

Update on L&T MF's exposure to NCDs guaranteed by Reliance Capital Ltd in Open Ended Funds

Rating Agency – CARE has downgraded the credit ratings of Reliance Broadcast Network Limited (RBNL) from CARE BB / Stable to CARE D/CARE C on September 17th, 2019 on account of delay in debt servicing on some of its NCDs.

Accordingly, CRISIL & ICRA as valuation agencies have provided the valuation of RBNL's as per the pricing based upon the AMFI's recommended "Standard haircut for sub-investment grade debt securities" as below –

Rating Category	Instrument	Sector	AMFI prescribed haircuts	Issuer
D	Secured	Other manufacturing and financial institutions	75%	Reliance Broadcast Network Limited
C	Secured	Other manufacturing and financial institutions	55%	Reliance Broadcast Network Limited

Earlier on 6th September, 2019, CARE had downgraded the rating of RBNL from BBB (CE) to BB, for which 20% haircut has been taken already. Accordingly, incremental haircut post the fresh rating downgrade is 35% / 55% for NCDs rated C / D respectively.

Subsequent to the fresh haircut, the fund-wise NAV impact on the exposure is as below –

Fund name	Instrument type	NAV Impact on 18th Sep 2019 due to Haircut (including accrued interest & redemption premium)
L&T Credit Risk Fund	Secured Bonds	-2.00%
L&T Low Duration Fund	Secured Bonds	-0.35%

Transaction update on RCL's guaranteed papers

In terms of L&T MF's exposure in RCL's guaranteed NCDs, in addition to the credit comfort derived from the Guarantee of Reliance Capital Ltd, our total exposure is backed by underlying assets and can be broadly divided into parts – one linked with the sale of Reliance Nippon Life Asset Management business and the other one linked with the sale of Radio Business as below:-

Particulars	Part 1 : Directly Linked to sale of Mutual Fund business	Part 2 : Directly Linked to sale of Radio Business (Big FM)
Issuers	Reliance Business Broadcast News Holdings Ltd (RBBNHL) Reliance Commercial Finance Ltd (RCFL)	Reliance Broadcast Networks Ltd (RBNL)
Prime Security	Corporate Guarantee of Reliance Capital Ltd.	Corporate Guarantee of Reliance Capital Ltd.
Additional Security	Additional Security – Pledge on listed shares of Reliance Nippon Life Asset Management Company Ltd (RNAM). Current share cover of 1.4x.	Additional Security – Charge on all assets of RBNL.
Credit Brief	<ul style="list-style-type: none"> • Reliance Capital Ltd (RCL) had signed a definitive agreement with Nippon Life Insurance (NLI) to sell its stakes in RNAM on 23rd May, 2019 @ Rs 230 per share, such that NLI increases its shareholding from current 42.88% to 75%. • As a mandatory requirement, NLI had given the Open Public Offer to acquire upto 25.33% of shares in RNAM from Public shareholders. The Open Offer tendering period was between July 23, 2019 to August 5, 2019 and ~11% shares got tendered. Open offer has been completed on August 21, 2019 with the payments made to the shareholders who had tendered their shares. • Accordingly, balance ~21% stake in RNAM would be acquired by NLI from RCL @ Rs 230 per share so as to reach to 75% shareholding. • As a part of sale process, RCL's all non-locked in shares in RNAM have been accumulated in an escrow account with pledge created in favor of the respective lenders against RNAM shares. NLI has also brought in the required cash for purchase of shares in another escrow account. 	<ul style="list-style-type: none"> • Music Broadcast Ltd (MBL) has signed a definitive Share Purchase Agreement with RBNL on 12th June, 2019 to acquire 100% stake in RBNL. • Any stake sale by Reliance Capital in RBNL would require our NOC for management change & release of our charge on assets. It will provide us an Exit option. • RBNL is expected to have an external debt of ~Rs 500 cr, post the MBL transaction and an operating EBITDA of ~Rs 100 cr. • RBNL is a strategical asset for MBL as it will help in becoming largest domestic FM radio player. MBL has a strong credit metrics as reflected in its credit rating of CRISIL AA and is sponsored by Jagran Prakashan Ltd rated CRISIL AA+. CRISIL has recently re-affirmed the ratings on MBL and Jagran Prakashan factoring in the proposed acquisition of RBNL.

	<p><u>Latest Updates as on 16th Sep, 2019:-</u></p> <ul style="list-style-type: none"> • As per RCL, RNAM has received the necessary regulatory approvals. Most critically, SEBI has given its approval for the change in controlling interest of RNAM on August 14, 2019. The only pending approval from RBI has also been received on 18th September, 2019. • Pursuant to the deemed change in controlling interest, RNAM has also given a communication on August 16, 2019 to its unit holders for the 30 days exit option commencing from August 26, 2019 and closing on September 24, 2019. • RCL has launched an offer-for-sale (OFS) of RNAM shares on 9th September 2019 and has received institutional and retail investors bid for over 260 percent of the base offer size. The proceeds from this sale have been used to make ~50% of outstanding dues on NCDs backed by pledged shares including our NCD. We released the necessary number of shares to enable this OFS to be completed and the above payment was received against these released shares. • The remaining 50% dues continue to be secured against the remaining RNAM shares under the monitoring of escrow agent. With the necessary approvals already in place, we expect RCL to complete the stake sale deal with NLI within a month. 	<p><u>Latest Updates as on 16th Sept, 2019:-</u></p> <ul style="list-style-type: none"> • MBL will acquire 24% in RBNL for Rs 202 cr in first leg and the balance 76% on receiving the regulatory approval. • We expect MBL to complete its first leg of 24% acquisition soon after RCL's stake sale in its Mutual Fund business. • RBNL's part of the external has already been repaid through the recently concluded Open Offer for Sale of RNAM.
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We continue to monitor the situation closely both in terms of short term liquidity resources and strategic sale of various business segments by RCL.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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