March 29, 2023

Sharekhan BNP Paribas Financial Services Limited: Rating reaffirmed for CP programme; rating reaffirmed and withdrawn for CP (IPO finance) programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper (CP) programme	1,000.0	1,000.0	[ICRA]A1+; reaffirmed
CP (IPO finance) programme	3,000.0	0.0	[ICRA]A1+; reaffirmed and withdrawn
Total	**4,000.0**	**1,000.0**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has taken a consolidated view of Sharekhan Limited (SKL) and its subsidiaries, including Sharekhan BNP Paribas Financial Services Limited (SBPFSL), hereafter referred to as the Sharekhan Group or the Group.

The rating continues to factor in SKL's strong parentage by virtue of being a part of the BNP Paribas Group (BNP Paribas SA (BNPP), rated Aa3/Stable/P-1 by Moody's, is SKL's ultimate parent) and its strategic importance to the parent. The rating also takes into account SKL's considerable track record in the equity broking business, its well-established position in the retail broking and capital market related lending activities, and its adequate financial profile.

While reaffirming the rating, ICRA notes that the Group's consolidated leverage has increased in the last two fiscals, given the focus on growing the lending business {margin trade facility (MTF) book under SKL and capital market-based lending under SBPFSL} and the increase in the margin placed at the exchanges. Also, the Group made a hefty dividend payout in FY2021. Nevertheless, its capitalisation level remains comfortable. As of December 31, 2022, SKL's consolidated net worth was estimated at Rs. 1,550 crore and the consolidated gearing was estimated at 1.1 times.

The rating also considers SKL's high dependence on broking income, which remains susceptible to the extent of competition in the industry and the inherent volatility associated with capital markets. Moreover, the Group is exposed to the credit and market risks associated with the margin trading and capital market related lending businesses, given the nature of the underlying assets. Going forward, the Group's ability to scale up its lending business while maintaining adequate asset quality and capitalisation will remain imperative. Further, SKL's ability to seamlessly align with the evolving regulatory landscape, scale up the broking volume and maintain adequate profitability will be a monitorable. The rating also factors in SKL's foray into the discount broking segment, though the impact of discount broking on the consolidated financials remains nominal at present.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 3,000-crore CP (initial public offering (IPO) finance) programme of SBPFSL as there is no amount outstanding against the rated instrument. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage – SKL is a wholly-owned subsidiary of BNPP. BNPP acquired a 100% stake in the company in FY2017 with the objective of entering the retail broking and allied lending business in India. It has significant representation on SKL's board of directors; as of January 2023, the company had a nine-member board with five representatives from BNPP, including two Whole-time Directors who ensure that SKL's operations are aligned with the parent's operations and policies. Moreover, certain management functions (such as risk and treasury) of SKL report directly to BNPP. The ownership structure and cobranding[1], along with BNPP's regular supervision and control over the subsidiaries' activities, strengthen ICRA's assumption that SKL and SBPFSL will continue to receive adequate operational and financial support from the parent, if required.

Long track record in capital market related businesses and established position in retail broking – SKL has experience of over two decades in the equity broking space. It has a wide geographical presence with 3,420 franchisees and 137 branches as on June 30, 2022. It is a full-service stockbroking company, primarily engaged in the retail equity broking segment. SKL registered a ~33% increase in its average daily turnover (ADTO) in the futures & options (F&O) segment in H1 FY2023, though the cash ADTO declined by 25%. Apart from broking, SKL, along with its subsidiary (SBPFSL), is engaged in various capital market related activities such as margin financing, loan against shares (LAS), employee stock ownership plan (ESOP) financing, commodities trading, portfolio management services and mutual fund distribution.

Adequate financial profile; however, NIMs under pressure due to rising borrowing cost – The Group registered a healthy growth in revenues in FY2021 and FY2022 and reported its highest-ever profit after tax (PAT) of Rs. 264 crore in FY2022 (Rs. 214 crore in FY2021 and Rs. 101 crore in FY2020). Thereafter, ICRA notes that geopolitical tensions and the adverse macro-economic outlook dampened investor sentiments in FY2023 and this was reflected in the moderation in capital market activity, especially in the cash segment, and the rising interest cost. Correspondingly, SKL reported a moderation in its financial performance in 9M FY2023 with its PAT/net operating income ratio declining to 13.6% in 9M FY2023 from 21.5% in FY2022, while the return on equity (RoE) is estimated to have moderated to 9.4% in 9M FY2023 from 17.7% in FY2022 (13.6% in FY2021). Nonetheless, as of December 31, 2022, SKL's consolidated capitalisation profile remained comfortable with an estimated net worth of Rs. 1,555 crore and a gearing of 1.1 times. ICRA notes that incremental growth in the business will be debt-funded. This, coupled with rising working capital requirements, is expected to lead to an increase in the leverage.

Credit challenges

High dependence on equity broking segment – The equity broking segment remains the Group's primary revenue driver, accounting for 60-70% of the consolidated net operating income. Furthermore, SKL is predominantly a retail broking player with a negligible presence in the institutional broking and other capital market segments. The Group started to focus actively on its lending business, which was primarily housed under SBPFSL, from FY2018 with plans of foraying into retail lending. SBPFSL subsequently realigned its strategy to focus on capital market related lending products like margin funding, LAS, IPO finance and ESOP funding.

The Group's lending business witnessed growth in FY2021 and FY2022 (amid favourable domestic capital market activity, notwithstanding intermittent declines) with the consolidated loan book increasing to ~Rs. 2,000 crore as of March 31, 2022 from Rs. 700-800 crore prior to FY2021. The consolidated loan book has remained tepid in the current fiscal. With most of its revenues being linked to the inherently volatile capital markets, SKL's revenue profile and profitability remain vulnerable to market performance. Its ability to seamlessly align with the evolving regulatory landscape and diversify its revenue stream, thus providing stability to its profitability, will remain imperative.

Exposed to risks inherent in capital market related businesses – SKL's earnings profile remains dependent on capital markets, which are inherently volatile in nature. Further, its MTF and LAS books pose asset quality risk in case of a sharp correction in the market. SKL 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, ICRA takes note of the company's monitoring and risk management processes and the adequate performance of this business.

Highly fragmented and competitive industry – With the increasing competition in the broking segment, especially from the discount broking segment, SKL's market share in terms of cash broking volumes moderated to 3.3% in H1 FY2023 from 5.3% in FY2018. With the competitive intensity in this cyclical industry expected to remain high, pressure on profitability cannot be ruled out, especially during downturns. Nonetheless, the lower level of equity market penetration in the country offers significant untapped potential for growth.

[1] SKL's logo and signage include 'By BNP Paribas' while SBPFSL shares its name with the parent

Liquidity position: Adequate

SKL's liquidity position remains adequate, supported by on-balance sheet liquidity and undrawn bank lines. As of December 31, 2022, compared to consolidated borrowings of about Rs. 2,350 crore, SKL (standalone level) had unencumbered cash & equivalents of Rs. 502 crore and unutilised fund-based bank lines of Rs. 153 crore, while SBPFSL had unencumbered cash & equivalents of Rs. 174 crore. The fund-based bank lines remained largely unutilised towards the end of the month. Additionally, the company's short-term loan assets, which can be liquidated at short notice to generate liquidity if required, stood at ~Rs. 1,850 crore [MTF book of ~Rs. 1,050 crore (under SKL) and LAS book of ~Rs. 700 crore (housed under SBPFSL)]. The Group also enjoys financial flexibility, given the parentage, and the same is evident from the demonstrated track record of raising funds from money markets and the competitive borrowing cost.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material change in SKL's shareholding or in its linkage with the parent and/or a deterioration in the credit profile of the parent could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Broking Rating Methodology – Non-banking Finance Companies (NBFCs) Rating Approach – Implicit Parent or Group Support Rating Approach – Consolidation Policy on Withdrawal of Credit Rating
Parent/Group support	Part of BNPP Group
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SKL. As on December 31, 2022, the company had four subsidiaries and two stepdown subsidiaries, which are enlisted in Annexure II.

About the company

SBPFSL is a wholly-owned subsidiary of SKL and is registered with the Reserve Bank of India (RBI) as a non-banking financial company (NBFC). It provides loans/finance to the retail clients of the Group under various products such as LAS and funding for IPO, follow-on public offer (FPO), rights issue and ESOP/employee stock purchase scheme (ESPS). As on December 31, 2022, SBPFSL's net loan book was Rs. 887 crore.

About SKL

SKL is a security broking service provider registered with the Securities and Exchange Board of India (SEBI). Its main business activity is securities broking, primarily in the retail segment, with a small presence in portfolio management services and the distribution of mutual fund products. SKL became a wholly-owned subsidiary of BNPP, a leading bank in Europe, in FY2017.

SKL is a member of the Bombay Stock Exchange (BSE), the National Stock Exchange (NSE), the Metropolitan Stock Exchange of India Limited (MSEI) and the Multi Commodity Exchange (MCX). It is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). As on September 30, 2022, SKL's active client base was 7.8 lakh and the broking volumes were largely contributed by the franchises. As on June 30, 2022, the company had 3,420 franchisees and 137 branches.

Key financial indicators (audited)

SKL – Consolidated	FY2021	FY2022
Brokerage income and other distribution fees	789	949
Net interest income	209	272
Net operating income (NOI)	1,044	1,231
Total operating expenses	752	874
Profit before tax	288	357
Profit after tax (PAT)	214	264
Net worth	1,383	1,601
Borrowings	633	1,803
Gearing (times)	0.5	1.1
Cost-to-income ratio	72.0%	71.0%
Return to net worth	13.6%	17.7%
PAT/NOI	20.5%	21.5%

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

SBPFSL	FY2021	FY2022	9M FY2023^
Total income	103	141	70
Profit after tax	46	64	24
Net worth	488	552	551
Net loan book	638	1,117	887
Total assets	736	1,236	1,069
Return on assets	6.3%	6.5%	2.8%
Return on net worth	9.1%	12.3%	5.9%
Gross gearing (times)	0.5	1.2	0.9
Gross NPA	0.0%	0.0%	0.0%*
Net NPA	0.0%	0.0%	0.0%*
CRAR	66.4%	45.1%	50.8%*

*Source: Company, ICRA Research; ^Provisional; All ratios as per ICRA's calculations; Amount in Rs. crore; *As of September 30, 2022*

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 as of Mar 20, 2023 (Rs. crore)	Current Rating	Previous Rating			Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020					
					Mar 29, 2023	Feb 03, 2023	Sep 22, 2022	Apr 26, 2022	Jun 18, 2021	May 20, 2021	Sep 10, 2020	Jul 31, 2020	Mar 05, 2020	Oct 09, 2019	Sep 20, 2019	Aug 01, 2019	Jul 03, 2019	May 17, 2019	Apr 16, 2019
1	CP programme	Short term	1,000.0	250.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+
2	CP (IPO finance) programme	Short term	3,000.0	0.0	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; withdrawn	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+; withdrawn	[ICRA] A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Commercial paper (IPO finance)	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

ISIN	Instrument Name	Date of Issuance	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE550X14AA1	Commercial paper	Dec 12, 2022	8.57	Dec 12, 2023	150	[ICRA]A1+
INE550X14AB9	Commercial paper	Feb 15, 2023	7.80	May 17, 2023	50	[ICRA]A1+
INE550X14AC7	Commercial paper	Mar 3, 2023	8.20	Jun 2, 2023	50	[ICRA]A1+
NA	Commercial paper*	-	-	7-365 days	750	[ICRA]A1+
NA	CP (IPO finance) programme^	-	-	7-30 days	3,000	[ICRA]A1+; reaffirmed and withdrawn

*Source: Company; *Yet to be placed; ^Not placed*

Annexure II: List of entities considered for consolidated analysis

	SKL Ownership	Consolidation Approach
Sharekhan Limited	Holding Company	Full Consolidation
Sharekhan BNP Paribas Financial Services Limited	100% (rated entity)	Full Consolidation
Sharekhan Commodities Private Limited	100%	Full Consolidation
Wealthtiger Investment Advisors Private Limited	100%	Full Consolidation
Sharekhan Consultants Private Limited	100%	Full Consolidation
Sharekhan.com India Private Limited	100%	Full Consolidation
Espresso Financial Services Private Limited	100%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (SKL) and its subsidiaries/stepdown subsidiaries while assigning the rating

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