

November 02, 2017

Sharekhan Financial Services Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial paper programme (for IPO financing)	2,000.00 (enhanced from 1,000)	[ICRA]A1+; assigned/outstanding
Commercial paper programme/short term debt programme	1,000.00	[ICRA]A1+; outstanding
Total	3,000.00	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 2,000 crore¹ (enhanced from Rs. 1,000 crore) commercial paper programme (for IPO financing) of Sharekhan Financial Services Private Limited (SFSPL)².

ICRA also has a rating of [ICRA]A1+ outstanding for the Rs. 1,000 crore commercial paper /short term debt programme of SFSPL.

Rationale

The assigned rating favourably factors in the strong parentage of SFSPL by virtue of being a wholly owned subsidiary of Sharekhan Limited (SKL) and the strategic importance of SFSPL to the Sharekhan group for undertaking its margin funding and loan against shares (LAS) business. The rating also takes into account SKL's longstanding experience in the equity broking business with a large customer base, strong online broking model and its experienced senior management team. The rating also factors in the SFSPL's strong capitalization levels for the current scale of operations, favourable liquidity profile, and presence of adequate risk management and operational systems. SKL has discontinued all proprietary trading activities since its acquisition by BNP Paribas SA (BNPP) which de-risks the business of the group in ICRA's opinion. The rating further considers the groups concentration on retail broking and its limited footprint in other ancillary capital market related businesses. Going forward, SFSPL's rating would be linked to the operational performance of SKL and would remain sensitive to its ability to maintain its standalone asset quality and profitability metrics.

Key rating drivers

Credit Strengths

- **Longstanding experience of the group in capital markets, with a strong presence in retail broking** –Sharekhan Limited (SKL), which holds the entire equity stake in SFSPL, has considerable experience in equity broking space and is one of the largest retail equity broking players in the Indian markets. As on March 31, 2017, SKL had over 14 lakh retail clients. While the main business activity of the company is retail equity broking, it also has a small presence in portfolio management services and in the distribution of financial products. Given the large retail footprint of SKL, ICRA expects SFSPL to accrue operational benefits from SKL in terms of ready access to clients and operational and managerial support.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

- **Strategic importance to the group by virtue of being the NBFC arm of the well-established broking business; strong risk management systems** –SFSPL complements the broking entity by providing margin funding facility to the clients of SKL. The presence of a common management team and shared infrastructure further strengthens the operations of the company. The company is mainly engaged in margin funding, loan against shares and employee stock options (ESOP) funding. SFSPL provides funding upto 50% of the share pledged as collateral by the client with price of the underlying monitored on a daily basis. In case of margin shortfalls, the clients are requested to fund the difference or square off their position.
- **Sharing of strong franchisee and online network support operating margins** - SKL is amongst the largest retail broking housing in the domestic broking landscape, with over 14 lakh customers. The company has over 2,200 franchisees as on March 31, 2017 and considerable online presence. The client acquisition costs for SFSPL are thus lower which thus supports the good operating margins of the company.
- **Adequate capitalization levels for current scale of operations and comfortable liquidity position**
 - The company remains adequately capitalized as on March 31, 2017 with a net worth of Rs. 468.73 crore and a CRAR of 142.83% following a significant equity infusion of Rs. 334 crore in FY2017. The average tenure of the loans for SFSPL is less than a year and hence it is financed through commercial papers. The current liquidity position of the company remains comfortable with significant cash balance however, as the company increases its leverage, it would have to tie up credit facilities from financial institutions.

Credit Challenges

- **Lack of diversification in business streams** – The operations of the company remains predominantly dependent on retail participation in capital markets. The group has limited presence in institutional broking and other capital market related activities.
- **Highly dependent on capital markets** - Any adverse event in the capital markets could lead to erosion in value of underlying collateral stocks and would lead to loan call backs which would adversely affect their financial performance.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

[ICRA's Approach for Rating Commercial Papers](#)

Company Profile

Sharekhan Financial Services Private Limited

Sharekhan Financial Services Private Limited (SFSPL) is 100% subsidiary company of Sharekhan Limited and is registered with Reserve Bank of India (RBI) as Non Banking Financial Company (NBFC) and is floated with the objective to advance loans/finances to retail clients under various schemes normally known as Loan against Shares, Initial Public Offer (IPO), Further Public Offer, Rights Issue, New Fund Offer, Employee Stock Option Scheme (ESOP)/Employee Stock Purchase Schemes (ESPS) schemes, issues of bonds and other financial products and the Company also registered with Insurance Regulatory and Development Authority of India (IRDA) as Corporate Agent-Life.

SFSPL booked net profit after tax of Rs. 14.62 crore on a total operating income³ of Rs. 26.41 crore in FY2017 as compared to a net profit of Rs. 12.51 crore on a total operating income of Rs. 20.51 crore in FY2016.

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. 75.10 crore on a total income of Rs. 512.80 crore in FY2017 as compared to a net profit of Rs. 120.60 crore on a total income of Rs. 455.50 crore in FY2016.

Key Financial Indicators (Audited)

	FY2016	FY2017
Total income	37.79	37.00
Profit after tax	12.51	14.62
Networth	120.51	468.73
Total managed portfolio	245.90	218.61
Total managed assets	248.99	746.32
Return on managed assets	4.25%	2.94%
Return on equity	10.95%	4.96%
Gearing (times)	1.04	0.58
Gross NPA	0.00%	0.00%
Net NPA	0.00%	0.00%
Capital adequacy ratio (times)	-	142.83%

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

³ Total Operating Income excludes trading income

Rating History for last three years:
Table:

Sr. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years							
		Type	Amount rated (Rs. crore)	Nov-17	FY2018						FY17	FY16
					Oct-17	Sep-17	Jul-17	Jun-17	May-17	Apr-17		
1.	Commercial Paper Programme (IPO financing)	Short Term	2,000 (enhanced from 1,000)	[ICRA] A1+ assigned	[ICRA] A1+ assigned	-	-	-	-	-	-	-
3.	Commercial Paper	Short Term	1,000	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+ assigned	-	-

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
Commercial Paper (for IPO financing)	NA*	NA*	NA*	2,000.00	[ICRA]A1+
Commercial paper/Short Term Debt	NA*	NA*	7-365 days	1,000.00	[ICRA]A1+

**Yet to be placed*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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