

December 18, 2023

Sharekhan Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	3,500.0	3,500.0	[ICRA]A1+; reaffirmed
Total	3,500.0	3,500.0	

*Instrument details are provided in Annexure I

Rationale

On December 12, 2023, Mirae Asset Securities Co Ltd (rated Baa2 Stable by Moody's; hereafter referred to as MAS or Mirae Group) announced its plan to acquire a 100% stake in Sharekhan Limited (SKL) and its subsidiaries (hereafter referred to as the Sharekhan Group) from the BNP Paribas Group. The share purchase agreement was signed on December 13, 2023. MAS, along with its stepdown Indian subsidiary – Mirae Asset Capital Market (India) Private Limited (MACM), will acquire a joint stake in the Sharekhan Group. MACM is a capital market service provider with a presence in retail and institutional broking, investment banking, wealth advisory and the distribution of financial products. It has been operating in India since October 2017. MAS is Korea's largest securities company, in terms of asset size, providing financial services including institutional sales, wealth management and investment advisory services. It was established in September 1970 as Dong Yang Securities Co., Ltd and has been listed on the Korea Exchange since September 1975. The acquisition will be through an all-cash deal aggregating about Rs. 3,000 crore.

The acquisition is subject to the receipt of regulatory approvals and is likely to be completed in two to five quarters. In the interim, the Sharekhan Group will continue to operate as a subsidiary of the BNP Paribas Group (BNP Paribas SA is rated Aa3/Stable/P-1 by Moody's). The BNP Paribas Group has expressed that it will continue to provide operational and managerial support and supervision till the transaction is concluded. Moreover, despite the overlap in the businesses, both Sharekhan Group and MACM will continue to operate as independent entities during this period. On the conclusion of the transaction, the operational and managerial practices followed by MAS globally are expected to be followed by the Sharekhan Group as well. Further, with the acquisition, the Mirae Group's presence in the Indian domestic capital market, especially in the retail broking space, is expected to strengthen significantly, though customer retention till the conclusion of the transaction will be a driver of the same.

The rating continues to be supported by the Sharekhan Group's considerable track record of over two decades in the equity broking business, its well-established position in retail broking and capital market related lending activities, and its adequate financial, capitalisation and liquidity profiles. While the announcement is not expected to materially impact the operational and financial performance of the Sharekhan Group, it would be a key monitorable. ICRA will continue to monitor the Sharekhan Group's operational and financial performance and will take appropriate rating action if required. In this regard, ICRA has already noted the uptick in borrowing costs following the rollover of commercial papers (CPs) in the preceding weeks. In the last two weeks, the Sharekhan Group had replaced all its money market borrowings maturing in the immediate future with relatively longer-tenor CPs. As of December 14, 2023, the outstanding CPs aggregated Rs. 2,350 crore with Rs. 1,850 crore maturing in December 2024, Rs. 250 crore in November 2024 and Rs. 200 crore in June 2024. The ability to secure funding at competitive costs will remain a driver of the scale of operations and profitability.

The rating also takes into account the high dependence on broking income, which remains susceptible to the extent of competition in the industry and the inherent volatility associated with capital markets. Also, the Sharekhan Group's leverage increased in the last two fiscals, given the increase in the loan book vis-à-vis the preceding period, and the higher working capital requirement amid the evolving regulatory landscape besides the hefty dividend payout in FY2021. Nevertheless, the

Group's capitalisation level remains adequate. As of September 30, 2023, SKL's consolidated net worth is estimated at Rs. 1,750 crore with the consolidated gearing estimated at 1.6 times. The rating also considers the credit and market risks associated with the margin trade funding (MTF) and capital market related lending businesses, given the nature of the underlying assets. Going forward, the Group's ability to maintain adequate asset quality and capitalisation will remain imperative. Further, its ability to seamlessly align with the evolving regulatory landscape, scale up the broking volume and maintain adequate profitability will be imperative.

ICRA has taken a consolidated view of SKL and Sharekhan BNP Paribas Financial Services Limited (SBPFSL; a subsidiary of SKL), hereafter referred to as the SKL Group or the Group.

Key rating drivers and their description

Credit strengths

Strong parentage – On December 12, 2023, MAS announced its plan to acquire a 100% stake in SKL and its subsidiaries. While the share purchase agreement was signed on December 13, 2023, the acquisition is subject to the receipt of regulatory approvals and is likely to be concluded in two to five quarters. In the interim, the Sharekhan Group will continue to operate as a subsidiary of the BNP Paribas Group. The BNP Paribas Group has expressed that it will continue to provide operational and managerial support and supervision till the transaction is concluded. The BNP Paribas Group has significant representation on SKL's board of directors. As of April 2023, the company had a nine-member board with five representatives from the BNP Paribas Group, who ensure that the operations are aligned with the parent's operations and policies. Further, SKL's Chief Operating Officer (COO), who is from the BNP Paribas Group, ensures that the parent has regular supervision and control over the Group's activities. Moreover, certain management functions (such as risk and treasury) of SKL report directly to BNPP.

On the conclusion of the transaction, the operational and managerial practices followed by MAS globally are expected to be followed by the Sharekhan Group as well. MAS is Korea's largest securities company, in terms of asset size, providing financial services including institutional sales, wealth management and investment advisory services. It was established in September 1970 as Dong Yang Securities Co., Ltd and has been listed on the Korea Exchange since September 1975.

Long track record in capital market related businesses and established position in retail broking – SKL has experience of over two decades in the equity broking space. It has a wide geographical presence with over 4,000 franchisees and branches as of November 2023. It is a full-service stockbroking company, primarily engaged in the retail equity broking segment. SKL registered a ~29% and ~10% increase in its average daily turnover (ADTO) in the futures & options (F&O) and cash segments, respectively, in 5M FY2024. Apart from broking, SKL, along with its subsidiary (SBPFSL), is engaged in various capital market related activities such as margin financing, loan against shares (LAS), initial public offering (IPO) financing, employee stock ownership plan (ESOP) financing, commodities trading, portfolio management services and mutual fund distribution.

Adequate financial profile and capitalisation of Sharekhan Group; however, net interest margin under pressure – The Sharekhan Group registered a healthy growth in revenues in FY2021 and FY2022 and reported its highest-ever profit after tax (PAT) of Rs. 265 crore in FY2022 (Rs. 214 crore in FY2021 and Rs. 101 crore in FY2020). Geopolitical tensions and the adverse macro-economic outlook dampened investor sentiment in FY2023, as reflected in the moderation in capital market activity, especially in the cash segment, and the rising interest cost. Nevertheless, with the recovery in the domestic capital market, especially in Q2 FY2024, PAT/net operating income¹ is estimated to have improved to 21.3% in H1 FY2024 from 16.8% in FY2023 (26.5% in FY2022). The return on equity is estimated at 11.4% (annualised) for H1 FY2024 (9.1% in FY2023). SKL's consolidated capitalisation profile remains adequate with a net worth of ~Rs. 1,750 crore and a gearing of 1.6 times as of September 30, 2023.

¹Net operating income is summation of net brokerage income, net interest income, other fee income and other income

Credit challenges

High dependence on equity broking for revenue – The equity broking segment remains the Sharekhan Group’s primary revenue driver, accounting for 60-70% of the consolidated net operating income. Furthermore, SKL is predominantly a retail broking player with a negligible presence in the institutional broking and other capital market segments. The Group started to focus actively on its lending business, which was primarily housed under SBPFSL, from FY2018 with plans of foraying into retail lending. SBPFSL subsequently realigned its strategy to focus on capital market related lending products like margin funding, LAS, IPO finance and ESOP funding.

The Group’s lending business witnessed growth in FY2021 and FY2022 (amid favourable domestic capital market activity, notwithstanding intermittent declines) with the consolidated loan book increasing to ~Rs. 2,000 crore as of March 31, 2022 from Rs. 700-800 crore before FY2021. The consolidated loan book stood at Rs. 2,154 crore as on September 30, 2023. With most of its revenues being linked to the inherently volatile capital markets, SKL’s revenue profile and profitability remain vulnerable to market performance. Its ability to seamlessly align with the evolving regulatory landscape and diversify its revenue stream, thus providing stability to its profitability, will remain imperative.

Exposed to risks inherent in capital market related businesses – The Sharekhan Group’s earnings profile remains dependent on capital markets, which are inherently volatile in nature. Further, its MTF and LAS books pose asset quality risk in case of a sharp correction in the market. 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. However, the company’s monitoring and risk management processes and the adequate performance of this business provide comfort.

Highly fragmented and competitive industry – With the increasing competition in the broking segment, especially from the discount broking segment, SKL’s market share, in terms of broking volumes, moderated to 0.4% in August 2023 from 1.5% in FY2018. As competitive intensity in this cyclical industry is expected to remain high, pressure on profitability cannot be ruled out, especially during downturns. Nonetheless, the lower level of equity market penetration in the country offers significant untapped potential for growth.

Liquidity position: Adequate

SKL’s liquidity position remains adequate, supported by on-balance sheet liquidity and undrawn bank lines. It requires funds for supporting its lending business and placing margins at the exchanges. Compared to consolidated borrowings of about Rs. 2,350 crore, SKL (standalone level) had unencumbered cash & equivalents of Rs. 772 crore and unutilised fund-based bank lines of Rs. 825 crore, while SBPFSL had unencumbered cash & equivalents of Rs. 35 crore as on December 13, 2023. Additionally, the company’s short-term MTF book, which can be liquidated at short notice to generate liquidity if required, stood at ~Rs. 1,235 crore.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Weakening in the Sharekhan Group’s market position, thereby impacting its profitability and capitalisation profile, will be a credit negative. Deterioration in the credit profile of the parent² and linkages will remain a monitorable.

²A share purchase agreement was signed between the BNP Paribas Group and the Mirae Group on December 13, 2023 and the transaction is expected to be completed in two-five quarters. Nonetheless, the BNP Paribas Group has expressed that it will continue to provide operational and managerial support and supervision till the transaction is concluded. On the conclusion of the transaction, the operational and managerial practices followed by MAS globally are expected to be followed by the Sharekhan Group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Stockbroking and Allied Services Rating Methodology – Non-banking Finance Companies (NBFCs) Rating Approach – Implicit Parent or Group Support Rating Approach – Consolidation
Parent/Group support	Part of BNP Paribas Group (future parent – Mirae Asset Securities Co Ltd) A share purchase agreement was signed between the BNP Paribas Group and the Mirae Group on December 13, 2023 and the transaction is expected to be completed in two-five quarters. Nonetheless, the BNP Paribas Group has expressed that it will continue to provide operational and managerial support and supervision till the transaction is concluded. On the conclusion of the transaction, the operational and managerial practices followed by MAS globally are expected to be followed by the Sharekhan Group.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SKL. As on March 31, 2023, the company had four subsidiaries and two stepdown subsidiaries, which are all enlisted in Annexure II.

About the company

SKL is a security broking service provider registered with the Securities and Exchange Board of India (SEBI). Its main business activity is share broking, primarily in the retail segment, with a small presence in portfolio management services and the distribution of mutual fund products. SKL became a wholly-owned subsidiary of BNPP, a leading bank in Europe, in FY2017. SKL, which is a member of the Bombay Stock Exchange (BSE), the National Stock Exchange (NSE), the Metropolitan Stock Exchange of India Limited (MSEI) and the Multi Commodity Exchange (MCX), is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). As on October 31, 2023, its active client base was 6.2 lakh and the broking volumes were primarily contributed by the franchises. As of November 2023, the company operated through more than 4,000 franchisees and branches in 1,000 cities.

Key financial indicators (audited)

SKL – Consolidated	FY2021	FY2022	FY2023
Net brokerage	550	602	530
Net interest income	209	272	247
Distribution and other fee income	60	82	77
Net operating income (NOI)	860	997	899
Total operating expenses	568	637	684
Profit before tax (PBT)	288	357	210
Profit after tax (PAT)	214	265	151
Net worth	1,383	1,601	1,703
Borrowings	633	1,803	1,905
Gearing (times)	0.5	1.1	1.1
Cost-to-income ratio	66.1%	63.8%	76.1%
Return on net worth	13.6%	17.7%	9.1%
PAT/NOI	24.9%	26.5%	16.8%

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

SKL – Standalone	FY2021	FY2022	FY2023	H1 FY2024 [^]
Net brokerage	552	598	517	327**
Net interest income	138	186	192	112
Distribution and other fee income	30	49	51	**
Net operating income (NOI)	950 [^]	879	830*	454
Total operating expenses	514	575	603	327

SKL – Standalone	FY2021	FY2022	FY2023	H1 FY2024 [^]
Profit before tax (PBT)	433	303	225	128
Profit after tax (PAT)	370	225	171	95
Net worth	1,322	1,501	1,623	1,717
Borrowings	398	1,127	1,664	2,433
Gearing (times)	0.3	0.8	1.0	1.4
Cost-to-income ratio	54.1%	65.4%	72.7%	72.0%
Return on net worth	25.8%	16.0%	10.9%	11.4%
PAT/NOI	39.0% [#]	25.6%	20.6%	21.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; [^]Limited review; [#]Includes dividend income of Rs. 186 crore
^{*}Includes dividend income of Rs. 26 crore; ^{**}Brokerage includes fees and DP income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating for the Past 3 Years History								
		Amount Rated (Rs. crore)	Amount Outstanding as of Dec 13, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021	
				Dec 18, 2023	Aug 01, 2023	Feb 03, 2023	Sep 22, 2022	Apr 26, 2022	Jan 13, 2022	May 20, 2021	Jul 31, 2020	
1 CP programme	Short term	3,500	2,350	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
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

ISIN	Instrument Name	Date of Issuance	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE211H14500	Commercial paper	Dec 14, 2022	8.57	Dec 14, 2023	50	[ICRA]A1+
INE211H14740	Commercial paper	Dec 07, 2023	9.40	Dec 06, 2024	950	[ICRA]A1+
INE211H14765	Commercial paper	Dec 11, 2023	9.26	Jun 26, 2024	200	[ICRA]A1+
INE211H14757	Commercial paper	Dec 11, 2023	9.72	Nov 27, 2024	250	[ICRA]A1+
INE211H14732	Commercial paper	Dec 11, 2023	9.75	Dec 10, 2024	900	[ICRA]A1+
NA	Commercial paper*	-	-	7-365 days	1,150	[ICRA]A1+

Source: Company; *Yet to be placed

Annexure II: List of entities considered for consolidated analysis

	SKL Ownership	Consolidation Approach
Sharekhan Limited*	Rated Entity	Full Consolidation
Sharekhan BNP Paribas Financial Services Limited	100%	Full Consolidation
Sharekhan Commodities Private Limited	100%	Full Consolidation
Wealthtiger Investment Advisors Private Limited	100%	Full Consolidation
Sharekhan Consultants Private Limited	100%	Full Consolidation
Sharekhan.com India Private Limited	100%	Full Consolidation
Espresso Financial Services Private Limited	100%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (SKL) and its subsidiaries/stepdown subsidiaries while assigning the rating

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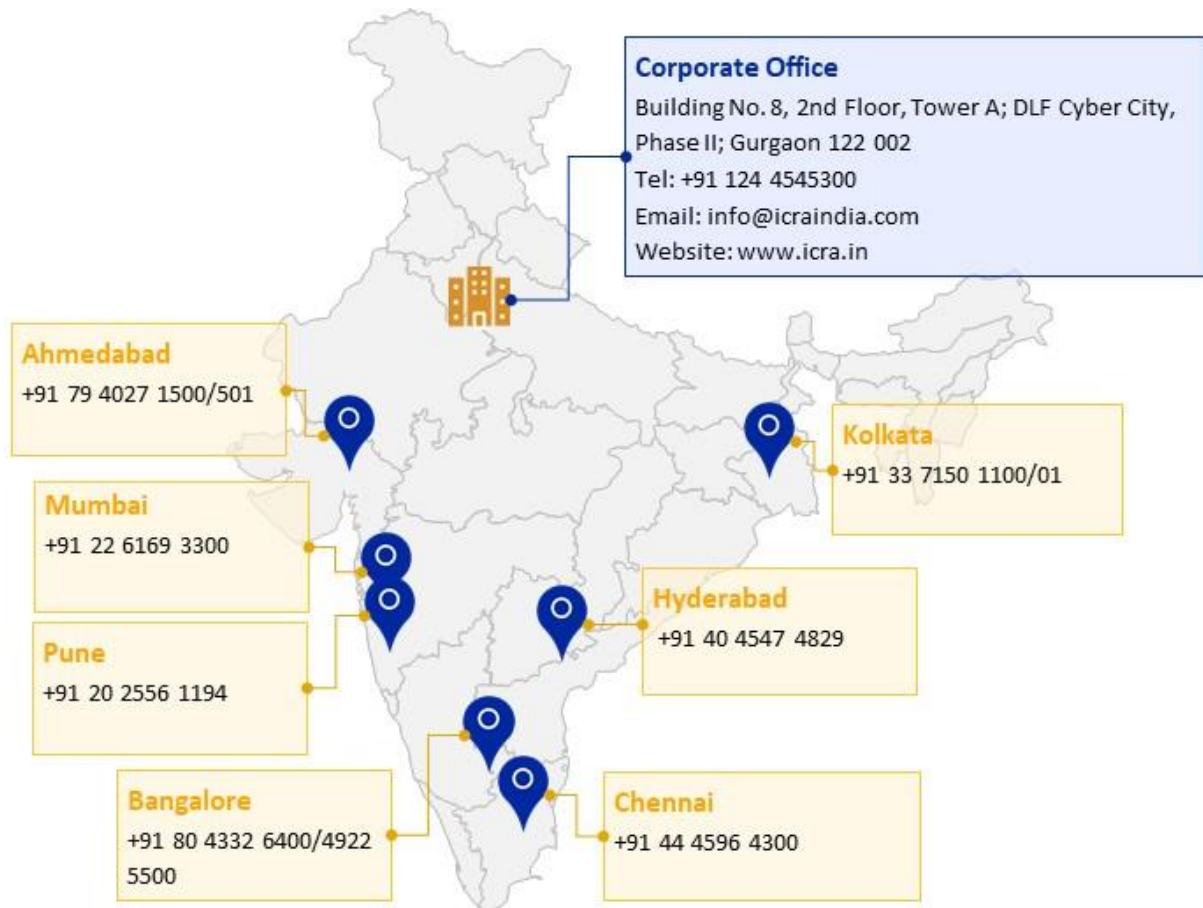
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