

April 17, 2024

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank lines	250.0	250.0	[ICRA]A2+; reaffirmed
Short-term non-fund based bank lines	20.0	-	[ICRA]A2+; reaffirmed and withdrawn
Total	270.0	250.0	

*Instrument details are provided in Annexure I

Rationale

The rating continues to consider 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 for the current scale of operations. The company's financial profile remains characterised by low dependence on fund-based borrowings, while the liquidity position stands adequate.

The credit profile is, however, constrained by the company's exposure to the inherently volatile capital markets and the moderate core operating performance. Emkay's core operating performance was muted in the preceding fiscals owing to the elevated cost structure. Driven by the increase in broking revenue and fee income from merchant banking deals amid industry tail winds, the company reported an improvement in its core operating performance in 9M FY2024 with operating profit of Rs. 8 crore compared to losses in FY 2022 and FY2023; nonetheless, it remains moderate. Gains on investments and proprietary trading have been a key profitability driver in recent years. Gains from proprietary trading/investments boosted the net profit to Rs. 20 crore and the return on equity (RoE) to 12% in 9M FY2024 from Rs. 14 crore and 7%, respectively, in FY2023. Going forward, Emkay's ability to improve the profitability of its core operations on a sustained basis will remain imperative from a credit perspective.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 20-crore bank facilities of Emkay. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

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, deriving over 50% of its net operating income (NOI) from this segment.

Adequate capitalisation for current scale of operations – Emkay's capitalisation profile is characterised by minimal dependence on fund-based borrowings with a net worth of ~Rs. 229 crore on a provisional basis as of December 31, 2023. The reported financial leverage remains negligible with a gearing of less than 0.1 times over the years. The company primarily avails 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 limits for meeting the margin requirements of the broking operations at the exchange houses.

Credit challenges

Moderate scale of broking business – Emkay registered a strong rise in the average daily turnover (ADTO) in the equity broking business in recent periods on account of increased contribution from high frequency trading and direct market access arrangements. However, considering the relatively low-yielding nature of these products/arrangements, the scale of the business, in terms of revenues, remains limited. Further, the diversification in the revenue profile remains limited with fee income from broking and advisory services accounting for over 80% of the operating income.

Profitability of core operations remains moderate, notwithstanding improvement in recent quarters – Emkay's core operating performance has been muted over the years owing to the elevated cost structure. Driven by the increase in broking income and fee income from merchant banking deals amid industry tail winds, it reported an improvement in its core operating performance in 9M FY2024 with an operating profit of Rs. 8 crore compared to losses in the past two fiscals; nonetheless, it remains moderate. Income/gains from the proprietary trading/investment book have been the key profitability driver in recent fiscals. Supported by these gains, Emkay reported a net profit of Rs. 20.2 crore, profit after tax (PAT)/NOI of 12% and RoE of 12% in 9M FY2024 compared to Rs. 19.3 crore, 16% and 12%, respectively, in 9M FY2023. 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.

Exposure to risks associated with capital market related businesses; evolving operating and regulatory environment – The trading volumes and revenues of securities broking companies are susceptible to the inherently volatile capital markets, which are cyclical in nature. With broking and advisory services accounting for more than 80% of its NOI, Emkay's revenue and operating profitability remain inherently dependent on the performance of the capital markets. Further, as of December 31, 2023, ~8% of its net worth was deployed in equity-related investments. While gains from these investments and proprietary trading have been a key profitability driver in recent periods, these also expose the company to the performance of the capital markets.

Securities broking companies rely heavily on technology. Thus, any technical failure or disruption can pose operational and reputation risk. Moreover, the ability of brokerage entities to ensure compliance with the evolving regulatory landscape remains crucial. The sector also remains characterised by intense competition and susceptibility to entry by new players. In this regard, heightened competition in the equity broking segment and the growing popularity of discount brokerage houses have led to pricing pressure in recent years. However, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term. Nevertheless, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Environmental and social risks

While financial institutions do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. Nonetheless, such risk is not material for Emkay as its lending business remains modest and primarily focused on capital market related lending. Further, the business activities are typically short-to-medium term in nature, which will allow it to adapt if required.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. Emkay has not faced such lapses in recent years. Additionally, it is noted that customer preferences are increasingly shifting towards the digital mode of transacting, a phenomenon that necessitates the adoption of technological advancements, besides providing an opportunity to reduce the operating costs. Emkay has been making investments to enhance its information technology infrastructure.

Liquidity position: Adequate

Emkay's liquidity requirement is primarily for placing margins at the exchanges. During February 2023 to January 2024, the average cash and equivalent margin placed (including unallocated across segments) at the exchanges (basis month-end data, including client margin) stood at Rs. 592 crore with average utilisation of 25%. Overall, it has an adequate liquidity profile with an unencumbered cash and bank balance of ~Rs. 16 crore and unutilised but drawable fund-based limits of ~Rs. 17 crore against nominal fund-based borrowings as of December 31, 2023. Additionally, it avails an intraday loan facility of ~Rs. 225 crore, which supports the working capital requirements of the broking operations. These intraday lines are backed by fixed deposits, fixed assets and partial pledge on promoter shares. It is also noted that Emkay has Rs. 16-crore of listed equity investments, providing financial flexibility for placing margins.

Rating sensitivities

Positive factors – A significant and sustained improvement in the profitability from core operations while maintaining healthy capitalisation.

Negative factors – A sustained deterioration in the Group's financial performance and/or liquidity profile

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services Consolidation and Rating Approach Policy on Withdrawal of Credit Ratings
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. It was converted into a public limited company in October 2005 and was renamed Emkay Share and Stock Brokers Limited. In July 2008, its 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. 20 crore on net operating income (NOI) of ~Rs. 172 crore in 9M FY2024 compared to ~Rs. 14 crore and Rs. 163 crore, respectively, in FY2023. As of December 31, 2023, Emkay's capitalisation profile was characterised by a net worth of ~Rs. 229 crore and a gearing of 0.1 times on a provisional basis.

Key financial indicators

Emkay Global Financial Services Private Limited (consolidated)	FY2022	FY2023	9M FY2024*
Net operating income	154.5	163.0	171.8
Profit after tax	34.9	14.0	20.2
Net worth	200.6	210.4	229.4
Total assets	763.9	731.0	1,083.8
Gearing (times)	0.1	0.1	0.1
Return on average net worth	19.0%	6.8%	12.3%

Source: Company, ICRA Research; * Unaudited 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 (FY2025)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Apr 17, 2024	Apr 06, 2023	Apr 06, 2022	May 05, 2021
1 Non-fund based bank guarantee	Short term	-	-	-	-	[ICRA]A2+	[ICRA]A2+
2 Short-term bank facility (unallocated)	Short term	-	-	-	-	[ICRA]A2+	[ICRA]A2+
3 Non-fund based bank guarantee	Short term	-	-	-	-	-	[ICRA]A2+
4 Short-term non-fund based bank lines	Short term	250.0	177.0	[ICRA]A2+	[ICRA]A2+	-	-

Source: Company; *As of January 31, 2024

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	-	-	-	250.0	[ICRA]A2+
NA	Bank guarantee	-	-	-	20.0	[ICRA]A2+; withdrawn

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
Azalea Capital Partners LLP	45% associate	Equity method

Source: Company

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Branches



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