

Rating Rationale

Brickwork Ratings downgrades the rating to ‘BWR A3’ for the Bank Loan facilities aggregating ₹105 Cr of Anand Rathi Commodities Ltd and places the *Rating under Watch with Developing Implications*

Brickwork Ratings (BWR) has downgraded the **Rating¹** for the Bank Loan Facilities of Anand Rathi Commodities Ltd (ARCL or ‘the Company’) as follows:

Facility	Amount (₹ Cr)	Tenure	Rating	Rating History
Bank Guarantee (Non-Fund Based)	105.00	Short Term	BWR A3 (Pronounced as BWR A Three) <i>Rating under Watch with Developing Implications</i>	BWR A3+ (Pronounced as BWR A Three Plus) November 2014
Total	105.00	INR One Hundred and Five Crores only		

BWR has principally relied upon the audited financial results up to FY14, projected financials up to FY16, publicly available information and information/clarifications provided by the Company.

The rating draws strength from the established track record of the Company in the commodity broking business, experienced promoters in the financial sector, strong risk management and MI systems, established business model with strong client base, strong parentage and group’s diversified revenue profile. The rating is, however, constrained by significant fall in the brokerage income during 11M FY15, the group’s alleged involvement in NSEL and the ongoing EOW probe, volatility in commodity broking business on account of market sentiments, imposition of commodity transaction tax leading to lower revenues and margins and uncertainty with regards to the settlement in complaint against NSEL.

The Rating has been put *under watch with developing implications* on account of the ongoing EOW probe with regards to the group’s alleged involvement in the NSEL payment irregularities. The Company has re-iterated that they have not done anything wrong and have been co-operating with EOW throughout the investigation. However, the authorities state that the co-operation was not forthcoming. All this is likely to impact the business and reputation of the Company in an adverse manner; however, the actual effect is yet to be seen.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Background:

Anand Rathi Commodities Ltd (ARCL), earlier known as Navratan Commodities Limited, is a wholly owned subsidiary of Anand Rathi Financial Services Ltd. The Company was incorporated in 1991 at Mumbai and undertakes commodity brokerage activities at National Commodity & Derivatives Exchange Limited (NCDEX), Multi Commodity Exchange (MCX) and National Multi Commodity Exchange of India Limited (NMCE). It has a dedicated team of highly capable fundamental and technical analysts with a combined experience of more than 34 man years and a dedicated advisory team to ensure that research advisory & research is relevant to clients. The Company has direct reach to customers across the country with over 200 dedicated relationship managers. ARCL has 78735 clients with 132 own branches and 776 franchisees. It has its own trading platform 'OMNESYS' for the clients and a well-developed IT system support.

Risk Management- The Company has separate team for risk management, has policy based **conservative exposure limits** & margin cover and **auto-square off mechanism** in the event of margin shortfall to the clients.

Robust Management Information System (MIS): The Company has daily MIS monitoring branch efficiency, including utilisation of the capital placed with the exchange houses, monitoring client limits.

Management:

The Company is being managed by Mr. Anand Rathi, Mr. Pradeep Gupta, Mr. Amit Rathi and Mrs. Priti Gupta who serve as directors on the board of the Company. All the directors are well qualified and experienced in the financial sector and are assisted by a team of professionals looking after various aspects of the commodity broking business.

Financial Highlights:

ARCL reported Net Revenue of Rs. 25.11 Crs in FY14 with an EBITDA margin of (2.23%) and PAT Margin of 5.24%. The Tangible Net Worth stood at Rs. 10.49 Crs as on March 31, 2014 with an Overall Gearing of 0.45 times. On a provisional basis, the company reported a brokerage income of Rs. 11.24 Crs during 11M FY15 (April14-Feb15).

Rating Sensitivities:

Getting a clean chit in the ongoing EOW probe shall be considered positive for the rating. Going forward, the ability of the Company to increase its revenue & profitability, improve capitalization

and maintain effectiveness of cost and risk management in the highly competitive commodity broking business would form the key rating sensitivities.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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