CREDIT RATING REPORT

Reliance Home Finance Limited

October 2013

INSTRUMENTS RATED	RATINGS
Rs.10.0 Billion Short-Term Debt Programme	**CRISIL A1+ (Reaffirmed)**

RATING HISTORY

Date	Long-Term	Fixed Deposit	Short-Term	Rating Watch/Outlook
September 29, 2011	-	--	CRISIL A1+*	-

* *Initial Rating assigned*

Analytical Approach

Reliance Home Finance Ltd's (RHFL) a wholly owned subsidiary of Reliance Capital Ltd (RCL), is a vehicle through which RCL undertakes the business of mortgage loans. RCL is part of the Reliance Group led by Mr. Anil Dhirubhai Ambani. It currently operates as the holding company for the group's entities in the financial services sector. For arriving at the rating, CRISIL has combined the business and financial risk profiles of RCL and all its major subsidiaries (including Reliance Home Finance Ltd) and associate companies that are engaged in financial services businesses, given the integration of operations and management, and a common branding platform for these entities. RCL not only acts as a financial holding company for its subsidiaries but also conducts lending activities through its brand, Reliance Commercial Finance.

Rating Drivers

Strengths

- Diversified presence across the financial services domain
- Adequate capital position

Weaknesses

- Lending portfolio susceptible to macroeconomic environment
- Modest, though improving, earnings profile

Rating sensitivity factors

- Significant changes in asset quality and earnings profile
- Exposure to group and non-group entities
- Changes in regulatory and statutory environment
- Foray into banking business

Analytical Contacts at CRISIL:

Pawan Agrawal
Tel: +91-22-3342 3301
Email: pawan.agrawal@crisil.com

Rajat Bahl
Tel: +91-22- 3342 8274
Email: rajat.bahl@crisil.com

Customer Service Helpdesk
Timings: 10:00 am to 7:00 pm
Toll free number: 1800 267 1301
Email: CRISILratingdesk@crisil.com

CRISIL Complexity Levels are assigned to various types of financial instruments. The CRISIL Complexity Levels are available on **www.crisil.com**/complexity-levels. Investors are advised to refer to the CRISIL Complexity Levels for instruments that they propose to invest in. Investors can also call the **Customer Service Helpdesk** with queries on specific instruments.

Established in 1986, RCL is a systemically important non-deposit taking non-banking financial company (NBFC). The company is part of the Reliance group led by Mr. Anil Dhirubhai Ambani. It currently operates as the holding company for the group's entities in the financial services sector. RCL, along with its subsidiaries and associate companies, has businesses across the financial services spectrum, including asset management, commercial and mortgage finance, capital markets, general insurance, and life insurance.

RCL, on a consolidated basis, reported a net worth of Rs.119.7 billion (excluding minority interest) as on March 31, 2013. For 2012-13 (refers to financial year, April 1 to March 31), RCL reported a profit after tax (PAT) and a total income of Rs.8.1 billion and Rs.75.2 billion, respectively, against a PAT and total income of Rs.4.6 billion and Rs.66.3 billion, respectively, for the previous year.

RHFL is a wholly owned subsidiary of RCL and was established in 2008-09. It is a housing finance company and registered with the National Housing Bank. RHFL is into mortgage lending. The company had a net worth of ~Rs.4.0 billion as on March 31, 2013. For 2012-13, RHFL reported a profit after tax (PAT) and a total income of Rs.274.8 million and Rs.3.6 billion respectively, as against a PAT and a total income of Rs.264.5 million and Rs.3.4 billion respectively for the previous year.

The rating is supported by RCL's following strengths:

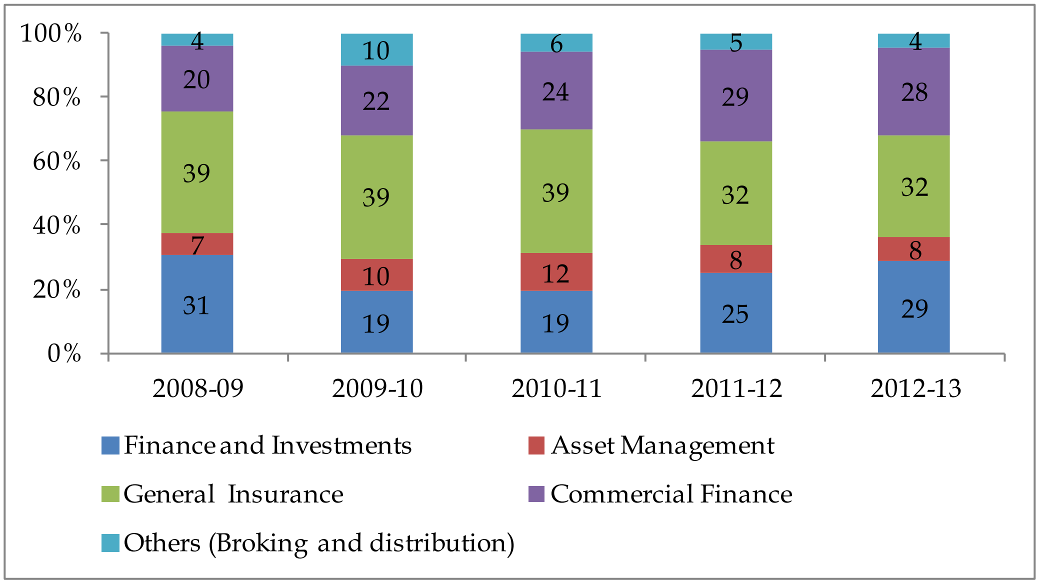
Diversified presence in financial services domain

RCL is one of the large NBFCs in India in terms of assets under management (AUM), and has a diversified product portfolio. The company had a sizeable AUM of around Rs.163.8 billion (lending portfolio) as on March 31, 2013, and has established its position across asset classes since commencement of operations in 2007-08. RCL's lending portfolio includes home loans, loans against property, small and medium enterprise loans, automobile loans (including commercial vehicle and construction equipment loans), and infrastructure loans. RHFL is the vehicle through which RCL undertakes the home loans business. However, given weakening in the macroeconomic environment, the company has maintained a cautious approach and slowed down its growth in the commercial finance business over the past two years. RCL is now focusing on tapping relatively higher yielding asset segments in non-urban regions to support its commercial finance growth over the medium term.

RCL has maintained its strong position in non-lending businesses such as asset management, life insurance, and general insurance. Furthermore, it has a moderate market position in the retail broking, private equity, asset reconstruction, investment banking, and wealth management businesses. CRISIL believes that RCL's diversified presence across the financial services segment provides it access to a large pool of customers, and synergies from different businesses help strengthen its competitive position.

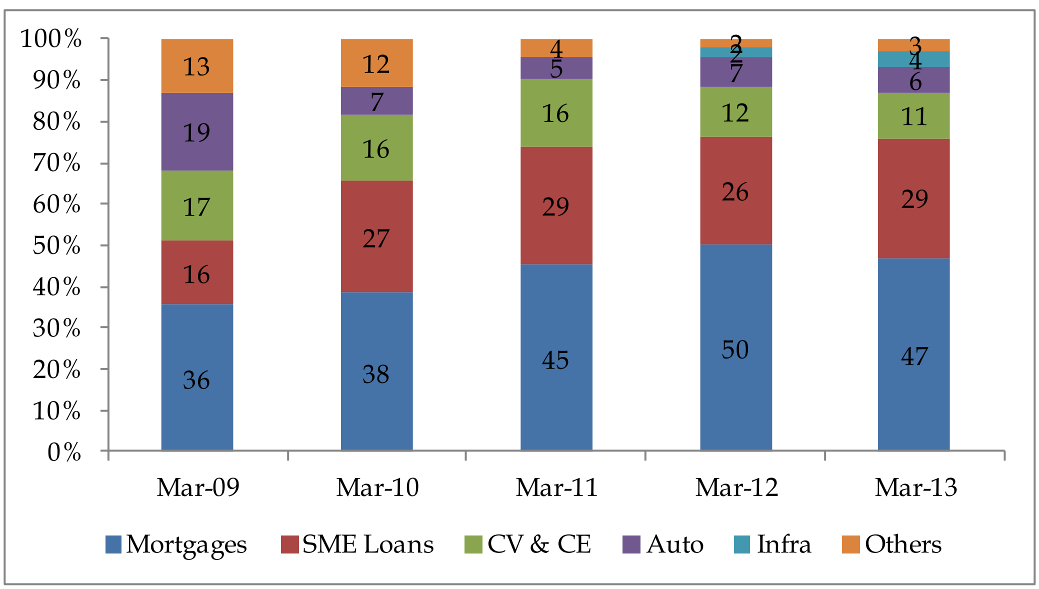
RCL's consolidated revenue profile has been witnessing a change, with the share of commercial finance increasing to 28 per cent in 2012-13 from 20 per cent during 2008-09 *(refer to Chart 1)*. This enhances diversity in the revenue profile, with around 30 per cent of revenue now coming each from general insurance, commercial finance and finance and investment segments.

Chart 1: Trends in segmental revenue



RCL's lending is towards secured asset classes with focus on mortgage and small and medium enterprise (SME) financing businesses *(refer to Chart 2)*. The share of mortgages and SME finance in the portfolio outstanding increased to 47 per cent and 29 per cent, respectively, as on March 31, 2013, from 36 per cent and 16 per cent, respectively, as on March 31, 2009. CRISIL believes that RCL will continue to scale up its mortgage and SME financing business over the medium term.

Chart 2: Portfolio composition of commercial and home finance



Adequate capital position

RCL has adequate capitalisation, with reported consolidated net worth of around Rs.120 billion (excluding minority interest) as on March 31, 2013, compared with Rs.78 billion as on March 31, 2011. The increase in the company's net worth was largely due to the proceeds from the stake sale in Reliance Life Insurance Company Ltd (RLI) and Reliance Capital Asset Management Company Ltd (RCAM). In October 2011, RCL sold 26 per cent of its stake in RLI to Nippon Life Insurance Company (Nippon Life) for Rs.30.6 billion. Further, in August 2012, RCL sold 26 per cent stake in RCAM to Nippon Life for Rs.14.5 billion.

Investments and corporate advances to group and non-group entities account for the majority of RCL's net worth. The quantum of such exposures has increased over the past two years. While the management has indicated that RCL's exposure to group and non-group entities will reduce progressively, CRISIL will continue to monitor such exposure as a key rating sensitivity factor. RCL's reported gearing was low at 1.9 times as on March 31, 2013; however, after adjusting its net worth for exposure to group companies and revaluation of its investment in RLI, the gearing is much higher.

Nevertheless, RCL has flexibility to raise additional capital through sale of non-group exposures, and sale of stakes in group companies to strategic investors. RCL's standalone business continues to have adequate capitalisation with Tier-I and overall capital adequacy ratios of 13.0 per cent and 17.0 per cent, respectively, as on March 31, 2013 (18.0 per cent and 20.2 per cent, respectively, as on March 31, 2012).

These rating strengths are partially offset by RCL's following weaknesses:

Lending portfolio susceptible to macroeconomic environment

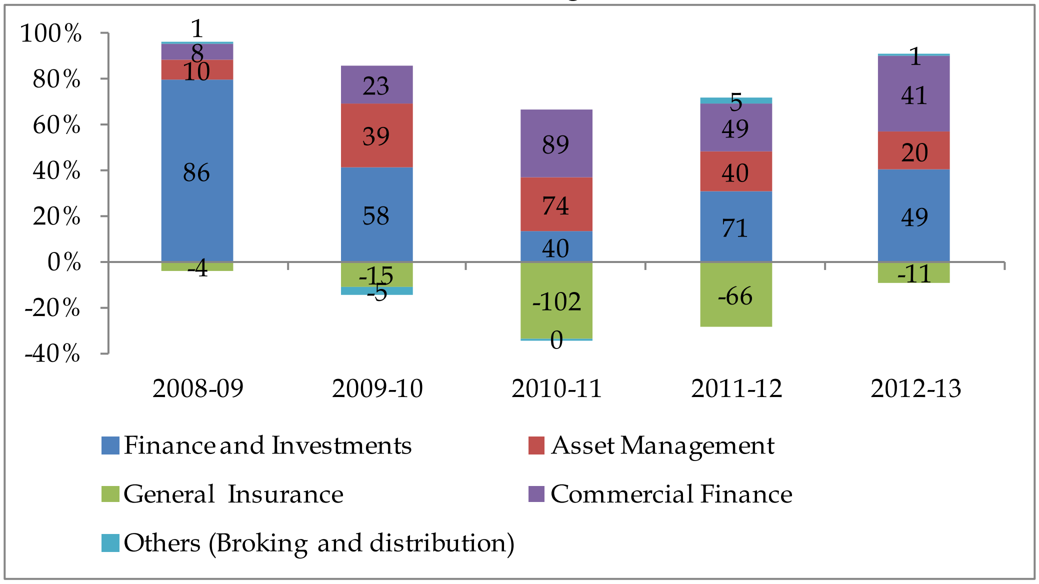
Over the past few years, RCL has shifted its focus to secured assets, mainly in the mortgage and SME lending segments, which together accounted for around 76 per cent of the company's loan portfolio as on March 31, 2013. However, given that RCL's primary focus segments are lending to SMEs and self-employed individuals through mortgage loans, RCL's loan portfolio is sensitive to adverse macroeconomic developments.

The company's gross non-performing assets at 1.85 per cent as on March 31, 2013 is better than the industry average gross NPAs at 2.1 per cent as on the same date. However, the company gross NPAs increased from 1.75 per cent a year earlier. Nevertheless, it remains well below the high of 4.5 per cent as on March 31, 2010. The higher gross NPA in previous years was primarily because of losses in the unsecured book. However, the book is now completely secured unlike in the past, when around 25 per cent of the book was unsecured. RCL also has adequate credit-underwriting and collection systems to mitigate the risks arising from the exposure to SME and mortgage loans to self-employed individuals. However, given the weak macroeconomic environment, RCL's ability to maintain asset quality as the portfolio seasons and manage portfolio performance will remain a key rating monitorable.

Average, albeit improving, earnings profile

Although RCL's earnings profile benefits from a diversified product profile across the financial services spectrum, its profitability has been dependent on profits generated from sale of investments.

Chart 3: Trends in segmental PBT



RCL's operational profitability has been relatively low, primarily because of losses in its insurance business (mainly on account of provision for third-party motor pool losses in line with changes in accounting policy for pool losses for the industry), high credit costs as a result of losses in its unsecured loan book, and high borrowing costs, impacting the spreads in its lending business. The company's consolidated return on net worth was low at 6.8 per cent for 2012-13. However, RCL's earnings profile is likely to improve over the medium term as the company is reorienting its commercial finance business—with focus on underwriting secured, high-yield businesses to improve spreads. Credit cost is also expected to be contained, given that its loan book is now completely secured. Moreover, its life insurance and asset management businesses continue to report profits and the general insurance business is expected to report full-year profits from 2013-14.

Business Profile

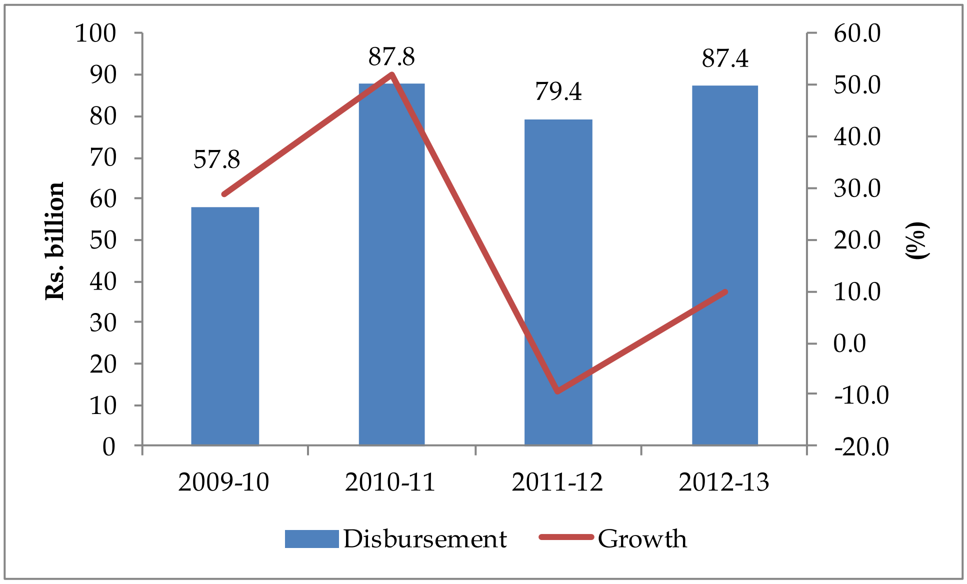
Market position

RCL is one of the largest NBFCs in India and has a diversified product portfolio in the financial services space.

Commercial Finance and Home Finance Business

RCL commenced lending operations in 2007-08 and has a sizeable AUM of Rs.163.8 billion as on March 31, 2013, registering a growth of 10 to 11 per cent for each of the last two years. RCL disbursed loans of Rs.87.4 billion in 2012-13, registering a growth of around 10 per cent year on year. The disbursement growth y-o-y across business segments was mortgage finance (20 per cent), SME loan (30 per cent), commercial vehicle and construction equipment (CV & CE; -7 per cent), auto loans (-2 per cent) and infrastructure finance (8 per cent). The business caters to about 74,000 customers across 20 locations in the country.

Chart 4: Disbursement growth trend



Asset Management

Reliance Capital Asset Management (RCAM), a subsidiary of RCL, is the second largest asset management company (AMC) in India with average assets under management of Rs.1.7 trillion across mutual funds (average mutual fund AUM of Rs.0.95 trillion), pension funds, managed accounts & hedge funds. The company manages 49 schemes – 22 equity, 23 debt, 3 ETFs and 1 fund of funds. RCAM is the only private sector AMC to manage funds for both employee provident fund organisation and new pension scheme. It remains one of the profitable mutual funds, with a profit before tax (PBT) of Rs.2.9 billion during FY2013 (Rs.3.1 billion during FY2012). The company has over six million investor folios and a wide distribution network with presence in over 200 branches and more than 40,000 empanelled distributors.

Life Insurance Business

RLI, an associate company of RCL in which RCL has around 74 per cent economic interest. It is one of the large private sector life insurers, with a market share of 4.5 per cent in 2012-13 of the private sector life insurance industry in terms of new business premium. In 2011-12, RCL sold 26 per cent of its stake in RLI to Nippon Life for Rs.30.6 billion.

RLI's new business premium and renewal premium declined by about 24 and 28 per cent, respectively, in 2012-13 primarily because of the drop in the overall premium of the life insurance industry. Nevertheless, the company remains profitable with a PBT of Rs.3.8 billion in 2012-13. The company has a wide distribution network with 1,230 offices and over 124,000 agents.

General Insurance Business

Reliance General Insurance (RGI) is a leading private sector general insurer with a market share of over 7 per cent in terms of gross written premium, of the Indian private sector general insurance industry as on March 2013. The gross written premium for the business increased by 16 per cent to Rs.20.4 billion in 2012-13, from Rs.17.5 billion in 2011-12. RGI reported a loss before tax of Rs.0.9 billion for 2012-13, against a loss of Rs.3.4 billion in 2011-12. Nevertheless, the business has begun reporting quarterly profits from the 3rd quarter of 2012-13 and is expected to report full-year profits from 2013-14. Around 78 per cent of RGI's business (based on gross premium) came from motor and health portfolios in 2012-13. The company has a wide distribution network of 126 branches and nearly 10,700 intermediaries.

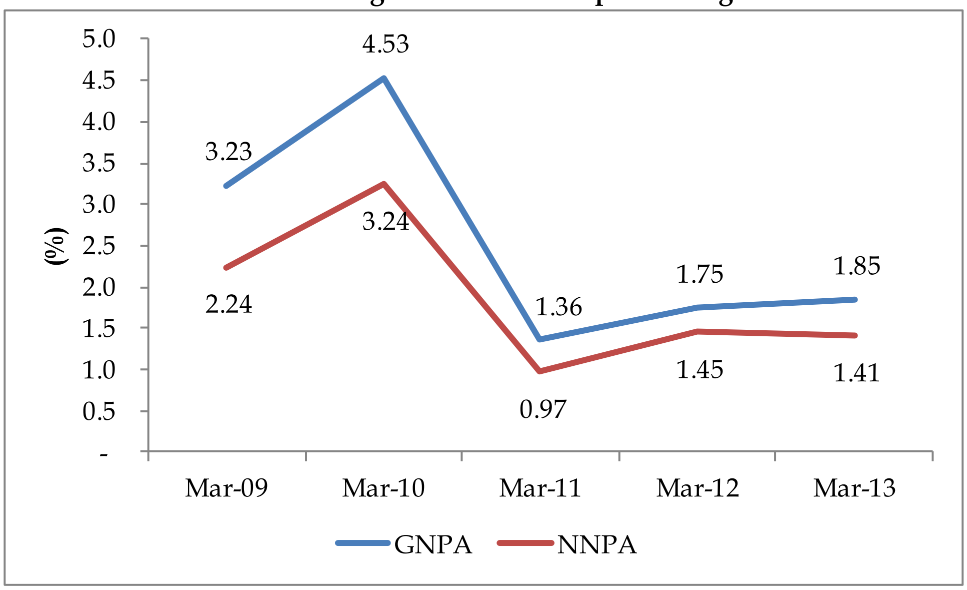
Broking and Distribution Businesses

Reliance Securities Ltd (RSL) is a large player in the retail segment, with an average daily turnover (ADT) of around Rs.24.9 billion in 2012-13, and a customer base of 715,500 clients. It also has a good presence in the commodity broking business, with an ADT of over Rs.9.6 billion in 2012-13 and a customer base of 39,700 accounts. The company has a pan-India presence with over 6,200 outlets. Besides, the company has exclusive tie-ups with India Post to sell gold coins through its network in India, and a tie-up with Western Union Money Transfer for money transfers. For 2012-13, the broking and distribution business recorded a total income and PBT of Rs.3.8 billion and Rs.449 million respectively.

Asset quality

RCL focuses on the self-employed customer segment, which is inherently riskier than the salaried segment. However, RCL has adequate underwriting and collection mechanisms to mitigate such risks; furthermore, RCL's loan portfolio is now completely secured unlike in the past when around 25 per cent of the portfolio was unsecured. RCL's asset quality is better than the industry average, although it has declined moderately over the last two years, with gross non-performing assets (GNPAs) at 1.85 per cent of total advances, as on March 31, 2013, up from 1.75 per cent as on March 31, 2012 and 1.36 per cent as on March 31, 2011.

Chart 5: Trend in gross and net non-performing assets

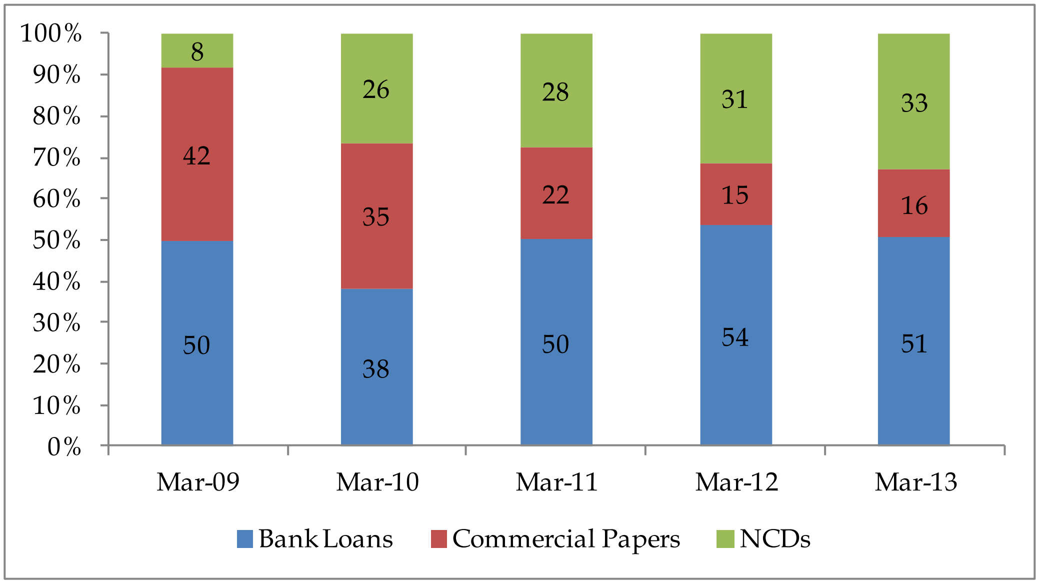


Resources

RCL has a fairly diversified resource profile, with a proven access to the capital markets and bank financing. Also it has reduced its dependence on short-term funds. The proportion of commercial papers (CPs) has declined to around 16 per cent of borrowings as on March 31, 2013, from a high of over 40 per cent as on March 31, 2009. As on March 31, 2013, RCL's aggregate borrowings on a consolidated basis was Rs.225 billion (Rs.196 billion as on March 31, 2012). RCL also has a demonstrated ability to securitize/assign portfolios. As on March 2013, it had a securitised portfolio of around Rs.27.3 billion;

16.7 per cent of its AUM. RCL's average cost of borrowing (CoB), however, has risen over the past two years in light of the rising interest rates to 11.1 per cent for 2012-13, compared with 8.3 per cent in 2010-11.

Chart 6: Trends in resource mix



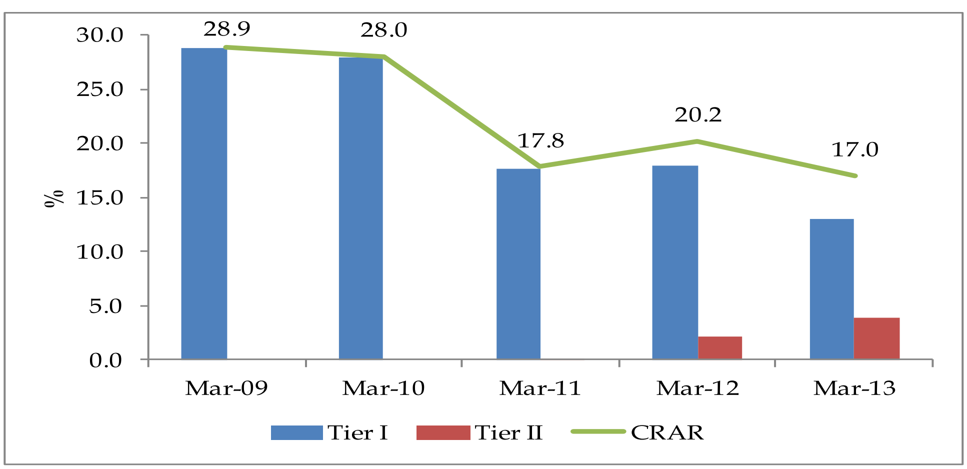
Financial Profile

Capital adequacy

RCL has adequate capitalisation, with a reported consolidated net worth of around Rs.120 billion (excluding minority interest) as on March 31, 2013, up from Rs.78 billion two years ago. The increase in net worth was largely driven by proceeds aggregating Rs.45.1 billion from the stake sale in RLI and RCAM. RCL's reported gearing was low at 1.9 times as on March 31, 2013 as against 2.6 times as on March 31, 2011 (1.7 times as on March 31, 2012).

RCL's Tier-I and overall capital adequacy ratios stood at 13.0 per cent and 17.0 per cent, respectively, as on March 31, 2013 as compared against 18.0 per cent and 20.2 per cent, respectively, a year ago.

Chart 7: Capital adequacy ratios

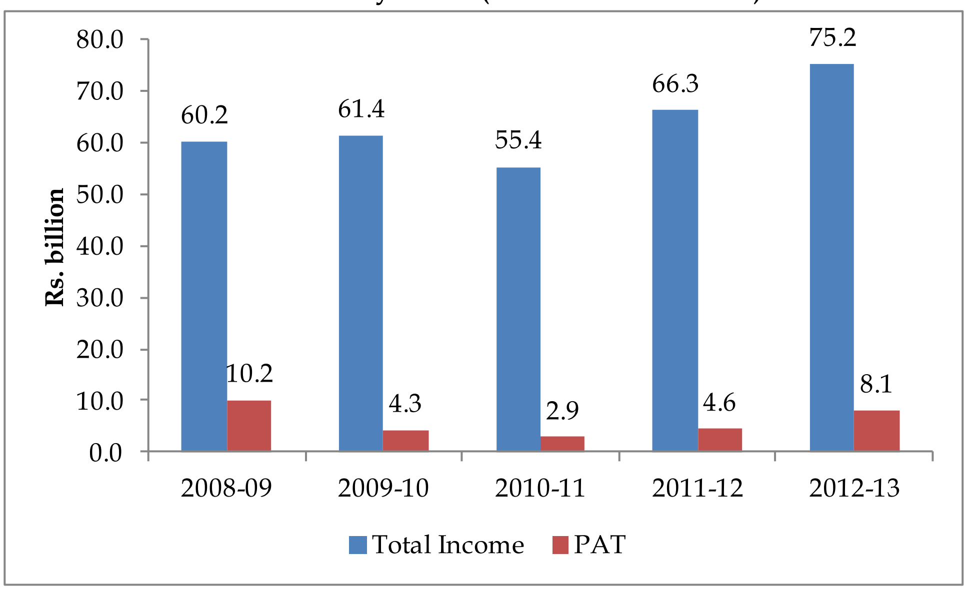


Earnings

For 2012-13, RCL reported a consolidated profit after tax (PAT) and total income of Rs.8.1 billion and Rs.75.2 billion, respectively, against a PAT and total income of Rs.4.6 billion and Rs.66.3 billion, respectively, for the previous year. The increase was driven primarily by proceeds from a 26 per cent stake sale in RCAM of Rs.14.5 billion and supported by continued profitability and performance of the core businesses.

The life insurance business has been reporting decline in total premium over the last couple of years, primarily on account of drop in the overall premium of the life insurance industry and reduction in RLI's market share. Nevertheless, the life insurance business remains profitable for the second consecutive year, with a PBT of Rs.3.8 billion for 2012-13. While Reliance General Insurance continues to report full-year losses in 2012-13, the business has begun to report profits from the third quarter of 2012-13, and is expected to report full-year profits in 2013-14.

Chart 8: Profitability trends (total income and PAT)



Liquidity

RCL has adequate liquidity. As on March 31, 2013, the company had cash and bank balances of Rs.15.8 billion on its books. As on March 31, 2013, the ALM profile is fairly matched with low negative cumulative mismatches upto 1 year.

Key Financials for RCL (Consolidated)

As on / For the year ended March 31,		2013	2012	2011
Equity Capital	Rs. Billion	2.5	2.5	2.5
Net worth	Rs. Billion	119.7	117.7	77.9
Total Borrowings	Rs. Billion	225.1	195.9	203.7
Total Assets	Rs. Billion	405.9	353.5	320.9
Total Income	Rs. Billion	75.2	66.3	52.8
Profit After Tax (PAT)	Rs. Billion	8.1	4.6	3.0
Ratios				
PAT/Average Net worth	%	6.8	4.7	3.8
PAT/Average Total Assets (ROA)	%	2.1	1.4	1.0
Total Debt/Net worth	Times	1.9	1.7	2.6

For the quarter ended June 30,		2013	2012
Total Income	Rs. Billion	19.4	16.8
Finance Cost	Rs. Billion	6.2	5.7
Other Expenses	Rs. Billion	11.7	10.3
Profit Before Tax (PBT)	Rs. Billion	1.5	0.7
Profit After Tax (PAT)	Rs. Billion	1.3	0.5

CRISIL Limited
CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai 400076.
Tel: + 91 (22) 3342 3000 – 09 Fax: + 91 (22) 3342 3001

CRISIL rating actions are updated online on **www.crisil.com**