

September 22, 2022

Trans Global Securities Limited: [ICRA]BB (Stable)/[ICRA]A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund based/non-fund based	21.00	[ICRA]BB (Stable)/[ICRA]A4; assigned
Total	21.00	

*Instrument details are provided in Annexure I

Rationale

The assigned ratings consider Trans Global Securities Limited's (TGSL) adequate track record in the capital market segment, its capitalisation level which is commensurate with the current scale of operations, and the low dependence on borrowings. The ratings are, however, constrained by the high dependence on proprietary trading and the modest scale of operations in the broking segment, with a track record of weak profitability.

The ratings also factor in the inherent volatility in operations, given the linkages with capital markets. The intense competition in the broking industry is likely to continue to have a bearing on the volumes in the broking segment. Going forward, a significant ramp-up in the scale of operations along with a meaningful diversification in the revenue profile and a sustained improvement in the financial performance will remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Adequate capitalisation for current scale of operations, though free net worth considerably below reported net worth – TGSL's capitalisation profile is characterised by a reported net worth of Rs. 51 crore as on March 31, 2022. While a significant portion of the net worth is blocked towards investments in group companies, the estimated free net worth (adjusted for investment in group companies) of ~Rs. 18 crore is adequate for the modest scale of operations and provides headroom for loss absorption, if any. ICRA also notes TGSL's low dependence on borrowings in the recent past with peak working capital limit utilisation of Rs. 5.5 crore over the past 12 months (average peak utilisation of fund-based bank lines during this period was ~38%; Rs. 1.3 crore of the sanctioned Rs. 5.5 crore on absolute basis).

Adequate track record in capital market, though focus limited to proprietary trading in the recent past – Incorporated in 1995, the company has been engaged in capital market related activities for over two decades. It was co-founded by Mr. Sunil Gupta and Mr. Sushil Gupta and the founders have about three decades of experience in related activities.

Credit challenges

High dependence on trading income; modest scale of operations in broking segment – TGSL's revenue remains highly dependent on proprietary trading (~99% of the net operating income). The scale of the retail equity broking service offered by TGSL remains modest and the client profile is restricted to the promoters' network. Intense competition in the broking segment further impacts the growth prospects of smaller entities like TGSL. Dependence on a single source of income is a credit negative. Over the medium term, the company's revenue profile is expected to remain dominated by trading income as it has no immediate plans of expanding the broking business.

Exposed to risks inherent to capital market related businesses – TGSL’s earnings profile remains dependent on the capital market, which is inherently volatile in nature. Any impact on the capital markets’ performance may affect the company’s financial profile. In the last five years, TGSL’s profitability has remained volatile. ICRA also notes that any adverse event in the capital market could erode the value of the proprietary book.

Weak profitability trajectory – TGSL’s profitability trajectory remains weak with the company reporting a cumulative profit after tax (PAT) of Rs. 0.48 crore in the last five years. The modest scale of operations and high operating expenses constrain the profitability indicators. TGSL reported a return on equity (RoE) of 0.1-6.7% in the last five years. Going forward, the company’s ability to demonstrate a sustained improvement in the profitability will be imperative from a credit perspective.

Liquidity position: Adequate

TGSL is required to place margins at the exchanges, for which it primarily utilises sanctioned non-fund based lines (Rs. 15 crore). It also has a fund-based bank line of Rs. 5.5 crore (average peak utilisation of ~38% over the past 12 months), which is used for placing additional margins at the exchanges. On average, the company placed a margin of Rs. 15 crore at the exchanges during the past 12 months with average peak margin utilisation of 79% during this period.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a significant ramp-up in the scale of operations along with a meaningful diversification in the revenue profile and a sustained improvement in the financial performance.

Negative factors – Pressure on the ratings could arise on a significant decline in the scale of operations, resulting in a deterioration in the company’s financial performance/capital position or weakening of the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s Credit Rating Methodology for Brokerage Houses
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1995 by the sibling duo of Mr. Sunil Gupta and Mr. Sushil Gupta, Trans Global Securities Limited is a securities broking company registered with the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). TGSL is primarily engaged in proprietary trading and has a small presence in the securities broking business. It is a self-clearing agent in the derivative (futures & options; F&O) and cash segments and is also a member of Central Depository Services (India) Limited (CDSL).

Key financial indicators (audited)

TGSL	FY2020	FY2021	FY2022*
Trading income	12.3	10.2	11.8
Brokerage income	0.1	0.0	0.1
Net operating income (NOI)	12.0	10.2	11.9
Total operating expenses	15.4	7.2	11.0
Profit before tax	-3.4	3.0	1.0
Profit after tax (PAT)	-3.9	3.3	0.9
Net worth	46.8	50.1	51.0
Borrowings	0.0	0.0	0.0

Gearing (times)	0.0	0.0	0.0
Cost-to-income ratio	128.4%	70.7%	92.1%
Return on net worth	-7.9%	6.7%	1.9%
PAT/NOI	-32.1%	32.0%	7.9%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Sep 22, 2022	-	-	-
1 Fund-based/Non-fund based bank facilities – Others	Long term/Short term	21.00	20.52	[ICRA]BB(Stable) / [ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based/non-fund based bank facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/Non-fund based bank facilities – Others	NA	NA	NA	21.00	[ICRA]BB (Stable)/[ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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