

Press Release

RHC Finance Private Limited (RFPL)

27 February, 2017

Rating Assigned & Reaffirmed

Total Instruments Rated*	Rs.500.00 Cr
Long Term Rating	SMERA Provisional** A+ (SO#)/Stable (Assigned & Reaffirmed)

**Refer Annexure for details*

***The rating shall be final after the below conditions are satisfied/complied:*

- Appointment of a SEBI Registered Trustee*
- Execution of the Trust Deed with the proposed Structured Payment Mechanism (SPM) duly incorporated therein*
- Execution of the pledge documents for the underlying Equity Shares of Religare Enterprises Limited (REL) & Fortis Healthcare Limited (FHL) and confirmation of the same by the Trustee*
- Execution of the guarantee document between RHC Holdings Private Limited and the Trustee and confirmation of the same by the Trustee*
- Execution of the lien documents for the DSRA in the form of bank fixed deposit in favour of the Trustee and confirmation of the same by the Trustee*

#Credit Enhancement on account of the presence of Corporate Guarantee of RHC Holdings Private Limited, Debt Service Reserve Account (DSRA) in the form of Bank Fixed Deposit and First & Exclusive pledge of shares of REL and FHL

Rating Rationale

SMERA has assigned rating of **SMERA Provisional A+ (SO) (read as SMERA Provisional A plus (Structured Obligation))** to the Rs.350.00 crore Proposed Secured, Redeemable, Non-Convertible Debenture (NCD) issue of RHC Finance Private Limited (RFPL). SMERA has also reaffirmed the long term rating of **SMERA Provisional A+ (SO) (read as SMERA Provisional A plus (Structured Obligation))** assigned to the Rs. 150 crore Proposed Secured, Redeemable Non-Convertible Debenture (NCD) issue of RFPL. The outlook is 'Stable'.

RFPL, a Core Investment Company (CIC) incorporated in 2007, is a subsidiary of RHC Holdings Private Limited (RHC). RHC is an NBFC-ND-SI promoted by Mr. Malvinder Singh and Mr. Shivinder Singh. RHC has substantial holdings in various companies with interests primarily in health care, capital markets, IT and aviation.

RFPL's major investments are in Religare Enterprises Limited (REL) – a CIC listed on the BSE and NSE. RFPL holds 16.32 per cent equity stake in REL. REL has subsidiaries engaged in asset financing, capital market investments, broking and other financial services. REL, RFPL and RHC share a common management.

List of key rating drivers and their detailed description

Strengths:

Presence of Structured Payment Mechanism (SPM): The rating is driven by the structured payment mechanism to be put in place by RFPL to ensure timely servicing of the interest and principal obligations. For the proposed NCD issue RFPL would be required to maintain a 1.25x security cover of principal and accrued interest in the form of pledge of shares of Religare Enterprises Limited (REL) and Fortis Healthcare Limited (FHL). The debenture trustee will be authorised to liquidate these shares in case the designated escrow account is not funded by T-4 days (T being the due date). The equity shares of both REL and FHL are listed on the NSE and BSE.

FHL provides healthcare services (hospitals and diagnostics) and has operations in India, Dubai, Mauritius and Sri Lanka with 45 healthcare facilities and 314 diagnostic centres.

In addition to the pledge of shares, the structure envisages a debt service reserve account (DSRA) equivalent to three months of interest payment in the form of Bank Fixed Deposit and a corporate guarantee of RHC Holdings Private Limited (RHC). The Debenture trustee shall have a lien on the DSRA and shall be responsible for invocation of the guarantee, if required.

The rating centrally assumes adherence to the SPM by the debenture trustee and the issuer on an ongoing basis. The ability of the issuer to ensure continued adherence to the SPM shall be a key credit monitorable.

Support from parent company: RFPL is a subsidiary of RHC Holdings Private Limited (RHC). RHC, a Non-Banking Finance Company (NBFC) promoted by Mr. Malvinder Singh and Mr. Shivinder Singh, has substantial holdings and investments in Religare Enterprises, SRL Diagnostics, Fortis Healthcare and other companies. SMERA expects RHC and its subsidiaries to continue to benefit from their strong management team and their track-record.

RHC holds 67.27 per cent equity share in RFPL. SMERA believes that RFPL will continue to receive ongoing support from RHC in mobilising funds from various sources and also in servicing its debt obligations in a timely manner. As mentioned above, RHC has large holdings in various companies with interests primarily in health care, capital markets, IT and aviation.

RHC's credit risk profile is supported by its investments in listed companies such as FHL and REL. RHC has benefited from its ability to mobilise resources from both the capital markets and by leveraging its longstanding relationship with various financial institutions. Since a major part of RHC's debt is short term in nature, SMERA believes that RHC's credit profile will be dependent on its ability to monetise these investments/assets and refinance its debt in a timely manner.

Weaknesses:

Modest revenue stream and profitability indicators: RFPL reported operating income (interest income plus non-interest income) of Rs.36.09 crore in FY2016 as compared to Rs.0.84 crore in FY2015. The company reported substantial increase in interest expenses to 41.05 crore in FY2016 (Rs. 0.08 crore in FY2015) due to higher levels of borrowing during the year which could not be optimally deployed.

Return on average assets also remained low on account of subdued returns on investment in preference shares/advances to various group entities. RFPL reported a net loss of Rs. 5.17 crore in FY2016 as compared to a net profit of Rs. 0.40 crore in FY2015.

Going forward, SMERA expects RFPL's standalone credit risk profile to be influenced by its ability to maintain a stable revenue stream and profitability margins. The profitability will be a function of RFPL's ability to maintain a healthy spread between its cost of borrowing and yield on assets/investments in group companies

Possible headwinds in monetising key assets: The promoters of RHC have been facing litigation with regard to the sale of their investments in various companies. Presently, the credit profiles of RHC and RFPL are supported to a large extent by their investment in listed companies like REL and FHL

In the event of any adverse outcome in respect of the ongoing litigation the ability of the promoters/promoter held companies like RHC to monetise its investments/assets could be impacted and subsequently affect the credit profile of companies like RFPL.

Analytical approach: SMERA has taken a standalone view of the above entity.

Applicable Criteria

- Non-Banking Finance Entities: <https://www.smera.in/criteria-nbfc.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Group and Parent Support: <https://www.smera.in/criteria-group.htm>
- Policy on Provisional Ratings: <https://www.smera.in/provisional-ratings.htm>

Outlook: Stable

SMERA believes that RFPL will maintain a stable outlook owing to the presence of a structured payment mechanism and continued support from RHC over the medium term. The outlook may be revised to 'Positive' in case of significant and sustainable growth in operating income and margins while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of occurrence of events which may affect RFPL's ability to adhere to the structured payment mechanism on an ongoing basis or in case of significant further deterioration in RFPL's profitability margins or operating income.

About the Rated Entity

RHC Finance Private Limited (RFPL) CIC (Core Investment Company) is registered with RBI. It is a subsidiary of RHC Holdings Private Limited (RHC), the flagship company of the Singh Group promoted by Mr. Malvinder Singh and Mr. Shivinder Singh

The company reported net loss of Rs.5.17 crore on operating income (interest income plus investment income) of Rs.36.09 crore in FY2015-16, as compared with net loss of Rs.0.40 crore on operating income of Rs.0.84 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: The International Court of Arbitration, Singapore has recently awarded damages of Rs.3500 crore to Daiichi Sankyo in the proceedings over the sale of Ranbaxy Laboratories Limited (RLL) by RHC and others. RHC has contested the award in the Indian Courts and the matter is subjudice. Any adverse outcome will have a significant impact on the credit profile of RHC and potentially its ability to support its group companies.

Rating History for the last three years:

Name of Instruments	FY2017 (Current)			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Proposed Secured, Redeemable Non-Convertible Debentures	LT	150.00	SMERA Provisional** A+ (SO#)/Stable (Reaffirmed)	-	-	-	-	-	-
Proposed Secured, Redeemable Non-Convertible Debentures	LT	350.00	SMERA Provisional** A+ (SO#)/Stable (Assigned)						

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Proposed Secured, Redeemable Non-Convertible Debentures	N.A	N.A	N.A	150.00	SMERA Provisional** A+ (SO#)/Stable (Reaffirmed)
Proposed Secured, Redeemable Non-Convertible Debentures	N.A	N.A	N.A	350.00	SMERA Provisional** A+ (SO#)/Stable (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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