CREDIT RATING REPORT

Reliance Home Finance Limited

August 2014

INSTRUMENTS RATED	RATINGS
Rs.10.0 Billion Short-Term Debt Programme	**CRISIL A1+ (Reaffirmed)**
(Refer to annexure for details on facilities)	

RATING HISTORY

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

* *Initial Bank Loan 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.

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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

Rationale

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

RCL, on a consolidated basis, reported a net worth of Rs.124 billion (excluding minority interest) as on March 31, 2014. For 2013-14, RCL reported a profit after tax (PAT) and a total income of Rs.7.5 billion and Rs.75.5 billion, respectively, as against a PAT and a total income of Rs.8.1 billion and Rs.75.2 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 around Rs.4.6 billion as on March 31, 2014. For 2013-14, RHFL reported a profit after tax (PAT) and a total income of Rs.434 million and Rs.4.3 billion, respectively, as against a PAT and a total income of Rs. 275 million and Rs.3.6 billion, respectively, for the previous year.

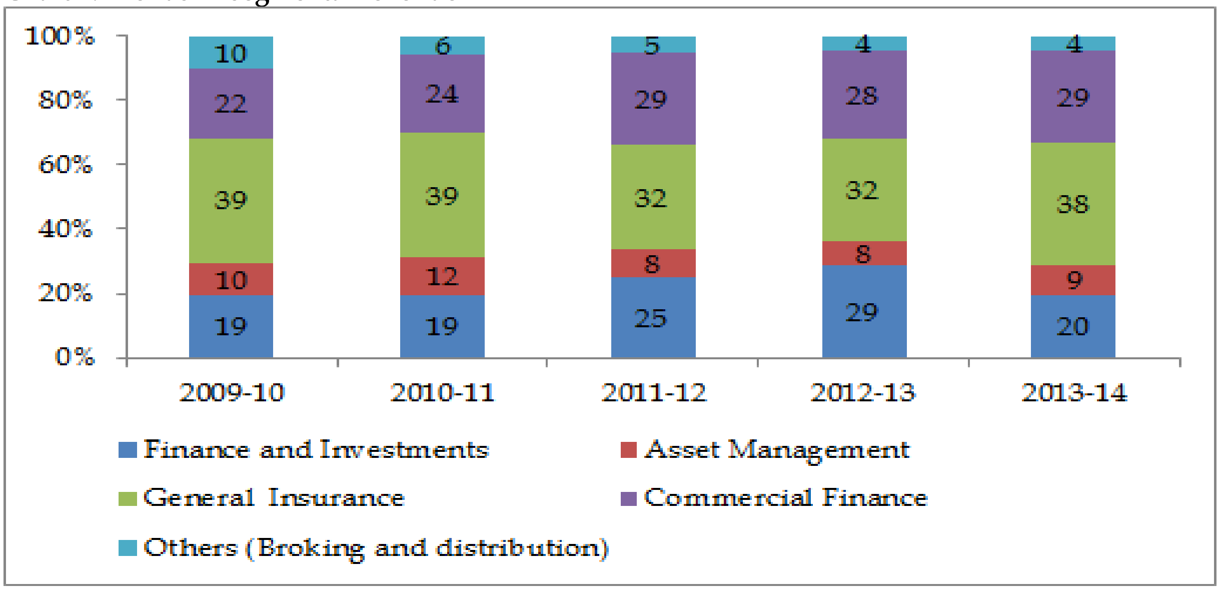
The rating is supported by RCL's following strengths:

Diversified presence in financial servicesdomain
RCL is one of the largeNBFCsin India in terms of assets under management (AUM), and has a diversified product portfolio. The company had a sizeable AUM of around Rs.173.5 billionas on March 31, 2014 in the commercial and home finance business,and has established its position across asset classes since commencement of its operations in 2007-08. RCL's lending portfolio includes 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.RCL is increasingly focusing on tapping relatively higher yielding asset segments in non-urban regions to support its commercial finance growth over the medium term.However, given the weak macroeconomic environment over the past two years, the company had maintained a cautious approach and slowed down its growth in the commercial finance business.

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.

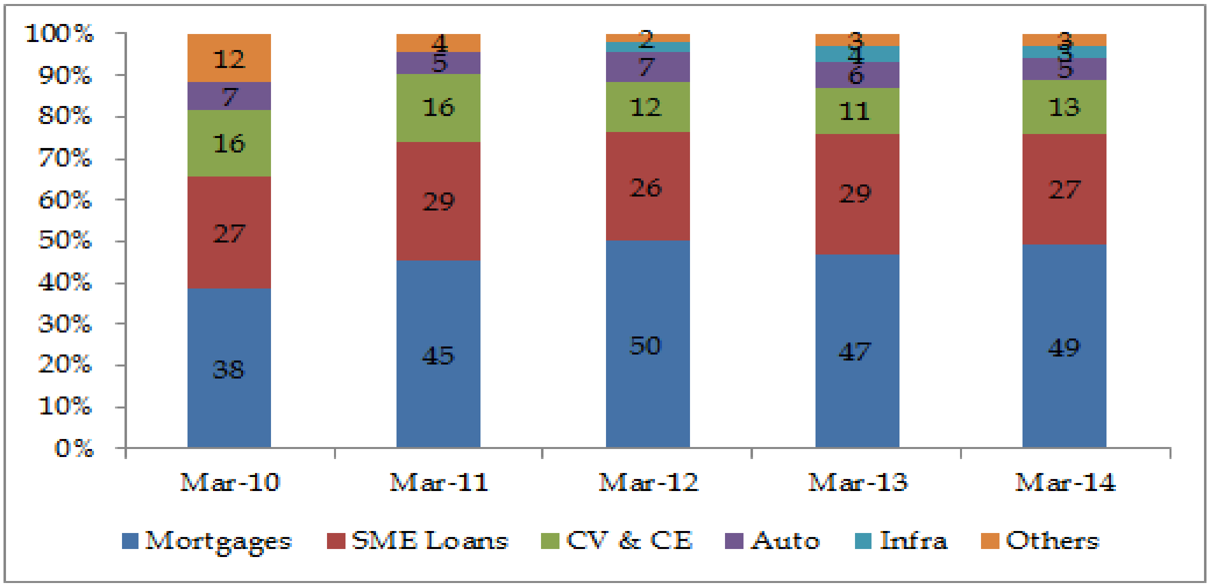
RCL's consolidated revenue profile has been witnessing a change, with the share of commercial financeincreasing to 29per cent in 2013-14from 20 per cent during 2008-09. This has enhanced diversity in the revenue profile, with general insurance, commercial finance and finance and investment segments each contributing significantly to the overall revenues.

Chart 1: Trends in segmental revenue



RCL'slending is towards secured asset classes with focus on mortgage, commercial vehicles 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 49per cent and 27per cent, respectively, as on March 31, 2014, 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.124 billion (excluding minority interest) as on March 31, 2014, (Rs.120 billion as on March 31, 2013). Investments and corporate advances to group as well as non-group entities constitute a majority of RCL's net worth. CRISIL believes that RCL's exposure to group and non-group entities will remain a key rating sensitivity factor, despite the management's indication of a progressive reduction on this front. The quantum of such exposures hasremained stable over the past two years.

RCL'sconsolidated gearing was low at 2.1 times as on March 31, 2014; however, after adjusting its net worth for exposure to group companies and revaluation of its investment in RLI, the company's gearing is higher. Nevertheless, RCL has the flexibility to raise additional capital through the sale of its stakes to strategic investors. The company has maintained adequate capitalisation in its commercial finance business with Tier-I and overall capital adequacy ratios of 12.2 per cent and 16.3 per cent, respectively, as on March 31, 2014 (13.0 per cent and 17.0 per cent, respectively, as on March 31, 2013).

These rating strengths are partially offset byRCL's following weaknesses:

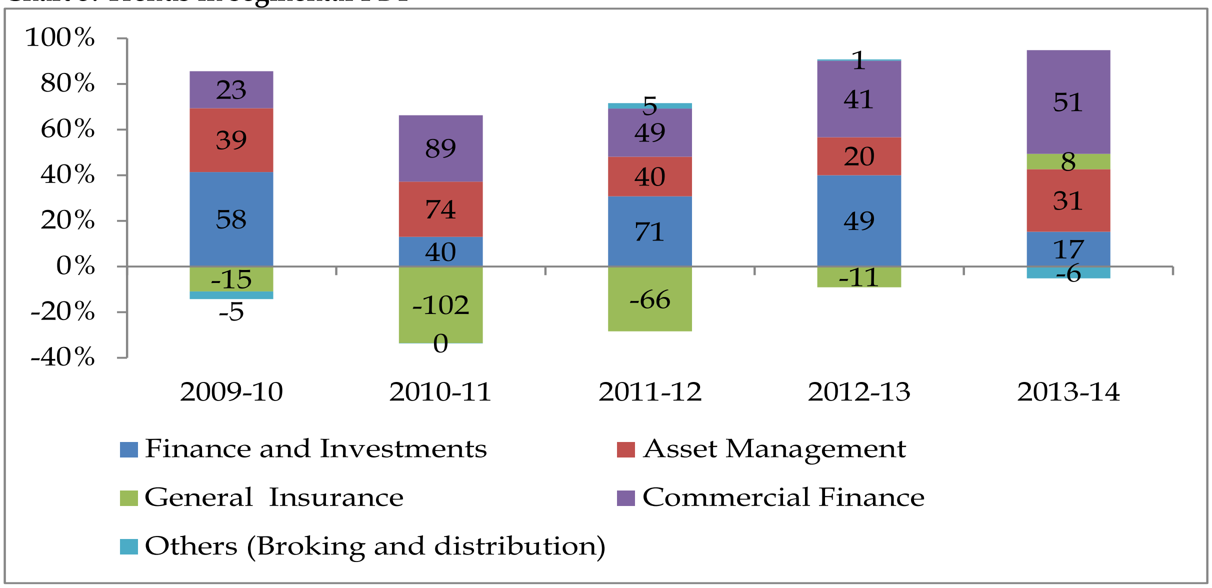
Susceptibility of lending portfolio to changes in macroeconomic environment

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, 2014.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 RCL commercial finance division's gross non-performing assets at 2.0 per cent as on March 31, 2014 is better than the industry average gross NPAs at 3.3 per cent as on the same date However, the gross NPAs increased from 1.7 per cent a year earlier due to delinquencies in its SME and CV&E loan book. 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. Additionally, the book is now completely secured unlike in the past, when around 25per centof the book was unsecured.RCL also has adequate credit-underwriting and collection systemsto 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, historically, its profitability has been dependent on profits generated from sale ofinvestments.

Chart 3: Trends in segmental PBT



RCL's operational profitability has been relatively low, primarily because of its insurance business, high credit costs as a result of provision in its SME and CV loan book, and high borrowing costs, impacting the spreads in its lending business. The company's consolidated return on net worth was low at 6.1 per cent for 2013-14. However, RCL's earnings profile is likely to improve over the medium term as the companyis reorientingits commercial finance business—with focus on underwriting secured, high-yieldbusinesses to improve spreads. Credit cost is also expected to be contained, given that its loan book is now completely secured. Moreover, the profitability is further strengthened by increase in earnings in the insurance and asset management businesses.

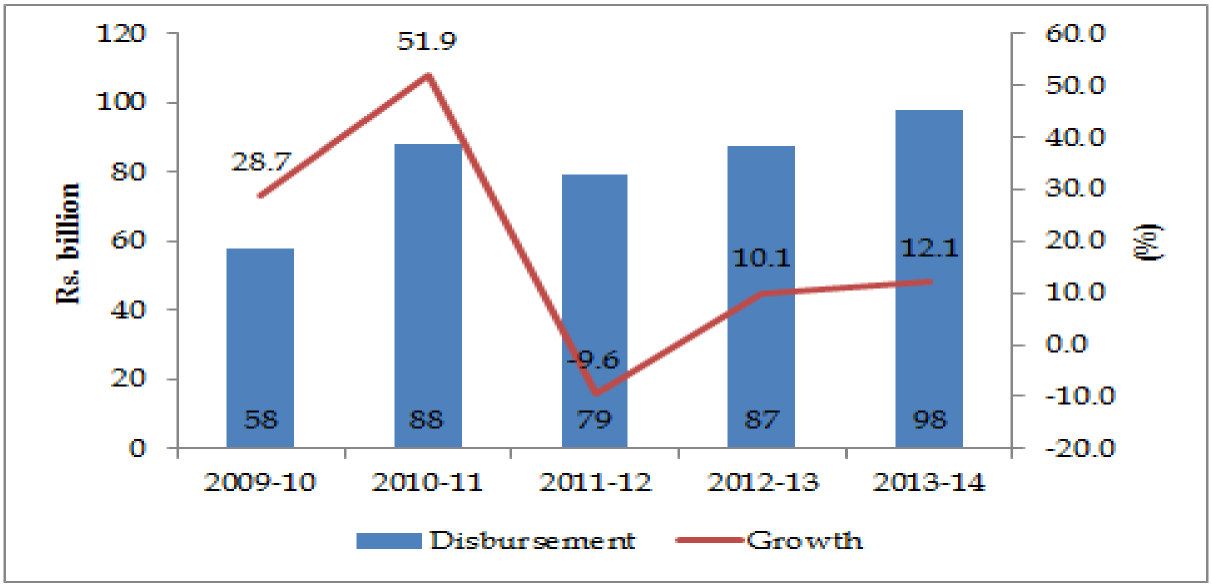
Business Profile

Market position
RCL is one of the largest NBFCsin 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 ofRs.173.5billion as on March 31, 2014, registering a growth of 6 to 9per centfor the last two years.RCL disbursed loans of Rs.98 billion

in 2013-14, registering a growth of around 12.1per centyear on year. The disbursement growth y-o-y across business segments was mortgage finance (10 per cent), SME loan (22per cent), commercial vehicle and construction equipment (CV &CE; 26per cent), auto loans (-17 per cent) and infrastructure finance (11per cent). The business caters to about 66,000 customers across 37 locations in the country.

Chart 4: Disbursement growth trend



Asset Management

Reliance Capital Asset Management (RCAM), a subsidiary of RCL, is among the top 3 largest asset management company (AMC) in India with average assetsunder management of Rs.1.9 trillion across mutual funds (average mutual fund AUM of Rs.1.0 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 theprofitable mutual funds, with a profit before tax (PBT) of Rs.3.5 billion during 2013-14 (Rs.2.9 billion during 2012-13). The company has over six million investor folios and a wide distribution network with presence in over 175 branches and more than 42,500 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 6.6per cent in 2013-14of the private sector life insurance industry in terms of new business premium.

During 2013-14, RLI's new business premium grew by 40 per cent and renewal premium declined by about 12 per cent. Nevertheless, the company remains profitable with a PBT of Rs.3.6 billion in 2013-14. The company has a wide distribution network with 900 offices.

General Insurance Business

Reliance General Insurance (RGI) is a leading private sector general insurer with a market share of over 7.5 per cent in. The gross written premium for the business increased by 20 per cent to Rs.24.4 billion in 2013-14. RGI turned profitable during the year and reported a profit before tax of Rs.0.64 billion for

2013-14, against a loss of Rs.0.9 billion in 2012-13. Around 81 per cent of RGI's business (based on gross premium) came from motor and health portfolios in 2013-14. The company has a wide distribution network of 139 branches and nearly 15,500 intermediaries.

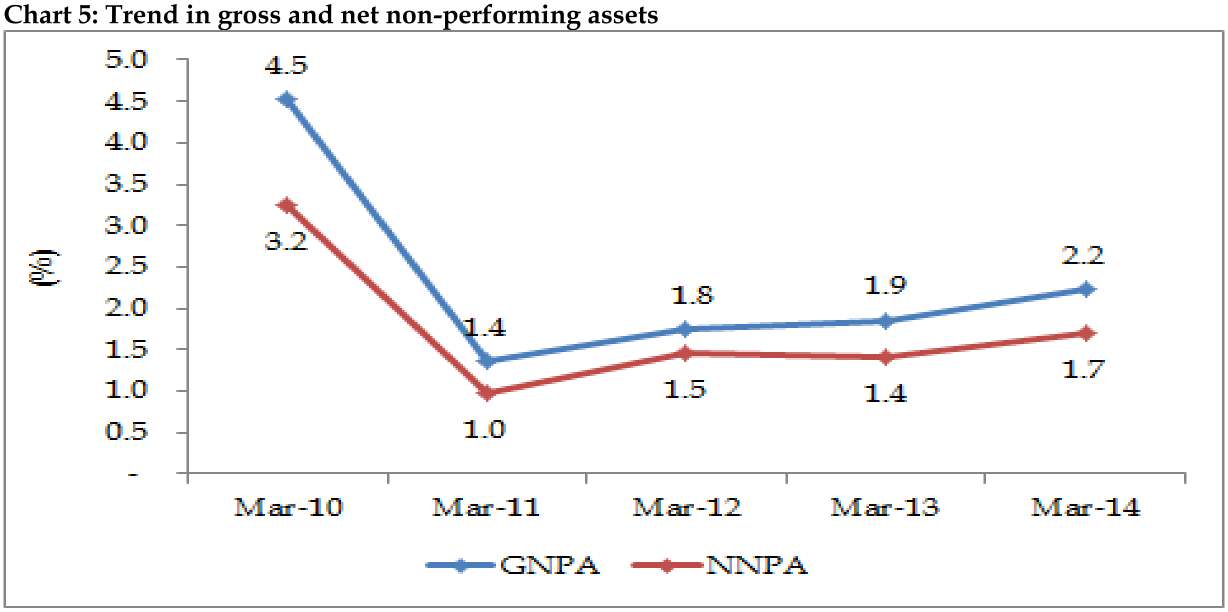
Broking and Distribution Businesses

Reliance Securities Ltd (RSL) is the 2nd largest player in the retail segment, with an average daily turnover (ADT) of aroundRs.21.2billion in 2013-14, and a customer base of 730,000 clients. It also has a good presence in the commodity broking business, with an ADT of over Rs.5.0 billion in 2013-14 and a customer base of 48,000 accounts. The company has a pan-India presence with over 7,000 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 2013-14, the broking and distribution business recorded a total income and loss before tax of Rs.2.0billion and Rs.235million 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 declinedmoderately over the last two years, with gross non-performing assets (GNPAs) at 2.0 per cent of total advances, as on March 31, 2014, up from 1.7per cent as on March 31, 2013.

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

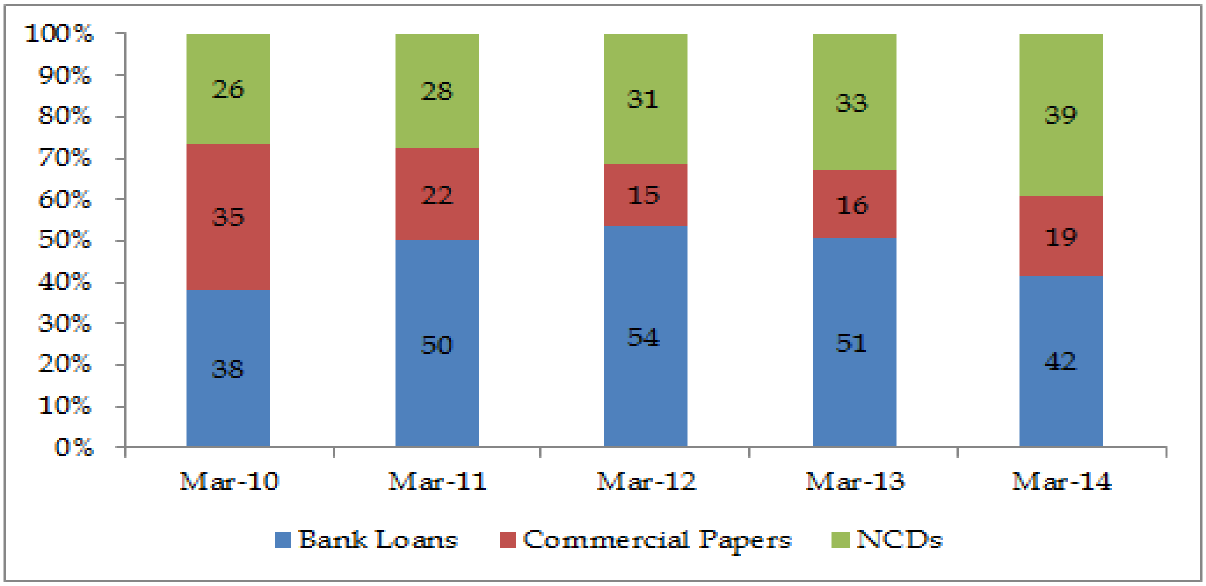


Resources

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 19 per cent of borrowings as on March 31, 2014, from a high of over 35 per cent as on March 31, 2010.As on March 31, 2014, RCL's aggregate borrowings on a consolidated basis was Rs.256 billion (Rs.225 billion as on March 31, 2013). RCL also has a demonstrated ability to securitize/assign portfolios. As on March 2014, it had a securitised portfolio of around Rs.36.8 billion

(21.2 per cent of AUM). RCL's average cost of borrowing (CoB)reduced to 10.4 per cent in 2013-14from 11.1per cent in 2012-13.

Chart 6: Trends in resource mix



Financial Profile

Capital adequacy

RCL has adequate capitalisation, with a reported consolidated net worth of around Rs.124 billion (excluding minority interest) as on March 31, 2014, up from Rs.120 billion as on March 31, 2013. RCL'sconsolidated gearing was low at 2.1 times as on March 31, 2014; however, after adjusting its net worth for exposure to group companies and revaluation of its investment in RLI, the company's gearing is higher.

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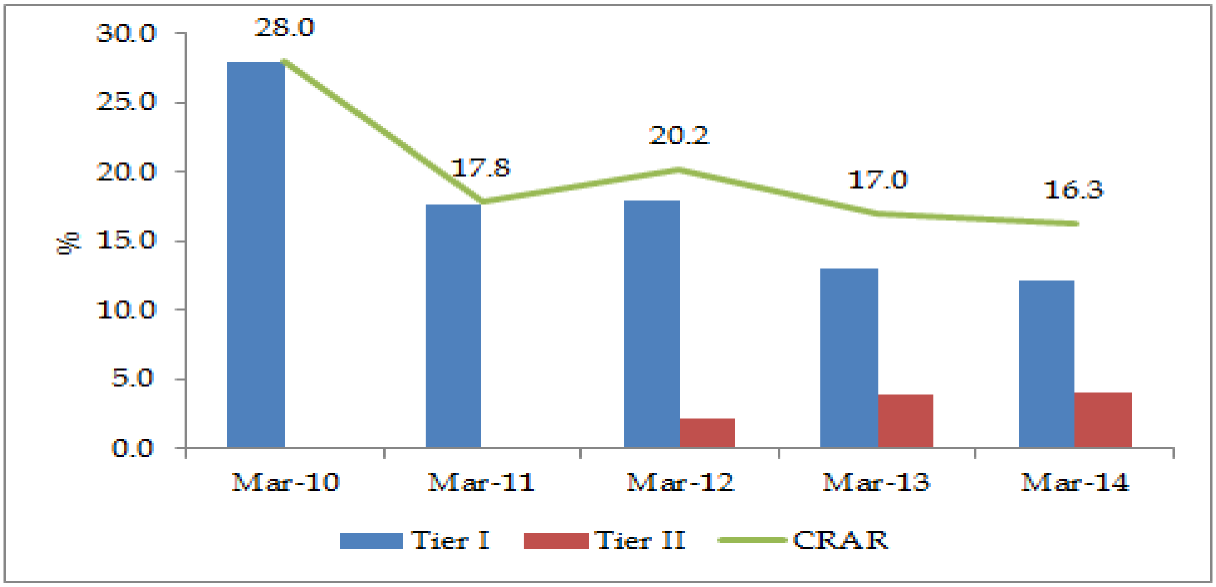
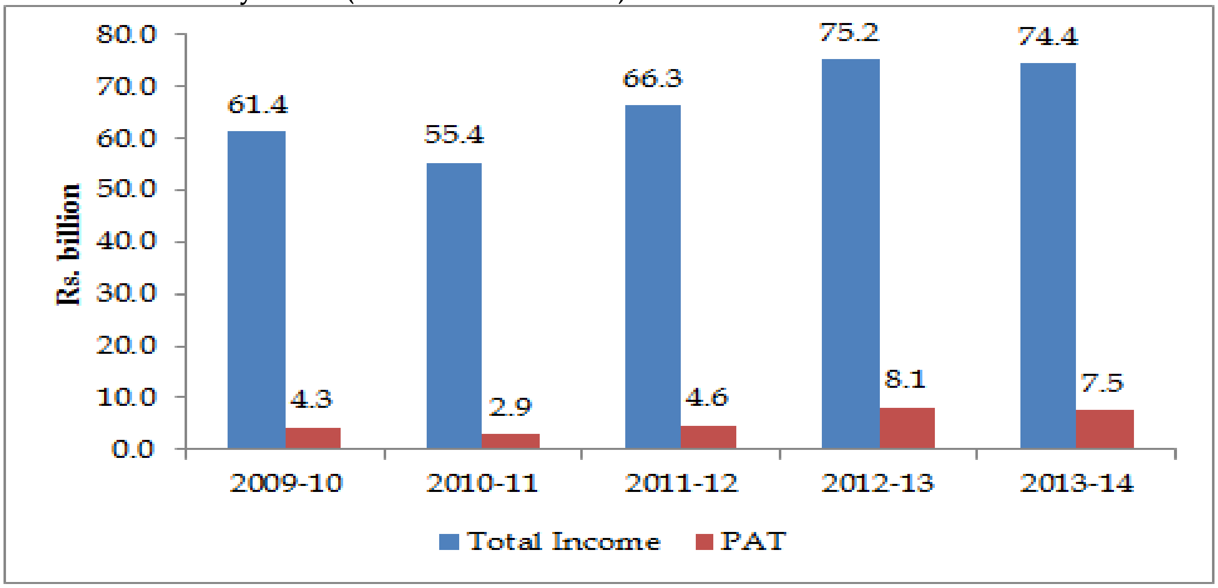
Chart 7: Capital adequacy ratios



Earnings

For 2013-14, RCL reported a consolidated profit after tax (PAT) and total income of Rs.7.5 billion and Rs.75.4 billion, respectively, against a PAT and total income of Rs.8.1 billion and Rs.75.2 billion, respectively, for the previous year. RCL's operational profitability has been relatively low, primarily because of its insurance business, high credit costs as a result of provision in its SME and CV loan book, and high borrowing costs, impacting the spreads in its lending business. 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-yieldbusinesses to improve spreads. Credit cost is also expected to be contained, given that its loan book is now completely secured. Moreover, the profitability is further strengthened by the pickup in Insurance and Asset Management Businesses.

Chart 8: Profitability trends (total income and PAT)



Liquidity

RCL has adequate liquidity.As on March 31, 2014, the company had cash and bank balances of Rs.26.6 billion on its books. As on March 31, 2014, the asset-liability management (ALM) profile is fairly matched with low negative cumulative mismatches upto 1 year.

Consolidated Financials for RCL

As on / For the year ended March 31,		**2014**	**2013**	**2012**
Equity Capital	Rs. Billion	2.4	2.5	2.5
Net worth	Rs. Billion	123.9	119.7	117.7
Total Borrowings	Rs. Billion	255.8	225.1	195.9
Total Assets	Rs. Billion	455.3	405.9	353.5
Total Income	Rs. Billion	75.4	75.2	66.3
Profit After Tax (PAT)	Rs. Billion	7.5	8.1	4.6
Ratios				
Reported PAT / Average Reported net worth	%	6.1	6.8	4.7
Reported PAT / Average Assets	%	1.7	2.1	1.4
Total Debt/Net worth	Times	2.1	1.9	1.7

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