March 28, 2025

SBICAP Securities Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Commercial paper programme	4,300.00	4,300.00	[ICRA]A1+; reaffirmed
Total	**4,300.00**	**4,300.00**	

**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)[1]}. The rating also considers 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 strong profitability and comfortable capitalisation.

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. The company also benefits from SBI's direct supervision through its Department for Associates and Subsidiaries. It complements the bank's product offering by providing broking services to its clients and also serves as a captive sourcing (for retail loans) partner for the bank. 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 December 31, 2024, SSL's reported net worth was Rs. 1,974 crore and the gearing stood at 1.8 times. ICRA notes the management's intent to operate at a leverage of 3.0-3.5 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 volatility 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 9M FY2025, 30% of SBI's total home loan business and 85% of its auto loan business was sourced by SSL. Additionally, from FY2026, the company will distribute high-ticket education loans for the bank. 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, 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)

[1] *Basel III Tier II bonds, infrastructure bonds and fixed deposit programme are rated [ICRA]AAA (Stable) by ICRA*

from SBICAP and 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 distribution fees in the overall net operating income (NOI) has been in the range of 43-53% while the share of broking income remains in the range of 41-52%[2]. Hitherto, the revenue mix tended to be in favour of broking income in the first half of the fiscal, given the cyclical nature of the retail (auto and home) lending business. However, as the company forays into the distribution of high-ticket education loans, which tend to be concentrated in the first half of the fiscal, the skewed timing of revenue generation is expected to reduce. The presence of loan distribution income in the revenue mix provides stability to SSL's revenue profile that would have otherwise been dependent on capital markets, which are inherently volatile in nature. Further, the company has a presence in the third-party financial product distribution business, which accounts for 3-11% of the NOI.

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. Subsequently, from April 2023, SSL started charging interest on MTF facility availed for more than 30 days[3] and it reported its first-ever meaningful quarterly net interest income (Rs. 12 crore, in Q2 FY2025) after the launch of MTF. Nevertheless, it is noted that the average holding period in MTF tends to be closely linked to capital market sentiment, which is inherently volatile in nature.

Comfortable capitalisation – SSL's capitalisation profile remains comfortable with adequate headroom to support growth, considering the pace of internal accruals. As on December 31, 2024, the reported net worth was Rs. 1,974 crore and the gearing stood at 1.8 times. With the incremental growth in the MTF book being largely debt funded, the leverage may increase slightly in the medium term. In this regard, ICRA has noted the management's intent to operate at a leverage of 3.0-3.5 times in the medium term.

Strong profitability, though moderation likely due to industry headwinds – 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. The performance remained strong in 9M FY2025 as well with PAT/NOI and RoNW of 32.7% and 35.2%, respectively. While the profitability is expected to moderate from the current level due to industry headwinds, amid the evolving regulatory environment for trading activity in the derivatives segment and cautious investor sentiment, it is likely to remain healthy. The loan distribution business will continue to lend support to the overall revenue profile.

Credit challenges

Exposed to risks inherent in capital market related businesses as well as credit and market risk associated with MTF – The trading volumes and revenues of securities broking companies remain susceptible to the inherently volatile capital markets, which are cyclical in nature. Nonetheless, SSL's presence in the loan distribution business is expected to shield its overall profitability to some extent during market downturns. Further, its presence in the MTF segment 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. SSL forayed into the MTF business in FY2022 and it ramped up this book to Rs. 3,494 crore as on December 31, 2024 from Rs. 600 crore as on March 31, 2023. Herein, its ability to maintain adequate asset quality while ramping up the lending book would remain monitorable.

[2] *Period under consideration: FY2021 to 9M FY2025; includes broking income, depository participant charges, account opening and subscription charges*

[3] *Subsequently reduced to 23 days during the course of FY2024*

Elevated competition, high dependence on technology, and evolving regulatory environment – Given the highly regulated nature of the industry, brokerage houses face significant regulatory risk. Ensuring compliance with evolving regulations is crucial. Recent changes, such as uniform exchange charges, have impacted profitability, especially for discount brokers. Measures to curb exuberance in the futures & options (F&O) segment, including rationalisation of weekly index derivatives and increased margins on expiry days, are being phased in during November 2024 to April 2025. These, along with the hike in securities transaction tax, pose risks to capital market volumes and profitability, particularly for discount brokers.

The sector is also characterised by intense competition and the entry of new players, leading to pricing pressure. However, the increasing financialisation of savings offers potential for expansion. Despite this, pressure on profitability during downturns remains a concern. Additionally, reliance on technology poses operational and reputational risks, as seen with SSL's three technical glitches[4] in 10M FY2025. Maintaining uninterrupted services will be crucial for customer experience.

Liquidity position: Strong

SSL's funding requirement is primarily for placing margins at the exchanges and funding the MTF book. Margin utilisation ranged between 27% and 31% (basis month-end data) during July 2024 to December 2024, with the daily average cash margin placed on exchanges aggregating Rs. 750-890 crore during this period. Outstanding borrowings of ~Rs. 3,225 crore, as on January 31, 2025, are falling due over the next three months while the company had an unencumbered cash and bank balance of Rs. 245 crore and drawable but unutilised lines of Rs. 896 crore as on January 31, 2025. Additionally, it has an MTF loan book of Rs. 3,197 crore, which is short term in nature. SSL also enjoys financial flexibility, as a step-down 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 – A significant deterioration in the credit profile of the ultimate parent (SBI) or a significant change in the company's shareholding or linkage with the parent could lead to pressure on the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology for Stockbroking and Allied Services
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

[4] *Interruptions impacting trading for more than five minutes*

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.

As on December 31, 2024, SSL had a network of 143 own branches besides having representatives at some of the SBI branches. In the equity broking segment, it had an NSE active client base of 9,83,254, translating to a market share of ~2%. SSL is also the largest loan sourcing agent for the ultimate parent in the home and auto loan segment. Its third-party financial product distribution assets under management (AUM) was ~Rs. 2,560 crore as on December 31, 2024. The company reported a profit after tax (PAT) of Rs. 460 crore on NOI of Rs. 1,405 crore in 9M FY2025. It reported a PAT of Rs. 452 crore in FY2024 on NOI of Rs. 1,580 crore.

Key financial indicators (audited)

SSL	FY2023	FY2024	9M FY2025^
Net operating income (NOI)	1,104.3	1,580.3	1,405.4
Profit after tax (PAT)	308.0	452.1	459.7
Net worth	1,083.7	1,512.7	1,974.2
Total assets	1,933.8	4,853.5	6,034.5
Gearing (times)	0.4	1.7	1.8
Return on average net worth	32.7%	34.8%	35.2%

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					
				FY2025		FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Mar 28, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Commercial paper	Short term	4,300.0	[ICRA]A1+	May-07-2024	[ICRA]A1+	Sep-04-2023	[ICRA]A1+	Dec-21-2022	[ICRA]A1+	Dec24-2021	[ICRA]A1+
				Sep-02-24	[ICRA]A1+	Oct-09-2023	[ICRA]A1+	-	-	-	-
				-	-	Dec-29-2023	[ICRA]A1+	-	-	-	-
				-	-	Jan-15-2024	[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
INE212K14AK4	**CP programme**	Dec 23, 2024	7.67	Mar 24, 2025	400.0	[ICRA]A1+
INE212K14AJ6	**CP programme**	Dec 24, 2024	7.67	Mar 25, 2025	100.0	[ICRA]A1+
INE212K14AN8	**CP programme**	Jan 17, 2025	7.85	Mar 28, 2025	100.0	[ICRA]A1+
INE212K14AK4	**CP programme**	Jan 22, 2025	7.85	Mar 24, 2025	200.0	[ICRA]A1+
INE212K14AQ1	**CP programme**	Mar 10, 2025	7.95	Jun 09, 2025	300.0	[ICRA]A1+
INE212K14AR9	**CP programme**	Mar 11, 2025	7.95	Jun 10, 2025	200.0	[ICRA]A1+
INE212K14AS7	**CP programme**	Mar 12, 2025	7.95	Jun 11, 2025	100.0	[ICRA]A1+
INE212K14AT5	**CP programme**	Mar 13, 2025	7.95	Jun 12, 2025	200.0	[ICRA]A1+
INE212K14AW9	**CP programme**	Mar 17, 2025	7.94	Jun 16, 2025	200.0	[ICRA]A1+
INE212K14AV1	**CP programme**	Mar 18, 2025	7.94	Jun 17, 2025	200.0	[ICRA]A1+
INE212K14AU3	**CP programme**	Mar 19, 2025	7.94	Jun 18, 2025	200.0	[ICRA]A1+
INE212K14AY5	**CP programme**	Mar 20, 2025	7.95	Jun 19, 2025	150.0	[ICRA]A1+
-	**CP programme (yet to be placed)**	-	-	30-365 days	1,950.0	[ICRA]A1+

Source: SSL; Commercial paper (CP) outstanding as on March 20, 2025

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.

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