November 30, 2022

Standard Chartered Securities (India) Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	50	200	[ICRA]A1+; reaffirmed/assigned
Long-term fund-based/non-fund based bank lines	450	450	[ICRA]AAA (Stable); reaffirmed
Total	**500**	**650**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Standard Chartered Securities (India) Limited's (SCSIL) parentage in the form of Standard Chartered Bank (UK) (SCB UK; rated A1 (Stable)/P1 by Moody's Investors Service) and the expectation that the parent will extend support to SCSIL as and when required. SCSIL is a step-down subsidiary of SCB UK and a deterioration in the credit profile of SCB UK and/or lower-than-expected support from the parent group could warrant a rating change for SCSIL. In addition to the shared brand name, which supports its financial flexibility, SCSIL benefits from board supervision, good risk management systems that draw from Standard Chartered Bank (SCB) Group's global practices, and operational synergies with the Group, which give SCSIL access to Standard Chartered India's retail high-net-worth clients.

The ratings also factor in SCSIL's adequate capitalisation levels for the current scale of operations and its adequate liquidity profile. With the growth in the margin trading funding (MTF) business (MTF book increased to Rs. 299 crore as on September 30, 2022 from Rs. 196 crore as on March 31, 2022), the company's gearing increased to 1.1 times as on September 30, 2022 from 0.5 times as on March 31, 2022. However, ICRA expects the company to maintain a prudent capitalisation profile, going forward as well.

ICRA also notes SCSIL's modest profitability indicators and the limited diversification in its business profile with the broking as well as the MTF business being dependent on capital markets, consequently exposing the company to the risks associated with market volatility. ICRA also notes the intense competition in the retail broking space, which is likely to keep the yields under pressure. Going forward, SCSIL's ability to scale up the broking volumes and the MTF book while maintaining adequate capitalisation, asset quality and improving profitability will be a monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a part of Standard Chartered Group – SCSIL benefits from being a part of SCB and receives operational and management support from the Group. Given its position as a bank brokerage house, the company has access to SCB India's retail clientele while it helps augment the bank's service portfolio by offering broking services to its clients. It retains a key position in the wealth vertical of the SCB Group. SCSIL also leverages the brand name and the parent's distribution network, which helps it expand its business while keeping customer acquisition costs under control.

SCSIL also benefits from board supervision with SCB India's senior management and board members, including its Chief Executive Officer, being on the company's board. The shared brand name also supports the company's financial flexibility. ICRA expects that support from the Group will be forthcoming in a timely manner, if required, going forward as well.

Adequate capitalisation and liquidity profile for current scale of operations – With SCSIL's operations in the retail broking space being narrowed down to SCB India's customer base, its capitalisation has been comfortable for the current scale of operations. However, with the management's intention of scaling the MTF book and pursuing an online platform-based growth strategy, the capital requirement may increase in the medium term. SCSIL's capital would be mainly used for meeting the margin requirements at the bourses and for the MTF business in the near term. While the company had lower leverage historically, the scaling of the MTF book has resulted in an increase in the leverage with its reported gearing rising to 1.1 times as on September 30, 2022 from 0.5 times as on March 31, 2022 (0.1 times as on March 31, 2021). The gearing is expected to increase further with the expected ramp-up in the MTF business in the near to medium term. Also, given its importance to SCB India's operations, ICRA expects SCSIL to receive timely capital support from the Group for its growth plans while maintaining prudent capitalisation levels.

The company has an adequate liquidity profile with moderate utilisation of the margins placed with the stock exchanges (generally 30-50%). Its margin utilisation (funded through own and client funds/securities) has been around 33% since January 2022.

Credit challenges

Exposed to risks inherent in capital markets business and credit risk arising out of MTF business – SCSIL forayed into the MTF business in FY2020 and has ramped up its MTF book to Rs. 299 crore as on September 30, 2022 from Rs. 12 crore as on March 31, 2020. It remains exposed to credit and market risks, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. However, SCSIL's risk management processes, which draw from the global practices of the SCB Group, have helped it manage the business despite volatile capital market movements.

SCSIL's revenues remain dependent on capital markets, which are inherently volatile in nature. its net brokerage income and net interest income (NII) arising out of the MTF business and the deposit of upfront cash margins from the clients, accounted for 38% and 42%, respectively, of the net operating income (NOI) in H1 FY2023, reflecting its limited presence in non-capital market related businesses. Hence, SCSIL's revenue profile and profitability remain vulnerable to market performance.

Intense competition in retail broking sector – Given the highly competitive broking industry, the broking yields are expected to remain under pressure. However, some of this impact could be mitigated by SCSIL's enhanced focus on adding new clients, which would lead to higher broking volumes. Also, overall yields could get some support with a higher share of broking volumes coming from the relatively higher-yielding cash segment. SCSIL primarily sources its clients from the parent's existing client pool. There is significant opportunity to grow the business, given the relatively low penetration at present. Moreover, the profitability is expected to benefit from the relatively controlled client acquisition cost compared to client acquisition through other channels.

Modest, albeit improving, profitability indicators with small scale of operations – The company's scale of operations is relatively small with an equity broking market share of 0.001% as on September 30, 2022. This has kept its profitability indicators modest, though the same has been improving. SCSIL's return on equity (RoE) improved to 5.9% in FY2022 from 3.5% in FY2021, largely driven by the increase in broking income. While broking income moderated in H1 FY2023, the impact was partly offset by the increase in the NII, driven by the growth in the MTF business. SCSIL reported an RoE of 4.1% in H1 FY2023.

Brokerage income and NII remain the key contributors to the overall revenue profile, with a share of 38% and 42%, respectively, in H1 FY2023 (49% and 36% in FY2022, respectively). In the near to medium term, income growth and a subsequent improvement in profitability will depend on the realisation of the envisaged pick-up in the online platform-based customer onboarding, SCSIL's ability to acquire new clients and further growth in the MTF book while maintaining the current level of asset quality.

Liquidity position: Adequate

SCSIL primarily requires funds to meet the margin requirements at the bourses, which are met through bank guarantees and own funds. The MTF business is funded through fund-based bank lines against fixed deposits and book debt and via commercial papers. As on September 30, 2022, SCSIL had an unencumbered cash and bank balance of Rs. 70.7 crore and sizeable unutilised fund-based and non-fund based bank limits against fixed repayments of Rs. 130 crore in the next six months. The short-term nature of the margin funding book and access to client's assets (liquid equity shares as collateral), which can be monetised without a significant lag, also provide comfort.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on SCSIL's ratings could arise if there is a deterioration in the credit profile of the ultimate parent, lower-than-expected support from the parent group or a weakening in the linkages with the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Broking Rating Approach – Implicit Support from Parent or Group
Parent/Group support	SCB UK The ratings are underpinned by SCSIL's parentage in the form of SCB UK and the expectation of timely support from the Group, if required
Consolidation/Standalone	Standalone

About the company

SCSIL is a wholly-owned subsidiary of Standard Chartered Bank (Mauritius) Limited (SCBM) and a step-down subsidiary of SCB UK. SCBM acquired the company from Securities Trading Corporation of India during 2008-2010. Prior to the acquisition, Standard Chartered Securities was known as UTI Securities Limited. SCSIL is a broking company with an operational track record of 27 years. It is registered as a trading and clearing member with Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE).

Currently, SCSIL offers broking facilities, margin trade facilities and distribution of third-party products like corporate fixed deposits and bonds. It reported a net profit of Rs. 16.5 crore on a total income of Rs. 71.4 crore in FY2022 against a net profit of Rs. 9.2 crore on a total income of Rs. 47.9 crore in FY2021. In H1 FY2023, the company reported a profit of Rs. 6.0 crore on a total income of Rs. 40.0 crore.

Key financial indicators (audited)

SCSIL	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Net brokerage income	15.6	21.4	31.3	12.0
Trading income	0.0	0.0	0.0	0.0
Fee income	6.3	6.2	9.6	6.1
Net interest income	17.9	19.7	23.3	13.2
Net operating income (NOI)	40.1	47.6	64.2	31.5
Total operating expenses	31.9	34.7	40.9	23.1
Profit before tax	13.6	12.9	23.3	8.4
Profit after tax (PAT)	11.2	9.2	16.5	6.0
Net worth	255.9	265.9	289.3	292.0
Borrowings	0.0	14.6	140.5	325.2
Gearing (times)	0.00	0.06	0.5	1.1
Cost-to-income ratio	80%	73%	64%	73%
Return on net worth	5%	4%	6%	4%
PAT/NOI	28%	19%	26%	19%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2022 (Rs. crore)	Current Rating (FY2023) Date & Rating in FY2023	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 30, 2022	Mar 31, 2022	-	-
1	Long-term fund-based/non-fund based bank lines	LT	450	328.2	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
2	Commercial paper	ST	200	0	[ICRA]A1+	[ICRA]A1+	-	-

LT – Long term, ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based/non-fund based bank lines	Simple
Commercial paper	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: Click Here

Annexure I: Instrument details as on September 30, 2022

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	75.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	120.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	30.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	14.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	30.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	October 05, 2021	NA	NA	130.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	25.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	25.0	[ICRA]AAA (Stable)
NA	**Long-term fund-based/non-fund based bank lines**	NA	NA	NA	1.0	[ICRA]AAA (Stable)
Yet to be placed	**Commercial paper**	NA	NA	7-365 days	200.0	[ICRA]A1+

Source: Company, ICRA Research

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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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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.

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