

June 07, 2022

Pragya Securities Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Non-fund Based Bank Facilities	15.00	15.00	[ICRA]A3; reaffirmed
Short-term Fund-based Bank Facilities	3.00	3.00	[ICRA]A3; reaffirmed
Total	18.00	18.00	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to factor in Pragya Securities Private Limited's (PSPL) long track record (over 28 years) in retail equity broking business and its adequate capitalisation profile for the current scale of operations. The rating is, however, constrained by the company's modest scale of operations with low diversification of business revenues and high geographical concentration. While reaffirming the rating, ICRA has taken note of the market risk associated with the proprietary investment book as any downturn in the capital markets may impact the company's financial performance and its capitalisation profile.

However, the granular and diversified nature of the investment book provides some comfort. Moreover, ICRA notes that PSPL's liquidity position is adequate with low external borrowings. The company has adequate on-balance sheet liquidity to meet additional margin requirements at the current scale of operations, if required. Going forward, PSPL's ability to scale up its operations while maintaining healthy profitability would remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Long track record in retail equity broking business – Incorporated in 1994, PSPL is the flagship company of the Pragya Group and is engaged in equity broking and currency trading activities at the National Stock Exchange (NSE), Bombay Stock Exchange (BSE) and Metropolitan Stock Exchange of India Ltd. (MCX). The company was promoted by the Cholera family, which has more than two decades of experience in the equity broking industry. Over the years, PSPL has built its clientele by leveraging the personal relationships of the promoter, which helps in alleviating counterparty credit risks. It does not pursue new clients aggressively and primarily relies on references and acquaintances for expanding its client base. As of December 31, 2021, it had 13,732 clients.

Adequate capitalisation for current scale of operations – Supported by internal accruals, the company's net worth increased to Rs. 75.1 crore as of September 30, 2021 from Rs. 59.2 crore as on March 31, 2020. The capitalisation profile remains adequate for the current scale of operations with a gearing of 0.1 times

Credit challenges

Limited diversification of revenues with high dependence on broking and trading income – PSPL's revenue profile is largely dominated by gross equity broking income and income from the investment book (~64% and 25%, respectively, of overall revenues in FY2021). While the company also undertakes arbitrage trading and has a mutual fund distribution business, the

revenue contribution from these segments remains insignificant. The revenue stream is expected to remain concentrated on the broking segment as PSPL does not have any plans to diversify into any other capital markets related business.

Modest scale of operations with high geographical concentration – PSPL is a retail equity broking player with no presence in the institutional segment. While the company's average daily turnover (ADTO) increased by 38% in 9M FY2022 to Rs. 255 crore from Rs. 184 crore in FY2021 on the back of favourable market conditions, the growth rate trailed behind the industry (growth of 126%). This led to a contraction in the adjusted¹ market share (based on notional turnover) to 0.008% from 0.012% in FY2021. While its scale of operations has been modest, PSPL has been able to maintain the broking yields with a healthy share of turnover from the cash segment despite the industry-wide pressure on yields amid increasing competition. Notwithstanding this, the company's operations remain restricted to Mumbai with relatively limited client addition in recent years. As PSPL has no aggressive growth plans for the near future, the scale of operations is expected to remain modest in the medium term.

Dependence on capital markets, which are inherently volatile and cyclical in nature – With the Group's revenues being linked to the inherently volatile capital markets, its revenue profile and profitability remain vulnerable to market performance. The risks are further aggravated, given the sizeable proprietary investment book in relation to the company's net worth (25% of net worth as of September 2021). Thus, any downturn in the capital markets may impact PSPL's financial performance and capitalisation profile. As a major share of its revenues and profits is dependent on the performance of the investment book, the company's ability to manage the portfolio and market risk remains important.

Liquidity position: Adequate

PSPL's liquidity requirement is primarily for placing margins at the exchanges. It deployed an average margin of ~Rs. 255 crore at the exchanges (funded through own and client funds/securities) in 9M FY2022, wherein margin utilisation ranged between 43% and 76%. As of April 2022, the company had Rs. 2.3 crore of unencumbered cash and liquid investments and drawable but unutilised fund lines of ~Rs. 3 crore against nil external fund-based borrowings. Further comfort is derived from PSPL's arbitrage trading and investment book of Rs. 28.8 crore, which can be liquidated without significant lag for meeting any short-term liquidity requirements.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a ramp-up in the scale of operations with a diversification in the revenue profile and a sustained improvement in the financial performance.

Negative factors – The rating could be downgraded if there is a deterioration in the company's financial performance. Pressure on the rating could also arise in case of any adverse change(s) in the regulatory environment, affecting PSPL's business operations and financial performance.

Analytical approach

Analytical approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

¹ Adjusted for industry proprietary turnover

About the company

The Pragya Group was promoted by the Cholera family in 1985 in Rajkot, Gujarat, with the commencement of business operations as a sub-broker. PSPL was incorporated in 1994, with the BSE membership being corporatized in this entity, and the Group relocated to Mumbai. PSPL is the flagship company of the Pragya Group and is engaged in equity broking and currency trading activities at NSE and BSE. It is also a member of Central Depository Services Limited (CDSL) and provides depository services to its clients.

In FY2021, the company reported a profit after tax (PAT) of Rs. 12.6 crore on net operating income (NOI) of Rs. 11.1 crore compared to a PAT of Rs. 4.8 crore on NOI of Rs. 8.8 crore in FY2020. In H1 FY2022, the company reported a PAT of Rs. 3.0 crore on NOI of Rs. 6.8 crore on a provisional basis. As of September 30, 2021, the net worth stood at Rs. 75.1 crore.

Key financial indicators

PSPL	FY2020/ Mar-2020	FY2021/ Mar-2021	H1 FY2022/ Sep-2021*
Net Brokerage Income (Rs. crore)	7.6	9.9	6.2
Net Interest Income (Rs. crore)	1.1	1.0	0.4
Other Non-interest Income (Rs. crore)	0.1	0.1	0.2
Net Operating Income (NOI; Rs. crore)	8.8	11.1	6.8
Total Operating Expenses (Rs. crore)	5.3	5.8	3.3
Profit before Tax (Rs. crore)	6.4	14.6	3.9
Profit after Tax (PAT; Rs. crore)	4.8	12.6	3.0
Net Worth (Rs. crore)	59.2	71.8	75.1
Borrowings (Rs. crore)	0.0	0.0	7.2
Gearing (times)	0.0	0.0	0.1
Cost-to-income Ratio (%)	60.3%	52.0%	49.2%
Return on Net Worth (%)	8.4%	19.2%	8.2%
PAT/NOI (%)	54.4%	113.6%	44.6%

Source: Company, ICRA Research; *Provisional figures; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 07, 2022	Apr 29, 2021	-	Jan 31, 2020
1	Short-term Non-fund Based Bank Facilities	Short Term	15.0	14.6	[ICRA]A3	[ICRA]A3	-	[ICRA]A3
2	Short-term Fund-based Bank Facilities	Short Term	3.0	0.0	[ICRA]A3	[ICRA]A3	-	[ICRA]A3

Source: Company; *As of September 30, 2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term Non-fund Based Bank Facilities	Very Simple
Short-term Fund-based Bank Facilities	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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term Non-fund Based Bank Facilities	-	-	-	15.00	[ICRA]A3
NA	Short-term Fund-based Bank Facilities	-	-	-	3.00	[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis; Not applicable

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