

Sharekhan Limited

Instrument/Facility	Amount in INR Crores	Rating Action (May 2016)
Short Term Debt Programme	500.00	[ICRA]A1+ Reaffirmed

ICRA has reaffirmed the rating of [ICRA]A1+ to the Rs 500 Crores Short term Debt Programme of Sharekhan Limited (SKL) ¹. The rating factors in SKL's strong presence on the retail equity broking space with a large customer base and strong online broking model, experienced senior management team, low gearing, large amount of cash balances, strong capitalization levels for the current scale of operations, strong asset quality indicators and implementation of adequate risk management & operational systems. In August 2015, the shareholders of the Company have entered into an agreement with BNP Paribas SA (BNPP)² for sale of their stake to BNPP. The acquisition is subject to regulatory approvals. The rating further considers SKL's concentration on retail broking and its limited footprint in other ancillary capital market related businesses. The rating, at the current level, reflects SKL's relative positioning with other ICRA-rated capital market entities.

SKL continues to hold a strong position in the retail broking space with a network of 153 owned branches and 2,229 franchisee servicing around 13 lakh retail clients as on December 31, 2015. The main business activity of the company is retail share broking –in equity, commodity and currency segments with a very small presence in portfolio management services, arbitrage trading and in the distribution of financial services products. For FY2015, equity broking income accounted for 60% of the total revenues of the company. The other prominent sources of income for the company include – net interest income (13%), trading income (13%), income from depository services (4%) and dividend income from investment portfolio (1%).

During FY2015, SKL's broking turnover rose by 51% YoY to Rs. 12.22 lakh Crores from Rs. 8.11 lakh Crores in FY2014. The volume mix shifted marginally in favour of the cash segment to 17% in FY2015 (from 15% in FY2014) thereby enabling aggregate yields to inch up to 2.62 bps (from 2.38 bps in FY2014) during the year. In 9MFY2016, the reported volumes, on an annualized basis, have remained flat when compared to FY2015. Some moderation in yields was, however, seen in the cash segment because of which the blended yields softened to 2.46 bps.

Supported primarily by increase in net broking income, the operating income of SKL grew by 49% to Rs. 409 Crores in FY2015 from Rs. 274 Crores in FY2014. On the operational front, the company reduced its branch count to 156 (as on Mar-15) from 159 (as on Mar-14) however the employee count was increased to better leverage the existing branches and to strengthen its sales capabilities. Consequently, SKL's operating expenses rose (as a % of Average Total Assets) to 14.9% from 12.8% in FY2014. With expenses growing at a much slower pace, SKL capitalized on its operational leverage to report a robust growth of ~82% YoY in its net profits as PAT inched up to Rs. 152 Crores (RoE of 17.7%) in FY2015 from Rs. 84 Crores (RoE of 11.8%) in FY2014).

SKL's liquidity profile is comfortable with negligible external borrowing, a comfortable net worth of ~Rs 859 Crores (excluding convertible debentures amount to Rs. 335.1 Crores) as on March 31, 2015 which is sufficient for its current scale of operations. Also, it has high margins placed with stock exchanges, ready access to assets that can be monetised within a short time and large cash reserves on its balance sheet. SKL meets the margin requirement at the exchange houses through bank guarantees and has adequate cushion available in the form of un-utilised bank lines.

Company Profile Sharekhan Limited

SKL was initially setup by the Morakhia family which had been in the equity broking business for decades. Till March 31, 2007, Morakhia family owned 43.58% stakes in SKL and the balance primarily held by three venture capital firms namely HSBC Private Equity India Fund Ltd.(14.56%) held directly and through its affiliates, GA Global Investments Ltd (22.76%) and Intel Pacific Inc. (5.83%). During August 2007, promoters and the Private Equity (PE) players exited SKL and other PE players, namely CVC and Samara Capital (India "B" Holdings Mauritius) picked up their stakes along with preference capital of Rs 51 Crores (convertible to equity shares on

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

² Rated at A1/P-1 with a Stable Outlook (Long Term Rating/Short Term Rating) by Moody's

or before August 18, 2017). CVC, Samara Capital (India “B” Holdings Mauritius) and IDFC also infused fresh capital of Rs 200 Crores in August 2007, which was again followed by a further infusion of Rs.135 Crores by CVC, Baring Asia Private Equity Fund and IDFC in the form of Fully Convertible Debentures. Additionally, in May 2008 the company issued another round of fully convertible debentures to the extent of Rs. 2.6 Crores to Non-Promoter investors. In H1FY2016, it was announced that SKL would be acquired by BNP Paribas S.A. (France) with the bank expected to take 100% stake in the firm, subject to appropriate regulatory approvals. The main business activity of the company is retail share broking with small presence in the portfolio management services, arbitrage trading and in the distribution of mutual fund products.

SKL, on a standalone basis, booked net profit after tax of Rs. 152.20 Crores on a Total Operating Income³ of Rs. 409 Crores in FY2015 as compared to a net profit of Rs. 83.80 Crores on a total operating income of Rs. 274 Crores in FY2014.

Recent Results

During H1FY2016, SKL (standalone) reported a net profit after tax of Rs. 62.8 Crores on a total income base of Rs. 268.1 Crores.

May 2016

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³ Total Operating Income excludes trading income

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