Anand Rathi Share and Stock Brokers Limited

March 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	1,400.00	CARE A-; Stable / CARE A1	Revised from CARE BBB+; Stable / CARE A2+
Market linked debentures	50.00	CARE PP MLD A-; Stable	Revised from CARE PP-MLD BBB+; Stable
Commercial paper	50.00	CARE A1	Revised from CARE A2+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to long-term and short-term debt instruments and bank facilities of Anand Rathi Share and Stock Brokers Limited (ARSSBL) considers improved earning profile and increased market share in cash segment turnover. Ratings continue to factor in the company's experienced management team and long track record in the broking industry. Ratings also factor in the company's strategic importance to Anand Rathi Group and the improving earnings of the company driven by the growth in the business.

However, rating strengths are partially offset by the increased debt levels, modest scale of operations, the inherent market risk, and competitive pressures that ARSSBL is exposed to in 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 60% 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 4x on a sustained basis.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has taken a view based on the standalone financial profile of ARSSBL and factoring in its linkages with the Anand Rathi Group, as the company has shared brand name, board representation, managerial and operational support.

Outlook: Stable

CARE Ratings believes that ARSSBL will continue to demonstrate a stable business profile with the expectation of need-based timely support from the parent company, given the strategic importance, the shared brand name and the management control.

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

Detailed description of the key rating drivers:

Key strengths

The company's long track record and experienced management team

ARSSBL has been operational in the broking industry since 1994, with over 30 years of vintage in this industry. The company is led by Pradeep Gupta, the co-founder of the Anand Rathi group. He is the company's Managing Director having over three decades of experience in the financial market. He 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 company's investment services arm, having over 25 years of industry experience, and has been associated with the company since its inception. Vishal Laddha is the Chief Executive Officer of the company's institutional equity arm, with 28 years of industry experience. He is a Chartered Accountant and one of the well-known sales trader in the industry. He started his career with Anand Rathi group and has been associated with the company since then.

Strategic importance to the Anand Rathi group

ARSSBL is a wholly-owned subsidiary of Anand Rathi Financial Services Ltd (ARFSL), which is the holding company of the Anand Rathi Group and holds stake in the group's various subsidiaries. ARFSL's net worth as on March 31, 2023, was ₹2,036 crores. The Anand Rathi group is being headed by the Founder and Chairman, Anand Rathi, a gold medallist 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 group's business is largely divided into three sections: Investment services, Wealth Management, and non-banking financial company (NBFC) business. The entire investment services business is being done through ARSSBL. In 9MFY24, the promoters have infused funds to the tune of ₹328 crores in ARSSBL in the form of long-term debt.

Improving earnings profile and diversified income streams

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

In FY23, the company's total revenue grew by 11% to ₹469 crores mainly driven by interest income. The company's operations in FY23 were subdued due to geopolitical tensions resulting in lower turnover across the cash segment of industry. This coupled with increased interest and employee expense resulted in lower profitability in FY23 at ₹39 crores. However, the company performance improved in FY24 and the company has posted a total revenue of ₹471 crores and a profit after tax (PAT) of ₹53 crores in 9MFY24 driven by brokerage and interest income.

The company's total active client base grew and as on December 31, 2023, stood at 1,16,722 posting a Y-o-Y growth of 8%. The company has been witnessing a Y-o-Y improvement in the average daily turnover (ADTO), and FY23 witnessed a substantial growth of 66% with ADTO of ₹54,582 crores, driven by low-yielding F&O segment. The ADTO further increased to ₹1,01,527 crores in H1FY24. The company is a retail clientele-focused investment services company with institutional clients contributing less than 1% in the total turnover being traded by the company's client base in H1FY24.

The company has been focusing on having a diversified revenue stream 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 which due to strategic diversification into distribution of non-broking products, has reduced to 59% over the years leading into 9MFY24. In 9MFY24, it forms 59% of the total income followed by interest income which forms 30% and other income constituting 11% of the total revenue. Improvement in total income in 9MFY24 from FY23 led to improvement in PAT margin, which stood at 11.22% in 9MFY24 as against 8.31% in FY23. Given the increasing scale of operations, the cost to income ratio has improved in 9MFY24 and stood at 82% as against 88% in FY23; however, it is still on the higher side, as the company is further focusing to expand its operations by adding new branches and franchises.

Key weaknesses

Increased debt levels

ARSSBL's debt (incl. non-fund-based) levels has increased from ₹796 crores as on March 31, 2022, to ₹1,018 crores as on March 31, 2023, and further to ₹1,207 crores as on December 31, 2023. The debt levels are increased to support the growing MTF book and to make good the margin shortfall with exchanges post Securities and Exchange Board of India (SEBI) regulation which prohibited brokers from using clients' funds for BGs.

Margin Trading Facility (MTF) book of ARSSBL has grown from ₹305 crores as on March 31, 2022, to ₹586 crores as on December 31, 2023. Since FY23, overall broking industry has witnessed an increase in the MTF lending and this is expected to result in increased capital raising and in turn the debt levels of the brokers. Even though, the AR Group companies have shown support by infusing around ₹300 crores of capital as long-term debt in ARSSBL, its prospective debt levels remain a key monitorable with overall gearing expected to remain range bound under 3x to 3.5x.

Modest though improving scale of operations

ARSSBL's size continues to remain modest given the market share of the company. Its market share in cash segment improved marginally from 0.88% in FY23 to 0.94% in H1FY24, and in F&O segment the market share has remained at similar of 0.34% in H1FY24 as compared to FY23. Also, the market position in terms of active client base on NSE is deteriorating Y-O-Y due to the competition from discount brokers even though the active client base of the company is witnessing yearly growth [116,722 NSE Active clients as on December 31, 2023]. As on December 31, 2023, the market position was 27th against 24th position as on March 31, 2021. However, the company's focus is on increasing the volumes and average revenue per client.

Hence, the company's progress in improving the market share continues to remain key monitorable.

Presence in inherently risky and competitive broking business

About 59% of the company's revenue 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. The company is exposed to fierce competition in the highly competitive brokerage space, and with the introduction of 100% digital and zero brokerage firms, the brokerage rates are at competitive levels across the industry. With continuous efforts, traditional players such as ARSSBL have been successful in building the digital platform for its customers and survive in this competitive industry. The company's focus has always been on maintaining and building on client relationships and hence ARSSBL continues to offer its services in both the forms, traditional (offline) and digital investment services.

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

Susceptibility towards regulatory changes

The capital market industry has witnessed continuous regulatory revisions. With the objective of further enhancing the transparency levels and limiting the misuse of funds, SEBI has introduced a few regulations in the last few years.

In October 2022, SEBI brought the quarterly settlement regulations of clients' fund, which has resulted in lower interest income on FDs created out of clients' funds and increased operational costs for the brokers. In February 2023, SEBI designated ARSSBL, along with some other major stock brokers of the country, as a Qualified Stock Broker (QSB), which will result in brokers being under increased regulatory oversight and shall be required to meet enhanced obligations. In May 2023, SEBI prohibited stockbrokers from using client's funds for BGs. Brokers now deploy their own funds; hence, increase in the funding requirements will lead to higher finance cost. The on-book gearing will also increase for brokers. In June 2023, SEBI introduced a regulation under which stockbrokers are required to upstream clients' funds to clearing corporation. However, brokers can create FDs and pledge these FDs to CC and exchanges for margins. These funds must be up streamed to clearing corporation in the form of cash, lien on FD receipts or pledged of units of mutual fund overnight schemes. Similarly, the funds received from the clearing corporation should be further down streamed to the clients' accounts. This is expected to increase operational and compliance cost for the brokers.

CARE Ratings will continue to monitor ARSSBL's ability to adapt its technology, systems, and risk management processes in response to the constantly evolving regulatory landscape without any adverse impact on its overall business profile.

Liquidity: Strong

As on December 31, 2023, ARSSBL had a liquidity of ₹248.11 crores which includes unencumbered cash balance of ₹7.43 crores and undrawn sanctions of ₹240.68 crores, against a repayment obligation of ₹55.00 crores in the next 6 months. In addition to the above liquidity, the company has been maintaining sufficient margin with the exchange, over and above the required limit, thus providing additional comfort. The company's average margin utilization was around 36% in 9MFY24.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Broking Firms
Short Term Instruments
Market Linked Notes
CARE's Criteria for NBFCs
Factoring Linkages Parent Sub JV Group

About the company and industry

Industry classification

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

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, research analyst, a depository participant and mutual fund distribution 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, and mutual fund segment, among others. 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 89 branches.

Brief Financials (₹ crores)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Brokerage income	277	278	274
Total income	424	469	471
PAT	51	39	53
Total assets (net of deferred tax and intangible assets)	1,324	1,612	2,577
PAT margin (%)	12.08	8.31	11.22
RoTA (%)#	4.4	2.7	3.4*
RoTA (%)#	32.5	17.1	25.6*

A: Audited; UA: Unaudited.
Note: 'the above results are latest financial results available'
#Based on the calculation of CARE Ratings.

*Annualized.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crores)	Rating Assigned along with Rating Outlook
Commercial paper (Proposed)	-	-	-	-	50.00	CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	-	1,250.00	CARE A-; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST (Proposed)	-	-	-	-	150.00	CARE A-; Stable / CARE A1
Market linked debentures (Proposed)	-	-	-	-	50.00	CARE PP MLD A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crores)	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	Debentures-Market linked debentures	LT	50.00	CARE PP MLD A-; Stable	-	1)CARE PP-MLD BBB+; Stable (15-Feb-23)	-	-
2	Commercial paper-Commercial paper (Standalone)	ST	50.00	CARE A1	-	1)CARE A2+ (15-Feb-23)	-	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST	1400.00	CARE A-; Stable / CARE A1	-	1)CARE BBB+; Stable / CARE A2+ (16-Feb-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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	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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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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