Religare Broking Limited (Revised)

August 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term/ Short Term Bank Facilities	350.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)	Revised from CARE A3 (A Three)
Long Term/ Short Term Bank Facilities	150.00	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook-Stable/ A Three)	Revised from CARE BBB-; Stable (Triple B Minus, Outlook-Stable)
Total Bank Facilities	**500.00 (₹ Five Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Religare Broking Limited ('RBL' or 'the Company') continue to factor in its long track record of operations, established client base, moderate gearing levels and moderate liquidity. The ratings also factor in RBL's ability to revive back to profits in FY21 and considerable growth in profitable earnings profile in FY22 as well. The rating is however constrained on account of susceptibility towards the regulatory changes, moderate financial flexibility, RBL's modest market share in terms of overall exchange turnover and risk inherent in the competitive broking business.

Rating Sensitivities

Positive factors- Factors that could, individually or collectively, lead to review for positive rating action or upgrade:

- Significant improvement in overall credit profile of the Religare group
- Improved market presence/market share as may be evident through improvement in trading volumes and profitability on a sustained basis

Negative factors- Factors that could, individually or collectively, lead to review for negative rating action or downgrade:

- Inability to regain market share and volumes negatively impacting overall profitability levels
- Weakening of capital structure
- Exposure towards group companies outside of broking business

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

Detailed description of the key rating drivers

Key Rating Strengths

Pure play retail broker with long track record of operations and established client base

RBL operates in the retail brokerage segment with an established network of own branches and authorised persons of more than 1,200 touchpoints spread over 400 cities across India and a total active client base of approximately 2 lakhs as on March 31, 2022. Its distribution strategy entails a combination of its own branches and a strong network of franchisees. The total broking business volumes / turnover of the company revived back post the impact of group level issues on RBL. In FY22, the business volumes grew by 59%; highest growth in last 3 years (FY20- 4% and FY21- 22%) after de-growing in FY18 and FY19.
Basis the NSE active client database, the company witnessed a growth of 24% in FY22 as against 19% in FY21. The company acquired nearly 88,000 new client base in FY22 as against 55,000 in FY21. The growth in the client base is expected to continue in FY23 as well. The management is undertaking several initiatives to generate scale-based growth and regain the lost market share in the retail brokerage space. The company has adopted an asset light strategy for growth with limited investments in physical infrastructure going forward and increasing focus on technology, products and marketing.

Moderate gearing levels

As on March 31, 2022, the tangible net-worth of the company stood at Rs.179.16 crore as against Rs.102.25 crore as on March 31, 2021. This increase in tangible net-worth has been on account of internal accrual worth Rs.19.31 crore in FY22 and equity infusion by the holding company, Religare Enterprise Limited (REL) worth Rs.50.00 crore. Total borrowings (including non-fund-based bank facilities) increased to Rs.268.12 crore as on March 31, 2022 from Rs.241.34 crore as on March 31, 2021 given the increase in business activity. Out of the total borrowings, fund based comprises of 52% and balance is non-fund based in the form of Bank guarantees.
The adjusted overall gearing (debt including bank guarantees reduced by lien-marked fixed deposits as a % of tangible net worth) improved to 0.42 times as on March 31, 2022 (as against 1.19 times as on Mar-21). The gearing of the company stands moderate, however, the adequacy of the capital remains vulnerable to volatility in earnings, given the nature of the business.

Improving earnings profile

Post losses in FY19 and FY20 due to reduced business activity, the company turned profitable from FY21. During FY22, the company reported PAT of Rs.19.31 crore as against the PAT of Rs.5.35 crore during FY21. The core revenue i.e, brokerage income grew by 10% to Rs.179.68 crore in FY22. The growth in total revenue was largely supported by increase in interest on delayed payment charges which grew by 93% to Rs.22.23 crore in FY22. Consequently, ROTA stood at 2.31% in FY22 as against 0.84% in FY21 with PAT margin at 9.26% (FY21-3.00%).
The brokerage income forms 64% of the total revenue followed by income from e-governance business (9%), interest on deposit with banks (9%), interest on delayed payment charges (8%) and balance by other sources like NPS-POP, commission income, recovery of transaction fees, etc. The revenue of the company will continue to remain diversified largely driven by brokerage income, distribution income, interest income and income from e-governance business.

Key Rating weaknesses

Moderate financial flexibility and modest scale of operations

Group level challenges following corporate governance lapses at Religare Finvest Limited (RFL), a wholly owned subsidiary of REL not only led to financial distress at RFL but impacted operations of Group companies including RBL and significantly undermined REL's financial flexibility. REL has been able to raise capital amidst constrained market access from certain large investors viz Rs. 200.00 crore from Kedaara Group in Q1 FY21 for 6.39% stake sale in subsidiary Care Health Insurance Limited as well as Rs.570.00 crore in Q2 FY'22 by way of preferential allotment of equity shares to existing shareholders like Burman family, Ares SSG Capital and certain new marquee investors. However, the ability of REL to support business growth at RBL via timely and commensuration equity infusion amid uncertainty pertaining to impending OTS of RFL will be a key monitorable and resolution of the same remains a key rating sensitivity.

RBL's size continues to remain modest given the market share of the company. Even though the business volumes have witnessed growth Y-o-Y, the market share of RBL in the total exchange turnover is declining Y-o-Y; FY22- 0.10% as against FY21- 0.15%. The group views the brokerage operations as an important area of growth and intends to improve the overall scale and market standing of RBL. Hence, the company's progress in improving the market share continues to remain key monitorable.

Susceptibility towards regulatory changes

Capital and commodities market regulator, Securities and Exchange Board of India (SEBI) board has been constantly stepping up the vigil in the brokerage industry through series of regulatory changes aimed at protecting investor's interest. The peak margin rules that were implemented in a phased manner, require brokers to collect full margins in advance from clients, and was aimed at limiting the leverage used by traders to take positions in intraday trades. Furthermore, regulators are even in deliberation to enhance brokers and trading members' net worth criteria and provide a regulatory framework for third-party application programming interface-based trading strategies. Ability of the brokers to adapt their technology, systems and risk management processes in response to the constantly evolving regulatory landscape without any adverse impact on its overall business profile remains a monitorable.

Earnings vulnerable to overall market activity levels and competitive pressures

RBL does not engage in proprietary trading activities / speculative trading on its own account. Nonetheless, high dependence on equity capital markets exposes RBL's earnings to volatility in stock markets and trading volumes given that the revenue through brokerage forms 64% of the total revenue. Further, intense competitive pressures in the industry with zero brokerage firms seizing market share of entrenched players, continue to impact margins. RBL returned to profits in FY21 after posting losses for two consecutive years with PAT and ROTA (%) of Rs.19.31 crore and 2.31% respectively in FY22. Earnings in FY22 improved mainly on the back of increased interest income and better E-governance business and cost control measures taken. E-governance business has been providing a steady source of income and has been seeing increasing franchise strength from ~6000 to 12,000+ touch points.

Modest asset quality metrics

In case of Retail Broking, RBL provides broking unsecured debit balances outstanding for more than 90 days and secured debit balances outstanding for 180 days or more. RBL's asset quality indicators remain modest with net debtors outstanding for more than six months comprising 8.37% of tangible net worth as on March 31, 2022, as compared to 15.3% as on March 31, 2021. Debtors for more than six months primarily include debtors from depository business.

Liquidity: Adequate

RBL's total cash and bank balances stood at Rs.677.51 crore as on March 31, 2022, of which, Rs. 79.36 crore represents unencumbered cash and bank balances (as against Rs.90.00 crore as on September 30, 2021) and Rs.598.01 crore is in form of lien marked FDs pledged with banks (against bank guarantees and other credit facilities) and stock exchanges for margin purposes. Of the unencumbered cash and bank balances of Rs. 79.36 crore, Rs.60.23 crore represents balances in client accounts. Furthermore, average utilization of margin with stock exchanges was around 47% for the last 12 months ending March 31, 2022. The unutilized margin offers adequate liquidity cushion to RBL in case of any eventualities.

Analytical Approach: CARE has analysed the standalone credit profile of RBL along with factoring its linkages with the Religare Group.

Applicable Criteria

Policy on default recognition

Factoring Linkages Parent Sub JV Group

Financial Ratios - Financial Sector

Rating Outlook and Credit Watch

Short Term Instruments

Service Sector Companies

About the Company

Religare Broking Limited (RBL) is a wholly owned subsidiary of Religare Enterprises Limited (REL) and the retail broking arm of the Group which provides brokerage service across a range of products on all major stock and commodities exchanges in India. It is into the business of Equity/Commodity/Currency broking along with establishment in E-governance business, Depository services, Research, Insurance products, and other financial products distribution. Post the restructuring at the Group level, Religare Securities Limited's (RSL) broking business was transferred to RBL while the investment portfolio was merged into REL, as part of the scheme which was approved by the National Company Law Tribunal (NCLT) on December 8, 2017.

Standalone Financial Performance:

(Rs. crore)

Brief Financials	FY 21 (A)	FY22 (A)	Q1FY23
Gross Brokerage Income	163.35	179.68	Not applicable
Total Income	240.89	282.60	
PAT	5.35	19.31	
Total Assets	**734.58**	**934.17**	
ROTA (%)	0.84	2.31	
RONW (%)	5.48	13.73	
PAT Margin (%)	3.00	9.26	

A: Audited

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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
Fund-based/Non-fund-based-LT/ST	-	-	-	Up to One year*	350.00	CARE BBB-; Stable/ CARE A3
Fund Based/Non-fund based-LT/ST (Proposed)	-	-	-	-	150.00	CARE BBB-; Stable/ CARE A3

for short term

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	Fund-based/Non-fund-based-LT/ST	LT/ST*	350.00	CARE BBB-; Stable / CARE A3	1)CARE A3 (05-Aug-22)	1)CARE A3 (27-Dec-21)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	150.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable (05-Aug-22)	-	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Financial covenants	
I) Adjusted Tangible Net worth (ATNW)	The company is required to maintain an ANTW of Rs 160 crore to be calculated as per the HDFC bank calculation method.
II) BG: non-BG ratio	The company is required to maintain BG: non-BG ratio of 65:35 at all times.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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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About us:
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