

March 31, 2023

## Stock Holding Corporation of India Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based/non-fund based bank facilities	3,026.82	3,026.82	[ICRA]AA- (Stable); reaffirmed
<b>Total</b>	<b>3,026.82</b>	<b>3,026.82</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating factors in the StockHolding's diversified services portfolio with a strong presence in the electronic stamping (e-stamping) business, established track record in capital market related business and comfortable capital structure. The rating also considers the recent improvement in the earnings profile. Driven by a sizeable growth in the e-services business, StockHolding reported an improvement in its core operating performance in FY2022 with the core profit before tax (PBT; adjusted for investment income) at Rs. 120.0 crore, core operating profitability (PBT adjusted for investment income /core operating income; COI<sup>1</sup>) of 20.1% and adjusted<sup>2</sup> return on equity (RoE) of 11.4%. While StockHolding has witnessed some moderation in the performance in the capital market related businesses in the current fiscal, the operating performance remains adequate with core operating profitability of 18.9% and adjusted RoE of 10.1% in 9M FY2023.

The rating also factors in the profitability pressures witnessed by StockHolding's document management business, which is housed under its subsidiary, Stock Holding Document Management Services Limited (SDMSL). SDMSL has required funding support from StockHolding given its loss-making operations during FY2019 to FY2021, working capital requirement as well as capital expenditure in the recent past. While SDMSL has reported a recovery in its profitability, the same remains modest. Going forward, the Group's ability to stabilise the document management operations would remain imperative.

The rating also takes into account the exposure to the volatilities inherent in capital markets, which could result in variability in the earnings profile and the highly competitive intensity prevalent in the capital market related business. ICRA also takes note of the weak credit profile of StockHolding's promoter, IFCI Limited {rated [ICRA]B+ (Negative)}. Going forward, the extent of funding support to parent, if any, could have a bearing on the company's credit profile.

The Stable outlook reflects ICRA's opinion that the company would maintain its credit profile supported by its established market position in e-services, other capital market related businesses, comfortable capitalisation and diversified business profile.

### Key rating drivers and their description

#### Credit strengths

**Established track record and franchise** – StockHolding was incorporated in 1986 by leading banks and financial institutions as a public limited company. It was among the early entrants in the depository services segment and has a prominent presence in capital market related businesses. StockHolding has been designated the Central Record Keeping Agency (CRA) by the Ministry of Finance, Government of India and provides e-stamping services to 22 states and Union Territories in India.

<sup>1</sup> Comprising net broking income, net interest income (excluding interest income from investments), depository and custodial income, PCM fees, distribution income, e-services income, and income from document management services.

<sup>2</sup> PAT excluding investment income and net worth excluding investments.

**Diversified services portfolio** – The company has a well-diversified portfolio comprising capital market related services (broking and depository, professional clearing, custodial services and distribution of financial products), and non-capital market related businesses such as e-services and document management. The Group's revenue profile was historically more inclined towards inherently volatile capital market-based revenues (derived from broking, professional clearing business, and custodial services). However, with the scaleup in the e-services business in recent years, the share of non-capital market revenues (comprising e-services and document management business) has increased to ~43% of the overall revenue mix in FY2022 from 34% in FY2019 and further to 48% in 9MFY2023.

In 9MFY2023, e-services accounted for ~38% of the net operating income (NOI ;33% in FY2022) followed by income from investments in Fixed Deposits, Gsec , Bonds, fixed deposits (21% in 9MFY2023, 11% in FY2022), broking (13% in 9MFY2023, 18% in FY2022), depository & custody business (11% in 9MFY2023, 20% in FY2022), document management services (10% in 9MFY2023 and 10% in FY2022) and professional clearing member (PCM), distribution of wealth products and other income (put together accounting 7% in 9MFY2023, 8% in FY2022).

**Comfortable capitalisation profile** – StockHolding's capitalisation profile remains characterised by a net worth of Rs. 6,225.1 crore and negligible gearing (<0.1x) as of December 31, 2022. ICRA notes that the sizable increase in the net worth was on account of significant increase in the valuation of equity investments on the National Stock Exchange (NSE). Nonetheless, even after adjusting for the investments on the NSE investments, the net worth and capitalisation remained comfortable at Rs. 1,035.1 crore and 0.03x respectively, as of December 31, 2022.

**Improvement in earnings profile** – Led by the sizable increase in the e- stamping business, the Group's COI increased by 30% YoY in FY2022. With the improvement in the scale of operations, StockHolding's core operating performance improved with core PBT (excluding investment income) at Rs. 120.0, core operating profitability (PBT (excluding investment income)/COI) of 20.1% and adjusted RoE of 11.4% in FY2022. While Stock holding witnessed some moderation in performance of its capital market related businesses in the current fiscal, the core operating performance remains adequate with core PBT (excluding investment income) at Rs. 89.2 crore, core operating profitability of 18.9% and adjusted RoE of 10.1% in 9M FY2023. ICRA notes that StockHolding earned a record dividend income of Rs. 92.6 crore in 9MFY2023 from its investments, which boosted the net profit further to Rs. 156.5 crore.

## Credit challenges

**Dependence on capital markets, which are inherently volatile and cyclical in nature** – StockHolding's capital market related businesses, such as depository operations, professional clearing services and broking depend on the volume of transactions undertaken. Hence, the profitability from these segments remains exposed to the volatility inherent in capital markets. Additionally, with sizeable investments in NSE shares (accounting for ~83% of net worth as of December 31, 2022), StockHolding's overall net profit and net worth remains exposed to the idiosyncrasy risk of the investment. In the non-capital market related business, the company has witnessed significant traction in income from e-stamping services amid the revival in real estate sector in recent years. However, the sustainability of the same across economic cycles is yet to be witnessed.

**Competitive intensity in capital market related businesses; ability to retain market position in e-stamping business remains to be seen** –The depository and custodian businesses remain highly competitive as reflected by the loss of two of StockHolding's key clients in the recent past. Further, the company is exposed to concentration risk in the custody business with its top 3 custody clients accounting for over 50% of its institutional custody assets. The document management business also remains exposed to concentration risk with its top 5 clients in physical storage, digitisation, and hosting services accounting sizable share of SDMSL's revenue in H1 FY2023. While StockHolding remains the sole CRA and the first entrant in the e-stamping business. It's e-services are available 24/7 and offer integrated solution with e-stamping and e-registration services. The weakening of its market position in any key state may lead to sizeable revenue loss for the company as many states have launched e-stamping facilities in recent years. Hence, Stock Holding's ability to innovate and maintain its market position, going forward, remains important.

**Subdued performance of document management business, notwithstanding recent improvement**– The performance of StockHolding’s document management business, which is housed under its subsidiary (SDMSL), has been subdued over the past few years. The company’s main facility, located in Mahape, was affected by a fire incident in December 2017, which interrupted the operations and resulted in an increase in costs (for repairs and retrievable). The performance remained muted in FY2021 owing to Covid-19 pandemic-related business disruptions. Additionally, SDMSL has received demand notices and claims from its clients for fire-related damages. The high receivables buildup and write-off of legacy receivables further impacted the earnings profile. Thus, the company remained loss-making and was a drag on the overall profitability of the Group during FY2019 to FY2021. With the gradual normalisation of operations and the reversal of provisions, SDMSL achieved break even in FY2022 with a nominal net profit of Rs. 1.6 crore in FY2022. Led by the growth in digitisation and storage services, SDMSL continued on the growth trajectory with its net profit improving to Rs. 3.2 crore in 9MFY2023, though the same remains moderate.

The loss-making operations, coupled with working capital requirement and ongoing capital expenditure, have necessitated funding support from the parent in the recent past. There is a proven track record of financial support from the parent in the form of equity as well as debt funding. In H1 FY2021, StockHolding invested Rs. 25 crore in the form of fully convertible debentures in SDMSL. The company has also availed a term loan of Rs. 32.37 crore from a bank to fund its capital expenditure for a project.

### Liquidity position: Strong

As on September 30, 2022, StockHolding (standalone) did not have any debt outstanding though it had short-term borrowings (taken by SDMSL from banks) of Rs. 35.4 crore on a consolidated basis. StockHolding requires funds for placing margins at the exchanges, which is supported by the margin deposits from clients and sanctioned bank lines. During April 2022 to September 2022, the average margin placed at the exchanges (basis month-end data, including client margin) stood at Rs. 2,007 crore wherein the average utilisation ranged between 45 and 57%. As on September 30, 2022, the company had un-encumbered cash and bank balances of ~Rs. 50 crore, quoted liquid investments of Rs. 114.8 crore and undrawn working capital lines of Rs. 276.1 crore to support its operations, while the borrowings were nominal.

### Rating sensitivities

**Positive factors** – The long-term rating could be upgraded if the company is able to scale up its operations across businesses while achieving further improvement in its earnings from core operations on a sustained basis.

**Negative factors** – The rating could be downgraded on the weakening of its market position in any of key segments leading to profitability pressure for the Group. Pressure on the ratings could also arise in case of a material change in the investment profile, impacting the Group’s capitalisation profile, or any adverse change(s) in the regulatory environment, affecting the company’s business operations and financial performance.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Entities in the Brokerage Industry</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Stock Holding. As on March 31, 2022, the company had three subsidiaries, which are enlisted in Annexure II.

## About the company

Incorporated in 1986, StockHolding was jointly promoted by leading banks and financial institutions. It is a subsidiary of IFCI Limited, which had a 52.86% stake in the company as on March 31, 2022. StockHolding commenced operations by offering custodial and post-trading services and added depository and other services to its portfolio over a period of time. Currently, it provides various services such as custodial, depository, broking, e-stamping, distribution of financial products, clearing and recordkeeping. 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

StockHolding (consolidated)	FY2021	FY2022	9MFY2023
Custodial & depository services	120.38	130.6	64.0
Net commission & brokerage	250.74	346.7	292.0
Document management services	38.38	49.2	63.6
Net interest income	34.78	34.02	40.24
Other income	14.24	37.49	12.83
<b>Core operating income</b>	<b>458.5</b>	<b>598.0</b>	<b>472.6</b>
<b>Investment income</b>	<b>31.97</b>	<b>61.33</b>	<b>97.5</b>
<b>Net operating income</b>	<b>490.5</b>	<b>659.3</b>	<b>570.1</b>
<b>Total operating expenses</b>	<b>406.2</b>	<b>479.0</b>	<b>371.3</b>
<b>Profit before tax</b>	<b>82.7</b>	<b>181.3</b>	<b>186.7</b>
<b>PBT adjusted for investment income</b>	<b>50.7</b>	<b>120.0</b>	<b>89.2</b>
<b>Profit after tax (PAT)</b>	<b>63.2</b>	<b>148.3</b>	<b>156.5</b>
<b>PAT/COI</b>	<b>13.8%</b>	<b>24.8%</b>	<b>33.1%</b>
<b>Cost-to-income ratio</b>	<b>88.6%</b>	<b>80.1%</b>	<b>78.6%</b>
<b>Return on net worth</b>	<b>2.5%</b>	<b>4.1%</b>	<b>3.9%</b>
<b>Adjusted return on net worth<sup>1</sup></b>	<b>5.2%</b>	<b>11.4%</b>	<b>10.1%</b>
<b>Net worth</b>	<b>2713.7</b>	<b>4594.7</b>	<b>6225.1</b>
<b>Gearing (times)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.00</b>
<b>PBT (adjusted for investment income)/COI (%)</b>	<b>11.1%</b>	<b>20.1%</b>	<b>18.9%</b>

Source: Company, ICRA Research; \*Unaudited figures; 1: adjusted for current and non-current investments, All ratios as per ICRA computations

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
				Mar 31, 2023	Feb 1, 2022	Feb 17, 2021	Jan 29, 2021	Oct 22, 2019
1 Long-term fund-based/non-fund based bank facilities	Long term	3,026.82	252.02	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-
2 Long-term fund-based bank lines	Long term	-	-	-	-	[ICRA]A+(Stable)	-	-
3 Long-term non-fund based bank lines	Long term	-	-	-	-	[ICRA]A+(Stable)	-	-
4 Short-term fund-based bank lines	Short term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+
5 Short-term Non-fund Based Bank Lines	Short Term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+

\*As of September 30, 2022

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based/non-fund based bank facilities	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 / Facility Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	OverDraft Facilities	NA	NA	NA	2,000.00	[ICRA]AA- (Stable)
NA	OverDraft Facilities	NA	NA	NA	100.00	[ICRA]AA- (Stable)
NA	Bank Guarantee	NA	NA	NA	200.00	[ICRA]AA- (Stable)
NA	OverDraft Facilities	NA	NA	NA	100.00	[ICRA]AA- (Stable)
NA	Bank Guarantee	NA	NA	NA	250.00	[ICRA]AA- (Stable)
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]AA- (Stable)
NA	Bank Guarantee	NA	NA	NA	275.00	[ICRA]AA- (Stable)
NA	Bank Guarantee	NA	NA	NA	1.79	[ICRA]AA- (Stable)
NA	Bank Guarantee	NA	NA	NA	0.10	[ICRA]AA- (Stable)
NA	Unallocated Limits	NA	NA	NA	74.93	[ICRA]AA- (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

Company Name	StockHolding Ownership	Consolidation Approach
SHCIL Services Limited	100.00%	Full Consolidation
StockHolding Document Management Services Limited	100.00%	Full Consolidation
StockHolding Securities IFSC Limited	100.00%	Full Consolidation

Source: StockHolding's annual report FY2022

## ANALYST CONTACTS

**Karthik Srinivasan**  
+91 22 6114 3444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Komal M Mody**  
+91 22 6114 3424  
[komal.mody@icraindia.com](mailto:komal.mody@icraindia.com)

**Subhrajyoti Mohapatra**  
+91 22 6114 3463  
[subhrajyoti.mohapatra@icraindia.com](mailto:subhrajyoti.mohapatra@icraindia.com)

**Anil Gupta**  
+91 124 4545 314  
[anilg@icraindia.com](mailto:anilg@icraindia.com)

**Deep Inder Singh**  
+91 124 4545830  
[deep.singh@icraindia.com](mailto:deep.singh@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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