



Reliance Securities Limited

Instrument	Amount Outstanding in Rs. crores	Maturity date	Rating Outstanding
			Jan-12
Short Term Non Fund based bank lines	200.00		[ICRA]A1+

Rating of [ICRA]A1+(pronounced as ICRA A one plus) has been assigned to the Rs.200.00 crores of short term non-fund based bank lines of Reliance Securities Limited (RSL)*. The rating factors in the strong parentage of RSL, 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. RSL has adequate risk management systems and liquidity profile and a wide pan India reach. The rating takes note of the concentration of revenues from retail equity broking income which is expected to increase on account of the recent corporate restructuring, RSL's declining market share in terms of trading volumes and falling operating profits amidst declining broking yields and lower retail participation within capital markets and moderate standalone capitalisation levels. The rating at the current level also reflects RSL's relative positioning with other ICRA rated brokerage houses. Going forward, RSL's rating would be sensitive to Reliance Capital Limited's own rating which in turn is sensitive to its ability to manage superior asset quality in its consumer funding business through economic swings. RSL's rating would also be sensitive to its ability to improve upon its profitability and market share while managing comfortable asset quality in its equity 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, RSL is largely associated with retail equity broking and distribution of mutual funds besides providing its retail network to Reliance-ADA group companies.

RSL started its business operations in April 2007 with the launch of low cost flat fee scheme for retail broking mainly targeting Tier II and Tier III cities. The fixed brokerage structure allowed RSL to rapidly scale up its business in terms of trading volumes, and in the process also scale up its operations. As on March 31, 2009, RSL had 225 own branches and more than 10,000 franchisee outlets spread across 5100 cities/towns, a clientele of over 1 million and market share of 2.26%. However, due to the volatility within the capital markets, low retail participation and low brokerage yields, the company during October 2010 had revamped its brokerage fee structure, and completed 100% migration of its clients to the variable fee structure to a floating fee structure by Q3 FY11. During H1 FY12, in order to improve profitability the company had undertaken a rationalisation in its branch network, which as on December 31, 2011 stood at 105 company owned outlets and about 6,000 franchisee outlets. On account of the restructured brokerage fee structure RSL has also witnessed a consistent fall in market share in terms of trading volumes, which reduced from 2.26% in FY2009 to 1.70% in FY2010, and further fell to 1.26% in FY 2011. As on Q2FY12 the market share stood at 0.87%.

In FY 2011, despite a 46% increase in industry equity market volumes, RSL's volumes grew by only 8%, mainly due to muted retail client participation. Within equity broking volumes, cash volumes for RSL fell by ~43% (from Rs as compared to a 16% decline in the industry), while F&O volumes rose by ~22% (as compared to a 66% increase within the industry). RSL has also exhibited below market average cash volumes as a percentage of overall volumes (approximately 11% as compared to its peers ~14%). RSL's average blended equity brokerage yield declined from 1.95 bps in FY 2011 to

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



1.72 bps in Q2 FY11 on the back of an overall shift from cash volumes to F&O volumes. The total Mutual Fund distribution AUM of the company stood at Rs.4,949 crores as on September 30, 2011.

During FY2011, Reliance Capital Limited (RCL) at its group level undertook a corporate restructuring exercise wherein all entities engaged in financial services sector became 100% subsidiaries of RCL. Consequently, the wealth management business was hived-off from RSL into another entity Reliance Wealth Management Limited (RWML). Also as part of the corporate restructuring exercise the company has withdrawn ICDs placed with other group companies, hence going forward, the net interest income is expected to decrease.

The company has adequate networth for its scale of operations. As on March 31 2011, Networth including Rs.150 crores of 10% cumulative preference shares redeemable at par in 2020 amounted to Rs.202.75 crores. Out of this because of surplus liquidity the company has investments made in RCL through NCDs worth Rs.80 crores and investments in liquid mutual funds worth Rs.36 crores. RSL's capital requirement is mainly for meeting margin requirement at the exchange houses as the company is not involved in any margin funding activities for its clients. RSL's broking business has a comfortable liquidity profile with low utilisation of margins placed with stock exchanges (generally in the range of 50-60% in the normal trading days and 80-85% during volatile trading days), large unutilized bank lines available with the company and ready access to clients assets (backed by share collateral) that can be monetised within a very short time.

RSL has deployed adequate Risk Management Systems (RMS) to monitor evaluate and mitigate the credit risk, market risk and the operational risk associated with the equity broking business. The group has centralised RMS to monitor the exposure on each client, sub-broker, and branch on a real time basis and necessary timely actions are taken by RMS team to avoid a situation where margins could fall below minimum required limits. Further, with the large client base RSL's concentration risk is quite spread out.

In FY2011, post-restructuring of brokerage fees the company reported a 21.51% decline in Net Brokerage Income at Rs.69.53 crores as compared to Rs.88.60 crores in FY2010 (Gross brokerages of Rs.88.32 crores and Rs.94.08 crores respectively for FY2011 and FY2010). However the company increased mutual fund distribution income from Rs.10.8 crores in FY2010 to Rs.15.52 crores in FY2011. The interest income reduced from Rs.70.33 crores in FY2010 to Rs.20.24 crores in FY2011 since the company had withdrawn ICDs placed with group companies as part of the restructuring exercise. RSL during FY2011 was able to reduce its employee expenses as it began apportioning employee expense of shared human resources to other group companies. As a result of lower brokerage income and persistently high operating expenses, the cost to income ratio of the company increased from 89.55% in FY2010 to 93.50% in FY2011. Accordingly RSL reported a net profit after tax of Rs.7.10 crores as on March 31, 2011.

For 9M FY12, RSL reported a total operating income of Rs.65.00 crores (of which Rs.52.04 crores was derived through brokerage income (gross), and total operating expenses of Rs.63.48 crores. The net profit after tax amounted to Rs.3.85 crores.

Company profile

Reliance Securities Ltd

RSL is a wholly owned subsidiary of Reliance Capital Ltd and is currently involved in securities broking business using the online platform of Reliance Money. As on December 31 2011, RSL had a networth of Rs.118.59 crores (including Cumulative Redeemable Preference Shares of Rs.125 crores).

During 9M FY12, RSL reported a net Profit after Tax of Rs.3.85 crores on a total operating income of Rs.65.00 crores as compared with a net Profit after Tax of Rs.7.10 crores on a total operating income of Rs.118.97 crores 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 crores 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 has 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 crores in FY11 as compared with a net profit after tax of Rs 339 crores on a total income base of Rs 2,220 crores in FY10. While on a consolidated basis, RCL reported a net profit of Rs 291 crores on a total income base of Rs 5387 crores in FY11 as compared to a net profit after tax of Rs 435 crores on a total income base of Rs 6144 crores in FY10.

January 2012

Key Financials (In Rs.crores)	Dec-11	Mar-11	Mar-10	Mar-09
Number of months	9	12	12	12
Brokerage income (Net)	39.08	69.53	88.60	75.52
Distribution Income	5.96	15.52	10.80	43.24
Total Operating Income	65.00	118.97	180.82	272.69
Net Interest Income	16.26	8.79	28.99	2.09
Adjusted Profit After Tax	3.85	7.10	2.18	20.46
Networth (including CRPS)	181.59	202.75	195.65	193.47
Networth (excluding CRPS)	56.59	52.75	45.65	43.47
Cost to Income Ratio	91.67%	93.50%	89.55%	79.94%
Adjusted Profit After Tax / (Net Worth* + Minority Interest)	2.12%	3.50%	1.11%	10.58%
Debt / (Net Worth* + Minority Interest)	0.00	0.00	2.00	2.20

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