

September 02, 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	3,500.00	4,300.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
<b>Total</b>	<b>3,500.00</b>	<b>4,300.00</b>	

\*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)<sup>1</sup>). 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 June 30, 2024, SSL's reported net worth was Rs. 1,669 crore and the gearing stood at 1.9 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 Q1 FY2025, 28% of SBI's total home loan business and 84% of its auto loan business was sourced by SSL. The company'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. It 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, the company derives significant financial flexibility due to the shared brand name, 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

<sup>1</sup> 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 42-58% while the share of broking income remains in the range of 36-43%<sup>2</sup>. Generally, the revenue mix tends to be in favour of broking income in the first half of the fiscal, given the cyclical nature of the retail lending business. Further, SSL has a presence in the third-party financial product distribution business, which accounts for 10-15% of the NOI. The presence of loan distribution income in the revenue mix provides stability to the company's revenue profile that would otherwise be dependent on capital markets, which are inherently volatile in nature.

SSL's net interest income was negligible/negative in recent years due to its largely interest-free MTF facility. However, the loss of interest income was offset by higher 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 negligible/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 {profit after tax (PAT)/NOI} of 29.6% and a return on net worth (RoNW) of 36.6% during FY2021-FY2024. Operating expenses remained relatively high (average cost-to-income ratio of more than ~60%) during FY2021-FY2024, given the cost associated with the loan distribution business. Supported by industry tailwinds, SSL reported a healthy increase in broking income in FY2024 and the momentum continued in Q1 FY2025. However, the loan distribution business moderated in the first quarter of the fiscal, given its cyclical nature. With the tepidness in the manpower-intensive loan distribution business in Q1 FY2025, operating expenses subsided during this period, supporting the overall profitability. PAT/NOI and RoNW remained strong at 34.4% and 38.9%, respectively, in Q1 FY2025.

SSL's capitalisation profile remains comfortable with adequate headroom to support growth, considering the pace of internal accruals. As on June 30, 2024, the reported net worth was Rs. 1,669 crore and the gearing stood at 1.9 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

<sup>2</sup> Period under consideration: FY2020 to FY2024. Includes broking income, depository participant charges, account opening and subscription charges

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 volume increased in FY2023 and FY2024. As of June 30, 2024, the company had a modest market share of ~0.7%, in terms of turnover, in the cash segment and 0.1%, in terms of turnover, in the derivatives segment. SSL's market share, in terms of National Stock Exchange (NSE) active clients, was 2.1% as on June 30, 2024, unchanged from March 31, 2024. However, 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. Historically, the utilisation of margins placed on exchanges has been satisfactory with the total cash<sup>3</sup> component of margins placed at exchanges amounting to ~Rs. 1,600 crore as of June 30, 2024. Outstanding borrowings of ~Rs. 2,950 crore, as of June 30, 2024, are falling due over the next three months while the company had an unencumbered cash and bank balance of Rs. 127 crore and drawable but unutilised lines of Rs. 900 crore as of June 30, 2024. Additionally, it has an MTF loan book of Rs. 3,130 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	<a href="#">Rating Methodology for Stockbroking and Allied Services</a>
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.

<sup>3</sup> Including clients' funds

As of June 30, 2024, SSL had an NSE active client base of 9,20,840. It is estimated to have a 0.7% share in the trading volumes in the cash segment and a 0.1% share in the trading volumes in the derivatives segment in Q1 FY2025. 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. 155 crore on NOI of Rs. 450 crore in Q1 FY2025. In FY2024, the company reported a PAT of Rs. 452 crore on NOI of Rs. 1,580 crore.

#### Key financial indicators (audited)

SSL	FY2023	FY2024	Q1 FY2025^
Net operating income (NOI)	1,104.3	1,580.3	450.2
Profit after tax (PAT)	308.0	452.1	154.8
Net worth	1,083.7	1,512.7	1,668.7
Total assets	1,933.8	4,853.5	5,473.8
Gearing (times)	0.4	1.7	1.9
Return on average net worth	32.7%	34.8%	38.9%

Source: SSL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; ^ Limited review

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

#### Any other information: None

#### Rating history for past three years

Current (FY2025)						Chronology of rating history for the past 3 years					
Instrument	Type	Amount Rated (Rs Crore)	Sep 02, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short Term	4300.0	[ICRA]A1+	07-MAY-2024	[ICRA]A1+	04-SEP-2023	[ICRA]A1+	21-DEC-2022	[ICRA]A1+	24-DEC-2021	[ICRA]A1+
				-	-	09-OCT-2023	[ICRA]A1+	-	-	-	-
				-	-	29-DEC-2023	[ICRA]A1+	-	-	-	-
				-	-	15-JAN-2024	[ICRA]A1+	-	-	-	-

#### Complexity level of the rated instruments

Instrument	Complexity Indicator
CP programme	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
INE212K14478	CP programme	Feb 23, 2024	8.93	Feb 21, 2025	200.0	[ICRA]A1+
INE212K14668	CP programme	May 22, 2024	8.07	Aug 21, 2024	200.0	[ICRA]A1+
INE212K14676	CP programme	Jun 07, 2024	7.97	Sep 06, 2024	100.0	[ICRA]A1+
INE212K14692	CP programme	Jun 13, 2024	7.97	Sep 12, 2024	100.0	[ICRA]A1+
INE212K14684	CP programme	Jun 14, 2024	7.97	Sep 13, 2024	375.0	[ICRA]A1+
INE212K14700	CP programme	Jun 18, 2024	7.97	Sep 17, 2024	250.0	[ICRA]A1+
INE212K14718	CP programme	Jun 19, 2024	7.97	Sep 18, 2024	100.0	[ICRA]A1+
INE212K14734	CP programme	Jun 20, 2024	7.91	Sep 19, 2024	75.0	[ICRA]A1+
INE212K14726	CP programme	Jun 21, 2024	7.91	Sep 20, 2024	325.0	[ICRA]A1+
INE212K14759	CP programme	Jun 24, 2024	7.91	Sep 23, 2024	200.0	[ICRA]A1+
INE212K14742	CP programme	Jun 25, 2024	7.91	Sep 24, 2024	100.0	[ICRA]A1+
INE212K14767	CP programme	Jul 18, 2024	7.85	Oct 17, 2024	100.0	[ICRA]A1+
INE212K14783	CP programme	Jul 23, 2024	7.85	Oct 22, 2024	100.0	[ICRA]A1+
INE212K14775	CP programme	Jul 24, 2024	7.85	Oct 23, 2024	200.0	[ICRA]A1+
INE212K14791	CP programme	Jul 26, 2024	7.85	Oct 25, 2024	200.0	[ICRA]A1+
INE212K14817	CP programme	Jul 29, 2024	7.85	Oct 28, 2024	100.0	[ICRA]A1+
INE212K14825	CP programme	Jul 30, 2024	7.85	Oct 29, 2024	100.0	[ICRA]A1+
INE212K14833	CP programme	Aug 09, 2024	7.85	Nov 08, 2024	100.0	[ICRA]A1+
INE212K14841	CP programme	Aug 12, 2024	7.85	Nov 11, 2024	200.0	[ICRA]A1+
INE212K14858	CP programme	Aug 16, 2024	7.85	Nov 14, 2024	100.0	[ICRA]A1+
-	CP programme (yet to be placed)	-	-	30-365 days	1,075.0	[ICRA]A1+

Source: SSL; Commercial paper (CP) outstanding as of August 20, 2024

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

Not applicable

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### Branches



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