November 29, 2021

Share India Securities Limited: Rating upgraded to [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Non-fund Based Bank Guarantee	415.00	500.00	[ICRA]A2+; upgraded from [ICRA]A2
Short-term Fund-based Overdraft	85.00	-	[ICRA]A2+; upgraded from [ICRA]A2 and withdrawn
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has revised and withdrawn the rating assigned on the Rs. 85.00-crore fund-based bank facilities. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

While upgrading the rating, ICRA has taken a consolidated view of the business and financial profiles of Share India Securities Limited (SISL), its nine subsidiaries and one associate company, together called the Share India Group (SIG or the Group).

The rating upgrade factors in the healthy performance of the Group with an improvement in the operational metrics as well as the earnings profile. SIG's average daily turnover (ADTO) in the broking business increased to Rs. 1.14 lakh crore in FY2021 and further to Rs. 3.35 lakh crore in H1 FY2022 from Rs. 0.26 lakh crore in FY2020. This, coupled with the strong performance of the proprietary trading business, helped the Group report an improved earnings profile with a profit after tax (PAT) of Rs. 80.7 crore in FY2021 (Rs. 76.9 crore in H1 FY2022) compared to Rs. 40.0 crore in FY2020.

The rating continues to factor in the long track record of the promoters in capital market related businesses and the adequate capitalisation profile. The rating is, however, constrained by the limited diversification in the business with high dependence on proprietary trading and exposure to the inherent volatilities in capital markets. While the company had a market share (in terms of notional industry volumes) of 4.07% in FY2021 (5.95% in H1 FY2022), the scale of broking revenues remains limited owing to its negligible presence in the higher-yielding cash segment. The rating also considers the risks associated with the proprietary trading business; however, the Group's track record of profitable operations provides some comfort.

Key rating drivers and their description

Credit strengths

Long track record of promoters in capital market related business – Incorporated in 1994, SISL is primarily engaged in strategy-based arbitrage/derivative (proprietary) trading with a presence in equity, commodity and currency broking. It is a part of SIG, which recently forayed into other businesses such as lending, merchant banking, and mutual fund and insurance distribution. SIG's key promoters and management team have extensive experience of over two decades in the strategy-based trading business, along with other capital market related businesses.

Healthy profitability indicators – The Group has witnessed increasing profitability on a year-on-year (YoY) basis on the back of cost optimisation resulting from economies of scale. Supported by the improvement in the capital market environment, SIG reported an increase in its market share[1] to 4.07% in FY2021 from 1.80% in FY2020 and further to 5.95% in H1 FY2022. The Group reported a robust growth in its profitability in FY2021 with a net profit of Rs. 80.7 crore (Rs. 40.0 crore in FY2020) and PAT/net operating income (NOI) of 20.2% (19.5% in FY2020). It continued to report an improvement in profitability in H1 FY2022 with a net profit of Rs. 76.9 crore (Rs. 27.3 crore in H1 FY2021) on a provisional basis. However, the Group's profitability remains primarily dependent on the performance of proprietary trading and capital market movements. Going forward, maintaining the profitability at the current levels will be a key monitorable.

Adequate capitalisation profile – SISL's net worth increased to Rs. 280.4 crore as of March 31, 2021 from Rs. 193.0 crore as on March 31, 2020 and further to Rs. 346.2 crore (on a provisional basis) as of September 30, 2021 due to internal accruals. As of September 30, 2021, the company's capitalisation profile remained adequate with a gearing of 0.37 times on a provisional basis.

Credit challenges

Limited diversification in revenue stream with focus on proprietary trading; moderate scale of broking business – The Group is primarily engaged in strategy-based/arbitrage (proprietary) trading and the securities broking business. In recent years, the Group has forayed into fee-based businesses, namely merchant banking, lending and distribution of financial products, to diversify its earnings profile. The share of income from these business/initiatives remains modest, with proprietary trading accounting for a major chunk of the Group's earnings. In FY2021, proprietary trading accounted for 75% of the Group's NOI (80% in FY2020), while broking accounted for 18% (12% in FY2020). In the broking segment, the company primarily caters to high net worth clients. While the Group registered a strong increase in the ADTO in the equity broking business (Rs. 3.35 lakh crore in H1 FY2022, Rs. 1.14 lakh crore in FY2021 and Rs. 0.26 lakh crore in FY2020), the scale of the business, in terms of revenues, remains limited given the concentration of transaction volumes in the low-yielding derivative segments and its negligible presence in the cash segment.

SISL's broking income increased to Rs. 71.4 crore in FY2021 from Rs. 25.2 crore in FY2020 and further to Rs. 68.3 crore in H1 FY2022. Moreover, in a bid to scale up its client-based broking income, the company is focussing on onboarding foreign portfolio investors. Going forward, SISL's ability to achieve meaningful diversification in its revenue stream would remain critical from a credit perspective.

Risks associated with proprietary trading business, which remains key earnings driver – SIG is engaged in jobbing, arbitrage trading and algorithm-based trading under this segment. The proprietary trading business remains exposed to market risk and thus the variability of earnings remains high because of its high dependence on capital markets. The Group's track record in this business, however, provides some comfort. SIG has reported positive trading income over the past 11 quarters. It reported proprietary trading income of Rs. 300.1 crore in FY2021 (YoY growth of 82%) and Rs. 233.2 crore in H1 FY2022. Going forward, its ability to maintain a healthy track record in this business, while ensuring adequate risk monitoring measures to manage the portfolio and market risk, would remain critical from a credit perspective.

Dependence on capital markets, which are inherently volatile and cyclical in nature – SIG's revenues and profitability profile remain inherently dependent on the performance of the capital markets. This exposes the Group to the volatility inherent in the capital markets. The risks are further accentuated as proprietary trading is its core business activity. Moreover, with increasing competition in equity broking, the average yields for broking players have been under pressure. With the competitive intensity in the industry expected to remain high, the pressure on the industry margin is expected to continue. Going forward, SISL's ability to acquire new clients and manage the pressure on yields would be a key monitorable.

[1] *Market share computed basis clients' notional broking turnover*

Liquidity position: Adequate

At the consolidated level, SISL's liquidity position remained adequate with a free cash and bank balance of ~Rs. 26 crore and liquid investments and fixed deposits of ~Rs. 94 crore as on July 31, 2021. Further, it had drawable but unutilised fund-based facilities (overdraft) of ~Rs. 85 crore, which also provide a buffer for meeting additional margin requirements if required. Moreover, the proprietary trading book is liquid in nature, which offers SISL the flexibility to square off its position in a short timeframe to meet any liquidity requirement, if required.

Rating sensitivities

Positive factors – ICRA could upgrade the rating on the demonstrated ability to ramp up the scale of operations with a meaningful diversification in the revenue stream, sustain healthy performance in the trading business while ensuring adequate risk management measures, and maintain healthy capitalisation.

Negative factors – The rating could be downgraded if there is a deterioration in the Group's financial performance and liquidity profile. Pressure on the rating could also arise in case of any change(s) in the regulatory environment, which may impact its business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry Consolidation and rating approach Policy on withdrawal of credit ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SISL, along with its nine subsidiaries and one associate company, which are all enlisted in Annexure-2

About the company

Incorporated in 1994, Share India Securities Limited (SISL) is a securities broking company registered with the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), the Multi Commodity Exchange (MCX) and the National Commodity & Derivatives Exchange (NCDEX). The company was promoted as FMS Securities Limited by Mr. Parveen Gupta and Mr. Rajesh Gupta and was renamed Share India Securities Limited in 2010.

SISL, a publicly listed company, serves as the holding company of the Share India Group, which is primarily engaged in strategy-based arbitrage/derivate (proprietary) trading and the securities broking business. During the last three years, the Group has diversified its portfolio by foraying into mutual fund and insurance distribution and lending and merchant banking services. Other key Group entities include Share India Fincap Private Limited (SIFPL; lending business), Share India Capital Services Private Limited (SICSPL; merchant banking services), Share India Securities (IFSC) Private Limited (SISIFSCPL; derivative trading in Gujarat International Finance Tec-City), M/s Share India Global Pte. Ltd (strategy-based proprietary trading in international equity) and Share India Insurance Brokers Private Limited (SIIBPL; insurance distribution business). Moreover, SISL acquired majority stakes in Utrade Solutions and Algowire Trading Technologies in H1 FY2022 to further build its expertise in technology-based trading systems.

The company reported a consolidated net profit of Rs. 76.9 crore on an income of Rs. 372.9 crore in H1 FY2022 on a provisional basis compared to a net profit of Rs. 7.35 crore on an income of Rs. 160.2 crore in H1 FY2021. At the consolidated level, the Group's net worth stood at Rs. 346.2 crore as on September 30, 2021 on a provisional basis.

Key financial indicators (audited)

SIG	FY2019	FY2020	FY2021
Net Brokerage Income (Rs. crore)	16.6	24.0	77.7
Strategy-based Trading Income (Rs. crore)	160.6	164.8	300.1
Other Non-interest Income (Rs. crore)	5.2	8.1	14.5
Net Interest Income (Rs. crore)	4.0	8.6	7.6
Net Operating Income (NOI; Rs. crore)	186.4	205.5	399.8
Total Operating Expenses (Rs. crore)	154.7	156.2	307.3
Profit before Tax (Rs. crore)	36.7	50.7	103.4
Profit after Tax (PAT; Rs. crore)	25.0	40.0	80.7
Net Worth (Rs. crore)	158.31	192.93	280.38
Borrowings (Rs. crore)	106.02	125.60	118.53
Gearing (times)	0.67	0.65	0.42
Cost to Income Ratio (%)	83.0%	76.0%	76.9%
Return on Net Worth (%)	21.6%	22.8%	34.1%
PAT/NOI (%)	13.4%	19.5%	20.2%

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Nov 29, 2021	Mar 2, 2021	Feb 10, 2021	-	-
1	Short-term Non-fund Based Bank Guarantee	Short Term	500.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-	-
2	Short-term Fund-based Overdraft	Short Term	85.00	-	[ICRA]A2+; withdrawn	[ICRA]A2	-	-	-

**As on June 30, 2021*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term non-fund based bank lines	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
HDFC Bank Limited	Short-term Non-fund Based Bank Guarantee	NA	NA	NA	200.00	[ICRA]A2+
ICICI Bank Limited	Short-term Non-fund Based Bank Guarantee	NA	NA	NA	120.00	[ICRA]A2+
Axis Bank Limited	Short-term Non-fund Based Bank Guarantee	NA	NA	NA	95.00	[ICRA]A2+
Bank of India	Short-term Non-fund Based Bank Guarantee	NA	NA	NA	85.00	[ICRA]A2+
HDFC Bank Limited	Short-term Fund-based Overdraft	NA	NA	NA	85.00	[ICRA]A2+; withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Share India Securities Limited	100.00% (rated entity)	Full Consolidation
Share India Fincap Private Limited	100.00%	Full Consolidation
Share India Insurance Brokers Private Limited	100.00%	Full Consolidation
Share India Securities (IFSC) Private Limited	100.00%	Full Consolidation
Share India Capital Services Private Limited	100.00%	Full Consolidation
Total Securities (IFSC) Private Limited	100.00%	Full Consolidation
Total Securities Overseas Limited	100.00%	Full Consolidation
Total Commodities (India) Private Limited	100.00%	Full Consolidation
Share India Commodity Brokers Private Limited	37.12%	Partial Consolidation
Share India Global Pte. Ltd	100.00%	Full Consolidation
Share India Smile Foundation	100.00%	Full Consolidation

Source: *SISL's annual report FY2021 and investor presentation*

Note: *ICRA has taken a consolidated view of the parent (SISL) and its subsidiaries while assigning the rating*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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