

Reliance Securities Limited

Instrument/Facility	Amount (In Rs Crore)	Rating Action (November 2016)
Short-term Non-Fund Based Bank Facilities	400.00	[ICRA]A1+; Reaffirmed
Commercial Paper Programme	100.00	[ICRA]A1+; Reaffirmed

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 400.00 crore short-term non-fund based bank facilities and the Rs. 100.00 crore commercial paper programme of Reliance Securities Limited (RSL).

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 relatively large scale of operations, its considerable presence in the domestic retail broking space, its recognised brand name, adequate risk management systems, healthy capitalisation and comfortable liquidity profile for the existing scale of operations. The rating, however, also factors in RSL's low yields and elevated cost structures (compared with peers) leading to a pressure on its profitability. Going forward, RSL's rating would remain sensitive to ICRA's ratings for RCL and its own ability to protect its profitability and market share in a volatile business environment. The rating also reflects RSL's relative positioning with other ICRA-rated brokerage houses.

After a corporate restructuring in FY2011, RSL has largely been engaged in retail equity broking. Currently, RSL operates 90 branches, serving an active client base of around 8 lakh. In Q1FY2017, Reliance Money Solutions – a group company, handling the mutual fund and insurance distribution business for the group – was merged with RSL.

While industry broking volumes declined by 9% in FY2016, RSL's volumes increased by ~16% to Rs. 4.89 lakh crore enabling it to improve its market share from 0.52% in FY2015 to 0.66% in FY2016. Its cash turnover increased by ~4% to Rs. 0.47 lakh crore and its F&O volumes increased by ~18% Rs. 4.42 lakh crore in FY2016. With the lower proportion of cash volumes and a decline in cash yields, RSL's blended yields softened to 1.55 bps in FY2016 from 1.62 bps in FY2015. RSL's broking yields are relatively lower than its peers in the industry, reflecting its aggressive pricing strategy.

With the softening of blended yields, RSL's net brokerage income decreased by ~7% from Rs. 90.78 crore in FY2015 to Rs. 84.50 crore in FY2016. Its net interest income declined by ~23% to Rs. 12.32 crore in FY2016 from Rs. 15.90 crore in FY2015 on account of rising interest expenses (primarily on inter-corporate deposits). Overall, the company's net operating income decreased by ~4% from Rs. 109.61 crore in FY2015 to Rs. 105.43 crore in FY2016. During FY2016, RSL shifted its head office by surrendering old leased assets at a one-time settlement of Rs. 35 crore; this resulted in its cost to income ratio increasing sharply to 186% in FY2016 as compared to ~124% in FY2015. Going forward, the company's lease rentals would be considerably lower as reflected in the cost to income ratio of ~136% in Q1FY2017. The company's operating loss in FY2016 was partially cushioned by its income of Rs. 17.36 crore from trading (Rs. 11.38 crore in FY2015). RSL reported a net loss of Rs. 74.59 crore in FY2016 (vis-a-vis a net loss of Rs. 16.00 crore in FY2015).

RSL's capitalisation and liquidity profile is moderate for its current scale of operations with a networth of Rs. 79.76 crore as on March 31, 2016 (Rs. 129.34 crore as on March 31, 2015), including Rs. 150 crore of preference shares from RCL. RSL's liquidity profile is also supported by the high margins placed with stock exchanges and its ready access to client's assets (backed by share collateral) that can be monetised within a short time. RSL's capital requirement is mainly for meeting margin requirement at the exchange houses, as it is not engaged in any margin funding for its clients.

Company Profile

RSL is a wholly owned subsidiary of RCL, and is engaged in retail securities broking. As on June 30, 2016, the company had a networth of Rs. 74.28 crore, including redeemable preference shares of Rs.150 crore from the parent. During Q1FY2017, the company reported a net loss of Rs. 5.47 crore on a total operating income of Rs. 24.76 crore.

Reliance Capital Limited

RCL is a part of the Reliance group. RCL supports its group companies in form of equity or debt apart from managing a proprietary investments book. RCL's subsidiaries are engaged in a range of financial services including mutual fund, general and life insurance, and equity broking. RCL started its commercial finance business with a focus on secured lending and currently, mortgage, auto, commercial vehicles and business loans form bulk of its portfolio.

On a consolidated basis, RCL reported a net profit of Rs. 1,353 crore in FY2016 as compared with a net profit of Rs. 1,007 crore in FY2015.

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