March 24, 2025

Cholamandalam Securities Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Commercial paper	250.00	250.00	[ICRA]A1+; reaffirmed
Total	**250.00**	**250.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Cholamandalam Securities Limited's (CSEC) strong parentage; it is a subsidiary of Cholamandalam Investment and Finance Company Limited (CIFCL; rated [ICRA]AA+ (Positive)/[ICRA]AA (Positive)/[ICRA]A1+). CSEC derives operational, managerial and financial support from CIFCL and the entities share a common brand name. Operationally, CSEC is able to leverage CIFCL and Murugappa Group's diverse presence and businesses for augmenting its franchise and reach. Going forward as well, ICRA expects timely capital, liquidity and other support from CIFCL and Murugappa Group, if required.

CSEC reported a strong performance in 9M FY2025, driven by healthy broking volumes during the first half of the fiscal. However, the performance started moderating from Q3 FY2025, in line with recent market trends. ICRA notes that the capital markets have cooled in recent months. Further, trading volumes have been impacted following the implementation of the index derivatives framework on November 20, 2024. While the direct impact of this framework on CSEC is restricted, given its limited presence in the derivatives segment, a reduction in the overall trading volumes could, nevertheless, moderate its near-term performance.

The rating considers CSEC's modest scale and the correspondingly limited business diversification at present. It also considers the risk arising from the inherent volatility in the company's operations, given the linkages with capital markets. The intense competition in the broking industry can have a bearing on CSEC's volumes in the broking segment, especially during market downcycles. Going forward, the company would continue to scale up its margin trading facility (MTF) book, which would lead to an increase in the leverage from the current level. CSEC's financial profile is currently moderate. It would require timely support from the parent for meeting its growth plans while keeping its leverage under control.

Key rating drivers and their description

Credit strengths

Strong parentage – CSEC was a wholly-owned subsidiary of CIFCL till March 2024. In the current fiscal year, Cholamandalam Leasing Limited (CLL; formerly known as Cholamandalam Home Finance Limited, a 100% subsidiary of CIFCL) infused Rs. 25.0 crore of equity into CSEC, acquiring an 8% stake in the company. The balance (92%) was held by CIFCL as of December 2024. CSEC is expected to derive operational, managerial and financial support from CIFCL. CSEC's board has four directors, including two from CIFCL. Operationally, CSEC derives synergies by tapping the captive customer and vendor bases of Murugappa Group. The Group's franchise and reach, coupled with its established presence across various businesses and franchises, augurs well for CSEC to execute its business plan. ICRA expects timely capital, liquidity and operational support from CIFCL and Murugappa Group, if required.

Credit challenges

Modest scale and limited diversification at present – CSEC primarily offers broking services to retail and institutional clients. It operates at a modest scale at present, with 35,770 active retail and 66 institutional clients as of December 2024. Apart from broking, it acts as a distributor of financial products. The scale-up of CSEC's operations would be modest in the near-to-medium term due to the competitive landscape and would depend on its ability to augment its client base. Its income profile is currently concentrated towards broking income, which accounted for 55% of the net operating income (NOI) in 9M FY2025, followed by MTF income (22%) and others (including distribution income; 23%).

CSEC reported a strong performance in 9M FY2025, driven by healthy broking volumes during the first half of the fiscal. However, the performance started moderating from Q3 FY2025, in line with recent market trends. ICRA notes that the capital markets have cooled in recent months. Further, trading volumes have been impacted following the implementation of the index derivatives framework on November 20, 2024. While the direct impact of this framework on CSEC is restricted, given its limited presence in the derivatives segment, a reduction in the overall trading volumes could, nevertheless, moderate its near-term performance.

CSEC's focus is on increasing its MTF book (Rs. 147.9 crore as of December 2024 and Rs. 136.5 crore as of March 2024). The revenue mix is expected to be in the 50:30:20 ratio comprising broking income, MTF income and other income, going forward.

Moderate financial risk profile; timely capital infusions required for growth plans – CSEC has a moderate earnings profile, with its modest scale constraining its operational efficiency. It recorded a profit after tax (PAT) of Rs. 8.3 crore in 9M FY2025 (PAT/NOI of 13.5% and PAT/Average net worth of 18.2%) compared to Rs. 66.9 crore in FY2024 (PAT/NOI of 59.3% and PAT/Average net worth of 141.6%) and Rs. 6.4 crore in FY2023 (PAT/NOI of 14.8% and PAT/Average net worth of 12.3%). The significant jump in the reported PAT in FY2024 was due to one-time income from insurance distribution (Rs. 51.4 crore) and a gain on the sale of investments (Rs. 22.7 crore). However, adjusting for these items, the profit remained largely range-bound. The company is currently scaling up its employee base and investing in its operating infrastructure to support the envisaged growth over the near-to-medium term. ICRA expects economies of scale to kick in, going forward, as CSEC augments its client base and increases its MTF book, which would support an improvement in its earnings profile.

CSEC's net worth stood at Rs. 77.0 crore as of December 2024 (Rs. 43.7 crore as of March 2024). Despite the healthy internal generation of Rs. 66.9 crore in FY2024, net worth accretion remained modest as sizeable dividend of Rs. 67.2 crore was declared during the year. Given its focus on the MTF segment and the anticipated scale-up, the company received a Rs. 25-crore equity infusion from CLL in 9M FY2025. However, the scale-up of the MTF book (Rs. 147.9 crore as of December 2024 vis-à-vis Rs. 136.5 crore as of March 2024) was restricted, given the weakening market conditions from Q3 FY2025. Correspondingly, CSEC's gearing moderated to 1.9 times as of December 2024 from 2.9 times as of March 2024. As its MTF book expands, the company's leverage will also increase unless adequate capital is infused. CSEC envisages maintaining a gearing of 3.0-3.5 times, going forward. CIFCL is expected to infuse capital, if required, to keep CSEC's leverage under control.

Dependence on capital markets, which are inherently volatile and cyclical in nature – CSEC's revenues and profits remain dependent on capital markets, which are inherently volatile in nature. Moreover, with increasing competition in equity broking and the advent of discount brokerage houses, the average yields for broking players have been under pressure. With the competitive intensity in the industry expected to remain high, the pressure on the industry margin is expected to continue.

Liquidity position: Adequate

In order to maintain margins at the exchanges, CSEC utilises its sanctioned non-fund based bank lines, aggregating Rs. 60 crore (backed by lien-marked fixed deposits of Rs. 30 crore), besides cash & cash equivalents, securities, and client funds. The company has placed average margins (including client's non-cash collaterals) of ~Rs. 650 crore with the exchanges during April 2024 to December 2024. As on December 31, 2024, CSEC had a current account balance of Rs. 0.1 crore and liquid investments of Rs. 36.9 crore.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A significant change in the expected level of support from CIFCL or a material deterioration in the credit risk profile of CIFCL shall impact CSEC's rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology – Stockbroking & Allied Services
Parent/Group support	The rating factors in CSEC's strong parentage as it is a subsidiary of CIFCL. It draws managerial and financial support from CIFCL, as evident from the common board member, credit lines and shared brand name.
Consolidation/Standalone	Standalone

About the company

Incorporated in 1994, Cholamandalam Securities Limited (CSEC) is a wholly-owned subsidiary of CIFCL and a part of Murugappa Group. It is a Securities and Exchange Board of India (SEBI) registered stockbroker and depository participant. The company is a member of BSE Limited and National Stock Exchange of India Limited. It is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited. CSEC offers stockbroking and depository services to retail clients and institutional investors, including mutual funds, insurance companies, etc.

CSEC was catering to 35,770 retail clients and 66 institutional clients through a network of 22 branches and 134 franchises as of December 2024. It reported a net profit of Rs. 66.9 crore on net operating income of Rs. 112.9 crore in FY2024 vis-à-vis Rs. 6.4 crore and Rs. 43.0 crore, respectively, in FY2023.

Key financial indicators (audited)

CSEC – Standalone	FY2023	FY2024	9M FY2025*
Net operating income	43.0	112.9	61.0
Profit after tax	6.4	66.9	8.3
Net worth	50.7	43.7	77.0
Total assets	169.6	367.0	353.1
Gearing (times)	1.2	2.9	1.9
Return on average net worth	12.3%	141.6%	18.2%

*Source: Company, ICRA Research; Amount in Rs. crore; *Provisional*

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					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Mar 24, 2025	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	250	[ICRA]A1+	Mar-26-2024	[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
Yet to be placed	**Commercial paper**	NA	NA	NA	160.0	[ICRA]A1+
INE04JX14074	**Commercial paper**	Dec-11-2024	8.05%	Jun-09-2025	40.0	[ICRA]A1+
INE04JX14082	**Commercial paper**	Mar-11-2025	8.12%	Jun-10-2025	50.0	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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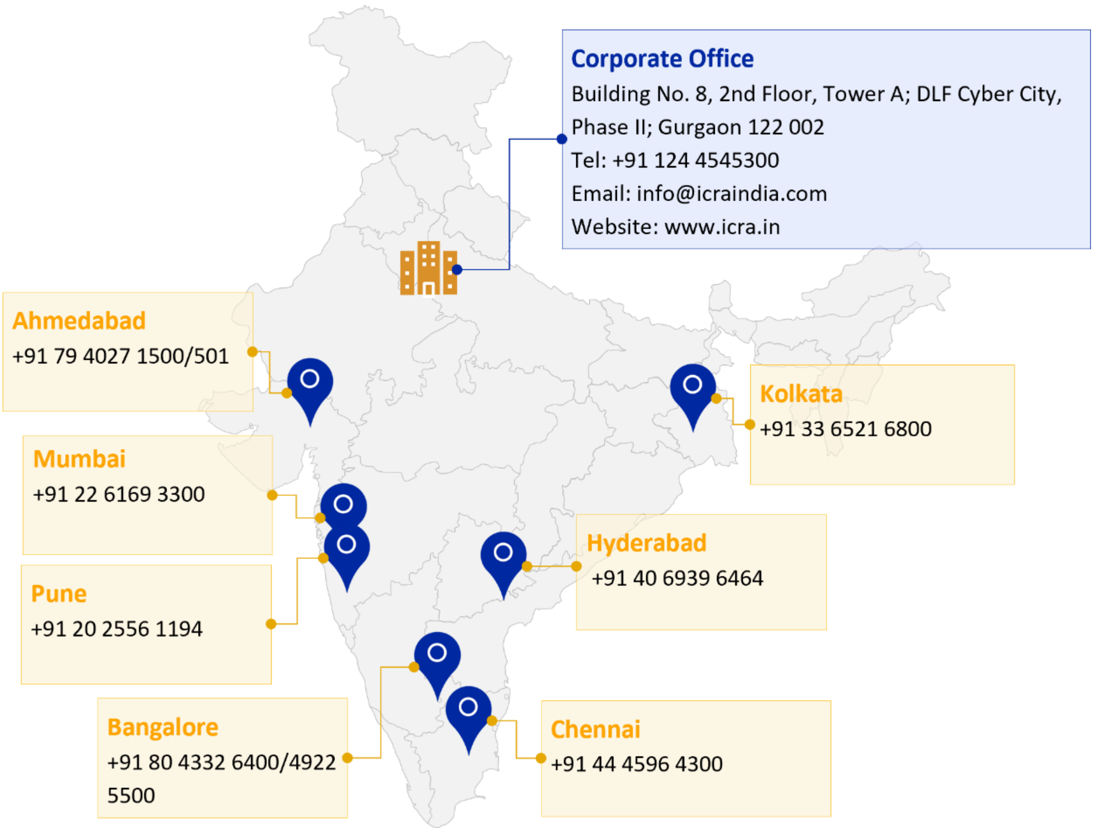

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