Alankit Assignments Limited

March 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	32.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	38.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	**70.50 (Rupees Seventy Crore and Fifty Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of bank facilities of Alankit Assignments Limited (AAL) continues to factor in the long track record of promoters in the broking business of over two decades, diversified revenue streams within broking and trading business, risk management systems in place, adequate liquidity. The ratings also derive comfort from AAL being part of Alankit Group having diversified businesses including e-governance services, financial services, healthcare, insurance broking etc. and valuation of AAL's investments (~20% stake) in Alankit Limited (rated CARE BBB; Stable/CARE A3) having overall market cap of ~Rs.200 crore.

The rating strengths are however partially offset by small size of operations, moderate profitability, highly competitive broking business, susceptibly to volatility in stock markets and high adjusted gearing owing to significant exposure to group companies.

Rating Sensitivities

Going forward, the ability of the company to profitably scale up its operations, diversify its revenue base while improving its capital structure and manage the risk emanating from volatility in the stock markets would be the key rating sensitivities.

Positive Factors

- Scale up of operations and improvement in profitability with RONW being > 8% on a sustained basis
- Diversification of income streams and reduction in reliance on capital markets
- Raise funding from diverse sources for the lending business at competitive costs

Negative Factors

- Any adverse impact of the ongoing IT Department search on the company or its promoters.
- Failure of risk management systems in the capital market segment resulting in losses at net level
- Increase in adjusted net gearing levels beyond 2.5 times
- Decline in cash surplus and liquidity buffers which could impact the risk absorption ability

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations and experienced promoters and management team

AAL was incorporated in January 1991 and has more than 2 decades of track record of operations in the broking business (cash, F&O and currency market). AAL is headed by Mr. Alok Kumar Agarwal, the founder and Managing Director who has nearly 30 years of experience in the financial and capital markets. He is a fellow member of the Institute of Chartered Accountants of India (ICAI). He is also a member of Institute of Financial Consultant (IFC, Canada) and Institute of Internal Auditors (IIA, USA). The is supported by a management team having experience in broking and trading segment.

Part of the Alankit Group with diversified operations; and holding of AAL in Alankit Limited (listed group entity) with a track record of profitable operations

AAL is a part of the Alankit Group which has a track record of over 25 years (having been established in 1995 as a Registerar and Transfer Agent). The group is now a conglomerate of 13 Group companies offering over 31 services across diverse segments viz. Financial Services (broking – cash, currency, commodity, derivatives), E-Governance, Insurance Broking (Life and Non-Life) & Health Care verticals. Alankit Group is headquartered in New Delhi with pan India presence with 21 regional

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

offices, with presence across the country (673 cities). The group also has presence in 3 overseas locations- London, Dubai & Singapore.

The main operating entity of the group is Alankit Limited (rated CARE BBB; Stable/A3) engaged in providing e-governance services. The company has a track record of profitable operations and is listed on the stock exchange with a Market Cap of nearly Rs.215 crore (as on Feb 20, 2020). The total market of AAL's holding stood at Rs.42 crore as on Feb 20, 2020 as against Rs.87 crore as on March 31, 2019. The book value of investments of AAL in Alankit Limited stood at Rs.33 crore as on Dec-19. AAL earned a dividend income of Rs.56 lacs in FY19 from its investment as against Rs.84 Lacs during FY18.

Diversified product profile albeit small scale of operations
AAL is a small size player in the capital markets offering broking and trading activities with a client base of over 50,000 with 31 branch offices and network of over 100 active franchisees. The net revenue from trading and broking services was Rs.30.04 crore during FY19 as against Rs.37.10 crore during FY18.

However, it has a diversified product profile offering broking services (net broking income accounted for 40% of total revenue in FY19), depositary services (11%), delayed payment charges viz. interest earned on Margin Trade Funding (4%), Services rendered as Registrar and Transfer Agent (23%), PMS & advisory services (7%) and proprietary trading (-2%). It also earns interest of upto 18% on credit extended to brokerage customers (7%). AAL, earns a majority of its income from core business of broking and allied activities (84% of the overall income) whereas it also develops customized software from which it derived 20% of its net income during FY18. AAL, also earns interest on bank deposits (kept as margin money against BG limits) and dividend income from its investment in Alankit Limited.

Risk management systems in place
AAL has adequate risk management system in the broking and proprietary trading segment. The margin limits are defined for the broking customers on a daily basis which are largely in line with the SEBI prescribed limits for leverage. AAL has a separate risk management team which continuously monitors the margin breach and liquidates the stocks in case required.

Key Rating weaknesses

Moderate profitability
The overall income and profitability of the company remains moderate owing to small scale of operations. AAL reported a PAT of Rs.2.76 crore in FY19 as against Rs.1.02 crore during FY18 on a net income of Rs.35.83 crore in FY19 as against Rs.50.87 crore during FY18. The higher income in FY18 was primarily on account of higher income earned as software development charges of nearly Rs.10 crore.

Volatile nature of capital markets, thin margins in broking due to highly competitive business segment
AAL derives majority of its revenue from stock broking and related product segments, which are inherently volatile in nature. Also, broking business in India is highly competitive and exposes the company to fierce competition from other broking firms.

***Exposure to group companies* through investments and unsecured loans extended to other entities**
The networth of AAL stood at Rs.79 crore as on Mar-18 (P.Y Rs.76 cr) whereas investment in group companies by AAL stood at Rs.52.40 crore as on Mar-19. The adjusted networth (net of investments in group companies) which is deployed in the business of AAL, stood at Rs.26 crore as on Mar-19. AAL has also extended inter-corporate advances of Rs.16.6 crore as on Mar-18 which has reduced to Nil as on Mar-19. However, the company has advanced an amount of Rs.12.62 crore for the purchase of property and hence the net deployment of capital towards the core business has reduced.

High adjusted gearing levels
AAL's borrowings consists of working capital limits to fund the operations for the broking and depository services especially to fund the broking customers on whose behalf shares are purchased which are usually realized within 4-5 days and also exchange receivables which are received upon settlement i.e. 2 days from the day of transaction. Overall receivables of AAL remain around Rs.20-25 crore including around Rs.7-8 crore receivables over 6 months pertaining to PFRDA and NPS related services.

For its broking operations, AAL also avails BG limits (current available limits of Rs.28 crore availed as on Mar-19) for getting trading limits on the exchange which is available against FDR margin of 50%. However, the overall adjusted gearing (i.e. debt including non-fund based limits reduced by FDR Margin deposits with banks as against the networth reduced by investments in group entities) was 1.68x as on Mar-19 as against 2.26x as on Mar-18. This is largely on accounts of substantial investment in group entities.

Income Tax Department search on the premises of the group

Income Tax Department had conducted a search at the premises of the group under Section 132 of the Income Tax Act, 1961 which concluded on October 23, 2019. The group, however had confirmed that no irregularities has been found during the search operations and no claims/ disclosures have been made against the company. Also, the company has not received any statement from the IT officials on the conclusive findings of said search. Going forward, any impact of the outcome of the same (if any) on the promoters or the financial risk profile of the company will be the key rating sensitivity

Liquidity: Adequate

AAL maintains base capital as required by the stock exchanges mainly in the form of bank guarantees, FDRs and Shares. The monthly margin utilization of AAL was moderate at approx. 62% for the 12 month period ending December, 2019. The unutilized margin offers liquidity cushion to AAL in the case of eventuality and avoid breach of margin limits. The excess margin is also used as a buffer to accommodate sudden spike in transaction volumes on any business day. AAL, maintains additional liquidity buffer of around Rs.4 crore (unutilised limits and in the form of free cash and bank balance) to meet sudden payin-requirements at the exchange and meet other expenses. The overall fund based limits remain almost utilised to the extent of 85-100%.

Analytical approach: Standalone; however factors in the strength derived from long track record of operations of the group including Alankit Limited, the flagship entity of the group in which AAL has a holding.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Short Term Instruments
Financial Ratios – Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company

Alankit Assignment Limited (AAL) is promoted by Mr Alok Kumar Agarwal and was incorporated in 1991 as a SEBI registered financial services and Stock Broking Company. AAL is headquartered in New Delhi and is primarily operating in the financial services segment through its 31 offices / branches. It also a network of over 100 active franchisees through which it extends broking and distribution services. Under the financial services, AAL provides broking services, depository services, portfolio management and advisory services (PMS) and Registrar and Transferor (RTA) services.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Net Income	50.87	35.83
PAT	1.02	2.76
Interest coverage (times)	1.43	1.93
Total Assets	145	137
RONW (%)	1.35	3.57

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	32.50	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	38.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (05-Mar-18)	1)CARE BB+; Stable (09-Mar-17) 2)CARE BB+; Stable (09-Jan-17) 3)CARE BB+ (16-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	32.50	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Apr-19)	-	1)CARE BBB-; Stable (05-Mar-18)	1)CARE BB+; Stable (09-Mar-17) 2)CARE BB+; Stable (09-Jan-17) 3)CARE BB+ (16-Sep-16)
3.	Non-fund-based - ST-BG/LC	ST	38.00	CARE A3	1)CARE A3 (04-Apr-19)	-	1)CARE A3 (05-Mar-18)	1)CARE A4+ (09-Mar-17) 2)CARE A4+ (09-Jan-17) 3)CARE A4+ (16-Sep-16)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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