Religare Broking Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term Bank Facilities	500.00	CARE BBB; Stable / CARE A3+	Revised from CARE BBB-; Stable / CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the ratings assigned to the bank facilities of Religare Broking Ltd (RBL) factors in its improved earnings profile and increasing scale of operations with diversification in its revenue profile. Revision also factors in the improvement in the financial flexibility of the group with the completion of the One Time Settlement (OTS) by Religare Finvest Limited (RFL); wholly owned subsidiary of Religare Enterprises Limited (REL) (parent company of RBL).

Rating also factors in the long track record of the company along with seasoned management team and comfortable capital structure. Further, the ratings take into consideration the increase trading volume across segments.

However, the rating is constrained by moderate scale of operations, earnings vulnerable to market activities, competitive pressure and susceptibility towards regulatory changes.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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.
- Improvement in cost to income ratio below 65% on a sustained basis.

Negative factors

- Weakening of the capital structure.
- Exposure towards group companies outside of broking business.
- Deterioration in the market share impacting broking income of the company.
- Moderation in the earnings and liquidity profile of the company.
- Increase in gearing (including non-fund-based debt) beyond 4x on a sustained basis.

Analytical approach: Standalone

CARE Ratings Limited (CARE Ratings) has analysed the standalone credit profile of RBL along with factoring its linkages with the Religare Group.

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

Outlook: Stable

The stable outlook reflects expectation of continued improvement in the operational and financial position, leading to increased profitability and comfortable capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Long track record of retail broking combined with seasoned management

RBL operates in the retail brokerage segment with an established network of own branches and authorised persons of more than 1,700 touch points spread over 400 cities in India and a total active client base of approximately 2 lakhs (total client base of more than 1 million). Its distribution strategy entails a combination of its own branches and a network of franchisees. The average daily turnover (ADTO) increased by 76% to ₹16,000 crores in FY24 and has been showing an increasing trend year-on-year.

The management of the Company is undertaking several initiatives to generate scale-based growth and regain the lost market share in the retail brokerage space and other allied services. During the FY 24, the company has witnessed healthy growth in acquiring the new e-governance franchisees. In FY 24, total franchisees for e-governance business have increased from 27,000 in FY23 to 44,000 in FY24 [Growth 63% YoY]. Further, the company has embraced an asset-light growth strategy, minimizing future investments in physical infrastructure while enhancing its emphasis on technology, products, and marketing efforts.

The company is led by an experienced management team, each member boasting an average 2+ decades of experience in the financial services industry. This extensive expertise positions the company well for steady business growth based on its established operational track record.

Adequate gearing levels

As on March 31, 2024, the tangible net-worth of the company stood at Rs. 231.33 crores as against Rs. 192.70 crores as on March 31, 2023. Total borrowings (including non-fund-based debt) increased to Rs.517.84 crores as on March 31, 2024, from Rs.448.38 crores as on March 31, 2023, on account of increased own funding requirements due to SEBI's regulation prohibiting the stockbrokers from creating BGs out of clients' funds and, also to increase the lending through Margin Trade Funding (MTF) product. Out of the total borrowings, fund-based borrowing comprises of 65% and balance is non-fund based in the form of Bank guarantees. The total borrowings included Rs. 118.00 crores of unsecured short-term debt from the group companies which reflects support from the group.

The overall gearing (including non-fund-based debt) stood comfortably at 2.24 times and net gearing (total debt adjusted against bank balance lien marked for credit facilities) stood at 1.02 times. The gearing of the company stands adequate, however, the capital remains vulnerable to volatility in earnings, given the nature of the business.

Improving earnings profile along with diversified income streams

RBL is a trading member of various stock exchanges like NSE, BSE, MCX etc. It has a basket of diversified products being offered which includes broking services in all segments (equity, derivatives, commodities and currency), lending in the form of Margin trade funding (MTF), third-party financial products distribution (insurance, mutual fund, bonds, corporate fixed deposits, IPO, etc) and e-governance services. To re-gain its market share, the Company is in process of offering Algo based trading platform to HNIs/Traders.

During FY24, the profitability improved significantly by 247% to Rs. 33.34 crores from a PAT of Rs. 9.61 crores in FY23. Further, the top line grew by 28% and stood at Rs.369.01 crores supported by increase in brokerage income, interest income and e-governance business. Improvement in Total income and cost-to-income ratio in FY24 led to improvement in RoNW, RoTA and PAT margin, which stood at 15.73% (FY23: 5.17%), 2.82% (FY23: 1.00%) and 9.04% (FY23: 3.34%), respectively, in FY24.

The company has been focusing on diversifying revenue stream in order to reduce its dependency on broking income which is volatile in nature as it is driven by the market activities. In 2021, brokerage revenue formed 68% of the total income which has come down and remained in the range of 56% in FY23 and to 55% in FY24. In FY24 brokerage revenue forms 55% of the total revenue followed by interest income which forms 24%, income from e-governance business which forms 12% and, balance by sources like NPS-POP, commission income, recovery of transaction fees, etc. Given the increasing scale of operations, the cost to income ratio has improved in FY24 and stood at 86.7% as against 92.1% in FY23; however, it is still on higher side as the company has to pay commission to its APs on the turnover posted by their customers and the same has gone up in FY24. With growing scale, sustainability of earning remains a key monitorable.

Key weaknesses

Moderate scale of operations however improving turnover

RBL's size continues to remain moderate given the market share of the company. Its market share in cash segment declined marginally from 0.44% in FY23 to 0.38% in FY24, and in F&O segment also, the market share declined from 0.05% in FY23 to 0.04% in FY24. The market share is declining due to increased competition from discount brokers, and at the same time, algorithmic trading, discount brokerage services, and low margin requirements are driving up Futures and Options (F&O) trading volumes overall. However, the company was able to increase its trading turnover and revenue per client during the year. It reported a total turnover of Rs. 39,21,162 crores in FY24, posting a Y-o-Y growth of 70% from Rs. 23,09,975 crores in FY23. Hence, the company's progress in improving the market share and trading volumes continues to remain key monitorable.

Earnings vulnerable to overall market activity levels and competitive pressures

RBL is not engaged in proprietary trading activities / speculative trading on its own account. The brokerage income forms 55% of the total revenue followed by income from e-governance business (12%), interest income (24%) and, balance by other sources like NPS-POP, commission income, recovery of transaction fees, etc. The brokerage income and interest income from MTF lending is directly a function of the market performance, which is highly volatile in nature and exposes RBL's earnings to volatility in stock markets. As the revenue base is still dominated by income from broking business, which remains influenced by volatility in the market volumes, the Company is attempting to diversify its revenue streams for higher stability across business cycles.

Further, the company is exposed to fierce competition in the highly competitive brokerage space and with the introduction of 100% digital and zero brokerage firms the brokerage rates are at competitive levels across the industry. However, with continuous efforts, traditional players like RBL have been successful in building their digital platforms for its customers and survive in this competitive industry. Apart from revenue diversification, the focus of the company has been on maintaining client relationship and hence RBL continues to offer its services in both the forms i.e., traditional (offline) as well as digital investment services.

Given the competitive risks, it will be crucial to monitor the company's ability to maintain its market share and enhance profitability.

Susceptibility towards regulatory changes

The capital market industry has witnessed continuous regulatory revisions. With the objective of further enhancing the transparency levels and limiting the misuse of funds, SEBI has introduced a few regulations in the last few years.

In May 2023, SEBI prohibited stockbrokers from using client's funds for BGs. Brokers now deploy their own funds; hence, increase in the funding requirements is leading to higher finance cost. The on-book gearing of the industry players is also increasing post this regulation. In June 2023, SEBI introduced a regulation under which stockbrokers are required to upstream clients' funds to clearing corporation. These funds must be up streamed to clearing corporation in the form of cash, lien on FD receipts or pledged units of mutual fund overnight schemes. Similarly, the funds received from the clearing corporation should be further down streamed to the clients' accounts. This has increased the operational and compliance cost for the brokers.

CARE Ratings will continue to monitor RBL's ability to adapt its technology, systems, and risk management processes in response to the constantly evolving regulatory landscape without any adverse impact on its overall business profile.

Liquidity: Adequate

The liquidity profile of RBL is adequate. RBL's total cash and bank balances stood at ₹834.71 crore as on March 31, 2024 (as against ₹646.15 crore as on March 31, 2023), of which ₹31.43 crores was unencumbered cash and bank balances and ₹803.27 crore was in the 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 ₹31.43 crore, ₹13.19 crore represents balances in client accounts. Furthermore, average utilisation of margin with stock exchanges was around 15% for the last 12 months ending March 31, 2024. The unutilised margin offers adequate liquidity cushion to RBL in case of any eventualities. The company also has un-utilised bank line limit of ₹ 34.67 Crore (Including Overdraft against Fixed deposit of ₹27.67 Crores) as on March 31, 2024.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Broking Firms
Short Term Instruments

About the company and industry

Industry classification

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

Religare Broking Limited, a wholly owned subsidiary of Religare Enterprises Limited, provides a comprehensive range of services to retail clients. The broking business was started by Religare group more than 25 years ago and currently, offers a full range of broking services such as equities, commodities, and currencies, depository participant services, bonds & mutual fund distribution, besides selling insurance policies as an IRDA registered Corporate Agent and offering research capabilities to its customers.

RBL is also registered with Pension Fund Regulatory and Development Authority (PFRDA) and SEBI to act as Point of Presence (PoP) for National Pension Scheme (NPS) and Registrars to an issue and share Transfer Agent (RTA) respectively.

RBL also offers government services, financial inclusion services and citizen e-services and other ancillary and allied services including but not limited to the following: Permanent Account Number (PAN), Tax Deduction and Collection Account Number (TAN) and e-TDS returns, Business Correspondent for banking services, Bharat Bill Payment Systems (BBPS) & Recharges, Ticketing for airline, railways, bus or tourism through any online/ offline platform, Digital Signature Certificate and Token (DSC) and Central Record Keeping Agency Facilitation Centre (CRA-FC). The company operates through a network of around 69 branches, approximately ~1,600 broking business partners and ~44,000 e-governance franchisees in 400+ cities across India. It has more than 1 million broking clients.

Brief Financials (₹ crore)	March 31, 2022 / FY22 (A)	March 31, 2023 / FY23 (A)	March 31, 2024 / FY24 (A)
Total operating income	277.18	280.26	363.64
PAT	19.29	9.62	33.34
Interest coverage (times)	3.57	2.20	3.00
Total Assets	944.92	979.72	1,387.68
RoNW (%)	13.71	5.17	15.73
ROTA (%)	2.30	1.00	2.82

A: Audited; Note: 'the above results are latest financial results available'
#Based on the calculation of CARE Ratings.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	340.00	CARE BBB; Stable / CARE A3+
Fund-based/Non-fund-based-LT/ST (Proposed)	-	-	-	-	10.00	CARE BBB; Stable / CARE A3+
Fund-based/Non-fund-based-LT/ST (Proposed)	-	-	-	-	150.00	CARE BBB; Stable / CARE A3+

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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	350.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (05-Jul-23)	1)CARE BBB-; Stable / CARE A3 (19-Aug-22) 2)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 / CARE A3 (05-Jul-23)	1)CARE BBB-; Stable / CARE A3 (19-Aug-22)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
							2)CARE BBB-; Stable (05-Aug-22)	

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: 91-120-4452002 E-mail: gaurav.dixit@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 914428501001 E-mail: pradeep.kumar@careedge.in	Sudam Shrikrushna Shingade Associate Director **CARE Ratings Limited** Phone: +91-22 6754 3453 E-mail: sudam.shingade@careedge.in Lokesh Warjurkar Lead Analyst **CARE Ratings Limited** E-mail: lokesh.warjurkar@careedge.in

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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