

Rating Rationale

Brickwork Ratings downgrades the rating to ‘BWR BBB’ & ‘BWR A2’ for the Bank Loan facilities aggregating ₹645 Cr of Anand Rathi Shares & Stock Brokers 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 Shares & Stock Brokers Ltd (ARSSBL or ‘the Company’) as follows:

Facility	Amount (₹ Cr)	Tenure	Rating	Rating History
OD (Fund Based)	225.00	Long Term	BWR BBB (Pronounced as BWR Triple B) <i>Rating under Watch with Developing Implications</i>	BWR A- (Pronounced as BWR A Minus) Outlook: Stable December 2013
Bank Guarantee (Non-Fund Based)	420.00	Short Term	BWR A2 (Pronounced as BWR A Two) <i>Rating under Watch with Developing Implications</i>	BWR A2+ (Pronounced as BWR A Two Plus) December 2013
Total	645.00	INR Six Hundred and Forty Five Crores only		

BWR has principally relied upon the audited financial results up to FY14, provisional financial results for 10M FY15, projected financials up to FY17, publicly available information and information/clarifications provided by the Company.

The rating draws strength from the established track record of the Company in the broking business, experienced promoters in the financial sector, strong parentage [a wholly owned subsidiary of Anand Rathi Financial Services Ltd], 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 fall in the revenue accompanied by EBITDA & Net losses in FY14, the group’s alleged involvement in NSEL and the ongoing EOW probe and volatility associated with the capital market and broking business.

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 say that the co-operation was not forthcoming. All this is likely to impact the business and reputation of the

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

Company in an adverse manner; however, the actual effect is yet to be seen.

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 & Stock Brokers Ltd (ARSSBL). In 2007 BSE broking business of ARFSL was merged in ARSSBL. ARSSBL is a Mumbai-based stock broking company and is a 100% subsidiary of Anand Rathi Financial Services Ltd (ARFSL).

The Company is a member of BSE, NSE and MCX currently. ARSSBL operates in the cash as well as derivative segment in the mentioned exchanges.

ARSSBL has about 370000+ clients, about 1250+ offices which are spread across 360+ locations across India. The Company also has 150 of its own branches.

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

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, Ms. Supriya 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:

ARSSBL's Net Revenue declined from Rs. 99.64 Crs in FY13 to Rs. 92.07 Crs in FY14. The company reported Operating and Net Losses of Rs. 8.69 Crs and Rs. 12.44 Crs respectively for FY14. The Tangible Net Worth stood at Rs. 66.09 Crs as on March 31, 2014 with an overall Gearing of 1.51 times.

Rating Sensitivities:

Getting a clean chit in the ongoing EOW probe shall be considered positive for the rating. ARSSBL operates in the capital market segment which is highly competitive and is exposed to investor sentiments which are driven by macro-economic situation in domestic and global markets. Company's ability to scale up its operations profitably in a highly competitive broking industry and maintain effectiveness of cost and risk management would form the key rating sensitivities.

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