March 31, 2023

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+

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 {StockHolding; 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 – StockHolding.

Adequacy of credit enhancement

To assign the rating, ICRA has assessed the attributes of the guarantee issued by StockHolding 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 (*StockHolding*) 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 caters to over 1,500 clients including regulators, government institutions, banks and corporate sector companies. However, the presence of a healthy order book for the near term and established client relationships provide comfort.

Corporate guarantee from SHCIL – SDMSL's rated bank facility is backed by a corporate guarantee from its parent, i.e. StockHolding. Incorporated as a public limited company in 1986, StockHolding 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. StockHolding 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, notwithstanding recovery in current fiscal – SDMSL's profitability remained 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 higher costs (for repairs, retrievable, provisions and write-offs related to legacy receivables) during the following periods. The performance was further impacted in FY2021 due to disruptions caused by the Covid-19 pandemic. Nonetheless, with the gradual normalisation of operations and the reversal of provisions, SDMSL reported a nominal net profit of Rs. 1.6 crore in FY2022. Moreover, driven by the growth in digitisation and storage services, SDMSL reported a marginal improvement in its performance with a net profit of Rs. 3.2 crore in 9M FY2023, though it remains moderate. SDMSL's revenue profile is inherently volatile, especially due to the episodic nature of the contracts in the digitisation business, which accounts for a major share of the company's profit. Going forward, SDMSL's ability to manage the cyclicality and achieve a significant and sustained improvement in its profitability would remain a monitorable.

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 which 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.

In the current fiscal, SDMSL reported an improvement in collections with outstanding debtors above 180 days declining to Rs. 12.8 crore as of December 31, 2022 from Rs. 36.6 crore as of March 31, 2021. In 9MFY2023, the average debtor days declined to 120-145 from 230-250+ in the past two fiscals., though the same remains high. Going forward, the company's ability to effectively manage the working capital cycle will remain imperative from a credit perspective.

Client concentration risk – The document management business remains exposed to concentration risk with the top 5 customers in physical storage, digitisation, and hosting services accounting ~ 33%, 23%, and 13% of SDMSL's revenue in H1 FY2023. Going forward, SDMSL's ability to onboard new clients and diversify the revenue profile across client base would remain a key monitorable.

Liquidity position: Adequate

For StockHolding: 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. It 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 lines of Rs. 276.1 crore to support its operations, while the borrowings were nominal.

For SDMSL: Adequate

On a standalone basis, the company had cash & liquid investments of Rs. 4.7 crore and unutilised working capital lines of Rs. 3.1 crore against borrowings outstanding of Rs. 60.4 crore as of September 30, 2022, of which Rs. 0.65 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 would remain contingent on improvement in the credit profile of the guarantor (StockHolding).

Negative factors – The rating would remain sensitive to any movement in the rating of the guarantor (StockHolding), 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 Rating Approach - Explicit Third-Party 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 – StockHolding. The guarantee is legally enforceable, unconditional, and covers the entire amount and tenor of the rated instrument, though, it does not have a well-defined invocation and payment mechanism.
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 (StockHolding). SDMSL provides physical storage services and digitisation services and sells software products and services.

SDMSL's promoter, StockHolding, was incorporated as a public limited company in 1986. StockHolding 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. 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 and professional clearing member services. These services are offered to both retail and institutional clients. StockHolding 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

SDMSL – Standalone	FY2021	FY2022	9MFY2023*
Operating income	40.1	50.3	57.7
PAT	(13.0)	1.6	3.2
OPBDIT/OI	7.1%	52.6%	40.3%
PAT/OI	-32.4%	3.1%	5.6%
Total outside liabilities/Tangible net worth (times)	3.2	2.9	3.0
Total debt/OPBDIT (times)	19.4	2.1	1.8
Interest coverage (times)	0.3	3.2	4.0

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, * Unaudited figures*
Source: Company, ICRA Research

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
Core operating income	458.5	598.0	472.6
Investment income	31.97	61.33	97.5
Net operating income	490.5	659.3	570.1
Total operating expenses	406.2	479.0	371.3
Profit before tax	82.7	181.3	186.7
PBT adjusted for investment income	50.7	120.0	89.2
Profit after tax (PAT)	63.2	148.3	156.5
PAT/COI	13.8%	24.8%	33.1%
Cost-to-income ratio	88.6%	80.1%	78.6%
Return on net worth	2.5%	4.1%	3.9%
Adjusted return on net worth[1]	5.2%	11.4%	10.1%
Net worth	2713.7	4594.7	6225.1
Gearing (times)	0.01	0.01	0.00
PBT (adjusted for investment income)/COI (%)	11.1%	20.1%	18.9%

*Source: Company, ICRA Research; Amount in Rs. crore*Unaudited figures; 1: adjusted for 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	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	
					Mar 31, 2023	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	15.3	[ICRA]A+(CE) (Stable)	[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	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: Click Here

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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