

Press Release

Choice Equity Broking Private Limited

May 02, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	60.00	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as ACUITE triple B plus) on the Rs. 40.00 Cr. bank facilities of Choice Equity Broking Private Limited (CEBPL). The outlook is 'Stable'.

Acuite has assigned the short-term rating of '**ACUITE A2+**' (read as ACUITE A two plus) on the Rs. 60.00 Cr. bank guarantee of Choice Equity Broking Private Limited (CEBPL).

The rating factors in CEBPL's parent support (wholly owned by Choice International Limited), healthy capital structure, experienced management and established position in its segment. The rating takes into account the group's low leveraged profile and Tangible Network (including revaluation reserve) which stood at 0.38x as on September 30, 2021 and Rs. 317.96 Cr. as on September 30, 2021. The rating also takes into account improvement in earnings profile marked by its PAT of Rs. 24.65 Cr during H1FY2022 (FY2021:- 16.71 Cr. and FY2020:- Rs. 12.43 Cr.) Acuite takes cognizance of CEBPL's growing retail clientele, higher share of revenues from retail broking with negligible dependence on proprietary profits.

The rating is however constrained on account of CEBPL's modest scale of operations, revenue susceptibility to the level of volatility/ turnover in the capital markets as well as highly competitive landscape in broking business. Since FY2021, most of the broking companies have witnessed significant traction in broking volumes on account of sharp rebound and volatility in capital/ commodity markets which may not be sustainable. Going forward, continued promoters support and ability of the company to improve its operating performance are key monitorables.

About the Company

Incorporated in 2010, Choice Equity Broking Pvt. Ltd (commonly known as Choice Broking) is a Mumbai-based full-service stockbroking firm. Choice broking is a subsidiary of a publicly listed financial services firm named 'Choice International Limited' that was formed in 1993. Choice Broking offers online trading and premium financial services for an entire range of financial products like Equity, Derivatives, Currency, Commodities, Mutual Funds, wealth

management, Portfolio management, Insurance, and Loan against share. The company has a depository membership with CDSL and NSDL and is a member of NSE, BSE, MCX, NCDEX, and ICEX. The brokerage charges of Choice Broking are claimed to be one of the lowest in India when compared to other full-service brokers in the industry. The company operates through a network of 50 branches across 18 states as on December 31, 2021.

About the Group

The Company was incorporated in 1993, listed on BSE as Choice International Limited (Choice) is more than two decades old company under the leadership of Mr. Kamal Poddar (MD). It is an end to end financial services conglomerate. Choice Group has successfully created a FinTech ecosystem which combines a suite of platforms under one roof for all financial services. The company through its multiple subsidiaries offers financial services across all platforms catering to retail and institutional clients, corporates and state and central governments.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has adopted a consolidated approach and considered the business and financial risk profile of Choice International Limited (CIL) and its subsidiaries, (the Company and its subsidiaries together referred to as the Group) for arriving at the rating. The approach is driven by common management, shared brand, and strong operational and financial synergies between the group companies.

Key Rating Drivers

Strength

Parent support & group synergies; experienced management

Choice Equity Broking Private Limited is the wholly owned subsidiary of Choice International Limited. CEBPL benefits from common management, shared brand, and strong operational and financial synergies between the group companies. Choice International Ltd was incorporated in 1993 and is engaged in providing financial services. It operates through the segments of NBFC services, Broking & Distribution, Advisory services, and IT Services Business. The company generates a majority of the revenue from Broking and distribution services. It offers services like equity trading, commodity derivative trading, financial planning, currency futures trading, fund distribution, and structured products. The company conducts its business operations mainly in India. As on March 31, 2021, the group has 9 subsidiaries out of which 4 are step down subsidiaries.

The management team is led by Mr. Kamal Poddar, a Fellow Member of the Institute of Chartered Accountants of India, is the Managing Director of Choice International Limited. He is involved in all the strategic decisions of the group. Mr. Ajay Kejriwal (Executive Director-CIL), who has experience of more than 15 years in financial markets. He possesses extensive experience in understanding the financials of companies and fund management within division. The team also includes Mr. Ramratan Chirania (Director-CEBPL), Mr. Sunil Bagaria (Director-CEBPL) and Mr. Ashok Thakur (Independent Director-CEBPL). The management team has more than two decades of experience in capital markets and has developed strong expertise in securities market trends, compliance and business development strategies.

Acuité believes, that the company's consolidated business profile will be supported by expertise of seasoned professional managing the operations and established track record of operations.

Comfortable capital structure

At group level, Choice group's capitalization levels were comfortable marked by tangible

Networth of Rs. 317.96 Cr. (including revaluation reserve) as on September 30, 2021 as against Rs. 208.07 Cr. in FY2021 and Rs. 157.27 Cr in FY2020. Overall gearing levels of the group remained low with debt majorly comprising of short term borrowings (secured). Gearing stood at 0.38x during H1 FY2022 as compared to 0.73x during FY2021 and 0.92 during FY2020. CEBPL (standalone) also has adequate capitalization levels marked by Networth of Rs. 102.11 Cr. as on December 31, 2021 (Rs.78.21 Cr. as on March 31, 2021 and Rs. 73.97 Cr as on March 31, 2020) and a gearing of 0.12 times as on December 31, 2021 (0.30 times as on March 31, 2021). The increase in Networth is on account of internal accruals. The debt majorly comprises of loans from FIs and overdraft facilities. Acuité believes that the company's comfortable capitalization levels will support its growth plans over the medium term.

Earnings profile

Choice Group reported total operating income from key business verticals of Rs. 121.10 Cr. for H1FY2022 as compared to Rs. 139.82 Cr. in FY2021 and Rs. 108.46 Cr. in FY2020. The businesses at Group level are categorized as Equity & Broking, Insurance Broking, Wealth Management, Retail Loan Distribution, Management Consulting, Government Advisory and Others. The group reported total revenue (not adjusted for inter segment revenue) of Rs. 135.34 for H1FY2022 where Broking business contributed Rs. 74.20 Cr followed by Advisory services (Rs. 35.11 Cr), NBFC services (Rs. 19.90 Cr), Technical Services (Rs. 4.72 Cr) and others (Rs. 1.41 Cr). The Group reported PAT of Rs. 24.65 Cr. for H1FY2022 as compared to Rs. 16.71 Cr. for FY2021 and Rs. 12.43 Cr. for FY2020. As per the management of the company, the group had reported PAT of Rs. 38 Cr out of which Broking business contributed Rs. 25.06 Cr for 9M-FY2022. RoTNW stood at 7.75 percent as on September 30, 2021 (8.03 percent as on March 31, 2021 and 7.90 percent as on March 30, 2020). At Standalone level, CEBPL reported a PAT of Rs. 3.27 Cr. for FY2021 as compared to Rs. 12.71 Cr. for FY2020. Brokerage Income was the major component of total revenue (Rs. 111.14 Cr) for CEBPL at Rs. 86.78 Cr. as on December 31, 2021. Acuité believes that despite an improvement in Choice Group earning profile, its business operations would remain susceptible to inherent risks in capital market and overall economic environment.

Weakness

Risks involving general economic and market conditions

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. Also, revenues generated from businesses like broking, wealth management, private client broking and investment advisory business, are directly related to the volume and value of the transactions. Any adverse market movement (downturn) would result in decline in transaction volumes leading to a decline in the group's revenues received from commissions earned from such businesses. Acuité believes that while most of the broking companies have witnessed significant traction in broking volumes during FY2021 on account of sharp rebound in capital as well as commodity markets, the same may not be sustainable. While the Group continues to benefit from its business model the level of activity in the equity, commodities and F&O markets will be key determinant of its revenue profile and future growth trajectory. 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 Sensitivity

- Changes/ dilution in shareholding and promoter support
- Business volumes & operating performance
- Change in profitability metrics due to sharp movement in capital market
- Changes in regulatory environment

Material Covenants

CEBPL is subject to covenants stipulated by its lenders/investors in respect of minimum Network stipulation.

Liquidity Position: Adequate

Business growth of Choice Group has been supported by the group's internal accruals, the company's dependence on debt is very low as reflected in low gearing of 0.38 times as on September 30, 2021. Hence, the company has no significant term debt obligations over the near term. The company currently has cash and cash equivalents of ~Rs. 37.88 Cr. as on September 30, 2021. CEBPL has bank facilities comprising of bank guarantee and overdraft facilities, which are used for margin requirements. For fund based and non-fund based facilities, CEBPL's average bank utilization for the past nine months was 44.38 percent and 97.30 percent respectively, as on December 31, 2021. CEBPL has BG limits of Rs. 30.00 Cr. and OD facilities of Rs. 40.00 Cr. Acuité believes the liquidity position will remain adequate in the near to medium term.

Outlook: Stable

Acuité believes that Choice Group will maintain 'Stable' credit risk profile over the medium term supported by its well-established position in the capital markets and experienced management. The outlook may be revised to 'Positive' in case of a sizeable improvement in its earnings translating to an improvement in its Network. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability metrics and lower than expected growth of Choice group.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	95.14	80.15
PAT	Rs. Cr.	3.27	12.72
PAT Margin	(%)	3.44	15.87
Total Debt/ Tangible Network	Times	0.30	0.69
PBDIT/ Interest	Times	1.92	3.59

Key Financials (Consolidated)

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	139.82	108.46
PAT	Rs. Cr.	16.71	12.43
PAT Margin	(%)	11.95	11.46
Total Debt/ Tangible Network	Times	0.73	0.91
PBDIT/ Interest	Times	2.67	2.25

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

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

Rating History:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ Assigned
Indusind Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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