

Reliance Securities Limited

February 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Principal Protected Market Linked Debentures	6.77 (Reduced from 93.50)	CARE PP-MLD B+ (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Reduction has been made on account of some instruments being fully paid and redeemed.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the rating of principal protected market linked debentures (PP-MLD) to Reliance Securities Limited (RSL), and it continues to remain constrained on account of the volatile earnings profile and continued reduction in the scale of operations. The rating also remains constrained given the high dependency on capital market, which is highly volatile and competitive. The rating continues to factor in the experienced management team along with moderate solvency profile.

The rating continues to be on rating watch on account of the impending resolution of the parent company, Reliance Capital Limited (RCL).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of the resolution process leading to significant improvement in the overall business operation and earning profile on a sustained basis.
- Diversification in the product segment.

Negative factors

- Increase in the gearing levels.
- Sustained reduction in the overall business operations impacting profitability.

Analytical approach: CARE Ratings has analysed the standalone business profile of the company along with factoring its linkages with the parent company, RCL.

Key weaknesses

Volatile earnings profile

During FY22, the profitability of the company witnessed improvement from ₹13.26 crore in FY21 to ₹18.18 crore in FY22, primarily on account of increase in the treasury income (net gain on fair value changes) from ₹112 crore in FY21 to ₹193 crore in FY22. The brokerage income continued to decline and stood at ₹103 crore in FY22 as against ₹124 crore in FY21.

During 9MFY23, the profitability further improved to ₹24.24 crore as against ₹10.66 crore in 9MFY22 despite a dip in the revenue by 24% to ₹197 crore. The improvement in profitability was supported by negative finance cost. The cost of MLD borrowings are linked to market performance, and they are hedged by taking positions in derivatives options.

Given the slowdown in its overall business as a result of default by the parent company, the company has been utilising surplus funds available to maintain the treasury book in order to maintain its revenue profile.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Given the impending management buyout, the level of business activity shall continue to remain restricted; further the high share of income from treasury activities in total income makes the earnings profile vulnerable to market volatilities and hence earnings will continue to remain key monitorable.

Reduced scale of operations and high exposure towards proprietary book

As part of its cost-cutting measures, the scale of operations is being reduced with the total number of branches declining to 48 as on November 30, 2022, from 112 at end of FY21. Furthermore, the NSE active client base has also seen a modest downtrend and stood at 107,201 during FY22 compared with 117,307 during FY21. It further dipped to 91,560 as of December 2022 end. The total turnover stood at ₹1,575,000 crore for Q2FY23, of which 74% was in the form of proprietary trading. The source for this proprietary book is from the company's own fund. In times of market downfall, the proprietary book might get impacted further impacting the capitalisation of the company.

High dependence on capital market which is highly competitive and volatile.

Broking business in India is highly competitive, with increasing pressure on brokerage fees and volatile volumes. RSL faces fierce competition from large broking firms as well as discount brokers, where large broking firms are in better position to reduce operating expenses and maintain their margins.

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

Key strengths**Experienced management team**

The company is led by Luv Chaturvedi (B.com, CFA and MBA)- Executive Director, having more than 15 years of industry experience; and is supported further by other professionals, including Homai Daruwalla, Independent Director (B.com, CAIIB and FCA; and retired Chairman & MD of Central Bank of India), having 42 years of professional experience in the banking sector; and Chetan Desai, Independent Director (Chartered Accountant), having 44 years of experience in sectors like banking and finance, insurance, mutual funds, pension funds, manufacturing, services, real estate, hospitality, engineering, energy, infrastructure, pharma, health care, not for profit entities, etc. Sanjay Sharma, Whole-time Director and Chief Financial Officer, joined the company w.e.f. May 17, 2022. He is a Qualified Chartered Accountant having an experience of over 11 years in the field of financial management, non-banking financial company (NBFC) regulatory reporting, independence controlling over financial results, preparation and publication and risk management.

Moderate solvency profile

RSL's overall gearing stood at 0.61x as on March 31, 2022, as compared with 1.04x as on March 31, 2021. The debt of the company has been on a declining trend from past 3 years leading to improvement in gearing. As on December 31, 2022, gearing further declined to 0.07x.

Liquidity: Adequate

As on November 30, 2022, the company had free cash and balances of ₹33.32 crore as against the debt repayment of ₹6.84 crore for next 6 months.

Applicable criteria

[Policy on Default Recognition](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

[Market Linked Notes](#)

[Factoring linkages with the parent company](#)

[Policy on Withdrawal of Ratings](#)

About the company

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.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Brokerage, commission, and fees	124	103	59.10
Total income	271	336	197
PAT	13.26	18.18	24.24
Interest coverage (times)	1.87	3.05	NM
Total assets (net of deferred tax assets and intangible assets)	745	820	712
ROTA (%)	2.09	2.32	4.24

A: Audited; UA: Unaudited; NM- Not meaningful

All analytical ratios are based on CARE Ratings' calculations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Principal protected Market Linked Debentures	INE923I07114	01-Feb-2019	Market Linked	20-Jun-2023	2.00	CARE PP-MLD B+ (RWD)
Principal protected Market Linked Debentures	INE923I07114	31-Jan-2019	Market Linked	20-Jun-2023	0.30	CARE PP-MLD B+ (RWD)
Principal protected Market Linked Debentures	INE923I07122	21-Dec-2018	Market Linked	26-Jun-2023	0.25	CARE PP-MLD B+ (RWD)
Principal protected Market Linked Debentures	INE923I07148	10-Apr-2019	Market Linked	07-Oct-2023	0.50	CARE PP-MLD B+ (RWD)
Principal protected Market Linked Debentures	INE923I07171	28-Apr-2021	Market Linked	29-May-2026	2.00	CARE PP-MLD B+ (RWD)
Principal protected Market Linked Debentures (Proposed)	-	-	-	-	1.72	CARE PP-MLD B+ (RWD)
Principal Protected Market Linked Debenture	INE923I07080	31-Jul-2018	Market Linked	31-Jan-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07080	01-Aug-2018	Market Linked	31-Jan-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07106	23-Aug-2018	Market Linked	23-Feb-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07080	26-Oct-2018	Market Linked	31-Jan-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07114	17-Dec-2018	Market Linked	20-Jun-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07114	27-Dec-2018	Market Linked	20-Jun-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07114	29-Jan-2019	Market Linked	20-Jun-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07114	07-Feb-2019	Market Linked	20-Jun-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07148	25-Mar-2019	Market Linked	07-Oct-2023	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07155	29-Mar-2019	Market Linked	30-Mar-2027	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07155	03-Apr-2019	Market Linked	30-Mar-2027	-	Withdrawn
Principal Protected Market Linked Debenture	INE923I07130	27-May-2019	Market Linked	01-Jul-2022	-	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Market Linked Debentures	LT	6.77	CARE PP-MLD B+ (RWD)	1)CARE PP-MLD B+ (RWD) (27-Dec-22)	1)CARE PP-MLD B+ (CW with Developing Implications) (09-Feb-22)	1)CARE PP-MLD BB- (CW with Developing Implications) (24-Feb-21)	1)CARE PP-MLD BB- (CW with Developing Implications) (06-Mar-20) 2)CARE PP-MLD BB- (CW with Developing Implications) (20-Nov-19) 3)CARE PP-MLD BB- (CE); Stable (03-Sep-19) 4)CARE PP-MLD BBB- (CE) (CW with Negative Implications) (12-Jul-19) 5)CARE PP-MLD BBB- (SO) (CW with Developing Implications) (22-May-19) 6)CARE PP-MLD A- (SO) (CW with Developing Implications) (23-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
Market Linked Debenture	
A. Non-financial covenants	
I. Default in payment	In case of default in payment of Interest and/or principal redemption on the due dates, additional interest of at least @ 2% p.a. over the coupon rate shall be payable by the company for the defaulting period.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Market Linked Debentures	Highly Complex

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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