

Rating Rationale

Brickwork Ratings Reaffirms the ratings to 'BWR BBB-' & 'BWR A3' for Bank Loan Facilities aggregating ₹ 58 Cr of SPA Securities Limited.

Brickwork Ratings has reviewed the following **Ratings**¹ for Bank Credit facilities availed from Bank of India and Axis Bank, amounting to Rs.58 Cr by SPA Securities Ltd. (SSL or the 'Company') :-

Facility	Previous Limit (₹ Cr)	Present Limit (₹ Cr)	Tenure	Previous Rating	Present Rating
Fund Based					
Cash Credit	50.00	50.00	Long Term	BWR BBB- (Outlook:Stable)	BWR BBB- (Pronounced as BWR Triple B Minus) (Outlook:Stable) Reaffirmed
Over draft Facility	4.00	4.00			
Non Fund Based					
Bank Guarantee	4.00	4.00	Short Term	BWR A3	BWR A3 Reaffirmed
Total	58.00	58.00	INR Fifty Eight Crores only		

BWR has principally relied upon the audited financial results of FY12– FY14, provisional financial results of FY15 and publicly available information and information/clarification provided by the company's management.

The rating has factored, *inter alia*, extensive experienced management in the institutional broking business industry; moderate track record & established market position in the debt distribution segment and benefits that the company derives from its presence across debt & equity segments of the capital markets; moderate financial risk profile as indicated by significant increase in the revenue from its core operation, moderate gearing coupled with improvement in the coverage Y-O-Y and liquidity position in FY14; limited requirement of RMS since all the broking deals for DII on exchanges are settled through their custodian.

The rating is however constrained by, high susceptibility to uncertainties inherent in the capital market risks and in turn credit risk which eventually exerts pressure on the profitability of the firm; limited product diversification since the company mainly deals with the bonds; low profit margin & low cash accruals is observed over the years, despite of substantial improvement in the revenue in FY14 onwards.

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

Background:

SSL is a closely held company, established in the year 1994, in the name of *SPA Securities Pvt. Ltd.* and subsequently was changed to *SPA Securities Ltd.* in 1998.

The company is focused primarily on providing securities broking services to institutional clients and is empaneled as an approved securities broker with all the major Nationalized, Private and Co-operative banks, corporate houses, Insurance Companies, Financial Institutions, Asset Management Companies and Provident Fund Trusts.

SSL is a SEBI registered securities Broking Company & is a member of Wholesale Debt Market, Capital Market and Futures and Options Segment of the National Stock Exchange of India Limited.

The SPA group is well diversified in wide ranges of services such as securities broking, merchant banking, wealth management, financial advisory, corporate finance, risk management and insurance broking.

Management Profile:

Mr. Kamal Somani & Mr. Sandeep Parwal are the promoter/directors of the company who are actively involved in the business.

Mr. Kamal Somani is a Chartered Accountant by qualification, has over three decades of experience in investment banking, securities broking & corporate finance.

Mr. Sandeep Parwal is a Chartered Accountant by qualification, has a rich experience in the various aspects of financial services.

Financial Performance:

In FY14, the firm has achieved revenue of Rs.2316.87 Cr as against Rs.1220.16 Cr in FY13. The operating margin and the net profit margin in FY 14 was 0.14% and 0.03%, respectively and it has not increased in proportion to the significant increase in the revenue on account of increase in the cost of procurement of the securities and other operational expenses.

The tangible net worth stood at Rs.23.42 Cr in March 2014 coupled with low gearing level of 0.83 times in FY 14.

The company has informed of having achieved revenue of Rs. 3007.94 Cr, with PAT of Rs. 0.72 Cr, in its FY15 (Provisional).

Rating Outlook:

The company's financial risk profile will remain modest over the medium term, marked by its adequate gearing and average debt protection metrics. SSL's operations in the short term are expected to be stable marked by its established position in the debt distribution segment and the rating outlook is expected to be stable over the next year.

Going forward, sustainability in the top line with significant improvement in the profit margins and improvement in coverage ratios along with improvement in the net worth of the company, would remain 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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