

Rating Report

Brickwork Ratings assigns 'BWR A-' for the long term bank loan facilities and 'BWR A2+' for the short term bank loan facilities of Anand Rathi Share And Stock Brokers Ltd.

Brickwork Ratings (BWR) has assigned the **Ratings**¹ of BWR A- (Pronounced BWR A minus)[^] with a stable outlook for Anand Rathi Share And Stock Brokers Ltd.'s long term bank loan facilities and assigned the rating of BWR A2+ for the short term bank loan facilities as mentioned below:

Limits	Type of Facility	Amount (₹ Cr)	Rating Assigned
Working Capital Limits	Fund Based	185.00	BWR A- (BWR A minus) (Outlook: Stable)
Term Loan	Fund Based	1.28	
Bank Guarantee	Non Fund based	445.00	BWR A2+ (BWR A Two plus)
Total Rated Amount		631.28	

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, 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).

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

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.

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 Rs 117.77 Cr in FY12 to Rs 111.36 Cr. This was due to overall slowdown in trading volumes in the capital market segment. However the Company has reported operating profit of Rs 23.91 Crs in FY 13 against Rs 15.23 Crs 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 networth has marginally improved to Rs 73.53 Cr in FY13 as against Rs 72.04 Cr in FY12. The total borrowings of company have increased to Rs 123.39 Crs for FY13 as against Rs 99.05 Cr for FY12.

Abridge Balance Sheet, P&L, and Key financial Ratios of the Company for the period FY 11-FY 13 are shown in Annexure I.

About the Group

The Group provides financial services such as retail broking, institutional broking, investment banking, distribution, and also capital market related funding.

SLN	Group	Business Activity	Total Revenue	PAT	Net worth	Debt
1	Anand Rathi Financial Services Ltd (ARFSL)	Advisory & Distribution Income (PMS & MF brokerage)	35.30	0.96	142.68	0.00
2	Anand Rathi Shares & Stock Brokers Ltd	Equity Broking	113.28	3.28	84.44	106.32
3	Anand Rathi Commodities Ltd	Commodities Broking (MCX)	42.80	1.31	9.20	0.00
4	Anand Rathi Insurance Brokers Ltd	Insurance Broking	5.17	0.12	3.64	
5	Anand Rathi Global Finance Ltd	NBFC (Loans against securities)	31.56	5.90	102.21	5.00
6	AR Venture Funds Mgt Ltd	Fund Management (RE fund)	0.81	0.14	6.05	0.00
7	Anand Rathi Advisors Ltd	Investment Banking (IPO and M&A)	14.37	0.07	9.65	0.00
8	Anand Rathi Middle East DMCC	Member of DGCE exchange-Dubai (Gold & Commodities)	2.12	0.49	2.29	5.36

Rating Outlook:

The Performance of the Company is expected to be stable as the Company has reported revenues of Rs 52.86 Crs 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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Annexure I
Financials

Balance Sheet (Rs. Crs)	2011 (A)	2012 (A)	2013 (A)
EQUITY AND RESERVES	78.71	81.16	84.44
Share capital	8.69	8.69	8.69
Reserves and Surplus	70.02	72.46	75.75
Non-current liabilities	5.24	9.42	14.56
Long-Term Borrowings	5.24	9.42	14.56
Current liabilities	348.03	309.07	347.19
Short-Term Borrowings	29.29	85.12	107.55
CPLD	6.06	4.51	1.28
Trade Payables (T+3)	290.52	202.80	221.98
Other Current Liabilities	8.96	9.52	8.58
Short-Term Provisions	13.19	7.12	7.81
Total Liabilities	431.98	399.65	446.20
Non-current assets	81.54	97.20	90.92
Net Fixed assets	34.26	38.98	33.21
Net Intangible assets	14.55	9.12	10.92
Non-Current Investments in Subsidiary	2.77	3.42	1.42
Deferred Tax Assets (Net)	9.52	8.86	6.82
Long Term Loans and Advances	17.59	33.56	34.22
Other Non-Current Assets	2.85	3.26	4.33
Current assets	350.43	302.45	355.28
Trade Receivables > Six Months	5.67	7.34	10.46
Trade Receivables < Six Months	181.09	185.51	170.63
Cash and Cash Equivalents (for BG)	145.74	82.80	130.38
Short-Term Loans and Advances	14.06	23.41	39.96
Other Current Assets	2.88	3.39	3.85
Total Assets	431.98	399.65	446.20

Profit and Loss Account (Rs. Crs)	2011 (A)	2012 (A)	2013 (A)
Total Operating Income	173.18	117.77	111.36
Operating Expenses	141.24	102.53	87.45
OPBDIT	31.94	15.23	23.91
Depreciation/Amortization/Impairment	11.37	5.89	7.62
OPBIT	20.57	9.34	16.29
Interest and Finance Charges	8.91	7.69	11.13
OPBT	11.67	1.65	5.17
Non-Operating Income(Expenses)	0.00	1.73	0.17
PBT	11.67	3.39	5.34
Provision for Taxes	4.62	0.94	2.05
PAT	7.05	2.45	3.29

Key Financial Ratios*	Units	2011 (A)	2012 (A)	2013 (A)
Total Debt	Crores	40.59	99.05	123.39
Tangible Net Worth	Crores	64.15	72.04	73.53
Total Debt/TNW	Times	0.63	1.37	1.68
Current Ratio	Times	1.01	0.98	1.02
ISCR	Times	3.59	1.98	2.15
DSCR	Times	3.07	1.17	1.41
Operating Profit Margin	%	18.45	12.94	21.47
PBT Margin	%	6.74%	2.88%	4.79%
Net Profit Margin	%	4.07	2.08	2.95
ROCE	%	21.61	7.26	9.25
Net Cash Accruals/Total Debt	%	56%	9%	10%
Net Cash Accruals/Long Term Debt	%	436%	95%	89%

*As per BWR Calculations