

## Press Release

### Shree Naman Securities and Finance Private Limited

November 28, 2019

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 15.15 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB / Stable)
<b>Short Term Rating</b>	ACUITE A4 (Downgraded from ACUITE A4+)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) and short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 15.15 crore bank facilities of SHREE NAMAN SECURITIES AND FINANCE PRIVATE LIMITED. The outlook is '**Stable**'.

The downgrade in the rating reflects lower volumes in the broking segment coupled with lower gains from proprietary trading. The proprietary trading income stood at Rs. 2.83 crore in FY2019 against Rs. 10.86 crore in FY2018. High dependence on the proprietary trading income has led to challenges in absorption of fixed overheads, which is evident from EBITDA and PAT losses. The company has incurred EBITDA loss of Rs. 0.45 crore and PAT loss of Rs. 1.27 crore.

Shree Naman Securities and Finance Private Limited (SNPL) is a financial and stock broking house incorporated in the year 1995. Mr. Jayesh Shah is the owner/promoter of the company. He has more than three decades of experience in the industry. It is a member of Bombay Stock Exchange (BSE) & National Stock Exchange (NSE) F&O Currency Derivatives segment and a self-clearing member in F&O & Currency. The company is registered as a Depository Participant with CDSL.

### Key Rating Drivers

#### Strengths

- **Long operational track record and experienced management**

The company was incorporated in the year 1995 and is engaged in the business of proprietary trading providing broking services in dealing of shares & securities in capital & derivatives segment. Mr. Jayesh Shah, Chairman of the Naman group has more than three decade of experience in the financial services industry. Mr. Rajesh Desai Director has more than two decade of experience in the same domain.

- **Robust risk management system**

Shree Naman has a robust risk management system in place. The company registers clients only through reference of existing customer/ directors /relatives of directors/sub-brokers & remisiers. Walk-in-clients are not encouraged to open accounts. After registration of client, the account is assigned to a particular dealer & the dealer is made to understand the background of the client to enable him to understand the financial risk profile of the client. After the trade is executed, the dealer co-ordinates with the client's accounts & demat department for proper completion of the executed trades in terms of pay-in/pay-out requirements of shares & funds. Margin Report Statement of Accounts DP statement is sent to the client on regular basis.

#### Weaknesses

- **Reliance on proprietary trading for operations**

The company's high dependence on income from proprietary trading has led to losses. Income from proprietary trading stood at Rs. 2.83 crore in FY2019 (Total revenue: Rs. 5.36 crore) against Rs. 10.86 crore in FY2018 (Total revenue: Rs. 14.33 crore). Acuite believes higher proportion of proprietary income in the total operational income has lead to increased susceptibility of margins due to volatility

in the share market.

• **Inherent risk associated with the broking industry**

The securities market industry has high levels of risk associated with it, as the trend in the financial sector can only be estimated and not guaranteed.

• **Susceptible to the movement in the global economy**

Broking is a cyclical business easily affected by activity levels in the financial market. Downturns such as 2008-2009 periods saw the smaller players going out of the business and consolidation happening in the industry.

**Rating Sensitivities**

- Lower volumes in the broking segment leading to decline in overall revenues and financial risk profile.
- Substantial increase in income from proprietary trading leading to improvement in the overall financial risk profile.

**Material Covenants**

None

**Liquidity Position: Adequate**

The company has adequate liquidity marked by unutilized overdraft balance and FDR deposits. The unencumbered cash and bank balances stood at Rs.1.32 crore as on March 31, 2019. The current ratio stood at 1.32 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the near term on account of funding support from directors and minimal repayment obligations.

**Analytical Approach**

Acuite has considered standalone business and financial risk profile of SNPL to arrive at the rating.

**Outlook: Stable**

Acuite believes SNPL will maintain a stable business risk profile over the medium term. The outlook may be revised to 'Positive' in case the company registers sustained revenue growth and profitability leading to improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the company's revenues, profitability and cash accruals or deterioration in its capital structure leading to weakening of its financial risk profile.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	5.36	14.33	11.57
EBITDA	Rs. Cr.	(0.45)	5.06	3.52
PAT	Rs. Cr.	(1.27)	2.06	0.26
EBITDA Margin	(%)	(8.45)	35.34	30.46
PAT Margin	(%)	(23.66)	14.36	2.21
ROCE	(%)	6.09	24.78	17.83
Total Debt/Tangible Net Worth	Times	0.62	1.67	2.10
PBDIT/Interest	Times	0.51	1.79	1.10
Total Debt/PBDIT	Times	4.13	2.62	4.08
Gross Current Assets (Days)	Days	1465	664	1564

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

Not Applicable

**Any other information**

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.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
05-Sep-2018	Overdraft	Long Term	2.40	ACUITE BB / Stable (Assigned)
	Overdraft	Long Term	2.25	ACUITE BB / Stable (Assigned)
	Bank guarantee	Short term	3.00	ACUITE A4+ (Assigned)
	Bank guarantee	Short term	7.50	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
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Downgraded from ACUITE A4+)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4 (Downgraded from ACUITE A4+)

#### Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Rishabh Mundada Analyst - Rating Operations Tel: 022-49294033 <a href="mailto:rishabh.mundada@acuite.in">rishabh.mundada@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

#### About Acuité Ratings & Research:

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