

Reliance Securities Limited

March 13, 2019

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Market Linked Debentures*	150	CARE PP-MLD A (SO) [PP-MLD Single A (Structured Obligation)] (Credit watch with developing implications)	Revised from CARE PP- MLD AA- (SO) [PP-MLD Double A Minus (Structured Obligation)] and continues to be on Credit watch with developing implications
Total	150 (Rupees One Hundred & Fifty crore only)		

Details of instruments/facilities in Annexure-1

*The rating is based on the credit enhancement in the form of a 'Letter of Comfort' issued by Reliance Capital Ltd. (RCL), rated 'CARE A+' (Credit watch with developing implications), in favor of RSL's investors/lenders in the aforesaid instruments.

Detailed Rationale & Key Rating Drivers

The rating assigned to the instrument of Reliance Securities Ltd. (RSL) is based on the credit enhancement in the form of a 'Letter of Comfort (LoC)' issued by Reliance Capital Ltd. (RCL) in favour of lenders/investors of RSL.

The rating revision follows the revision in rating of the parent company, RCL. The revision in the ratings of RCL factors in the delay in sale of group assets/investments coupled with lower than envisaged fund inflows as per the timelines committed by the management. The management has further revised the timelines which is expected to delay RCL's deleveraging plan. The rating revision also takes cognizance of moderation in financial flexibility of RCL with higher proportion of promoters' shares being pledged, difficulty in raising resources in light of tighter funding environment prevailing for the NFBC sector and substantial reduction in liquidity buffers.

The ratings remain under credit watch with developing implications as CARE would closely monitor the progress of sale of group assets/investments as per the timelines stated by RCL in order to reduce its debt levels. Further, the ratings take into account RCL's sizeable exposure to group companies in the non-financial business segments having weak financial profiles and requiring continued support from RCL. While some of these group entities have been identified by RCL for divestment, timely exit from these investments will be critical for reducing its leverage.

The ratings continue to factor in strength from RCL's experienced management and strong business franchise of subsidiaries/associates in financial services segments including Asset Management, Life Insurance, General Insurance, Health Insurance, Broking, Commercial and Housing Finance businesses.

Going forward, RCL's ability to maintain liquidity levels and divest group exposures as envisaged and unlock value in a timely manner thereby reducing leverage will act as key rating sensitivities.

Detailed description of the key rating drivers of RCL (LOC Provider)

Key Rating Strengths

Financial services company of Anil Dhirubhai Ambani Group

Reliance Capital Ltd. (RCL) is the financial services flagship Company of ADA Group which has presence across various sectors namely finance, telecom, defence, energy, power, infrastructure, media and entertainment. Apart from RCL, Reliance Communications Ltd. (rated 'CARE D'), Reliance Infrastructure Ltd. (rated 'CARE B/ CARE A4'; Issuer not cooperating) and Reliance Power Ltd. are the other flagship companies of the ADA group. However, with delay in servicing of Reliance Communications Ltd.'s debt obligations and promoter not being able to support the company, financial flexibility of ADA group has been impacted. Promoter and promoter group owns 52.24% stake in RCL as on December 31, 2018 out of which 74.55% of shares are pledged.

Unlocking of the investments in the financial services business segment

RCL has financial flexibility arising out of its holdings in established businesses in the financial services segment. RCL has also demonstrated its ability to unlock value of its investments in the financial services segment by bringing in strategic investor along with listing of some of the companies. Financial companies like Reliance Home Finance Ltd. and Reliance Nippon Life Asset Management Ltd. (RNAM) have been listed, and RCL holds 47.91% and 42.88% stake respectively. Apart from the listing, RCL has been able to bring in strategic investors for Reliance Asset Reconstruction Company Ltd (RCL has 49% stake) and Reliance Nippon Life Insurance Company Ltd (RCL has 51% stake).

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

The other companies in the financial space are Reliance Securities Ltd (RCL has 100% stake), Reliance Financial Ltd (RCL has 100% stake), Reliance Commercial Finance Ltd (RCL has 100% stake), Reliance General Insurance Company Ltd (RCL has 100% stake).

Key Rating Weaknesses

Reduction in liquidity buffers

During FY18, RCL had exits from its investments aggregating to about Rs.1,400 crore including Reliance Nippon Life Asset Management Ltd., Reliance Broadcast Network Ltd. and others. Apart from this, the company had maintained cash balance of Rs.2,941 crore as on March 31, 2018. Going forward, as per the revised schedule the company has divestment plans aggregating to about Rs.14,000 crore including Rs.6,000-7,000 crore from RNAM and Rs.3,000 crore from listing of its general insurance company.

The cash and bank balance reduced to Rs.46 crore as on December 31, 2018 from Rs.2,941 on March 31, 2018. Further, RCL's resource profile mainly comprises of NCDs which have repayments spread across the period from FY19 to FY28 in the range of Rs.2,000 crore to Rs.3,000 crore per year. The resource profile consists of tangible net worth of Rs.14,005 crore and borrowings worth Rs.20,707 crore of which NCDs are Rs.19,750 crore (95%), bank term loans of Rs.615 crore (3%) and commercial paper of Rs.342 crore (2%) as on March 31, 2018. As on January 31, 2019, the total borrowing has remained at levels similar to March 31, 2018 with proportion of commercial paper increasing to Rs.1,080 crore, subjecting RCL to refinancing risk amidst prevailing tight funding scenario for the sector.

Delay in sale of group assets/investments as per timelines provided by RCL

On November 23, 2016, the group announced sale of its radio business and general entertainment TV business. The transaction relating to the sale of the TV business to Zee group has been completed and the sale proceeds of Rs.300 crore were realised in August 2017. The management is exploring new avenues and expects inflow of about Rs.1700 crore from the sale of radio business which has been further delayed and is now expected to be concluded by June 2019. The company also plans to sell upto 49% stake in Reliance General Insurance via IPO; the same, however, has been rescheduled from December 2018 to June 2019. The company has also announced sale of their entire stake of 42.9% in the AMC business to Nippon Life Insurance Company Limited. The company has further committed to exit from its media businesses to pare down its debt levels.

However, RCL has been able to achieve only about a third of the total exits planned by the management by September 2018 with timelines for other exits being rescheduled. Some of the key exits achieved during the period are Yatra Online stake sale and Codemasters sale.

As at the end of FY18, RCL had total exposure of Rs.17,653 crore to its group companies in the form of CCDs of Rs.7,700 crore (P.Y. Rs.6,250 crore) and loans & advances of Rs.9,953 crore (P.Y. Rs.8,575 crore). These exposures are mainly towards the non-financial businesses of the group. However, out of the total investments in the non-financial business, the management has stated timelines for exits from the radio business, Mahindra First Choice and Prime Focus stake sale. Timely conclusion of the envisaged divestments will be critical for reducing the leverage of RCL.

Further, RCL has exposure towards RCOM (rated 'CARE D') and its group companies and on a consolidated basis, the company has fully provided for RCOM exposure as on December 31, 2018. RCOM has decided to implement the debt resolution plan through the NCLT framework as announced on February 01, 2019.

Moderate gearing levels

RCL's standalone gross gearing stood at 1.48 times (PY: 1.37 times) as on March 31, 2018. Capital ratio as on March 31, 2018 stood at 47% (PY: 38%). As per regulations, a NBFC-CIC has to maintain a minimum capital ratio of 30% and leverage of less than 2.5 times. As on March 31, 2018, the adjusted gross gearing (post inclusion of CARE rated 'SO' limits and other outstanding corporate guarantees) stood at 1.97 times. RCL's plan to unwind its exposures from various group companies shall have a positive impact on its gearing levels going forward; however, the company has not been able to reduce its leverage during FY18 and 9MFY19 as per its stated commitments due to delay in its divestment plans.

RCL's consolidated net worth stood at Rs.8,139 crore as on December 31, 2018 as compared to Rs.16,961 crore as on March 31, 2018. The reduction is due to various INDAS adjustments made, which inter alia include, change in the method of valuation of long term debt instruments, Expected Credit Loss (ECL) provisioning, impact of ECL on corporate guarantees, tax-related provisions, reversal of goodwill method of amortization of processing fees and others.

Analytical approach: The rating of instruments of RSL is based on the assessment of RCL which has given 'Letter of Comfort' for these instruments.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Factoring Linkages in Ratings](#)

[Criteria for placing rating on credit watch](#)

[Market Linked Debentures/Notes](#)
Liquidity profile

RCL's cash and bank balance reduced to Rs.46 crore as on December 31, 2018 from Rs.2,941 on March 31, 2018. RCL's resource profile mainly comprises of NCDs which have repayments spread across the period from FY19 to FY28 in the range of Rs.2,000 crore to Rs.3,000 crore per year. The resource profile consists of tangible net worth of Rs.14,005 crore and borrowings worth Rs.20,707 crore of which NCDs are Rs.19,750 crore (95%), bank term loans of Rs.615 crore (3%) and commercial paper of Rs.342 crore (2%) as on March 31, 2018. As on January 31, 2019, the total borrowing has remained at levels similar to March 31, 2018 with proportion of commercial paper increasing to Rs.1,080 crore, subjecting RCL to refinancing risk amidst prevailing tight funding scenario for the sector.

About the Company**RCL**

Reliance Capital Ltd. (RCL) is the company of Reliance Group in the financial services space. It is one of India's leading private sector financial services companies and ranks amongst the top private sector financial services companies in terms of net worth. RCL is converted into a 'Core Investment Company' subject to necessary approvals from RBI on September 07, 2018. Reliance Capital has interests in asset management and mutual funds; life and general insurance; commercial and home finance; equities & commodities broking; investment banking; wealth management services; distribution of financial products; private equity; asset reconstruction; proprietary investments and other activities in financial services. On a standalone basis, RCL's tangible net worth stands at Rs.14,005 crore as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	1,954	3,275
PAT	419	828
Interest coverage (times)	1.4	1.6
Total Assets	33,137	36,189
Net NPA (%)	0.0	0.0
ROTA (%)	1.2	2.4

RSL

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. The company is majorly engaged in retail broking with over 97% of its broking revenue coming from retail clients' vis-à-vis 3% of broking revenue coming from institutional clients. The company offers offline trading services as well as online trading platform including mobile app based trading facility. The company also offers stock lending and borrowing facility, cross selling/distribution of other financial products, carry forward trade loans and research services. The company has over 1000 branch and franchisee offices in India.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	194.88	249.48
PAT	(0.20)	29.28
Interest coverage (times)	0.98	2.33
Total Assets	631.16	790.76
Net NPA (%)	NA	NA
ROTA (%)	(0.04)	4.21

All analytical ratios are based on CARE's 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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. cr)	Rating assigned along with Rating Outlook
Debentures -Market Linked Debentures	27-Feb-18	Market Linked	27-May-21	8.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debentures -Market Linked Debentures	16-Mar-18	Market Linked	27-May-21	2.48	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debentures -Market Linked Debentures	23-Mar-18	Market Linked	27-May-21	0.98	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debentures -Market Linked Debentures	27-Mar-18	Market Linked	27-May-20	13.75	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debentures -Market Linked Debentures	28-Mar-18	Market Linked	27-May-21	1.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debentures -Market Linked Debentures	24-Apr-18	Market Linked	27-May-20	1.34	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debentures -Market Linked Debentures	02-May-	Market Linked	02-Nov-22	4.50	CARE PP-MLD A (SO) (Credit watch with developing implications)

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Debtures -Market Linked Debtures	08-May-18	Market Linked	27-May-20	2.72	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	01-Jun-18	Market Linked	31-Jul-20	5.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	28-Jun-18	Market Linked	31-Jul-20	1.98	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	05-Jul-18	Market Linked	05-Jul-22	6.37	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	30-Jul-18	Market Linked	02-Dec-20	1.84	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	31-Jul-18	Market Linked	31-Jan-23	13.47	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	01-Aug-18	Market Linked	31-Jan-23	3.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	09-Aug-18	Market Linked	09-Aug-22	8.05	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	23-Aug-18	Market Linked	23-Feb-23	6.45	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	26-Oct-18	Market Linked	31-Jan-23	2.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	17-Dec-18	Market Linked	20-Jun-23	2.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	21-Dec-18	Market Linked	26-Jun-23	5.33	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	27-Dec-18	Market Linked	20-Jun-23	2.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	29-Jan-19	Market Linked	20-Jun-23	2.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	31-Jan-19	Market Linked	20-Jun-23	1.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	01-Feb-19	Market Linked	20-Jun-23	2.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures	07-Feb-19	Market Linked	20-Jun-23	3.00	CARE PP-MLD A (SO) (Credit watch with developing implications)
Debtures -Market Linked Debtures (Proposed)	-	-	-	49.74	CARE PP-MLD A (SO) (Credit watch with developing implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debtures-Market Linked Debtures	LT	150.00	CARE PP MLD A (SO) (Under credit watch with developing implications)	1) CARE PP MLD AA-(SO) (Under credit watch with developing implications) (08-Oct-18)	1) CARE PP-MLD AA (SO) (Under credit watch with developing implications) (22-Sep-17)	-	-

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