



March 9, 2010

## ICRA re-affirms A1+ rating for ShareKhan Limited's Short Term Debt programme

ICRA has re-affirmed the rating A1+ (pronounced A one plus) rating to Sharekhan Limited's (SKL) Rs 2 billion short term debt programme<sup>†</sup>. The reaffirmation reflects SKL's continued strong presence in the retail broking space, comfortable profitability, adequate network, flexible cost structure and negligible gearing. The rating also takes a note of decline in SKL's equity broking market share, continued low diversification of business revenues and moderate asset quality. Going forward, SKL's rating would be sensitive to its ability to maintain comfortable profitability and asset quality through economic downturns and to strengthen its presence in retail broking which has come under pressure with rising competition.

### Company Profile

#### ShareKhan Ltd

SKL was initially setup by the Morakhia family who had been in the equity broking business for decades. Till March 31, 2007, Morakhia family owned 43.58% stakes in SKL and the balance primarily held by three venture capital firms namely HSBC Private Equity India Fund Ltd. (14.56%), GA Global Investments Ltd (22.76%) and Intel Pacific Inc. During August 2007, promoters and the Private Equity (PE) players exited the SKL and other PE players CVC and Samara Capital (India "B" Holdings Mauritius) along with IDFC picked up their stakes along with the preference capital of Rs 0.51 billion (convertible to equity shares on or before April 10, 2016). CVC, Samara Capital (India "B" Holdings Mauritius) and IDFC also infused fresh capital of Rs 2 billion in August 2007 and then CVC, Baring Asia Private Equity Fund and IDFC further infused Rs 1.35 billion in February 2008 all in the form of Fully Convertible Debentures, convertible to equal number of equity shares on or before August 17, 2011. In May 2008, the company issued fully convertible debentures to the extent of Rs. 0.02 billion to Non-Promoter investors. These fully convertible debentures are convertible into equivalent number of equity shares on or before August 17, 2011.

Post conversion of Fully Convertible Debentures and Preference Capital, CVC will be the majority stake holder with 46% stakes with Samara Capital (India "B" Holdings Mauritius) and IDFC holding 33% and 9% respectively. The main business activity of the company is retail share broking with small presence in the portfolio management services, arbitrage trading and in the distribution of mutual fund products.

SKL booked a net profit after tax of Rs 0.52 billion on a total income of Rs 3.63 billion in FY08-09 as compared with a net profit of Rs 0.74 billion on a total income of Rs 5.07 billion in FY07-08.

### Recent Results

During the nine months ended December 31, 2009, SKL has reported a net profit after tax of Rs 0.89 billion on a total income base of Rs 3.71 billion.

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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)

<sup>†</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.

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