

February 10, 2021

Share India Securities Limited: [ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term Non-fund Based – Bank Guarantee	125.00	[ICRA]A2; assigned
Total	125.00	

*Instrument details are provided in Annexure-1

Rationale

While assigning the rating, ICRA has taken a consolidated view of the business and financial profiles of Share India Securities Limited (SISL or the company), its seven subsidiaries and one associate company, together called the Share India Group (SIG or the Group).

The assigned rating favourably factors in the long track record of the promoters in capital market related businesses and the Group's adequate profitability indicators and capitalisation profile for its current scale of operations. The rating is, however, constrained by the limited diversification in the business with high dependence on proprietary trading and exposure to the inherent volatilities in capital markets. The Group's track record of profitable operations provides comfort. Furthermore, SISL has been focusing on diversifying the Group's business and revenue profile in recent years by foraying into other businesses like lending and distribution.

Going forward, SISL's ability to meaningfully diversify its revenue stream and maintain healthy earnings while managing the portfolio and market risk would be a key rating consideration.

Key rating drivers and their description

Credit strengths

Long track record of promoters in capital market related businesses – Incorporated in 1994, SISL is primarily engaged in strategy-based arbitrage/derivative (proprietary) trading with a presence in equity, commodity and currency broking. It is a part of the Share India Group, which recently forayed into other businesses such as lending, merchant banking, and mutual fund and insurance distribution. SIG's key promoters and management team have extensive experience of over two decades in the strategy-based trading business, along with other capital market related businesses.

Adequate profitability indicators – The Group has witnessed increasing profitability on a YoY basis on the back of cost optimisation resulting from economies of scale. The profitability in FY2019 and FY2020 was also supported by the merger of SISL with Total Securities Limited (TSL) in December 2019. The Group reported a net profit of Rs. 40.00 crore in FY2020, up from Rs. 7.96 crore in FY2017, representing a compound annual growth rate (CAGR) of 71%. Its cost-to-income ratio improved to 81.07% in FY2020 from 88.71% in FY2017, resulting in a higher profit after tax (PAT)/net operating income (NOI) ratio of 15.40% in FY2020 compared to 7.47% in FY2017. Further, on a provisional basis, the Group reported a net profit of Rs. 44.86 crore and PAT/NOI of 14.56% in 9M FY2021. However, the profitability is dependent on the Group's execution of strategy-based trading and the capital markets. Going forward, maintaining the profitability at the current levels will be a key monitorable.

Adequate capitalisation profile – SIG's capitalisation profile remains adequate (net worth of ~Rs. 223 crore as on September 30, 2020) in relation to the current scale of operations. This, coupled with the moderate debt levels, resulted in a comfortable gearing of 0.60 times as on September 30, 2020.

Credit challenges

Revenue from proprietary trading remains key source; gradual diversification in business profile provides comfort – As proprietary trading has always been the key revenue-and-profit driver, the variability of earnings remains high because of the high dependence on capital markets. The Group’s proprietary trading income has always accounted for ~55-60% of the NOI (~58% of the NOI in FY2020 and ~59% in H1 FY2021). The Group’s track record in the business, however, provides comfort. With the merger of SISL with TSL in December 2019, SIG has enhanced its strategy-based arbitrage/derivative trading business with more than 800 trained professional traders. The Group’s proprietary equity broking volumes increased to Rs. 5.18 lakh crore in FY2020 from Rs. 3.40 lakh crore in FY2018. Its proprietary trading income also increased to Rs. 150.83 crore in FY2020 from Rs. 77.44 crore in FY2018. The Group continued to report growth in its proprietary trading business, with an income of ~Rs. 113 crore in H1 FY2021.

In recent years, the Group has forayed into fee-based businesses like merchant banking and distribution of financial products in order to diversify its earnings profile. It has also added the lending business to its portfolio though its experience in the same remains limited. However, with a major chunk of its revenue and PAT coming from the proprietary trading business, the Group’s ability to manage the portfolio and market risk, employ adequate hedging strategies and achieve consistent earnings from the arbitrage business would be a key rating consideration.

Dependence on capital markets, which are inherently volatile and cyclical in nature – SIG’s revenues and profitability profile remain inherently dependent on the performance of the capital markets. This exposes the Group to the volatilities inherent in the capital markets. The risks are further accentuated as proprietary trading is its core business activity.

Liquidity position: Adequate

At the consolidated level, SISL’s liquidity position remained adequate with a free cash and bank balance of Rs. 38.32 crore, fixed deposits of Rs. 184.48 crore and liquid investments of Rs. 15.85 crore as on November 30, 2020. The Group’s total long-term debt obligations remain marginal at Rs. 0.04 crore in FY2021 and Rs. 0.07 crore in FY2022 as most of its borrowings are repayable on demand and do not have any fixed repayment schedule. Therefore, the Group has adequate liquidity in relation to its near-term repayment obligations and for placing excess margin at the exchange if required. Further, the proprietary trading book is liquid in nature, which means that SISL has the flexibility to square off its position in a short timeframe to meet any liquidity requirement.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a ramp-up in the scale of operations along with a diversification in the Group’s revenue stream, supported by sustained profitability and adequate capitalisation.

Negative factors – The rating could be downgraded if there is a deterioration in the Group’s financial performance and liquidity profile. Pressure on the rating could also arise in case of any change(s) in the regulatory environment, which may impact its business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry Consolidation and rating approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SISL, along with its seven subsidiaries and one associate company, which are all enlisted in Annexure-2

About the company

Incorporated in 1994, Share India Securities Limited (SISL) is a securities broking company registered with the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), the Multi Commodity Exchange (MCX) and the National Commodity & Derivatives Exchange (NCDEX). The company was promoted as FMS Securities Limited by Mr. Parveen Gupta and Mr. Rajesh Gupta and was renamed Share India Securities Limited in 2010.

SISL, a publicly listed company, serves as the holding company of the Share India Group, which is primarily engaged in the strategy-based arbitrage/derivate (proprietary) trading business. SIG also provides equity and commodity broking services to retail and high net worth individual (HNI) clients. During the last three years, the Group has diversified its portfolio by foraying into mutual fund and insurance distribution and lending and merchant banking services. Other key Group entities include Share India Fincap Private Limited (SIFPL; lending business), Share India Capital Services Private Limited (SICSPPL; merchant banking services), Share India Securities (IFSC) Private Limited (SISIFSCPL; derivative trading in Gujarat International Finance Tec-City) and Share India Insurance Brokers Private Limited (SIIBPL; insurance distribution business). Further, SISL incorporated a wholly-owned subsidiary, M/s Share India Global Pte. Ltd, in Singapore on August 14, 2020 to explore the strategy-based proprietary trading business in international equity markets.

The company reported a consolidated net profit of Rs. 40 crore on net operating income (NOI) of Rs. 260 crore in FY2020 compared to a net profit of Rs. 25 crore on NOI of Rs. 191 crore in FY2019. At the consolidated level, the Group's net worth stood at Rs. 193 crore as on March 31, 2020.

Key financial indicators (audited)

SIG	FY2019	FY2020	6M FY2021*
Brokerage Income (Rs. crore)	20.86	27.49	32.64
Fee Income (other than broking; Rs. crore)	0.79	0.00	0.27
Strategy-based Trading Income (Rs. crore)	160.64	215.48	161.57
Net Interest Income (Rs. crore)	3.95	8.58	-4.06
Other Non-interest Income (Rs. crore)	4.40	8.13	1.12
Net Operating Income (NOI; Rs. crore)	190.63	259.67	191.54
Total Operating Expenses (Rs. crore)	158.99	210.52	155.64
Profit before Tax (Rs. crore)	36.72	50.68	35.90
Profit after Tax (PAT; Rs. crore)	24.99	40.00	27.25
Net Worth (Rs. crore)	158.31	192.93	223.70
Borrowings (Rs. crore)	106.02	125.60	133.26
Gearing (times)	0.67	0.65	0.60
Cost to Income Ratio (%)	83.40%	81.07%	81.26%
Return to Net Worth (%)	21.60%	22.78%	26.17%
PAT/NOI (%)	13.11%	15.40%	14.23%

Source: Company, ICRA research; * Provisional numbers; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 10, 2021	-	-	-	
1	Non-fund Based Bank Guarantee	Short Term	125.0	-	[ICRA]A2	-	-	-	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund Based Bank Guarantee	NA	NA	NA	125.00	[ICRA]A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Share India Securities Limited	100.00% (rated entity)	Full Consolidation
Share India Fincap Private Limited	100.00%	Full Consolidation
Share India Insurance Brokers Private Limited	100.00%	Full Consolidation
Share India Securities (IFSC) Private Limited	100.00%	Full Consolidation
Share India Capital Services Private Limited	100.00%	Full Consolidation
Total Securities (IFSC) Private Limited	100.00%	Full Consolidation
Total Securities Overseas Limited	100.00%	Full Consolidation
Total Commodities (India) Private Limited	100.00%	Full Consolidation
Share India Commodity Brokers Private Limited	37.12%	Partial consolidation

Source: SISL annual report FY2020 and SISL H1 FY2021 investor presentation

Note: ICRA has taken a consolidated view of the parent (SISL) and its subsidiaries while assigning the rating

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