

Reliance Securities Limited

November 20, 2019

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Market Linked Debentures*	150	CARE PP-MLD BB- [PP MLD Double B Minus] (Credit watch with developing implications)	Revised from CARE PP-MLD BB- (CE) ² ; Stable [PP MLD Double B Minus (Credit Enhancement); Outlook: Stable] and placed on credit watch with developing implications
Total	150 (Rupees One Hundred & Fifty crore only)		

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 Securities Limited's (RSL) ratings without considering any credit enhancement from the LOC.

The ratings assigned to the instrument of RSL are constrained by weak earnings profile, dependence on HNI and retail clients, highly competitive business segment, high dependence on capital market which has inherent volatility and takes into account moderate solvency profile and large client base and geographically diverse business profile.

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

Rating sensitivities

Positive factors

- Improvement in earnings profile
- Diversification in product segments
- Diversification in client base
- Completion of management buyout

Negative factors

- Increase in gearing
- Reduction in client base

Detailed description of the key rating drivers of RSL

Key Rating Weaknesses

Weak earning profile

RSL earned a PAT of Rs.22.84 crore (PY: Rs.7.10 crore) on a total income of Rs.287.60 crore (PY: Rs.255.62 crore) in FY19. ROTA has increased from 1.01% in FY18 to 3.17% in FY19 due to increase in PAT. RONW stands at 21.62% in FY19.

However, RSL incurred a loss in H1FY20 worth Rs.46 crore on a total income of Rs.104 crore on account of more than 30% fall in income without any fall in overall expenses. The expenses of H1FY20 include provision for doubtful debt/advances which increased on account of ECL provisioning Rs.13.90 crore (H1FY19: Rs.1.97 crore), haircut taken on investments in bonds held of Reliance ADAG companies of Rs. 3.08 crore (H1FY19: Nil) and costs incurred for closure of distribution channels/branches amounting to Rs. 11.85 crore. Cost to income ratio increased from 92.90% in H1FY19 to 149.55% in H1FY20 due to increase in administrative and other expenses. ROTA and RONW were negative.

Dependence on HNI and retail clients

RSL's business is highly focused on high net worth individuals (HNIs) and retail clients. Higher dependence on HNIs and retail clients generally leads to lack of flexibility especially during slowdown as retail clients are generally more risk averse and avoid trading during such periods. To diversify their clientele, RSL has tied up with institutional clients which have relatively better capability to withstand a volatile capital market scenario.

Highly competitive business segment

Broking business in India is highly competitive and RSL will face fierce competition from large broking firms. Large broking firms are in better position to reduce operating expenses and maintain their margins. Broking business in India is becoming increasingly competitive with reducing brokerage fees and volatile volumes.

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

High dependence on capital market which has inherent volatility

High dependence on equity capital markets exposes RSL's business to volatility in stock markets. Income and profitability is expected to be adversely impacted in times of slowdown in the stock markets.

Key Rating Strengths
Large client base and geographically diverse business profile

The company is majorly engaged in retail broking. The brokerage income from retail segment stands at 94% of the total brokerage income in H1FY20 (FY19: 96%). The number of customers as on September 30, 2019 was 9,19,292. The company has 120 (October 2018: 130) branches as on October 30, 2019 across India spread in 23 states. They also have franchisees network apart from branches across India. The number of employees as on October 30, 2019 was 1029 (October 2018: 1660).

Moderate solvency profile

Gearing stands at 1.72 times in FY19 as compared to 3.02 times in FY18. Borrowings have reduced by 32% y-o-y and net worth has increased to Rs.114.86 crore in FY19 from Rs.96.42 crore in FY18. However, there was no capital infusion during the year. Overall gearing increased from 1.72x in FY19 to 2.27x in H1FY20 due to fall in net worth on account of losses incurred.

Liquidity - Adequate

Cash and bank balance stood at Rs.317.83 crore out of which Rs.240.94 crore is held as lien/margin/security as on March 31, 2019. Cash and bank balance stood at Rs.229.67 crore out of which Rs.195.46 crore is held as lien/margin/security as on September 30, 2019. Borrowings stood in the form of market linked debentures (Rs.83.75 crore) and inter-corporate deposits (Rs.73.50 crore) as on September 30, 2019.

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](#)

[Market Linked Debentures/Notes](#)

[Financial ratios – Financial sector](#)

About the Company
RSL

Reliance Securities Ltd. (RSL), incorporated in June 2005, is a SEBI licensed stock broking company. The company is the broking arm of Reliance Capital Ltd. (RCL) which holds 100% equity stake in the company. The company provides broking services to its clients for dealing in equities, future & options, IPOs, mutual funds and debt market. The company is majorly engaged in retail broking with over 94% of its broking revenue coming from retail clients' vis-à-vis 6% of broking revenue coming from institutional clients as on September 30, 2019. The company offers offline trading services as well as online trading platform including mobile app based trading facility. The company also offers stock lending and borrowing facility, cross selling/distribution of other financial products, carry forward trade loans and research services. The company has over 120 branches and few franchisee offices in India.

Brief Financials (Rs. crore)	FY18 (Audited)	FY19 (Audited)
Total operating income	254.89	286.53
PAT	7.10	22.84
Interest coverage (times)	1.35	1.79
Total Assets	774.42	666.78
Net NPA (%)	NA	NA
ROTA (%)	1.01	3.17

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.cr)	Rating assigned along with Rating Outlook
INE923I07015	Debentures -Market Linked Debentures	27-Feb-18	Market Linked	27-May-21	2.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07015	Debentures -Market Linked Debentures	16-Mar-18	Market Linked	27-May-21	2.48	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07015	Debentures -Market Linked Debentures	23-Mar-18	Market Linked	27-May-21	0.98	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07015	Debentures -Market Linked Debentures	28-Mar-18	Market Linked	27-May-21	1.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07031	Debentures -Market Linked Debentures	02-May-18	Market Linked	02-Nov-22	4.50	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07072	Debentures -Market Linked Debentures	30-Jul-18	Market Linked	02-Dec-20	1.84	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07080	Debentures -Market Linked Debentures	31-Jul-18	Market Linked	31-Jan-23	13.47	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07080	Debentures -Market Linked Debentures	01-Aug-18	Market Linked	31-Jan-23	3.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07098	Debentures -Market Linked Debentures	09-Aug-18	Market Linked	09-Aug-22	8.05	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07106	Debentures -Market Linked Debentures	23-Aug-18	Market Linked	23-Feb-23	6.45	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07080	Debentures -Market Linked Debentures	26-Oct-18	Market Linked	31-Jan-23	2.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07114	Debentures -Market Linked Debentures	17-Dec-18	Market Linked	20-Jun-23	2.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07122	Debentures -Market Linked Debentures	21-Dec-18	Market Linked	26-Jun-23	5.33	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07114	Debentures -Market Linked Debentures	27-Dec-18	Market Linked	20-Jun-23	2.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07114	Debentures -Market Linked Debentures	29-Jan-19	Market Linked	20-Jun-23	2.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07114	Debentures -Market Linked Debentures	31-Jan-19	Market Linked	20-Jun-23	1.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07114	Debentures -Market Linked Debentures	01-Feb-19	Market Linked	20-Jun-23	2.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE923I07114	Debentures -Market Linked Debentures	07-Feb-19	Market Linked	20-Jun-23	3.00	CARE PP-MLD BB- (Under credit watch with

						developing implications)
INE9231 07130	Debentures -Market Linked Debentures	20-Mar-19	Market Linked	01-Jul-22	1.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE9231 07148	Debentures -Market Linked Debentures	25-Mar-19	Market Linked	07-Oct-23	1.25	CARE PP-MLD BB- (Under credit watch with developing implications)
INE9231 07155	Debentures -Market Linked Debentures	29-Mar-19	Market Linked	30-Mar- 27	1.25	CARE PP-MLD BB- (Under credit watch with developing implications)
INE9231 07155	Debentures -Market Linked Debentures	03-Apr-19	Market Linked	30-Mar- 27	0.75	CARE PP-MLD BB- (Under credit watch with developing implications)
INE9231 07130	Debentures -Market Linked Debentures	04-Apr-19	Market Linked	01-Jul-22	1.00	CARE PP-MLD BB- (Under credit watch with developing implications)
INE9231 07148	Debentures -Market Linked Debentures	10-Apr-19	Market Linked	07-Oct-23	2.25	CARE PP-MLD BB- (Under credit watch with developing implications)
INE9231 07130	Debentures -Market Linked Debentures	27-May-19	Market Linked	01-Jul-22	0.50	CARE PP-MLD BB- (Under credit watch with developing implications)
-	Debentures -Market Linked Debentures (Proposed)	-	-	-	78.9	CARE PP-MLD BB- (Under 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	150.00	CARE PP MLD BB- (Under credit watch with developing implications)	1) CARE PP MLD BB- (CE); Stable (03-Sep-19) 2) CARE PP MLD BBB- (CE) (Under 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) 1) 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) (22-Sep-17)	-

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.

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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.

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