

## RATING RATIONALE

07 Dec 2023

### Anand Rathi Share and Stock Brokers Limited

**Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs 996.00 Crs. of Anand Rathi Share and Stock Brokers Limited and removes the rating from the Issuer Not Cooperating\* category**

#### Particulars:

Facility / Instrument **	Amount Rated (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (03 Nov 2023)	Present
<b>Fund Based Bank Loans</b>	56.00	<b>56.00</b>	Long Term	BWR BBB- /Stable / Migration to ISSUER NOT COOPERATING*/ Downgrade	<b>BWR BBB+ /Stable /Removal from ISSUER NOT COOPERATING*/ Upgrade</b>
<b>Non-fund Based Bank Loans</b>	940.00	<b>940.00</b>	Short Term	BWR A3 /Migration to ISSUER NOT COOPERATING*/ Downgrade	<b>BWR A2+ /Removal from ISSUER NOT COOPERATING* /Upgrade</b>
<b>Total</b>	996.00	<b>996.00</b>	<b>Rupees Nine Hundred and Ninety Six Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\*Details of Bank Loans provided in Annexures- I

#### RATING ACTION / OUTLOOK:

Brickwork Ratings (BWR) has upgraded the rating of Anand Rathi Share and Stock Brokers Limited (ARSSBL or the company) for its bank loan facilities of Rs. 996 Crs as tabulated above. The rating upgrade continues to draw strength from the company's established track record in the broking business, strong parentage (it is wholly owned by Anand Rathi Financial Services Limited (ARFSL)) and improvement in earning profile and profitability in H1FY24. ARSSBL caters to more than 600,000 Clients, with an employee strength of ~1700 and 1000+ registered sub brokers across its 1200+ offices (including Own branches and Franchisee Network) and 4796 terminals at various locations. These strengths are partially offset by stiff competition in the broking segment, competition from the digital entities who offer services at competitive charges, highly regulated environment and volatility associated with the capital market and broking business.

The Company showed a subdued performance in FY23 and Q1FY24 due to the prevalent market conditions. However, there is a marked improvement in the Q2/H1FY24 performance as the markets recover. The Company's ability to sustain its market position through continued active



client additions (primarily HNIs) and improve its earnings by diversifying its income profile will remain monitorable, given the volatile nature of the capital market industry.

The Stable outlook indicates a low likelihood of a rating change over the medium term. BWR believes ARSSBL's business risk profile would remain unchanged over the medium term.

**KEY COVENANTS OF THE INSTRUMENT/ FACILITY RATED:** As per the usual terms and conditions as stipulated for the bank loan facility (as referred to in Annexure I below).

## KEY RATING DRIVERS

### Credit Strengths:-

**Established track record supported by experienced management:** The Company has a long track record of nearly three decades and an established position in the equity broking business in India and has a share of 0.99% of Equity Cash, 0.34% share in F&O, 0.83% in Currency market and 0.38% in Commodities market. It is one of the oldest equity broking entities in the country. ARSSBL has 607,596 clients as on 30 June 2023 and around 1,200+ offices in 360+ locations across India. The company has over 70 branches and 130 branch desks. Mr. Anand Rathi has more than five decades of experience in various fields, including capital market and asset-based financing. He was the president of the Bombay Stock Exchange during 1999-2001. Mr. Pradeep Gupta, the managing director of ARSSBL, and the co-founder and vice chairman of the group has over three decades of experience in the capital market, specifically in equity broking. The company is supported by a professional management team with vast experience in the financial services domain.

**Strong Group support with a strategic importance to the Anand Rathi Group:** Anand Rathi Share and Stock Brokers Limited (ARSSBL) a 100% subsidiary of Anand Rathi Financial Services Ltd (Flagship Company of Anand Rathi Group). ARFSL, the group's flagship company, was founded by Mr Anand Rathi in the year 1994, holds the majority stake in various entities of the group, engaged in different lines of businesses. One of the group Companies viz. Anand Rathi Wealth Limited, engaged in the wealth management business, is listed on BSE and NSE platform since 14th December, 2021. ARSSBL gets financial and operational support from parent and group companies. The continued strong support from the group is a key credit strength.

**Healthy capitalization coupled with moderate Gearing levels:** Tangible net worth has been improving over the years on account of equity infusion by the holding Company and retention of profit. The TNW has improved from Rs. 111 Crs in March 2021 to Rs. 255 Crs in March 2023 and Rs. 285 Crs in September 2023. The Company has borrowings to the tune of Rs. 423 Crs as on 31 March 2023 which has increased to Rs. 712 Crs in September 2023. The borrowings are utilized to comply with the requirements of revised RBI regulations and to meet the working capital requirements of the Company. The gearing level has, therefore, worsened from 1.59x in March 2023 to 2.41x in September 2023 but it continues to be under manageable levels.



**Modest financial risk profile in spite of market volatility:** The Company had achieved revenue of Rs. 467 Crs in FY23 as against Rs 423 Crs in FY22, thereby registering a Y-O-Y growth of ~10%. Revenue for H1FY24 stood at Rs. 292 Crs indicating continued improvement in the top line. Operating margin showed a dip from 18.10% in FY22 to 14.27% in FY23. There was an improvement in H1FY24 - the operating margin was 16.12%. PAT registered a Y-o-Y de-growth of 23.9% and was at Rs 38.95 Crs in FY23 against 51.18 Crs for FY22. The PAT for H1FY24 stood at Rs. 28.57 Crs indicating that the company's year-end profit for FY24 could show a substantial improvement over that in FY23. With the present bullish market sentiment, it is expected that the growth would continue at least till June 2024.

#### **Credit Risks:-**

**Vulnerability from market movement:** The Company's revenue from its core business i.e. Broking income accounts for 65% of the total income in FY 2022-23. The earnings and profitability metrics improvement in H1FY24 was mainly on account of favorable market conditions resulting in increased broking income and profits; BWR assesses that the market risk on account of uncertainties in an unfavorable market condition may impact adversely on the earnings. The income from other distribution products like Mutual funds, portfolio management services etc. had increased from Rs 28 Crs in FY22 to Rs 33.69 Crs in FY23. It reached Rs. 15.69 Crs in H1FY24 and is expected to gradually increase over the medium term. The Company's ability to steadily diversify its revenue profile will be a key monitorable. Further, the Company has increased its exposure in the form of margin trading facilities classified as loans in the balance sheet, which had increased from Rs. 305 Crs in FY22 to Rs. 377 Crs in FY23. BWR considers its classification in the books and incremental exposure as a rating sensitivity, in view of the revised regulatory guidelines.

**Intense competition from existing and new age fintech brokers:** The Company faces intense competition from a large number of new age fintech broking Companies entering into the market and providing low cost products to the client. These Companies are able to attract a large number of retail clients and increase their client base since retail clients are more price sensitive and are diverting towards the technology and competitive price being offered by them. Therefore, the Company's key broking business remains exposed to market, economic and social factors that drive investor sentiment. Since March 2020, when the COVID pandemic led to complete lockdown, the stock markets have seen high retail participation and increase in the daily trading volume on account of people staying at home. A significant proportion of client additions at the industry level are in the age bracket of 25-30 years. These retail clients were attracted towards the low cost new age players in the Industry offering low brokerage as compared to established players. While this has benefited ARSSBL as well as other broking players, long-term sustainability of the market momentum will remain a key monitorable.

ARSSBL is trying to mitigate the competition by offering additional value added services which these fintech players do not/cannot provide.

**Inherent volatility in the Industry and strict regulations:** Over the last couple of years, the broking industry has witnessed continuous regulatory revisions. With the objective of further



enhancing the transparency levels and limiting the misuse of funds, the Securities and Exchange Board of India (SEBI) continues to tighten regulations on broking firms. Some of these regulations include upfront margin collection for intraday positions, strict guidelines for Margin trading facility, restrictions on use of client funds for maintaining margins etc. The regulations of upfront margin collections for intraday trading shall reduce the trading volume generated through retail clients. Furthermore, the shares owned by investors can be lien-marked with the respective broker instead of having to follow the current practice of transferring it to the broker's pool account. Though these regulations shall provide transparency in the operations of the broking companies, it will have an impact on the overall trading volumes. The company's operating performance is linked to the capital markets, which are inherently volatile as they are driven by economic and political factors as well as investor sentiments. Trading volume and earnings depend heavily on the level of trading activity in the capital market. Given the competition from larger brokerages and technology focused new entrants, the ability of the Company to grow its brokerage revenues on a sustainable basis will be a key monitorable.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

BWR has taken a standalone approach of Anand Rathi Share and Stock Brokers Limited for arriving at the ratings. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

#### **RATING SENSITIVITIES**

##### **Positive:**

- A sustained improvement in trading volumes with corresponding increase in the revenue and profitability
- Diversification of earnings profile without significantly affecting the broking income
- Improvement in market share

##### **Negative:**

- Substantial decline in broking volumes and profitability
- Increase in gearing levels beyond 4.5x

#### **LIQUIDITY POSITION: ADEQUATE**

As on 30 September 2023, ARSSBL had adequate liquidity of Rs. 35.12 Crs in the form of Cash and Bank balances and Rs. 205.75 Crs totaling to Rs. 240.87 Crs, against repayment obligations of Rs. 146.50 Crs up to March 2024.

#### **COMPANY PROFILE**

Anand Rathi Share and Stock Brokers Limited (ARSSBL) is a 100% subsidiary of Anand Rathi Financial Services Limited. ARSSBL is in the business of equity, commodity and currency trading, and is a member of all the segments of the NSE, BSE, NCDEX, MCX and MSEI. ARSSBL was established in 1991 as Navratan Capital & Securities Private Limited and was later converted into a public limited company in 2007 as Anand Rathi Share and Stock Brokers Limited. Anand Rathi Group comprises ARFSL (flagship company), Anand Rathi Global Finance

Limited, ARSSBL, Anand Rathi Commodities Limited, Anand Rathi Insurance Brokers Limited, Anand Rathi Wealth Limited, Anand Rathi Advisors Limited, Anand Rathi IT Private Limited.

**KEY FINANCIAL INDICATORS (Standalone)**

Key Parameters	Units	FY22	FY23	H1FY24
Result Type		Audited	Audited	Unaudited
Revenue from Operations	Rs in Crs	423.27	468.63	292.09
PAT	Rs in Crs	51.18	38.95	28.58
Net Profit Margin (%)	%	12.09	8.31	9.78
Tangible Net worth	Rs in Crs	215	255	285
Gearing	Times	1.21	1.59	2.41
Total Assets	Rs in Crs	1344	1630	2331

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal and suspended)**

Sr. No.	Name of Facility/ Instrument	Current Rating (2023)			Rating History for the past 3 years		
		Type	Amount (Rs. Crs)	Rating	2022	2021	2020
1	Fund Based	Long Term	56.00	BWR BBB+ /Stable /Removal from ISSUER NOT COOPERATING*/ Upgrade BWR BBB-/Stable/ Migration to ISSUER NOT COOPERATING*/ Downgrade (03 Nov 2023)	BWR BBB+/Stable /Reaffirmed (4 Aug 2022)	BWR BBB+/Stable /Reaffirmed (27 Jul 2021) BWR BBB+/Stable /Reaffirmed (08 Jan 2021)	BWR BBB+/Stable /Upgrade (31 July 2020)
2	Non Fund Based	Short Term	940.00	BWR A2+ /Removal from ISSUER NOT COOPERATING*/ Upgrade BWR A3/Migration to ISSUER NOT COOPERATING*/ Downgrade (03 Nov 2023)	BWR A2+ /Reaffirmed (4 Aug 2022)	BWR A2+ /Reaffirmed (27 Jul 2021) BWR A2+ /Reaffirmed (08 Jan 2021)	BWR A2+ /Upgrade (31 Jul 2020)

Total	996.00	Rupees Nine Hundred and Ninety Six Crores only
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### COMPLEXITY LEVELS OF THE INSTRUMENTS

Bank Loans: **Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

#### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Securities & Broking Firm](#)
- [Policy on Issuer Non Cooperation](#)

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### Anand Rathi Shares and Stock Brokers Limited

#### ANNEXURE I - Details of Bank Facilities rated by BWR

Sr. No.	Lender Name	Type of Facility	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Axis Bank	Overdraft	30.00	-	30.00
2	Axis Bank	Bank Guarantee	-	250.00	250.00
3	Bank of India	Overdraft	21.00	-	21.00
4	Bank of India	Bank Guarantee	-	150.00	150.00
5	Union Bank of India	Overdraft	5.00	-	5.00
6	Union Bank of India	Bank Guarantee	-	100.00	100.00
7	Bank of Baroda	Bank Guarantee	-	100.00	100.00
8	IndusInd Bank	Bank Guarantee	-	90.00	90.00
9	State Bank of India	Bank Guarantee	-	200.00	200.00
10	Federal Bank	Bank Guarantee	-	50.00	50.00
	<b>Total</b>		<b>56.00</b>	<b>940.00</b>	<b>996.00</b>
	<b>Total Rs. Nine Hundred Ninety Six Crores only</b>				



## **ANNEXURE II - NCD DETAILS: N.A.**

## **ANNEXURE III List of entities consolidated: Nil**

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