December 14, 2023

Pace Stock Broking Services Pvt. Ltd.: Rating reaffirmed; [ICRA]A (Stable) rated amount enhanced.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities	600.00	1,100.00	[ICRA]A (Stable); reaffirmed and assigned for enhanced amount
Total	**600.00**	**1,100.00**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the rating, ICRA has taken a consolidated view of Pace Stock Broking Services Pvt. Ltd. (PSBSPL) and Pace Commodity Brokers Private Limited (PCBPL), given the strong operational linkages between the entities with a common management, complementary product offerings, operational synergies and the management's intention to merge PCBPL's business with PSBSPL. PSBSPL houses the equity and currency broking business while commodity broking is housed under PCBPL. PSBSPL and PCBPL together are referred to as the Group.

The rating reaffirmation factors in PSBSPL's experience in capital markets and securities broking and its healthy operational metrics. The rating also derives comfort from the Group's comfortable capitalisation profile for the current scale of operations, with negligible leverage on a net worth of Rs. 968.4 crore on a consolidated basis as on March 31, 2023, and the management's stated intent of maintaining prudent leverage, going forward as well. The Group's liquidity profile is adequate, supported by the healthy level of margin utilisation with the exchanges and the arbitrage book, which can be liquidated whenever needed. The rating also factors in the Group's healthy earnings profile, mainly driven by the arbitrage business with strong risk management systems, along with healthy broking income and net interest income. Nevertheless, the continuance of income from the arbitrage business would depend on the Group's ability to identify arbitrage opportunities and manage risks, going forward as well.

The rating is constrained by the limited diversification in the revenue stream and the Group's sizeable arbitrage business, which exposes PSBSPL to market risks and volatile capital markets. The rating also considers the risks associated with the proprietary trading business. However, the management's stated intention of not taking directional calls, the sizeable net worth, which provides a cushion to absorb possible future losses that may arise from the arbitrage/trading business, PSBSPL's track record of consistently reporting trading gains amid adverse capital market conditions and its ability to operate with minimal external debt and a low gearing provide comfort.

PSBSPL employs simple arbitrage strategies, which are fully hedged, and has deployed adequate risk management systems to deal with market volatility. ICRA also notes that PSBSPL is focussing on diversifying the Group's business and revenue profile and plans to grow the business in the retail broking operations. However, the impact of the same on the overall revenue mix would be visible over the medium term.

Going forward, PSBSPL's ability to meaningfully diversify its revenue stream and maintain healthy earnings and subsequently better net worth accretion, while constantly upgrading the risk management system for managing the portfolio and market risk, would be a key rating consideration. Also, ICRA notes that while recent proposals by the Securities and Exchange Board of India (SEBI) are likely to lead to increased working capital requirements for brokers, the impact on PSBSPL is expected to be limited.

Key rating drivers and their description

Credit strengths

Long track record of promoters in capital market related business – The Group has a long track record of over 27 years in the capital market segment with a presence in the equity, commodity, and currency broking segments. It caters to both retail and institutional clients, though the bulk of the business remains focussed on high-net-worth individual (HNI) clients. It operates through ~27 branches and has over 671 retail franchises across the country.

Healthy earnings profile – Even though the Group has witnessed a moderation in its profitability with the return on assets (RoA) and return on equity (RoE) declining to 10.8% and 15.8%, respectively, in FY2023 from 14.3% and 23.2%, respectively, in FY2022, the same remains comfortable and is expected to remain so in FY2024. The Group's net profit declined to Rs. 142 crore in FY2023 from Rs. 173 crore in FY2022 and broking income declined to Rs. 52 crore from Rs. 76 crore during this period. This was largely on account of the volatile capital market environment and the increase in the share of the low-yielding derivatives segment. The Group's asset quality indicators have remained healthy with nil write-offs in the capital market segment. Going forward, its ability to maintain healthy profitability in this business and achieve growth in the broking business would be important for an improvement in the overall credit profile.

Comfortable capitalisation profile – Supported by good internal accruals, the Group reported an increase in its net worth to Rs. 968 crore as on March 31, 2023 (PY: Rs. 835 crore). Its capitalisation profile is comfortable for the current scale of operations with a negligible gearing as on March 31, 2023 as there is no external debt. In ICRA's opinion, sizeable net worth, which provides cushion to absorb any impact on the profitability that may arise from the business, and the company's ability to continue maintaining prudent capitalisation will remain key monitorables. ICRA expects the Group's gearing to remain low in the medium term, given the management's stated intent of maintaining the consolidated leverage below 0.2x.

Credit challenges

Limited diversification in revenue stream with focus on arbitrage business – The Group is engaged in securities broking and strategy-based/arbitrage (proprietary) trading with proprietary trading accounting for a sizeable portion of its earnings. ICRA also notes the risks associated with the proprietary trading business though it can be liquidated whenever needed. Moreover, the risk gets somewhat mitigated by the Group's diversified arbitrage strategies and the risk management systems for the mitigation of such risks such as scenario simulations, stress testing, etc. Proprietary trading income accounted for 74% of the Group's total income in FY2023 (74% in FY2022), while broking accounted for 13% (16% in FY2022), with net interest income and other fee-based income accounting for the balance. However, PSBSPL's track record of consistently reporting trading profits since inception (over 27 years), amid adverse capital market conditions and operating with minimal debt only from the promoters with no external debt and negligible gearing, demonstrates the Group's market-neutral arbitrage strategies backed by appropriate risk management systems.

While the Group registered a steady increase in the average daily turnover (ADTO) over the years in the equity broking business, the scale of the broking business, in terms of revenues, remains limited. It is, nevertheless, supported by the concentration of transaction volumes in the low-yielding derivative segment and the lower share of the high-yielding cash segment. The Group's broking income decreased to Rs. 52 crore in FY2023 from Rs. 76 crore in FY2022 on account of the stagnant growth in broking volume and the increase in the share of the low-yielding derivatives segment. ICRA notes that the Group is in the process of scaling up its retail-based broking income to diversify the income stream. The company is focussing on rolling out an improved and upgraded retail platform along with increased focus on marketing initiatives to improve its brand visibility. Going forward, PSBSPL's ability to achieve meaningful diversification in its revenue stream would remain critical for a further improvement in its credit profile.

Volatile earnings profile due to arbitrage business, which is exposed to market risks – PSBSPL is engaged in market-neutral arbitrage trading strategies backed by appropriate risk management systems and it plans to operate a high frequency trading (HFT) algorithm-based desk in the near term. The proportion of capital to be employed for the HFT desk and the risk management measures adopted for the same will remain key monitorables. The proprietary trading business remains exposed to market risks. Thus, the volatility of earnings remains high because of the significant dependence on capital markets. However, the Group's track record in this business and the presence of adequate net worth to absorb possible losses provide comfort. Also, PSBSPL has reported profits from trading operations despite periods of extreme volatility during the past 21 years. It reported proprietary trading income of Rs. 301 crore in FY2023 (YoY decline of 12%). Going forward, PSBSPL's ability to maintain a healthy track record in this business, while ensuring adequate scale-up in the risk management processes to manage the portfolio and market risks, would be important.

Liquidity position: Adequate

PSBSPL's liquidity remained adequate as on March 31, 2023. The primary liquidity requirement is for placing margins at the exchanges and managing working capital requirements in the proprietary trading business and fulfilling client margin requirements in the broking business. PSBSPL deployed an average margin of ~Rs. 1,048 crore at the exchanges (funded through own and client funds/securities) during April 2023-July 2023. As on March 31, 2023, the company had an unencumbered cash and bank balance of Rs. 53 crore and liquid investments of Rs. 212 crore against nil fund-based borrowings. Further, it had an overdraft limit of Rs. 97 crore and drawable but unutilised lines of Rs. 120 crore, which are adequate to cover any short-term debt obligations if required.

Rating sensitivities

Positive factors – ICRA could upgrade the rating on the Group's demonstrated ability to ramp up the scale of operations with a meaningful diversification in the revenue stream, sustain healthy performance in the trading business while ensuring adequate risk management measures, and maintain healthy capitalisation.

Negative factors – The rating could be downgraded on a deterioration in the Group's financial performance, liquidity profile and/or significant erosion of the net worth. Pressure on the rating could also arise in case of any change(s) in the regulatory environment, which may impact the Group's business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for Stockbroking & Allied Services ICRA's rating approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation

About the company

PSBSPL and PCBPL are a combined brokerage house, providing broking, distribution and depository services to individuals and corporates, with a track record of over 27 years in capital markets. The entities are promoted by Mr. Atul Goel and Mr. Amit Goel. The principal business of the two entities is to provide stockbroking services to corporates and individuals as well as conduct arbitrage business. PSBSPL is listed as a member of Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Metropolitan Stock Exchange of India (MSEI), Multi Commodity Exchange of India (MCX) and National Commodity and

Derivatives Exchange (NCDEX) while PCBPL is a member of MCX and NCDEX. The Group also holds depository registration with Central Depository Services Limited (CDSL).

In FY2023, PSBSPL and PCBPL reported a consolidated net profit of Rs. 142 crore on total income of Rs. 407 crore against Rs. 173 crore and Rs. 463 crore, respectively, in FY2022. The Group's net worth stood at Rs. 968 crore as on March 31, 2023.

Key financial indicators (audited and consolidated)

Company Name	FY2020	FY2021	FY2022	FY2023
Brokerage income	30.6	55.2	75.7	52.3
Fee income (other than broking)	0.5	0.7	0.7	0.6
Net interest income	24.3	20.8	24.3	38.9
Other non-interest income	0.1	0.1	0.1	0.0
Net operating income (NOI)	55.5	76.8	100.8	91.8
Trading income	95.4	287.1	343.0	300.6
Total operating expenses	119.5	178.9	231.4	218.4
Profit before tax	38.8	193.2	232.8	188.1
Profit after tax (PAT)	32.2	144.5	173.1	142.1
Net worth	488.5	655.7	834.5	968.4
Borrowings	47.3	7.9	6.6	2.0
Gearing (times)	0.10	0.01	0.01	0.00^
Cost to income ratio	79%	49%	52%	56%
Return to net worth	7%	25%	23%	16%
PAT/NOI	21%	40%	39%	36%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; ^Gearing as on March 31, 2023 is 0.002x*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 14, 2023	May 11, 2023	NA	Mar 24, 2022	NA
1	**Bank facilities**	Long term	1,100	NA	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**NA**	**[ICRA]A (Stable)**	**NA**

Complexity level of the rated instrument

Instrument	Complexity Indicator
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: Click Here

Annexure I: Instrument details (as on November 30, 2023)

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Bank facilities**	NA	NA	NA	375	[ICRA]A (Stable)
NA	**Bank facilities**	NA	NA	NA	125	[ICRA]A (Stable)
NA	**Bank facilities**	NA	NA	NA	100	[ICRA]A (Stable)
NA	**Bank facilities**	NA	NA	NA	160	[ICRA]A (Stable)
NA	**Bank facilities**	NA	NA	NA	75	[ICRA]A (Stable)
NA	**Bank facilities**	NA	NA	NA	75	[ICRA]A (Stable)
NA	**Bank facilities**	NA	NA	NA	50	[ICRA]A (Stable)
NA	**Unallocated**	NA	NA	NA	140	[ICRA]A (Stable)

Source: Company data

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
Pace Stock Broking Services Pvt. Ltd.	Rated Entity	Full Consolidation
Pace Commodity Brokers Private Limited	100.00%	Full Consolidation

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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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