



Bonanza Portfolio Limited

Instrument	Amount (in INR Crores)	Rating Action
		May 2014
Short term Non-Fund Based Bank facilities	300.00	[ICRA]A2 Reaffirmed
Short term Fund Based Bank Facilities	200.00	[ICRA]A2 Reaffirmed

ICRA has reaffirmed [ICRA]A2 (pronounced ICRA A two) rating^{*} to the Rs 300 Crore short term non fund based bank facilities and Rs 200 Crore short term fund based bank facilities of Bonanza Portfolio Limited (BPL).

The rating considers the combined financials and business profiles of Bonanza group companies, which are involved in capital market related activities. The rating takes into account the group's long experience in equity broking business, strong retail franchisee, diversification into commodity broking, comfortable capitalization & liquidity levels and adequate risk management systems deployed by the company for its broking operations. However, the rating is constrained by the company's small presence in equity broking, decline in profitability on account of increasing competition and decreasing brokerage yields. The rating also factors in the relatively low diversification of the group's business revenues which remain concentrated on broking and arbitrage trading and the relatively higher operating costs of the company. However, ICRA has taken note of the diversification within the broking business with the scaling up of commodities and currency broking business; and the focus on improving operating efficiency. Further, ICRA expects domestic brokerage revenue pool to expand further in the year in FY2015 if the heightened activity levels seen in latter half of FY2014 were to continue. The ratings at the current level also reflect BPL's relative positioning with other ICRA-rated brokerage houses.

Incorporated in January 1994, BPL continues to remain primarily a retail broking player with marginal presence in the institutional equity broking segment. As on September 30, 2013 BPL provided broking services to approximately 3.5 lakh clients via 216 branches and 1542 franchisees vis-à-vis 3.4 lakh clients via 219 branches and 1563 franchisees as on March 31, 2013. With a ~30% rise in the retail F&O turnover, BPL experienced a rise in its market share from 1.36% in FY2012 to 1.45% in FY2013. However, due to lower yields rise in volume failed to translate into higher brokerage income as overall yields slid from 1.02 bps in FY2012 to 0.58 bps in FY2013. In H1FY2014, the company reported a 51%[†] decline in the overall equity turnover led by the decline of 55%[†] in the F&O segment. As a result, BPL's market share dropped sharply to 0.57% as on September 30, 2013. However, there has been a surge in activity in the capital markets industry in Q4FY14. Retail participation saw an increase in the latter part of the year FY14. If the heightened activity levels were to continue into FY15 bringing in more retail participation, ICRA expects the domestic brokerage revenue pool to expand further in the year and hence at par if not better than FY 14 for the industry. Further, a stable government may go a long way in bringing back investor confidence and thus improving the investment climate.

During FY2013, commodity broking turnover dipped by 15%. Further, with the decline in yields from 1.40 bps in FY2012 to 1.22 bps in FY2013, gross broking income declined from Rs. 50.33 Crores to Rs. 42.83 during the same period. As a result of the introduction of the Commodities Transaction Tax and the impact of the NSEL crisis, in H1FY2014, the company did not see much traction in commodity broking space.

During FY2013, operating income for BPL declined by about 10% on a consolidated basis to Rs. 126.39 Crores as compared to Rs. 140.53 Crores in FY2012 primarily due to shrinkage in net broking income with the deterioration in capital market conditions. BPL reported a net profit after tax of Rs. 4.48 Crores in FY2013 as compared to Rs. 8.03 Crores in FY2012. For H1FY2014, as per the provisional financial statements, the company reported a net profit after tax of Rs 2.22 Crores on a total operating income of Rs. 56.39 Crores.

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

† On an annualized basis



BPL has deployed adequate risk management systems for the retail segment, which is expected to mitigate the credit risk, market risk and operational risk associated with the equity broking and margin funding business. The liquidity profile remains comfortable with adequate networth of Rs 108.30 Crores as on Sep 30, 2013, partially utilized bank lines, high margins placed with stock exchanges and ready access to client's assets (backed by share collateral) that can be monetized within a very short time. The liquid nature of the arbitrage trading book also provides additional support to the liquidity profile of BPL. The liquid nature of the trading book also provides additional support to the group's liquidity profile. The comfortable liquidity profile is however partly offset by the high debtor levels of the entity.

PARENT PROFILE

Bonanza Portfolio Limited

Bonanza Portfolio Limited was founded in 1994 by five first generation entrepreneurs. It is currently engaged in various capital market related activities like retail equity broking, institutional equity broking, commodity broking, depository operations, portfolio management services, distribution of financial products and margin funding. BPL is a member of BSE – Cash, NSE – Cash and F&O, OTCEI and a depository participant at NSDL & CDSL. BPL, through its subsidiaries and group companies – “Bonanza Commodity Brokers Limited”, “Bonanza Global DMCC”, “Sunglow Fininvest Limited” and “Bonanza Insurance Brokers Limited” – is engaged in commodity trading, margin funding business and insurance broking respectively. Total holding of promoters in the company stood at 83.57% as on March 31, 2013 post 11.66% stake dilution to Gaja Capital Partners in December 2007.

For FY2013, on a consolidated basis, BPL booked a net profit after tax of Rs 4.48 Crores on a total operating income[‡] of Rs 126.39 Crores as compared to a net profit after tax of Rs 8.03 Crores on a total operating income of Rs 140.53 Crores for FY2012. As on 31st March 2013, BPL had an asset base of Rs 453.98 Crores.

Recent Results

For H1FY2014, as per the provisional financial statements, the company reported a net profit after tax of Rs 2.22 Crores on a total operating income of Rs. 56.39 Crores.

May 2014

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[‡] Excludes Trading Income

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