

June 26, 2023

Sushil Financial Services Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based bank facilities	3.50	3.50	[ICRA]A3; reaffirmed
Short-term non-fund based bank facilities	50.00	70.00	[ICRA]A3; reaffirmed/assigned
Total	53.50	73.50	

*Instrument details are provided in Annexure I

Rationale

The rating factors in Sushil Financial Services Private Limited's (SFSP) long track record in equity broking and allied businesses and the improvement in its profitability in recent years. The strong performance of the domestic capital markets during FY2021-FY2022 augured well for the industry, in terms of earnings, with most players reporting record profitability in FY2022. Notwithstanding the mixed performance of the domestic capital markets in FY2023, the company reported stable profitability supported by sizeable trading income. SFSP reported a profit after tax (PAT) of Rs. 9.0 crore on net operating income (NOI) of Rs. 39.7 crore in FY2023 (PAT/NOI – 22.6% and return on net worth (RoNW) – 21.8%) compared to Rs. 8.9 crore and Rs. 41.7 crore, respectively, in FY2022 (PAT/NOI – 21.3%, RoNW – 27.1%). ICRA also notes that the company's capitalisation is adequate for its current scale of operations with a net worth of Rs. 45.3 crore as on March 31, 2023.

The rating is, however, constrained by SFSP's modest scale of operations and its high dependence on capital markets, which are inherently volatile and cyclical in nature. Further, the evolving regulatory landscape in recent years has increased the working capital requirements for brokers. Going forward, SFSP's ability to scale up its operations while enhancing revenue diversification and maintaining healthy profitability would remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Long track record of promoters in capital market related businesses – SFSP was engaged in the underwriting and marketing of initial public offerings (IPOs) in its early years and gradually forayed into equity broking and allied businesses over the years. Incorporated in 1991, the company acquired membership at the National Stock Exchange (NSE) for the capital and wholesale debt market segments in 1994 and forayed into equity broking. At present, SFSP is primarily engaged in retail and institutional equity broking, apart from having a small presence in the distribution of financial products. The promoters have been in this business for more than three decades and have long-standing experience in capital market related activities. As of March 31, 2023, SFSP had 349 franchisees with a client base of 1.3 lakh (~56,500 active clients) compared to 362 franchisees with a client base of 1.2 lakh (~57,300 active clients) as of March 31, 2022.

Adequate earnings profile – SFSP's earnings profile remains adequate with a PAT of Rs. 9.0 crore in FY2023 (PAT/NOI – 22.6%, RoNW – 21.8%) compared to Rs. 8.9 crore (PAT/NOI – 21.3%, RoNW – 27.1%) in FY2022. Notwithstanding the mixed performance of the domestic capital markets in FY2023, the company reported stable profitability supported by sizeable trading income (Rs. 4.6 crore in FY2023 compared to Rs. 0.6 crore in FY2022). While ICRA takes note of the moderation in broking income owing to the decline in cash volumes, the same was partially offset by the higher interest income on the T+5 book as well as the trading income. Going forward, sustained improvement in the earnings profile would remain imperative from a credit perspective.

The capitalisation is adequate for the current scale of operations with a net worth of Rs. 45.3 crore as on March 31, 2023. Moreover, the funding requirement is largely limited to the margins placed on the stock exchanges, which is met through bank guarantees and margins placed by the clients, leading to limited on-balance sheet borrowings. ICRA notes that a sizeable portion of the net worth is deployed in the proprietary investment book (Rs. 16.2 crore as on March 31, 2023), which may be liquidated at short notice. In addition to non-fund based bank lines, the company has fund-based lines, which can be utilised for placing margins at the exchanges. While the non-fund based bank lines are largely utilised, the fund-based bank lines are available as a buffer.

Credit challenges

Modest scale of operations – SFSPL primarily offers broking services to retail clients and its scale of operations remains modest. Buoyant capital market conditions since FY2021 have supported the company's business operations. Notwithstanding the marginal degrowth in FY2023, the company's broking market share (excluding proprietary volumes) remained stable at 0.01% in FY2023, although the same is miniscule. It also has a presence in other capital market businesses like the distribution of financial products, although the same is negligible. SFSPL's ability to achieve meaningful scale-up and revenue diversification would remain critical from a credit perspective.

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. SFSPL's revenue profile remains concentrated with broking income being the key revenue driver (accounting for over 70% of total income). The cash segment accounts for 70-80% of the gross broking income, which has relatively higher sensitivity to capital market movements. The risks are further aggravated, given the sizeable proprietary investment book in relation to the company's net worth (36% of net worth as of March 31, 2023). Thus, any downturn in the capital markets may impact SFSPL's financial performance and capitalisation profile.

Liquidity position: Adequate

SFSPL's liquidity requirement is primarily for placing margins at the exchanges. On average, it had deployed ~Rs. 1,100 crore of margins at the exchanges between August 2022 and April 2023, of which ~Rs. 170 crore was in the form of cash collateral, including bank guarantees (~Rs. 100 crore was client funds). The month-end margin utilisation, adjusting for the maximum non-cash collateral margin available for utilisation in relation to the cash collateral placed (due to the requirement of 50:50 of cash and non-cash collateral), ranged between 30% and 40% during this period. The company has enhanced its non-fund based bank lines (to Rs. 70 crore from Rs. 50 crore), which may be utilised for margin placement. Further, it had an unencumbered cash/bank balance of Rs. 0.26 crore and undrawn fund-based bank lines of Rs. 14 crore as on April 30, 2023. SFSPL also had a quoted unencumbered investment book of ~Rs. 10 crore, which can be liquidated for meeting any short-term liquidity requirements.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a ramp-up in the scale of operations along with a meaningful diversification in the revenue profile and a sustained improvement in the financial performance.

Negative factors – The rating could be downgraded if there is a significant decline in the broking volumes, leading to a weakening of the financial performance. Pressure on the rating could also arise in case of any adverse change(s) in the regulatory environment, affecting SFSPL'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 1991, Sushil Financial Services Private Limited (SFSPL) is a closely-held private limited company promoted and managed by Mr. Sushil Shah. It is primarily focused on the retail broking segment, which accounts for 80-90% of the broking volumes as well as broking income on a steady-state basis. The company is a member of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) and is also a depository participant (DP) of Central Depository Services Ltd (CDSL). As of March 31, 2023, SFSPL had 349 franchisees with a client base of 1.3 lakh (~56,500 active clients) compared to 362 franchisees with a client base of 1.2 lakh (~57,300 active clients) as of March 31, 2022.

Key financial indicators

Sushil Financial Services Private Limited	FY2021/Mar-21	FY2022/Mar-22	FY2023/Mar-23*
Net brokerage income	20.8	26.9	23.0
Fee income (other than broking)**	8.6	9.4	8.5
Net interest income [^]	2.9	5.7	8.2
Net operating income (NOI)	32.4	41.9	39.8
Total operating expenses	27.1	30.4	31.8
Non-operating income [@]	2.2	0.5	4.6
Profit before tax	7.4	11.9	12.2
Profit after tax (PAT)	5.3	8.9	9.0
Net worth	28.6	36.7	45.3
Borrowings	6.9	4.7	3.8
Gearing (times)	0.2	0.1	0.1
Cost-to-income ratio	83.9%	72.5%	79.9%
Return on net worth	19.6%	27.1%	21.8%
PAT/NOI	16.3%	21.1%	22.5%

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; ** Includes depository income and distribution income; [^] Includes delayed payment fee from T+5 book; [@] Includes trading income; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jun 26, 2023	Oct 21, 2022	Sep 10, 2021	Jul 31, 2020	
1	Short-term fund-based bank lines	Short term	3.5	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+	

2	Short-term non-fund based bank lines	Short term	70.0		[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+
---	--------------------------------------	------------	------	--	----------	----------	----------	-----------

*As of April 30, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based bank lines	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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft against shares	NA	NA	NA	3.50	[ICRA]A3
NA	Bank guarantee	NA	NA	NA	70.00	[ICRA]A3

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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

Komal M Mody
+91 22 6114 3424
komal.mody@icraindia.com

Subhrajyoti Mohapatra
+91 80 4332 6406
subhrajyoti.mohapatra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.