

Darashaw and Company Private Limited

January 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	350.00	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the long-term bank facilities of Darashaw and Company Private Limited (DCPL) factors in its established track record in the intermediation of financial products, as well as the advisory research and business consulting built over the years. The rating also factors in experience of the promoters and the management team, along with the significant reduction in the credit-impaired assets from March 31, 2021 to September 30, 2023.

The rating continues to factor in the demonstrated timely support from the promoter by providing funding support by way of unsecured loans to provide comfort to the company's liquidity in time of distress. CARE Ratings Limited (CARE Ratings) expects that the promoters will continue to support DCPL in case of any need going forward.

The rating remains constrained mainly on account of its low and volatile net profitability (mainly impacted by impaired assets), earnings being dependent on the inherently volatile capital markets, the competitive industry scenario, and exposure to credit and market risks pertaining to inventories and investments along with concentration risk.

The competitive position in the merchant banking business, credit quality of inventories and investments, profitability and business and revenue diversification are the key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could lead to positive rating action/upgrade

- Significant improvement in the scale of operations and net worth while maintaining gearing levels below 1.5x on a consolidated basis
- Significant increase in scale of operations along with prudential counterparty and single-party exposures
- Significant improvement in the profitability with net profit margin exceeding 25% (on total net revenue) on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade

- Any moderation in expectations of support from the promoters
- Any adverse event in the capital markets impacting the financial and business profiles of the company
- Increase in the gearing levels (excluding promoter loans) beyond 3x on a sustained basis

Analytical approach: Consolidated

CARE Ratings has considered the consolidated business and financial profiles of DCPL, which includes its wholly owned subsidiary, Darashaw Securities Private Limited.

Outlook: Stable

The stable outlook is on account of CARE Ratings' expectation that the company will continue to use its track record and experience to scale up the business in a relatively stable interest rate scenario over the near term and stabilisation in profitability with significant reduction in credit-impaired assets.

Detailed description of the key rating drivers:

Key strengths

Long operational history with an established track record in its line of businesses

DCPL has been operating in the debt markets since 1926 and is spread across 10 cities and 11 branches in India as on September 30, 2023. DCPL mainly deals with arranging, investing, and advising for various debt products in the market.

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

It has forayed into specialised debt instruments like perpetual, sub-debts, long-tenure bonds, and infrastructure investment trusts (InvITs) by matching the requirements of the issuers and the investor base, especially long-term investors such as retirement funds. The company has an active technical research team providing inputs regarding the market conditions and interest rates based on which the business decisions are taken.

The advisory clientele for DCPL's issuances constitutes more than 180-190 active clients with well-known corporate groups like Tata, L&T, HDFC, Mahindra, Bajaj, and Aditya Birla.

Experience of the promoters and management team and demonstration of promoter support

DCPL's promoters include Darashaw Mehta (Managing Director) who has been overseeing the daily operations since 1988. The company has Baman Mehta as the Chief Executive Officer (CEO) and Daisy Mehta as the Director, supported by an experienced management team to handle the daily operations.

At a consolidated level, the promoters of DCPL have supported the business through capital infusion in the form of unsecured and interest-free debt with no specific repayment tenure during FY19 and FY20 to manage DCPL's stressed assets exposure in stock-in-trade (SIT) assets largely to Infrastructure Leasing and Financial Services Limited (IL&FS) and its group entities. As on March 31, 2019, the company had exposure of ₹234 crore to IL&FS group entities (which defaulted in their payment obligations), which were rated AAA/AA+ at the time of investment.

The promoters had infused unsecured loans of ₹84 crore in FY19 and then ₹72 crore more in FY20. Over the last four years, the exposure to stressed assets reduced significantly and stood at ₹31.5 crore while the unsecured loans from promoters stood at ₹58 crore as on September 30, 2023.

CARE Ratings expects that the promoters will continue to support the company in the event of any unforeseen stress and remains a key rating sensitivity.

At the consolidated level, the overall gearing stood at 0.75x as on March 31, 2023, as against 1.05x as on March 31, 2022. The tangible net worth (TNW) of the company stood at ₹186.43 crore as on March 31, 2023, as against ₹185.47 crore as on March 31, 2022.

Key weaknesses

Volatile earnings which remain dependent on capital markets

DCPL's profitability is derived from gains earned through trading of its inventories (majorly bonds and debentures) held on its books and from brokerage, advisory, and consulting activities. On a consolidated level, DCPL's net revenue (total income – cost of sales) increased by 76% from ₹43 crore for FY22 to ₹76 crore for FY23 on account of profit in trading income. The revenue from trading activities constituted 23% while income from consulting and brokerage constituted 59% of total income for FY23. The reported profit after tax (PAT) of the company reduced from ₹14.07 crore in FY18 to ₹1.01 crore in FY23 (FY22: ₹1.03 crore), led by a combination of provisions and the sale of stressed assets at a loss, on a consolidated basis. DCPL's net PAT, excluding the impact of ILFS impaired asset sale, stood at ₹86 crore for FY22 and ₹6 crore for FY23. The company sold some of their equity investments at a loss during FY23 due to which the net profit for FY23 is lower.

On a standalone level, the PAT for DCPL stood at ₹22 crore on net revenue of ₹56 crore for H1FY24 (unaudited). The company has managed to reduce its exposure towards the assets in default from ₹234.02 crore as on March 31, 2019, to ₹31.50 crore as on March 31, 2023. The profitability of the company remains subject to the volatility of capital markets and quantum of trading carried out.

Exposure to credit risk in inventory and investments along with concentration risk

DCPL is exposed to credit risk for a short period, while it churns its inventory for trading in debt market securities. Hence, any adverse credit event due to a company-specific risk may impact the quality as well as the liquidity of the inventory. As on March 31, 2023, the inventory of the company (consolidated) constituted bonds and debentures from AAA category (14%), AA+ (15%), AA (3%) and ILFS (68%). As on September 30, 2023, the exposure to AAA securities stood at 13% while securities rated A and above constituted 22% of total inventory. The single and counterparty exposures continue to be a key rating sensitivity

The company's investments include equity investments worth ₹184 crore and art & paintings worth ₹97 crore as on September 30, 2023. The combined exposure to non-debt investments stood at ₹292 crore as against promoter funds of ₹259 crore (considering the exposure to ICICI Bank bonds at book value) as on September 30, 2023. The company also has investment in zero coupon ICICI bonds with a historical cost of ₹11 crore having a market valuation of around ₹174 crore as on September 30, 2023.

Market risk on account of volatility in interest rates and liquidity risk

DCPL is exposed to market risk arising out of adverse movement in prices of the securities due to changes in interest rates. Specifically, the prices of the securities are influenced by the levels and changes in interest rates in the economy and developments in other markets, including credit and capital markets, international bond markets, and policy actions by the Reserve Bank of India (RBI), which can result in trading losses.

In addition, the company also faces liquidity risk on account of its inability to liquidate holdings due to the non-availability of buyers for the security and may need to sell at adverse prices and incur losses.

Although DCPL takes positions on an arbitrage basis with the back-end research of its technical and credit risk teams, the risk of volatility still does exist. CARE Ratings notes that in recent years, the volatility has increased in fixed-income markets with many fluctuations observed led by various domestic and international events.

Liquidity: Adequate

As on September 30, 2023, DCPL (consolidated) had a free cash and bank balance of ₹3.65 crore along with unutilised cash credit (CC) lines of ₹145.37 crore from Bank of Maharashtra. The company's external borrowings as on September 30, 2023, stood at ₹112.45 crore (March 31, 2023: ₹81.52 crore). These facilities are purely used for the trading positions taken by the company where loan-against-shares & securities and working capital demand loans (WCDL) have no fixed repayment schedule and where WCDL/CC lines usually get rolled over. Moreover, the company had liquid equity investments of ₹184 crore as on September 30, 2023 (September 30, 2022: ₹128 crore).

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Capital markets	Stockbroking & allied

Incorporated in 1926, DCPL is promoted by the Mehta family, providing a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions (FIs), retirement trusts, the government, and individuals. DCPL is a Securities and Exchange Board of India (SEBI)-accredited merchant banker category-I, a stock broker, a mutual fund advisor, and a portfolio manager. The company is primarily engaged in advising and intermediating debt securities in the debt market. Other activities include consultancy, portfolio management services and investment banking. Headquartered in Mumbai, it is spread across 10 cities and 11 branches in India, with around 170 employees as on September 30, 2023. It is also a member of various stock exchanges, including the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE) and the Multi Commodity Exchange of India (MCX). Thus, the overall business of DCPL includes the trading of securities, debt intermediation, investment banking, retirement services, infrastructure and financial advisory, and equity and wealth management. DSEC is a 100% subsidiary of DCPL and is registered as a member at the stock exchanges, which caters to the debt segment and is primarily associated with the trading of securities.

DCPL Financials

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	31-03-2023 (A)	30-09-2023 (UA)
Total Net Revenue	65.91	42.99	75.63	56.05
PAT	3.04	1.03	1.01	21.62
PAT margin (%)	4.61	2.40	1.34	38.57
Total assets	363	389	332	376
ROTA (%)	0.60	0.27	0.28	12.35
RONW (%)	1.67	0.56	0.54	22.81
Debt to equity (times)	0.93	1.05	0.75	0.85

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

The numbers for H1FY24 are on a standalone basis since the company does not prepare interim consolidated financials
PAT margin is calculated on Net revenue
Total Net revenue = Total revenue – Cost of Sales

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long term		-	-	-	350.00	CARE A-; Stable

Annexure-2: Rating history of 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 2023-2024	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
1	Fund-based-Long Term	LT*	350.00	CARE A-; Stable	-	1)CARE A-; Stable (23-Nov-22)	1)CARE BBB+; Positive (16-Feb-22)	-

*LT-Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on 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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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