

Rating Rationale

Brickwork Ratings assigns “BWR AAA (SO)” for Religare Enterprises Limited’s proposed structured secured Non Convertible Debenture (NCD) Issue of ₹500 crores (INR Five Hundred Crores only) with tenor upto August 09, 2019

NCD Issue Rating: BWR AAA(SO)

Outlook: Stable

Brickwork Ratings (BWR) has assigned BWR AAA(SO) (Pronounced triple A Structured Obligation) Rating for **Religare Enterprises Ltd.’s** proposed structured secured Non-Convertible Debentures (NCD) issue of ₹ 500 crores with a tenor upto August 09, 2019. ‘BWR AAA (SO)’ stands for an instrument that is considered to have highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

BWR’s rating reflects the probability of payment of the principal and the interest redemption amount on the NCDs, which is in the nature of zero coupon bonds maturing on August 09, 2019. The NCDs benefit from the agreement that AEGON International NV (AEGON) is contractually obligated to provide Religare Enterprises Limited (REL) principal protection along with a guaranteed return of 12% per annum on capital infused so far by REL in the Joint Venture Company – AEGON Religare Life Insurance Company. The Joint Venture Agreement *inter alios* among, AEGON India Holding B.V., AEGON International B.V. (as the confirming party) and Religare Enterprises Limited provides REL with the right to such capital protection along with the assured return from AEGON. This obligation by AEGON is secured by an irrevocable guarantee from The Royal Bank of Scotland N.V.

BWR has essentially relied upon the audited financial results of REL, draft term sheet, irrevocable bank guarantee (‘BG’) provided by The Royal Bank of Scotland, New Delhi, India in favour of REL securing the obligation of AEGON towards protection of the capital invested in the JV by REL, draft legal opinions in respect of various agreements/undertakings/documents executed by all the parties concerned with the transaction and clarification provided by the issuer. BWR has relied upon the draft legal opinion of independent legal counsel – TRILEGAL, pertaining to the enforceability and effectiveness of the key clauses of the JV Agreement and the BG (transaction documents).

The rating factors, inter alia, the performance of REL, its professional management team and the underlying security package to secure the proposed NCD issue. The rating could however be affected if the transaction faces legal/regulatory hurdles or due to shortcoming in the performances committed by the guaranteeing bank i.e. The Royal Bank of Scotland or the JV partner – AEGON.

Background:

Religare Enterprises Limited (REL) is a financial services business firm serving corporates and institutions, high net worth families & individuals and retail investors. REL operates through 18 subsidiaries & 3 JVs in India, and 35 subsidiaries outside India as of March 2011. The Company has presence in 2,209 locations across 579 cities in India as of March 31, 2011. It has expanded its presence in other parts of the world including Asia, Africa, the Middle East, Europe and US and has total employee base of 8,314 as of March 31, 2011.

REL has evolved from pure retail broking firm, started in 1994 into an integrated financial services company, currently providing Broking (21% of revenue), lending (33% of revenue), capital markets (5% of revenue), Life Insurance (6% of revenue), Asset management (3% of revenue) and other services like Health Insurance, Wealth management, and Global Asset Management (32% of revenue). Broking related operations, investment and lending activities and financial advisory services contributed ~90% of the total income for FY11. REL is listed on the NSE and the BSE.

The Company is promoted by Mr. Malvinder Mohan Singh and Mr. Shivinder Mohan Singh, the Promoter and Promoter group holding around 70% stake in the company. Mr. Malvinder Mohan Singh is Group Chairman of Fortis Healthcare, a leading healthcare player in India and the Asia Pacific. In his previous role, he served as the Chairman, MD and CEO of Ranbaxy Laboratories.

Mr. Shivinder Mohan Singh is the Managing Director of Fortis Healthcare Limited and Escorts Heart Institute & Research Centre. Mr. Sunil Godhwani is the Chairman and Managing Director of REL. He is associated with REL since 2001 and has been instrumental in establishing REL's vast network and in shaping the Company's strategies in India and abroad

NCD Structure:

REL entered into a Joint Venture (“JV”) with AEGON for life insurance business in India back in 2007. REL owns 44% of AEGON Religare Life Insurance Company, while 26% is held by AEGON as the Foreign Partner, and the balance 30% is held by Bennett Coleman & Company Ltd. as an Investor.

Each of the JV partner has committed to infuse capital into the JV as required. The total minimum capital commitment for the JV Company stands at ₹ 1000 crore, beyond which each partner has the option of not contributing additional capital and thereby getting proportionately diluted. As of January 2012, each partner has injected its committed amount of capital.

AEGON has provided REL with principal protection along with a guaranteed 12% IRR on the capital infused by REL in the JV. The obligation by AEGON is secured through a bank guarantee from The Royal Bank of Scotland N.V. The bank guarantee is enhanced every year to reflect the incremental capital infusion by REL as well as the guaranteed IRR. REL pays a fee of 0.9% of the guaranteed amount every year to AEGON, and accordingly AEGON updates the bank guarantee every year for the incremental amount. REL’s capital along with the guaranteed return is currently approximately ₹ 604.7 crore as of October 28 2011, with the bank guarantee being valid till June 18, 2020.

REL proposes to monetize this capital invested in the JV Company through a structured non-convertible debenture (“NCD”) issuance.

The JV has a lock-in period of 9 years from first policy date (July 09, 2008) and ends on July 09, 2017. In this period, REL is not allowed to transfer its shares to a third party without approval from AEGON. At the end of the lock-in period, REL can exercise any of the following three actions:

- **Continue as a JV partner in the JV Company:** In this situation, the capital protection ends and the bank guarantee gets terminated. The risk of bank guarantee termination at REL’s behest however stands mitigated considering the fact that AEGON has acknowledged that any Religare Intention Notice (RIN) as described in the JV, would

not be recognized without the consent of the Debenture Trustee. Also issue of such RIN qualifies as an Early Redemption Event and requires REL to deposit an amount equal to Prepayment Redemption Amount, within four business days in the Designated Account and redeem the NCDs on the next applicable Early Redemption Date.

- **Transfer its shares to a Third Party:** REL has the benefit of capital protection with guaranteed return from AEGON under this situation.
- **Opt for an Initial Public Offering (IPO) of REL's share in the JV Company:** REL has the benefit of capital protection with guaranteed return from AEGON under this situation.

REL is required to exercise any of the above options by giving a RIN to AEGON and the JV Company, within 240 days after the 8th anniversary of the First Policy Date.

As per the Joint Venture Agreement (JVA), if REL intends to offer part of its share for sale through transfer to third party or through IPO, the Bank Guarantee (BG) gets terminated. This indicates that as per JVA the BG is conditional, however the NCD transaction structure has given power of attorney to Debenture Trustees and the RIN would be recognized by AEGON only if it is accompanied by a written consent of the Debenture Trustee. Also, the capital protection mechanism remains intact if the Third Party Transfer or the IPO process fails or is not consummated within two years of the end of lock-in period

Security Package of NCD:

The NCD, together with interest, costs, charges, expenses and all other monies due from the Issuer under the Issue Documentation, shall be secured, inter-alia, by:

- First ranking charge by way of mortgage in favour of the Debenture Trustee, acting for the benefit of and on behalf of the NCD holders over the Bank Guarantee, and of all REL's right, title, benefit and interest in the Relevant Provisions. Relevant Provisions shall mean clauses 19, 20, 21.9, 21.10, 22, 23 and 24 of the JVA.

- Charge over the Designated Account to receive Bank Guarantee Proceeds and any proceeds pursuant to the JVA and over the Issue Proceeds Account to receive the Debenture Proceeds.
- Non-Disposal Undertaking provided by the Issuer in favour of the Debenture Trustee in relation to the Shares. Non-Disposal Undertaking shall however permit the Issuer to:
 - i. enter into any escrow arrangement for IPO of Shares, if so required under the Applicable Law;
 - ii. to transfer the Shares pursuant an Offer for Sale made in accordance with the JVA and the Transaction Documents or to AEGON or any AEGON Replacement in accordance with the JVA and/or the Bank Guarantee, subject to terms of the AEGON Acknowledgement or
 - iii. to any third party or financial institution as AEGON has indicated in accordance with Clauses 20.7, 22.8.3 and/or 23, subject to terms of the AEGON Acknowledgment.
- RHC Holding Pvt. Ltd. (RHC) shall provide an irrevocable guarantee in favour of the Debenture Trustee for REL which shall come into effect upon the Security Trustee providing a notice, intimating the occurrence of any event that results in (i) requirement of a Religare Cure Action or (ii) occurrence of Lower Rating of the Issuer (“**RHC Guarantee**”).
- Power of Attorney to the Debenture Trustee authorizing it to *inter alia*:
 - i. issue the Religare Intention Notice to transfer the Shares during the Religare Intention Notice Period upon failure of the Issuer to issue the same within 240 days from the eight anniversary of the First Policy Date;
 - ii. upon occurrence of an event of default of the Issuer in terms of the Transaction Documents, transfer the Shares held by Religare in the JV Company, in accordance terms and subject to the conditions of the JVA including Clause 21 of the JVA; and

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- iii. upon, occurrence of an Insolvency Event, as defined in the Transaction Documents, transfer the Shares to a solvent Permitted Transferee of the Issuer who will accede to and assume all obligations of the Issuer under the Transaction Documents in accordance with the terms and subject to the conditions of the JVA.

The transaction details out several early redemption events that would lead to the redemption of all but not a part of debentures to investors. The events that qualify for early redemption are:

- The Issuer expresses an intention to Transfer the Shares to an identified third party in the Notice of Intention to the Debenture Trustee.
- The Issuer stating its intent, under the Religare Intention Notice, to continue as a JV partner in the JV Company after the Lock-in Period and not Offer for Sale all or part of the Shares held by it through an IPO and/or Transfer during the Transfer Period.
- Certificate of Registration for the JV Company is cancelled or temporarily suspended or not renewed and such cancellation, non-renewal or suspension (i) is attributable to an act or failure to act by the JV Company, and (ii) is not remedied or withdrawn within a period of 6 (six) months after the declaration thereof
- Termination of the JVA in accordance with Clause 24.3 or Clause 24.5.4 of the JVA for reasons other than REL default
- Insolvency Event of the Bank (RBS)
- AEGON fails to increase the amount of Bank Guarantee

Upon occurrence of any of the Early Redemption Events, the Issuer shall within 4 (four) Business Days deposit an amount equal to the Prepayment Redemption Amount in the Designated Account and redeem the NCDs on the next applicable Early Redemption Date.

Key Transaction Risk and Risk Mitigants:

The key factor driving that rating is the contractual obligation from AEGON to REL of providing return on capital infused by REL in the JV Company, and the obligation of AEGON being secured by a bank guarantee from The Royal Bank of Scotland. Thereby, AEGON and RBS are the primary drivers of the key credit risks involved in the transaction. However, the risk is mitigated by the good credit standing of RBS. The key risks pertaining to the issue along with their mitigants are as listed below:

- **Risk arising from REL or/and related to the JV:**
 - i. **Suspension of the license of the JV Company:** Non-renewal or temporary suspension of the JV Company gives the right for invocation of the Bank Guarantee under the JVA
 - ii. **JV Insolvency:** The insolvency of the JV Company gives the right for invocation of the Bank Guarantee under the JVA
 - iii. **Failure on part of REL to contribute towards the Total Capital Commitment:** REL has already infused its pro rata share of the Total Capital Commitment. As per the JVA, the Total Capital Commitment stands at ₹ 1000 crores. In accordance with the terms structure, once the minimum capital has been committed, failure to meet future capital calls do not impact the invocation of the Bank Guarantee.
 - iv. **REL Insolvency:** Under the occurrence of ‘Rating Threshold Event’ scenario, irrevocable guarantee from RHC becomes effective immediately. RHC and Issuer shall, without prejudice to the provisions of Clause 24.4 of the JVA, within 15 business days from the date of receipt of notice of Lower Rating initiate the process for transfer of Issuer’s Shares in the JV Company to RHC or the RHC Nominee, provided RHC and/or RHC Nominee is financially solvent at the time of the acquisition of Shares by it.
 - v. **Risk arising from Exit Options available to REL:** In the event of REL presenting an RIN for an IPO of its shares, REL has agreed and undertaken to comply with the ‘Threshold IPO Proceeds’ clause as mentioned in the term structure. As per the same, such number of REL Shares shall be offered for sale, that the sale of 80% of

such shares offered, shall, at the lower end of the price band for the IPO, would be likely to result in proceeds that would amount to at least 130% of the total redemption amount of the NCDs. In the event that upon determination of lower price band of the IPO and the likely proceeds are less than the amount due under the NCDs, REL will fund the shortfall into the designated account in cash. In the scenario of REL's RIN of staying put in the JV, the capital protection ends and the bank guarantee gets terminated. The risk however stands mitigated considering the fact that AEGON has acknowledged that any RIN would not be recognized without the consent of the debenture trustee. Also such RIN qualifies as an Early Redemption Event.

- **Risk related to Bank Guarantee:**

- i. As per the agreement, REL shall deposit in escrow an amount equal to the fee for one year for the Bank Guarantee to be paid by it to AEGON under the JVA and REL shall if ever utilized, replenish the same. In case REL fails to replenish the escrow account within 10 business days, the Debenture Trustee shall call on the Sponsor to replenish the account. The amount shall be deposited in a bank account mutually agreeable to REL and the Debenture Trustee. The said fee so deposited shall be released to REL upon payment by REL to AEGON of the last tranche of the annual fee for the Bank Guarantee.
- ii. Failure of RBS to increase the guarantee amount: In such an event, AEGON would obtain the guarantee from an alternate bank that is acceptable to REL and the Debenture Trustee.

Financial Performance:

As on FY11 consolidated net sales are at ₹ 2753.7 Crores vs. ₹ 1581.1 Crores as on FY10, representing growth of 74.1%. However, the company reported loss of ₹ 301 Crores in the bottom-line which was mainly due to huge interest outflow at ₹ 789.8 Crores in FY11 vs. ₹ 279.7 Crores as of FY10, representing an increase of 182.3%.

As on FY11 the company's consolidated net worth was ₹ 2965 Crores vs. ₹ 2612.5 Crores in FY10, representing growth of 13.5%. However, the total borrowings were ₹ 11338.3 Crores vs. ₹ 5571.9 Crores in FY10, representing growth of 103.5%. The increase in borrowings was

mainly reflected in increased lending portfolio of Religare Finvest (100% subsidiary of REL). REL also has contingent liabilities of ₹ 2434.8 Crores in FY11 as against ₹ 1687.1 Crores in FY10, representing an increase of 44.3%.

The adjusted D/E ratio of REL stands at 3.9 times for FY11 as against 2.2 times for FY10 and 0.5 times for FY09. The interest coverage ratio for the company fell to 0.58 times in FY11 from 1.6 times in FY10; this was due to huge debt taken during the year coupled with higher employee cost and other expenditure.

Looking at Q2FY12 key financial indicators, the consolidated revenue grew by 7% from ₹ 757.3 Crores in Q1FY12 to ₹ 810.2 Crores in Q2FY12. The company reported loss of ₹ 183.5 Crores in Q2FY12 compared to loss of ₹ 144.4 Crores in Q1FY12 and loss of ₹ 24.2 Crores in Q2FY11. As on September 2011, REL's networth and total debt stands at ₹ 3235.9 Crores and ₹ 14369.6 Crores respectively as against ₹ 2864.7 Crores and ₹ 9341.1 Crores respectively in same period last year.

Key Financials: Religare Enterprises Ltd

(in ₹ Crores)

	2011	2010	2009	2008
Total Operating Income	2753.69	1581.13	1105.65	830.14
EBITDA	687.76	544.72	346.88	408.03
PAT	-301.40	96.51	-64.52	91.82
Capital Structure				
Net worth	2,965.04	2,612.56	2,558.32	582.55
Debt Funds	11,338.32	5,571.99	1,263.57	3,064.44
Debt/Equity (x)	3.91	2.20	0.52	5.26
Profitability				
EBITDA/Core Income (%)	25.0%	34.5%	31.4%	49.2%
PAT/Core Income (%)	-11%	6%	-6%	11%
ROCE (%)	4%	6%	7%	17%
Coverage				
Interest Coverage Ratio (x)	0.58	1.61	0.85	1.51
DSCR (x)	-1.20	-1.73	0.96	-2.00

	2011	2010	2009	2008
Liquidity				
Current Ratio (x)	6.07	5.49	4.23	6.17
Net Cash Accruals to total debt (%)	-2%	4%	-1%	5%

Note: As per Brickwork estimates

Royal Bank of Scotland (RBS):

RBS has grown as a large financial services group in the world. It operates around the globe to provide banking services for individuals, businesses and institutions. The outstanding rating for Royal Bank of Scotland N.V. by Fitch is A (Stable).

Rating Outlook:

The given rating majorly factors capital protection commitment by AEGON to REL, which is secured by a bank guarantee provided by The Royal bank of Scotland, and key terms available in NCD transaction structure mitigating risks in JV agreement. However, the transaction is sensitive to regulatory and legal risks. In case of standalone rating downgrade of Religare Enterprises Ltd. to a particular rating grade, the shareholding of REL in AEGON will be transferred to RHC, however this transfer is subject to IRDA approval. Brickwork has essentially relied upon legal opinions provided by issuer for confirming enforceability of this transaction.

The given rating is based on the draft documents and information provided to us and subject to legal enforceability of the transaction / documents. The rating is not valid if there are any changes in such documents. The rating is also subject to sharing of final executed documents.

Analysts	Media
<p>Sameer Singhvi, sameer.s@brickworkratings.com</p>	<p>Anitha G media@brickworkratings.com</p>
<p>Shilpi Agarwal, shilpi.a@brickworkratings.com</p>	<p>Relationship Contact K N Suvarna Senior V P - Business Development kn.suvarna@brickworkratings.com</p>

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Key Financials

Annexure I: Religare Enterprises Ltd – Balance Sheet

Year Ended (Rs Cr)	FY 11	FY 10	FY 09	FY 08
Sources of Fund				
Net Worth	2,965.04	2,612.56	2,558.32	582.55
	13.5%	2.1%	339.2%	
Total Loans	11,338.32	5,571.99	1,263.57	3,064.44
<i>Growth in loans</i>	103.49%	340.97%	-58.77%	
Policy Holders Fund	198.93	63.91	9.06	
Minority Interest	231.63	12.92	2.77	
Total Sources of Funds	14,733.93	8,261.38	3,833.72	3,646.99
<i>Balance sheet growth</i>	78.35%	115.49%	5.12%	
Application of Funds				
Net Block	1,488.39	883.31	778.20	136.29
Capital WIP	105.90	5.15	10.75	12.37
Investments	491.90	873.04	255.93	312.94
Deferred Tax Assets	15.34	1.42	2.13	2.87
<u>Current Assets, Loans & Advances</u>	15,121.72	7,946.97	3,649.37	3,797.70
Less: Current Liabilities	2,489.32	1,448.51	862.66	615.18
Net Current Assets	12,632.40	6,498.46	2,786.71	3,182.52
Total Application of Funds	14,733.93	8,261.38	3,833.72	3,646.99

Annexure II: Religare Enterprises Ltd – Income Statement

	FY 11	FY 10	FY 09	FY 08
Net Sales	2753.69	1581.13	1105.65	830.14
Expenditure	2295.76	1130.50	844.19	488.48
Operating Profit	457.93	450.63	261.46	341.66
Depreciation	97.53	67.97	52.65	25.92
EBIT	590.23	476.75	294.23	382.11
Other Income	229.83	94.09	85.42	66.37
Interest	789.88	279.75	309.18	226.14
PBT	-199.65	197.00	-14.95	155.97
Tax	95.76	100.27	51.19	64.07
Minority Interest	5.99	0.22	0.00	0.08
PAT	428.5	541.1	956.6	2721.3