



Press Release
REAL GROWTH SECURITIES PRIVATE LIMITED
November 07, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE A- CE Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A-(CE)**' (read as **ACUITE A minus (Credit Enhancement)**) on the Rs. 45.00 crore bank facility of Real Growth Securities Private Limited (RG SPL). The outlook is '**stable**'.

Rating Rationale

The rating assigned factors in the extensive experience of the promoters in the bond market trade, long track record of operations and adequate liquidity buffers. The rating also favorably factors in the comfortable capital structure marked by gearing of 0.95 times as on March 31, 2023. RG SPL's business performance is linked to the level of activity in the bond markets which in turn is linked to the overall economic activity. The rating further factors in the benefits arising from the strength of the structure and the underlying pledge of highly liquid securities while arriving at the rating. Though, RG SPL reported an improvement in PAT, it still stood modest at Rs.0.70 Cr in FY23 as against Rs.0.55 Cr in FY22. The rating however remains constrained by modest profitability, decline in transactional value in FY23 and inherent risks in the capital market and overall economic environment.

About the company

Incorporated in 1992, and operations being started in 2008, Real Growth Securities Private Limited (RG SPL) is involved in trading of high rated government securities and bonds. Initially, in 2009, the company was registered as a Category I merchant banker and was mainly engaged in primary debt placement, debt syndication and trading in secondary debt market instruments. However, with the introduction of Electronic Bidding platform (EBP) vide 2018 SEBI circular, the role of arrangers was limited which impacted the RG SPL'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.

Unsupported Rating
ACUITE BB+/Stable

Analytical Approach

Acuite has considered standalone business and financial risk profile of RG SPL to arrive at the standalone rating and has further factored in the benefits arising from the strong structure while arriving at the rating. The suffix (CE) indicates credit enhancement arising from the strength of the structure and the underlying pledge of highly liquid securities. The strength of the underlying structure and continued adherence to the same is central to the rating.

Key Rating Drivers

Strength

Long track record of operations and experienced management

The company has a long operational track record of around one and a half decade in the financial services industry. Further, the promoter, Mr. Rajesh Gupta has more than two decades of experience in the securities investment and debt markets. Albeit modest scale of operations, with the long operational track record of the company and the experienced management, the company has built an established relationship with investors (pension funds, family offices, etc), issuers (corporates and PSUs) and other intermediaries in the industry.

Acuité believes that RGSPL's presence in the domestic capital market and established relationships with clients and investors should support its business risk profile over the near to medium term.

Strength of underlying structure

The structure being assessed envisages an aggregate borrowing limit of Rs. 45 Cr. in the form of cash credit from the bank secured by pledge of underlying bonds and securities. The underlying securities will be government securities and corporate bonds rated AA+ and above within overall limit of Rs. 45.00 Cr. The bank has also stipulated differential margin for different category of securities to be purchased under this arrangement. The government securities purchased by the company will be held in a designated Constituent Subsidiary General Ledger (CSGL) Account and a joint depository participant account for corporate bonds, which will be duly pledged to the bank. The limits as sanctioned by the Federal Bank stipulates purchase of only Government securities and corporate bonds rated AA+ and above. Though SBM Bank's sanction letter does not stipulate any minimum rated bonds for pledging, the company has undertaken that 50%-60% of the portfolio are rated above AA+ and the same is evident from the Securities Investment Portfolio. The bank stipulates margin requirement in the range of 5.00 percent to 15.00 percent (depending on the nature of the security i.e. lowest margin for risk-free securities like G-Sec). The stipulations also include the options available to the lender in case of a margin shortfall. The securities pledged against which funding would be provided is restricted to Government securities and corporate bonds rated AA+ and above and requires its inclusion in the lenders bank pre-approved list thus providing an effective mitigation of credit risk at the initial stage of selecting securities for trade purposes.

Acuité believes that the structure sanctioned by the lender provides for adequate covenants to safeguard the interest of the lenders. The lenders have adequate buffers available to initiate corrective action and mitigate the risk arising out of any adverse market movements. The strict adherence to the sanctioned terms and conditions is central to the rating.

Weakness

Improved but modest earning profile

Though the trading income of the company has improved in FY23, it still stood modest at Rs.3.73 Cr in FY23 as against Rs.3.25 Cr in FY22. The company is engaged in the purchase and sell of government securities and bonds. The company's earning is susceptible to any adverse interest rate movements, though the volatility is relatively limited as the exposure is entirely to debt securities. Furthermore, the arranger's fee stood increased at Rs.0.85 Cr in FY23 as against Rs.0.31 Cr in FY22. The monoline nature of business with income from the debt market primarily in the form of trading income restricts the company to scale up its operations. RGSPL reported a PAT of Rs.0.70 Cr in FY23 as against Rs.0.55 Cr in FY22. However, the ROAA has declined with 2.92 per cent in FY23 as against 3.31 per cent in FY22. 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.

Real Growth Securities Private Limited's (RGSPL) business performance is linked to the level of activity in the bond markets which in turn is linked to the overall economic activity. The total transactional value (buy and sale) of securities declined to Rs.845.81 Cr in FY23 as against Rs.860.37 Cr in FY22. The decline in transactional value as compared to previous years was on account of overall market activities in wholesale debt market as a result of dip in overall market volumes and pressure on interest rates.

Acuité believes that DTSIPL's earning profile, its business operations would remain susceptible to inherent risks in capital market and overall economic environment.

Susceptibility to operating performance to volume and level of activity in capital markets

Real Growth Securities Private Limited's business performance is linked to the level of activity in the bond markets, which in turn is linked to the overall economic activity. The volumes in the debt capital market are influenced by economic cyclicality and other macroeconomic factors such as GDP, growth rate, inflation, movement in interest rates and policy actions adopted by RBI. RGSPL generally engages in to buy and sell transactions on behalf of its clients, which comprises of provident and pension funds, mutual funds, banks, family offices etc. Most of the purchases of the securities are simultaneously sold to its clients. As a prudent strategy, RGSPL prefers to minimize the holding period in respect of any securities, which significantly mitigates the associated credit risk and market risk. However, this approach doesn't eliminate vulnerabilities. The practice, though prudent, is not always perfectly matched. As a result, RGSPL occasionally maintains an inventory of securities. This residual inventory, even if minimal, exposes the company to market risks. Such exposure, though reduced compared to conventional trading strategies, remains a point of concern.

Assessment of Adequacy of Credit Enhancement

The structure provides for adequate covenants to safeguard the interest of the lenders and has adequate buffers available to initiate timely corrective action and effectively mitigate the risk arising out of any adverse market movements.

Rating Sensitivity

- Changes in Credit Quality of any securities in the investment portfolio.
- Changes in Regulatory environment.

All Covenants

RGSPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, among others.

Liquidity Position Adequate

Currently the company has cash credit limit of Rs. 25.00 Cr. against the pledge of highly rated bonds and securities acceptable to the bank. The networth of the company as on March 31, 2023 stood at Rs.14.42 Cr. providing adequate buffer to meet any requirements in case of any credit events. Besides providing for margin money it also provides adequate buffer to meet any working capital requirements.

Outlook:

Acuité believes that RGSPL will maintain 'Stable' credit risk profile over the medium term supported by its experienced management and comfortable capital structure. The outlook may be revised to 'Positive' in case of a sizeable improvement in its earnings translating to an improvement in its networth and quality of investment scrips. Conversely, the outlook may be revised to 'Negative' in case of a sharp deterioration in the credit quality of investments or profitability metrics.

Other Factors affecting Rating

None.

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY 22 (Actual)
Total Assets	Rs. Cr.	29.26	18.37
Total	Rs. Cr.	4.29	3.57

Income*			
PAT	Rs. Cr.	0.70	0.55
Net Worth	Rs. Cr.	14.42	13.73
Return on Average Assets (RoAA)	(%)	2.92	3.31
Return on Average Net Worth (RoNW)	(%)	4.95	4.06
Debt/Equity	Times	0.95	0.25
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

*Total income equals to Net Interest Income plus other income.

Status of non-cooperation with previous CRA (if applicable):

None.

Any other information

None.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A- CE Stable Assigned
SBM Bank (India) Ltd.	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A- CE Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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