

October 09, 2023

SBICAP Securities Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	1,550.00	2,000.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	1,550.00	2,000.00	

*Instrument details are provided in Annexure I

Rationale

The rating continues to factor in the strong parentage of SBICAP Securities Limited (SSL), which is a subsidiary of SBI Capital Markets Limited (SBICAP), a wholly-owned subsidiary of State Bank of India {SBI; rated [ICRA]AAA (Stable)}. SSL's importance to the parent is evident from the support received by it in the form of senior management deputations/transfers from the SBI Group, board oversight, customer sourcing and cross-selling support, and access to the bank's retail clientele and branch network. SSL also benefits from SBI's direct supervision through its Department for Associates and Subsidiaries. The company complements the bank's product offerings by providing broking services to its clients and it also serves as a captive sourcing (for retail loans) partner for the bank. The rating also favourably factors in SSL's strong retail franchise, supported by its position as a bank brokerage house, its diversified revenue profile given its presence in the loan distribution segment, and its healthy financial profile with comfortable capitalisation. Additionally, SSL derives financial flexibility in fund raising due to its strong linkage with the parent and the shared brand name.

The rating considers SSL's foray into the margin trade funding (MTF) segment (H1 FY2022 onwards) and the simultaneous increase in the borrowings to support the growth in the MTF book. Nevertheless, its current capitalisation profile remains comfortable with adequate headroom to support growth. As on June 30, 2023, SSL's reported net worth was Rs. 1,157 crore and the gearing stood at 0.9 times. ICRA notes the management's intent to operate at a leverage of 2.5-3 times in the near to medium term. The rating also factors in the credit and market risks associated with the e-margin business, given the nature of the underlying assets, the risks associated with capital market related businesses and the intense competition in the retail broking space.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a step-down subsidiary of SBI – SSL is a subsidiary of SBICAP, which is a wholly-owned subsidiary of SBI. SSL helps augment SBI's product portfolio by providing broking services to its clients and also serves as a captive sourcing (for retail loans) partner for the bank. In FY2023, 38% of SBI's total home loan and auto loan business was sourced by SSL. SSL's importance to the parent is evident from the support received in the form of senior management deputations/transfers from the SBI Group, board oversight, and access to the bank's retail clientele and branch network. It also benefits from SBI's direct supervision through its Department for Associates and Subsidiaries. The strong parentage and shared brand name strengthen ICRA's assumption that SSL will receive timely and adequate support (both financial and operational) from SBI if required. Further, the company derives significant financial flexibility due to its shared brand name with the parent and the same is evident from the competitive cost of borrowings.

Diversified revenue mix – SSL is actively involved in the distribution of SBI's home loan and auto loan products. It earns commission for the same without any loss-sharing arrangement as the underwriting is done by the bank. The share of loan distribution fees in the overall net operating income (NOI) is in the range of 50-60% while the share of broking income remains

in the range of 30-40%. The presence of loan distribution income in the revenue mix provides stability to SSL's revenue profile, which would otherwise be dependent on the capital market, which is inherently volatile in nature.

SSL's net interest income was negative in FY2023 as it was offering interest-free MTF. However, the loss of interest income was offset by the increase in broking volumes and the consequent rise in broking income. Nonetheless, from April 2023, SSL started charging interest on the MTF facility availed for a period of more than 30 days. The net interest income is likely to remain minimal in the near term as a large portion of SSL's MTF book has a behavioural tenor of less than 30 days. ICRA notes that a significant portion of the company's net worth is deployed in the broking segment while the loan distribution business is relatively asset light.

Healthy financial profile with strong profitability and comfortable capitalisation – SSL's NOI increased steadily to Rs. 1,104 crore in FY2023 from Rs. 467 crore in FY2020. The NOI remains supported by the robust performance of the loan distribution business and the favourable investor sentiment in capital markets in recent fiscals. The NOI was Rs. 294 crore in Q1 FY2024, up ~30% YoY. Given the manpower-intensive nature of the loan distribution business, the operating expenses remain high (more than 50% of the total income). However, with limited capital requirement in the distribution business, the overall profitability remains strong with a return on net worth (RoNW) of 32.7% in FY2023 (34.1% in FY2022). The RoNW stood at 25.9% (annualised) in Q1 FY2024.

Notwithstanding the increase in leverage in the recent past, SSL's capitalisation profile remains comfortable with adequate headroom to support growth, considering the pace of internal accruals. As on June 30, 2023, the company's reported net worth was Rs. 1,157 crore and the gearing stood at 0.9 times. As the incremental growth in the MTF book is largely debt funded, a modest increase in the leverage is expected in the near term. However, ICRA notes the management's intent to operate at a leverage of 2.5-3 times in the near to medium term.

Credit challenges

Intense competition in capital markets – SSL, a full-service securities brokerage house, is primarily a retail broking player (~99% of the total broking volumes in FY2023 and Q1 FY2024 were sourced from the retail segment). Historically, it focused on the cash segment and the share of cash volumes in the overall broking volumes remains higher than the industry average. However, in a bid to enhance its presence in the derivatives segment, SSL introduced flat brokerage in this segment in H2 FY2022. It enjoyed a modest market share of 0.5% in terms of turnover in the cash segment and 0.1% in terms of turnover in the derivatives segment in Q1 FY2024.

ICRA notes that with increasing competition in equity broking and the growing popularity of discount brokerage houses, SSL's market share in terms of National Stock Exchange (NSE) active clients contracted to 1.8% as on June 30, 2023 from 2.3% in March 2020. However, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings indicate untapped potential for expansion in the domestic broking market over the longer term.

Exposed to risks inherent in capital market related businesses; operations exposed to credit and market risks arising out of MTF funding business – A considerable share of SSL's revenues remains dependent on capital markets, which are inherently volatile in nature. Furthermore, it remains exposed to credit and market risks on account of the MTF lending book, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. SSL forayed into the MTF business in H2 FY2022 and its MTF book was Rs. 1,090 crore as on June 30, 2023. Its ability to maintain adequate asset quality while ramping up the lending book would remain a monitorable.

Liquidity position: Strong

SSL's funding requirement is primarily for placing margins at the exchanges and funding the MTF book. Its margin utilisation ranged between 22% and 37% (basis month-end data) during July 2022 to June 2023, with the daily average cash margin placed

on exchanges aggregating Rs. 460-650 crore during this period. Outstanding borrowings of ~Rs. 1,020 crore, as of July 31, 2023, are falling due over the next three months while the company had an unencumbered cash and bank balance of Rs. 24 crore and drawable but unutilised lines of ~Rs. 930 crore as of June 30, 2023. Additionally, it has an MTF loan book of ~Rs. 1,330 crore, which is short term in nature. SSL also enjoys financial flexibility, as a subsidiary of SBI, and the same is evident from the regular fund raising at competitive borrowing costs.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on SSL's rating could arise if there is a deterioration in the credit profile of the parent group, a change in its strategic importance to the parent group or a decline in the linkages with the parent group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Broking Companies Rating Approach – Implicit Parent or Group Support
Parent/Group support	Ultimate Parent: SBI Immediate Parent: SBI Capital Markets Limited SSL is a step-down subsidiary of SBI. The strong parentage and shared brand name strengthen ICRA's expectations that SSL will receive timely and adequate support (financial as well as operational) from SBI if required.
Consolidation/Standalone	Standalone

About the company

Incorporated in FY2006, SBICAP Securities Limited (SSL) is a subsidiary of SBI Capital Markets Limited, which is a subsidiary of SBI. The company operates as the retail broking arm of the SBI Group. SSL provides trading facilities on Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and Multi-Commodity Exchange (MCX). It is also a depository participant at National Securities Depository Limited (NSDL) and Central Depository Securities (India) Limited (CDSL). Along with the broking business, SSL started sourcing and distribution activities in FY2015. It sources financial assets (home loan and auto loan) for the ultimate parent, SBI. Another of its business verticals deals with the distribution of mutual funds, bonds, insurance, sovereign gold bonds, and corporate deposits to its retail customers.

As on June 30, 2023, SSL operated through 124 branches and is estimated to have a 0.5% market share in the trading volumes in the cash segment and a 0.1% share in the trading volumes in the derivatives segment. It reported a profit after tax (PAT) of Rs. 308 crore in FY2023 on NOI of Rs. 1,104 crore compared to Rs. 233 crore and Rs. 784 crore, respectively, in FY2022. In Q1 FY2024, SSL reported a PAT of Rs. 73 crore on NOI of Rs. 294 crore.

Key financial indicators (audited)

	FY2022	FY2023	Q1 FY2023^	Q1 FY2024^
Brokerage income	279	344	212	110
Distribution fees*	377	638		152
Net interest income	6	-12	3	-2
Other operating income	121	134	19	35
Net operating income (NOI)	784	1,104	235	294
Total operating expenses	465	685	151	194
Profit before tax	312	412	84	100
Profit after tax (PAT)	233	308	61	73
Net worth	800	1,084	861	1,157
Borrowings	732	465	594	1,007
Gearing (times)	0.9	0.4	0.7	0.9
Cost-to-income ratio	59.3%	62.0%	64.2%	66.1%
PAT/NOI	29.7%	27.9%	26.1%	24.7%
Return on average net worth	34.1%	32.7%	29.4%	25.9%

Source: SSL, ICRA Research; ^Limited review; All ratios as per ICRA's calculations; Amount in Rs. crore; *Net of sub-brokerage/commissions in loan distribution business

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 (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Current Rating	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 09, 2023	Sep 04, 2023	Dec 21, 2022	Dec 24, 2021	-
1 CP programme	Short term	2,000.0	1,300.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
CP programme	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
INE212K14155	CP programme	Aug 25, 2023	7.45	Nov 24, 2023	100.0	[ICRA]A1+
INE212K14155	CP programme	Aug 28, 2023	7.45	Nov 24, 2023	100.0	[ICRA]A1+
INE212K14163	CP programme	Sep 01, 2023	7.45	Dec 01, 2023	100.0	[ICRA]A1+
INE212K14171	CP programme	Sep 11, 2023	7.43	Dec 11, 2023	200.0	[ICRA]A1+
INE212K14189	CP programme	Sep 13, 2023	7.43	Dec 13, 2023	100.0	[ICRA]A1+
INE212K14197	CP programme	Sep 15, 2023	7.50	Dec 15, 2023	100.0	[ICRA]A1+
INE212K14205	CP programme	Sep 21, 2023	7.50	Dec 21, 2023	100.0	[ICRA]A1+
INE212K14213	CP programme	Sep 22, 2023	7.53	Dec 22, 2023	250.0	[ICRA]A1+
INE212K14213	CP programme	Sep 25, 2023	7.55	Dec 22, 2023	50.0	[ICRA]A1+
INE212K14205	CP programme	Sep 27, 2023	7.80	Dec 21, 2023	100.0	[ICRA]A1+
INE212K14221	CP programme	Sep 29, 2023	7.80	Dec 29, 2023	100.0	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	30-365 days	700.0	[ICRA]A1+

Source: SSL; As of Sep 30, 2023

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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Branches



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