Religare Finvest Ltd

July 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	332.05	CARE A (Single A) (Credit watch with developing implications)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative); Placed on credit watch with developing implications
Total	**332.05 (Rupees Three Hundred Thirty Two crore and Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the rating of instruments of Religare Finvest Ltd (RFL) takes into account the corporate governance/disclosure issues as highlighted in the qualification/observations made by the auditor in the Audited Annual Report for FY17. The auditors have raised concerns on internal financial controls of RFL based on the RBI inspection reports/letters pertaining to the corporate loan book (CLB) and assignment transaction undertaken by the company. The ratings are further constrained by slowdown in disbursements and de-growth of loan portfolio, weak asset quality amid challenging competitive economic environment. The rating continues to factor in the support from the parent company Religare Enterprises Ltd (REL) through regular capital infusion, experienced management team, focus on secured lending (SME-LAP) and diversified resource base. The rating also takes into account the plans of strategic sale of various core and non-core businesses at REL level which is expected to reduce the corporate loan book and will be critical for the credit profile of the company.

The ratings are placed under “Credit Watch with developing implications” based on the Auditor’s remarks expressing their inability to determine the potential impact of the corporate loan book on RFL in terms of penal provisions (if any), recoverability, impact on classification/reclassification in the financial statements and capital adequacy ratio etc. CARE is monitoring further developments with respect to these events and would take up review of rating when more clarity emerges in these matters.

Going forward, the ability of the company to timely execute the strategic sale of its assets and eliminate the exposure to its corporate loan book, grow its loan portfolio and improve its profitability while improving its asset quality are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Group support and experienced management albeit emerging concern over corporate governance issues

RFL is a subsidiary of Religare Enterprises Ltd (REL). REL is a financial services holding company, with operating subsidiaries across financial services verticals in India. Apart from SME focussed lending under RFL, the group has presence in equity and commodity broking, health insurance, wealth management, etc. The parent company has supported RFL through periodic capital infusion to support the growth of operations. Apart from the capital support, RFL has the advantage of using the wide spread network of Religare group of companies for tapping business opportunities. RFL draws support from experienced management at the parent level. RFL has also drawn experienced management personnel from the finance industry to look after various functions. However, the Auditor observations in Annual Audited financials highlight governance issues based on the RBI Report/Letters.

High proportion on secured lending

RFL's business profile is broadly divided into lending operations (comprising of SME financing –84% of the loan portfolio, retail capital market financing (6%) and corporate loans (10%). The secured lending (SME-LAP) constituted 73% of the overall loan portfolio of RFL as on March 31, 2016 with average LTV being 50.33% (secured against the commercial/residential property).

Diversified Resource Base

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

The company has over the years raised funds from diverse sources including NCDs, Subordinated Debt, Commercial Paper, Bank Funding etc.RFL has also accessed assignment/ securitization route for tapping funds.

Key Rating Weaknesses

Moderate asset quality and disclosures as highlighted in the auditor's report

RFL has witnessed deterioration in its asset quality with Net NPA ratio increasing to 3.40% as on March 31, 2017 as against 2.33% as on March 31, 2016. The decline in asset quality is largely attributable to the challenging economic environment impacting the SMEs particularly in the Commercial Real Estate segment.

Disclosures in the Audit Report

RFL had written off an amount of Rs. 794 crore in H1FY17 pertaining to exposure to a single entity (including Rs. 520 crore pertaining to assignment of its Loan against Shares (LAS) book) resulting in the capital adequacy declining to below the RBI permissible norm of 15% for NBFCs during H1FY17(Reported CAR was 15.47% as on September 30, 2016). As per the Audit Report, a letter from RBI dated November 7, 2016 also states that the company did not comply with the provisioning norms and certain provisions of the RBI Act in respect of this assignment transaction (which was not intimated by the management earlier). The Auditors for the company have also raised concern on the internal financial control systems of RFL.

An Audit qualification also refers to RBI letters citing that the accounts of borrowers (pertaining to the corporate loan book (Rs. 1696 crore as on March 31, 2017 constituting over 10% of the overall loan portfolio and 60% of the tangible net-worth) had been used by the company to route funds to the company's group entities. As per the management, the company has submitted roadmap to RBI to reduce the CLB book to Nil by end of February 2018 and is in advanced stages of concluding strategic sale of core and non-core businesses of REL which is expected to fructify in the next 60 days resulting in generation of liquidity and consequent reduction of the corporate loan book. The reduction of corporate loan book will be critical for the credit profile of the company going forward.

Moderation in Growth of business volumes and profitability in FY17

During FY16, RFL's Loan portfolio increased by 25%. However, slowdown in loan disbursements during FY17 has resulted in loan portfolio of the company declining by 23% to Rs. 13974 crore (excluding off-book portfolio) as on March 31, 2017 from Rs. 18124 crore as on March 31, 2017. This was primarily due to moderation in CAR upon write-off of loans (which was restored in December 2016).

RFL has reported net loss of Rs.341 crore during FY17 on account of one-time write-off of loans and receivables of Rs.794 crore as against PAT of Rs. 295 crore for the year FY16. There is also decline in PBT (before exceptional items) of 35% during FY17. Also, slowdown in disbursements in FY17 and de-growth of loan portfolio with discontinuation of loans to Commercial Real Estate segment (entailing higher ticket size loans) has resulted in company reporting lower NIM and ROTA for the period FY17.

Potential impact on capital adequacy and liquidity due to Corporate Loan Book

RFL had seen its Capital Adequacy declining to less than 15% during H1FY17. The capital has been restored with infusion of equity of Rs.560 crore by December 15, 2016 (including Rs. 140 crore by September 30, 2016) from REL through its 100% subsidiary RGAM Investment Advisers Pvt Limited. The capital adequacy stood at more than 21.20% with Tier-I CAR being 17.25% as on March 31, 2017. However, the auditors have stated their inability to determine the potential impact of penal provisions (if any), recoverability, impact on classification/reclassification in the financial statements and capital adequacy ratio etc.

RFL had liquid funds aggregating Rs. 2689 crore as on May 31, 2017 including unutilized bank lines of Rs.565crore, ST Capital Market investments of Rs. 1319 crore, float with banks/ST FD of Rs. 805 crore. However, the liquidity position of the company may be impacted in case of inability to recover loans pertaining to the Corporate Loan Book which stood at approx Rs. 1696 crore as on March 31, 2017.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for placing rating on credit watch
Rating Methodology for Non-Banking Financial Companies
Financial Sector Ratios

About the Company

RFL is a subsidiary of Religare Enterprises Ltd. (REL) which is promoted by Mr Malvinder Singh and Mr Shivinder Singh. RFL was originally incorporated in 1995 as an investment company named 'Skylark Securities Pvt. Ltd.', which changed its name to 'Fortis Finvest Pvt. Ltd. in 2004 and later to 'Religare Finvest Ltd.' in 2006 with commencement of operations. RFL is a Systemically Important Non-Deposit Taking NBFC registered with the Reserve Bank of India (RBI) and engaged in the business of lending to Small & Medium Enterprises (SMEs - loan against property (LAP) and working capital (WC) loans) and lending against marketable securities.

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Total operating income	2522	2417
PAT	295	-341
Interest coverage (times)	1.28	1.18
Total Assets	20955	16,892
Net NPA (%)	2.33	3.40
ROTA (%)	1.55	-1.80

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

Analyst Contact:
Name: Gaurav Dixit
Tel: 011-45333235
Mobile: 9717070079
Email: gaurav.dixit@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures (Public Issue)	9-Oct-12	9.25%	10-Oct-15	190.66	CARE A (Single A) (Credit watch with developing implications)
	9-Oct-12	9.25%	10-Oct-15	32.47	
	9-Oct-12	9.25%	9-Oct-17	13.75	
	9-Oct-12	9.25%	9-Oct-17	44.09	
	9-Oct-12	9.25%	9-Oct-17	4.52	
	9-Oct-12	9.25%	9-Oct-17	9.62	
	9-Oct-12	9.25%	9-Oct-18	5.61	
	9-Oct-12	9.62%	9-Aug-18	31.32	
	Total			**332.05**	

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (24-Jan-17)	1)CARE AA- (10-Nov-15)	1)CARE AA- (06-Oct-14)
2.	Debentures-Non Convertible Debentures	LT	332.05	CARE A (Single A) (Credit watch with developing implications)	-	1)CARE AA-; Negative (24-Jan-17)	1)CARE AA- (10-Nov-15)	1)CARE AA- (06-Oct-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

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