

Rating Rationale

Brickwork Ratings assigns 'BWR A-' & 'BWR A2+' for the Bank Loan Facilities aggregating ₹ 631.28 Cr of Anand Rathi Share And Stock Brokers Ltd.

Brickwork Ratings (BWR) has assigned the following **Ratings**¹ for the Long-Term Bank Loan Facilities of ₹ 186.28 Cr and Short-Term Bank Loan Facilities of ₹ 445 Cr for Anand Rathi Share & Stock Brokers Ltd.

Limits	Type of Facility	Amount (₹ Cr)	Rating Assigned
Working Capital Limits	Fund Based	185.00	BWR A- (BWR A Minus) (Outlook: Stable)
Term Loan		1.28	
Bank Guarantee	Non-Fund Based	445.00	BWR A2+ (BWR A Two Plus)
Total Rated Amount		631.28	INR Six Hundred Thirty One Crores & Twenty Eight Lakhs only

The rating, inter alia, has factored long track record of operations in the broking business, experienced promoters with an established record in the financial sector, strong risk management and MI systems, purely client driven brokerage income, strong parentage [a wholly owned subsidiary of Anand Rathi Financial Services Ltd (ARFSL)], established business model with a strong clientele base, group's diversified business revenues, and group's backing by strong institution (Citi group) as a stake holder. However, rating is constrained by falling trading volume, pressures on Profit after tax profile, reputation risk arising out of the suspension of settlement by the National Spot Exchange Ltd (NSE), and uncertainties inherent in the broking business due to volatility in capital markets.

BWR has essentially relied upon the audited financial results for FY13, projected financials, publicly available information and clarification provided by the Company's management.

Background:

Established in 1991 as Navratan Capital & Securities Pvt Ltd, the Company later got converted into a Public Limited company in 2007 as Anand Rathi Share and Stock Brokers Ltd (ARSSBL). In 2007 BSE broking business of ARFSL was merged in ARSSBL. ARSSBL is a Mumbai-based stock broking firm and is a 100% subsidiary of Anand Rathi Financial Services Ltd (ARFS).

The Company is a member of BSE, NSE, and MCX currency. ARSSBL operates in the cash as well as derivative segment in the mentioned exchanges. ARSSBL has about 370,000+ Clients, about 1250+ offices which are spread across 360+locations across India. The Company also has 150 of its own branches.

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

The Market share in the broking segment has improved and stood at 1.75-2% in terms of volume.

Risk Management: The Company is not involved in proprietary trading, has separate team for risk management, and has conservative exposure limits & margin cover such as auto-square off mechanism in the event of margin shortfall to the clients.

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

Financial Performance:

During FY13, revenues of the Company have fallen from Rs117.77 Cr in FY12 to Rs111.36 Cr. This was due to overall slowdown in trading volumes in the capital market segment. However the Company has reported operating profit of Rs23.91 Cr in FY 13 against Rs15.23 Cr in FY 12. The operating profit margin has improved substantially to 21.47% in FY 13 from 12.93% in FY 12, due to the cost compression initiatives such as rationalization of employee expenses and efficient management of SG&A costs.

Company’s tangible net worth has marginally improved to Rs73.53 Cr in FY13 as against Rs72.04 Cr in FY12. The total borrowings of company have increased to Rs123.39 Cr for FY13 as against Rs99.05 Cr for FY12.

Rating Outlook:

The Performance of the Company is expected to be stable as the Company has reported revenues of Rs52.86 Cr in the 1HFY14. However, ARSSBL is operating in capital market segment which is highly competitive and exposed to investor sentiments, which ultimately are driven by macro-economic situation in domestic and global markets. Company’s ability to scale up its operations in highly competitive broking industry, improve earning profile while maintaining the effectiveness of cost and risk management, and remain adequately capitalized would be key rating sensitivities.

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