

April 06, 2023

Emkay Global Financial Services Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund-based bank lines	175.00	270.00	[ICRA]A2+; reaffirmed/ assigned to enhanced amount
Short term bank facility (un-allocated)	25.00	-	-
Total	200.00	270.00	

*Instrument details are provided in Annexure-I

Rationale

The rating remains supported by Emkay Global Financial Services Limited's (Emkay) established market position and track record of over 25 years in the capital markets with a focus on the institutional segment, and the adequate capitalisation level for the current scale of operations. Moreover, the company's liquidity position is adequate with low dependence on fund-based borrowings. The credit profile is, however, constrained by Emkay's exposure to the inherently volatile capital markets and its moderate core operating performance with limited diversification in the revenue profile. Notwithstanding the increase in operating income in recent fiscals, the core operating performance has been largely muted due to the elevated cost structure amid the sizeable performance-linked variable/bonus payouts. Emkay had witnessed a significant increase in trading income from high frequency trading (HFT) in FY2022. With the discontinuation of this in FY2023 and moderation in its core operating performance, Emkay reported a 51% Year-on-Year (YoY) decline in its net profit in 9M FY2023, though remains better than the average net profit reported in FY2020 to FY2022.

Key rating drivers and their description

Credit strengths

Long track record in capital market related business with focus on institutional broking – Emkay has a track record of over 25 years in capital markets with a presence in equity, currency and commodity broking along with lending, investment banking, alternative assets and wealth management services. With more than 300 institutional clients, Emkay continues to be an institutional-focussed brokerage house with the segment accounting over 50% of its net operating income (NOI).

Adequate capitalisation for current scale of operations – Emkay's capitalisation profile remains adequate for the current scale of operations with a net worth of ~Rs. 216 crore and a gearing of less than 0.1 time on a provisional basis as of December 31, 2022. The company avails limited fund-based borrowings for supporting the loan book in the lending business and the working capital requirements in the broking business. In addition to fund-based borrowings, it avails bank guarantee lines for meeting the margin requirements of the broking operations at the exchange houses.

Credit challenges

Limited diversification in revenue stream – While Emkay's operating income comprises income from broking services, loan against shares, research and advisory services, wealth management (portfolio/asset management) and depository services, the revenue profile remains concentrated towards broking income (70% of NOI in 9M FY2023 compared to 77% in 9M FY2022) followed by research and advisory services (13% in 9M FY2023 and 7% in 9M FY2022), and portfolio & asset management fee (7% in 9M FY2023 and 8% in 9M FY2022). A marginal moderation in broking income coupled with higher advisory income on account of a one-off deal led to a slight moderation in the share of broking income in NOI in 9M FY2023. ICRA notes that Emkay registered a sharp increase in the average daily turnover (ADTO) in the equity broking business in recent period on account of

the significant broking contribution from high frequency trading and direct market access arrangements. However, considering the flattish/ low yielding nature of the products/arrangements, the scale of the business, in terms of revenues, remains limited.

Profitability of core operations remains moderate – Notwithstanding the increase in operating income in recent fiscals, the core operating performance has been muted due to the elevated cost structure amid the sizable performance-linked variable/bonus pay-outs (it is noted that a part of these payouts may be linked to the proprietary trading/investment book's performance). The income/gains from the proprietary trading/investment book have been the key profitability drivers in recent fiscals. Emkay reported an investment gain of Rs. 22.1 crore (Rs. 20.8 crore realised) in 9M FY2023 primarily from its investments in alternative investment funds (AIFs) and other equity investments. Earlier, the company had reported sizeable trading income of Rs. 52.5 crore in FY2022, driven by HFT in derivatives, an initiative commenced in Q2FY2022 but discontinued in Q4 FY2022. With the discontinuation of HFT in its proprietary desk and the moderation in its core performance in FY2023, Emkay witnessed a moderation in its reported profitability metrics; though the same it remains better than the average of past three fiscals. Emkay reported a net profit of Rs. 19.3 crore and a return on equity (RoE) of 12.3% in 9MFY2023. Going forward, the company's ability to improve the profitability of its core operations on a sustained basis will remain imperative from a credit perspective.

Dependence on capital markets, which are inherently volatile and cyclical in nature – With broking and advisory services, accounting 83% of NOI, Emkay's revenue and profitability remain inherently dependent on the performance of the capital markets. Nonetheless, the volatility in the company's broking income has reduced marginally on account of onboarding of clients on a fixed fee structure. However, while the share of such income has increased to 14% of NOI in 9M FY2023 from 7% in 9MFY2022, it remains concentrated across 3-4 clients. As of December 31, 2022, ~11% of Emkay's net worth was deployed in equity-related investments. The gains from these investments, which have been a key profitability driver in recent period, also remain largely linked to the performance of the capital market.

Liquidity position: Adequate

Emkay's liquidity requirement is primarily for placing margins at the exchanges and scaling the loan against share book. During August 2022 to January 2023, the average margin placed at the exchanges (basis month-end data, including client margin) stood at Rs. 322 crore with average utilisation stood of 44%. At the consolidated level, Emkay has an adequate liquidity profile with of an unencumbered cash and bank balance of Rs. 34.9 crore, investments of Rs. 8.6 crore and un-utilised but drawable fund-based limits of ~Rs. 24 crore against nominal fund-based borrowings as of January 31, 2023. Additionally, it avails an intraday line of ~Rs. 225 crore which supports, the working capital requirements of the broking operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating on a significant and sustained improvement in the profitability from the core operations along with adequate risk management measures and healthy capitalisation.

Negative factors – The rating could be downgraded if there is a sustained deterioration in the Group's financial performance and liquidity profile. Pressure on the rating could also arise in case of any change(s) in the regulatory environment, which may impact its business operations and financial performance.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Brokerage Industry Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation

About the company

Emkay was founded in January 1995 as Emkay Share and Stock Brokers Private Limited by two first-generation entrepreneurs. The company was changed to a public limited one in October 2005 and it was renamed Emkay Share and Stock Brokers Limited. In July 2008, the name was changed to Emkay Global Financial Services Limited. Currently, the company, along with its wholly owned subsidiaries, is engaged in equity broking, commodity broking, currency broking, lending, depository participant, wealth/portfolio management services, distribution of financial products and investment banking operations.

On a consolidated basis, Emkay reported a net profit of Rs. 19.3 crore on net operating income (NOI) of Rs. 121.4 crore in 9M FY2023 compared to Rs. 39.2 crore and Rs. 119.2 crore, in 9MFY2022. It had reported a net profit of Rs. 34.9 crore on NOI of Rs. 155.0 crore in FY2022 compared Rs. 11.8 crore and Rs. 124.2 crore, respectively, in FY2021.

Key financial indicators

Emkay (consolidated)	FY2021/ Mar-2021	FY2022/ Mar-2022	9M FY2023/ Dec-2022*
Net brokerage income	92.8	118.3	85.3
Other fee income	25.4	30.6	30.5
Net interest income	6.0	6.2	5.6
Net operating income (NOI)	124.2	155.0	121.4
Total operating expenses	121.9	161.2	123.4
Profit before tax (PBT)	17.4	46.1	19.8
Profit after tax (PAT)	11.8	34.9	19.3
PAT/NOI	9.5%	22.5%	15.9%
Cost-to-income ratio	98.1%	104.0%	101.7%
Net worth	166.4	200.6	216.3
Gearing (times)	0.06	0.05	0.06
Return on average net worth	7.4%	19.0%	12.3%

Source: Company, ICRA Research; *Provisional figures; 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 (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Apr 06, 2023	Apr 06, 2022	May 05, 2021	Apr 30, 2020 Apr 03, 2020
1 Non-fund based bank guarantee	Short Term	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
2 Short term bank facility(un-allocated)	Short Term	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1
3 Non-fund based bank guarantee	Short Term	-	-	-	-	[ICRA]A2+	[ICRA]A1
4 Short term non-fund-based bank lines	Short Term	270.0	221.5	[ICRA]A2+	-	-	-

Source: Company; *As of January 31, 2023

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short term non-fund-based bank lines	Very 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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank guarantee	-	-	-	270.00	[ICRA]A2+

Source: Company

[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
Emkay Fincap Limited	100% Subsidiary	Full Consolidation
Emkay Investment Managers Limited	100% Subsidiary	Full Consolidation
Emkay Wealth Advisory Limited (formerly Emkay Insurance Brokers Limited)	100% Subsidiary	Full Consolidation
Emkay Commotrade Limited	100% Subsidiary	Full Consolidation
EmkayGlobal Financial Services IFSC Private Limited	100% Subsidiary	Full Consolidation
Emkay Global Financial Services Pte. Ltd., Singapore	100% Subsidiary	Full Consolidation

Source: Company

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Branches



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