

## Real Growth Securities Pvt Ltd

May 10, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit/Overdraft	25.00	15.00	[ICRA]BBB- (Stable); Reaffirmed
Unallocated	0.00	10.00	[ICRA]BBB- (Stable); Reaffirmed
<b>Total</b>	<b>25.00</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) with a Stable outlook for the Rs. 25-crore bank facility of Real Growth Securities Pvt Ltd (RG SPL)<sup>1</sup>. The Outlook on the long term rating is Stable.

### Rationale

RG SPL is a category I merchant banker, engaged in primary debt placement, debt syndication and trading in secondary debt market instruments. The rating factors in the company's long track record, experienced promoters, strong relationship with clients, pension funds and market intermediaries leading to repeat business and its adequate capitalisation profile (gearing of 0.00 times as on March 31, 2018). In ICRA's opinion, the low leverage provides a cushion to the company to absorb the losses (if any) on its proprietary debt book. The rating is, however, constrained by the company's relatively small scale of operations (net worth of Rs. 12.42 crore as on March 31, 2018), the high dependence on debt markets for both primary placement business as well as secondary trading income, and its relatively low profitability (net profit/average total assets of 0.92% and return on net worth of 0.94% as on March 31, 2018). Going forward, the company's ability to profitably scale up and diversify its business operations while managing the market risk associated with the proprietary trading book will be a key rating sensitivity.

### Outlook: Stable

ICRA believes RG SPL will continue to benefit from the experience of its promoters and its strong client base. The outlook may be revised to Positive if there is a significant and sustained improvement in its profitability indicators. The outlook may be revised to Negative if there is significant deterioration in its financial profile.

### Key rating drivers

### Credit strengths

**Experienced promoters with long track record and established client relationships** – The company has been operating for more than a decade and its promoters have good experience in debt market related activities. The company has established a good client base and has a strong relationship with pension funds and other intermediaries in the industry, which has resulted in repeat business.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

**Adequate risk management policies** – The company invests in securities of Central and state governments, public sector entities, and private companies, which are rated AA or above for down selling and trading. The credit risk associated with these securities is relatively low. The market risk is also mitigated, to some extent, on account of the company's relatively short-term holding period (45-60 days) and the lower volatility associated with highly-rated debt instruments compared to equity market instruments as well as the presence of a good security cover of 1.18 times on the company's borrowings.

**Adequate capitalisation profile** – The company had a net worth of Rs. 12.42 crore as on March 31, 2018. While it generally operates at a gearing of 0.4-0.5 times, ICRA has also taken note of management's stated intention of always maintaining the gearing below 2x. The low leverage provides cushion to absorb any potential loss on its proprietary trading book.

**Comfortable liquidity profile** - The company's liquidity is comfortable, with its trading book largely funded through working capital limits. The utilisation of working limits remains moderate at around 40-50%, thereby providing sufficient liquidity backup to meet urgent capital requirements. ICRA, however, notes that portfolio diversity and a prudent capital structure are critical for maintaining a comfortable liquidity profile.

## Credit challenges

**Small scale of operations with low diversification of business revenues** – The company has a small scale of operations and is largely dependent on income from the debt market, either in the form of brokerage income (3% of total income in FY2018) or trading income (87% of total income in FY2018), which is vulnerable to the debt market's performance. While the company has been focussing on growing its consulting business to reduce its dependence on debt markets, the share is currently low (~7% of total income in FY2018).

**Competitive intensity leading to profitability pressure** – The company's primary business volumes (debt mobilisation) declined to Rs. 90 crore during FY2018 from Rs. 341 crore during FY2017, registering a de-growth of 74%, while the industry volumes declined by only 6%. The steep decline in the company's volumes was primarily on account of increased competitive pressure from large merchant bankers and banks and the conscious decision taken by the company to slow down the growth volumes given the adverse interest rate movements in H2 FY2018. Given the current market conditions and the scale of operations, the company's business volumes are likely to remain modest over the medium term.

**Modest profitability profile** – The company's business volumes declined to Rs. 90 crore during FY2018 from Rs. 341 crore in FY2017. Income from primary debt placement declined to Rs. 0.07 crore in FY2018 from Rs. 0.48 crore in FY2017. Trading income also declined slightly to Rs. 2.52 crore in FY2018 from Rs. 2.55 crore in FY2017. At the same time, operating expense moderated to Rs. 2.40 crore in FY2018 from Rs. 2.44 crore in FY2017, albeit by a lower extent, leading to a decline in profit to Rs. 0.12 crore in FY2018 from Rs. 0.26 crore in FY2017. The company's return indicators declined with return on average net worth at 0.94% as on March 31, 2018 (2.16% as on March 31, 2017). Profitability indicators are expected to remain under pressure given the current market condition and small scale of operations.

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

**Links to applicable criteria:**

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

## About the company:

Real Growth Securities Pvt Ltd (RG SPL) is a category I merchant banker, engaged in primary debt placement, debt syndication and trading in secondary debt market instruments. The company, which was incorporated by Mr. Rajesh Gupta in 1992, commenced operations in September 2007. The company has offices in six locations including New Delhi and Mumbai, at present.

During FY2017, the company reported a total income<sup>2</sup> of Rs. 3.30 crore and a net profit of Rs. 0.26 crore compared to a total income of Rs. 4.25 crore and a net profit of Rs. 0.56 crore in FY2016. During FY2018 (provisional), the company reported a total income of Rs. 2.90 crore and a net profit of Rs. 0.12 crore.

## Key financial indicators

	FY 2017 (Audited)	FY 2018 (Provisional)
Total Income (Rs. crore)	3.30	2.90
Trading Income (Rs. crore)	2.55	2.52
PAT (Rs. crore)	0.26	0.12
Net Worth (Rs. crore)	12.30	12.42
Gearing (times)	0.02	0.00
Return on assets (%)	1.77	0.92
Return on net worth (%)	2.16	0.94

Source: RG SPL

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

<sup>2</sup> Net of sub-brokerage and interest expenses; including trading income

### Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years	
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2016
					April 2017	Jan 2016
1 Bank Lines	Long Term	25.00	-	May 2018 [ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

### 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](http://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
-	Fund-based – Cash Credit/Overdraft	2017	NA	2018	15.00	[ICRA]BBB-(Stable)
-	Unallocated	NA	NA	NA	10.00	[ICRA]BBB-(Stable)

Source: RGSPL

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