

June 27, 2024

## Sharekhan BNP Paribas Financial Services Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper (CP) programme	1,000.0	1,000.0	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>1,000.0</b>	<b>1,000.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

ICRA has taken a consolidated view of Sharekhan Limited (SKL) and Sharekhan BNP Paribas Financial Services Limited<sup>1</sup> (SBPFSL), hereafter referred to as the Sharekhan Group or the Group. SKL and SBPFSL have enjoyed operational and financial linkages/synergies over the years as SBPFSL used to be a wholly-owned subsidiary of SKL till March 2024, before the shareholding was restructured in Q1 FY2025. The entities continue to share parentage and operate under the common brand, franchise and customer base.

The rating factors in the Sharekhan Group's considerable track record in the equity broking business, its well-established position in retail broking and capital market related lending activities, and its satisfactory financial profile with adequate capitalisation and liquidity. The Group's performance has been resilient despite the announcement of the change in ownership [to Mirae Asset Securities Co. Ltd<sup>2</sup> (MAS; rated Baa2 Stable by Moody's) from BNP Paribas SA (BNPP; rated Aa3/Stable/P-1 by Moody's)] in December 2023. This reflects well on the Group's market position and the expectation regarding support from the new promoter. Further, the BNPP Group continues to provide operational and managerial support and supervision (till the transaction is concluded).

The aforesaid strengths are, however, partially offset by the Group's high dependence on securities broking income, which remains susceptible to the extent of competition in the industry and the inherent volatility associated with capital markets. ICRA also notes that the Group has not tapped the capital market for its borrowing requirement since the announcement of the transfer of ownership. Consequently, incremental business has been supported by the utilisation of bank borrowings and growth has been skewed towards SKL's broking and margin trade funding (MTF) business, while SBPFSL's loan book [comprising loan against shares (LAS) and employee stock option plans (ESOP)] declined in FY2024. Nevertheless, supported by the industry tailwinds in the domestic capital market, the Group reported its highest-ever consolidated net operating income and second-best consolidated net profit in FY2024.

ICRA notes that the Group's leverage has increased in the last three fiscals, given the growth in the loan book (especially the MTF book) and the higher working capital requirement, amid the evolving regulatory landscape, besides the hefty dividend payout in FY2021. Nevertheless, capitalisation remains adequate with a consolidated net worth of Rs. 1,963 crore as of March 31, 2024 and a gearing of 1.5 times. The rating also considers the credit and market risks associated with the MTF and capital market related lending businesses, given the nature of the underlying assets. In this regard, the Group's ability to maintain adequate asset quality and capitalisation will remain imperative, along with its ability to seamlessly align with the evolving regulatory landscape while maintaining adequate profitability.

<sup>1</sup> In Q1 FY2025, SBPFSL, SKL's erstwhile wholly-owned subsidiary, was hived off and it became a wholly-owned subsidiary of Human Value Developers Private Limited (HVD). HVD, a wholly-owned subsidiary of BNPP, holds 27% in SKL

<sup>2</sup> MAS is Korea's largest securities company, in terms of asset size, providing financial services including institutional sales, wealth management and investment advisory services. It was established in September 1970 as Dong Yang Securities Co., Ltd and has been listed on the Korea Exchange since September 1975

On December 12, 2023, MAS had announced its plan to acquire a 100% stake in SKL and its subsidiaries, thereby providing an exit opportunity to BNPP. The share purchase agreement was signed on December 13, 2023, and the transaction received the Competition Commission of India's (CCI) approval on April 4, 2024. It is awaiting approvals from the Securities and Exchange Board of India (SEBI), stock exchanges and the Reserve Bank of India (RBI). The transfer of formal ownership/operations is expected to be completed by December 2024, as per the management.

The acquisition will be through an all-cash deal, aggregating about Rs. 3,000 crore, whereby MAS will acquire 100% stake in Human Value Developers Private Limited<sup>3</sup>, along with a stake in SKL through its subsidiary – Mirae Asset Capital Market India Private Limited (MACM). Further clarity on the group structure and co-branding, given the overlap of operations between the Sharekhan Group and the Mirae Group's Indian subsidiaries, is yet to emerge. With the successful completion of the acquisition, MACM's presence in India's domestic capital market, especially in the retail broking space, is expected to strengthen. The overlapping operations are expected to lead to operating synergies as well. On the conclusion of the transaction, the operational and managerial practices followed by MAS globally are expected to be followed by the Sharekhan Group as well.

## Key rating drivers and their description

### Credit strengths

**Long track record in capital market related businesses; established position in retail broking** – SKL has over two decades of experience in the equity broking space. It has a wide geographical presence with over 4,145 franchisees and branches as of March 2024. It is a full-service stockbroking company, primarily engaged in the retail equity broking segment, with a 1.6% market share in National Stock Exchange (NSE) active clients, making it the 11<sup>th</sup> largest broking company in the domestic capital market. SKL registered a healthy year-on-year (YoY) growth in its average daily turnover (ADTO) in FY2024 in the relatively higher-yielding cash segment. The volume growth in the cash segment was significantly above the industry average. It posted ~45% growth in the ADTO in the derivatives segment, though the same trailed the industry average. SKL's MTF book also increased to Rs. 1,450 crore in March 2024 (market share of 2.5%) from Rs. 919 crore a year ago. Apart from securities broking, the Sharekhan Group is engaged in other capital market related activities such as LAS and ESOP financing, portfolio management services and mutual fund distribution.

**Strong parentage** – On December 12, 2023, MAS announced its plan to acquire a 100% stake in SKL and its subsidiaries. The share purchase agreement was signed on December 13, 2023 and the transaction received CCI approval on April 4, 2024. The transaction is awaiting approvals from SEBI, stock exchanges and the RBI, with the transfer of formal ownership/operations expected to be completed by December 2024. Meanwhile, the BNPP Group continues to extend operational and managerial support and supervision to the Sharekhan Group, till the transaction gets concluded. As of May 2024, the company had a nine-member board with four representatives from the BNPP Group, who ensure that the operations are aligned with the parent's operations and policies. SKL's Chief Operating Officer (COO), who is from the BNPP Group, ensures that the parent has regular supervision and control over the Group's activities.

After the conclusion of the acquisition, SKL is expected to operate as a step-down subsidiary of MAS (through its Indian subsidiary – MACM) while Human Value Developers Private Limited (HVD), the holding company of SBPFSL, is expected to be held directly by MAS. MACM's presence in the Indian domestic capital market, especially in the retail broking space, is expected to strengthen with this transaction. On the conclusion of the transaction, the operational and managerial practices followed by MAS globally are expected to be followed by the Sharekhan Group as well.

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<sup>3</sup> Wholly-owned subsidiary of BNPP with a 27% stake in SKL

MAS is present in India through MACM, which is a capital market services provider with a presence in retail and institutional broking, investment banking, wealth advisory and the distribution of financial products. It has been operating in India since October 2017.

**Satisfactory financial profile with adequate capitalisation** – Supported by industry tailwinds, SKL reported its highest-ever consolidated net operating income in FY2024. Despite the sizeable increase in operating expenses, the Group registered its second-highest annual profit of Rs. 260 crore in FY2024 (previous high was Rs. 265 crore in FY2022). The profitability improved with a return on equity (RoE) of 14.2% in FY2024 compared to the 5-year average of ~10% during FY2019-FY2023.

Despite the regular dividend payouts during FY2021-FY2024, SKL's consolidated capitalisation profile remains adequate with a net worth of Rs. 1,963 crore and a gearing of 1.5 times as of March 31, 2024. ICRA notes that the Sharekhan Group's ability to scale up its borrowings was impacted in Q3 FY2024 amid the ownership change. Hence, SKL reported a relatively muted performance in Q3 FY2024 despite the positive market sentiment. Following the formal announcement in December 2023, regarding MAS' acquisition of the Sharekhan Group, it reported a strong recovery in Q4 FY2024.

### Credit challenges

**High dependence on inherently volatile capital markets** – The equity broking segment remains the Sharekhan Group's primary revenue driver, accounting for 60-70% of its consolidated net operating income. Further, SKL is predominantly a retail broking player with a negligible presence in institutional broking.

The Group's presence in other capital market segments remains modest. The lending business housed under SBPFSL is also focused on capital market related lending products like LAS and ESOP funding. With most of its revenues being linked to the inherently volatile capital markets, SKL's revenue profile and profitability remain vulnerable to market performance. In this backdrop, the possibility of pressure on profitability, especially during downturns, cannot be ruled out. Further, entities providing MTF and capital market related lending remain exposed 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.

**Elevated competition, high dependence on technology and evolving regulatory environment** – Securities broking companies rely heavily on technology for trade execution, fund management, etc. Thus, technical failures or disruptions pose operational and reputation risk. Moreover, the ability of brokerage entities to ensure compliance with the evolving regulatory landscape remains crucial. The sector also remains characterised by intense competition and susceptibility to entry by new players. In this regard, heightened competition 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.

### Liquidity position: Adequate

The Sharekhan Group's liquidity position remains supported by the short-term nature of the MTF assets, on-balance sheet liquidity and undrawn bank lines. The Group requires funds for placing margins at exchanges and to support its lending business. As on March 31, 2024, the total margin placed at the exchanges was Rs. 4,665 crore, of which 27% was utilised at day end, while the peak month-end margin utilisation between October 2023 and March 2024 was ~54%.

Compared to the consolidated borrowings of ~Rs. 2,847 crore<sup>4</sup>, the broking entity had unencumbered cash & equivalents of Rs. 82 crore and unutilised fund-based bank lines of Rs. 470 crore<sup>5</sup>, while the non-banking financial company (NBFC) had unencumbered cash & equivalents of Rs. 84 crore as on March 31, 2024. Additionally, the short-term MTF book, which can be

<sup>4</sup> Includes utilised portion of fund-based bank lines

<sup>5</sup> Sanctioned and drawable lines stood at Rs. 1,145 crore as of March 31, 2024

liquidated at short notice to generate liquidity if required, stood at ~Rs. 1,450 crore. Considering the short-term nature of the MTF and LAS products, the Group's borrowing profile remains dominated by commercial paper (CP) like its peers. Notwithstanding this, its liquidity position remains adequate.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – Weakening in the Sharekhan Group's market position, impacting its profitability, capitalisation or liquidity, will be a credit negative. Additionally, a deterioration in the credit profile of the parent and/or weakening in the linkages with the parent may be credit negatives.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology – Stockbroking and Allied Services</a> <a href="#">Rating Methodology – Non-banking Finance Companies (NBFCs)</a>
Parent/Group support	Part of BNP Paribas Group (future parent – Mirae Asset Securities Co. Ltd) A share purchase agreement was signed by the BNP Paribas Group and the Mirae Group on December 13, 2023 with the transaction expected to be completed by December 2024. In the interim, the BNPP Group continues to provide operational and managerial support and supervision to the Sharekhan Group. On the conclusion of the transaction, the operational and managerial practices followed by MAS globally are expected to be followed by the Sharekhan Group.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SKL and SBPFSL.

## About the company

SBPFSL is registered with the Reserve Bank of India (RBI) as a non-banking financial company (NBFC). It provides loans/finance to the retail clients of the Sharekhan Group in the form of various products such as LAS and ESOP/employee stock purchase scheme (ESPS). As on March 31, 2024, SBPFSL's gross loan book was Rs. 493 crore. Its capitalisation profile was characterised by a net worth of Rs. 581 crore and a capital adequacy ratio (CAR) of 89.1% as of March 31, 2024.

SBFSPL, which was a wholly-owned subsidiary of SKL till March 2024, is now directly held by HVD, a wholly owned subsidiary of BNPP Group, following the conclusion of the restructuring exercise in Q1 FY2025. Moreover, in December 2023, the MAS Group announced its plan to acquire a 100% stake in HVD

### SKL

SKL is a securities broking service provider registered with the Securities and Exchange Board of India (SEBI). Its main business activity is stockbroking and margin trade financing, primarily in the retail segment, with a small presence in portfolio management services and the distribution of mutual fund products. SKL, which is a member of the Bombay Stock Exchange (BSE), the National Stock Exchange (NSE), the Metropolitan Stock Exchange of India Limited (MSEI) and the Multi Commodity Exchange (MCX), is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). As on March 31, 2024, its active client base (as per NSE data) was 6.6 lakh (market share of 1.6%), making it the 11<sup>th</sup> largest broking company in the domestic market in terms of active clients. SKL's broking volumes are primarily contributed by the franchisees. As of March 31, 2024, the company operated through 4,015 franchisees and 131 branches in ~1,000 cities.

### Key financial indicators (audited)

SKL – Consolidated	FY2022	FY2023	FY2024 <sup>^</sup>
Net operating income (NOI)	997	899	1,063
Profit after tax (PAT)	265	151	260
Net worth	1,601	1,703	1,963
Reported total assets	5,957	5,733	7,817
Gearing (times)	1.1	1.1	1.5
Return on average net worth	17.7%	9.1%	14.2%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; <sup>^</sup>Provisional

SBPFSL – Standalone	FY2022	FY2023	FY2024 <sup>^</sup>
Total income	141	91	71
Profit after tax	64	33	34
Reported total assets	1,236	806	583
Return on average assets*	6.5%	3.2%	4.8%
Gross gearing (times)	1.2	0.4	Nil
Gross NPA	0.0%	0.0%	0.0%
CRAR	45.0%	65.0%	89.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; <sup>^</sup> Provisional; \* Based on gross assets

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument		Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years									
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 20, 2024 (Rs. crore)	Date & Rating in FY2025 Jun 27, 2024	Date & Rating in FY2024		Date & Rating in FY2023				Date & Rating in FY2022		
						Dec 18, 2023	Aug 01, 2023	Mar 29, 2023	Feb 03, 2023	Sep 22, 2022	Apr 26, 2022	Jun 18, 2021	May 20, 2021	
1	CP programme	Short term	1,000.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	CP (IPO finance) programme	Short term	-	-		-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	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 Name	Date of Issuance	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper*	-	-	7-365 days	1,000	[ICRA]A1+

Source: Company; \* Yet to be placed; As of June 20, 2024

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

	SKL Ownership	Consolidation Approach
Sharekhan Limited*	Holding Company	Full Consolidation
Sharekhan BNP Paribas Financial Services Limited	100% (rated entity)	Full Consolidation
Sharekhan Commodities Private Limited	100%	Full Consolidation
Wealthtiger Investment Advisors Private Limited	100%	Full Consolidation
Sharekhan Consultants Private Limited	100%	Full Consolidation
Sharekhan.com India Private Limited	100%	Full Consolidation
Espresso Financial Services Private Limited	100%	Full Consolidation

Source: Company; As of March 31, 2024

\* In Q1 FY2025, SBPFSL, along with its subsidiaries – Sharekhan.com India Private Limited and Sharekhan Consultants Private Limited, was hived off from SKL and became a wholly-owned subsidiary of HVD. HVD, a wholly-owned subsidiary of BNP Paribas, holds a 27% stake in SKL

## ANALYST CONTACTS

**Karthik Srinivasan**  
+91 22 6114 3444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Deep Inder Singh**  
+91 124 4545 830  
[deep.singh@icraindia.com](mailto:deep.singh@icraindia.com)

**Komal Mody**  
+91 22 6114 3424  
[komal.mody@icraindia.com](mailto:komal.mody@icraindia.com)

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

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

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[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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