

April 05, 2024

## Systematix Shares and Stocks (India) Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long/Short-term fund/Non-fund based bank lines	100.0	100.0	[ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings continue to consider the long track record of Systematix Shares and Stocks (India) Limited's (SSSIL) promoter group in the equity broking business with a presence in the institutional segment and its adequate capitalisation profile. Supported by industry tailwinds, healthy client additions and the revival in the participation of institutional investors witnessed by SSSIL, its financial performance improved in the current fiscal with a profit before tax (excluding trading/mark-to-market gains) of ~Rs. 7 crore in 9M FY2024 compared to the operating loss in FY2023. The headline profit was further boosted by fair value gains of ~Rs. 17 crore on proprietary investments. Overall, SSSIL reported an improvement in its profitability in 9M FY2024 with a net profit of ~Rs. 18 crore, profit after tax (PAT)/net operating income (NOI) of 43% and return on equity (RoE) of 32%. However, a sustained improvement in the performance across market cycle is yet to be demonstrated. The ratings are also constrained by the company's modest scale of operations and high dependence on capital market related activities, which are inherently cyclical in nature.

ICRA has noted the company's plan of monetising its sizeable investment in Industrial Investment Trust Limited (IITL; ~Rs. 30 crore as of December 31, 2023 and 36% of net worth) in the near term. This is expected to augment its balance sheet and support it in funding its working capital requirements for broking operations.

### Key rating drivers and their description

#### Credit strengths

**Long track record in securities broking with presence in institutional segment** – Incorporated in 1995, SSSIL has been engaged in securities broking for over two decades. It offers a wide portfolio of capital market allied services such as distribution of financial products, broking, portfolio management, wealth management, commodity broking and debt syndication. While it caters to the retail as well as institutional clientele, the company is a predominantly institutional segment focussed broker, deriving ~70% of its broking income from this segment. Following the slowdown in institutional client onboarding in the previous fiscal, SSSIL reported several client additions in the current fiscal. As of December 31, 2023, it had ~180 institutional clients (~150 as of March 31, 2023), comprising asset management companies and insurance companies.

**Adequate capitalisation** – SSSIL's capitalisation profile remains characterised by minimal dependency on fund-based borrowings with a net worth of ~Rs. 83 crore on a provisional basis as of December 31, 2023. The reported financial leverage remains negligible with a reported gearing of less than 0.5 times over the years. ICRA takes note of the company's plan of monetising its sizeable proprietary investment in a listed security over 1-2 quarters, which is expected to result in proceeds of about Rs. 35-40 crore. This will augment SSSIL's balance sheet and support it in funding its working capital requirements for the broking operations. Meanwhile, the company's borrowing mix has pivoted towards intraday lines, which have a higher share in the overall borrowing limits in the current fiscal. SSSIL secured a fresh sanction of intraday lines in recent months. Earlier, its financial flexibility had been curtailed due to the reduction in bank lines in the previous fiscal.

Supported by industry tailwinds and the participation of institutional investors in the current fiscal, SSSIL reported an improvement in its performance with a profit before tax (excluding trading/mark-to-market gains) of Rs. 7 crore in 9M FY2024 compared to losses in FY2023. The headline profit was further boosted by fair value gains of Rs. 17 crore on its proprietary investments. Overall, SSSIL reported an improvement in its profitability metrics in 9M FY2024 with a net profit of Rs. 18 crore, PAT/NOI of 43% and RoE of 32% on a provisional basis compared to net losses in FY2023. Nonetheless, the company's ability to sustain the improvement in the profitability, especially in the backdrop of the inherently volatile nature of the business, remains to be seen.

## Credit challenges

**Modest scale of broking operations** – The scale of SSSIL's broking operations remains modest. Further, it witnessed a moderation in its broking performance in FY2023 amid dampened investor sentiment and the challenges following the arrest of the promoter in June 2022. With the promoter's release on bail in February 2023 and the revival in investor participation amid industry tailwinds in the current fiscal, the company's cash average daily turnover (ADTO) increased to Rs. 125 crore in H1 FY2024 from Rs. 99 crore in FY2023. Nonetheless, the market share in cash volumes (excluding proprietary) remained marginal at 0.12% in H1 FY2024. The market share of active National Stock Exchange (NSE) clients was also marginal at 0.01% as of February 29, 2024.

**Dependence on capital markets, which are inherently volatile and cyclical in nature** – As the company's revenues are linked to the inherently volatile capital markets, its profitability remains vulnerable to market performance. Broking income remains the key revenue driver and within broking, SSSIL derives over 75% of its broking income from the cash segment, which is relatively more sensitive to capital market movements.

## Liquidity position: Adequate

SSSIL's liquidity requirement is primarily for placing margins at the exchanges. During January-September 2023, the average margin placed at the exchanges (basis month-end data, including client cash and non-cash margins) stood at Rs. 488 crore with the overall average utilisation in the range of ~23-25%. As on February 29, 2024, SSSIL had unencumbered cash of Rs. 4 crore, while the borrowings stood nil. ICRA takes note of the company's plan of monetising its sizeable proprietary investment in a listed security over 1-2 quarters, which is expected to result in proceeds of about Rs. 35-40 crore. This augurs well for the company's capitalisation and liquidity.

## Rating sensitivities

**Positive factors** – Improvement in the operational and financial performance on a sustained a basis.

**Negative factors** – Sustained profitability pressures and/or any adverse change(s) in the regulatory environment impacting the operating and financial performance.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Stockbroking &amp; Allied Services</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 1995, SSSIL 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 a part of the Systematix Group, which refers to the group of companies promoted by the Khandelwal family. SSSIL reported a net profit of Rs. 17.9 crore in 9M FY2024 on net operating income (NOI) of Rs. 41.3 crore. As of December 31, 2024, the company's capitalisation profile was characterised by a net worth of Rs. 83.5 crore and nil fund-based borrowings on a provisional basis.

SCSL, incorporated in 1985, 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). SCSL reported a consolidated net profit of Rs. 30 crore in 9M FY2024 (provisional basis).

## Key financial indicators

SSSIL	FY2022	FY2023	9M FY2024*
Net operating income	49.5	40.1	41.3
Profit after tax	5.7	-1.0	17.9
Net worth	66.1	65.6	83.5
Total assets	164.9	124.6	218.5
Gearing (times)	0.0	0.0	0.0
Return on average net worth	10.3%	-1.5%	31.9%

Source: Company, ICRA Research; \* Provisional; All ratios as per ICRA's calculations; 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 (FY2025)			Chronology of Rating History for the Past 3 Years		
		Amount Rated	Amount Outstanding*	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
		(Rs. crore)	(Rs. crore)	Apr 05, 2024	Apr 10, 2023	Jul 12, 2022	Sep 28, 2021
1 Long-term fund based – Others	Long term	21.5	-	-	[ICRA]BB+ (Stable)	[ICRA]BBB-@	[ICRA]BBB- (Stable)
2 Short-term non-fund based bank lines	Short term	78.5	-	-	[ICRA]A4+	[ICRA]A3@	[ICRA]A3
3 Long/Short-term fund/Non-fund based bank lines	Long/short Term	100.0	30.0	[ICRA]BB+ (Stable) / [ICRA]A4+	-	-	-

@ Rating Watch with Negative Implications; \*As of February 29, 2024

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long/Short-term fund/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	Long/Short-term fund/Non-fund based bank lines	NA	NA	NA	100.0	[ICRA]BB+ (Stable)/ [ICRA]A4+

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](mailto:karthiks@icraindia.com)

**Subhrajyoti Mohapatra**  
+91 080 4332 6406  
[subhrajyoti.mohapatra@icraindia.com](mailto:subhrajyoti.mohapatra@icraindia.com)

**Kruti Jagad**  
+91 22 6114 3447  
[kruti.jagad@icraindia.com](mailto:kruti.jagad@icraindia.com)

**Anil Gupta**  
+91 124 4545 314  
[anilg@icraindia.com](mailto:anilg@icraindia.com)

**Deep Inder Singh**  
+91 124 4545830  
[deep.singh@icraindia.com](mailto:deep.singh@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6169 3304  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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