

Press Release

B P Equities Private Limited

October 21, 2020



Rating Reaffirmed

Instruments Rated*	Rs. 217.30 Cr.
Long Term Rating	ACUITE BBB+/ Negative (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB+** (read as ACUITE triple B plus) and the short term rating of '**ACUITE A2**' (read as ACUITE A two) on the Rs. 217.30 crore bank facilities of B P Equities Private Limited (BEPL). The outlook is '**Negative**'.

The reaffirmation takes into account the track record of BEPL in the stockbroking business, the moderate albeit steady size of clientele and an adequate financial risk profile. While the dependence on proprietary trading income continues to be high as reflected in the weak earnings of FY20, it is expected to recover strongly in FY21 on the back of a revival in the domestic capital markets.

About BEPL

Incorporated in 1997, Mumbai based B P Equities Private Limited (BEPL) is a share broking company engaged in brokerage services for various securities and providing depository services, distribution of mutual funds, and insurance broking. BEPL is promoted by holding company BP Wealth Management Private Limited. BP Wealth Management Private Limited has two subsidiary companies BP Equities Private Limited and BP Comtrade Private Limited (BCPL). BCPL, incorporated in 1994, is engaged in brokerage services and trading of commodity contracts. The business operations are currently managed by Mr. Yuvraj A. Thakker, who is part of the promoter family and his team of professionals.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of BP Equities Private Limited (BEPL), BP Wealth Management Private Limited (BWPL) and BP Comtrade Private Limited (BCPL) together referred to as the BP Group. The consolidation is in view of the common shareholding, management and significant operational and financial linkages between the various companies of the group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Long track record in capital markets

Mr. Babubhai P Thakker founded the BP Group in 1987 and later incorporated the company in 1997. The Group's major area of focus has been Stock Broking, Commodity Broking, Equity Research, IPO's, Mutual Fund, Insurance and Distribution. With a track record of operations of over three decades, the BP Group has established a strong client base having a mix of retail as well as institutional clients. The group is currently headed by Mr. Yuvraj A. Thakker along with a team of seasoned professionals, possessing more than two decades of experience in the equity broking and capital market related businesses. The company's research and technology driven focus has enabled it to come up with an online application/ platform 'StoXBoX' wherein the company offers sectoral baskets of equities, mutual funds, ETF's for long term and short term portfolio based on an investment strategy supported by the company's research and back-testing process. While the group is yet to demonstrate a steady growth in its stockbroking businesses, the

current focus of the management to develop new products and services for new client acquisitions is expected to lead to moderate growth in revenues over the medium term.

Acuité believes that the BP group will continue to benefit from its steady HNI and institutional clientele, its healthy client relationships and its experienced management team backed by a favourable capital market environment.

• Adequate Risk Management Systems

BP Group continues to have an adequate risk management system. It manages risk by monitoring VaR, time based squaring off, value based squaring off etc. The backend operations team also manages risk through monitoring each and every transaction that takes place. This is particularly relevant for its proprietary trading positions.

Acuité believes the group's risk management practices will remain adequate and support the continuity of its broking and trading operations.

Weaknesses

• Susceptibility to uncertainties inherent in the capital markets business

Broking is a highly volatile and cyclical business with the presence of a large number of established players who provide significant competition to the other fragmented and small players. The company's operating performance is linked to the capital markets, which are inherently volatile as they are driven by economic and political factors as well as investor sentiments. Trading volume and earnings depend heavily on the level of trading activity in the capital market. The group's revenue has been significantly dependent on proprietary trading income which is inherently volatile. During FY 2020 the group reported EBITDA level losses of Rs. 6.2 Cr which were primarily attributable to a sharp decline in its trading income from Rs. 12.9 Cr in FY 2019 to Rs. 1.8 Cr in FY 2020. This decline in operating revenues led to sub-optimal absorption of overheads and consequently operating losses. The group's brokerage income has remained stagnant over the years and stood at Rs. 8.8 Cr during FY 2020. However, the unaudited financial results for the first 5 months of the FY 2021 indicate a significant uptick in proprietary trading income at ~Rs. 13.8 Cr which will ensure a healthy level of earnings in FY 2021. Given the competition from larger brokerages and technology-focused new entrants, the ability of the group to grow its brokerage revenues on a sustainable basis will be a key monitorable.

Acuité believes that the level of activity in the capital markets will continue to be a key determinant of its revenue profile and future growth trajectory.

Rating Sensitivities

- The earnings trajectory over the medium term
- Any changes in management and ownership pattern
- Changes in regulatory environment

Material Covenants

BEPL is subject to covenants stipulated by its lenders/investors in respect of minimum networth stipulation of Rs. 50 Cr.

Liquidity position: Adequate

The group maintained cash and bank balances of Rs. 2.7 Cr as on March 31, 2020. The group has limited dependence on working capital borrowings; the overdraft limit of the group remains moderately utilised at 30 percent to 40 percent. Acuité believes that the liquidity of the group is likely to remain healthy over the near to medium term with improved cash accruals and low debt repayment obligations.

Outlook: Negative

Acuité believes that the BP group's operating performance may be impacted over the medium term due to volatility on proprietary trading income and uncertain growth prospects in the brokerage business. The

outlook may be revised to 'Stable' in case the operating profitability is significantly better than expected on a sustainable basis. Conversely, if the group continues to face challenges in maintaining a healthy earnings performance, it would impart a negative bias to the rating.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	17.55	29.20
PAT	Rs. Cr.	(7.01)	2.11
PAT Margin	(%)	(39.94)	7.21
Total Debt/Tangible Net Worth	Times	0.26	0.29
PBDIT/Interest	Times	(5.02)	13.05

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-May-19	Cash Credit	Long term	12.00	ACUITE BBB+/Negative (Reaffirmed; Outlook revised from Negative)
	Cash Credit	Long term	50.00	ACUITE BBB+/Negative (Reaffirmed; Outlook revised from Negative)
	Overdraft	Long term	10.30	ACUITE BBB+/Negative (Reaffirmed; Outlook revised from Negative)
	Cash Credit	Long term	25.00	ACUITE BBB+/Negative (Reaffirmed; Outlook revised from Negative)
	Bank Guarantee	Short term	37.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short term	23.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short term	60.00	ACUITE A2 (Reaffirmed)
16-Mar-18	Cash Credit	Long term	24.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/ Stable)
	Cash Credit	Long term	50.00	ACUITE BBB+/Stable

				(Upgraded from ACUITE BBB/ Stable)
	Overdraft	Long term	10.30	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/ Stable)
	Cash Credit	Long term	25.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/ Stable)
	Bank Guarantee	Short term	25.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short term	23.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short term	60.00	ACUITE A2 (Upgraded from ACUITE A3+)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00 (revised from Rs. 12 Cr)	ACUITE BBB+/Negative (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+/Negative (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	10.30	ACUITE BBB+/Negative (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+/Negative (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+/Negative (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	45.00 (revised from Rs. 37 Cr)	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A2 (Reaffirmed)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President - Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 - 49294011 rating.desk@acuite.in
Shreyans Mehta Analyst - Rating Operations Tel: 022-49294062 shreyans.mehta@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.