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Rating Cos Treat Brokerages with Upgrades as likts Revive

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SPEED BREAKER While NBFIs gain from the constraints on PSU banks, asset quality of those who have scaled up and increasing leverage may pose a risk, say experts

Rating Cos Treat Brokerages with Upgrades as Mkts Revive

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Mumbai: With a revival in capital markets, non-banking financial services companies such as JM Financial, BNP Paribas Securities India and Asit C Mehta Investment are back in the list of rating upgrades. Rating companies have upgraded more such companies in the past year than they have downgraded.

"If the level of retail participation continues to rise as expected, earnings of broking companies will benefit in the future as well," said Pawan Agrawal, chief analytical officer, Crisil Ratings. "In order to insulate themselves from the volatility inherent in capital markets, several broking players have diversified their business mix. As a result, the sector stands on a better footing, compared to that in 2008."

For instance, in the past one year, Crisil Ratings has not only upgraded those three companies but also raised its outlook to 'positive' for five companies, including Edelweiss Finance, Nirmal Bang Securities, Marwadi Shares and Finance and Intime Equities.

A year earlier, only Kotak Securities was upgraded while there was no improvement in outlook.

In the one year period ending September 30, India Ratings has upgraded Aphelion Finance, Cholamandalam, Equitas Finance, Can Fin Homes. Similarly, Care Ratings has upgraded 13 such companies compared with three downgrades in the first six months of the financial year.

PAWAN AGRAWAL
Chief Analytical Officer, Crisil Ratings

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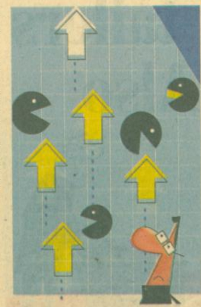

ANIRBAN BORA

"Non-banking financial institutions (NBFIs) are well placed to benefit from the constraints of public sector banks, with better capitalisation, improved pricing ability and well-managed liquidity," said Abhishek Bhattacharya, co-head, financial institutions, India Ratings & Research. "We have a stable outlook on…NBFIs."

For example, JM Financial's capital adequacy ratio is at 30% compared to 15%, the mandated requirement. Edelwiess is at about 19% at the consolidated level.

However, everything is not a cakewalk. There is a need for caution on two fronts for those players who have scaled up lending business — the sustainability of their asset quality needs to be seen, and increasing leverage may also pose a risk, said experts.

"We are a well capitalised and conservatively leveraged group," said Manish Sheth, group chief financial officer, JM Financial. "With a rating upgrade, we will increasingly tap the long-term money market at competitive rates. It also provides us with an ability to diversify our borrowing profile."

The share of borrowing via bonds (non-convertible debentures) is now at 20% of their total borrowing book while it was less than 5% in 2008. Last week, Crisil had upgraded JM Financial to AA from AA (negative).