

Press Release

RRS Shares and Stock Brokers Private Limited

14 February, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 13.60 Cr
Short Term Rating	SMERA A4+ (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 13.60 crore bank facility of RRS Shares and Stock Brokers Private Limited (RRS).

The rating continues to draw comfort from the established presence in the share broking business and experience promoters, adequate capitalisation and comfortable liquidity profile. However, the aforementioned strengths are partially offset by the small scale of operations in an intensely competitive and fragmented share broking industry.

RRS, established in 2000, is a Mumbai-based share broking company promoted by Mr. Jayant Shah, Mr. Hitanshu Shah and Mr. Parag Shah. The company is a member of NSE, MCX-SX apart from being a depository participant of CDSL. The promoters also have other group companies, JRS Shares and Stock Brokers Private Limited and RRS Commodities Private Limited. The former registered with BSE offers share broking services while the latter is engaged in commodity trading.

List of key rating drivers and their detailed description

Strengths:

Established market presence and experienced promoters

RRS has established presence in the share broking business for more than two decades and operates mainly in Mumbai and Gujarat. The company has around 3500 active clients supported by a network of 45 sub brokers and benefits from the extensive experience of its promoters, Mr. Jayant Shah and Mr. Hitanshu Shah. The promoters collectively possess more than three decades of experience in the equity trading, broking and other capital market related businesses. The established presence of the company and extensive experience of the promoters have helped the company maintain long term relations with clients. The company has also diversified its operations into different segments - insurance, mutual funds and new issues and also caters to institutional clients.

Adequate capitalisation and comfortable liquidity profile

The company has healthy capitalisation supported by tangible networth of Rs. 14.52 crore as on 31 March, 2017 compared to Rs. 13.80 crore in the previous year. The gearing is comfortable at 0.30 times as on 31 March, 2017 as against 0.25 times in the previous year. The total debt of Rs. 4.87 crore includes long term borrowing of Rs.0.58 crore and short term borrowing of Rs. 4.29 crore as on 31 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, investments in liquid assets and moderate utilisation of bank limits which stood at around 37 percent during the last six months ended 30 November, 2017.

Weaknesses

Small scale of operations

The company reported improvement in brokerage turnover from Rs. 8971.15 crore in FY2016 to Rs. 12682.00 crore in FY2017 due to revival in the domestic capital market during FY2017. Notwithstanding, the growth in the brokerage turnover, the net brokerage income continues to remain small at Rs. 3.24 crore for FY2017 as compared to Rs. 3.13 crore in FY2016. The brokerage income from Future & Options (F&O) and currency transactions together contribute around 53 percent, equity trading transactions contributes 39 percent, mutual funds contributes around 5 percent and remaining was derived from NCD & CDSL for FY2017. As per half yearly provisional financials, net brokerage income stood at Rs.2.14 crore for the period April, 2017 to October, 2017. The operations of the company are limited to Mumbai, Maharashtra and Baroda, Gujarat.

Highly competitive and fragmented share broking industry

The company is exposed to intense competition in the broking industry with declining brokerage charges, introduction of algorithmic trading, sub-broker attrition and emergence of new players with technology driven and cost effective business models. Further, the importance of brick and mortar stores have also reduced due to the increasing trend of online transactions. Going forward, the competition is expected to keep the broking yields under pressure.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

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 Income	Rs. Cr.	3.24	3.13	4.77
EBITDA	Rs. Cr.	0.43	0.36	1.90
PAT	Rs. Cr.	0.71	0.46	2.17
EBITDA Margin	(%)	13.42	11.63	39.77
PAT Margin	(%)	22.07	14.73	45.48
ROCE	(%)	7.37	6.88	23.34
Total Debt/Tangible Net Worth	Times	0.34	0.31	0.14
PBDIT/Interest	Times	4.21	3.50	16.01

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
29 June, 2015	Overdraft Against Share	Short Term	0.50	SMERA A4+ (Assigned)
	Overdraft Against Share (Proposed)	Short Term	5.30	SMERA A4+ (Assigned)
	Bank Guarantee	Short Term	2.50	SMERA A4+ (Assigned)
	Bank Guarantee (Proposed)	Short Term	5.30	SMERA A4+ (Assigned)
23 Sep, 2016	Overdraft Against Share	Short Term	3.00 (enhanced from Rs. 0.50 crore)	SMERA A4+ (Reaffirmed)
	Overdraft Against Share (Proposed)	Short Term	2.80 (reduced from Rs. 5.30 crore)	SMERA A4+ (Reaffirmed)
	Bank Guarantee	Short Term	5.00 (enhanced from Rs. 2.50 crore)	SMERA A4+ (Reaffirmed)
	Bank Guarantee (Proposed)	Short Term	2.80 (reduced from Rs. 5.30 crore)	SMERA A4+ (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
Overdraft Against Share	N.A	N.A	N.A	3.00	SMERA A4+ (Reaffirmed)
Overdraft Against Share (Proposed)	N.A	N.A	N.A	2.80	SMERA A4+ (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A	5.00	SMERA A4+ (Reaffirmed)
Bank Guarantee (Proposed)	N.A	N.A	N.A	2.80	SMERA A4+ (Reaffirmed)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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