



## East India Securities Limited

### RATING HISTORY

|                                 | Amount Outstanding | Maturity Date | Rating Outstanding | Previous Ratings |      |
|---------------------------------|--------------------|---------------|--------------------|------------------|------|
|                                 |                    |               | <b>August 2010</b> |                  |      |
| Non fund based bank lines       | Rs. 50 crores      |               | A2                 | N.A.             | N.A. |
| Proposed Interchangeable Limits | Rs. 25 crores      |               | LBBB+ (Stable)/ A2 | N.A.             | N.A. |

ICRA has assigned A2 rating to the Rs. 50 crores<sup>1</sup> non-fund based bank lines and LBBB+ with stable outlook/A2 ratings to the proposed Rs. 25 crores of long term fund based/ short term non-fund based (interchangeable limits) of East India Securities Limited (EISL)<sup>†</sup>. The rating factors in group's long experience in arbitrage trading business, adequacy of the risk management systems deployed, low operating cost structure, low gearing, comfortable capitalisation level and liquidity profile of the company. The rating is constrained by the company's prime dependence on arbitrage trading business with low diversification of the business revenues, small presence in retail equity broking with declining market share, regional presence with the company mainly operating out of Kolkata. The rating at the current level reflects EGFSL's relative positioning with other ICRA rated brokerage houses.

Incorporated in 1995 by Agarwal family, East India Securities Limited is primarily involved in arbitrage trading activities with a small presence in other activities like retail broking, institutional broking, commodity broking, currency broking, clearing and depository operations. Despite being present for more than a decade, the company remains dependent on arbitrage trading business for most of its revenue coming from arbitrage trading (close to 47% in FY09-10) and remaining comes from net interest income (26%) on fixed deposits placed with exchange houses & banks, equity broking (21%) and others. However, within arbitrage trading, the company has diversified its presence into various segments like equities, commodities and currency derivatives. Going forward, the company plans to scale its institutional broking presence while cautiously growing its retail presence. ICRA believes scaling up of other line of businesses may have a positive impact on the revenue profile of the company, however, it may take some time for the company to achieve scale in other line of business and expect the company to continue to remain dependent on arbitrage broking in near future.

Owing to fewer arbitrage opportunities available in the market coupled with decline in average yields and also due to impact of Securities Transaction Tax (STT), EISL's arbitrage trading profit declined to 12.38 crores in FY09-10 as compared to 23.58 crores in FY08-09 and Rs. 70.99 crores in FY07-08. During FY09-10, on an average basis approximately ~Rs. 120 crores of funds was engaged into arbitrage trading activities. The company has ~100 professional dealers as on date and allocates funds to them based on their experience and performance. The company also has developed internal software for algorithmic trading for carrying out complex F&O strategies and is gradually moving its arbitrage operations to algorithmic trading platform. Going forward, the company has plans to scale up this line of business by setting up another 30,000 square feet office in Kolkata.

In terms of other business operations, EISL has a small presence in retail equity broking with a network of 15 company owned branches and 5 branches servicing a clientele of close to 1000 active clients as on date. The company also provides clearing services to 25-30 brokers as on date. The company's operations remains primarily concentrated in Kolkata with 12 of the company owned branches are in Kolkata and remaining is in Siliguri, Ahmedabad and Mumbai. On account of competition from other larger players and also due to the risk involved in this line of business, the company has been cautiously expanding this line of business. The company also has a negligible presence in institutional broking as on date but plans to expand its team size in institutional broking to scale up this line of business in future.

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions please refer to ICRA's Website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.



EISL's client equity broking market share has declined from 0.69% in FY08-09 to 0.06% in FY09-10 due to one of the group company registered as a client with the company earlier has taken a separate exchange membership and also due to the company losing one large sub-broker in February 2009 which impacted the client turnover of the company and consequently, its clients' equity broking market share. Also, on account of impact of STT and fewer arbitrage opportunities available in the market, EISL's total equity market share (including the proprietary trading volume) at NSE & BSE has declined to 0.59% in FY09-10 from 1.39% in FY08-09 and 1.72% in FY07-08. However, with the company shifting a part of its arbitrage operations in the currency segment, the company enjoys a significant market share of 14.76% in currency derivative segment (combined turnover at NSE and MCX-SX) in FY09-10.

Despite improvement in operating environment, EISL reported operating revenue of Rs. 14.23 crores in FY09-10 (almost the same level as in FY08-09) on account of decline in net broking income due to company's small retail broking presence partly offset by higher net interest income on fixed deposits placed with exchange houses and banks. Operating expenses of the company increases by 15% to Rs. 12.33 crores in FY09-10 mainly on account of increase in employee expenses and also due to other expenses incurred in scaling the infrastructure of the company. However, operating cost for the company still remains lower than the peers primarily on account of limited fixed overheads related to company owned branches and also due to the company mainly operating out of Kolkata where the employee and operational cost are lower as compared to other metros. Also, with lower support from trading income of Rs. 12.38 crores (Rs. 23.58 crores in FY08-09), EISL reported a net profit, after tax, of Rs 9.43 crores in FY09-10 as compared to a net profit of Rs. 9.76 crores in FY08-09. Going forward, despite challenging market conditions for the arbitrage trading business and also due to the gestation time in scaling other line of business like institutional broking, ICRA expect the company to continue to maintain its profitability at the current level mainly supported by the variable operating cost structure of the company.

EISL has taken adequate steps to mitigate the credit risks, market risks and operational risk associated with the arbitrage trading business. EISL has deployed centralised risk management systems for its current scale of operations with trading only in liquid stocks, limits assigned to the individual dealers, constant monitoring on dealer's position, and ensuring that the dealers don't keep any open positions. While the credit risk remains relatively low on arbitrage trading, in ICRA's view, EISL's business model is exposed to the market risk and the operational risk associated with this line of business and going forward, in ICRA's view, EISL may continue to scale up its risk management systems in line with the growing scale of operations of the company.

Asset liability profile of the company also remains comfortable with adequate network for the current scale of operations, negligible debt levels, maintenance of adequate bank lines and liquid nature of the arbitrage trading book where the company has the flexibility to square-off its position in a short time frame to meet any liquidity requirement. The company also maintains an average investment in liquid mutual funds of close to Rs. 40-50 crore which further supports to the liquidity profile of the company. Also, on balance sheet gearing level remains almost nil for the company for the last few years, however, adjusted for the bank guarantees, gearing still remain low at 0.16 times as on March 31, 2010.

#### **Company Profile**

East India Securities Limited, incorporated in 1995, is clearing and Trading Member in Capital Market, Derivatives Market and Currency Market of National Stock Exchange. It is also clearing and Trading Member in Capital Market and Derivative Market of Bombay Stock Exchange Ltd. It is clearing and Trading Member of Currency Derivative Segment of MCX Stock Exchange Ltd. East India Securities Ltd is also the Depository Participant having membership with NSDL and CDSL.

On a standalone basis, the company has reported a net profit of Rs. 9.43 crores on a total income of Rs. 27.09 cores and had an asset base of Rs. 213.87 crores as on March 31, 2010 as compared to a net profit of Rs. 9.76 crores on a total income of Rs. 39.15 crores and an asset base of Rs. 203.19 crores for the year ending March 31, 2009.

**August 2010**



| Key Financials – East India Securities Limited (Standalone) | Units  | Mar-10 | Mar-09 | Mar-08 |
|---|--------|--------|--------|--------|
| Number of months  | Months | 12     | 12     | 12     |
| Brokerage income (net)                                      | Crores | 5.66   | 6.25   | 11.51  |
| Total Revenues  | Crores | 27.09  | 39.15  | 90.26  |
| Adjusted Profit After Tax                                   | Crores | 9.43   | 9.76   | 55.05  |
| Networth  | Crores | 150.79 | 141.37 | 131.61 |
| Minority Interest   | Crores | 0.00   | 0.00   | 0.00   |
| Cost to Income Ratio  | %      | 86.63% | 74.08% | 56.46% |
| Adjusted Profit After Tax / (Net Worth + Minority Interest) | %      | 6.25%  | 6.90%  | 41.83% |
| Debt / (Net Worth + Minority Interest)                      | Times  | 0.00   | 0.00   | 0.00   |

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