



Reliance Commodities Limited

Instrument	Amount in Rs. crore	Rating Action
		Feb-12
Short Term Non Fund based bank lines	200	[ICRA]A1+ Assigned

Rating of [ICRA]A1+(pronounced as ICRA A one plus) has been assigned to the Rs.200.00 crore of short term non-fund based bank lines of Reliance Commodities Limited (RCoL)*. The rating factors in the strong parentage of RCoL, being a 100% subsidiary of Reliance Capital Limited (rated [ICRA]A1+) which has a wide presence within the Indian financial sector and strong brand image being associated with the "Reliance – ADA" group. RCoL has exhibited increasing trading volumes and improvements in its market share. The company has adequate risk management systems and liquidity profile, as well as a wide pan India reach. However, the rating takes note of the concentration of revenues from retail commodity broking income and the relatively low capitalization levels at the standalone entity. The rating at the current level also reflects RCoL's relative positioning with other ICRA rated commodity brokerage houses. The rating also factors in the Letter of Comfort issued by Reliance Capital Limited in favour of the bankers indicating their willingness to support the entity to meet its financial and statutory obligations in a timely manner. Going forward, RCoL's rating would be sensitive to the company receiving continued support from the parent and its ability to improve upon its profitability and market share while managing comfortable asset quality in its commodity broking business through economic downturns.

The Reliance ADA group began its significant foray into capital market activities in April 2007 under its brand "Reliance Money". While "Reliance Money" platform is used for offering various financial services like equity broking, commodity broking, money exchange, money remittances, off-shore investment products and distribution of mutual funds, gold coins, Initial Public Offer (IPOs), life insurance & general insurance products, Reliance Commodities Limited (RCoL) is largely associated with retail and institutional commodity broking.

Reliance Commodities Limited. (RCoL) is a 100% subsidiary of Reliance Capital Limited. The company commenced operations in FY2006. RCoL is primarily engaged in commodity broking with increasing presence in the institutional space, and has membership in both National Commodity and Derivatives Exchange (NCDX) and Multi Commodity Exchange of India (MCX).

RCoL carries out commodity broking activities for both corporates as well as retail clients. On the retail commodities broking operations, RCoL has 80 branches and 4113 franchisees outlets catering to more than 38,500 customers as on September 30, 2011. RCoL's average daily commodity turnover volumes increased to Rs.440 crore from Rs.305 crore indicating a more than 44% increase over FY2011. In H1FY12, average daily commodity broking turnover has further increased to approximately Rs.845 crore, indicating more than 86% rise on an annualised basis over FY2011. However, yields for the company have moderated from 1.33 bps in FY2011 to 0.74 bps in 6MFY12. During FY2011, commodity turnover on NCDEX and MCX in aggregate increased by more than 50% to approximately Rs.114.77 lakh crore. In H1FY12, volumes have further increased to Rs.92.98 lakh crore, indicating an increase of more than 50% over FY2011 (annualised). Consequently on account of higher than industry growth, RCoL improved its market share to 1.14% in H1FY12 from 0.98% in FY2011. Going forward, RCoL wishes to increase its trading volumes by shifting focus towards the HNI and Corporate Clientele.

While retail segment contributes 25%, HNI and Institutional commodity broking constitutes ~50% and 25% respectively of RCoL's total turnover. Since FIIs and DIIs are as yet not allowed to trade in domestic commodities space, RCoL's institutional clients are predominantly domestic MSMEs trading in mostly the agriculture and base metals segments. Going forward, with increasing focus of RCoL

* For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications



towards the HNI and Corporate Clientele the revenue mix is expected to change in favour of them. RCoL has an experienced 10 member research team and the management believes that the quality of research is one of the key success factors of the organisation. RCoL does not undertake arbitrage trading in its books.

RCoL during Q3FY12 commenced its corporate consultancy business wherein the company provides its expertise in the physical delivery segment by leveraging its network within the important commodity markets spread across the country. RCoL allows its corporate clients to procure the necessary commodities through off-market transactions, and use their experts in the commodity markets to take delivery. RCoL charges a consultancy fees for enabling the transaction. The company draws synergies from the parent in terms of able to provide funding to the clients from Reliance Capital and accordingly earns commission on the same.

The risk management system of RCoL is strong and it shares the risk management infrastructure of Reliance Securities Limited. Margin requirement of clients is maintained as required by the exchange houses. Margins are collected primarily in the form of cash margin though for a few of the big clients, margins are also collected in the form of bank guarantees and securities after haircut. RCoL applies haircut on securities as per its internal risk management policy and continuous online monitoring is done by the company. Agile square-off mechanism is in place for the company with squaring-off of the client's position if the margin falls below levels prescribed in the risk management policy.

The asset quality of RCoL remained comfortable with marginal provisions and write-offs being made by the company. RCoL's capital requirement is mainly for meeting margin requirements at the exchanges as the company is not involved in any margin funding activities for its clients. RCoL's broking business has a comfortable liquidity profile with low utilisation of margins placed with stock exchanges (generally in the range of 60-80%), unutilized bank lines available with the company and high financial flexibility enjoyed by the company by being a subsidiary of Reliance Capital Limited.

Company profile

Reliance Commodities Ltd

RCoL is a wholly owned subsidiary of Reliance Capital Ltd and is currently involved in commodity broking business using the online platform of Reliance Money. As on December 31 2011, RCoL had a networth of Rs.9.73 crore.

During 9M FY12, RCoL reported a net Profit after Tax of Rs.2.98 crore on a Total operating income of Rs.11.33 crore as compared with a net Profit after Tax of Rs.1.62 crore on a net operating income of Rs.6.95 crore in FY2011.

Reliance Capital Limited

RCL is a part of the Anil Dhirubhai Ambani (ADA) faction of the Reliance group, formed by the reorganization of the erstwhile Reliance group. RCL supports the Reliance-ADA group companies in form of equity or debt apart from managing a proprietary investments book. RCL's subsidiaries are engaged in the business of managing a Mutual fund (which is the largest mutual fund in the country with average assets under management of nearly Rs.1,00,000 crore during the month of March 2011), general & life insurance business and online equity broking. RCL started its consumer finance business in May 2007 with a focus on secured lending and currently, mortgage, auto, commercial vehicles and business loans form bulk of the portfolio. In Q4FY09, RCL had formed two NBFCs – Reliance Commercial Finance Limited and Reliance Home Finance Limited for undertaking incremental consumer funding business operations and accordingly, the new businesses are undertaken in its subsidiaries. However, w.e.f. April 2010 - Reliance Commercial Finance Limited has been merged with Reliance Capital Limited.

On standalone basis, RCL reported a net profit of Rs 3.39 billion on a total income base of Rs 1902 crore in FY11 as compared with a net profit after tax of Rs 339 crore on a total income base of Rs 2,220 crore in FY10. While on a consolidated basis, RCL reported a net profit of Rs 291 crore on a



total income base of Rs 5387 crore in FY11 as compared to a net profit after tax of Rs 435 crore on a total income base of Rs 6144 crore in FY10

February 2012

Key Financials for Reliance Commodities (in Rs.crore)	Dec-11	Mar-11	Mar-10	Mar-09
Number of months	9	12	12	12
Brokerage income (net)	6.55	5.41	5.11	2.02
Total Revenues	11.33	6.95	6.09	2.61
Adjusted Profit After Tax	2.98	1.62	1.85	1.04
Networth	9.73	6.75	5.13	3.28
Minority Interest	0.00	0.00	0.00	0.00
Cost to Income Ratio	64.96%	68.40%	33.77%	56.19%
Adjusted Profit After Tax / (Net Worth + Minority Interest)	30.61%	23.94%	36.07%	31.85%
Debt / (Net Worth + Minority Interest)	0.00	0.00	0.49	1.16

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