

Press Release

B P Equities Private Limited

16 March, 2018

Rating Upgraded



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 217.30 Cr (enhanced from Rs. 204.00 crore) |
| Long Term Rating | SMERA BBB+/Stable (Upgraded from BBB/Stable) |
| Short Term Rating | SMERA A2 (Upgraded from A3+) |

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long-term rating to '**SMERA BBB+**' (read as **SMERA triple B plus**) from '**SMERA BBB**' (read as **SMERA triple B**) and short-term rating to '**SMERA A2**' (read as **SMERA A two**) from '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs. 204.00 crore bank facility of B P Equities Private Limited (BP Equities). Further, SMERA has assigned '**SMERA BBB+**' (read as **SMERA triple B plus**) and short-term rating '**SMERA A2**' (read as **SMERA A two**) on the Rs. 13.30 crore bank facility of BP Equities. The outlook is "**Stable**".

The upgrade is driven by healthy growth in operating income, demonstrated ability of the group to maintain profitability margins at healthy levels and comfortable liquidity profile. SMERA believes that BP group will sustain revenue growth and profitability margins over the near to medium term.

The rating continues to draw comfort from the group's established presence and experienced management in the capital market business; comfortable capitalization and robust risk management system. However, the aforementioned strengths are partially offset by the group's vulnerability to the inherent risk in the capital market business and high dependence on the proprietary trading business which is susceptible to economic cycles.

About the company

B P Equities Private Limited incorporated in the year 1997 is Mumbai-based share Broking Company promoted by holding company BP Wealth Management Private Limited, Mr. Yuvraj A. Thakker and Mrs. Padmini A. Thakker. The company is a member of BSE Limited, NSE India Limited, Multi Commodity Exchange (MCX) with 1000 trader work stations. The company is engaged in share broking and also provides depository services, distribution of mutual funds, and insurance broking.

About the group

BP Equities Private Limited, BP Wealth Management Private Limited and BP Comtrade Private Limited together referred to as the BP group. The group was set up in 1997 by Shri Babubhai P. Thakker with the incorporation of BP Equities (erstwhile, Babubhai Purushottamdas Stock Brokers Private Limited) engaged in equity broking. The company acquired membership of the National Stock Exchange in the name of Yuvraj Properties & Securities Pvt Ltd in the year 2000 which was merged into BP Equities in 2007. The promoters of the group formed BP Wealth Management Private Limited in 2005 as the holding company of BP Equities and BP Comtrade which is engaged in commodity broking. The group has pan India presence with 16 branches and 220 franchises.

List of key rating drivers and their detailed description

Strengths:

Established market presence and experienced management

BP group has established presence in the capital market business for more than three decades. The group has pan India presence with offices in Mumbai, Pune, Ahmedabad, Chennai, Kolkata, Jaipur and other cities. The group has also launched mobile based application for trading to further its reach and customer base.

The company has built a client base of 32,000 retail clients and 50 institutional clients supported by network of 16 branches and 220 franchises. The company also benefits from extensive experience of the management i.e. directors including Mr. Yuvraj Thakker, Mr. Rajeev Peethambaran Menon and Umakant Bapulal Contractor who collectively possess more than two decades in the equity trading, broking and other capital market related businesses. The established presence and experienced promoters of the group have helped it to maintain long standing relations with its clientele base. The company has diversified operation with presence in different segments including equity, debt, equity research, insurance, mutual funds new issues and distribution etc. alongwith diversified customer base including retail and institution clients.

Risk Management System

BPE has a robust risk management system. It manages its risk at all three levels; front office, mid office and back office. For front office, the company uses Odin financial software and mid office manages risk by monitoring tick by tick VaR which is instrument by instrument VaR issued by SEBI. The back office manages risk through monitoring each and every transaction that takes place.

Comfortable capitalization and comfortable liquidity profile

The group has healthy capitalization supported by consolidated tangible networth of Rs. 90.16 crore as on 31st March, 2017 as compared to Rs. 78.77 crore in the previous year. The gearing is comfortable at 0.47 times as on 31st March, 2017 as compared to 0.47 times in the previous year. The total debt of Rs. 41.93 crore includes long term borrowing of Rs. 0.39 crore and short term borrowings of Rs. 41.54 crore as on 31st March, 2017. The short term borrowings are self-liquidating in nature. Also, the company's liquidity profile continues to remain comfortable with high margins maintained with stock exchanges, investment in liquid assets.

Healthy revenue growth and profitability

The group's has reported significant revenue growth as the operating income stood at Rs. 46.48 crore for FY 2017 as against Rs. 23.01 crore in the previous year. The arbitrage trading business contributes around 69 percent to the total revenue followed by brokerage income of 17 percent and fee based income of 14 percent. The growth was driven by the growth in the trading income from Rs. 11.53 crore in FY 2016 to Rs. 32.03 crore in FY 2016 due to the revival in the domestic capital market.

The group has reported stable profitability with EBIDTA margin of 39.65 percent for FY 2017 as compared to 39.29 percent for FY 2016. The PAT margin stood at 24.59 percent for FY 2017 as against 16.90 percent in the previous year.

However, the company's ability to sustain the revenue growth and profitability will be linked to movement in the domestic capital market.

Weaknesses

Susceptibility of operating income to capital market activity and intense competition

The brokerage of the company is linked to participation from both the retail & institution players. In the event of sustained decline in stock market prices due to factors including US yield rate and domestic macroeconomic headwinds. The performance of market may be impacted. This will in turn affect the volumes & performance of players like BP group.

The rising competition from other trading applications & shift towards online trading is also altering the competitive landscape of the industry. The profits from proprietary trading business are also linked to the movement of the capital market and availability of adequate trading opportunities commensurate with the risk-return preferences of the investors. SMERA believes its operating performance i.e. revenue growth & profitability margins will continue to be significantly aligned to the performance of domestic capital market.

Analytical approach: SMERA has consolidated the business and financial risk profile of BP Equities Private Limited, BP Wealth Management Private Limited and BP Comtrade Private Limited together referred to as the BP group. The consolidation is in view of the common ownership and operational linkages within the group.

Outlook: Stable

SMERA believes that BP group will continue to benefit from its experienced promoters and established client relationships. However the company's earnings profile and leverage remain key rating sensitivities. The outlook may be revised to positive in case of healthy earnings and strong capital structure. However the outlook may be revised to negative in case of any deterioration of earnings.

Analytical approach:

SMERA has consolidated the business and financial risk profile of BP Equities Private Limited, BP Wealth Management Private Limited and BP Comtrade Private Limited together referred to as the BP group. The consolidation is in view of the common ownership and operational linkages within the group.

Applicable Criteria

- Service Entities - <https://www.smera.in/criteria-service.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

About the Rated Entity –Key Financials

| Particulars | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|--------------------------------|---------|---------------|---------------|---------------|
| Total Brokerage & Other Income | Rs. Cr. | 46.48 | 23.01 | 19.14 |
| EBITDA | Rs. Cr. | 18.43 | 9.04 | 9.32 |
| PAT | Rs. Cr. | 11.43 | 3.89 | 3.39 |
| EBITDA Margin | (%) | 39.65 | 39.29 | 48.69 |
| PAT Margin | (%) | 24.59 | 16.90 | 17.72 |
| ROCE | (%) | 14.78 | 8.62 | 10.73 |
| Total Debt/Tangible Net Worth | Times | 0.47 | 0.47 | 0.24 |
| PBDIT/Interest | Times | 19.46 | 2.94 | 2.03 |

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

| Date | Name of Facilities | Term | Amount (Rs. Crore) | Ratings/ Outlook |
|-----------------------------|--------------------|------------|---|----------------------------------|
| 5 th Nov, 2015 | Cash Credit | Long Term | 104.00 | SMERA BBB/Stable (Assigned) |
| | Bank Guarantee | Short Term | 100.00 | SMERA A3+ (Assigned) |
| 29 th Nov , 2016 | Cash Credit | Long Term | 104.00 | SMERA BBB/Stable (Reaffirmed) |
| | Overdraft | Long Term | 7.00 | SMERA BBB/Stable (Assigned) |
| | Bank Guarantee | Short Term | 93.00 (revised from Rs. 100.00 crore) | SMERA A3+ (Reaffirmed) |

***Annexure – Details of instruments rated:**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/ Outlook |
|---------------------------|---------------------|----------------|------------------|---|--|
| Cash Credit | N.A | N.A | N.A | 99.00 (revised from Rs. 104.00 crore) | SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable) |
| Overdraft | N.A | N.A | N.A | 10.30 (revised from Rs. 7.00 crore) | SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable) |
| Bank Guarantee | N.A | N.A | N.A | 108.00 (enhanced from Rs. 93.00 crore) | SMERA A2 (Upgraded from SMERA A3+) |

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

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