

Reliance Commercial Finance

Loan Against Property

September 2015



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Industry Landscape

In the aftermath of the Financial Crisis of 2008...

Increased shift of Banks and NBFCs towards secured lending

- Losses in Unsecured portfolios led to shift towards secured lending
- Property was seen as the best collateral with increasing / stable property prices
- Conventional Home Loans' business was impacted by lower margins and increased portfolio churning due to removal of prepayment charges
 - **LAP emerged as the margin driver for the Mortgage Business**
- Change in borrower mindset, primarily towards residential property

Self-employed segment was severely under-penetrated

- Changing attitude of customers towards leveraging property
- Requirement for loans with longer tenors

Advantages : Customer

- **LAP mostly used for**
 - ✓ Business Expansion
 - ✓ Alternative to Working Capital Loans
- **Leverage an unutilized asset**
- **Longer tenors leading to lower EMIs**
- **Less onerous compared to Working Capital loans**

Advantages : Lender

- **High growth opportunity - very low Mortgage-to-GDP ratio**
- **Collateral (properties) are occupied**
- **High emotional attachment towards properties**
- **Lending based on Balance Sheet / Cash flow assessment**
- **Significant scope for Securitization**
- **Relatively higher NIMs with lower delinquencies**

Competitive Pressures

- Attractive markets for new entrants: 6 players in Mar 2010 (with AUM of Rs. 10 billion) to 23 players in Mar 2015
- Same customer segment targeted by most of the financiers
- Yields have declined to 11% - 12.5%; difference with home loans at approx. 150-200 bps
- Commoditization of offering as new entrants aiming for a stronger foothold in the market
 - ✓ Higher LTVs and growing ticket size
 - ✓ Underwriting skills

Distribution Pressures

- Third Party intermediary-driven business - 70% in Mar 2015 as against 50% in Mar 2010
- Higher attrition with aggressive Balance transfer / surrogate programs

Rising Risks

- Fall in property prices in select micro markets especially in Commercial properties
- Lagged delinquencies on the rise: 3.0% in Mar 2015 (from 1.9% in Mar 2013)
- Increasing share of commercial properties (30% in Mar 2015 vis-à-vis 15% in Mar 2010)

Source: CRISIL

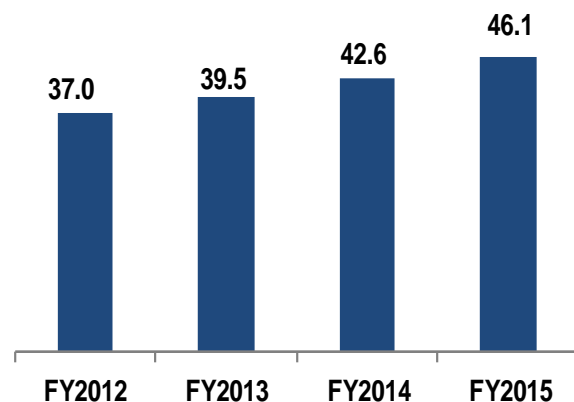
Private Banks	NBFCs	PSU Banks
<ul style="list-style-type: none">■ ICICI Bank■ Axis Bank■ HDFC Bank■ Kotak Mahindra Bank	<ul style="list-style-type: none">■ Indiabulls Housing Finance■ DHFL■ Religare Finvest■ Bajaj Finance■ Reliance Commercial Finance	<ul style="list-style-type: none">■ State Bank of India■ Punjab National Bank■ Bank of Baroda■ Canara Bank■ Andhra Bank



RCF - Loan Against Property

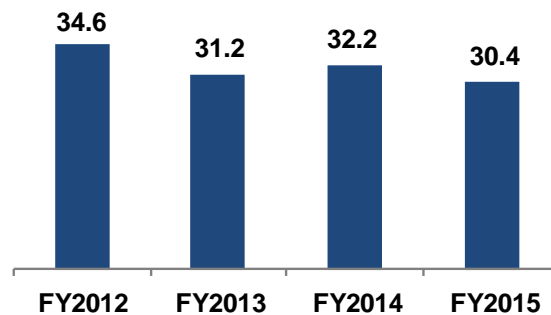
Asset Under Management

(Rs. Billion)



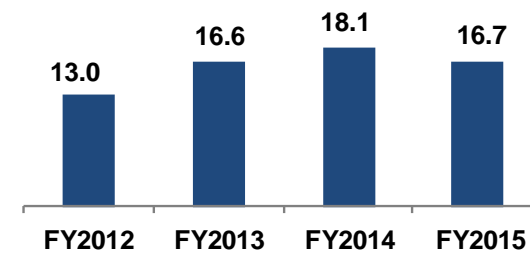
Loan Book

(Rs. Billion)



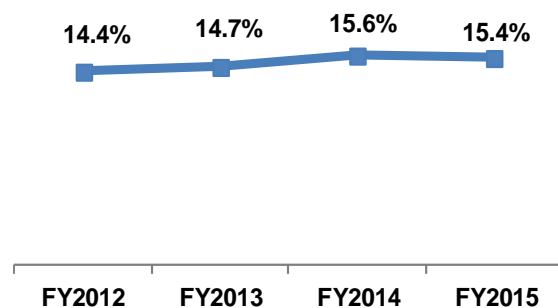
Disbursements

(Rs. Billion)



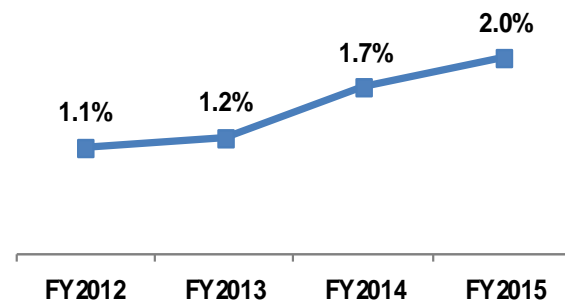
Segmental Yield

(%)

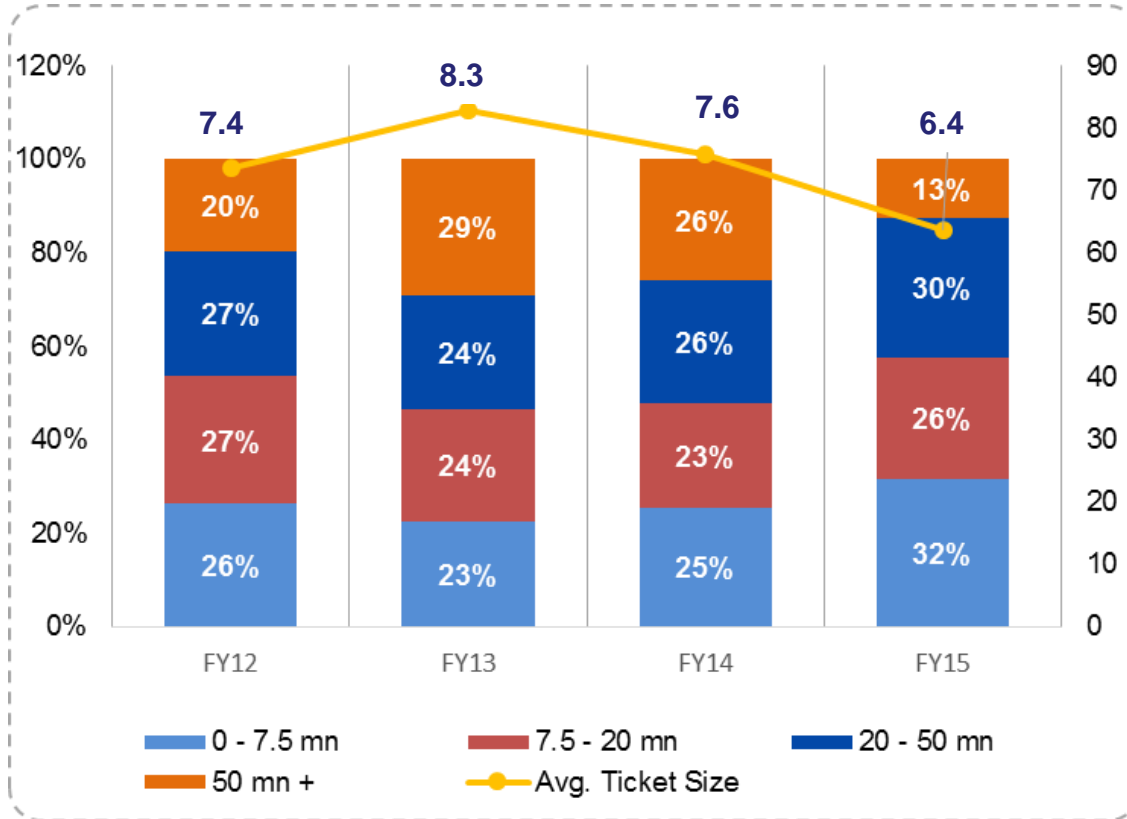


Gross NPLs

(%)



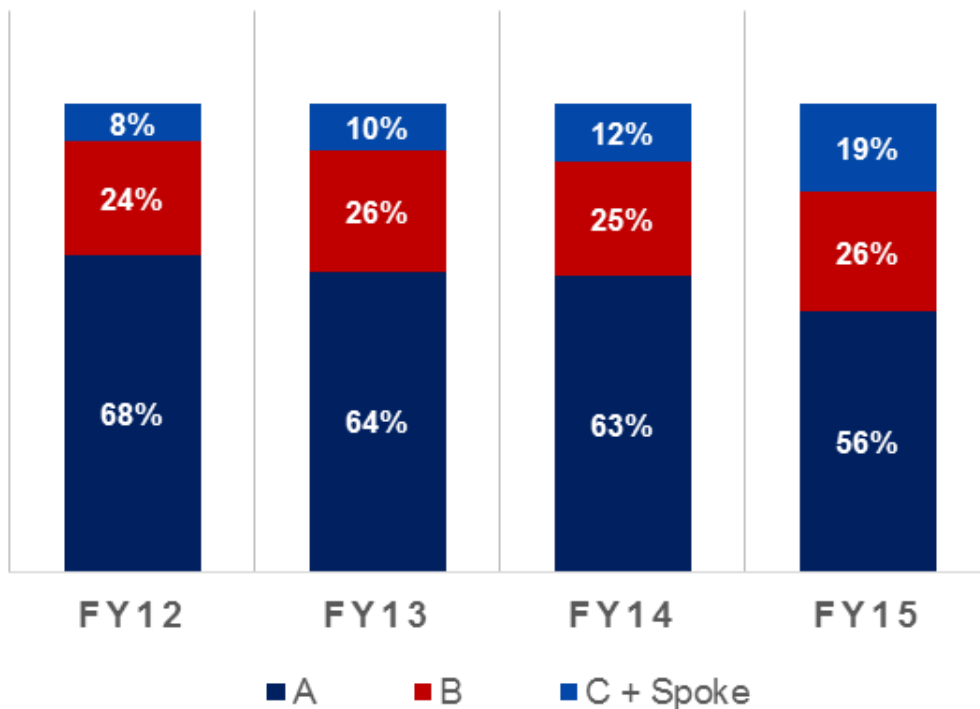
Loan Ticket Size Bands and Average Ticket Size



- Increased retail penetration
- 93% of new loans sourced were in the “under Rs. 20 million category”

* Based on disbursements for the period

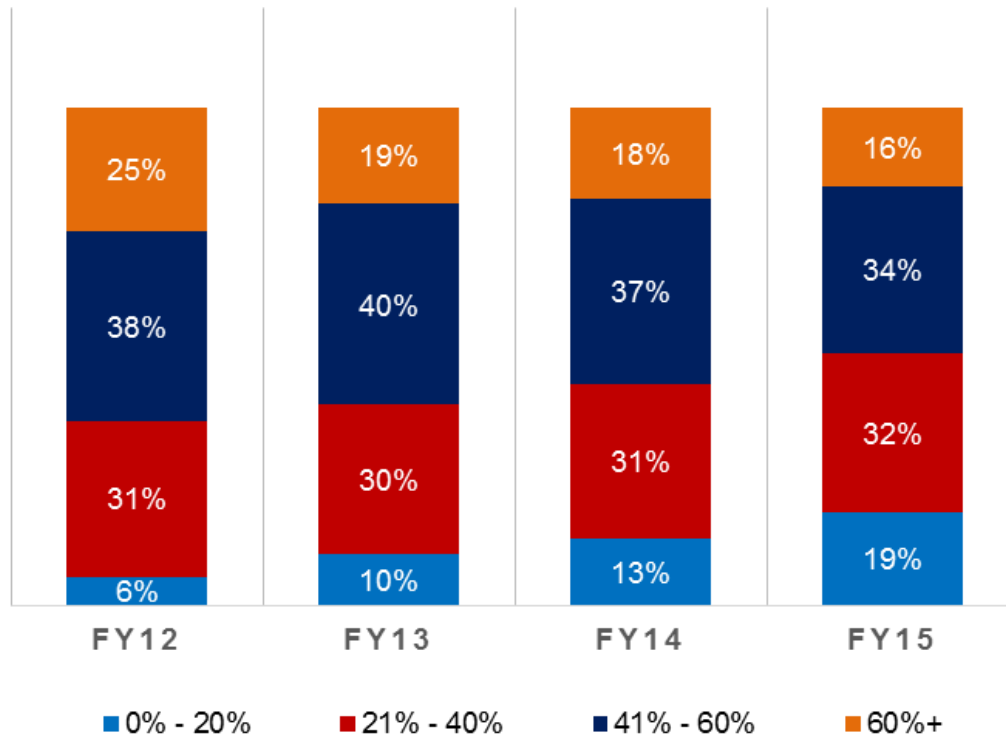
Distribution as per City Categories



- Increased contribution from non-metros
- In terms of no. of loans sourced, categories 'B and C' account for over 50%

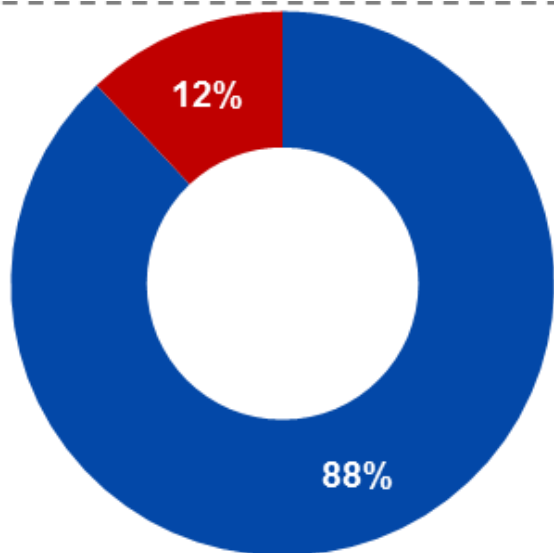
* Based on disbursements for the period

Trend in LTV ratio



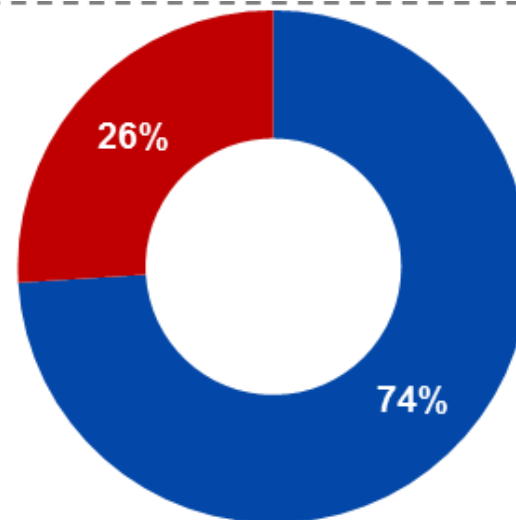
- **Average Portfolio LTV @ 46%**
- **Contribution of loans with higher LTV is going down**

* Based on disbursements for the period



■ Income Based ■ Surrogates

- High contribution of income-based loans in our portfolio
- No “Repayment Track Record” based lending

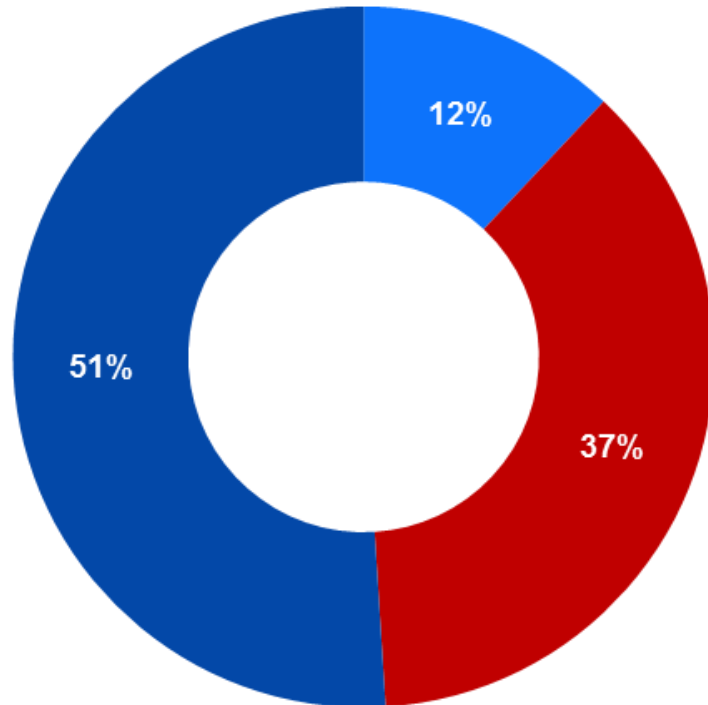


■ Third Party Intermediaries
■ Captive Channels

- Sourcing from third party intermediaries is consistent with the market trend for NBFCs

** Based on disbursements*

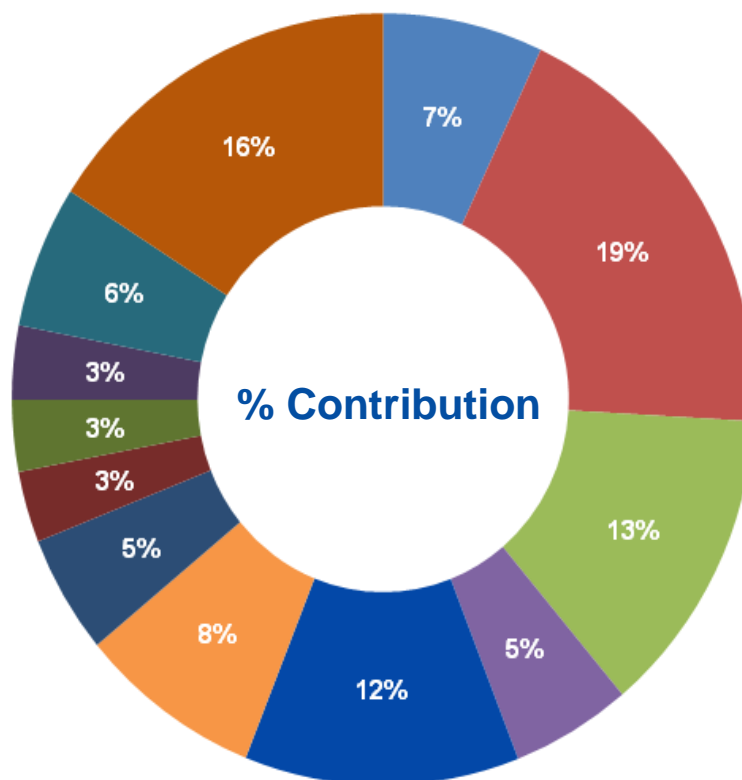
Nature of the Collateral



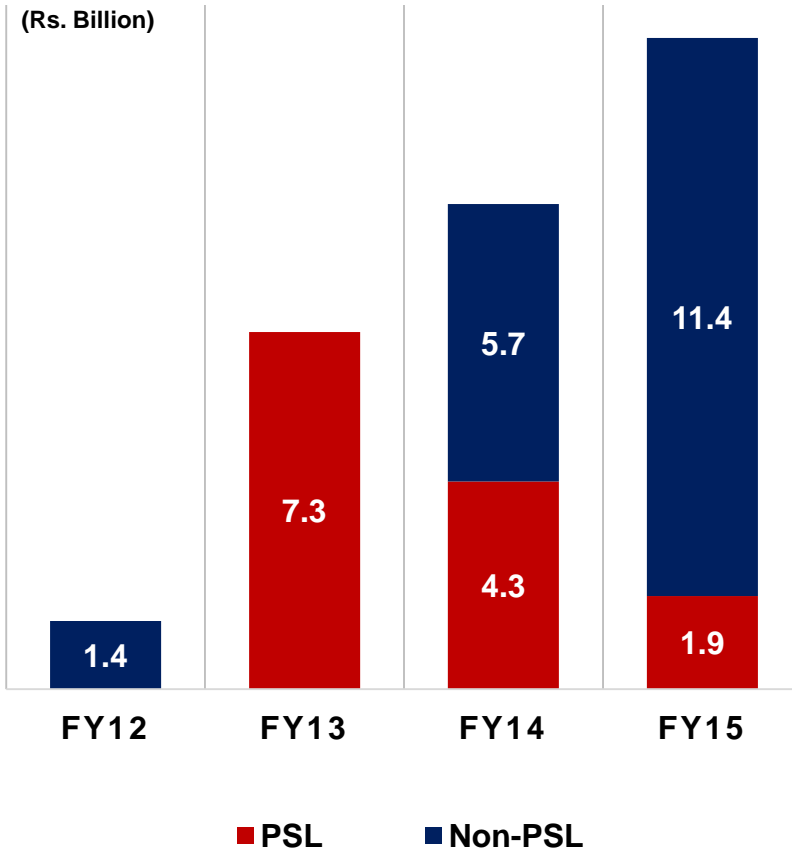
■ Lease Rental Discounting ■ LAP - Commercial Property
 ■ LAP - Residential Property

- Higher proportion of residential properties
- Properties are fully constructed and occupied

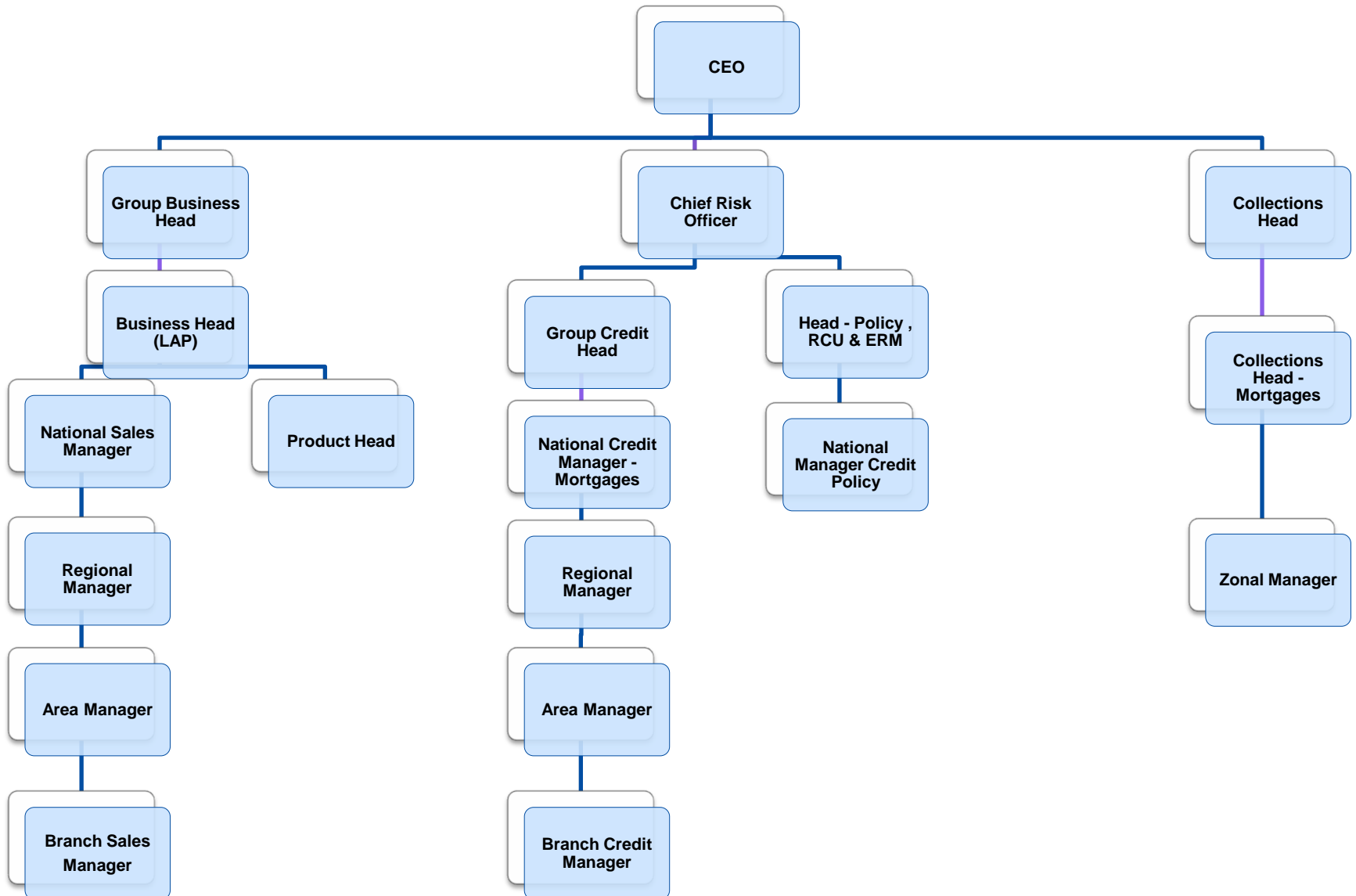
** Based on disbursements*



- Textile, Textile Products & Apparels
- Services
- Trading
- Metal & Metal Products
- Engineering & Industrial Goods
- Construction & Building Materials
- Automobiles
- Food & Beverages
- Agriculture & Agro Products
- Real Estate
- Pharmaceuticals
- Miscellaneous



- High quality book enables profitable securitization
- Helps in matching Asset - Liability profile (ALM)
- Improved liquidity
- Non-fund based earnings
- Retail Strategy



- Use of Technology & Automation
 - ✓ *Core Banking - Loan Origination System (Business Rule Engine)*
- Policy Framework
 - ✓ *Credit Policy*
 - ✓ *Hind-sighting*
 - ✓ *Risk Analytics*
- Fraud Prevention
- Review Mechanism
- External Certification
 - ✓ *Portfolio review by credit rating agencies*

- Product Specialists - mostly MBAs and CAs.
- Structure - six levels of underwriting hierarchy
- Core banking software with a built-in Business Rule Engine
- Robust underwriting processes
 - ✓ Multiple filtering mechanism
 - ✓ Maker - Checker controls
 - ✓ Multiple verifications, customer interview
 - ✓ Use of fraud control mechanism

RISK ANALYTICS

- Credit Score Based Underwriting
- Single Customer View and Group exposure
- Risk Based Pricing

PREDICT DELINQUENCY

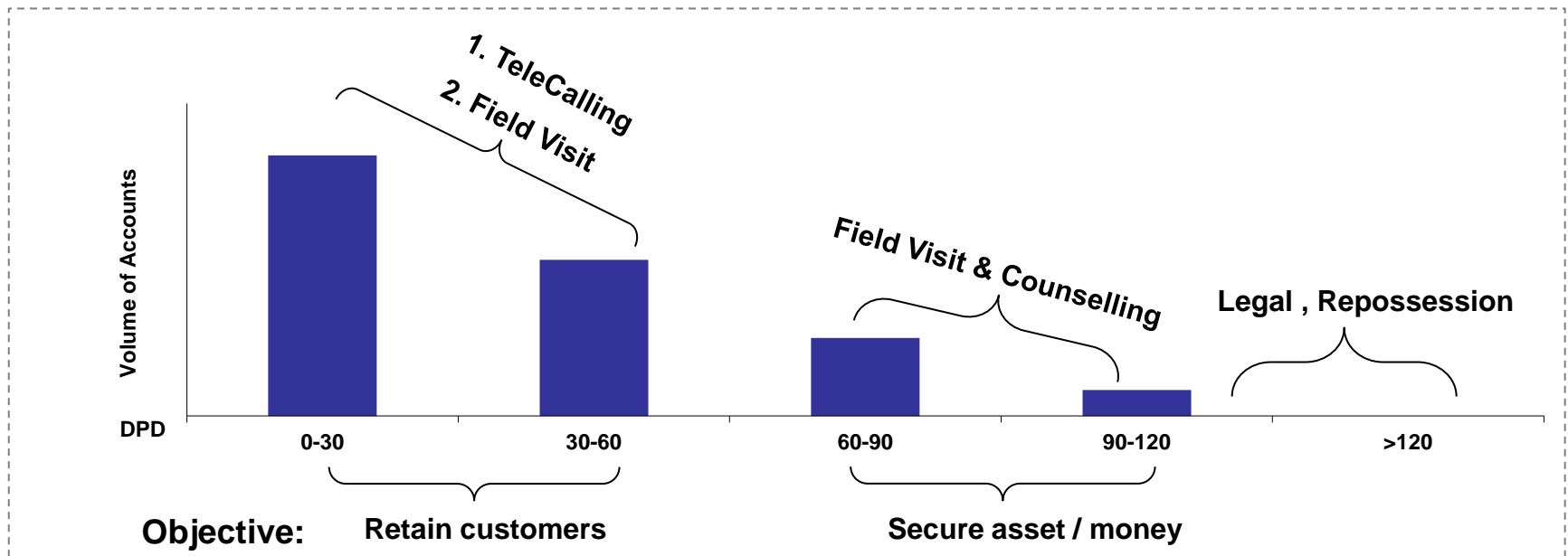
- Delinquency Prediction
- Automation of NCL projections
- Capacity planning for Collection Function

CUSTOMER RETENTION

- Scientific Retention Strategy created at customer level
- Offers generated on-the-spot
- Real time impact analysis on account profitability

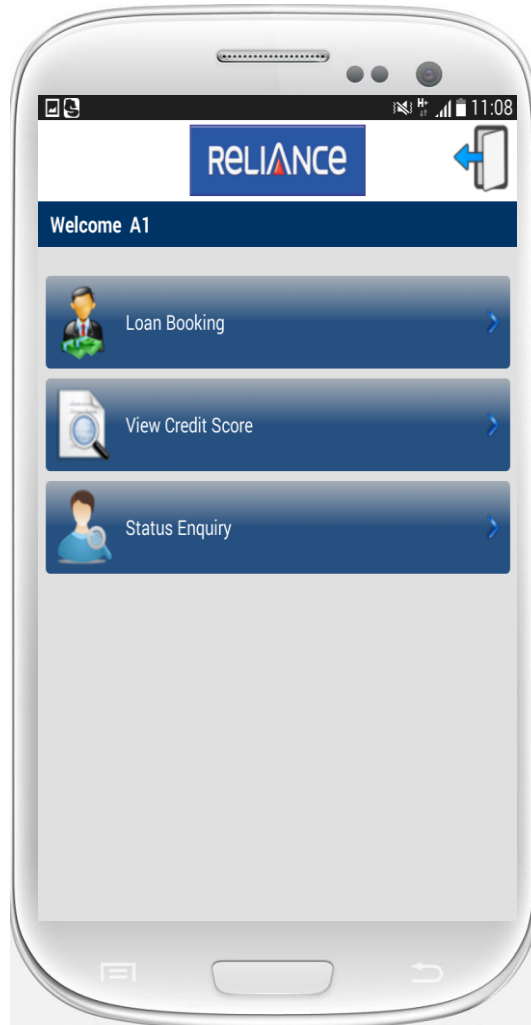
Won DQ Live Award for Analytics

- Collect promptly when due; ensure that delinquency is at lowest level and at minimum cost
- Optimize Penal Collections
- Continuous feedback to credit and sales function
- Strict adherence to code of conduct and regulatory guidelines



Protecting Reputational risks for the company under all circumstances

Mobile / TAB Based Application for Customer Acquisition and Decision Making



FEATURES

- Instant Decision on Loan Application
- Android Based Application on Mobiles and TAB
- Seamless integration with Credit Bureau / Core Lending Systems and Analytics Engine
- First in the Industry to Launch
- Document Upload / Mails and Letters Generation
- Customer Photo and Signature Capture

**Won “Digitizing India Award” Presented by
union Minister of Information Technology and
Communication Mr. Ravi Shankar Prasad**

Won DQ Live Award in Mobility Category





Going forward...

- Maintain the current portfolio at healthy yields
- Continued emphasis on the Retail segment (loan size under Rs. 20 million)
- Identify new clusters and segments; come up with differentiated product offering
- Manage customer attrition
- Increase contribution from Tier II and Tier III locations
- Reduce dependence on third party intermediaries
- Use technology to enhance productivity and customer experience

At all times...

Focus on Quality and Profitability of the portfolio

Thank You