Y.: 0.81%), respectively. The Net NPA to net worth ratio stood at 8.79% as on March 31, 2016 (P.Y.: 8.24%).

In H1FY17, RHFL reported PAT of Rs. 42 crore on a total income of Rs.502 crore as against PAT of Rs.45 crore on a total income of Rs.383 crore in H1FY16. Reduction in profitability is on account of higher operating expenses and provisions. As on September 30, 2016, company's total CAR stood at 14.08% with Tier I CAR at 9.15%. Gearing levels stood at 12.95 times as on September 30, 2016. RCL infused equity capital of Rs.100 crore in RHFL in October 2016 and another Rs 100 crore in December 2016. This will help RHFL in improving its capitalization levels and funding its lending portfolio growth. As on September 30, 2016, Gross and net NPA ratios stood at 1.45% and 1.15% respectively. Asset quality saw deterioration in H1FY17 on account of slippages from large ticket clients. Given the company's strong portfolio growth in FY16 and H1FY17 and the resultant low seasoning, the asset quality of new disbursements remains to be seen

Key Developments –

- Going forward, management plans to list RHFL on stock exchanges by allotting 49% of its stake to existing shareholders of RCL (1 share of RHFL free of cost to be issued for every 1 share of RCL). Consequently, RHFL will not remain wholly owned subsidiary of RCL. As per the said arrangement, promoter holding of RHFL will reduce.
- On October 28, 2016, RCL infused equity capital of Rs.100 crore into RHFL. Further on December 6, 2016, RCL infused equity capital of RS 100 crore into RHFL. This will help the company in improving its gearing and capitalization levels.

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****For detailed rationale of Reliance Home Finance Limited (RHFL), please refer to our website: www.careratings.com (dated: November 16, 2016)**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer: CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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