Ashika Stock Broking Limited (Revised)

January 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	200.00 (Enhanced from 75.00)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	400.00 (Enhanced from 225.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation of bank facilities of Ashika Stock Broking Limited (ASBL) factors in its long track record of operations and experienced management, comfortable capital structure, moderate profitability metrics, and adequate liquidity. The rating is however constrained by client concentration, modest scale of operations, exposure to volatility in the capital markets, highly competitive nature of business and susceptibility towards regulatory and operational risks.

Rating sensitivities: Factors to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade

- Profitable scaling up of operations with growth in market share on a sustained basis
- Significant improvement in profitability metrics with ROTA increasing above 7% on a sustained basis

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade

- Deterioration in profitability metrics
- Deterioration in liquidity buffers
- Increase in overall gearing levels beyond 2.0x on sustained basis

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation of sustained scalability of its financial profile along with comfortable capital and liquidity buffers.

Detailed description of the key rating drivers:

Key strengths

Long track record of operations and experienced management:

The company began its operations in 1994 and has over 2 decades of track record of operations in the broking segment. ASBL is wholly owned subsidiary of Ashika Global Securities Pvt Ltd., together known as Ashika Group, which is promoted by Mr. Pawan Jain and Mr. Daulat Jain. At the helm of affairs is Mr. Daulat Jain, co-founder and Managing Director of ASBL, who is supported by professional team with relevant industry experience. The company has a 5-member Board of Directors of which two directors are Independent. Ashika Stock Broking Limited has a basket of diversified products being offered which includes broking services across segments i.e., equity, derivatives, commodities and currency, providing margin trade funding (MTF), distribution of financial products. The company operates via both direct and franchise model whereby the clientele mix is in the ratio of 48:52. The company had active clientele of 29,187 as on September 30, 2023.

Comfortable capital structure:

The company has comfortable capital structure owing to regular equity infusions by the promoters. With a view to scaling up of margin trade funding business, the promoters via holding company Ashika Global Securities Pvt. Ltd. infused ₹77.54 crores during FY23 into ASBL. Post infusions and internal accruals, ASBL's tangible net worth has increased from ₹99.30 Cr. as on March 31, 2022, to ₹193.70 Cr as on March 31, 2023 and further to ₹205.24 Cr. as on September 30, 2023. The overall gearing of the company stood at 1.24 times as on March 31, 2023, as against 1.44 times as on March 31, 2022 and further to 1.48 times as on September 30, 2023.

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

Given the continued scaling of MTF portfolio, CARE expects the gearing levels to remain volatile. However, gearing is expected to remain below 2x and will be a key monitorable.

Moderate profitability metrics:

ASBL is into broking business and operates via franchise model through network of 416 sub-brokers as on March 31, 2023. Owing to upward trajectory of stock markets over the last two years, the company has witnessed rise in turnover volumes coupled with addition to client base as well as increase in active clients. The turnover has increased from ₹6,39,797 Cr. during FY22 to ₹ 8,02,414 Cr. during FY23. The company's active client base has been consistently growing from 14,552 as on March 31, 2020, to 29,187 as on September 30, 2023, out of which 96% clients are retail clients. However, the average revenue per customer has declined to ₹13,343 on account of intense competition in the broking industry. Consequently, the broking revenue has declined to ₹36.47 crore as on March 31, 2023 as against ₹47.30 crore as on March 31, 2022.

The company has been focusing its MTF book so as to support earnings profile. ASBL's margin trade funding (MTF) portfolio increased from ₹83 Cr. as on March 31, 2022 to ₹143 Cr. as on March 31, 2023 and further to ₹175 Cr. as on September 30, 2023. As a result, the share of revenues from MTF increased to ₹20.99 crore for FY23 as against ₹11.34 crore for FY22. ASBL's cost to income reduced from 35.32% during FY22 to 28.90% during FY23 on account of decline in sub-broker count. It has remained stable over the years since the company operates through a franchise model. For FY23, the company reported PAT of ₹16.04 crore [P.Y.: ₹15.32 crore] on total income of ₹77.37 Cr. [P.Y.: ₹74.58 Cr.]. Despite reduction in opex cost on account of decline in sub-brokers, the company reported decrease in return metrics with ROTA of 4.57% during FY23 from 5.05% during FY22, led by decrease in brokerage income. ASBL reported RONW of 10.95% during FY23 as against 18.76% during FY22.

Considering the inherent cyclicality of capital markets, the ability of the company to sustain its earnings profile along with diversified revenue mix will be a key monitorable.

Key weaknesses

Susceptibility to the risk of regulatory changes:

Broking firms are subset of financial sector & capital markets due to which the industry is highly regulated. Given the increase in capital market activities, the market regulator has been closely monitoring the sector and has been coming out with various new regulations at regular intervals, some of them like the Demat Debit Pledge (DDPI) was implemented, and it replaced the Power of Attorney (PoA) provided by clients to brokers, prohibited stockbrokers from using client's funds for BGs, stockbrokers are required to upstream clients' funds to clearing corporation, clients' funds cannot be retained by the stockbrokers or clearing members on an end-of-day basis. On account of implementation of various regulations, it is expected to increase operational, financial and compliance cost for the brokers.

The ability of the brokers to adapt their technology, systems and risk management processes, in response to the constantly evolving regulatory landscape, without any adverse impact on its overall business profile, remains a monitorable.

Client Concentration:

While the company has limited concentration risk in broking business on account of healthy retail clientele, it is exposed to concentration risk in margin trading portfolio. Of the total MTF portfolio of ₹143 Cr. as on March 31, 2023, top 20 clients comprised 54% [P.Y.: 40%], exposing ASBL to client concentration risk.

Exposures to volatility in the capital markets and highly competitive nature of broking business:

During the past two years due to the upward trajectory of the stock market, the brokerage industry has been posting higher revenues and profits. While ASBL has been able to report improved turnover and profitability, the company's business is exposed to volatility in the capital markets. Further, due to high competition for retaining customer base, the margins are often thin in the broking industry, thereby exposing the companies to margin pressures.

Liquidity: Adequate

The liquidity profile of ASBL is adequate. The company maintained average excess monthly margin at 195% during the period of November 2022 to September 2023.

As on September 30, 2023, ASBL had free cash balance worth ₹110.85 crore as against fund based borrowings of ₹151 crore. Of these total borrowings, ₹126 crore is in the form of loans from promoters and group companies with the rest being working capital facilities. The margin trading book is funded by promoter loans on need basis.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Broking Firms

About the company and industry

Industry classification

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

The company was incorporated on 12th August 1994, under the Companies Act, 1956 as Ashika Financial Services Pvt. Ltd. and subsequently changed its name to Ashika Stock Broking Pvt. Ltd. on 14th February 1996. Further, on 4th March 1996, the status of the company was converted to Public Limited and consequently the name was changed from Ashika Stock Broking Pvt. Ltd. to Ashika Stock Broking Ltd (ASBL). ASBL is a wholly owned subsidiary of Ashika Global Securities Private Limited, a registered non-deposit taking NBFC Company, and it has a wholly owned subsidiary named Ashika Stock Broking IFSC Private Limited, a registered stockbroker of INDIA INX and NSE IFSC Limited at GIFT CITY, SEZ, Gujarat. It is engaged in carrying gamut of activities mainly Equity & equity derivative Segment, Currency Derivative Segment, Commodity Segment, Wholesale Debt Market Segment, Securities Lending & Borrowing Scheme, Self-Clearing Member, Clearing Member, Research Analyst services, Depository Participant - CDSL & NSDL, Mutual fund & IPO Marketing, Online Trading, Margin Trading facility (MTF). The company has a client base of more than 1,15,072 including HNI, Corporate & retail as on September 30, 2023. The Company's Mutual Fund Distribution AUM stands at ₹504 Cr. as on September 30, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	74.58	77.37	47.62
PAT	15.32	16.04	11.53
Interest coverage (times)	4.55	3.83	3.37
Total Assets*	341.74	360.90	549.53
Net NPA (%)	NA	NA	NA
ROTA (%)	5.05	4.56	5.07
PAT Margin (%)	20.54	20.73	24.21
Net Gearing (times)#	1.04	0.41	1.11

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available' *net of deferred tax and intangible assets #adjusted for margin pledged

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 - LT-Term Loan	-	-	-	15-Jun-2024	200.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	400.00	CARE A3

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 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	Non-fund-based - ST-Bank Guarantee	ST	400.00	CARE A3	-	1)CARE A3 (19-Oct-22)	-	-
2	Fund-based - LT-Term Loan	LT	200.00	CARE BBB; Stable	-	1)CARE BBB; Stable (19-Oct-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Non-fund-based - ST-Bank Guarantee	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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