

May 07, 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	3,000.00	3,500.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	3,000.00	3,500.00	

*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)¹). 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. 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 the traction in SSL's margin trade funding (MTF) book and the simultaneous increase in its borrowings. Nevertheless, the company's capitalisation profile remains comfortable with adequate headroom to support growth. As on March 24, 2024, SSL's reported net worth was Rs. 1,513 crore and the gearing stood at 1.7 times. ICRA notes the management's intent to operate at a leverage of 2.5-3.0 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 FY2024, 31% of SBI's total home loan business and 86% of its 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 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, SSL derives significant financial flexibility due to its shared brand name with the parent, which 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

¹ 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 remains in the range of 30-40%². 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 has reported healthy profitability over the years with a 4-year average net profit (PAT)/NOI of 27.0% and a return on net worth (RoNW) of 34.6% during FY2020-FY2023. Operating expense remained relatively high (average cost-to-income ratio of more than ~60% between FY2020 and FY2023), given the cost associated with the loan distribution business, and the trend continued in FY2024 as well. However, industry tailwinds in the capital markets supported the overall performance in FY2024 and SSL reported its highest-ever profit during the year. The company reported a PAT of Rs. 452 crore in FY2024 on NOI of Rs. 1,580 crore. PAT/NOI was 28.6% while the RoNW was 34.8% during this period.

SSL's capitalisation profile remains comfortable with adequate headroom to support growth, considering the pace of internal accruals. As on March 31, 2024, the reported net worth was Rs. 1,513 crore and the gearing stood at 1.7 times. With the incremental growth in the MTF book being largely debt funded, the leverage is expected to increase slightly in the near term. In this regard, ICRA notes the management's intent to operate at a leverage of 2.5-3.0 times in the medium term.

Credit challenges

Exposed to risks inherent in capital market related businesses; evolving operating and regulatory environment – The trading volumes and revenues of securities broking companies remain susceptible to the inherently volatile capital markets, which are cyclical in nature. Further, SSL's presence in MTF exposes it to credit and market risks, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. Moreover, the increasing competition in the equity broking segment and the growing popularity of discount brokerage houses have led to yield compression in recent years, even though the rising investor participation in the domestic capital market and the resulting higher trading volume have supported the revenues of most securities broking companies. In this backdrop, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Securities broking companies also rely heavily on technology for order placement, trade execution, and fund management among others. Hence, any technical failure or disruption such as a system glitch, cyberattack or inadequate infrastructure can pose operational, financial and reputation risk. The sector also remains susceptible to encroachment by new and/or established players with possible consolidation in a traditionally fragmented industry. Moreover, the regulatory environment for securities brokers is continuously evolving. Compliance with the evolving regulatory obligations remains critical.

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 FY2024 was 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. Accordingly, the share of derivatives volumes increased in FY2023 and FY2024. As of March 31, 2024, 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. While SSL's market share, in terms of National Stock Exchange (NSE) active clients, was 2.1% as on March 31, 2024,

² Period under consideration: FY2020 to FY2024

given the increasing competition in equity broking and the growing popularity of discount brokerage houses, a contraction in the same 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.

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. 2,495 crore, as of March 31, 2024, are falling due over the next three months while the company had an unencumbered cash and bank balance of Rs. 492 crore and drawable but unutilised lines of Rs. 650 crore as of March 31, 2024. Additionally, it has an MTF loan book of Rs. 2,259 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	Rating Methodology for Stockbroking and Allied Services 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 expectation 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 of March 31, 2024, SSL had an NSE active client base of 8,63,824. It is estimated to have a 0.6% share in the trading volumes in the cash segment and a 0.1% share in the trading volumes in the derivatives segment in FY2024. Its third-party financial product distribution assets under management (AUM) was ~Rs. 1,550 crore as of March 31, 2024. It reported a profit after tax (PAT) of Rs. 452 crore on NOI of Rs. 1,580 crore in FY2024 compared to Rs. 308 crore and Rs. 1,104 crore, respectively, in FY2023.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Net operating income (NOI)	784	1,104	1,580
Profit after tax (PAT)	233	308	452
Net worth	800	1,084	1,513
Total assets	1,867	1,934	4,854
Gearing (times)	0.9	0.4	1.7
Return on average net worth	34.1%	32.7%	34.8%

Source: SSL, ICRA Research; 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 (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022
				May 07, 2024	Jan 15, 2024	Dec 29, 2023	Oct 09, 2023	Sep 04, 2023	Dec 21, 2022	Dec 24, 2021
1 CP programme	Short term	3,500.0	2,570.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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
INE212K14403	CP programme	Jan 23, 2024	8.55	May 22, 2024	100	[ICRA]A1+
INE212K14437	CP programme	Jan 25, 2024	8.75	May 15, 2024	100	[ICRA]A1+
INE212K14452	CP programme	Jan 25, 2024	8.75	May 30, 2024	50	[ICRA]A1+
INE212K14478	CP programme	Feb 23, 2024	8.93	Feb 21, 2025	200	[ICRA]A1+
INE212K14486	CP programme	Feb 26, 2024	8.85	May 27, 2024	20	[ICRA]A1+
INE212K14536	CP programme	Mar 11, 2024	8.60	Jun 10, 2024	100	[ICRA]A1+
INE212K14528	CP programme	Mar 12, 2024	8.59	Jun 11, 2024	125	[ICRA]A1+
INE212K14494	CP programme	Mar 13, 2024	8.60	Jun 12, 2024	100	[ICRA]A1+
INE212K14510	CP programme	Mar 14, 2024	8.60	Jun 13, 2024	100	[ICRA]A1+
INE212K14502	CP programme	Mar 15, 2024	8.56	Jun 14, 2024	300	[ICRA]A1+
INE212K14544	CP programme	Mar 18, 2024	8.53	Jun 17, 2024	100	[ICRA]A1+
INE212K14551	CP programme	Mar 19, 2024	8.53	Jun 18, 2024	200	[ICRA]A1+
INE212K14569	CP programme	Mar 20, 2024	8.53	Jun 19, 2024	100	[ICRA]A1+
INE212K14569	CP programme	Mar 21, 2024	8.63	Jun 19, 2024	200	[ICRA]A1+
INE212K14585	CP programme	Mar 22, 2024	8.45	Jun 21, 2024	200	[ICRA]A1+
INE212K14593	CP programme	Mar 26, 2024	8.53	Jun 25, 2024	100	[ICRA]A1+
INE212K14619	CP programme	Apr 25, 2024	7.72	Jul 25, 2024	200	[ICRA]A1+
INE212K14627	CP programme	Apr 26, 2024	7.74	Jul 26, 2024	275	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	30-365 days	930.0	[ICRA]A1+

Source: SSL; CP outstanding as of April 26, 2024

Annexure II: List of entities considered for consolidated analysis

Not applicable

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Branches



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