

January 21, 2022

Goldman Sachs (India) Securities Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Total	2,000.00	2,000.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the strong parentage of Goldman Sachs (India) Securities Private Limited (GSISPL) by virtue of being a part of the Goldman Sachs Group, Inc. (GS; rated A2 (Stable)/P-1 by Moody's). The rating considers the company's ownership structure, its importance to the Group with significant operational linkages, and the shared brand name. GSISPL also benefits from access to the Group's network of foreign portfolio investors (FPIs), thereby providing it with a ready clientele. The rating also factors in GSISPL's track record and established presence in institutional broking and investment banking businesses and its healthy financial performance indicators. These strengths are partially offset by its exposure to capital markets, which are inherently volatile. However, the diversified revenue profile provides some comfort.

Key rating drivers and their description

Credit strengths

Strong parentage and importance to the Group – GSISPL is wholly owned by GSIA Holdings (Singapore) Pte. Ltd, which is ultimately held by GS. GS is a multinational financial institution engaged in investment banking, investment management, securities, consumer banking and other financial services. GSISPL is strategically important to the Group as it represents the Group's presence in the Indian subcontinent. The company's importance to the Group is reflected by its being closely held within the Group and the presence of a shared brand name. ICRA expects support from GS to be forthcoming in case of exigencies.

Experience and franchise in institutional equity broking and investment banking – The company's clientele includes FPIs through its global associations. GSISPL also has a significant presence in the investment banking space and has been involved in various marquee deals over the years. It has a strong franchise in the institutional broking business, given its position as a global bank sponsored broking house with an overall market share of 0.21% in FY2021 (0.52% in FY2020 and 1.23% in FY2019).

While GSISPL's cash volumes registered a healthy growth over the past two years, the decline in the futures and options (F&O) turnover, resulted in a moderation in its overall volumes and market share. Despite this, GSISPL has been able to maintain yields, especially when the industry-wide yields have been under pressure.

Diversified revenue profile and healthy profitability indicators – GSISPL's income profile remains diversified. Besides equity broking and investment banking, the company provides support services for the Group's global operations (on a cost-plus basis) through its office in Bengaluru. This provides it with stable fee income. While a portion of its non-binding investment advisory business (to offshore GS entities) was transferred to another Group entity in FY2021, the fee income remains sizeable.

The profitability indicators remain healthy with GSISPL reporting a net profit (excluding other comprehensive income) of Rs. 243.85 crore (net profitability or profit after tax/net operating income (PAT/NOI) of 31.92% and return on equity (RoE) of 14.11%) in FY2021 compared to a net profit of Rs. 321.40 crore (PAT/NOI of 36.47% and RoE of 22.30%) in FY2020.

Adequate capitalisation – GSISPL requires capital for placing margin buffers at the exchanges. It is well capitalised at present as reflected by the net worth of Rs. 1,850.21 crore and nil leverage as on March 31, 2021. While the earnings profile has been healthy, accretion to reserves could be limited owing to dividend payouts. Although there was no dividend payout in FY2020 and FY2021, significant payouts between FY2016 and FY2019 resulted in a moderation in the net worth during this period. ICRA expects GSISPL to pay dividends on a periodic basis. The company also has access to sufficient unutilised bank lines that can be used for meeting additional funding requirements.

Credit challenges

Businesses linked to capital markets, which are cyclical in nature – With the majority of the company's revenues being linked to the inherently volatile capital markets, its revenue profile and profitability remain vulnerable to market performance. ICRA notes that any downturn in the capital markets may impact GSISPL's financial performance.

Liquidity position: Strong

GSISPL needs funds for meeting margin requirements at the bourses, which are met through margin deposits from clients and the company's own funds. As on March 31, 2021, the company had unencumbered cash and bank balances of Rs. 1,388 crore and no borrowings outstanding. Further, it has tied up sufficient bank lines, which can be used to meet additional funding requirements. Thus, GSISPL's liquidity profile is expected to remain strong.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be revised in case of a deterioration in the credit profile of the parent or the weakening of the linkage with the parent.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry
Parent/Group Support	Immediate Parent Company: GSIA Holdings (Singapore) Pte. Ltd. Ultimate Parent Company: GS ICRA expects support from GS to be forthcoming in case of exigencies, given the strategic importance of GSISPL as well as the close linkages and shared brand name
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

About the company

GSISPL was incorporated in 2006, marking the foray of GS into the Indian markets. GSISPL is wholly owned by GSIA Holdings (Singapore) Pte. Ltd., which is ultimately held by GS. GSISPL is primarily engaged in equity broking, deal advisory and investment banking and provides services to the offshore entities of the Group. Globally, the Group is one of the largest players in the investment banking business. GSISPL houses the Group's domestic (India-based) institutional broking and investment banking business. The other prominent entities of the Group in the domestic market are Goldman Sachs (India) Finance Pvt. Ltd. (non-banking financial company), Goldman Sachs (India) Capital Markets Pvt. Ltd. (primary dealer) and Goldman Sachs (India) Alternative Investment Management Pvt. Ltd. (AIF Investment Manager).

Key financial indicators (audited)

GSISPL	FY2020	FY2021
Total Assets (Rs. crore)	5,512	6,147
Total Income (Rs. crore)	889	772
Profit after Tax* (Rs. crore)	321	244

Source: Company, ICRA Research; *Excluding other comprehensive income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
						Jan 21, 2022	Jan 22, 2021	Jan 20, 2020
1	Commercial Paper	Short Term	2,000	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	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-1: Instrument details

ISIN/Bank Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper – Yet to be Issued	NA	NA	NA	2,000	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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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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Branches



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