August 23, 2024

Sushil Financial Services Private Limited: Rating upgraded to [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based bank facilities	3.50	3.50	[ICRA]A3+; upgraded from [ICRA]A3
Short-term non-fund based bank facilities	70.00	70.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**73.50**	**73.50**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in the improvement in Sushil Financial Services Private Limited's (SFSPL) capitalisation, following the healthy profitability trajectory, aided by industry tailwinds and the gradual expansion in the scale of operations over the years. The company reported its best-ever profitability in FY2024, supported by a shift in the product mix in recent years towards higher-yielding products. Further, sizeable gains on the investment book boosted the profitability. ICRA notes the consistent track record of the investment book with no exposure to the futures and options (F&O) segment and low churn in the book. The rating continues to consider the company's long track record in equity broking and allied businesses.

The rating is, however, constrained by SFSPL's modest market position and its exposure to the evolving regulatory environment, intense competition and risks inherent in capital market-related businesses. Nonetheless, the company has managed to maintain its yields amid industry-wide pressures, following the advent of discount brokerage houses in the last decade. Going forward, SFSPL's ability to achieve a sustained scale-up in its operations while enhancing revenue diversification and maintaining healthy profitability and capitalisation would remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Long track record in capital market related businesses – Incorporated in 1991, SFSPL was engaged in the underwriting and marketing of initial public offerings (IPOs) in its early years and gradually forayed into equity broking and allied businesses over the years. It acquired membership at the National Stock Exchange (NSE) for the capital and wholesale debt market segments in 1994 and forayed into equity broking. At present, SFSPL is engaged in both retail and institutional equity broking, apart from having a small presence in the distribution of financial products. The promoters have been in this business for more than three decades with experience in capital market related activities.

As of March 31, 2024, SFSPL had 294 franchisees with a client base of 1.3 lakh (63,290 active clients) compared to 349 franchisees with a client base of 1.3 lakh (~56,500 active clients) as of March 31, 2023. The company has consciously rationalised its partner network by weeding out the lower-yielding franchisees and selectively onboarding new franchisees, while prescribing minimum revenue criteria. This is in light of the evolving regulatory environment, which has necessitated a stronger compliance framework and risk management systems. Further, rationalisation of the franchises and focus on more value-accretive relationships would help the company cushion its margins in a highly competitive industry.

Improving financial profile – SFSPL reported its best-ever profitability in FY2024 amid industry tailwinds. The improvement in the profitability trajectory was also supported by a gradual shift in the product mix in recent years towards higher-yielding products as well as sizeable gains on the proprietary investment book. The operating profit doubled to Rs. 16.5 crore in FY2024 from Rs. 8.1 crore in FY2023. Further, sizeable gains on the investment book aided the profitability. The company reported a profit after tax (PAT) of Rs. 21.1 crore on net operating income (NOI) of Rs. 54.9 crore in FY2024 (PAT/NOI of 38.5% and return on net worth (RoNW) of 37.9%) and PAT and NOI of Rs. 9.1 crore and Rs. 40.1 crore, respectively, in FY2023 (PAT/NOI of 22.6% and RoNW of 22.1%) compared to the last 5-years' average PAT/NOI of 19.7% and RoNW of 21.4%. Going forward, a sustained improvement in the financial profile would remain imperative from a credit perspective.

The improvement in profitability in recent years has resulted in sizeable net worth accretion, which has augmented the capitalisation. The net worth increased to Rs. 66.1 crore as on March 31, 2024 from Rs. 45.4 crore as on March 31, 2023 and Rs. 36.7 crore as on March 31, 2022, while borrowings are negligible. The funding requirement is largely limited to the margins placed on the stock exchanges, which is met through bank guarantees (BGs) and margins placed by the clients, leading to limited on-balance sheet borrowings. ICRA notes that a portion of the net worth is deployed in the proprietary investment book (Rs. 21.1 crore[1] as on March 31, 2024; invested in listed stocks across categories – large/mid/small caps), which may be liquidated, if required. In addition to non-fund based bank lines, the company has fund-based lines, which can be utilised for placing margins at the exchanges.

Credit challenges

Modest scale of operations – SFSPL offers broking services to retail clients and institutional clients and had 1.3 lakh customers as of March 2024 (63,290 active retail clients and ~45 empanelled institutional clients), although its market position remains modest. While buoyant capital market conditions since FY2021 have supported the company's business operations, the scale of operations remains modest with the cash segment's market share at 0.2% in FY2024 and FY2023. It also has a presence in other capital market businesses like institutional broking and the distribution of financial products, although the scale remains small. SFSPL's ability to achieve meaningful scale-up and revenue diversification would remain critical from a credit perspective.

Exposed to risks inherent in capital market-related businesses – The trading volumes and revenues of securities broking companies are susceptible to the inherently volatile capital markets, which are cyclical in nature. Net broking income accounted for 61% of SFSPL's NOI in FY2024 compared to 57% in FY2023. Further, other revenue streams like interest income on fixed deposits lien marked with exchanges or banks, delayed payment charges on the T+5 book, investment income, and distribution and depository income are directly or indirectly linked to the performance of the capital markets. Moreover, the company is focused more on the equity cash segment, which has displayed higher cyclicality in preceding years. Thus, SFSPL's profitability remains dependent on the performance of the capital markets. ICRA also notes that SFSPL has a sizeable proprietary investment book (Rs. 21.1 crore as on March 31, 2024; ~32% of net worth), which exposes it to the associated idiosyncrasies. Thus, any downturn in the capital markets may impact SFSPL's financial performance and capitalisation profile.

Intense competition in capital markets; evolving operating and regulatory environment – The securities broking sector remains characterised by intense competition and susceptibility to the entry of 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. Nonetheless, for SFSPL, a changing product mix in favour of higher-yielding products has cushioned the yields to a certain extent. Moreover, securities broking companies rely heavily on technology. Thus, any technical failure or disruption can pose operational and reputation risk. Also, given the highly regulated nature of this industry, brokerage houses are exposed to regulatory risks. Hence, their ability to ensure compliance with the evolving regulatory landscape remains crucial. In this regard, the recent regulatory proposals/changes are likely to impact the profitability of the broking industry. The resultant steps taken by industry participants and their impact on yields and profitability remain to be seen. However, the impact is expected to be higher for discount brokers compared to traditional brokers like SFSPL. Moreover, the increasing financialisaton of savings and the low share of wallet of the equity segment in household savings offer untapped

[1] *Carried at book value with market value significantly higher as on August 16, 2024*

potential for expansion in the broking sector over the longer term. Still, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Liquidity position: Adequate

SFSPL's liquidity requirement is primarily for placing margins at the exchanges. On average, it had deployed ~Rs. 1,400 crore of margins at the exchanges between April 2023 and March 2024, of which ~Rs. 244 crore was in the form of cash collateral, including BGs (~Rs. 161 crore on average was client funds). The month-end margin utilisation, adjusting for the maximum non-cash collateral margin available for utilisation in relation to the cash collateral placed (due to the requirement of 50:50 of cash and non-cash collateral), ranged between 30% and 40% during this period. SFSPL had an undrawn fund-based bank line of ~Rs. 14 crore as on March 31, 2024 (although a portion of this would be drawn down to avail further BGs for placing at the exchanges). It also had a quoted unencumbered investment book of ~Rs. 10 crore, which can be liquidated for meeting any short-term liquidity requirements.

Rating sensitivities

Positive factors – A significant ramp-up in the scale of operations along with a meaningful diversification in the revenue profile and a sustained improvement in the financial performance would have a positive impact.

Negative factors – A sustained decline in the broking volumes, leading to weakening of the profitability and affecting the financial profile, or weakening of the capital profile would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1991, Sushil Financial Services Private Limited (SFSPL) is a closely-held private limited company promoted and managed by Mr. Sushil Shah. It is a securities broking company with a presence in retail and institutional segments. It also has a presence in other capital market businesses like the distribution of financial products. The company is a member of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) and is also a depository participant (DP) of Central Depository Services Ltd (CDSL). As of March 31, 2024, SFSPL had 294 franchisees with a client base of 1.3 lakh (63,290 active clients) compared to 349 franchisees with a client base of 1.3 lakh (~56,500 active clients) as of March 31, 2023.

Key financial indicators

Sushil Financial Services Private Limited	FY2023/Mar-23	FY2024/Mar-24*
Net operating income	40.1	54.9
Profit after tax	9.1	21.1
Net worth	45.4	66.1
Total assets	229.4	342.2
Gearing (times)	0.1	0.0
Return on net worth	22.1%	37.9%

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

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)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Aug 23, 2024	Jun 26, 2023	Oct 21, 2022	Sep 10, 2021
1	**Short-term fund-based bank lines**	Short term	3.5	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**
2	**Short-term non-fund based bank lines**	Short term	70.0	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**

**As of March 31, 2024*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based bank lines	Very Simple
Short-term 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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Overdraft facilities**	NA	NA	NA	3.50	[ICRA]A3+
NA	**Bank guarantee**	NA	NA	NA	70.00	[ICRA]A3+

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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