

Reliance Financial Limited
 November 20, 2019

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Market Linked Debentures*	350 (Rs. Three Hundred Fifty crore only)	CARE PP-MLD BB- [PP MLD Double B Minus] (Credit watch with developing implications)	Revised from CARE BB- (CE) ² ; Stable [PP MLD Double B Minus (Credit Enhancement); Outlook: Stable] and placed on credit watch with developing implications
Market Linked Debentures*	50 (Rs. Fifty crore only)	CARE PP-MLD BB- [PP MLD Double B Minus] (Credit watch with developing implications)	Revised from CARE BB- (CE) ² ; Stable [PP MLD Double B Minus (Credit Enhancement); Outlook: Stable] and placed on credit watch with developing implications

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

With deterioration in the credit profile of the Letter of Comfort (LOC) provider, Reliance Capital Limited (RCL), CARE has taken a standalone view of Reliance Financial Limited (RFL) ratings without considering any credit enhancement from the LOC.

The rating is constrained due to volatile earnings profile and profitability, lack of product diversification and client concentration, and high exposure to Reliance ADAG companies.

The ratings also factors in experience of the management team and also business linkages with Reliance Securities Limited.

The ratings are placed on credit watch on account of a key development being the announcement of a management buyout of 100% stake in RFL from the current parent RCL.

Rating Sensitivities**Positive Factors**

- Sustainability in profitability over mid-term
- Completion of management buyout

Negative Factors

- Increase in exposure to group companies

Detailed description of the key rating drivers of RFL**Key Rating Weaknesses****Volatile earnings profile & profitability**

Total income in FY19 stood at Rs.74.60 crore as compared to FY18 at Rs.47.21 crore. The increase in FY19 was primarily on account of profits and fair value changes in financial instruments ie bonds, mutual funds and derivatives that are used to hedge the market linked debentures issued by the company. The PAT increased to Rs.8.36 crore in FY19 as compared to Rs.5.42 crore in FY18. However, RFL reported a loss of Rs.1.72 crore in H1FY20 mainly due to haircut of Rs.5.93 crore taken on investments in bonds held of Reliance ADAG companies.

Lack of product diversification and client concentration

The company provides Margin Trade Funding/IPO funding/LAS. These customers are majorly of Reliance Securities Ltd. The company thus faces loan product concentration risk. The LAS portfolio of RFL as on Sept 30, 2019 stood at Rs.67.94 crore. Top 12 LAS customers constitutes ~50 of the tangible net worth which signifies high client concentration level.

High exposure to Reliance ADAG companies

As on September 30, 2019, RFL's total exposure to Reliance ADAG companies stood at Rs. 77.12 crore which are given in the form of ICDs. Timely recoverability from the same will be key rating sensitivity.

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

² as stipulated vide SEBI circular no SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019

Key Rating Strengths

Customer to comprise of existing customers of Reliance Securities Ltd.

Reliance Securities, is a retail broking houses, providing customers with access to equities, derivatives, currency, IPOs, mutual funds, bonds, and corporate FDs amongst others. Reliance Securities Ltd. has over 9 lakh customers across India. RFL, provides loan against shares/ IPO funding/ Margin Trade Funding to existing clients of Reliance Securities Ltd.

Experience Management Team

The company is led by Mr. Luv Chaturvedi (B.Com, CFA, MBA, more than 15 years of industry experience); and is supported further by other professional people - Ms. Homai Daruwalla (B. Com, CAIIB, FCA, 42 years of professional experience in banking sector and having retired as Chairman & MD of Central Bank of India) and Mr. Manu Chadha (B.com, FCA, MBA, over 35 years of industry experience in auditing, financial and management consultancy).

Liquidity: Adequate

RFL's asset liability maturity profile had cumulative positive mismatches across all buckets up to 1 year as on September 30, 2019. As per the ALM statement as on that day, as against the debt repayments of ~Rs.193 crore maturing in next 1 year, RFL's expected cash accrual stood at ~Rs.151 crore. As on that day, RFL had cash and bank balance of ~Rs.137 crore. The total debt as on September 30, 2019 stood at Rs.470.62 crore which reduced to Rs.233.02 crore as on October 31, 2019. As on October 31, 2019, RFL had cash and bank balance of ~Rs.16.80 crore.

Industry Prospects

Over the last few years, the NBFC sector has gained systemic importance with increase in share of NBFC credit vis-à-vis total bank credit. The same has resulted in the Reserve Bank of India (RBI) taking various policy actions resulting in NBFCs attracting higher support and regulatory scrutiny. The RBI revised the regulatory framework for NBFCs in 2014 which broadly focused on strengthening the structural profile of NBFC sector, thereby safeguarding depositors' money and regulating NBFCs which have increased their asset-size over time and gained systemic importance. On the asset quality front, despite the gradual change in the NPA recognition norms from 180 days previously to 90 days by March, 2018, the asset quality has remained largely stable for the sector and far superior to banks. The sector is in the midst of a liquidity stress scenario, with disruptions in the short-term commercial paper market, sharp correction in stock prices of NBFCs and cautious approach taken by the banks towards lending to the sector. Asset quality, liquidity and profitability will be the key monitorables for the sector going forward.

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](#)

[Criteria for Non Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

About the Company

RFL

Reliance Financial Limited (RFL), is an NBFC in engaged in the business of capital market linked financing activities; mainly margin funding, loan against equity securities / bonds / mutual fund units, as well as short term financing for applying in Primary market Issues (IPOs and FPOs). The company is a 100% subsidiary of Reliance Capital Limited (RCL). RFL was incorporated in 2005 and started ramping up its operations in 2008.

Brief Financials (Rs. crore)	FY18 (Audited)	FY19 (Audited)
Total operating income	47.21	74.60
PAT	5.42	8.35
Interest coverage (times)	1.27	1.29
Total Assets	436.82	556.09
Net NPA (%)	0.00	0.00
ROTA (%)	1.37	1.68

A: Audited

All analytical ratios are based on CARE's calculations.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the issue (Rs. Crore)	Rating assigned along with Rating Outlook
INE504L07207	Debentures - Market Linked Debentures	30-Jun-16	Market Linked	1-Jan-20	1.95	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07215	Debentures - Market Linked Debentures	30-Jun-16	Market Linked	1-Jan-20	1.10	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07298	Debentures - Market Linked Debentures	26-Jul-16	Market Linked	25-Nov-19	0.50	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07405	Debentures - Market Linked Debentures	26-Aug-16	Market Linked	26-Dec-19	0.50	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07454	Debentures - Market Linked Debentures	15-Sep-16	Market Linked	17-Mar-20	1.55	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07488	Debentures - Market Linked Debentures	29-Sep-16	Market Linked	29-Jan-20	0.50	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07538	Debentures - Market Linked Debentures	28-Oct-16	Market Linked	28-Apr-20	0.80	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07546	Debentures - Market Linked Debentures	2-Nov-16	Market Linked	4-May-20	2.50	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07637	Debentures - Market Linked Debentures	25-Nov-16	Market Linked	25-May-20	4.59	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07645	Debentures - Market Linked Debentures	25-Nov-16	Market Linked	25-May-20	2.75	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07835	Debentures - Market Linked Debentures	16-Dec-16	Market Linked	16-Dec-21	1.45	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07868	Debentures - Market Linked Debentures	21-Dec-16	Market Linked	20-Apr-20	3.55	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07926	Debentures - Market Linked Debentures	6-Jan-17	Market Linked	6-Apr-20	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07934	Debentures - Market Linked Debentures	12-Jan-17	Market Linked	12-May-20	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07967	Debentures - Market Linked Debentures	8-Feb-17	Market Linked	8-Jun-20	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07975	Debentures - Market Linked Debentures	14-Mar-17	Market Linked	14-Jul-20	3.25	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07AF6	Debentures - Market Linked Debentures	30-Mar-17	Market Linked	30-Jul-20	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07AN0	Debentures - Market Linked Debentures	30-May-17	Market Linked	2-Dec-20	0.50	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	31-Jan-18	Market Linked	30-Apr-20	10.75	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	31-Jan-18	Market Linked	30-Apr-20	0.25	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	31-Jan-18	Market Linked	30-Apr-20	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	27-Feb-18	Market Linked	30-Apr-20	2.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market	6-Mar-18	Market	30-Apr-20	2.00	CARE PP-MLD BB-; (Credit watch

	Linked Debentures		Linked			with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	10-May-18	Market Linked	30-Apr-20	10.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	24-May-18	Market Linked	30-Apr-20	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	24-May-18	Market Linked	30-Apr-20	0.25	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	30-May-18	Market Linked	30-Apr-20	4.05	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BB3	Debentures - Market Linked Debentures	15-Jun-18	Market Linked	30-Apr-20	4.75	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BI8	Debentures - Market Linked Debentures	11-Jul-18	Market Linked	12-Oct-20	8.55	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BI8	Debentures - Market Linked Debentures	13-Jul-18	Market Linked	12-Oct-20	5.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BI8	Debentures - Market Linked Debentures	26-Jul-18	Market Linked	12-Oct-20	18.90	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BK4	Debentures - Market Linked Debentures	27-Jul-18	Market Linked	27-Jul-20	4.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BK4	Debentures - Market Linked Debentures	1-Aug-18	Market Linked	27-Jul-20	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BK4	Debentures - Market Linked Debentures	1-Aug-18	Market Linked	27-Jul-20	2.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BI8	Debentures - Market Linked Debentures	9-Aug-18	Market Linked	12-Oct-20	8.49	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BI8	Debentures - Market Linked Debentures	21-Sep-18	Market Linked	12-Oct-20	2.55	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BL2	Debentures - Market Linked Debentures	17-Jan-19	Market Linked	17-Feb-23	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BL2	Debentures - Market Linked Debentures	25-Jan-19	Market Linked	17-Feb-23	1.30	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BL2	Debentures - Market Linked Debentures	29-Jan-19	Market Linked	17-Feb-23	2.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BM0	Debentures - Market Linked Debentures	31-Jan-19	Market Linked	31-May-21	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BL2	Debentures - Market Linked Debentures	1-Feb-19	Market Linked	17-Feb-23	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BL2	Debentures - Market Linked Debentures	7-Feb-19	Market Linked	17-Feb-23	4.95	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BL2	Debentures - Market Linked Debentures	11-Feb-19	Market Linked	17-Feb-23	3.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	15-Mar-19	Market Linked	17-Apr-23	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BO6	Debentures - Market Linked Debentures	19-Mar-19	Market Linked	19-Jul-21	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	20-Mar-19	Market Linked	17-Apr-23	3.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	29-Mar-19	Market Linked	17-Apr-23	4.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BO6	Debentures - Market Linked Debentures	3-Apr-19	Market Linked	19-Jul-21	2.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BO6	Debentures - Market Linked Debentures	10-Apr-19	Market Linked	19-Jul-21	0.95	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	11-Apr-19	Market Linked	17-Apr-23	5.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	10-May-19	Market Linked	17-Apr-23	2.00	CARE PP-MLD BB-; (Credit watch with developing implications)

INE504L07BN8	Debentures - Market Linked Debentures	28-May-19	Market Linked	17-Apr-23	2.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	12-Jun-19	Market Linked	17-Apr-23	2.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	17-Jul-19	Market Linked	17-Apr-23	1.00	CARE PP-MLD BB-; (Credit watch with developing implications)
INE504L07BN8	Debentures - Market Linked Debentures	29-Aug-19	Market Linked	17-Apr-23	1.05	CARE PP-MLD BB-; (Credit watch with developing implications)
-	Debentures - Market Linked Debentures (Proposed)	-	-	-	244.72	CARE PP-MLD BB-; (Credit watch with developing implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Market Linked Debentures	LT	350.00	CARE PP-MLD BB-; (Credit watch with developing implications)	1) CARE PP-MLD BB- (CE); Stable (03-Sep-19) 2) CARE PP-MLD BBB- (CE) (Credit watch with negative implications) (12-Jul-19) 3) CARE PP-MLD BBB- (SO) (Under credit watch with developing implications) (22-May-19) 4) CARE PP-MLD A- (SO) (Under credit watch with developing implications) (23-Apr-19)	1)CARE PP-MLD A (SO); (Under Credit watch with developing implications) (13-Mar-19) 2)CARE PP-MLD AA- (SO); (Under Credit watch with developing implications) (08-Oct-18)	1)CARE PP-MLD AA (SO) (Under Credit watch with Developing Implications) (29-Dec-17) 2)CARE PP-MLD AA (SO) (Under Credit watch with Developing Implications) (08-Aug-17) 3)CARE PP-MLD AA (SO) (Under Credit watch with Developing Implications) (24-Jul-17) 4)CARE PP-MLD AA (SO); Stable (18-Apr-17)	1)CARE PP-MLD AA (SO) (Under Credit watch with Developing Implications) (07-Feb-17) 2)CARE PP-MLD AA (SO) (Under Credit Watch) (10-Nov-16)

2.	Debentures-Market Linked Debentures*	LT	50.00	CARE PP-MLD BB-; (Credit watch with developing implications)	1) CARE PP-MLD BB- (CE); Stable (03-Sep-19) 2) CARE PP-MLD BBB- (CE) (Credit watch with negative implications) (12-Jul-19) 3) CARE PP MLD BBB- (SO) (Under credit watch with developing implications) (22-May-19) 4) CARE PP MLD A- (SO) (Under credit watch with developing implications) (23-Apr-19)	1) CARE PP-MLD A (SO); (Under Credit watch with developing implications) (13-Mar-19) 2) CARE PP-MLD AA- (SO); Credit watch with developing implications (08-Oct-18) 3) CARE PP-MLD AA (SO) (Under Credit watch with Developing Implications) (02-Aug-18)	1) CARE AA (SO) (Under Credit watch with Developing Implications) (29-Dec-17) 2) CARE AA (SO) (Under Credit watch with Developing Implications) (24-Jul-17) 3) CARE AA (SO); Stable (18-Apr-17)	1) CARE AA (SO) (Under Credit watch with Developing Implications) (07-Feb-17)
----	--------------------------------------	----	-------	--	---	--	---	---

*Reclassified from Non-Convertible Debentures

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.

Contact us

Media Contact

Name - Mr. Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Name - Mr. Ravi Kumar

Contact no.- +91-22-6754 3421

Email ID - ravi.kumar@careratings.com

Business Development Contact

Name: Mr. Ankur Sachdeva

Contact no. : +91-22-6754 3495

Email ID - ankur.sachdeva@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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