

## Sharekhan BNP Paribas Financial Services Private Limited

October 15, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme (for IPO Financing)	2,000.00	-	[ICRA]A1+; withdrawn
Commercial Paper Programme	1,000.00	1,000.00	[ICRA]A1+; Outstanding
<b>Total</b>	<b>3,000.00</b>	<b>1,000.00</b>	

### Rating action

ICRA has withdrawn the rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 2,000-crore<sup>1</sup> commercial paper programme (for IPO financing) of Sharekhan BNP Paribas Financial Services Private Limited<sup>2</sup> (SBPFSL). ICRA has a rating outstanding of [ICRA]A1+ for the Rs. 1,000-crore commercial paper programme of SBPFSL.

### Rationale

The rating favourably factors in the strong parentage of SBPFSL by virtue of being a step-down subsidiary of BNP Paribas SA (BNPP, rated Aa3/Stable by Moody's Investor Service) and its strategic importance to the immediate parent, Sharekhan Limited (SKL, rated [ICRA]A1+) by virtue of being the lending arm for established broking operations. The rating also takes into account the Group's extensive experience in the equity broking business, well-established retail franchise, strong online broking model, adequate capitalisation levels and experienced senior management team. While assigning the rating, ICRA has taken note of the company's limited experience in the lending business, the risks inherent in the asset class given the dependence on capital markets and volatility in the Group's primary business of equity broking, which is prone to cyclical downturns. However, the Group's extensive experience and track record of profitable operations provides comfort. Going forward, SBPFSL's rating would be linked to SKL's operational performance and would remain sensitive to its ability to maintain its standalone asset quality and profitability metrics.

### Key rating drivers

#### Credit strengths

**Strong parentage with strategic importance to parent** – SBPFSL is a wholly-owned subsidiary of Sharekhan Limited (SKL, rated [ICRA]A1+) which, in turn, is a wholly-owned subsidiary of BNP Paribas SA (BNPP, rated Aa3/Stable by Moody's Investor Service). The company operates the lending arm of an established broking business, providing margin funding and loans against securities to SKL's existing clients. SBPFSL enjoys significant operational leverage, in terms of shared infrastructure and risk management systems, besides ready access to SKL's client network. SBPFSL has a shared senior management team along with board-level supervision by the parent.

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

<sup>2</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

**Sharing of strong franchisee and online network supports operating margins** - SKL has a well-established franchise in the retail segment, catering to over 1.6 million clients through its wide network of 155 branches and 2,751 franchisees, along with a strong online broking model. SBPFSL's client acquisition costs are, thus, lower, which support its operating margins.

**Adequate capitalisation levels for current scale of operations** - The company remained adequately capitalised, as on March 31, 2018, with a net worth of Rs. 493 crore and a CRAR of 61.05%. The average tenure of SBPFSL's loans is less than a year and, hence, it is financed through commercial papers.

**Strong risk management, internal control and back-end systems** - The company has an independent risk management function. The purpose of the risk management team is to oversee the implementation of the company's risk-taking strategy and ensure adherence to its policies across businesses. While engaged in margin funding, loan against shares (LAS) and employee stock option (ESOP) funds, SBPFSL provides funding of up to 50% of the shares pledged as collateral by the client with the price of the underlying being monitored daily. In case of margin shortfalls, clients are requested to fund the difference or square off their position timelines for this.

## Credit challenges

**Business linked to inherently volatile capital markets** - The company remains vulnerable to the risk of erosion of security value inherent in the asset class, given the dependence on capital markets and volatility in the Group's primary business of equity broking, which is prone to cyclical downturns. ICRA notes that any downturn in the capital markets may impact the company's financial performance.

**Limited track record in retail asset financing business** - The company had a small loan portfolio of Rs. 657 crore as on March 31, 2018, predominantly comprising margin funding and LAS. The Group intends to significantly grow its loan portfolio over the medium term by entering new asset segments and expanding its portfolio more rapidly in existing segments. However, ability to maintain strong asset quality and profitability in the retail asset financing business, especially in non-capital market related businesses, is yet to be demonstrated and remains a monitorable.

**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](#)

## About the company

### Sharekhan BNP Paribas Financial Services Private Limited

Sharekhan BNP Paribas Financial Services Private Limited (SBPFSL) is a wholly-owned subsidiary of Sharekhan Limited and is registered with the Reserve Bank of India (RBI) as a non-banking financial company (NBFC). The company provides advance loans/finances to retail clients of the Group under various schemes normally known as loan against shares, initial public offer (IPO), further public offer, rights issue, new fund offer, ESOP/employee stock purchase schemes (ESPS), issuance of bonds and other financial products. SBPFSL is also registered with the Insurance Regulatory and Development Authority of India (IRDAI) as a corporate agent - life.

### Sharekhan Limited

Incorporated in 1995, Sharekhan Limited (SKL) is a security broking service provider registered with the Securities and Exchange Board of India (SEBI). The company's main business activity is retail share broking with a small presence in portfolio management services, arbitrage trading and the distribution of mutual fund products. The company became a wholly-owned subsidiary of BNP Paribas SA (BNPP, rated Aa3 by Moody's Investor Services), a leading bank in Europe, in FY2017.

### Key financial indicators

In Rs. crore	FY2017	FY2018
Total income	37	89
Profit after tax	15	24
Net worth	469	493
Total managed portfolio	219	657
Total managed assets	746	691
Return on managed assets	2.94%	3.38%
Return on equity	4.96%	5.05%
Gearing (times)	0.58	0.37
Gross NPA	0.00%	0.00%
Net NPA	0.00%	0.00%
Capital adequacy ratio	142.83%	61.05%

All ratios as per ICRA calculations

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

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	FY2019	FY2018			
				Oct-18	Jul-18	May-18	May-17	FY2017
Commercial Paper Programme (IPO financing)	Short Term	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+; assigned	-	-	-
2 Commercial Paper	Short Term	1,000	-	[ICRA]A1+; Outstanding	[ICRA]A1+; Outstanding	[ICRA]A1+; Reaffirmed	[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](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	Commercial Paper	NA	NA	7-365 days	1,000.00	[ICRA]A1+

Source: Company

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 61143444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Samriddhi Chowdhary**

+91 22 61143462  
[samriddhi.chowdhary@icraindia.com](mailto:samriddhi.chowdhary@icraindia.com)

**Sandeep Sharma**

+91 22 61143472  
[Sandeep.sharma@icraindia.com](mailto:Sandeep.sharma@icraindia.com)

**Prateek Mittal**

+91 22 61143425  
[prateek.mittal@icraindia.com](mailto:prateek.mittal@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  
[communications@icraindia.com](mailto:communications@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