

July 23, 2021

Vikabh Securities Private Limited: Rating reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank facilities	30.00	0.00	[ICRA]A2; reaffirmed and withdrawn
Total	30.00	0.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed and withdrawn the rating assigned to Vikabh Securities Private Limited's (VSPL) short-term non-fund based facilities of Rs. 30 crore on account of the closure of the rated limits. The rating was withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

The rating factors in VSPL's experience in the broking industry, its comfortable capitalisation profile, and demonstrated performance in arbitrage trading with a track record of profitable operations. The rating is, however, constrained by the limited diversification of the revenue profile with a predominant share of income from trading operations. VSPL's broking operations continue to have a modest scale, though ICRA notes the improvement in the market share of turnover in FY2021, albeit on a marginal base.

Key rating drivers and their description

Credit strengths

Long track record of the promoters in capital markets related businesses – Incorporated in 1995 by first-generation entrepreneurs, VSPL is primarily engaged in derivative trading with a small presence in equity broking (negligible market share in FY2020). It is a part of the Biyani Group, which comprises companies promoted and managed by the Biyani family. The Group is also present in other businesses such as commodity trading and proprietary investments though derivative trading remains its main line of business.

Adequate capitalisation for current scale of operations – VSPL is well-capitalised for the current scale of operations with a net worth of Rs. 135.9 crore as on March 31, 2021. It primarily uses borrowings in the form of non-fund based facilities for meeting the margin requirements of the broking operations at the exchange houses. As of March 31, 2021, the company had a comfortable gearing with nil fund-based borrowings.

Demonstrated track record of profitable operations across business cycles – The company has been able to report profitable operations across business cycles. Its net operating income increased to Rs. 67.5 crore in FY2021 from Rs. 41.7 crore in FY2020, registering a growth of 62%, supported by healthy trading income. As a result, VSPL witnessed an improvement in its profitability with a profit after tax (PAT) of Rs. 33.9 crore (previous year (PY): Rs. 17.7 crore) and a return on average net worth of 28.5% (PY: 19%) in FY2021. Going forward, maintaining the profitability levels on a sustained basis will be a key monitorable.

Credit challenges

Small scale of operations with low diversification of business profile; uncertainty and volatility associated with trading operations – Trading income continues to be the major contributor to the company's profitability and revenues. In FY2021,

trading income and dividend income contributed ~79% and 5%, respectively, to the overall income. Supported by the improvement in retail participation, VSPL's market share in the turnover increased to 0.006% in FY2021 from 0.001% in FY2020, though it remained modest. Moreover, with a higher share of turnover contribution from the low-yielding derivative segment, the contribution of broking income to the overall revenue profile remains insignificant.

Dependence on capital markets, which are inherently volatile and cyclical in nature – VSPL's revenue profile remains inherently dependent on the performance of the capital markets. This exposes the company to the volatilities inherent in the capital markets. The risks are further accentuated as proprietary trading is its core business activity. VSPL's ability to manage the portfolio and market risk, employ adequate hedging strategies and achieve consistent earnings remains important.

Liquidity position: Adequate

VSPL has adequate liquidity with no debt outstanding as on April 30, 2021. In the past one year, the company maintained average margin utilisation of 42%. As on April 30, 2021, it had a cash and bank balance of Rs. 5.46 crore and liquid mutual fund investments of Rs. 12.14 crore, which can be utilised for depositing additional margins at the exchanges if required.

Rating sensitivities: Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry Policy on withdrawal of credit rating
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1995, Vikabh Securities Private Limited (VSPL) is primarily engaged in the arbitrage trading and equity broking businesses. It was demerged into two companies, namely Vikabh Securities Private Limited and Biyani Financial Services Private Limited (BFSPL). While the broking and arbitrage trading businesses remained with VSPL, the long-term investment business moved to BFSPL. Arbitrage trading remains the key business activity for VSPL, contributing ~79% to its total revenues.

In FY2021, VSPL reported a PAT of ~Rs. 34 crore on a total income of ~Rs. 75 crore compared to a PAT of ~Rs. 18 crore on a total income of Rs. 42 crore in FY2020.

Key financial indicators

Particulars	FY2019	FY2020	FY2021*
Brokerage Income (net)	0.67	0.71	0.95
Trading Income	14.01	38.59	58.9
Net Interest Income	2.22	2.37	3.42
Other Non-interest Income	5.93	0.04	4.20
Net Operating Income (NOI)	22.82	41.71	67.47
Total Operating Expenses	15.17	17.80	15.17
Profit before Tax	10.52	23.91	44.57
Profit after Tax (PAT)	9.94	17.69	33.94
Net Worth	84.25	101.94	135.88
Cost-to-Income Ratio	66.46%	42.67%	40.62%
Return on Net Worth	12.53%	19.00%	28.54%
PAT/NOI (%)	43.54%	42.41%	50.30%

Source: Company, ICRA research; Amount in Rs. crore; All ratios as per ICRA calculations; * Provisional figures for FY2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
			Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2019	Date & Rating in FY2018	
			(Rs. crore)	(Rs. crore)	Jul 23, 2021	Jul 13, 2020	Mar 20, 2019	Oct 03, 2017	
1	Short-term non-fund based bank facilities	Short term	30.00	-	[ICRA]A2; Reaffirmed and withdrawn	[ICRA]A2	[ICRA]A2	[ICRA]A2	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term non-fund-based bank facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term non-fund based bank facilities	NA	NA	NA	30.00	[ICRA]A2; Reaffirmed and withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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