

Press Release

Affluence Shares And Stocks Private Limited

October 04, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 25.00 Cr
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded short-term rating to '**ACUITE A4**' (**read as ACUITE A four**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on Rs. 25.00 crore bank facilities of AFFLUENCE SHARES AND STOCKS PRIVATE LIMITED (ASSPL).

The downward revision in rating is on account of concentration in proprietary book along with continued decline in revenue streams. The company's operating income is reflecting a downward trend since FY2018. The revenues have declined from Rs. 19.52 crore in FY2018 to Rs. 8.90 crore in FY2019. This is primarily on account of losses in equity derivatives of Rs. 6.66 crore which nets of revenue from broking and trading income in FY2019. Further, the company's operations have significantly increased in proprietary trading activities and the exposure in the segment is highly concentrated with single account comprising of 87.75 per cent of the overall proprietary stock of Rs. 55.01 crore, which exposes the company to higher degree of counterparty risk.

Incorporated in 2000, Gujarat-based Affluence Shares and Stocks Private Limited (erstwhile Archi Shares and Stocks Brokers Private Limited) is engaged in equity broking, currency trading, financial advisory services, and depository services as depository participant of Central Depository Services Limited (CDSL). It is a registered trading member of National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd (BSE).

In 2012, the company's name was changed to ASSPL and was taken over by present promoters namely Mr. Dhiren M Shah and Mr. Malaybhai S Kothari. ASSPL is a flagship company of Affluence group, which also offer services like Currency Trading via Affluence Fincon Service Private Limited, commodity broking via Affluence Commodities Private Limited, Mutual funds and insurance broking services. The clientele of ASSPL primarily includes High Net-worth Individuals (HNIs).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of ASSPL to arrive at its rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in the capital markets:**

Affluence group has presence in the capital market segment since 2012 and operates through three companies namely ASSPL, Affluence Fincon Service Private Limited, and Affluence Commodities Private Limited. The company is promoted by Mr Dhiren M shah and Mr Malaybhai S Kothari. The promoters have presence in the capital market segment since 2000, which has enabled ASSPL to create a pool of ~3500 clients (Including HNIs and retail clients). ASSPL is a registered trading member of capital market, derivatives, currency derivatives, and IPO segment of National Stock Exchange of India Ltd. (NSE) and capital market, derivatives of Bombay Stock Exchange Ltd (BSE).

Acuité believes that ASSPL will continue to benefit from the extensive experience of its promoters.

Weaknesses

• Modest scale of operations

ASSPL reported a revenue of Rs. 8.90 crore in FY2019 as compared to Rs. 19.52 Crore in FY2018 and Rs. 11.83 crore in FY2017. The sharp decline in revenues was due to subdued market opportunities and adjusted net loss from equity derivative exposure of Rs 6.66 crore in FY2019. Company's revenue from proprietary trading which comprises of ~40 per cent of revenues in FY2019 has improved to Rs 9.64 Crore in FY2019 from Rs 8.06 Crore in FY2018. There is also a significant concentration of inventory exposure in single entity, which comprises 87.75 per cent of the total inventory. The company's funding profile comprises networth of Rs 17.60 Crore, loan from directors and relatives of Rs 24.94 Crore and short-term borrowings of Rs 38.86 Crore. ASSPL's interest coverage ratio deteriorated to 1.10 times for FY2019 as compared to 2.28 times in FY2018 and 2.31 times in FY2017. The company's debt to EBITDA stood high at 10.05 times in FY2019 from 5.92 times in FY2018.

Acuité believes that the company's ability to maintain its business profile with higher broking exposure as opposed to proprietary trading is critical to maintain stable revenue and financial profile of the company.

• Susceptibility to uncertainties inherent in the capital market business and intense competition

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. The company's business will continue to be affected by the state of the capital markets, given its focus on equity trading and related activities. The competition from large and established players and technology shift to app based trading will continue to affect the revenue profile of players like ASSPL.

Rating Sensitivity

- Significant decline in earnings and profitability
- Higher dependence on growth from proprietary trading

Liquidity Position: Adequate

ASSPL has adequate liquidity position as on March 31, 2019 with net cash accrual of Rs 0.48 crore against no term debt obligation. However, the company has short-term borrowings, which are secured against investments held.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	8.90	19.52	11.83
EBITDA	Rs. Cr.	6.13	15.93	9.15
PAT	Rs. Cr.	0.39	6.08	3.32
EBITDA Margin	(%)	68.84	81.63	77.30
PAT Margin	(%)	4.42	31.13	28.10
ROCE	(%)	6.47	17.71	16.05
Total Debt/Tangible Net Worth (Gearing)	Times	5.58	8.08	6.05
PBDIT/Interest	Times	1.10	2.28	2.31
Total Debt/PBDIT	Times	1.08	1.88	1.89
Gross Current Assets (Days)	Days	2,621	2,436	2,001

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Service Sector - <http://acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-August-2019	Bank guarantee	Short Term	10.00	ACUITE A4+ (Issuer not co-operating)
	Proposed Facility	Short Term	15.00	ACUITE A4+ (Issuer not co-operating)
19-June-2018	Bank guarantee	Short Term	10.00	ACUITE A4+ (Assigned)
	Proposed Facility	Short Term	15.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Downgraded from ACUITE A4+)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Downgraded from ACUITE A4+)

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About Acuité Ratings & Research:

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