

June 29, 2022

StockHolding Document Management Services Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Bank Lines – Term loan	32.37	32.37	[ICRA]A+(CE) (Stable); reaffirmed
Total	32.37	32.37	

*Instrument details are provided in Annexure I

Rating Without Explicit Credit Enhancement	[ICRA]BBB
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Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating is based on the strength of the corporate guarantee provided by the parent, i.e. Stock Holding Corporation of India Limited {SHCIL; rated [ICRA]AA- (Stable)}, besides the evaluation of the standalone credit profile of StockHolding Document Management Services Limited (SDMSL). SDMSL has an established market position in the physical record management and document digitisation businesses, though its credit profile is constrained by the weak profitability trajectory, volatility in the revenue profile and the high working capital intensity of operations. The Stable outlook reflects ICRA's outlook on the rating of the guarantor – SHCIL.

Adequacy of credit enhancement

To assign the rating, ICRA has assessed the attributes of the guarantee issued by SHCIL in favour of the said facility. While the guarantee is legally enforceable, unconditional, and covers the entire amount and tenor of the rated facility, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has reaffirmed the rating of [ICRA]A+(CE) for the said facility against the unsupported rating of [ICRA]BBB and in relation to the guarantor's rating of [ICRA]AA-. In case the rating of the guarantor or the unsupported rating of SDMSL changes in future, the same may have a bearing on the rating of the aforesaid facility as well. The rating of this facility may also change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or in the reputation sensitivity of the guarantor to a default by the rated entity or in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- During the currency of the bank's credit facilities, SDMSL/the guarantor (SHCIL) will not, without the bank's prior permission in writing, enter into borrowing arrangements, either secured or unsecured, with any other bank, financial institution, company or person
- SDMSL/the guarantor will not, without the bank's prior permission in writing, undertake guarantee obligations on behalf of any other company, firm or person

In the event that the guarantor revokes or discontinues the guarantee, the captioned rating will not apply to any incremental exposure taken by the bank on the borrower after the revocation or discontinuation notice is sent by the guarantor. In that event, the rating on the facility will have to be reviewed.

Key rating drivers and their description

Credit strengths

Established market position – SDMSL provides physical document storage solutions, digitisation solutions and information technology enabled services. The principal service provided by the company is document digitisation and physical record management and it has an established presence in these businesses. It has managed many projects for blue chip organisations from the corporate as well as public sectors, and caters to over 1,500 clients including regulators, government institutions, banks and corporate sector companies. The physical storage service, which is a niche segment, provides a stable source of revenue to the company, while the digitisation segment is inherently volatile due to intense competition. However, the presence of a healthy order book for the near term and established client relationships provide comfort.

Corporate guarantee from SHCIL – SDMSL's bank facility is backed by a corporate guarantee from SHCIL. Incorporated as a public limited company in 1986, SHCIL was jointly promoted by leading banks and financial institutions and has an established track record with a strong franchise in the capital markets related business. SHCIL has a well-diversified portfolio comprising capital market related services (broking and depository, professional clearing, custodial services and distribution of financial products), e-stamping and document management. The guarantee is legally enforceable, unconditional, and covers the entire amount and tenor of the rated facility, although it does not have a well-defined invocation and payment mechanism.

Credit challenges

Weak profitability trajectory and volatility in revenues – SDMSL's profitability trajectory has been subdued over the past few years due to a fire (in December 2017) at its main facility in Mahape, which interrupted operations and led to an increase in costs (for repairs and retrievable) during the following periods. The performance remained muted in FY2021/H1 FY2022 owing to the Covid-19 pandemic-related business disruptions. This, coupled with the high provisions/write-offs, primarily in FY2019 and FY2020 owing to legacy receivables, resulted in losses at the net level during FY2019 to FY2021¹.

While SDMSL posted a nominal profit of Rs. 1.6 crore in FY2022, the overall profitability trajectory remains weak. Further, its revenue profile is inherently volatile, especially the digitisation business, owing to the intense competition in the segment and the episodic nature of the contracts. Although the physical storage services segment provides some stability to the revenues, the overall revenue profile remains volatile, thereby impacting future profitability. Going forward, SDMSL's ability to manage the cyclicity and achieve a significant and sustained improvement in profitability would remain critical.

High working capital intensity – SDMSL's operations are working capital intensive on account of the elongated receivables cycle as well as the contract-based nature of the business. Historically, the majority of the company's clientele comprised government/quasi government entities that typically take an extended period to make payments. Further, certain clients held back payments after the fire incident, pending finalisation of claims, resulting in further elongation of the receivables cycle. However, as most of the claims have been finalised, collections from the legacy overdue debtors are expected in the near term. Nonetheless, the average debtor days remain high at ~180-200.

The loss-making operations, coupled with the high working capital intensity and ongoing capital expenditure, have necessitated funding support from the parent. SHCIL has extended funding support in the form of equity infusion, unsecured loans as well as subscribing to the company's non-convertible debentures. More recently, in FY2021, SHCIL had provided funding support of Rs. 25 crore in the form of fully convertible debentures (FCDs) to SDMSL. SHCIL has also extended a corporate guarantee towards the Rs. 32.37-crore term loan availed by SDMSL. Going forward, the company's ability to effectively manage the working capital cycle will remain imperative from a credit perspective.

¹ SDMSL reported a net loss of Rs. 6.93 crore in FY2019, Rs. 29.62 crore in FY2020 and Rs. 12.99 crore in FY2021

Liquidity position: Adequate

For SHCIL: Strong

As on March 31, 2022, SHCIL (standalone) did not have any debt outstanding, although it had borrowings outstanding of Rs. 25.22 crore (SDMSL's short-term borrowings from banks guaranteed by SHCIL) at the consolidated level. SHCIL requires funds for placing margins at the exchanges, which is supported by the margin deposits from clients and sanctioned bank lines. Further, it had unutilised bank lines of ~Rs. 2,400 crore to support its operations, while the borrowings are nominal.

For SDMSL: Adequate

The company had an unencumbered cash & bank balance of Rs. 2.21 crore and unutilised bank lines of Rs. 4.22 crore as on March 31, 2022 on a standalone basis. It does not have any other investments, while the fixed deposits with banks are marked as lien against the bank guarantee limit. The company's borrowings outstanding as on March 31, 2022 stood at Rs. 55.35 crore, of which Rs. 5.87 crore is due in the next 12 months. The on-balance sheet liquidity and unutilised bank lines are adequate to cover the repayment obligations due over the next 12 months.

Rating sensitivities

Positive factors – An upward revision in the rating could take place on a sustained improvement in the credit profile of the guarantor (SHCIL).

Negative factors – The rating would remain sensitive to any movement in the rating of the guarantor (SHCIL), a change in the parentage or in the nature of support. Further, a sustained deterioration in the profitability or working capital intensity could be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Approach for Rating Debt Instruments Backed by Third-party Explicit Support
Parent/Group support	Support from parent: Stock Holding Corporation of India Limited The rating is based on the strength of the corporate guarantee from the parent – SHCIL. The guarantee would be legally enforceable, unconditional, and would cover the entire amount and tenor of the rated instrument
Consolidation/Standalone	Not applicable

About the company

Stockholding Document Management Services Limited (SDMSL; formerly known as SHCIL Projects Limited) was incorporated on August 10, 2006. It is a wholly-owned subsidiary of Stock Holding Corporation of India Limited (SHCIL). SDMSL provides physical storage services and digitisation services and sells software products and services.

SDMSL's promoter, SHCIL, was incorporated as a public limited company in 1986. SHCIL is jointly promoted by leading banks and financial institutions. It is a subsidiary of IFCI Limited, which held a 52.86% stake in the company as on December 31, 2020. SHCIL commenced operations by offering custodial and post-trading services and added depository and other services to its portfolio over a period of time. Currently, the company provides various services such as custodial, depository, broking, e-stamping, distribution of financial products and professional clearing member services. These services are offered to both retail and institutional clients. The company has three wholly-owned subsidiaries – SHCIL Services Limited (SSL) engaged in

broking services, SDMSL providing physical and electronic recordkeeping of documents, and StockHolding Securities IFSC Limited (SSIL), which offers service solutions to all eligible investors at IFSC, Gift City.

Key financial indicators (audited)

SDMSL - Standalone	FY2021	FY2022
Operating income	40.1	50.3
PAT	(13.0)	1.6
OPBDIT/OI	7.1%	52.7%
PAT/OI	-32.4%	3.1%
Total outside liabilities/Tangible net worth (times)	3.2	2.9
Total debt/OPBDIT (times)	19.4	2.1
Interest coverage (times)	0.3	3.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA Research

Source: Company, ICRA Research

SHCIL - Consolidated	FY2021	FY2022
Brokerage income	250.7	346.6
Fee income (other than broking)	166.9	188.6
Net interest income	42.3	40.7
Other non-interest income	52.7	77.3
Net operating income (NOI)	512.7	653.2
Total operating expenses	427.6	479.3
Profit before tax	82.7	181.3
Profit after tax (PAT)	63.2	148.3
Net worth	2,713.7	4,594.7
Borrowings	20.1	25.2
Gearing (times)	0.01	0.01
Cost-to-income ratio	83.4%	73.4%
Return on net worth	2.5%	4.1%
PAT/NOI	12.3%	22.7%

Note: Amount in Rs. crore; All calculations are as per ICRA Research

Source: Company, ICRA Research

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 in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jun 29, 2022	Apr 19, 2021	May 26, 2020	Feb 14, 2020 Jan 10, 2020	
1	Long-term Fund-based Bank Lines – Term Loan	Long Term	32.37	4.70	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (Stable)	
2	Bank Lines – Long Term (unallocated)	Long Term	-	-	-	Provisional [ICRA]A+(CE) (Stable), withdrawn	Provisional [ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (Stable)	
3	Non-convertible Debenture Programme	Long Term	-	-	-	Provisional [ICRA]A+(CE) (Stable), withdrawn	Provisional [ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based – Term Loan	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Oct 2020	7.40%	Sep 2028	32.37	[ICRA]A+(CE) (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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