Ashika Stock Broking Limited

September 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	200.00	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	400.00	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, improving 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. Although there is an improvement in ASBL's scale and profitability, its market share in terms of active clients and turnover remains relatively small.

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 49:51. The company has a client base of more than 1,18,461 including HNI, Corporate & retail as on June 30, 2024 (1,17,364 as on March 31, 2024) with an active clientele of 32,655 as on June 30, 2024 (31,773 as on March 31, 2024).

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

Comfortable capital structure:
The company has comfortable capital structure owing to regular equity infusions by the promoters. The last equity was raised in FY23 with the promoters via holding company Ashika Global Securities Private Ltd. infusing ₹77.54 crore for scaling up of margin trade funding business. No Equity capital was raised during FY24, and as per management, there are no plans to raise capital in FY25. However, the promoters may infuse Rs.100 crore as equity during FY26. ASBL's tangible net worth stood at ₹222.88 crore as on March 31, 2024 from ₹193.70 crore as on March 31, 2023 due to improvement in profitability. The overall gearing of the company stood at 1.46 times as on March 31, 2024, as against 1.24 times as on March 31, 2023.
Additionally, during FY24, ASBL's inter-corporate deposits grew significantly from Rs. 3.75 crore in FY23 to Rs. 97.40 crore majority of which were funded by family and friends of the promoter group. However, the parent infused funds to the tune of Rs.25 crores in FY25 in the form of long-term subordinated debt in the company and would continue to support the company on need based basis.

Improvement in earnings profile & profitability:
ASBL is into broking business and operates via franchise model through network of 305 Authorised Persons (Aps) as on March 31, 2024. The company's active client base has been consistently growing from 17,548 as on March 31, 2021, to 32,655 as on June 30, 2024 (31,773 as on March 31, 2024), out of which 96% are retail clients. As a result, the turnover has increased from ₹8,02,414 crore during FY23 to ₹9,91,288 crore during FY24. Although, there has been gradual increase in the number of clients and turnover the market share of the company continues to be small in the broking industry. Additionally, despite the intense competition in the broking industry, the average revenue per customer has risen to ₹19,132 for FY24 from 13,878 for FY23. Consequently, the broking revenue has increased to ₹58.43 crore as on March 31, 2024 as against ₹26.46 crore as on March 31, 2023.
The company has been focusing its MTF book so as to support earnings profile. ASBL's has reported margin trade funding (MTF) portfolio ₹150 crore as on March 31, 2024 largely in line with Rs. 143 crore as on March 31, 2023. ASBL's cost to income reduced from 68.55% during FY23 to 61.05% during FY24. For FY24, the company reported PAT of ₹29.43 crore [P.Y.: ₹16.27 crore] on total income of ₹116.88 crore [P.Y.: ₹77.38 crore]. As a result, the company reported increase in return metrics with ROTA of 6.13% during FY24 from 4.63% during FY23, led by increase in brokerage income. ASBL reported RONW of 14.14% during FY24 as against 11.12% during FY23.
The company's profitability has improved during the FY24 but sustainability of the same will be a key monitorable with the increasing scale of operation.

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 including increased operating cost 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 ₹150 crore as on March 31, 2024, top 20 clients comprised 21.39% which has reduced from 53.96% as on March 31, 2023.

Exposures to volatility in the capital markets and highly competitive nature of broking business:
ASBL's business is exposed to volatility in the capital markets as the company's majority of the revenue is linked to capital market activities. 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 319% during the period of August 2023 to June 2024.

As on March 31, 2024, ASBL had liquidity of ₹ 74.70 crore which includes unencumbered cash balance of ₹ 12.85 crore and undrawn sanction of ₹ 61.85 crore as against fund-based borrowings of ₹153.93 crore. Of these total borrowings, ₹97.40 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

Rating Outlook and Rating Watch
Policy on default recognition
Financial Ratios - Financial Sector
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 and Margin Trading facility (MTF). The company has a client base of more than 1,18,461 including HNI, Corporate & retail as on June 30, 2024 (1,17,364 as on March 31, 2024). The Company's Mutual Fund AUM stands at Rs. 611 crore as on June 30, 2024 (Rs. 553 crore As on March 31, 2024).

Brief Financials (₹ crore)	March 31, 2023 (A)**	March 31, 2024 (A)
Total operating income	77.38	116.88
PAT	16.27	29.43
Interest coverage (times)	3.81	3.60
Total Assets*	360.45	599.04
Net NPA (%)	NA	NA
ROTA (%)	4.63	6.13
PAT Margin (%)	21.03	25.18
Net Gearing (times)#	0.41	0.81

A: Audited; Note: 'the above results are latest financial results available' *net of deferred tax and intangible assets #adjusted for margin pledged; **Restated as per Ind AS

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	-	-	-	-	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 2024-2025	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
1	Non-fund-based - ST-Bank Guarantee	ST	400.00	CARE A3	-	1)CARE A3 (03-Jan-24)	1)CARE A3 (19-Oct-22)	-
2	Fund-based - LT-Term Loan	LT	200.00	CARE BBB; Stable	-	1)CARE BBB; Stable (03-Jan-24)	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.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: 91-120-4452002 E-mail: gaurav.dixit@careedge.in
Relationship Contact Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: +91-44-2850 1001 E-mail: pradeep.kumar@careedge.in	Sudam Shrikrushna Shingade Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: sudam.shingade@careedge.in Sehdev Pahwa Rating Analyst **CARE Ratings Limited** E-mail: Sehdev.pahwa@careedge.in

About us:

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