

Rating Report

Brickwork Ratings downgrades the rating to ‘BWR A3’ for the Bank Loan facilities aggregating ₹ 105.00 Cr of Anand Rathi Commodities Ltd and places the Rating under Watch with Developing Implications.

Brickwork Ratings (BWR) has downgraded the **Ratings**¹ 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.

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

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

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.

Key Rating Determinants:

Getting clean chit in EOW probe: ARCL's clients had invested an amount of Rs. 613 Crs in NSEL. As part of the EOW probe, the managing director of Anand Rathi Financial Services Ltd – Mr. Amit Rathi (who is also a director in ARCL) was arrested on the charges of mis-selling NSEL products and other charges. He later got bail; however, EOW has continued its probe on his alleged involvement in the issue. This has resulted into a reputation risk for the group as a whole that can lead to lower business and ultimately result in financial troubles as well. Therefore, getting a clean chit in the ongoing probe will be an important rating factor.

Established Business Model: The Company has established business model with more than 78000 active clients, 132 own branches and 776 franchisees. The Company has strong risk

management policies and information management systems leading better operational efficiencies and risk management.

Established Track Record & Diversified Revenue Profile of the Group: ARCL belongs to the Anand Rathi group which has its operations in multiple segments of financial services such as equity, commodity and currency broking, investment banking, private wealth management and insurance broking. The group has been in existence for two decades.

Volatile Business Environment: The overall commodity broking business has remained volatile over the last one year due to poor market sentiments and imposition of commodity transaction tax on agro commodities leading to higher cost of trading for customers and lower revenue and margins for commodity brokers.

Rating Sentivities:

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.

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Anand Rathi Commodities Ltd
Annexure I – Profit & Loss Account Summary

Profit and Loss Account (Rs. Crs)	FY11 (A)	FY12 (A)	FY13 (A)	FY14 (A)
Net Revenue	35.55	38.91	38.06	25.11
Employee Cost	14.97	16.97	17.85	12.29
Selling, General and other Administrative expenses	18.94	19.72	21.27	13.38
Operating Expenses	33.91	36.69	39.11	25.67
OPBDIT	1.64	2.22	-1.05	-0.56
Depreciation/Amortization/Impairment	0.15	-0.01	0.13	0.11
OPBIT	1.49	2.23	-1.18	-0.67
Interest and Finance Charges	1.09	3.31	1.48	1.47
OPBT	0.40	-1.08	-2.66	-2.14
Non-Operating Income(Expenses)	1.90	3.29	4.75	3.87
PBT	2.30	2.21	2.09	1.74
Provision for Taxes	0.79	0.59	0.77	0.42
PAT	1.51	1.62	1.32	1.32

Anand Rathi Commodities Ltd
Annexure II – Balance Sheet Details

LIABILITIES (Rs. Crs)	FY11 (A)	FY12 (A)	FY13 (A)	FY14 (A)
Equity and Reserves	7.31	7.91	9.21	10.52
Share capital	0.35	0.35	0.35	0.35
Reserves and Surplus	6.45	7.57	8.86	10.18
Deferred Tax liability	0.04	0.06	0.00	0.04
Current liabilities	121.40	129.07	121.23	56.81
Short-Term Borrowings	0.01	5.05	0.00	4.75
Trade Payables	118.15	121.33	118.65	49.92
Other Current Liabilities	0.82	1.07	1.02	0.80
Short-Term Provisions	2.42	1.55	1.54	1.33
Total Liabilities	128.74	137.04	130.44	67.36
ASSETS				
Non-current assets	3.17	12.57	10.18	8.23
Net Fixed assets	0.44	0.75	0.59	0.51
Net Intangible assets	0.10	0.07	0.06	0.03
Non-Current Investments	1.87	10.92	8.47	6.15
Long Term Loans and Advances	0.75	0.73	1.05	1.54
Current assets	125.58	124.47	120.27	59.13
Trade Receivables > Six Months	3.37	4.58	6.84	9.44
Trade Receivables < Six Months	46.49	73.56	79.07	15.76
Cash and Cash Equivalents	33.44	36.11	30.90	28.49
Short-Term Loans and Advances	41.28	9.03	2.08	1.21
Other Current Assets	0.99	1.19	1.37	4.23
Total Assets	128.74	137.04	130.44	67.36

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Annexure III – Key Financial Ratios

Key Ratios	Units	FY11 (A)	FY12 (A)	FY13 (A)	FY14 (A)
Total Debt	Crores	0.04	5.18	0.03	4.75
Tangible Net Worth	Crores	7.21	7.84	9.14	10.49
Total Debt/TNW	Times	0.01	0.66	0.00	0.45
Long Term Debt/TNW	Times	0.00	0.01	0.00	0.00
TOL/TNW	Times	16.84	16.46	13.26	5.42
ISCR	Times	1.50	0.67	-0.71	-0.38
Net Cash Accruals/Total Debt	Times	43.85	0.29	60.05	0.31
Net Cash Accruals/Long Term Debt	Times	67.29	27.25	NA	NA
Net Profit Margin	%	4.26	4.16	3.46	5.24
Operating Profit Margin	%	4.61	5.70	-2.76	-2.23
ROCE	%	20.58	22.06	-10.66	-5.47
Current Ratio	Times	1.03	0.96	0.99	1.04
Days Receivables	Days	512	600	787	807