

February 21, 2022

BSE Limited

Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001

Dear Sirs,

Sub.: Revision in Credit Rating of the Company

Pursuant to Regulation 51 (2) read with Schedule III Part B and Regulation 55 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that, CARE Ratings Limited vide its letter dated February 03, 2022, received by us today, has revised the rating of Company's Listed, Rated, Secured, Principal Protected, Market Linked, Non-convertible Debentures as below:

Previous rating	Revised rating
CARE PP-MLD BB- (Credit watch with developing implications)	CARE PP-MLD B+ (Credit watch with developing implications)

The above is for your information and records.

Thanking you.

Yours faithfully,

For Reliance Securities Limited



Vrunda Dhanesha
Company Secretary

Encl: Credit rating letter with rationale

No. CARE/HO/RL/2021-22/3667

Mr. Lav Chaturvedi
Executive Director & CEO
Reliance Securities Limited
 11th Floor, R-Tech IT Park,
 Nirlon Compound,
 Off Western Express Highway
 Goregaon (East),
 Mumbai- 400063

February 03, 2022

Confidential

Dear Sir,

Credit rating for Market Linked Debentures (MLD)

On the basis of recent developments including operational and financial performance of your Company for FY21 (Audited) and 9MFY22 (unaudited) as well as the impending management buyout process and the possible impact of the same on the credit profile of your company our Rating Committee has reviewed the following ratings:

Sr. No.	Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
1.	Market Linked Debentures	93.50 (Reduced from 100.00)	CARE PP-MLD B+ (CWD)	Revised from CARE PP-MLD BB- (Principal Protected-Market Linked Debentures Double B Minus); Continues to be on Credit watch with Developing Implications
	Total Instruments	93.50 (Rs. Ninety-Three Crore and Fifty Lakhs Only)		

- CARE Ratings Ltd. will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.
- Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors
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- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 1**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

CARE Ratings Limited

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CIN-L67190MH1993PLC071691

courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by February 09, 2022, we will proceed on the basis that you have no comments to offer.

5. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the lifetime of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.
9. CARE Ratings Ltd. ratings are not recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



Harshita Balwant Deshmukh
Analyst
harshita.d@careedge.in



Niketa Kalan
Associate Director
Niketa.Kalan@careedge.in

Encl.: As above

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Disclaimer

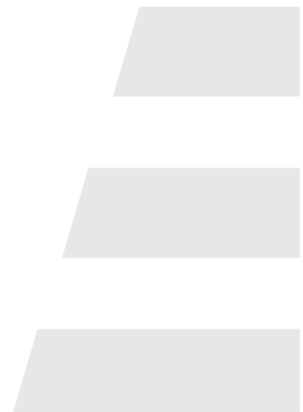
The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure-1

Draft Press Release cum Rating Rationale

Reliance Securities Ltd

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ²	Rating Action
Market Linked Debentures	93.50 (Reduced from 100.00)	CARE PP-MLD B+ (CWD)	Revised from CARE PP-MLD BB- (Principal Protected-Market Linked Debentures Double B Minus); Continues to be on Credit watch with Developing Implications
Total Long-Term Instruments	93.50 (Rs. Ninety-Three Crore and Fifty Lakhs Only)		

¹Details of instruments/facilities in Annexure-1

reduction has been made on account of some instruments being fully paid and redeemed. The payment confirmation for the same has been received.

Detailed Rationale & Key Rating Drivers

CARE has revised the rating of market linked debentures given the vulnerability of its earnings profile due to the company's increased dependence on proprietary income which is exposed to market volatility. The ratings continue to be on credit watch on account of impending management buyout of 100% stake in Reliance Securities Limited (RSL) from the current parent, Reliance Capital Limited (RCL).

The rating is constrained on account of volatile earnings profile, high dependence on HNI/retail clients and lack of institutional client base, declining scale of operations and exposure to highly competitive business segment and volatility in capital markets related revenues. The rating also takes into account moderate solvency profile and experienced management team.

Rating sensitivities

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Completion of management buyout leading to significant improvement in the overall business operation and earning profile on sustained basis.
- Diversification in product segment.

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Increase in gearing levels
- Further reduction in client base impacting the overall business of the company

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Detailed description of the key rating drivers

Key Rating Weaknesses

Volatile Earnings Profile

During FY21, the company turned profitable with PAT of Rs.13 crore as against the loss of Rs.39 crore during FY20; however, this was primarily on account of increase in the proprietary trading income (net gain on fair value changes) from Rs.18 crore in FY20 to Rs.112 crore in FY21. Brokerage income declined by 10% to Rs.124 crore during FY21.

During 9MFY22, the company reported drop in PAT to Rs.11 crore as against the PAT of Rs.18 crore during 9MFY21, despite increase in proprietary trading income on account of increase in total expense (largely due to increase in employee cost as a result of increase in proprietary trading activities) and also due to increase in bad debts write off (from Rs.0.01 crore in 9MFY21 to Rs.6.45 crore in 9MFY22). Given the impending management buyout, the level of business activity shall remain restricted; further the high share of income from proprietary in total income makes the earnings profile vulnerable to market volatilities and hence earnings will continue to remain monitorable.

Dependence on HNI, retail clients and lack of Institutional client base

As on September 30, 2021, retail clients (including HNIs) contributed almost 100% of brokerage income for the company with institutional contribution being only 0.31%. RSL's business is highly focused on high net-worth individuals (HNIs) and retail clients. HNIs contribute 12% to the total brokerage income and 88% being contributed by retail (excluding HNI). Higher dependence on HNIs and retail clients generally leads to lack of flexibility especially during stock market downturn as retail clients are generally more risk averse and avoid trading during such periods leading to volatility in income. A robust institutional franchise not only adds meaningful revenues but also diversifies the income streams given the competitiveness in the broking industry, which is lacking in RSL given the miniscule share from institutional clients.

Declining client base and scale of operations

As on September 30, 2021, the total no. of broking clients increased from 9,93,883 during FY21 to 10,08,267 in H1FY22 but the total no. of active client has been declining from 1,22,389 in FY20 to 1,19,666 in FY21 & 86,598 in H1FY22. Nevertheless, the total turnover is increasing Q-o-Q, a large proportion of which constitutes proprietary trading. For Q3FY22, total turnover stood at Rs.18,70,711 crore of which 54% was towards proprietary trading. Also, operation wise, the total no. of branches also declined to 60 during 9MFY22 from 112 in FY21 as a part of cost cutting measures.

High dependence on capital market which is highly competitive and volatile

Broking business in India is highly competitive and RSL faces fierce competition from large broking firms as well as discount brokers. Large broking firms are in better position to reduce operating expenses and maintain their margins. Broking business in India is becoming increasingly competitive with pressure on brokerage fees and volatile volumes. High dependence on equity capital markets exposes RSL's business to volatility in stock markets. Income and profitability are expected to be adversely impacted in times of stock market downturns.

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Key Rating Strengths:

Experienced management team

The company is led by Mr. Luv Chaturvedi (B.com, CFA and MBA)- Executive Director, having more than 15 years of industry experience; and is supported further by other professional people like Ms. Homai Daruwalla (B.com, CAIIB and FCA)- Independent Director, having 42 years of professional experience in banking sector and having retired as Chairman & MD of Central Bank of India and also Mr. Chetan Desai (Chartered Accountant) - Independent Director, having 44 years of experience in sectors like banking and finance, insurance, mutual funds, pension funds, manufacturing, services, real estate, hospitality, engineering, energy, infrastructure, pharma, health care, not for profit entities etc.

Moderate solvency profile

RSL's overall gearing stood moderate at 1.04 times as on March 31, 2021 as compared to 1.45 times as on March 31, 2020. Given the reduction in the lending activities, borrowings have reduced from Rs.113 crore as on March 31, 2020 to Rs.104 crore as on March 31, 2021. As on December 31, 2021, gearing further declined to 0.94 times.

Liquidity - Adequate

As on December 31, 2021, the company had free cash and balances of Rs.21.57 crore and liquid investments of Rs.77 crore with no debt obligations for next 6 months.

Analytical approach: Standalone

Applicable criteria:

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Market Linked Debentures/Notes](#)

[Financial Ratios- Financial sector](#)

[Rating Methodology- Service sector companies](#)

About the Company

Reliance Securities Ltd. (RSL), incorporated in June 2005, is a SEBI licensed stock broking company. The company is the broking arm of Reliance Capital Ltd. (RCL) which holds 100% equity stake in the company. The company provides broking services to its clients for dealing in equities, future & options, IPOs, mutual funds and debt market. The company is majorly engaged in retail broking.

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Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Brokerage, commission, and fees	138	124	80
Total income	208	271	258
PAT	-39	13	11
Interest coverage (times)	-1.18	1.87	1.55
Total Assets (net of deferred tax assets and intangible assets)	527	745	808
ROTA (%)	-6.50	2.09	1.89

A: Audited; UA: Unaudited

All analytical ratios are based on CARE's calculations.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Detailed explanations of covenants of the rated instruments/ facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

ISIN No.	Name of the instrument	Date of Issuance	Coupon Rate	Maturity date	Size of the Issue (In Crores)	Rating assigned along with Rating Outlook
INE923I07080	Market Linked Debenture	31-Jul-18	Market Linked	31-Jan-23	13.47	CARE PP-MLD B+ (CWD)
INE923I07080	Market Linked Debenture	01-Aug-18	Market Linked	31-Jan-23	3.00	CARE PP-MLD B+ (CWD)
INE923I07106	Market Linked Debenture	23-Aug-18	Market Linked	23-Feb-23	6.45	CARE PP-MLD B+ (CWD)
INE923I07080	Market Linked Debenture	26-Oct-18	Market Linked	31-Jan-23	2.00	CARE PP-MLD B+ (CWD)
INE923I07114	Market Linked Debenture	17-Dec-18	Market Linked	20-Jun-23	2.00	CARE PP-MLD B+ (CWD)
INE923I07122	Market Linked Debenture	21-Dec-18	Market Linked	26-Jun-23	5.33	CARE PP-MLD B+ (CWD)
INE923I07114	Market Linked Debenture	27-Dec-18	Market Linked	20-Jun-23	2.00	CARE PP-MLD B+ (CWD)
INE923I07114	Market Linked Debenture	29-Jan-19	Market Linked	20-Jun-23	2.00	CARE PP-MLD B+ (CWD)
INE923I07114	Market Linked Debenture	31-Jan-19	Market Linked	20-Jun-23	1.00	CARE PP-MLD B+ (CWD)
INE923I07114	Market Linked Debenture	01-Feb-19	Market Linked	20-Jun-23	2.00	CARE PP-MLD B+ (CWD)
INE923I07114	Market Linked Debenture	07-Feb-19	Market Linked	20-Jun-23	3.00	CARE PP-MLD B+ (CWD)
INE923I07148	Market Linked Debenture	25-Mar-19	Market Linked	07-Oct-23	1.25	CARE PP-MLD B+ (CWD)
INE923I07155	Market Linked Debenture	29-Mar-19	Market Linked	30-Mar-27	1.25	CARE PP-MLD B+ (CWD)
INE923I07155	Market Linked Debenture	03-Apr-19	Market Linked	30-Mar-27	0.75	CARE PP-MLD B+ (CWD)
INE923I07148	Market Linked Debenture	10-Apr-19	Market Linked	07-Oct-23	2.25	CARE PP-MLD B+ (CWD)
INE923I07130	Market Linked Debenture	27-May-19	Market Linked	01-Jul-22	0.30	CARE PP-MLD B+ (CWD)
INE923I07171	Market Linked Debenture	28-Apr-21	Market Linked	29-May-26	2.00	CARE PP-MLD B+ (CWD)
	Market Linked Debenture (Proposed)	-	-	-	43.45	CARE PP-MLD B+ (CWD)

ISIN INE923I07031 and INE923I07130 have been fully repaid and redeemed.

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Annexre-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Market Linked Debentures	LT	93.50	CARE PP-MLD B+ (CWD)		1)CARE PP-MLD BB- (CWD) (24-Feb-21)	1)CARE PP-MLD BB- (CWD) (06-Mar-20) 2)CARE PP-MLD BB- (CWD) (20-Nov-19) 3)CARE PP-MLD BB- (CE); Stable (03-Sep-19) 4)CARE PP-MLD BBB- (CE) (CWN) (12-Jul-19) 5)CARE PP-MLD BBB- (SO) (CWD) (22-May-19) 6)CARE PP-MLD A- (SO) (CWD) (23-Apr-19)	1)CARE PP-MLD A (SO) (CWD) (13-Mar-19) 2)CARE PP-MLD AA- (SO) (CWD) (08-Oct-18)

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:

Bank Facilities	
A. Non-Financial covenants	
I. Default in payment	In case of default in payment of Interest and/or principal redemption on the due dates, additional interest of at least @ 2% p.a. over the coupon rate shall be payable by the Company for the defaulting period.

Annexure 4: Complexity levels of the rated instrument

Sr. No	Name of instrument	Complexity level
1	Debentures-Market Linked Debentures	Highly Complex

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Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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