Press Release
REAL GROWTH SECURITIES PRIVATE LIMITED
February 04, 2025
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE A- | CE | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed 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 (RGSPL). The outlook is **'Stable'**.

Rationale for Rating

The rating 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 favourably factors in the comfortable capital structure marked by gearing of 2.21 times as on March 31, 2024 as compared to 0.95 times as on March 31, 2023. RGSPL'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, RGSPL reported a marginal improvement in PAT, it still stood modest at Rs.0.73 Cr. in FY24 as against Rs.0.70 Cr. in FY23. The rating however remains constrained by modest profitability, decline in transactional value in FY24 and inherent risks in the capital market and overall economic environment.

About the company

Delhi Based, Real Growth Securities Private Limited (RGSPL) which was incorporated in 1992, 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 RGSPL'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

Acuité has considered standalone business and financial risk profile of RGSPL 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 and overdraft facilities from the banks 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. The limits as sanctioned by SBM Bank's sanction letter does not stipulate any minimum rated bonds for pleading. 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 FY24, it still stood modest at Rs.4.33 Cr. in FY24 as against Rs.3.73 Cr. in FY23. The company is engaged in the purchase and sale 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.1.13 Cr. in FY24 as against Rs.0.85 Cr. in FY23. 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.0.73 Cr in FY24 as against Rs.0.70 Cr. in FY23. However, the ROAA has declined standing at 1.84 per cent in FY24 as against 2.92 per cent in FY23. 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.744.53 Cr. in FY24 as against Rs.845.81 Cr. in FY23. 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 RGSPL 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 buy and sale 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 (Applicable only for CE Ratings)

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

The following financial covenants will be calculated on annual basis while the facility is outstanding based on the financials of the borrower:
1. Company should not incur PAT loss in any financial year
2. TOL/TNW should not exceed 3x
3. TNW of at least Rs. 14.50 Cr.

Other covenants:
1. Borrower shall not avail financing from Federal Bank for the transaction (if any) between related parties of the company or promoters, the facility should be strictly be utilised for transaction with non-related market participants only, any violation may result in freezing of the limit.
2. Existing promoter shareholding shall be maintained in the borrower company.

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, 2024 stood at Rs.15.15 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: Stable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	50.19	29.26
Total Income*	Rs. Cr.	4.79	4.29
PAT	Rs. Cr.	0.73	0.7
Net Worth	Rs. Cr.	15.15	14.42
Return on Average Assets (RoAA)	(%)	1.84	2.92
Return on Average Net Worth (RoNW)	(%)	4.95	4.95
Debt/Equity	Times	2.21	0.95
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):

Not Applicable

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, Acuité 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Nov 2023	Secured Overdraft	Long Term	20.00	ACUITE A- (CE) | Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A- (CE) | Stable (Assigned)

Annexure - Details of instruments rated

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

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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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