

Kotak Securities Limited

Instrument	Amount	Rating Action (August 2016)
Long term debt programme	Rs 50 crore	[ICRA]AAA (stable) / reaffirmed
Short term debt programme	Rs. 1000 crore	[ICRA]A1+ / reaffirmed

ICRA has reaffirmed the long-term rating assigned to the Rs 50 crore long term debt programme of Kotak Securities Limited (KSL or 'the company') at [ICRA]AAA (pronounced ICRA triple A) with stable outlook. ICRA has also re-affirmed the [ICRA]A1+ (pronounced as ICRA A one plus) to the Rs1000 crore short term debt programme of Kotak Securities Limited (KSL).

The ratings for KSL are also supported by its continued strong presence in retail equity broking segment and the online broking segment, comfortable capitalization levels, comfortable liquidity profile, negligible leverage levels and sound risk management systems deployed by the company, increasing operational synergies with the group companies and groups' favorable experience in capital market related activities in addition to the high financial flexibility enjoyed by KSL by virtue of it being 100% subsidiary of Kotak Group.

Going forward, KSL's rating would be sensitive to its parent Kotak Bank's rating given the strong business and operational linkages amongst the Kotak group companies. KSL's rating would also be sensitive to its ability to maintain and improve its market position and profitability and maintain comfortable asset quality indicators through the economic swings.

In much of FY15 and FY16, favourable capital markets attracted strong participation into the Indian equities segment. Average Daily Volumes (ADV) declined by ~10% in FY16 to Rs 3.01 trillion when compared to FY15 levels. However, in general buoyancy in the Indian equities segment was led by ~ 49% increase in retail participation. KSL is one of the very few players in the country with strong footprint in both the retail broking as well as institutional brokerage segments. Consequently, KSL's market share which declined to 1.9% in FY15 recovered to 2.2% in FY16. While KSL's overall equities broking market share improved substantially over the period, the company was able to defend its cash volumes market share leading to substantial increase in its overall equities brokerage revenue which was reported at Rs 515 crore in FY16 when compared to Rs 545 crore in FY15 and Rs 312 crore in FY14, representing an increase of more than 65%. In the opinion of the analysts, KSL's footprint remains strong in the Indian capital markets space and its market share could continue to remain at elevated levels over the near to medium term on account of its competence in both retail as well as institutional broking.

KSL's borrowings remain at extremely low levels. Overall net worth as at Mar'16 was in excess of Rs 2600 crore while the overall borrowings was only Rs 104 crore. Broking business being largely a fee earning business requires relatively lower capital when compared to NBFC business. Thereby KSL retains significant cash and investible surpluses on its balance sheet leading to strong interest income. KSL's NII increased to Rs 245 crore in FY16 when compared to Rs 231 crore in FY15 and Rs 197 crore in FY14. In the opinion of the analysts, KSL's balance sheet remains strong and requirement of capital will remain muted over the near to medium term.

KSL continued to add clientele in FY16. Thereby its operating expenses increased significantly in FY16 and its overall cost-income ratio increased to 68% in FY16 as compared to 57% in FY15. Overall, KSL's PAT for FY16 was reported at Rs 251 crore when compared to Rs 290 crore for FY15. RoE was reported at ~10% for FY16, representing a decline from 13% seen in FY15.

Company Profile

Kotak Securities Limited

KSL is a 100 per cent subsidiary of the Kotak Group (74.99% held by Kotak Mahindra Bank and 25.01% held by Kotak Mahindra Capital Company). The main business activities of the company include share broking (retail and institutional), portfolio management services and distribution of third party products such as equity public offerings, mutual funds, fixed deposits etc.

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