Anand Rathi Share and Stock Brokers Limited

February 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	1,400.00	CARE BBB+; Stable / CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the long-term and short-term bank facilities of Anand Rathi Share & Stock Brokers Limited (ARSSBL) factor in the experienced management team along with a long track record of the company in the broking industry. The ratings also factor in the strategic importance of the company to Anand Rathi Group and the improving earnings of the company driven by the growth in the business.

These rating strengths are however, partially offset by modest scale of operations, the inherent market risk and competitive pressures that ARSSBL is exposed to its core broking business along with its evolving regulatory landscape. The company's ability to maintain its market share as well as continue to keep its revenue profile diversified will continue to remain the key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the market share of the company on a sustained basis.
- Significant improvement in the earnings profile of the company on a sustained basis.
- Improvement in cost to income ratio below 65% on a sustained basis.

Negative factors

- Deterioration in the market share impacting broking income of the company.
- Moderation in the earnings profile and liquidity of the company.
- Increase in gearing (including non-fund-based debt) beyond 4.5x on a sustained basis.

Analytical approach: Standalone, CARE has analysed the standalone business and financial risk profiles of ARSSBL.

Key strengths

Long track record of the company along with extensive experience of its promoters in capital market business

ARSSBL is a part of the Anand Rathi group and has been operational in the broking industry for over two decades. The group is being headed by the Founder and Chairman, Anand Rathi, who is a gold medalist Chartered Accountant having over 50 years of experience in the financial services industry. He has been instrumental in setting up the Anand Rathi group.

The company is led by Pradeep Gupta, the co-founder of the Anand Rathi group. He is the Managing Director of the company having over two decades of experience in the financial market sector and has been instrumental in laying the foundation of the institutional broking and investment services arm of the group. Roop Bhootra is the Chief Executive Officer of the investment services arm and Vishal Laddha is the Chief Executive Officer of the institutional equity arm of the company, both having over 25 years of experience in this industry.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strategic importance to the Anand Rathi group

ARSSBL is a wholly-owned subsidiary of Anand Rathi Financial Services Ltd (ARFSL). It is one of the major entities of the group operating in the broking industry. The company contributes 21.07% in the overall net assets and 8.60% in the consolidated profit of the group. ARFSL is the holding company of the Anand Rathi group and holds various subsidiaries of the group under it. The business of this group is largerly divided into three sections: Investment services, Wealth management and non-banking finance company (NBFC) business. The entire investment services business is being done through ARSSBL.

In FY22, the promoters have infused funds to the tune of ₹50 crore in ARSSBL. Also, ARSSBL has raised inter-corporate deposits (ICDs) from various group companies thus indicating the strong linkages between ARSSBL and various other group companies.

Improving earnings profile with focus on diversified income profile.

ARSSBL is a trading member of various stock exchanges like NSE, BSE, MCX etc. It has a basket of diversified products being offered which includes broking services in all segments (equity, derivatives, commodities and currency), lending in the form of Margin trade funding (MTF), third-party financial products distribution (insurance, mutual fund, bonds, corporate fixed deposits, IPO, etc) and portfolio management services.

During FY22, the total revenue of the company grew by 40% to ₹424 crore mainly driven by brokerage income, interest on margin funding book and revenue through distribution of third-party financial products. The company's operations have been reporting an upward trend in profitability with profit after tax (PAT) being at ₹6 crore in FY19 which has increased to ₹51.19 crore in FY22. The total active client base of the company grew by 21% in FY22 and stood at 1,14,694. The company has been witnessing year on year improvement in the average daily turnover (ADTO) being traded and FY22 saw a substantial growth of 188% with ADTO of ₹32,481 crore. The company is a retail clientele-focused investment services company with institutional clients contributing only 1% in the total turnover being traded by the company's client base in Q3FY23.

The company has been focusing on having a diversified revenue stream in order to reduce its dependency on broking income which is volatile in nature as it is driven by the market activities. In 2017, brokerage revenue formed 80% of the total income while in FY22, it forms 65% of the total income followed by interest income which forms 22% and distribution income constituting 7% of the total revenue. Improvement in PAT led to improvement in PAT margin (PAT/ total income) which stood at 12.08% in FY22 as against 4.34% in FY21. Given the increasing scale of operations, the cost to income ratio has also been improving Y-o-Y and stood at 82% in FY22 as against 86% in FY21; however, it is still on higher side, as the company is further focusing to expand its operations by adding new branches and franchisee.

The performance of the company continued in H1FY23 with PAT of ₹22.68 crore on a total revenue of ₹219 crore of which broking income constituted 61% of the total income.

Furthermore, considering the inherent cyclicality of capital markets, the ability of the company to sustain its earnings profile along with diversified revenue mix and improvement in its cost to income ratio will be a key monitorable.

Key weaknesses

Modest scale of operations

ARSSBL's size continues to remain modest given the market share of the company. Even though the business volumes have witnessed growth Y-o-Y, the market share of the company in most of the segments is modest. Also, the market position of the company in terms of share of active client base on NSE has shown a declining trend year on year due to the competition from discount brokers even though the active client base of the company is witnessing yearly growth. As on March 31, 2022, the market position was 28th against 24th position as on March 31, 2021. As on December 31 2022, the market position improved to 26th position.

The company is, however, primarily focusing on increasing the volumes and average revenue per client.

Leveraged capital structure.

As on March 31, 2022, the total debt for the company (including non-fund-based limits) stood at ₹796 crore as against the tangible net-worth of ₹208 crore leading to a moderate gearing of 3.83 times. The debt levels have further increased to ₹884 cr as on September 30, 2022, of which 62% is in the form of non-fund-based limits while the balance 38% is in the form of fund-based limits. Also, during the current fiscal, the company started raising funds through market linked debentures and Non- Convertible Debentures which stood at ₹23 crore as on September 30, 2022. The leverage on total debt as on September 30, 2022 stood at 3.83 times while adjusted leverage considering only fund-based debt (including loans from group companies) stood at 1.47 times.

Presence in inherently risky and competitive broking business

61% of the revenue for the company is in the form of brokerage which is highly dependent on capital market activities which exposes ARSSBL's earnings to volatility in stock markets and trading volumes. Further, the company is exposed to fierce competition in the highly competitive brokerage space and with the introduction of 100% digital and zero brokerage firms thereby leading to competitive brokerage charges in the industry. With continuous efforts, traditional players like ARSSBL have been successful in building the digital platform for its customers and survive in this competitive industry. The focus of the company has always been on maintaining client relationship and hence ARSSBL continues to offer its services in both the forms i.e, traditional (offline) as well as digital investment services. Due to the entry of discount brokers which dominates the broking industry, the competition is huge and is further expected to increase with the entry of new broking firms which poses a risk to the ARSSBL's business.

Given the competition risk, the company's ability to maintain its market share will remain a key monitorable.

Exposure towards regulatory changes

The capital market regulator, Securities and Exchange Board of India (SEBI) board has been constantly stepping up the vigil in the brokerage industry through a series of regulatory changes aimed at protecting investor's interests. The peak margin rules that were implemented in a phased manner, require brokers to collect full margins in advance from clients and was aimed at limiting the leverage used by traders to take positions in intraday trades. The most recent change has been the quarterly fund settlement required to be done by the brokers which is likely to impact the float income of the brokers to some extent. ARSSBL has successfully managed to adopt these changes without significantly impacting their overall performance. However, the ability of the brokers to adopt new technology, systems and risk management processes in response to the constantly evolving regulatory landscape without any adverse impact on its overall business profile will remain a key monitorable.

Liquidity: Adequate

As on February 13, 2023, ARSSBL had liquidity to the tune of ₹83 crore in the form of excess margin with the exchange and liquid investments against the debt repayment of ₹26.32 crore for the period February-2023 to April-2023.

Applicable criteria

Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Policy on default recognition
Rating Outlook and Credit Watch
Service Sector Companies
Short Term Instruments

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Capital Markets	Stockbroking & Allied

Anand Rathi Shares & Stock Brokers Limited (ARSSBL) was incorporated on November 22, 1991, as a private limited company under the Companies Act,1956 in the name of Navratan Capital and Securities Private Ltd which later got converted into public limited company on March 21, 2007. Subsequently, 'Navratan Capital and Securities Limited' was renamed as 'Anand Rathi Share and Stock Brokers Limited' and received a fresh certificate of incorporation from the RoC on January 29, 2008. The company carries on the activity of a stock broker, a research analyst, a depository participant, mutual fund distribution, distributor of Insurance under the corporate agent license. The company is also a trading member of National Stock Exchange of India Ltd., BSE Limited, Multi Commodity Exchange and National Commodity and Derivatives Exchange in the wholesale debt segment, mutual fund segment, etc. The company also provides broking services to retail clients and HNIs through online, call -n-trade and offline mediums and has a spread across more than 60 branches.

The key financials of the company are presented below:

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Brokerage income	206	277	133
Total income	303	424	219
PAT	13.16	51.19	22.68
Total assets (net of deferred tax and intangible assets)	1,006	1,324	1,515
PAT margin (%)	4.34	12.08	10.33

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bank Facilities- Fund based/ Non-fund based- Long Term / Short Term	-	-	-	-	1,210	CARE BBB+; Stable / CARE A2+
Bank Facilities- Fund based/ Non-fund based- Long Term / Short Term (Proposed)	-	-	-	-	190	CARE BBB+; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Market Linked Debentures	LT	50.00	CARE PP-MLD BBB+; Stable	1)CARE PP-MLD BBB+; Stable (15-Feb-23)	-	-	-
2	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A2+	1)CARE A2+ (15-Feb-23)	-	-	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST	1400.00	CARE BBB+; Stable / CARE A2+	-	-	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated.

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Market Linked Debentures	Highly Complex
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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