Alankit Assignments Limited

March 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	22.25 (reduced from 32.50)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	38.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**60.25 (Rs. Sixty Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Alankit Assignments Limited (AAL) continue to factor in the long track record of promoters in the broking business of over two decades, diversified revenue streams within broking and trading business, risk management systems in place and adequate liquidity. The ratings also derive comfort from AAL being part of Alankit Group having diversified businesses including e-governance services, financial services, healthcare, insurance broking etc. and valuation of AAL's investments (~20% stake) in Alankit Limited (AL: rated CARE BBB-; Credit Watch with Developing Implications/ CARE A3; Credit Watch with Developing Implications) having overall market cap of ~Rs.227 crore as on March 01, 2021.

The rating strengths are however partially offset by small size of operations, moderate profitability, highly competitive broking business, susceptibly to volatility in stock markets and high adjusted gearing owing to significant exposure to group companies.

Rating Sensitivities

Going forward, the ability of the company to profitably scale up its operations, diversify its revenue base while improving its capital structure and manage the risk emanating from volatility in the stock markets would be the key rating sensitivities.

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Scale up of operations and improvement in profitability with RONW being > 8% on a sustained basis
- Diversification of income streams and reduction in reliance on capital markets
- Raise funding from diverse sources for the lending business at competitive costs

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Failure of risk management systems in the capital market segment resulting in losses at net level
- Increase in net gearing levels beyond 2.5 times
- Decline in cash surplus and liquidity buffers which could impact the risk absorption ability
- Any adverse impact of the IT Department search (conducted in Oct-19) on the company or its promoters

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations and experienced promoters and management team

AAL was incorporated in January 1991 and has more than 2 decades of track record of operations in the broking business (cash, F&O and currency market). AAL is headed by Mr. Alok Kumar Agarwal, the founder and Managing Director who has nearly 30 years of experience in the financial and capital markets. He is a fellow member of the Institute of Chartered Accountants of India (ICAI). He is also a member of Institute of Financial Consultant (IFC, Canada) and Institute of Internal Auditors (IIA, USA). He is supported by a management team having experience in broking and trading segment.

Part of the Alankit Group with diversified operations; and holding of AAL in Alankit Limited (listed group entity) with a track record of profitable operations

AAL is a part of the Alankit Group which has a track record of over 25 years having been established in 1995 as a Registrar and Transfer Agent. The group is now a conglomerate of 12 companies offering over 31 services across diverse segments viz. Financial Services (broking – cash, currency, commodity, derivatives), E-Governance, Insurance Broking (Life and Non-Life) &

Health Care verticals. Alankit Group is headquartered in New Delhi with pan India presence with 21 regional offices, with presence across the country. The group also has presence in 5 overseas locations- London, Dubai, Sharjah, Canada & Singapore.

The main operating entity of the group is Alankit Limited (AL) that is engaged in providing e-governance services. The company has a track record of profitable operations and is listed on the stock exchange with a market capitalization of nearly Rs.227 crore (as on March 01, 2021). End Dec 2020, AAL held 19.59% stake in AL and the total market value of AAL's holding in AL stood at around Rs 45 crore as on March 01, 2021 as against around Rs 30 crore as on March 31, 2020. The book value of investments of AAL in AL stood at Rs.33.59 crore as on March-20. AAL earned a dividend income of Rs.2.17 lakhs in FY20 as against Rs.56 lacs in FY19 from its investments.

Diversified product profile albeit small scale of operations

AAL is a small sized player in the capital markets offering broking and trading activities with a retail client base of over 1.2 lakh with 22 regional offices and network of close to 100 active franchisees. The net revenue from trading, broking and RTA services stood at Rs.25.23 crore (+15.8% Y-o-Y) during FY20 as against Rs.21.79 crore during FY19 and Rs.21.58 crore during FY18.

The company has a diversified product profile offering broking services, depositary services, RTA fee, Advisory services, proprietary trading. It also earns interest of upto 18% on credit extended to brokerage customers. AAL earns much of its income from core business of broking and allied activities (85-90% of the overall income) whereas it also develops customized software from which it derived 20% of its overall net income of Rs.50.87 crore during FY18. However, there was no income from software development in FY19 and FY20. AAL also earns interest on bank deposits (kept as margin money against BG limits) and dividend income from its investment in AL.

Risk management systems in place

AAL has adequate risk management system in the broking and proprietary trading segment. The margin limits are defined for the broking customers on a daily basis which are largely in line with the SEBI prescribed limits for leverage. AAL has a separate risk management team which continuously monitors the margin breach and liquidates the stocks in case required.

Key Rating Weaknesses

Moderate profitability

The overall income and profitability of the company remains moderate owing to small scale of operations. AAL reported a PAT of Rs.2.15 crore in FY20 as against Rs.2.76 crore during FY19 on a total income of Rs.41.31 crore in FY20 as against Rs.39.32 crore during FY19. The net profits were lower in FY20 due to the higher operating expenses and lower revenue growth amid stiff competition especially in the brokerage segment.

Volatile nature of capital markets, thin margins in broking due to highly competitive business segment

AAL derives majority of its revenue from stock broking and related product segments, which are inherently volatile in nature. Also, broking business in India is highly competitive and exposes the company to fierce competition from other broking firms.

Exposure to group companies through investments

The tangible networth (net of deferred tax and intangible assets) of AAL stood at Rs.80.98 crore as on Mar-20 as against Rs.78.87 crore on Mar-19 whereas investment in group companies by AAL stood at Rs.58.87 crore as on Mar-20 as against Rs.52.39 crore on Mar-19. AAL had also extended inter-corporate advances of Rs.16.6 crore as on Mar-18 which has reduced to Nil as on Mar-19 and Mar-20.

High adjusted gearing levels

AAL's borrowings consists of working capital limits to fund the operations for the broking and depository services especially to fund the broking customers on whose behalf shares are purchased which are usually realized within 4-5 days and also exchange receivables which are received upon settlement i.e. 2 days from the day of transaction. Average receivables of AAL remain around Rs.20-25 crore including around Rs.7-9 crore receivables over 6 months pertaining to PFRDA and NPS related services.

For its broking operations, AAL also avails Bank Guarantee (BG) limits (available limits of Rs.38 crore availed as on Mar-20) for getting trading limits on the exchange which is available against FDR margin of 50%. However, the overall adjusted gearing (i.e. debt including non-fund based limits reduced by FDR Margin deposits with banks as against the networth reduced by investments in group entities) was 1.34x as on Mar-20 as against 1.24x as on Mar-19. This is largely on account of substantial investment in group entities.

Income Tax Department search on the premises of the group

Income Tax Department had conducted a search at the premises of the group under Section 132 of the Income Tax Act, 1961 which concluded on October 23, 2019. The group, however, has confirmed that no irregularities were found during the search operations and no claims/ disclosures were made against the company. Also, the company has not received any further statement from the IT officials on the conclusive findings of said search. Going forward, any impact of the outcome of the same (if any) on the promoters or the financial risk profile of the company will be the key rating sensitivity

Liquidity: Adequate

AAL maintains base capital as required by the stock exchanges mainly in the form of bank guarantees, FDRs and shares. The monthly margin utilization of AAL was moderate at approx. 54% for the 12 month period ending Jan-21. The unutilized margin offers liquidity cushion to AAL in the case of eventuality and avoid breach of margin limits. The excess margin is also used as a buffer to accommodate sudden spike in transaction volumes on any business day. AAL, maintains additional liquidity buffer of around Rs.4 crore (unutilised limits and in the form of free cash and bank balance) to meet sudden pay in-requirements at the exchange and meet other expenses. The overall fund based limits remain almost utilised to the extent of 95-100%.

Analytical approach:

Standalone; however factors in the strength derived from long track record of operations of the group including Alankit Limited, the flagship entity of the group in which AAL has a holding

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios-Financial Sector

About the Company

Alankit Assignment Limited (AAL) is promoted by Mr Alok Kumar Agarwal and was incorporated in 1991 as a SEBI registered financial services and Stock Broking Company. AAL is headquartered in New Delhi and is primarily operating in the financial services segment through its 21 regional offices. It also a network of over 100 active franchisees through which it extends broking and distribution services. Under the financial services, AAL provides broking services, depository services, portfolio management and advisory services (PMS) and Registrar and Transferor (RTA) services.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	39.32	41.31
PAT	2.76	2.15
Interest coverage (times)	1.95	1.88
Total Assets	136.81	161.98
ROTA (%)	1.96	1.44

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	22.25	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	38.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (03-Mar-20)	-	1)Withdrawn (05-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	22.25	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Mar-20) 2)CARE BBB-; Stable (04-Apr-19)	-	1)CARE BBB-; Stable (05-Mar-18)
3.	Non-fund-based - ST-BG/LC	ST	38.00	CARE A3	-	1)CARE A3 (03-Mar-20) 2)CARE A3 (04-Apr-19)	-	1)CARE A3 (05-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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