April 04, 2023

Globe Capital Market Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines (fund based/non-fund based)	1,555.18	3,055.18	[ICRA]A+ (Positive); reaffirmed/assigned
Total	**1,555.18**	**3,055.18**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the rating, ICRA has taken a consolidated view of the credit profiles of Globe Capital Market Limited (GCML), Globe Fincap Limited (GFL) and Globe Commodities Limited (GCL), hereafter referred to as the Group, owing to the common management and clientele, the shared infrastructure, and the operational synergies between the entities.

The rating continues to factor in the Group's long track record in broking and clearing activities, its established branch and franchisee network, and established market position along with the synergistic benefits arising from its integrated presence across broking, clearing and lending activities. The Group's borrowing requirement largely arises from the lending activities, while the broking and clearing business requires bank guarantees. Accordingly, the consolidated on-balance sheet leverage was 0.5 times with a net worth of Rs. 1,950 crore as on March 31, 2022. As the lending business is largely driven by funding to clients for broking activities, the management has started to maintain this leverage going forward as well. The Group's profitability remains adequate, though it will stay volatile because of gains/losses from the proprietary investment book as well as the inherent cyclicality in broking volumes.

The regulatory changes, which require the deposit of upfront cash margins from the clients, resulted in an improvement in the net interest income. This, combined with higher gains on the proprietary investment book, resulted in an improvement in the overall profitability in 9M FY2023. Also, with the proposed changes with respect to the introduction of a facility for the blocking of funds for trading in secondary markets, the overall risk would be mitigated through disintermediation. However, it will impact the float available with brokers and hence the interest income on the float. A similar impact is likely from the Securities and Exchange Board of India's (SEBI) proposal regarding the mandatory daily upstreaming of all client funds by stockbrokers and clearing members to clearing corporations without converting the same into bank guarantees or fixed deposits. The Group's liquidity profile is adequate, supported by the client margins taken for placing at the exchanges and the healthy level of margin utilisation with the exchanges. This apart, the proprietary investment book can be liquidated if needed.

The rating remains constrained by the Group's revenue concentration towards brokerage (net) and gains from the proprietary investment book, which accounted for 39% of the net operating income (NOI) in 9M FY2023 (49% in FY2022). These could be inherently volatile because of the cyclicality in capital markets. Further, net interest income (48% of NOI in 9M FY2023 and 50% in FY2022) is driven by capital market activity in the form of interest on loans given for investing in capital markets through the non-banking financial company (NBFC) arm. As the Group largely deals with sub-brokers and trading members, GFL's loan book is concentrated, with the top 20 exposures accounting for 117% of its total net worth as on December 31, 2022 (128% as on March 31, 2022), which is unlikely to change in the near to medium term. This exposes the company to the risk of lumpy slippages in the asset quality. However, the Group has been able to maintain adequate asset quality indicators so far with limited write-offs and slippages in the capital market operations and gross and net non-performing assets (NPA) ratios of 0.7% and 0.5%, respectively, as on December 31, 2022 for GFL.

Key rating drivers and their description

Credit strengths

Long track record and established market position in brokerage and clearing business – The Group has a long track record of over three decades in the brokerage and clearing segment with a presence across equity, currency and commodity broking and a focus on high-net-worth individual (HNI) clients. It operates through ~19 branches and has over ~1,740 retail franchises across the country. Its total market share was 27.0% in the clearing segment in FY2022.

Comfortable capitalisation profile – The capitalisation position, on a consolidated basis, is comfortable with a gearing of 0.5x on net worth of Rs. 1,950 crore as on March 31, 2022. ICRA takes comfort from the management's stated intention of maintaining a conservative consolidated leverage. The Group's liquidity profile is also adequate, supported by the healthy level of margin utilisation with the exchanges, the sizeable proprietary investment book, which can be liquidated if needed, and the comfortable capital structure. The Group's borrowing requirement largely arises from the lending activities, which are largely funded borrowings, while the broking and clearing business require non-funded limits like bank guarantees mostly for maintaining margin above the client margins.

Adequate profitability – On a consolidated basis, the Group's NOI increased by 18% year-on-year (YoY) in 9M FY2023, largely driven by higher net interest income (+29% YoY) due to the interest earned on the upfront margin deposited with the Group following the regulatory changes. The Group's earnings are also supported by gains on the proprietary investment book (overall gain of Rs. 143 crore in 9M FY2023 compared to Rs. 89 crore in FY2022 and Rs. 241 crore in FY2021).

The Group benefits from the synergies arising from operational linkages in the form of shared infrastructure, sourcing of clients, common management, etc, across the three entities. This has facilitated its operating efficiency as reflected by the relatively lower cost-to-income ratio (35% in 9M FY2023 compared to 41% in FY2022 and 46% in FY2021) vis-à-vis peers. Hence, the Group's return on net worth improved to 40% in 9M FY2023 from 14% in FY2022 and 21%. However, its ability to generate high returns from proprietary trading will be opportunity driven.

Also, notwithstanding the higher broking volumes and the increase in interest income, supported by the upfront margin collection rules, a significant part of the Group's business is linked to the performance of the capital markets. Hence, the profitability indicators are likely to remain volatile going forward. Further, given the proposed changes with respect to the introduction of a facility for the blocking of funds for trading in secondary markets, the overall risk would be mitigated through disintermediation. However, this will impact the float available with brokers and hence the interest income on the float. A similar impact is likely from the SEBI proposal regarding the mandatory daily upstreaming of all client funds by stockbrokers and clearing members to clearing corporations without converting the same into bank guarantees or fixed deposits.

Credit challenges

Vulnerable income profile owing to concentration on capital markets – The Group is exposed to the inherent volatility associated with capital markets as its businesses are directly or indirectly linked to the performance of these markets. While income from the brokerage and trading book accounted for 39% of the NOI in 9M FY2023 (49% in FY2022), a sizeable portion of the net interest income is also generated on account of the higher margin requirement, which is linked to the capital markets. Also, interest income is earned in the form of interest on loans given for investing in capital markets through the NBFC arm, delayed payment charges or the margin trading facility (MTF), which are complementary to the capital market activities.

Concentration risk in NBFC book – As the Group largely deals with sub-brokers and trading members, GFL's loan book is concentrated, with the top 20 exposures accounting for 117% of the total net worth as on December 31, 2022 (72% of total advances and 128% of total net worth as on March 31, 2022), which is unlikely to change in the near to medium term. Hence, the portfolio is vulnerable to lumpy slippages in the asset quality. The portfolio vulnerability is also augmented by the significantly lower collateral cover among these exposures. However, the Group has been able to maintain adequate asset quality indicators so far with limited write-offs and slippages in the capital market operations and gross and net NPA ratios of

0.7% and 0.5%, respectively, as on December 31, 2022 (0.8% and 0.5%, respectively, as on March 31, 2022) for GFL. Capital market loans will continue to occupy a dominant share in the NBFC segment, with some share of non-capital market loans which are relatively longer tenure and have lower seasoning. Therefore, the Group's ability to maintain the asset quality across segments and gradually reduce the concentration in the NBFC book would be a key monitorable.

Liquidity position: Adequate

The Group's liquidity profile is adequate, supported by the healthy level of margin utilisation with the exchanges, the sizeable proprietary investment book (~Rs. 520 crore, as on December 31, 2022), which can be liquidated if needed, and the comfortable capital structure. As on December 31, 2022, the Group had an adequate unencumbered cash & bank balance of Rs. 668 crore on a consolidated basis compared with total debt repayments (excluding overdraft limits) of Rs. 322 crore in the next 12 months.

Rating sensitivities

Positive factors – The rating could be upgraded on GCML's ability to maintain the current level of profitability across segments on a sustained basis while maintaining a prudent capitalisation profile.

Negative factors – The rating could be downgraded on a significant deterioration in the asset quality at the NBFC level or credit losses in the broking segment, thereby impacting the profitability and capitalisation levels on a sustained basis. Also, changes in the regulatory landscape, which impact the overall income profile, would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Broking Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

The Globe Group is engaged in broking and clearing activities in the equity, commodities and currency segment with a track record of over three decades in the capital market segment. It is a member of the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE) and the Multi Commodity Exchange (MCX-SX). It is also a member of the MCX, the National Commodity & Derivatives Exchange Limited (NCDEX), the National Multi Commodity Exchange of India Limited (NMCE), the Indian Commodity Exchange (ICEX), and ACE for commodity derivatives. The Group holds depository registrations with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) besides being a Securities and Exchange Board of India (SEBI)-registered portfolio manager.

The equity and currency broking, proprietary activities and clearing activities are conducted under the flagship entity, Globe Capital Market Limited (GCML), which is also the holding company of the Group. The commodity broking business is conducted by Globe Commodities Limited (GCL; wholly-owned subsidiary of GCML). Besides, the Group has a presence in the lending business through a wholly-owned subsidiary, Globe Fincap Limited (GFL), which is an NBFC that provides loan against property (78%), loan against shares (21%) and unsecured loans (1%) of the portfolio as on March 31, 2022.

On a consolidated basis, the Group reported a profit after tax (PAT) of Rs. 255 crore in FY2022 on net worth of Rs. 1,950 crore as on March 31, 2022 compared to a PAT of Rs. 319 crore in FY2021 on net worth of Rs. 1,691 crore as on March 31, 2021. In 9M FY2023, the Group reported a PAT of Rs. 294 crore.

On a standalone basis, GCML reported a PAT of Rs. 174 crore in FY2022 on net worth of Rs. 1,169 crore as on March 31, 2022 compared to a PAT of Rs. 229 crore in FY2021 on net worth of Rs. 1,028 crore as on March 31, 2021. In 9M FY2023, GCML reported a PAT of Rs. 207 crore.

Key financial indicators (audited)

GCML (consolidated)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	9M FY2023/Dec-22*
Gross brokerage income	124.2	182.2	202.4	164.0
Net brokerage income	105.6	147.3	157.5	128.7
Trading income	-39.8	177.3	103.2	79.7
Fee income	3.8	6.6	13.5	7.9
Net interest income	184.2	233.1	265.5	256.2
Net operating income (NOI)	300.7	405.9	442.3	390.0
Total operating expenses	129.7	185.9	180.5	134.7
Profit before tax	121.6	422.2	329.5	388.7
Profit after tax (PAT)	104.9	318.8	255.0	294.3
Net worth	1,354.2	1,690.6	1,950.0	
Borrowings	289.9	943.0	898.3	
Gearing (times)	0.2	0.6	0.5	
Cost-to-income ratio	43%	46%	41%	35%
Return on net worth	8%	21%	14%	
PAT/NOI	35%	79%	58%	75%

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

Key financial indicators (audited)

GCML (standalone)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	9M FY2023/Dec-22*
Gross brokerage income	111.0	157.2	182.2	156.1
Net brokerage income	93.4	125.3	136.0	119.2
Trading income	-36.0	158.0	73.1	63.9
Fee income	4.1	7.1	11.0	7.9
Net interest income	84.2	122.0	173.1	181.7
Net operating income (NOI)	188.6	272.9	324.2	310.5
Total operating expenses	107.5	150.7	139.4	126.2
Profit before tax	28.4	302.2	218.4	277.5
Profit after tax (PAT)	33.2	229.2	174.1	206.9
Net worth	789.7	1,028.4	1,168.9	1,375.9
Borrowings	156.8	653.0	551.8	749.1
Gearing (times)	0.2	0.6	0.5	0.5
Cost-to-income ratio	57%	55%	43%	41%
Return on net worth	4%	25%	16%	22%
PAT/NOI	18%	84%	54%	67%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2023 (Rs. crore)	Current Rating (FY2024) Date & Rating in FY2024	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 04, 2023	Oct 31, 2022	Dec 03, 2021 Oct 05, 2021	Oct 06, 2020 May 01, 2020
1	**Long-term bank lines (fund based/non-fund based)**	LT	3,055.18	2,185	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank lines (fund based/non-fund based)	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: Click Here

Annexure I: Instrument details as on March 31, 2023

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term bank lines (fund based/non-fund based)**	NA	NA	NA	2,665.00	[ICRA]A+ (Positive)
Unallocated	**Long-term bank lines (fund based/non-fund based)**	NA	NA	NA	390.18	[ICRA]A+ (Positive)

Source: Company, ICRA Research

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Globe Capital Market Limited	100.00%	Full Consolidation
Globe Fincap Limited	100.00%	Full Consolidation
Globe Commodities Limited	100.00%	Full Consolidation

Source: Company

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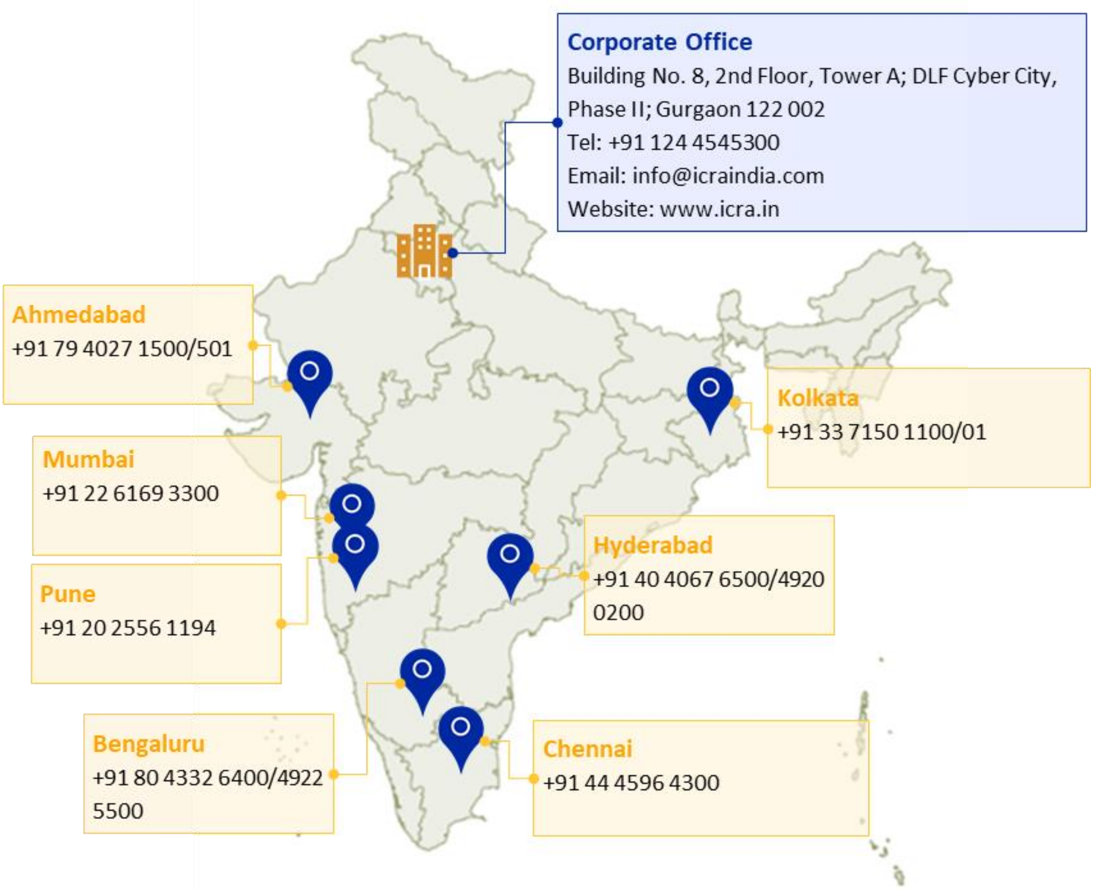

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