

April 28, 2017

Sharekhan Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Short term debt programme	500.00	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the rating of [ICRA]A1+ for the Rs. 500 crore short term debt programme of Sharekhan Limited (SKL).

Rationale

While arriving at the rating, ICRA has taken a consolidated view of the Sharekhan group. The rating factors in SKL's longstanding experience in the equity broking business with a large customer base and strong online broking model, its experienced senior management team, low gearing, large cash balances, strong capitalization levels for the current scale of operations, strong asset quality indicators and implementation of adequate risk management & operational systems. SKL has discontinued all proprietary trading activities since its acquisition by BNP Paribas SA (BNPP) which further de-risks their business in ICRA's opinion. 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.

Credit Strengths

- Longstanding experience of the group in capital markets, with a strong presence in retail broking
- Seasoned top management team with considerable experience and expertise in the capital market space
- Strong online franchisee allows its pricing power to be higher than that of the industry. Also client servicing costs are lower in the online model
- ~14 lakh customers and a considerable market share in the equity broking business
- Franchisee-based business model that keeps the cost structure flexible
- Strong capitalization levels relative to size of activity. Consolidated net worth of the company stood at Rs. 1,110 crore as on March 31, 2016

Credit Challenges

- Discontinuation of proprietary trading, albeit reduces business risk, would also lead to a moderation in profitability of the company in the short to medium term
- Compression of broking margins could put pressure on overall profitability of the group
- Lack of diversification in business streams which remain predominantly dependent on retail participation in capital markets. Retail participation has been low over the last few years ensuring pressure on profitability. Almost negligible presence in institutional broking or other capital market related activities

Description of key rating drivers highlighted above:

SKL continues to hold a strong position in the retail broking space with ~14 lakh retail clients as on December 31, 2016. The main business activity of the company is retail equity broking with a small presence in portfolio management services and in the distribution of financial products. For FY2016, on a consolidated basis, equity broking income accounted for 63% of the total revenues of the company. The other prominent sources of income for the company include – net interest income (19%), trading income (11%), income from depository services (3%) and miscellaneous income (4%).

On a consolidated level, SKL's net operating income decreased by 4% in FY2016 to Rs. 547 crore from Rs. 570 crore in FY2015, mainly on account of decrease in broking income due to moderation of yields and decrease in dividend income. With moderation in the branch count during FY2016, SKL's operating expenses (as a % of Average Total Assets) decreased to 18.50% for FY2016 as compared to 19.65% for FY2015. The pace of decrease of expenses was slower than the decrease of operating income which resulted in the decline in PAT to Rs. 145 crore for FY2016 as compared to Rs. 181 crore for FY2015. Similarly, net profits as % of Average Total Assets (ATA) decreased to 6.90% in FY2016 vis-a-vis 9.23% in FY2015.

SKL's liquidity profile is comfortable with low external borrowings, comfortable consolidated net worth of ~Rs 1,110 crore (excluding convertible debentures amount to Rs. 335.1 crore) as on March 31, 2016 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.

Analytical approach:

For arriving at the ratings, ICRA has taken a consolidated view of Sharekhan Financial Services Private Limited along with its group companies.

Links to applicable Criteria:

[Rating Methodology for Brokerage Houses](#)

[Financial Consolidation and Rating Approach](#)

Company Profile**Sharekhan Limited**

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 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 FY2016, SKL was acquired by BNP Paribas S.A. (France) with the bank taking a 100% stake in the firm. The main business activity of the company is retail share broking with small presence in the portfolio management services and in the distribution of mutual fund products.

SKL, on a standalone basis, reported a net profit of Rs. 120.60 crore in FY2016 as compared to a net profit of Rs. 152.20 crore in FY2015 while on a consolidated basis, SKL reported a net profit of Rs. 145.40 crore during FY2016 as compared to a net profit of Rs. 181.20 crore during FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	April 2017	FY2017	FY2016	FY2015
					May 2016	April 2015	April 2014
1	Short Term Debt Programme	Short Term	500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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
Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
Bank line	-	MCLR + (0.5% - 2%)	-	350.00	[ICRA]A1+
Unallocated	-	-	-	150.00	[ICRA]A1+

Source: Company



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About ICRA Limited:

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