

Banking on the future

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investment philosophy and investee companies," says Achal Ghai, Avigo Capital.

Having established a presence in the SME sector, using the hub-and-spoke model through direct sales agents, Arora is looking at deepening RFL's reach across the country. "Over the last four years, RFL has institutionalised a process of understanding the workings of the industries in which our clients operate. This allows us to innovate and make solutions for specific industries," explains Arora, drawing up an ambitious business expansion plan. He is looking to double RFL's loan book size to \$5 billion and quadruple the customer base to 100,000 clients in about three years. "Going forward, it would be critical for the company to reduce the operating costs (as a proportion of its income) as well as control any further deterioration in asset quality to improve its profitability," states an ICRA report.

Although Religare's journey into financial services began with 100 per cent retail broking, today its share has been dropping from 18 per cent of REL's top line in March 2012 to 12 per cent. This activity under Religare Securities Ltd (RSL) and Religare Commodities Ltd (RCL) offers both cash and future & options equities, commodities and currency derivatives trading platform. Like most broking outfits, Religare is also losing money. "The challenge is to survive in an environment where margins are shrinking, market conditions are depressed and participation from retail clients is low," explains Nath, talking about a strategy to keep the business going. "Nonetheless, we are amongst India's largest equity

broking businesses, with 1.7 per cent market share and a client base of over 834,000. On the commodity side, we have a 2.4 per cent market share, with 167,000 clients. More importantly, the broking business provides a distribution platform for mutual funds, insurance and other financial products, and it is essential to be a one-stop financial services company."

As RSL and RCL moved from a small to large firm, Nath and team have continuously devised strategies to keep it going. Currently, though in depressing times, they are strengthening the B2B channels and partnering with franchisees to expand geographical reach. "We are also bolstering arrangements with banks to provide a platform for broking services to their clients," adds Mitra. Providing research inputs has been an integral part of RSL's relationship with clients. "Markets have seen customers erode due to non-compliance and illicit trading. We are focussing on developing and institutionalising a strong compliance structure and processes around our broking platform. Reshaping, revamping and revitalising our entire online business and digital presence are ongoing exercises."

"The broking business has become extremely competitive and volatile. Most broking firms are earning income predominantly through lending activities. Religare is no exception, as the core broking income has not shown any major uptrend. At some stage, Religare has to focus on profitability. Setting up, growing and expanding business exponentially, has placed Religare as one of the leading financial service providers of the country. However, the real test of the management team will be in ensuring that now the businesses are run profitably thereby establishing long-term sustainability," observes Bandyopadhyay, who has seen various up and down cycles in the market at Reliance Money. At Destimoney, as a business, Bandyopadhyay has been focussing completely on option strategies for ramping up broking income. "This has stood us in a good stead since option strategies, as a percentage of overall markets, has been



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increasing consistently. Options are now over 70 per cent of the overall market volume," he points out.

"The broking business, by its very nature, tends to be whimsical and moves along with the state of the economy," explains D.R. Dogra, MD & CEO, Credit Analysis & Research Ltd (CARE). "This holds across all broking houses and is rarely specific to a set of firms. There are risks once one is in this business, which is well known, for the company as well as customers. This is cyclical and will turn around once the economy recovers. The Indian economy is well off the high growth path and it will take time to go back to the 8 per cent growth path. But, the Indian market has, surprisingly, still been fairly stable mainly on the back of a lot of foreign funds, which has been supported by some positive policy announcements made by the government in the last couple of months. For Religare as a group, diversification has definitely been of use in these times when the broking business could be under pressure." CARE has been rating debt instruments.

While the broking business

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