

December 04, 2017

Systematix Shares & Stocks (India) Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long term fund based bank lines	21.5	[ICRA]BBB- (stable); reaffirmed
Short term non-fund based bank lines	78.5	[ICRA]A3; reaffirmed
Total	100.00	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus) with a stable outlook for the Rs. 21.5 crore long term fund based bank lines and the rating of [ICRA]A3 (pronounced ICRA A three) for the Rs. 78.5 crore short term non-fund based bank lines of Systematix Shares & Stocks (India) Limited (SSSIL)¹.

Rationale

The reaffirmation of ratings reflects SSSIL's longstanding experience in equity broking and its proven ability to maintain broking yields in the challenging operating environment. The ratings also take into account the company's adequate risk management systems, favourable capitalisation levels for the current scale of operations, negligible gearing levels and comfortable liquidity. The ratings are, however, constrained by the company's modest scale of operations, low diversification of business revenues with operations largely focused on retail broking, and its high dependence on capital market related activities which are inherently cyclical in nature.

Key rating drivers

Credit strengths

- **Long track record of the promoter Group in equity broking** – The Systematix Group has a track record of nearly two decades in equity broking and other capital market related businesses. Prior to the incorporation of SSSIL in 1995, the promoters undertook broking activities in their personal capacity. The company draws considerably from the promoters' experience in the business. The Systematix Group, through its other companies, is also engaged in other capital market related activities such as distribution of financial products, e-broking, portfolio management services, wealth management, and commodity broking and debt syndication.
- **Adequate risk management infrastructure** – SSSIL has taken adequate measures to contain credit and market risks associated with the retail broking business, in relation to its scale of operations. The company has a centralised risk management system. SSIL assigns limits to each franchisee, client and broker based on the collateral placed (both cash and shares) and the limit utilisation is monitored continuously. The company's system driven risk management system has been effective, as demonstrated in the negligible broking losses despite the challenging economic conditions.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

- **Capitalisation and liquidity remain comfortable for the current scale of operations** – The company's capitalisation levels are comfortable with a net worth of Rs. 42 crore and negligible debt levels as of March 31, 2017. The company has a comfortable liquidity profile with moderate utilisation of the margins placed with stock exchanges (largely in the range of 70-75%), presence of unutilised bank lines (around Rs. 40 crore) and ready access to clients' share collateral that can be monetised without a significant lag.

Credit weaknesses

- **Modest scale of broking operations; dominant share of retail broking volumes** – SSIL's broking volumes increased by 31% from Rs. 23,390 crore in FY2016 to Rs. 30,672 crore in FY2017. Its market share remains low at 0.04% as on March 31, 2017 as against 0.03% as on March 31, 2016. The company is primarily focused on the retail segment, which accounted for 77% of the total volumes in FY2017. The share of retail volumes declined from 92% in FY2016 on account of a significant increase in institutional volumes to Rs. 6,925 crore in FY2017 from Rs. 1,825 crore in FY2016. The institutional segment consists of domestic mutual fund houses. SSIL has improved the quality of the research services provided to institutional clients during FY2017, which supported the volume growth.
- **Limited diversification in revenues** – SSIL's revenues remain dependent on the capital markets, which are inherently volatile in nature. The broking business accounted for 77% of the total revenues in FY2017 as against 74% in FY2016. The company also provides wealth management, portfolio management and depository services; however, the scale remains moderate. In FY2017, the company's net operating income increased by 27% to Rs. 19.48 crore from Rs. 15.31 crore in FY2016 on account of increased brokerage and fee income. The company's profitability is also moderate with PAT/ATA at 2.12% for FY2017 (0.36% for FY2016). Despite its efforts to rationalise operating expenses, the company's cost to income ratio remained high at 88.90% in FY2017 (99.07% in FY2016).
- **High intensity of competition** – With increasing competition in equity broking and the advent of discount brokerage houses, average yields for broking players have been under downward pressure. However, the low level of equity market penetration in the country with only 2% of the country's populations operating demat accounts, indicates a huge untapped potential for growth.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Rating Methodology for Brokerage Houses](#)

About the company:

Incorporated in 1995, Systematix Shares and Stocks India Limited (SSSIL) is primarily engaged in retail and institutional equity broking, and also provides wealth management and portfolio management services. SSSIL is a subsidiary of Systematix Corporate Services Limited (SCSL) and is a part of the Systematix Group which refers to the group of companies promoted and managed by Mr. C.P Khandelwal. SCSL, incorporated in 1985, is the flagship company of the Group and holds a category one merchant banking licence from the Securities and Exchange Board of India. Other companies in the Systematix Group are engaged in commodity trading, loans against shares, and corporate advisory.

In FY2017, the company reported a net profit of Rs. 1.43 crore on a total operating income of Rs. 19.48 crore as compared with a net profit of Rs. 0.23 crore on a total income of Rs. 15.31 crore in FY2016.

Key Financial Indicators

	FY2016	FY2017
Brokerage Income (net)	11.44	15.06
Net Interest Income	1.38	1.24
Other Non-Interest Income	0.91	1.61
Operating Income	15.31	19.48
Total Revenues	15.53	19.58
Total Operating Expenses	15.16	17.32
Profit Before Tax	0.37	2.08
Profit After Tax	0.23	1.43
Net Worth	40.87	42.30
Cost to Income Ratio	99.07%	88.90%
Return on Net Worth	0.56%	3.38%

Amounts in Rs. crore

Source: SSSIL; ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount	Dec-17	FY2017	FY2016	FY2015
			(Rs. crore)		Aug-16	May-15	Mar-14
1	Long term fund based bank lines	Long term	21.5	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)
2	Short term non-fund based bank lines	Short term	78.5	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No.	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
NA	Long term fund based bank lines	NA	NA	NA	21.5	[ICRA]BBB- (stable)
NA	Short term non- fund based bank lines	NA	NA	NA	78.5	[ICRA]A3

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About ICRA Limited:

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