

January 15, 2024

## 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	2,500.00	3,000.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
<b>Total</b>	<b>2,500.00</b>	<b>3,000.00</b>	

\*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)<sup>1</sup>). 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 direct supervision of SBI through its Department for Associates and Subsidiaries. SSL complements the bank's product offering by providing broking services to its clients and it also serves as a captive sourcing (for retail loans) partner for the bank. The rating 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. SSL also derives financial flexibility in fund raising due to its strong linkages with the parent and the shared brand name.

The rating also considers SSL's foray into the margin trade funding (MTF) segment (H2 FY2022 onwards) and the simultaneous increase in its borrowings to support the growth in the MTF book. Nevertheless, the company's current capitalisation profile remains comfortable with adequate headroom to support growth. As on September 30, 2023, SSL's reported net worth was Rs. 1,275 crore and the gearing stood at 1.5 times. ICRA notes the management's intent to operate at a leverage of 2.5-3 times in the 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 business and auto loan business was sourced by SSL. 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, access to the bank's retail clientele and branch network. SSL also benefits from direct supervision of SBI 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, SSL 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

<sup>1</sup> Basel III Tier II Bonds, infrastructure bonds and fixed deposit programme are rated [ICRA]AAA (Stable) by ICRA

distribution fees in the overall net operating income (NOI) has been in the range of 48-58% while the share of broking income in the NOI remains in the range of 30-40%<sup>2</sup>. The presence of loan distribution income in the revenue mix provides stability to SSL's revenue profile that would otherwise be dependent on capital markets, which are inherently volatile in nature.

SSL's net interest income was negative in recent years due to its largely interest-free MTF facility. However, the loss of interest income was offset by the increase in broking volumes and the consequent rise in broking income. Although SSL started charging interest from April 2023 on MTF facility availed for more than 30 days, the net interest income is likely to remain negative in the near term as a large portion of the MTF book has a behavioural tenor of less than 30 days.

**Healthy financial profile with strong profitability and comfortable capitalisation** – SSL's NOI grew at a steady pace to Rs. 1,104 crore in FY2023 from Rs. 467 crore in FY2020. It stood at Rs. 672 crore in H1 FY2024, up ~35% YoY. The NOI remains supported by the robust performance of the loan distribution business and the favourable investor sentiment in the capital markets in recent fiscals. Given the manpower-intensive nature of the loan distribution business, the operating expenses remain high (above 50% of the total income), though the overall profitability stays strong with an average 5-year (FY2019 to FY2023) return on net worth (RoNW) of 32.2%. The RoNW stood at 32.4% in H1 FY2024.

SSL's capitalisation profile remains comfortable with adequate headroom to support growth, considering the pace of internal accruals. As on September 30, 2023, the reported net worth was Rs. 1,275 crore and the gearing stood at 1.5 times. With the incremental growth in the MTF book being largely debt funded, a modest increase in the leverage is expected in the near term. ICRA notes the management's intent to operate at a leverage of 2.5-3 times in the 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 for FY2023 and H1 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. As of September 30, 2023, the company had a modest market share of 0.6%, in terms of turnover, in the cash segment and 0.1%, in terms of turnover, in the derivatives segment. The market share, in terms of National Stock Exchange (NSE) active clients, was 1.8% as on June 30, 2023 before improving to 2.2% as on November 30, 2023. However, given the increasing competition in equity broking and the growing popularity of discount brokerage houses, a contraction in SSL's market share cannot be ruled out. Nonetheless, 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 as well as 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 continues to be 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 stood at Rs. 1,866 crore as on September 30, 2023. Its ability to maintain adequate asset quality while ramping up the lending book profitably 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. 2,087 crore, as of December 31, 2023, are falling due over the next three months while the company had an unencumbered cash and bank balance of Rs. 22

<sup>2</sup> Period under consideration: FY2020 to H1 FY2024

core and drawable but unutilised lines of ~Rs. 563 crore. Additionally, it has an MTF loan book of Rs. 2,200 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 SBI, a change in its strategic importance to SBI or a decline in the linkages with SBI.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Stockbroking and Allied Services</a> <a href="#">Rating Approach – Implicit Parent or Group Support</a>
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 company, 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. The company is estimated to have a 0.6% market share in the trading volumes in the cash segment and a 0.1% share in the trading volumes in the derivatives segment in H1 FY2024. It reported a profit after tax (PAT) of Rs. 191 crore on NOI of Rs. 672 crore in H1 FY2024. It had reported a 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.

## Key financial indicators (audited)

	FY2022	FY2023	H1 FY2023^	H1 FY2024^
Net operating income (NOI)	784	1,104	498	672
Profit after tax (PAT)	233	308	148	191
Net worth	800	1,084	948	1,275
Total assets	1,867	1,934	2,261	3,653
Gearing (times)	0.9	0.4	1.1	1.5
Return on average net worth	34.1%	32.7%	33.9%	32.4%

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	Current rating (FY2024)								Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Current Rating	Date & rating in FY2024				Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 15, 2024	Dec 29, 2023	Oct 09, 2023	Sep 04, 2023	Dec 21, 2022	Dec 24, 2021	-
				CP programme	Short term	3,000.0	1,700.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
CP programme	Very Simple*

\*Subject to change based on terms of issuance for the unplaced amount

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
INE212K14239	CP programme	Oct 19, 2023	7.92	Jan 18, 2024	300	[ICRA]A1+
INE212K14254	CP programme	Nov 23, 2023	8.05	Feb 22, 2024	200	[ICRA]A1+
INE212K14247	CP programme	Nov 24, 2023	8.05	Feb 23, 2024	200	[ICRA]A1+
INE212K14262	CP programme	Dec 08, 2023	8.10	Mar 07, 2024	200	[ICRA]A1+
INE212K14270	CP programme	Dec 12, 2023	8.10	Mar 12, 2024	100	[ICRA]A1+
INE212K14288	CP programme	Dec 18, 2023	8.12	Mar 18, 2024	100	[ICRA]A1+
INE212K14296	CP programme	Dec 20, 2023	8.12	Feb 26, 2024	100	[ICRA]A1+
INE212K14304	CP programme	Dec 21, 2023	8.12	Mar 21, 2024	225	[ICRA]A1+
INE212K14312	CP programme	Dec 22, 2023	8.10	Mar 22, 2024	25	[ICRA]A1+
INE212K14320	CP programme	Dec 27, 2023	8.26	Mar 27, 2024	150	[ICRA]A1+
INE212K14338	CP programme	Dec 29, 2023	8.26	Mar 29, 2024	100	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	30-365 days	1,300.0	[ICRA]A1+

Source: SSL; CP outstanding as of December 31, 2023

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

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### Branches



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