

Reliance Securities Limited

January 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank facilities	400.00	400.00	[ICRA]A1+; Reaffirmed
Commercial Paper programme	200.00	200.00	[ICRA]A1+; Reaffirmed
Total	600.00	600.00	

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 400 crore short-term non-fund based bank facilities and Rs. 200 crore Commercial paper programme of Reliance Securities Limited (RSL).

Rationale

The rating factors in the strength of Reliance Capital Limited (RCL, rated [ICRA]A1+) which owns 100% of the equity in RSL. The rating also takes into consideration RSL's strong presence in the domestic retail broking space and its relatively large scale of operations and recognised brand name. The rating also takes into account the company's healthy capitalisation and comfortable liquidity profile, its sound asset quality indicators and improved profitability indicators with RSL achieving break even and reporting net profits during H1FY2018. ICRA nevertheless takes note of RSL's low yields and elevated cost structures when compared to peers. Going forward, RSL's rating would remain sensitive to ICRA's ratings for RCL and RSL's own ability to protect its profitability and market share in a volatile business environment. ICRA also takes note of the current uptick in volumes in the domestic equity markets, which augurs well for brokerage houses. The rating also reflects RSL's relative position with other ICRA-rated brokerage houses.

Key rating drivers

Credit strengths

Strong presence in the domestic retail broking segment; important broking subsidiary of Reliance Capital Limited – RSL is a 100% subsidiary of RCL (rated [ICRA]A1+), the financial services arm of the Reliance ADA Group. Primarily a retail broker, RSL also has small presence in the institutional broking segment. During Q1FY2017, Reliance Money Solutions – a group company, handling the mutual fund and insurance distribution business – was merged with RSL. RSL has a relatively large scale of operations with a strong presence in retail broking. It operated from 107 branches, with 2,480 active franchisees and an active client base of 131,777 as on September 30, 2017. Going forward, the rating will remain sensitive to the stake of RCL in RSL.

Strong player in retail broking market – While industry broking volumes grew by 35% in FY2017, RSL's broking volumes grew by 92% to Rs. 9.39 lakh crore in FY2017 from Rs. 4.89 lakh crore in FY2016, driven by new client acquisition and increase in volumes from the existing client base. Consequently, RSL's market share improved from 0.66% in FY2016 to 0.94% in FY2017. The company's cash and derivative turnover increased by 45% and 97% respectively during FY2017. During H1 FY2018, growth in industry volumes outpaced growth in company volumes and there was slight decline in market share to 0.78% during H1FY2018. Institutional turnover formed less than 2% of total turnover during H1 FY2018.

Improvement in profitability – With a sharp increase in broking volumes, RSL's net brokerage income¹ increased by 54% to Rs. 104.46 crore from Rs. 68.03 crore in FY2016. Its net interest income and other income remained stable during the year. Overall, the company's net operating income (excluding trading income and net of interest expenses) increased by 35% during FY2017 to Rs. 141.93 crore from Rs. 105.43 crore in FY2016. During FY2017, the operating expenses declined and cost to income ratio was reported at ~116%. With an increase in net operating income and trading income and an improvement in operating efficiency, RSL's net loss narrowed to Rs. 0.20 crore in FY2017 as compared with a net loss of Rs. 74.59 crore in FY2016. During H1FY2018, with further improvement in operating efficiency and support from trading income, RSL reported a net profit of Rs. 10.34 crore (RONW of 14.58%).

Healthy capitalisation and liquidity profile – RSL's capitalisation and liquidity profile is healthy for its current scale of operations with a net worth of Rs. 141.85 crore as on September 30, 2017, including Rs. 175 crore of preference shares from RCL. RSL's capital requirement is mainly for meeting margin requirement at the exchange houses and average utilisation of margin at exchanges remains in the range of 50-60%. RSL has a liquid assets cover of ~1.5 times of its short term borrowings as on September 30, 2017 which provides comfort. While RSL's gearing increased to 1.76 times as on September 30, 2017 from 1.44 times as on March 31, 2017, it remains comparable to other brokerage houses.

Credit challenges

Low average broking yields – With the lower proportion of higher yielding cash volumes, RSL's blended yields softened to 0.97 bps during FY2017 from 1.55 bps in FY2016. It further declined to 0.79 bps during H1FY2018. In ICRA's view, RSL's broking yields are relatively lower than its peers in the industry, reflecting its aggressive pricing strategy.

Elevated cost structure – In ICRA's view, RSL's cost structure remains elevated when compared to many other ICRA-rated brokerage houses, with the cost to income ratio of the company being reported at 98% during H1FY2018 and being greater than 100% during FY2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Brokerage Houses](#)

¹ Net of referral fees/sub-brokerage commission

About the company

Reliance Securities Limited

Reliance Securities Limited (RSL) is a wholly owned subsidiary of Reliance Capital Limited (RCL), and is engaged in retail and institutional securities broking. As on September 30, 2017, the company had a net worth of Rs. 141.85 crore, including redeemable preference shares of Rs. 175 crore from the parent. During FY2017, the company reported a net loss of Rs. 0.20 crore on a net operating income of Rs. 141.93 crore as compared with a net loss of Rs. 74.59 crore on a total operating income of Rs. 105.43 crore during FY2016. During H1FY2018, the company reported a net profit of Rs. 10.34 crore on a total operating income of Rs. 85.86 crore.

Key financial indicators (Audited)

	FY2016	FY2017	H1 FY2018
Brokerage Income (net)	68.03	104.46	67.19
Net Interest Income	28.80	32.19	17.65
Other Non-Interest Income	8.60	5.27	1.02
Net Operating Income	105.43	141.93	85.86
Trading Income	17.36	28.09	11.26
Total Operating Expenses	195.98	165.02	84.16
Profit After Tax	-74.59	-0.20	10.34
Net Worth	79.76	131.51	141.85
Cost to Income Ratio	185.89%	116.27%	98.02%
PAT /Average Total Assets	-20.11%	-0.04%	3.19%
Return on Net Worth	-93.52%	-0.15%	14.58%
Total Debt / Net worth (times)	0.68	1.44	1.76

Reliance Capital Limited

Reliance Capital Limited (RCL) is the financial services arm of the Reliance ADA Group. RCL successfully demerged its commercial finance business into a subsidiary during FY2017 and will be converted into a Core Investment Company subject to necessary approvals from the Reserve Bank of India. RCL's subsidiaries are engaged in a range of financial services including mutual fund, general and life insurance, commercial finance, home finance, broking and distribution of financial products and asset reconstruction.

On a consolidated basis, RCL reported a net profit of Rs. 1,086 crore on a total income of Rs. 17,640 crore during FY2017 as compared with a net profit of Rs. 1,101 crore on a total income of Rs. 9,998 crore in FY2016. During H1FY2018, the company's reported a consolidated net profit of Rs. 590 crore on a total income of Rs. 10,111 crore. The net worth of RCL stood at Rs. 14,603 crore as on September 30, 2017.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Jan-18	FY2018		FY2017		FY2016	FY2015
					Aug-17	Feb-17	Dec-16	Apr-16	Jul-15	Dec-14
1 Short-term non-fund based bank facilities	Short Term	400.00	400.00	[ICRA] A1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2 Commercial paper	Short Term	200.00	200.00	[ICRA] A1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term non fund-based bank facilities	FY2016-17	NA	FY2017-18	400.00	[ICRA]A1+
NA	Commercial paper programme	NA	NA	7-365 days	200.00	[ICRA]A1+

Source: RSL

ANALYST CONTACTS

Karthik Srinivasan

+91 22 61143444

karthiks@icraindia.com

Sahil Udani

+91 22 61143429

sahil.udani@icraindia.com

Omkar Athalekar

+91 22 6114 3439

omkar.athalekar@icraindia.com

Kushal Modi

+91 22 61143428

kushal.modi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents