November 24, 2023

Standard Chartered Securities (India) Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	200.0	300.0	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Long-term fund-based/non-fund based bank lines	450.0	510.0	[ICRA]AAA (Stable); reaffirmed and assigned for enhanced amount
Total	**650.0**	**810.0**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Standard Chartered Securities (India) Limited's (SCSIL) parentage in the form of Standard Chartered Bank (UK) (SCB UK; rated A1 (Stable)/P1 by Moody's Investors Service). In addition to the shared brand name, which supports its financial flexibility, SCSIL benefits from board supervision, prudent risk management systems adopted from Standard Chartered Bank (SCB) Group's global practices, and operational synergies with the Group in the form of customer sourcing, cross-selling, and access to Standard Chartered India's retail clientele and branch network. The ratings also consider SCSIL's adequate capitalisation levels for the current scale of operations and its adequate liquidity profile.

With the ramp-up in the company's debt-funded margin trading facility (MTF) loan business, there has been an uptick in its borrowings and the gearing increased to 0.9 times as on September 30, 2023, from 0.6 times as on March 31, 2023. While the scale of the MTF loan book and associated funding requirements through commercial paper (CP) borrowings depend on market conditions and can be volatile, the increased working capital requirement in the broking business to fund incremental growth will primarily be supported by outside borrowings. Depending on market conditions, the MTF book and gearing level are expected to increase compared to the historical average. SCSIL also remains exposed to credit and market risks on account of the MTF loan book, given the nature of the underlying assets.

SCSIL's scale of operations and profitability indicators remains modest and its business profile has limited diversification with the broking as well as the MTF business being dependent on capital markets. This exposes the company to the risks associated with market volatility. The intense competition in the retail broking space is likely to keep the yields under pressure. Going forward, SCSIL's ability to scale up its client base and broking volumes while ensuring adequate asset quality in the MTF book would be imperative for improving its profitability.

The Stable outlook indicates ICRA's expectation of continued benefit from the company's parentage.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a part of SCB Group – SCSIL derives advantages from its affiliation with the SCB Group and benefits from operational and management support from the Group. Given its position as a bank brokerage house, the company has access to SCB India's high-net-worth clientele while it helps augment the bank's service portfolio by offering broking services to its clients and completes the entire wealth management suite of products. SCSIL also leverages the brand name and the parent's distribution network, which helps it expand its business while keeping customer acquisition costs under control. SCSIL also benefits from board supervision with SCB, India Branches senior management and board members, including its Chief Executive Officer, being on the company's board. Moreover, the shared brand name supports the company's financial flexibility. ICRA expects that support from the Group will be forthcoming in a timely manner, if required, going forward as well.

Adequate capitalisation and liquidity profile for current scale of operations – With SCSIL's operations in the retail broking space limited to SCB India's customer base, its capitalisation has been comfortable for the current scale of operations. However, given the management's intention of scaling up the MTF book and improving the company's presence in the broking business, the capital requirement may increase in the near to medium term. SCSIL's capital would be mainly used for meeting the margin requirements at the stock exchanges and for the MTF business in the near term. Historically, the company had a low leverage, though the scaling up of the MTF book has resulted in an increase in the leverage with its reported gearing rising to 0.9 times as on September 30, 2023, from 0.6 times as on March 31, 2023 (0.5 times as on March 31, 2022). The gearing is expected to rise further with the expected ramp-up in the MTF business in the near to medium term. Given SCSIL's importance to SCB India's operations, ICRA expects the company to receive timely capital support from the Group for the realisation of its growth plans while maintaining prudent capitalisation levels.

The company has an adequate liquidity profile with moderate utilisation of the margins placed with the stock exchanges (generally 40-80%). Its average margin utilisation (funded through own and client funds/securities) was around 62% in the last 12 months.

Credit challenges

Modest scale of operations and high client concentration – The company's scale of operations is relatively small with a nominal equity broking market share as client acquisition in the broking business is limited to SCB India's customer base. Further, the active clients in SCSIL's overall client base remain lower than larger brokers. This has kept its revenue and profitability indicators modest, with the return on equity (RoE) remaining range-bound at 4-6% over the years. Brokerage income and net interest income (NII) remain the key contributors to the overall revenue profile, with a share of 47% and 38%, respectively, in H1 FY2024 (38% and 44%, respectively, in FY2023). Also, customer concentration is high with the top 10 broking customers accounting for ~30% of the trade volume in the cash segment and ~70% in the futures & options (F&O) segment.

In the near to medium term, income growth and a subsequent improvement in the customer base, revenue and profitability will depend on the realisation of the envisaged pick-up in the digital customer onboarding of SCB India's customers. It will also depend on SCSIL's ability to acquire new clients outside SCB India's ecosystem and grow the MTF book further while maintaining the current level of asset quality. With competition in the cyclical broking industry expected to remain high, pressure on profitability cannot be ruled out, especially during downturns. However, the increasing financialisaton of savings and the low share of wallet of the equity segment in household savings indicate huge untapped potential for rapid expansion in the broking market over the longer term.

Exposed to risks inherent in capital market business as well as credit and market risks associated with MTF business — SCSIL forayed into the MTF business in FY2020, and it ramped up its MTF book to Rs. 317 crore as on September 30, 2023, from Rs. 12 crore as on March 31, 2020. It remains exposed to credit and market risks, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. Given the modest client base, the borrower concentration in the MTF book also remains high with the top 10 customers accounting for ~32% of the MTF loan book. However, SCSIL's risk management processes, which have been adopted from the global practices of the SCB Group, have helped it manage the business despite volatile capital market movements.

SCSIL's revenues remain dependent on capital markets, which are inherently volatile in nature. Its net brokerage income and NII from the MTF business and the deposit of upfront cash margins from the clients accounted for 47% and 38%, respectively, of the net operating income (NOI) in H1 FY2024, reflecting its limited presence in non-capital market related businesses. Hence, SCSIL's revenue profile and profitability remain vulnerable to market performance.

Liquidity position: Adequate

SCSIL's funding requirement is primarily for placing margins at the exchanges and growing the MTF book. Its margin utilisation ranged between 40% and 80% (basis month-end data) during September 2022 to August 2023, with the average cash margin placed on exchanges (including client funds) aggregating ~Rs. 112 crore during this period. As on September 30, 2023, SCSIL had total borrowings of ~Rs. 287 crore, of which ~Rs. 84 crore is due for repayment within six months. Against this, it had an unencumbered cash and bank balance of ~Rs. 3 crore and drawable but unutilised lines of Rs. 201 crore. Additionally, the MTF book stood at Rs. 317 Crore as on September 30, 2023, which can be liquidated at short notice to generate liquidity if required. SCSIL also enjoys financial flexibility, as a part of the SCB Group, and the same is evident from the regular CP issuances and competitive borrowing cost.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on SCSIL's ratings could arise if there is a deterioration in the credit profile of SCB UK, lower-than-expected support from the parent group or a weakening in the linkages with the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Broking Rating Approach – Implicit Support from Parent or Group
Parent/Group support	SCB UK The ratings factor in the high likelihood of support from SCB UK, given the shareholding and shared brand name.
Consolidation/Standalone	Standalone

About the company

SCSIL is a wholly owned subsidiary of Standard Chartered Bank (Mauritius) Limited (SCBM) and a step-down subsidiary of SCB UK. SCBM acquired the company from Securities Trading Corporation of India (STCI) during 2008-2010. Prior to the acquisition, Standard Chartered Securities was known as UTI Securities Limited (UTISEL). SCSIL is a broking company with an operational track record of 29 years. It is registered as a trading and clearing member with Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). Currently, SCSIL offers broking facilities, margin trade facilities and distribution of third-party products like corporate fixed deposits and bonds. SCSIL's net worth stood at Rs. 315 crore as on September 30, 2023, compared to Rs. 289 crore as on March 31, 2022. It reported a profit after tax (PAT) of Rs. 10 crore in H1 FY2024 compared to Rs. 12 crore in FY2023.

In 2007, SCBM had agreed to acquire UTISEL from STCI in three tranches. In the first tranche, SCBM acquired a 49% stake in January 2008, after which the company's name was changed to Standard Chartered-STCI Capital Markets Limited. A further 25.9% stake was acquired on December 2008, as a part of the second leg of the transaction, increasing the total stake to 74.9%. As the last part of the acquisition, SCBM increased its stake to 100% by acquiring the residual stake of 25.1% in October 2010. Consequently, the company became a wholly owned subsidiary of SCBM and was renamed Standard Chartered Securities (India) Limited.

Key financial indicators (audited)

SCSIL	FY2022	FY2023	H1 FY2023	H1 FY2024
Net brokerage income	31.3	24.9	12.0	19.4
Trading income	0.0	0.0	0.0	0.0
Fee income	9.6	11.9	6.1	6.1
Net interest income	23.3	29.0	13.2	15.6
Net operating income (NOI)	64.2	66.0	31.3	41.1
Total operating expenses	40.9	48.0	23.1	26.7
Profit before tax	23.3	18.0	8.2	14.4
Profit after tax (PAT)	16.5	11.9	5.8	10.1
Net worth	289.3	296.3	291.9	314.9
Borrowings	140.5	185.4	325.2	287.5
Gearing (times)	0.5	0.6	1.1	0.9
Cost-to-income ratio	64%	73%	74%	65%
Return on net worth	6%	4%	4%	7%
PAT/NOI	26%	18%	19%	25%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Nov 24, 2023	Nov 30, 2022	Mar 31, 2022	-
1	**Long-term fund-based/non-fund based bank lines**	LT	510.0	278.1	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-
2	**Commercial paper***	ST	300.0	60.0	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	-

*LT – Long term; ST – Short term, *CP outstanding data is on November 20, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based/non-fund based bank lines	Simple
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details as on November 20, 2023

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based/non-fund based bank lines	NA	NA	NA	510.0	[ICRA]AAA (Stable)
INE472H14219	Commercial paper	Sep-20-23	7.60%	Dec-19-23	25.0	[ICRA]A1+
INE472H14227	Commercial paper	Sep-29-23	8.00%	Dec-28-23	25.0	[ICRA]A1+
INE472H14185	Commercial paper	May-4-23	8.10%	Feb-5-24	10.0	[ICRA]A1+
Yet to be placed	Commercial paper	NA	NA	7-365 days	240.0	[ICRA]A1+

Source: Company, ICRA Research; CP outstanding data is as on November 20, 2023

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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