May 31, 2024

Stock Holding Corporation of India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based/non-fund based bank facilities	3,026.82	3,026.82	[ICRA]AA- (Stable); reaffirmed
Total	**3,026.82**	**3,026.82**	

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in the diversified services portfolio of the Stock Holding Corporation of India Limited (StockHolding or the Group), its strong presence in the electronic stamping (e-stamping) business, its established track record in capital market-related business, comfortable capitalisation and adequate earnings profile. The core operating performance improved in FY2024, driven by revenue growth across most business segments. The consolidated core profit before tax (PBT; excluding investment income) increased to Rs. 153.9 crore in FY2024 from Rs. 123.5 crore in FY2023. The consolidated core operating profitability to core operating income (COI) improved to 20.3% in FY2024 from 19.0% in FY2023 and core return on equity (RoE) improved to 13.0% in FY2024 from 11.6% in FY2023. The capitalisation remains comfortable with a consolidated net worth of Rs. 6,519.0 crore and negligible gearing as on March 31, 2024. ICRA notes that a sizeable portion of the net worth is attributable to the company's investments in the unlisted shares of the National Stock Exchange (NSE). However, excluding the same, net worth remains comfortable at Rs. 1,223.6 crore as on March 31, 2024.

The above positives are offset to a certain extent by the group's exposure to risks associated with capital market related businesses and an evolving operating and regulatory environment, considering that capital market-related businesses account for 30-40% of the overall consolidated revenues. However, these have performed well in recent years due to the industry tailwinds. Further, the document management services (DMS) business revenues tend to vary depending on the order book, and the client concentration remains sizeable. Nonetheless, the strong performance of the e-services business in recent years has supported the overall earnings profile. ICRA also takes note of the weak credit profile of StockHolding's promoter, IFCI Limited {rated [ICRA]B+ (Negative)}. Going forward, the extent of funding support to the parent, if any, could have a bearing on the company's credit profile.

The Stable outlook reflects ICRA's opinion that the company would maintain its credit profile supported by its established market position in e-services. Further, the diversified revenue profile would help offset the inherent cyclicality in certain businesses, and the company would maintain a comfortable capitalisation.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation – StockHolding's capitalisation profile is characterised by a net worth of Rs. 6,519.0 crore and negligible gearing (<0.1 times) as on March 31, 2024. ICRA notes that a sizable increase in the net worth was on account of a significant increase in the valuation of equity investments on the NSE. Nonetheless, even excluding the NSE investments, the net worth and capitalisation remained comfortable at Rs. 1,223.6 crore and 0.01 times respectively, as on March 31, 2024.

Adequate earnings profile – The core operating performance improved in FY2024 led by revenue growth across most business segments. The COI increased by 11% in FY2024 to Rs. 726.4 crore from Rs. 655.4 crore in FY2023. The consolidated core PBT increased to Rs. 153.9 crore in FY2024 from Rs. 123.5 crore in FY2023. The consolidated core operating profitability improved to 20.3% in FY2024 from 19.0% in FY2023, and core RoE improved to 13.0% in FY2024 from 11.6% in FY2023. While the capital market-related businesses accounted for a larger share of the COI growth in FY2024 due to industry tailwinds, the e-services business has contributed significantly to improvement in COI in recent years. Including the dividend income from investments, the company reported a net profit of Rs. 289.1 crore in FY2024 as compared to Rs. 184.8 crore in FY2023.

Diversified services portfolio; established track record and franchise – StockHolding was incorporated in 1986 by leading banks and financial institutions as a public limited company. It was among the early entrants in the depository services segment and has a prominent presence in capital market-related businesses. StockHolding has been designated the Central Record Keeping Agency (CRA) by the Ministry of Finance, Government of India and provides e-stamping services to 24 states and Union Territories in India.

The company has a well-diversified portfolio comprising capital market-related services (broking and depository, professional clearing, custodial services and distribution of financial products) and non-capital market-related businesses such as e-services and document management. The Group's revenue profile was historically more inclined towards inherently volatile capital market-based revenues (derived from broking, professional clearing business, and custodial services). However, with the scaleup in the e-services business in recent years, the share of non-capital market revenues (comprising e-services and document management business) increased to more than 40% on average between FY2020 and FY2024. Similarly, on a segmental basis, non-capital market businesses accounted for 38% of PBT on average between FY2020 and FY2024.

Credit challenges

Competitive intensity in capital market-related businesses; ability to retain market position in e-stamping business remains to be seen – The capital markets remain characterised by intense competition and susceptibility to entry by new players. In this regard, heightened competition, especially in the equity broking segment and the growing popularity of discount brokerage houses have led to pricing pressure in recent years. However, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term. Nevertheless, the possibility of pressure on profitability, especially during downturns, cannot be ruled out. Further, the depository and custodian businesses remain highly competitive as reflected by the loss of two of StockHolding's key clients in the recent past. Further, the company is exposed to concentration risk in the custody business with its top 3 custody clients accounting for over 50% of its institutional custody assets. The document management business also remains exposed to concentration risk with its top 5 clients in physical storage, digitisation, and hosting services accounting for a sizeable share of SDMSL's revenue in 9M FY2024.

StockHolding is the sole centralised record-keeping agency (CRA) appointed by the Government of India (GoI) and the first entrant in the e-stamping business, its e-services are available 24/7 and offer integrated solutions with e-stamping and e-registration services. The weakening of its market position in any key state, either due to competition or the state launching its own e-stamping facilities, may lead to revenue impact for the company. The new client additions in FY2024 are likely to support the entity's revenue profile going forward. However, StockHolding's ability to innovate and maintain its market position on a consistent basis remains important.

Exposure to risks associated with capital market-related businesses; evolving operating and regulatory environments – The trading volumes and revenues of companies operating in capital market-related businesses are susceptible to the inherently volatile and cyclical nature of capital markets. StockHolding's capital market-related businesses, such as depository operations, professional clearing services and broking, depend on transaction volumes. As the capital markets-related businesses still account for 30-40% of the consolidated revenues, the profitability remains susceptible to market performance to a certain extent. Additionally, with sizeable investments in NSE shares (fair value of the NSE investments was ~105% of the consolidated net worth as on that date), StockHolding's overall net profit and net worth remain exposed to the idiosyncratic risk of these investments. Nonetheless, the improved diversification due to the scaling up of the e-services business in recent years has provided some stability to the earnings profile. However, the sustainability of the same across economic cycles is yet to be witnessed.

StockHolding also relies heavily on technology. Thus, any technical failure or disruption can pose operational and reputation risks. Moreover, the ability of entities operating in capital market-related businesses to ensure compliance with the evolving regulatory landscape remains crucial.

Liquidity position: 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.

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the company is able to scale up its operations across businesses while achieving further improvement in its earnings from core operations on a sustained basis.

Negative factors – The rating could be downgraded if its market position weakens in any of the key segments, leading to profitability pressure for the Group. Pressure on the ratings could also arise in case of a material change in the investment profile, impacting the Group's capitalisation profile, or any adverse change(s) in the regulatory environment, affecting the company's business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of StockHolding. As on March 31, 2024, the company had three subsidiaries, which are enlisted in Annexure II.

About the company

Incorporated in 1986, StockHolding was jointly promoted by leading banks and financial institutions. It is a subsidiary of IFCI Limited, which had a 52.86% stake in the company as on March 31, 2024. 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, clearing and recordkeeping. These services are offered to both retail and institutional clients. The company 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 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 Core operating income + investment income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on May 20, 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	Feb 1, 2022
1	**Long-term fund-based/non-fund based bank facilities**	Long term	3,026.82		**[ICRA]AA- (Stable)**	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**

**Review was under process in FY2024*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based/non-fund based bank facilities	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	Long-term fund-based/non-fund based bank facilities	NA	NA	NA	3,026.82	[ICRA]AA- (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

Company Name	StockHolding Ownership	Consolidation Approach
Stock Holding Corporation of India Limited	Holding company	Full Consolidation
Stockholding Services Limited	100.00%	Full Consolidation
StockHolding Document Management Services Limited	100.00%	Full Consolidation
StockHolding Securities IFSC Limited	100.00%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (StockHolding) and its subsidiaries while assigning the ratings.

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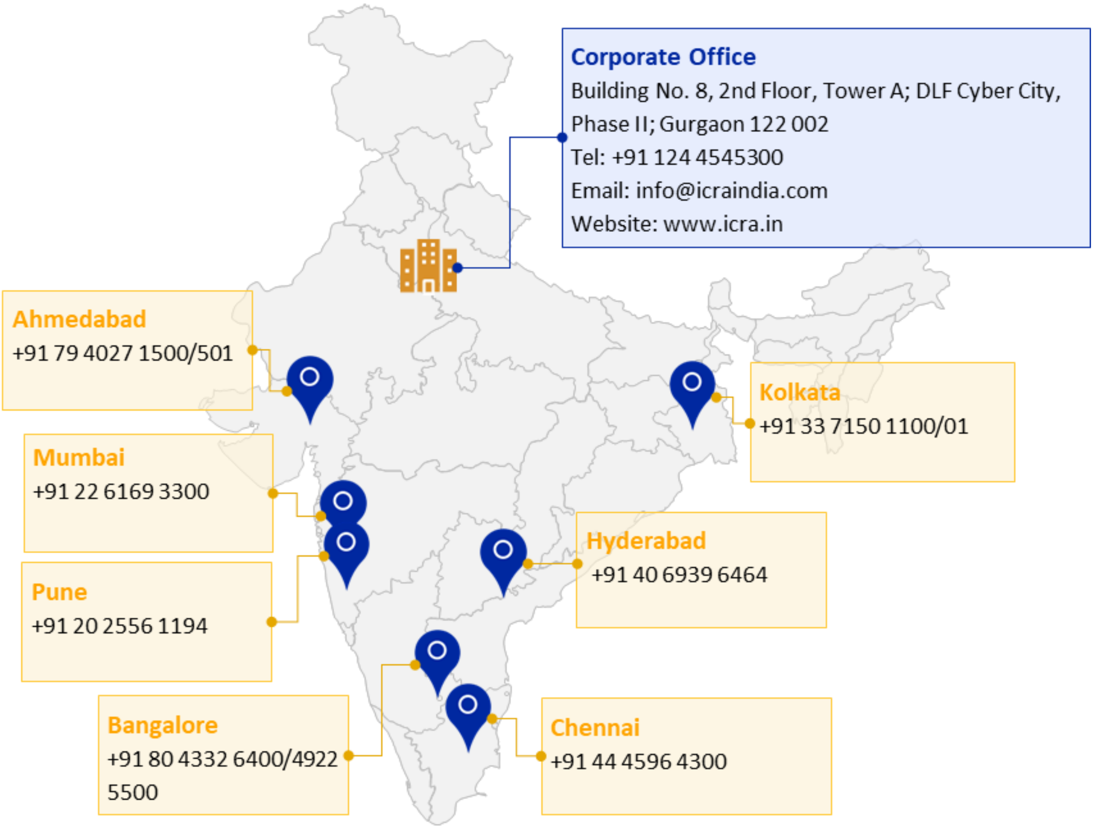

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