

September 30, 2022

Real Growth Securities Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit facility	25	25	[ICRA]BBB- (Stable); reaffirmed
Total	25	25	

*Instrument details are provided in Annexure I

Rationale

The rating factors in the experience of Real Growth Securities Private Limited's (RG SPL) promoter and senior management team in the line of business and its long track record of operations. The company's strong relationships with its clients, pension funds and brokers have helped it generate repeat business in the trading of securities, identification of arbitrage opportunities and for maintaining its position in the market despite having a relatively smaller scale of operations (net worth of Rs. 13.7 crore as on March 31, 2022) in relation to its peers. The rating also factors in the low gearing (0.25 times as on March 31, 2022). The lower leverage provides a cushion to the company to absorb the losses in its proprietary trading book and supports its liquidity profile. ICRA also notes the liquid nature of the securities in the trading book (mainly consisting of state/public sector undertaking (PSU) bonds and Government debt securities rated AA+ and above), which further bolsters RG SPL's liquidity profile. Going forward, the diversity in the trading book and a prudent capitalisation profile will be key for maintaining a comfortable liquidity profile.

The rating is, however, constrained by the company's relatively small scale of operations, monoline nature of business, moderate profitability (return on average assets (RoA) of 3.3% and return on equity (RoE) of 4.1% in FY2022) and the inherent volatility associated with the earnings profile. Since RG SPL deals only in debt securities rated AA+ and above, the credit risk remains relatively low. Also, as the holding period of the securities is between 15 days and 45 days on average, the interest rate risk is mitigated to some extent. Going forward, RG SPL's ability to profitably scale up and diversify its business operations while managing the risks associated with the secondary trading book shall be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Experienced promoter and management team – RG SPL's promoter and senior management team are experienced in its areas of operations, with the key personnel having a track record of more than 20 years in the securities investment and debt markets. Although its operations are relatively small, the company has a long track record of operations and has been able to build a good client base and relationship with investors (pension funds and brokers), issuers (corporates and PSUs) and other intermediaries in the industry, thereby ensuring repeat business and retaining its position in the market.

Favourable capital structure – RG SPL had a net worth of Rs. 13.7 crore with a gearing of 0.25 as on March 31, 2022. ICRA has also taken note of the management's previously stated intention of always maintaining the gearing below 2 times. The low leverage provides cushion to absorb any potential loss on its proprietary trading book and supports its liquidity profile.

Adequate risk management policies – The company mostly invests in the securities of the Central and state governments, public sector entities, and private companies, which are rated AA+ or above for trading. The credit risk associated with these securities is relatively low. The duration risk is also mitigated, to some extent, on account of the company's relatively short-term holding period (15-45 days), the expected lower volatility associated with highly rated debt instruments compared to equity market instruments, and the low gearing.

Credit challenges

Relatively small scale of operations and monoline nature of business – RGSPL has a small scale of operations and a monoline nature of business with income from the debt market primarily in the form of trading income (Rs. 3.3 crore in FY2022). This makes its earnings susceptible to adverse interest rate movements, though the volatility is relatively limited as the exposure is entirely to debt securities. Earlier in FY2018, with the advent of the electronic bidding platform (EBP) and the Securities and Exchange Board of India's (SEBI) directive, vide a circular dated January 05, 2018, requiring all debt securities over Rs. 200 crore to be issued through the EBP, the company's primary issuance related business was impacted and its fee income reduced sharply. Also, the arranger fee is likely to remain under pressure, given the competition from larger players in the segment.

Profitability dependant on trading income; volatility remains high – RGSPL's profitability remained stable with RoA and RoE of 3.3% and 4.1%, respectively, in FY2022 compared to 3.3% and 4.3%, respectively, in FY2021. The profitability is largely derived from trading income, which is volatile and depends on the company's ability to find favourable opportunities. It also remains vulnerable to interest rate movements. Going forward, RGSPL's business mix is likely to remain unchanged and an improvement in its profitability would depend on higher trading income and its ability to keep the fixed operating expenses under control.

Liquidity position: Adequate

RGSPL's liquidity remains adequate as the trading book is funded out of working capital limits with no committed principal repayments. The moderate utilisation of working capital limits provides sufficient liquidity backup for any urgent requirements. The liquidity profile is also supported by the liquid nature of the trading book, which mostly consists of AA+ and above rated PSU/Government bonds. ICRA notes that portfolio diversity and a prudent capital structure are critical for maintaining a comfortable liquidity profile going forward as well.

Rating sensitivities

Positive factors – Improvement in the profitability along with diversification of income and an increase in the scale of operations could lead to a rating upgrade.

Negative factors – A deterioration in the financial profile due to a decline in the profitability and/or a significant increase in the credit risk associated with the company's trading book could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Broking
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Real Growth Securities Private Limited was established as a financial services company in 1992. However, it commenced operations in September 2008. It was registered with SEBI in 2009 as a Category I merchant banker and was mainly engaged in primary debt placement, debt syndication and trading in secondary debt market instruments.

In its January 2018 circular, SEBI directed any issuance of Rs. 200 crore or above to be placed through the electronic bidding platform (EBP). This limited the role of arrangers and impacted RGSPL's business of primary debt placement. The company revised its strategy and is now mainly involved in running a proprietary trading book for trading in sovereign, state government, bank, public sector and private sector corporate bonds.

For FY2022, the company reported a profit after tax (PAT) of Rs. 0.55 crore on total income of Rs. 2.71 crore compared to a PAT of Rs. 0.55 crore on total income of Rs. 2.72 crore.

Key financial indicators (audited)

RG SPL	FY2019/Mar-19	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22
Trading income	2.34	2.85	3.02	3.25
Arrangers' fee income (net of sub-arrangers' expense)	(0.05)	(0.64)	(0.59)	(0.67)
Operating income	2.29	2.21	2.72	2.71
Total operating expenses	1.94	1.95	1.83	1.85
Operating profit	0.10	0.17	0.74	0.74
Profit before tax	0.10	0.17	0.74	0.74
Profit after tax (PAT)	0.08	0.13	0.55	0.55
Net worth	12.50	12.63	13.18	13.73
Borrowings	0.00	0.00	1.22	3.42
Gearing (times)	0.00	0.00	0.09	0.25

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Sep 30, 2022	Ju1 01, 2021	-	Aug 30, 2019
Long-term 1 fund-based/CC	LT	25.00	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable); withdrawn

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based/CC	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details as on June 30, 2022

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based CC	NA	NA	NA	25.00	[ICRA]BBB- (Stable)

Source: Company, ICRA Research

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Annexure II: List of entities considered for consolidated analysis: Not Applicable

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Branches



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