

## Stock Holding Corporation of India Limited <sup>Revised</sup>

April 05, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term Bank Lines	2,225.00	2,225.00	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>2,225.00</b>	<b>2,225.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 2,225-crore<sup>1</sup> short term bank lines of Stock Holding Corporation of India Limited (Stock Holding or the company).

### Rationale

The rating factors in the long track record and established market position of Stock Holding in custodial, depository services and other capital market related businesses, its experienced senior management team and strong risk management systems and processes. The rating also takes into account the company's diverse revenue streams, and its favourable financial profile as reflected by healthy profitability and comfortable capitalisation with negligible gearing. While reaffirming the rating, ICRA has taken note of the company's dependence on the domestic capital markets, which are inherently sensitive in nature, particularly for the depository and professional clearing service segments as well as the intense competition in the industry with a few large brokerage houses becoming self-clearing members and increasing their presence in the custodial and capital market operations. The gradual ramp-up of the non-capital market related business, however, provides some comfort. While reaffirming the rating ICRA has taken note of the subdued credit profile of IFCI Limited (IFCI), one of company's promoters. However, the limited operational and financial transactions between the company and IFCI provides comfort. The company's ability to scale up its operations while further diversifying its revenue stream and maintain profitability levels would also remain pivotal from a credit perspective.

### Key rating drivers

#### Credit strengths

**Established track record with strong franchise in capital markets related business** – Stock Holding commenced operations by offering custodial and post trading services and has significantly diversified its offerings over the years. At present, the company provides various services such as custodial, depository, broking, e-stamping, distribution of financial products, clearing, and record keeping to both retail and institutional clients. The company has an established position in the business with a leading market share and a client base of over 6,50,000 accounts in the depository services segment. Stock Holding has been designated the Central Record-Keeping Agency (CRA) by the Ministry of Finance, Government of India and provides electronic stamping (e-stamping) services to 19 states. The company is prominent player in the Professional Clearing Member business.

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

**Experienced senior management team** - The senior management team comprises seasoned industry professionals with extensive experience in capital markets and related business. The Chief Financial Officer has been with the company since 1993 while the Chief Operating Officer has been associated with Stock Holding since its inception. Stock Holding was incorporated in 1986, by leading banks and financial institutions as a public limited company. The company is a subsidiary of IFCI Limited which held a 52.86% stake in the company as on December 31, 2017, while the balance stake is held by Specified Undertaking of Unit Trust of India (16.96%), Life Insurance Corporation of India (14.97%), General Insurance Corporation of India (2.99%), New India Assurance Company Limited (2.99%), United India Insurance Company Limited (2.99%), Oriental Insurance Company Limited (2.99%) and National Insurance Company Limited (2.99%). While reaffirming the rating ICRA has taken note of the subdued credit profile of IFCI Limited, one of company's promoters. However, the limited operational and financial transactions between the company and IFCI provides comfort. The company has a well-diversified board comprising 10 members, with representation from IFCI Limited (two members); Specified Undertaking of Unit Trust of India (one member); independent directors (six members) and Managing Director & CEO of the company.

**Diversified portfolio**- The company has a well-diversified portfolio comprising capital markets related services (broking and depository, professional clearing, custodial services and distribution of financial products), e-stamping and document management. While the company has a diverse array of offerings, the e-stamping, distribution services, depository and broking services have remained the key revenue drivers over the years. During 9MFY2018, these services contributed to 62% of the company's consolidated operating income. In the past three years, the company has ramped up the document management business, which has grown to 11% of the operating income during 9MFY2018 from 7% in FY2015, supported by an increase in demand for end-to-end document management. Other fee-based income streams like custodial and derivative clearing services remain limited, contributing to 1% of the total operating income during 9M FY2018. The company has two wholly owned subsidiaries, namely SHCIL Services Limited (SSL, engaged in broking services) and Stock Holding Document Management Services Limited (SDMSL, providing physical and electronic record keeping services).

**Strong risk management systems**- Stock Holding has deployed robust technology and infrastructure which are necessary for undertaking high-volume transactions. While most of Stock Holding's business operations are transaction based with limited credit risk associated with them, the professional clearing business remains exposed to credit risk. The company, however, sets and monitors trading limits on a dynamic basis which alleviates the risk to some extent. The utilisation of Stock Holding's margins placed with the exchanges has been moderate, in the range of 50-70%. ICRA takes comfort from Stock Holding's strong risk management systems and processes.

**Comfortable liquidity position and adequate capitalisation**- Stock Holding's capitalisation is adequate with net worth of Rs. 1,532 Crore and nil borrowings, as on December 31, 2017, supported by healthy internal accruals. Stock Holding's business operations are not capital intensive and its funding requirement is largely limited to maintaining the margins at the exchange houses. Also, Stock Holding's investments are liquid in nature, being largely in the form of bonds, equity shares, government securities and liquid mutual funds. The company's total current investments amounted to Rs. 45.68 crore, as of December 31, 2017, consisting of government securities and liquid mutual funds. ICRA takes comfort from the liquid nature of the company's investment book, its strong net worth with negligible gearing and adequate cash and bank balances along with sizeable unutilised bank limits.

## Credit challenges

**Businesses linked to the capital markets which are cyclical in nature** – Stock Holding's operations are largely linked to capital markets and the company's revenue profile and profitability remain sensitive to market performance.

**Intense competition in the industry** - Competition threat from larger brokerage houses becoming self-clearing member. Also, clearing houses that attract clients by offering more liberal margining policies pose a threat.

**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 Brokerage Houses](#)

### About the company:

Incorporated as a public limited company in 1986, Stock Holding was jointly promoted by leading banks and financial institutions. Stock Holding is a subsidiary of IFCI Limited which held a 52.86% stake in the company as on December 31, 2017. Stock Holding commenced operations by offering custodial and post trading services and added depository and other services to its portfolio over a period of time.

At present, the company provides various services such as custodial, depository, broking, e-stamping, distribution of financial products, clearing, and record keeping. These services are offered to both retail and institutional clients. The company has two 100% subsidiaries – SHCIL Services Limited (SSL) engaged in broking services and Stock Holding Document Management Services Limited (SDMSL) providing physical and electronic record keeping of documents.

During 9M FY2018, Stock Holding reported a consolidated PAT of Rs. 75.42 crore on a total operating income of Rs. 378.43 crore compared to PAT of Rs. 71.80 crore on an operating income of Rs. 442.40 crore in FY2017.

### Key financial indicators (Amounts in Rs. Crore)

	FY 2016	FY 2017	9MFY2018
Brokerage income (net)	116.92	149.29	143.26
Fee income (other than broking)	51.31	84.21	46.39
Net interest income	36.34	35.19	27.77
Other non-interest income	25.79	55.11	69.52
Operating income (excluding trading income)	352.28	442.40	378.43
Total operating expenses	281.30	356.15	283.50
Profit before tax	70.32	84.51	88.93
Profit after tax	53.84	71.80	75.42
Net worth	1,338.35	1,489.26	1,531.74
Cost to income ratio	79.85%	80.50%	74.91%
Return on net worth	4.04%	4.82%	4.92%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Apr-18	FY2018 Apr-17	FY2017	FY2016
1 Intra Day Limit	Short Term	2,000.00	NA	[ICRA]A1+	[ICRA]A1+	-	-
2 Overdraft Limit	Short Term	100.00	NA	[ICRA]A1+	[ICRA]A1+	-	-
3 Bank Guarantee Limit	Short Term	125.00	NA	[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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Intra Day Limit	NA	NA	NA	2,000.00	[ICRA]A1+
NA	Overdraft Limit	NA	NA	NA	100.00	[ICRA]A1+
NA	Bank Guarantee Limit	NA	NA	NA	125.00	[ICRA]A1+

Source: Company

---

## Corrigendum

Rationale dated April 05, 2018 has been revised with revisions as detailed below:

Revision on page 2, in credit strengths captured under the section 'Key Ratings Drivers': 'independent auditors' has been revised to 'independent directors'.

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Samriddhi Chowdhary**

+91 22 6114 3462

[samriddhi.chowdhary@icraindia.com](mailto:samriddhi.chowdhary@icraindia.com)

**Prateek Mittal**

+91 22 6114 3425

[prateek.mittal@icraindia.com](mailto:prateek.mittal@icraindia.com)

**Sainath Chandrasekaran**

+91 22 6114 3439

[sainath.chandrasekaran@icraindia.com](mailto:sainath.chandrasekaran@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents