

May 31, 2024

Stockholding Document Management Services Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank lines – Term loan	32.37	32.37	[ICRA]A+(CE) (Stable); reaffirmed
Total	32.37	32.37	

*Instrument details are provided in Annexure-I

Rating Without Explicit Credit Enhancement	[ICRA]BBB+
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Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating is based on the strength of the corporate guarantee provided by the parent, Stock Holding Corporation of India Limited (StockHolding; rated [ICRA]AA- (Stable)), besides the evaluation of the standalone credit profile of StockHolding Document Management Services Limited (SDMSL). SDMSL has an established market position in the physical record management and document digitisation businesses, and its profitability and coverage indicators have improved in FY2024, notwithstanding past losses. However, these positives are offset by an elongated receivable cycle, client concentration risks and high competition, resulting in revenue variability. The Stable outlook reflects ICRA's outlook on the rating of the guarantor, StockHolding.

Adequacy of credit enhancement

To assign the rating, ICRA has assessed the attributes of the guarantee issued by StockHolding in favour of the said facility. While the guarantee is legally enforceable, unconditional, and covers the entire amount and tenor of the rated facility, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has reaffirmed the rating of [ICRA]A+(CE) for the said facility against the unsupported rating of [ICRA]BBB+ and in relation to the guarantor's rating of [ICRA]AA-. In case the rating of the guarantor or the unsupported rating of SDMSL changes in future, the same may have a bearing on the rating of the aforesaid facility as well. The rating of this facility may also change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or in the reputation sensitivity of the guarantor to a default by the rated entity or in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- During the currency of the bank's credit facilities, SDMSL/the guarantor (StockHolding) will not, without the bank's prior permission in writing, enter into borrowing arrangements, either secured or unsecured, with any other bank, financial institution, company or person
- SDMSL/the guarantor will not, without the bank's prior permission in writing, undertake guarantee obligations on behalf of any other company, firm or person

If the guarantor revokes or discontinues the guarantee, the captioned rating will not apply to any incremental exposure taken by the bank on the borrower after the guarantor sends the revocation or discontinuation notice. In that event, the rating of the facility will have to be reviewed.

Key rating drivers and their description

Credit strengths

Corporate guarantee from StockHolding – SDMSL’s rated bank facility is backed by a corporate guarantee from its parent, StockHolding. Incorporated as a public limited company in 1986, StockHolding was jointly promoted by leading banks and financial institutions. It has an established track record with a strong franchise in the capital market-related business. StockHolding has a well-diversified portfolio, comprising capital market-related services (broking and depository, professional clearing, custodial services and distribution of financial products), e-stamping and document management. The guarantee is legally enforceable, unconditional and covers the entire amount and tenor of the rated facility, although it does not have a well-defined invocation and payment mechanism.

Established market position – SDMSL provides physical document storage solutions, digitisation solutions and information technology-enabled services. The principal services offered by the company are document digitisation and physical record management, in which it has an established presence. It serves over 1,500 clients, including regulators, government institutions, banks and corporate sector companies. The presence of a healthy order book for the near term and established client relationships provide comfort.

Improving profitability and coverage indicators, notwithstanding past losses – SDMSL reported an improvement in revenues and profitability in FY2024, supported by a healthy order book. The company reported a profit after tax (PAT) of Rs. 8.1 crore on an operating income (OI) of Rs. 98.7 crore in FY2024 (return on capital employed; RoCE of 15.9%), compared to PAT and OI of Rs. 5.0 crore and Rs. 79.3 crore, respectively, in FY2023 (RoCE of 11.3%).

ICRA notes that profitability was previously subdued between FY2019 and FY2021 due to a fire incident (in December 2017) at its main facility in Mahape, which interrupted operations and led to higher costs (for repairs, retrievable, provisions and write-offs related to legacy receivables) subsequently. The performance was further impacted in FY2021 due to disruptions caused by the Covid-19 pandemic. However, with the gradual normalisation of operations and the reversal of provisions, SDMSL reported a nominal net profit of Rs. 1.6 crore in FY2022.

The coverage indicators also improved in recent periods, with an interest coverage ratio of 4.2 times as on March 31, 2024 and 4 times as on March 31, 2023, compared to 0.3 times as on March 31, 2021. The DSCR stood at 1.1 times as on March 31, 2024, and remains marginally weak (compared to 2.3 times as on March 31, 2023 and 2.0 times as on March 31, 2022). Going forward, SDMSL’s ability to achieve significant and sustained improvement in its profitability will remain a key monitorable.

Credit challenges

Elongated receivables cycle – SDMSL’s operations are characterised by an elongated receivables cycle as well as the contract-based nature of the business. Historically, the majority of the company’s clientele comprised government/quasi-government entities, which typically take an extended period to make payments. Further, certain clients held back payments after the fire incident, pending the finalisation of claims, resulting in further elongation of the receivables cycle. While there has been an improvement in the debtor days to 122 in FY2024 from 138 in FY2023 and over 200 in the preceding periods, the same remains high. Going forward, the company’s ability to effectively manage the receivables cycle will remain imperative from a credit perspective.

Client concentration risk and high competition resulting in variability in revenues – The document management business remains exposed to concentration risk, with the top 5 customers in physical storage, digitisation, and hosting services accounting for ~58%, 86% and 77% of SDMSL’s revenue in 9M FY2024. Further, the underlying business segments are characterised by intense competition. Thus, sustenance and improvement in revenues would be dependent on the consistent

onboarding of new customers. Going forward, SDMSL's ability to onboard new clients and diversify the revenue profile across the client base would remain a key monitorable.

Liquidity position

For StockHolding: Strong

As on March 31 2024, StockHolding (standalone) did not have any outstanding debt, though it had borrowings (taken by SDMSL from banks) of Rs. 11.9 crore on a consolidated basis. StockHolding requires funds to place margins at the exchanges, supported by the margin deposits from clients and sanctioned bank lines. From July 2023 to December 2023, the average margin placed at the exchanges (basis month-end data, including client margin) stood at Rs. 1,959 crore, with month-end utilisation ranging between 41% and 54%. As on March 31, 2024, the company had unencumbered cash and bank balances of ~Rs. 40 crore, quoted liquid investments of ~Rs. 73.5 crore and undrawn working capital lines of Rs. 270.6 crore to support its operations, while the borrowings were nominal.

For SDMSL: Adequate

On a standalone basis, the company had cash and liquid investments of Rs. 7.7 crore and unutilised working capital lines of ~Rs. 24 crore against outstanding borrowings of Rs. 36.8 crore as on March 31, 2024, of which ~Rs. 4.1 crore is due for repayment in the next 12 months ending March 31, 2025. The on-balance sheet liquidity and unutilised bank lines are adequate to cover the repayment obligations due over the next 12 months.

Rating sensitivities

Positive factors – An upward revision in the rating would remain contingent on improvement in the credit profile of the guarantor (StockHolding).

Negative factors – The rating would remain sensitive to any movement in the rating of the guarantor (StockHolding), a change in the parentage or in the nature of support. Further, a sustained deterioration in the profitability or working capital intensity could be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Explicit Third-Party Support
Parent/Group support	Support from parent: Stock Holding Corporation of India Limited The rating is based on the strength of the corporate guarantee from the parent – StockHolding. The guarantee is legally enforceable, unconditional and covers the entire amount and tenor of the rated instrument, although it does not have a well-defined invocation and payment mechanism.
Consolidation/Standalone	Standalone.

About the company

Stockholding Document Management Services Limited (SDMSL; formerly known as SHCIL Projects Limited) was incorporated on August 10, 2006. It is a wholly-owned subsidiary of Stock Holding Corporation of India Limited (StockHolding). SDMSL offers physical storage and digitisation services and sells software products and services.

SDMSL's promoter, StockHolding, was incorporated as a public limited company in 1986. StockHolding is jointly promoted by leading banks and financial institutions. It is a subsidiary of IFCI Limited, which held a 52.86% stake as on December 31, 2020. StockHolding commenced operations by offering custodial and post-trading services and added depository and other services

to its portfolio over a period of time. At present, it provides various services such as custodial, depository, broking, e-stamping, distribution of financial products and professional clearing member services. These services are offered to both retail and institutional clients. StockHolding has three wholly-owned subsidiaries, Stockholding Services Limited (SSL), involved in broking services, SDMSL, providing physical and electronic recordkeeping of documents, and StockHolding Securities IFSC Limited (SSIL), offering service solutions to all eligible investors at IFSC, Gift City.

Key financial indicators (audited)

Stock Holding Document Management Services Limited - Standalone	FY2022	FY2023	FY2024
Operating income	50.3	79.3	98.7
PAT	1.6	5.0	8.1
OPBDIT/OI	52.6%	39.5%	34.3%
PAT/OI	3.1%	6.2%	8.2%
Total outside liabilities/Tangible net worth (times)	2.9	2.8	2.3
Total debt/OPBDIT (times)	2.9	2.8	2.1
Interest coverage (times)	3.2	4.0	4.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Key financial indicators (audited)

Stock Holding Corporation of India Limited - Consolidated	FY2022	FY2023	FY2024
Net operating income	662.5	754.7	909.5
Profit after tax	148.3	184.8	289.1
Net worth	4,594.7	6,005.6	6,519.0
Total assets	7,318.6	9,192.4	10,313.9
Gearing	0.01	0.01	0.00
Return on average net worth	4.1%	3.5%	4.6%

Source: Company, 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)		Rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 31, 2024	-	Mar 31, 2023 Jun 29, 2022	April 19, 2021
1 Long-term fund-based bank lines – Term loan	Long term	32.37	11.85	[ICRA]A+(CE) (Stable)	-	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)
2 Bank lines – Long term (unallocated)	Long term	-	-	-	-	-	Provisional [ICRA]A+(CE) (Stable), withdrawn
3 Non-convertible debenture programme	Long term	-	-	-	-	-	Provisional [ICRA]A+(CE) (Stable), withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank lines – Term loan	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
NA	Term Loan-I	October 2020	9.20%	June 2029	32.37	[ICRA]A+(CE) (Stable)

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

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Branches



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