

September 27, 2024

Rakhecha Securities Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank lines – Overdraft	1.00	1.00	[ICRA]BB (Stable); reaffirmed
Short-term non-fund based bank lines – Others	20.00	20.00	[ICRA]A4+; reaffirmed
Total	21.00	21.00	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in Rakhecha Securities Limited's (RSL) track record in the capital market-related business and the improvement in its profitability, aided by industry tailwinds. The company reported its highest profitability in FY2024, supported by the increase in income from the proprietary investment operations. The ratings also consider the adequate capitalisation for the current scale of operations and liquidity, with limited dependence on fund-based borrowings over the years. The ratings are, however, constrained by RSL's small scale of operations and its exposure to the evolving operating and regulatory environment, intense competition and the risks inherent in capital market-related businesses. Further, it has sizeable exposure to market risk arising from proprietary trading, notwithstanding the management's efforts to deploy hedged strategies.

The Stable outlook reflects ICRA's expectation that the company would continue to maintain an adequate financial profile. Going forward, 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, will remain critical from a credit perspective. Moreover, RSL's ability to sustain the impact of the evolving regulatory landscape and rising working capital requirements will remain imperative.

Key rating drivers and their description

Credit strengths

Track record in capital markets-related business – RSL, incorporated in 1994 by the Rakhecha family, has been engaged in capital market-related businesses for over two decades. It is primarily involved in proprietary trading operations, while it services a small client base of ~36 customers (as of March 31, 2024; these customers had been associated with the company for a fairly long period). RSL has a demonstrated track record of profitable operations across business cycles, although the share of broking revenues remains marginal. The broking operations are predominantly in the cash segment, while the proprietary trading operations were largely in the derivatives segment till FY2023. However, the company forayed into proprietary investments in the cash segment in FY2024, which resulted in a sizeable uptick in its profitability.

Adequate capitalisation for current scale of operations; improving profitability – RSL's capitalisation remains adequate for its current scale of operations, characterised by a net worth of Rs. 38.3 crore (as on March 31, 2024) and low dependence on fund-based borrowings. The on-balance sheet borrowings remain limited at Rs. 0.5 crore, although it avails non-fund based lines for its margin requirements (own as well as clients). The company reported its highest profitability in FY2024 with a profit after tax (PAT) of Rs. 9.2 crore (return on net worth (RoNW) of 27.3%) compared to Rs. 3.9 crore in FY2023 (RoNW of 14.4%), supported by the increase in income from proprietary trading operations. Healthy internal accruals, aided by industry tailwinds, have augmented RSL's net worth in recent years.

Credit challenges

Small scale of operations with no revenue diversification – RSL has a miniscule presence in the broking business, given the primary focus on proprietary trading operations. It serves a small client base of ~36 customers (as of March 31, 2024) through two branches in Bengaluru and Kolkata. The customers are largely associated with the promoter network. Thus, the company's market position in the broking segment remains marginal and broking revenues are negligible in relation to the overall profitability.

Income from proprietary trading operations is the key revenue contributor for RSL and accounts for over 90% of the net operating income (NOI) on average. Interest on fixed deposits (FD) and broking revenues account for the balance. In this regard, notwithstanding the management's efforts to hedge the risks, ICRA notes that RSL's earnings and capitalisation profile remain susceptible to market risks inherent to the investment book and trading operations. As a major share of its revenue and PAT are from proprietary trading and investment, the company's ability to manage portfolio and market risk, employ adequate hedging strategies and achieve consistent earnings from proprietary trading remains critical. Moreover, RSL's ability to achieve meaningful scale-up and revenue diversification would remain imperative 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. Further, ICRA takes note of RSL's exposure to market risk arising from proprietary trading, notwithstanding the management's efforts to deploy hedged strategies. Thus, its profitability remains dependent on the performance of the capital markets and any downturn in these markets may impact its 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. Heightened competition in the equity broking segment and the growing popularity of discount brokerage houses have led to pricing pressure in recent years. While RSL's clients have been associated with it for a fairly long period, revenues remain susceptible to competitive pressure. Moreover, securities broking companies rely heavily on technology. Thus, any technical failure or disruption can pose operational and reputational risk.

Also, given the highly regulated nature of the 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 RSL. Moreover, 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

RSL's funding requirement is mainly for placing margin at the exchanges, for which it primarily utilises sanctioned non-fund based lines (Rs. 18.75 crore) and FDs. The utilisation of margins placed with the exchanges averaged ~70-80% in FY2024. As of March 31, 2024, unencumbered on-balance sheet liquidity stood at Rs. 0.3 crore, while borrowings outstanding stood at Rs. 0.5 crore. Additionally, the company has undrawn fund-based bank lines of Rs. 1 crore, which is available as a buffer in case of any exigency.

Rating sensitivities

Positive factors – A meaningful ramp-up in the scale of operations with diversification in the revenue profile and a sustainable improvement in the profitability would be a credit positive.

Negative factors – A significant decline in the scale of operations, resulting in a deterioration in the company's financial performance, 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

Rakhecha Securities Limited (RSL), incorporated in 1994, primarily undertakes proprietary trading activities in the futures and options segment. It started proprietary investment activities in the cash segment as well in FY2024, which supported its profitability, aided by industry tailwinds. It also has a small presence in retail broking activities with operations in Bengaluru and Kolkata. The company was promoted by Mr. Rajendra Rakhecha, a first-generation entrepreneur.

On a provisional basis, RSL reported a PAT of Rs. 9.2 crore in FY2024 compared to Rs. 3.9 crore in FY2023. The net worth stood at Rs. 38.3 crore as on March 31, 2024 with low dependence on fund-based borrowings.

Key financial indicators

Rakhecha Securities Limited – Standalone	FY2023/Mar-23	FY2024/Mar-24*
Net operating income^	7.1	15.4
Profit after tax	3.9	9.2
Net worth	29.1	38.3
Total assets	29.3	43.3
Gearing (times)	0.0	0.0
Return on net worth	14.4%	27.3%

Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; * Provisional numbers; ^ Net operating income includes proprietary investment income of Rs. 14.1 crore in FY2024 and Rs. 6.0 crore in FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Sep 27, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long-term fund-based bank lines – Overdraft	Long term	1.00	[ICRA]BB (Stable)	26-Jul-2023	[ICRA]BB (Stable)	27-May-2022	[ICRA]BB (Stable)	-	-
Short-term non-fund based bank lines – Others	Short term	20.00	[ICRA]A4+	26-Jul-2023	[ICRA]A4+	27-May-2022	[ICRA]A4+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank lines – Overdraft	Simple
Short-term non-fund based bank lines – Others	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 facility	Dec 2020	11.8%	NA	1.00	[ICRA]BB (Stable)
NA	Bank guarantee-I	Dec 2020	NA	NA	15.75	[ICRA] A4+
NA	Bank guarantee-II	Jul 2018	NA	NA	3.00	[ICRA] A4+
NA	Unallocated	NA	NA	NA	1.25	[ICRA] A4+

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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