

April 10, 2023

Systematix Shares and Stocks (India) Limited: Ratings downgraded to [ICRA]BB+/[ICRA]A4+; removed from watch with negative implications and stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank lines	21.50	21.50	[ICRA]BB+; revised from [ICRA]BBB-, removed from Watch with Negative Implications and Stable outlook assigned
Short-term non-fund based bank lines	78.50	78.50	[ICRA]A4+; revised from [ICRA]A3 and removed from Watch with Negative Implications
Total	100.00	100.00	

*Instrument details are provided in Annexure I

Rationale

The rating action considers Systematix Shares and Stocks (India) Limited's (Systematix) weak operational and financial performance amid dampened investor sentiments and challenges following the arrest of the promoter in June 2022. While the promoter was released on bail in February 2023, which may offer relief to the company, these events have resulted in a moderation in its broking performance in FY2023 with the company reporting an operating loss in 9M FY2023. The moderation in the broking performance was more pronounced in the institutional segment, wherein the average daily turnover (ADTO) declined to Rs. 144 crore in H1 FY2023 compared to the average ADTO of Rs. 213 crore between FY2020-FY2022. The ratings also factor in the curtailment of financial flexibility with the contraction in bank lines by the lenders in recent months, besides the modest scale of operations and high dependence on capital market related activities, which are inherently cyclical in nature. Nonetheless, ICRA continues to consider the company's long track record in equity broking, its presence in the institutional segment, and the adequate capitalisation level.

Key rating drivers and their description

Credit strengths

Long track record in securities broking with presence in institutional segment – Incorporated in 1995, Systematix has been engaged in securities broking for over two decades. While it caters to the retail as well as institutional clientele, the company is a predominantly institutional-focussed broker, deriving over 60% of its broking income from this segment in FY2022. As of March 31, 2022, it catered to ~140+ institutional clients comprising various asset management companies and insurance houses and ~39,700+ retail clients through a network of 6 branches and 466 franchises. Systematix offers a diversified portfolio of capital-market allied services such as distribution of financial products, e-broking, portfolio management services, wealth management, commodity broking and debt syndication apart from securities broking.

Adequate capitalisation for current scale of operations – The company's capitalisation remains adequate for the current scale of operations with a net worth of Rs. 67 crore as of December 31, 2022. Moreover, the capitalisation profile is characterised by minimal dependency on fund-based borrowings with a gearing of less than 0.5 times on a sustained basis. However, ICRA notes that Systematix's financial flexibility has been curtailed with the contraction in fund-based bank lines by lenders in recent months. Thus, any changes in the regulatory environment, impacting the company's margin placement ability, would necessitate additional capital infusion for scaling up the broking operations.

Credit challenges

Profitability pressures – Supported by industry tailwinds, Systematix’s net profit increased to Rs. 5.7 crore in FY2022 from Rs. 2.7 crore in FY2021. However, with the dampening of investor sentiments and given the challenges following the promoter’s arrest, the company reported a moderation in its core performance in FY2023 with an operating loss of Rs. 0.4 crore in 9M FY2023 (compared to average net operating profit of Rs. 1.6 crore during FY2019 to FY 2022). Moreover, while Systematix took several remedial measures with a focus on improving the cost structure in recent fiscals, the same remains elevated. Going forward, the company’s ability to achieve a significant and sustained improvement in its operational and financial performance would remain imperative from a credit perspective.

Modest scale of broking operations – The scale of Systematix's broking operations remains modest. Further, it witnessed a moderation in its broking performance in FY2023 amid dampened investor sentiments and the challenges following the arrest of the promoter in June 2022. The moderation in the broking performance was more pronounced in the institutional segment, wherein the adjusted² market share of cash turnover declined to 0.29% in H1 FY2023 from 0.48% in FY2022. With the company’s financial flexibility being curtailed by the reduction in bank lines in recent months, its ability to scale up its broking operations will be constrained in the near term.

Dependence on capital markets, which are inherently volatile and cyclical in nature – With the company’s revenues being linked to the inherently volatile capital markets, its profitability remains vulnerable to market performance. Its revenue profile remains concentrated with broking income accounting for over 75% of net operating income (NOI) in FY2022. Furthermore, Systematix derives ~75% of its broking income from the cash segment, which is relatively more sensitive to capital market movements. The risks are further aggravated, given the sizeable investment book in relation to the company’s net worth (27% of net worth as of December 31, 2022, on a provisional basis). Thus, any downturn in the capital markets may impact the company’s financial performance and capitalisation profile.

Liquidity position: Adequate

Systematix’s liquidity requirement is primarily for placing margins at the exchanges. During April 2022 to September 2022, the average margin placed at the exchanges (basis month-end data, including client margin) stood at Rs. 205 crore with average utilisation between ~60% and 70%. As on September 30, 2022, the company had unencumbered cash of Rs. 1 crore and investments of Rs. 14.8 crore to support its operations, while the borrowings were nominal.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings or revise the outlook if there is an improvement in the operational and financial performance on a sustained a basis.

Negative factors – Pressure on the ratings could arise in case of sustained profitability pressures and/or weakening of the liquidity profile. Pressure on the ratings could also arise in case of any adverse change(s) in the regulatory environment, affecting Systematix’s business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Brokerage Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1995, Systematix Shares and Stocks (India) Limited (Systematix) is primarily engaged in retail and institutional equity broking, wealth management and portfolio management services. It is a wholly-owned subsidiary of Systematix Corporate Services Limited (SCSL) and is a part of the Systematix Group, which refers to the group of companies promoted and managed by Mr. C.P. Khandelwal.

Incorporated in 1985, SCSL is a public limited company listed on the Bombay Stock Exchange and the National Stock Exchange (NSE). It serves as the flagship company of the Systematix Group and holds a Category I merchant banking licence issued by the Securities and Exchange Board of India (SEBI).

In 9M FY2023, Systematix reported a net profit of Rs. 0.7 crore on net operating income (NOI) of Rs. 30.2 crore. The company had reported a net profit of Rs. 5.7 crore in FY2022 compared to Rs. 2.7 crore in FY2021.

Key financial indicators

Systematix	FY2021/ Mar-2021	FY2022/ Mar-2022	9M FY2023/ Dec-2022*
Net brokerage & other commission income	33.5	45.6	23.1
Other fee income	5.9	2.6	5.3
Net interest income	0.8	1.4	1.8
Net operating income (NOI)	40.3	49.5	30.2
Total operating expenses	36.7	46.2	30.6
Profit before tax (PBT)	2.6	7.9	0.2
Profit after tax (PAT)	2.7	5.7	0.7
PAT/NOI	6.7%	11.6%	2.3%
Cost-to-income ratio	91.1%	93.4%	101.2%
Net worth	44.5	66.1	67.0
Gearing (times)	0.28	0.00	0.00
Return on average net worth	6.3%	10.3%	1.4%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years		
		Amount Rated	Amount Outstanding *	Current Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
		(Rs. crore)	(Rs. crore)	Apr 10, 2023	Jul 12, 2022	Sep 28, 2021	Jun 05, 2020
1 Long-term fund based – Others	Long term	21.50	Nil	[ICRA]BB+ (Stable)	[ICRA]BBB- ; Rating Watch with Negative Implications	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
2 Short-term non-fund based bank lines	Short term	78.50	63.3	[ICRA]A4+	[ICRA]A3; Rating Watch with Negative Implications	[ICRA]A3	[ICRA]A3

*As of September 30, 2022

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Others	Very Simple
Short-term non-fund based bank lines	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 / Facility Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank guarantee (BG)	NA	NA	NA	78.50	[ICRA] A4+
NA	Overdraft (OD)	NA	NA	NA	7.00	[ICRA]BB+ (Stable)
NA	Unallocated	NA	NA	NA	14.50	[ICRA]BB+ (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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