

## Draft Rating Rationale

**Brickwork Ratings assigns “BWR AA+” for Reliance Home Finance Ltd.’s Secured Redeemable long term Non Convertible Debenture (NCD) issue of ₹1000 Crores (Enhanced from ₹500 Crores) and Subordinated Tier II unsecured NCD issue of ₹200 Crores (Enhanced from ₹150 Crores)**

<b>Secured NCD Issue Rating: BWR AA+</b>	<b>Outlook : Stable</b>
<b>Subordinated Tier II Unsecured NCD issue Rating: BWR AA+</b>	<b>Outlook : Stable</b>

Brickwork Ratings (BWR) has assigned BWR AA+ (Pronounced BWR Double A Plus) Rating for Reliance Home Finance Ltd.’s (RHFL) Secured Redeemable long term Non-Convertible Debenture (NCD) issue of ₹1000 Crores (Enhanced from ₹500 Crores) and Subordinated Tier II unsecured NCD issue of ₹200 Crores (Enhanced from ₹150 Crores). Instruments with this rating are considered to have **high degree of safety** regarding timely servicing of financial obligations. Such instruments carry **very low credit risk**.

The rating factors, inter alia, RHFL’s strong parentage (Reliance Capital Ltd - rated BWR AAA), adequate capitalization, and healthy net interest margin. However, the rating is constrained by lower seasoning of RHFL’s portfolio, competitive nature of housing finance industry in India and prevailing macroeconomic pressure on housing finance sector.

### Issue Details

<b>Instrument</b>	<b>Amount</b>	<b>Rating</b>	<b>Assigned/ Reaffirmed</b>
Secured Redeemable long term NCD issue	₹1000 Crores (Enhanced from ₹500 Crores)	BWR AA+ (Stable)	Assigned
Subordinated Tier II unsecured NCD issue	₹200 Crores (Enhanced from ₹150 Crores)	BWR AA+ (Stable)	Assigned

As of February 2014, the Company has raised ₹306.1 Crores out of ₹500 Crores Long Term NCD (rated in August 2011) and ₹148 Crores out of ₹150 Crores Subordinate Debt (rated in August 2011).

## **Background**

RHFL is a fully owned subsidiary of Reliance Capital Limited (RCL). It is registered with the National Housing Bank as a Housing Finance company. RHFL is a non-deposit taking Home Finance Company (HFC).

RCL is a diversified financial services company with interests in Asset Management, Insurance – Life & General, Commercial Finance, Broking & Distribution, Asset Reconstruction, Private Equity and Proprietary Investments among others. Mr. Anil Dhirubhai Ambani is the Chairman of Reliance Capital Ltd.

RHFL has a range of home loan product offerings based on Property type (Residential or Commercial) and also Transaction type (Balance Transfer plus Top up & Existing Customer Top up). Additionally the Company also offers a variety of loans against property (residential/commercial property and also lease rent discounting).

## **Financial Performance**

In FY13, Net Interest Income of RHFL declined by 8% to ₹79.1 Crores from ₹86 Crores in FY12; this was mainly due to higher increase in interest expense relative to lower growth in interest income, which was trend for most players in industry. The PAT levels of the Company have seen slight increase from ₹26 Crores in FY12 to ₹27.6 Crores in FY13. Capital Adequacy ratio of RHFL improved to 17.5% for FY13 as against 14.22% for FY12. The Tier I ratio for FY13 was 12.92%. RHFL's reported gross NPAs and net NPAs improved marginally to 1.14% and 0.83% in FY13 as compared to 1.36% and 1.03% respectively in FY12.

As of March 2013, RHFL's loan portfolio stood at ₹2742.15 Crores. Housing Loan segment accounts for around 65.5% of the portfolio (v/s 87% for FY12) while the balance 19.6% is constituted by construction finance (v/s 12% for FY12) and 14.9% by LAP (v/s 2% for FY12).

For the 9 months ending December 31, 2013, Net Interest Income of the Company grew by 45% to ₹101.77 Crores from ₹70.01 Crores in the previous year. The Net Profit was observed at ₹29.12 Crores in 9MFY14 as against ₹15.90 Crores in 9MFY13. Capital Adequacy ratio of RHFL was seen at 21.4% and Tier I ratio at 15.07% in the same period.

## Rating Outlook

RHFL's financials are characterized by, conservative provisioning practices, adequate liquidity and healthy interest margins. However, the current increasing interest rate scenario may lead to a slowdown in the housing sector, and may affect net interest and profit margins. Moreover, the housing finance industry is very competitive in nature and going forward, RHFL's ability to scale up its operations and ensure asset quality would be crucial rating sensitivities.

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**ANNEXURE I – Profit & Loss Statement**

<b>(₹ Crores)</b>	<b>FY13</b>	<b>FY12</b>
Revenue from Operation	355.59	339.13
Other Income	5.55	0.02
<b>Total Income</b>	<b>361.14</b>	<b>339.15</b>
Operating Expenses	64.73	66.80
<b>Profit before Interest, Depreciation &amp; Tax</b>	<b>296.41</b>	<b>272.35</b>
Depreciation & Amortization	0.16	0.16
Finance Expenses	254.23	232.53
<b>Profit before Tax</b>	<b>42.02</b>	<b>39.66</b>
Tax Expenses	14.54	13.21
<b>PAT</b>	<b>27.48</b>	<b>26.45</b>

## ANNEXURE II – Balance Sheet

(₹ Crores)	FY13	FY12
Share Capital	65.82	32.91
Reserves & Surplus	355.09	360.85
<b>Non-current Liabilities</b>		
Long term Borrowings	1915.21	1842.41
Deferred Tax Liabilities	4.90	3.80
Long term Provisions	12.93	9.97
<b>Current Liabilities</b>		
Short term Borrowings	24.42	44.31
Other Current Liabilities	573.71	277.28
Short term Provisions	1.42	0.42
<b>Total Liabilities</b>	<b>2953.50</b>	<b>2571.95</b>
<b>Non-current Assets</b>		
Fixed Assets	0.24	0.40
Non-current Investments	13.76	13.76
Long term Loans & Advances	2482.65	2280.64
Other Non-current Assets	95.67	78.55
<b>Current Assets</b>		
Current Investments	0.00	25.00
Trade Receivables	0.00	0.33
Cash & Cash Equivalents	70.94	49.55
Short term Loans & Advances	266.67	101.39
Other Current Assets	23.57	22.32
<b>Total Assets</b>	<b>2953.50</b>	<b>2571.95</b>