

Reliance Securities Limited (Revised)

February 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Market Linked Debentures	2.00 (reduced from 6.77)	CARE PP-MLD B+ (RWD)	Reaffirmed; 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) of Reliance Securities Limited (RSL) 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 resolution process leading to significant improvement in the overall business operation and earning profile on 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.

Detailed description of the key rating drivers:

Key strengths

Experienced management team

The company is led by Mr. Luv Chaturvedi (B.com, CFA and MBA)- Executive Director, having more than 15 years of industry experience; and is supported further by other professional people like Ms. Homai Daruwalla (B.com, CAIIB and FCA)- Independent Director, having 42 years of professional experience in banking sector and having retired as Chairman & MD of Central Bank of India and also Mr. Chetan Desai (Chartered Accountant) - Independent Director, 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. Mr. Sanjay Sharma- Whole Time Director and Chief Financial Officer of the company has also joined the company.

Comfortable solvency profile

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

RSL's overall gearing stood at 0.05 times as on March 31, 2023, as compared to 0.61 times as on March 31, 2022. The debt of the company has been on a declining trend from past few years leading to improvement in gearing. As on September 30, 2023, gearing further declined to 0.02 times.

Key weaknesses

Volatile earnings profile

During FY23, the profitability of the company witnessed improvement from Rs.17.93 crore in FY22 to Rs.20.28 crore in FY23 primarily on account of decrease in expenses like finance cost, employee cost and other operating expenses. Brokerage income continued to decline and stood at Rs.74.87 crore in FY23 as against Rs.102.66 crore in FY22.

During H1FY24, the profitability was in line with that of H1FY23. The PAT for H1FY24 stood at Rs. 10.47 crores as against the PAT of Rs. 11.52 crore. Given that the cost of MLD borrowings are linked to market performance they are hedged by taking positions in derivatives options. Thus, a gain on these options leads to reduced or negative borrowing cost.

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

Given the pending resolution of RCL, 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 no. of branches declining to 50 as on November 30, 2023, from 112 at end of FY21. Further, the NSE active client base has also seen a downtrend and stood at 89,847 during FY23 compared with 1,07,201 during FY22. It further dipped to 76,161 as of November 2023 end.

The turnover for H1FY24 increased from Rs. 32,37,225 crores in H1FY23 to Rs. 44,10,286 crores in H1FY24. For H1FY24, Proprietary trading accounted 82% of the total trading turnover.

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 capitalization of the company.

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

The broking industry is currently witnessing a moderation in the active client growth as well as volumes on account of volatility in the capital market activities due to various global events. In these circumstances, many broking firms have lost their share in the active client base. Given the competition risk, the company's ability to maintain its market share will remain a key monitorable. In addition to this, intense competitive pressures in the industry with discount brokerage firms seizing market share of traditional players continue to impact the brokerage fees and margins. Large broking firms are in better position to reduce operating expenses and maintain their margins.

Liquidity: Adequate

As on November 30, 2023, the company had free cash and balances of ₹18.79 crore and Mutual fund investment of ₹199.98 crore. The company has no debt repayment in Q4FY24 and FY25.

Applicable criteria

[Policy on default recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Financial Ratios - Financial Sector](#)

[Broking](#)

[Factoring linkages with the parent company](#)

[Market Linked Notes](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Capital Markets	Stockbroking & Allied

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)	FY23 (A)	H1FY23 (UA)
Brokerage, commission, and fees	103	65	33
Total income	336	261	129
PAT	17.93	20.28	10.47
Total assets (net of deferred tax assets and intangible assets)	820	640	664
ROTA (%)	2.29	2.78	3.08

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'
 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 last three years: Please refer Annexure-2

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

Complexity level of 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	INE923I07171	28-Apr-2021	Market Linked	29-May-2026	2.00	CARE PP-MLD B+ (RWD)
Principal protected Market Linked Debentures	INE923I07114	01-Feb-2019	Market Linked	20-Jun-2023	-	Withdrawn
Principal protected Market Linked Debentures	INE923I07114	31-Jan-2019	Market Linked	20-Jun-2023	-	Withdrawn
Principal protected Market Linked Debentures	INE923I07122	21-Dec-2018	Market Linked	26-Jun-2023	-	Withdrawn
Principal protected Market Linked Debentures	INE923I07148	10-Apr-2019	Market Linked	07-Oct-2023	-	Withdrawn
Principal protected Market Linked Debentures (Proposed)	-	-	-	-	-	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 2023-2024	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
1	Debentures-Market Linked Debentures	LT	2.00	CARE PP-MLD B+ (RWD)	-	1)CARE PP-MLD B+ (RWD) (08-Feb-23) 2)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)

*Long term/Short term.

Annexure-3: Detailed explanation of 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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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