

July 23, 2024

## SMC Global Securities Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	100	100	[ICRA]A1+; reaffirmed
Long-term/short-term fund-based/non-fund based bank lines	1,500	1,500	[ICRA]A (Stable)/[ICRA]A1+; reaffirmed
NCD	400	400	[ICRA]A (Stable); reaffirmed
<b>Total</b>	<b>2,000</b>	<b>2,000</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings continue to factor in SMC Global Securities Ltd.'s (SMC or the Group) long track record in capital market & allied businesses as well as its established market position and franchise. The ratings also consider the synergistic benefits arising from the Group's integrated presence across securities broking, clearing, wealth management, advisory, insurance broking, distribution of financial products, besides the lending activities undertaken by its wholly-owned subsidiary – Moneywise Financial Services Private Limited (MF SPL).

Supported by the favourable activity in the capital markets, the Group reported a healthy performance in FY2024 as reflected by the all-time high consolidated profit after tax (PAT) of Rs. 188.3 crore and return on net worth (RoNW) of 18.6%. However, this was accompanied by an increase in the working capital requirement and growth in financing activities. This led to an increase in the Group's dependence on borrowings, resulting in an uptick in the consolidated gearing to 1.3 times as of March 31, 2024 from 1.0 times as of March 31, 2023 (consolidated gearing, excluding MF SPL, stood at 0.8 times as of March 31, 2024). In this regard, the leverage could increase further due to the additional funding requirement for growth in the financing activities. Nonetheless, the capitalisation level is expected to remain adequate.

These strengths are partially offset by the Group's exposure to the inherent volatility in the capital markets, the evolving regulatory and operating environment, and the highly competitive and fragmented nature of the broking industry. It is also exposed to credit and market risks associated with capital market lending activities, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. Additionally, the Group has a presence in small and medium enterprise (SME) financing (secured as well as unsecured) and onward lending to non-banking financial companies (NBFCs) through MF SPL. The performance of the lending business, in terms of growth and asset quality, would continue to have a bearing on the Group's overall credit profile. While MF SPL's reported headline asset quality indicators have remained under control, the same was partially supported by write-offs in FY2024. Going forward, the asset quality will remain a monitorable, given the limited portfolio seasoning and the evolving business model with the Group's foray into new product segments.

The Stable outlook reflects ICRA's expectation that SMC will continue to grow as per its business plans while benefitting from its track record, franchise, and established position in capital market-related businesses.

## Key rating drivers and their description

### Credit strengths

**Long track record and established market position** – The Group has a long track record of over three decades in the capital market and allied businesses with its full-service stockbroking operations (primarily in the retail equity broking segment) having an extensive network of 145 branches, 2,327 franchisees and an active National Stock Exchange (NSE) client base of 1.8 lakh as of March 2024. Furthermore, discount broking services are offered by SMC's wholly-owned subsidiary – Moneywise Finvest limited (MFL) – through the platform/application 'Stoxkart'. However, its contribution to the Group's broking revenues and trading volumes remains marginal (active NSE client base of ~16,200 as of March 2024).

Besides securities broking, the Group has an integrated presence across diverse business segments including margin trade financing, clearing, wealth management, advisory, distribution of financial products, insurance broking and financing activities. It undertakes SME financing (secured as well as unsecured) and onward lending to NBFCs through MFSP.

**Adequate capitalisation** – SMC's capitalisation profile is characterised by a consolidated net worth of Rs. 1,096 crore and a consolidated gearing of 1.3 times as on March 31, 2024 compared to Rs. 933 crore and 1.0 times, respectively, as on March 31, 2023. The growth in the broking operations in FY2024 was accompanied with an increase in the working capital requirement due to regulatory changes, whereby the dependence on borrowings rose and resulted in an uptick in the gearing. Nonetheless, capitalisation remains adequate.

MFSP's capitalisation profile also stands adequate with a gearing and a capital-to-risk weighted assets ratio (CRAR) of 1.8 times and 35.4%, respectively, as of March 31, 2024. ICRA, however, notes that MFSP has ambitious growth plans and would need to raise capital in the near-to-medium term to continue growing at the targeted rate while maintaining adequate capitalisation. In this regard, comfort is drawn from the management's stated intent to operate the Group's NBFC with a leverage of less than 3.5 times and raise fresh capital through external investors, if required, to fund the growth. As far as the consolidated leverage of the broking operations (excluding NBFC) is concerned, it rose to 0.8 times as of March 31, 2024 from 0.5 times as of March 2023, though it is adequate.

**Adequate profitability indicators, notwithstanding recent uptick due to capital market operations** – Given its presence in capital market-related businesses, SMC's revenue profile remains vulnerable to market cycles. Nonetheless, supported by the favourable activity in the capital markets, the Group reported a healthy performance in FY2024 as reflected by the all-time high consolidated profit after tax (PAT) of Rs. 188.3 crore and return on net worth of 18.6% compared to Rs. 120 crore and 13.0%, respectively, in FY2023 (four-year average of Rs. 147 crore and 16.6%, respectively). MFSP's profitability too remained adequate over the years with a four-year average return on assets (RoA) of 3.7%. However, its operating profitability came under stress in FY2024 on account of the higher borrowings and hence pressure on the lending spreads and net interest margins (NIMs). Further, the profitability was impacted by the elevated credit costs. Nonetheless, supported by the gains on the investments in initial public offerings (IPOs), MFSP reported an RoA of 4.5% in FY2024. The consolidated profitability, excluding the NBFCs, also stood adequate with RoE of 16.1% in FY2024.

While the asset quality of the Group's capital market lending book has been characterised by negligible credit costs and stressed assets, the SME lending business' asset quality indicators remained under control as of March 2024, though this was partially supported by write-offs. As on March 31, 2024, MFSP's gross and net stage 3 assets stood at 2.2% and 1.0%, respectively, compared to 2.3% and 1.4%, respectively, as on March 31, 2023. Going forward, MFSP's ability to grow the business while controlling the slippages would be imperative.

## Credit challenges

**Exposed to risks inherent in capital market-related businesses as well as credit and market risks associated with capital market lending** – 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 allied activities and advisory services accounting for ~55% of its consolidated NOI<sup>1</sup>, SMC's profitability remains dependent on the performance of the capital markets. Moreover, it remains exposed to credit and market risks on account of the capital market lending book. This is due to the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks.

SMC forayed into the margin trading facility (MTF) business in FY2023. It ramped up the MTF book to Rs. 233 crore as on March 31, 2024 from Rs. 186 crore as on March 31, 2023. Additionally, its T+5 receivables exposure aggregated Rs. 429 crore as of March 31, 2024. SMC's ability to maintain adequate asset quality while ramping up the lending book would remain a monitorable. It also has sizeable proprietary trading operations<sup>2</sup>, which expose it to the associated idiosyncratic risks. Nonetheless, ICRA notes that the Group aims to undertake only fully hedged trades and has not reported a trading loss in the preceding 40 quarters.

**Intense competition in capital markets; evolving operating and regulatory environment** – The securities broking sector remains characterised by intense competition and susceptibility to the entry of 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. Moreover, securities broking companies rely heavily on technology. Thus, any technical failure or disruption can pose operational and reputation risk.

Also, given the highly regulated nature of this industry, brokerage houses are exposed to regulatory risks. Hence, their ability to ensure compliance with the evolving regulatory landscape remains crucial. In this regard, the recent Securities and Exchange Board of India (SEBI) circular on uniform charges to be levied by market infrastructure institutions is likely to impact the profitability of the broking industry. The resultant steps taken by industry participants and their impact on yields and profitability remain to be seen<sup>3</sup>. Nonetheless, 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. Still, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

**High share of unsecured loans in NBFC arm** – As MFSP is primarily an SME financing company (~80% of assets under management (AUM) as on March 31, 2024), it is susceptible to the underlying risk of borrowers, who are susceptible to economic shocks and have limited income buffers. Additionally, 41% of the AUM as on March 31, 2024 was unsecured, adding to portfolio risk. Nonetheless, the headline asset quality metrics have remained under control. The stage 3 assets remained stable at 2.2% as of March 2024 (2.3% as of March 31, 2023). This was partially supported by higher write-offs, as depicted by the increase in the gross non-performing advances (GNPAs), including write-offs<sup>4</sup>, to 3.1% as on March 31, 2024 from 2.6% as on March 31, 2023. Credit costs, as a percentage of average managed assets, also increased to 1.5% in FY2024 from 0.6% in FY2023. This was partially on account of higher write-offs and the increased stage 2 and stage 3 provision coverage with the implementation of the reviewed ECL framework. As a result, the net NPA eased to 1.0% as of March 31, 2024 from 1.4% as of March 31, 2023. Going forward, MFSP's ability to maintain good control over the asset quality, as the portfolio evolves and seasons, considering the expected scale-up in operations, will remain a monitorable.

<sup>1</sup> Net operating income defined as sum of net securities broking income, advisory, insurance broking income, distribution fee related to other financial products, depository income, net interest income

<sup>2</sup> Proprietary trading income stood at Rs. 170.0 crore in FY2024, accounting for 19% of total income. Total income is defined as sum of NOI, trading income and fair value gain on investments

<sup>3</sup> Income from exchange incentives stood at Rs. 6.6 crore (2.7% of consolidated profit before tax; PBT) for SMC in FY2024

<sup>4</sup> As reported in profit and loss statement, net of recoveries

## Environmental and social risks

While financial institutions do not face any material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. Nonetheless, such risk is not material for the SMC Group as 55% of its consolidated lending operations are primarily focused on capital market-related lending and loan against property. 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. It is noted that customer preferences are increasingly shifting towards the digital mode of transacting, necessitating the adoption of technological advancements, besides providing an opportunity to reduce the operating costs. The Group has been making investments to enhance its digital interface with its customers.

## Liquidity position: Adequate

At the standalone level, SMC's funding requirement is primarily for placing margins at the exchanges and for funding the capital market lending book. Its margin utilisation ranged between 50% and 60% during the 12-month period of April 2023 to March 2024. The average margin placed on exchanges aggregated ~Rs. 10,464 crore during this period (including non-cash collateral). The borrowings outstanding at the standalone level aggregated Rs. 643 crore as of March 31, 2024, of which Rs. 110 crore is due in the next 12 months (till March 2025). Against this, SMC had on-balance sheet liquidity of ~Rs. 53 crore as on that date. Additionally, its short-term loan assets, which can be liquidated at short notice to generate liquidity, if required, stood at Rs. 233 crore as on March 31, 2024. The on-balance sheet liquidity and inflows from the short-term, callable MTF book cover these debt repayment obligations.

As per the asset liability maturity (ALM) statement as of March 31, 2024, MFSP's liquidity position remains adequate as reflected by the positive cumulative mismatches across the near-term buckets. The company has debt repayments of Rs. 211 crore falling due in H1 FY2025 compared to expected inflows from advances of Rs. 243 crore. Additionally, MFSP had modest on-balance sheet liquidity of Rs. 61 crore, as of March 31, 2024, along with unutilised bank lines of Rs. 36 crore.

## Rating sensitivities

**Positive factors** – An improvement in the scale of operations and market position while achieving healthy profitability and asset quality on a sustained basis would be a positive. Strengthening of the capitalisation profile would also augur well for the credit profile.

**Negative factors** – A sustained weakening of the profitability and/or capitalisation, affecting the financial risk profile, would be a credit negative. The ratings could also come under pressure if the asset quality of the lending business deteriorates.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Stockbroking &amp; Allied Services</a> <a href="#">Non-banking Finance Companies (NBFCs)</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation (details in Annexure II)

## About the company

SMC Global Securities Ltd., incorporated on December 19, 1994, is a Delhi-based securities broker. It is the flagship company of the SMC Group with its subsidiaries providing financial services such as securities broking, insurance broking, distribution of third-party products, lending, real estate advisory, wealth management, investment banking, clearing and depository services, etc. The SMC Group has a presence in 437 cities with 188 branches (including 1 in Dubai) and had an active client base of 1.8 lakh as of March 31, 2024.

On a consolidated basis, SMC reported a PAT of Rs. 188.3 crore in FY2024 on an asset base of Rs. 4,767.2 crore as on March 31, 2024 compared to PAT of Rs. 120.4 crore in FY2023 on an asset base of Rs. 3,323.1 crore as on March 31, 2023.

On a standalone basis, SMC reported a PAT of Rs. 141.0 crore in FY2024 on an asset base of Rs. 3,611.4 crore as on March 31, 2024 compared to a PAT of Rs. 93.4 crore in FY2023 on an asset base of Rs. 2,507.3 crore as on March 31, 2023.

### Key financial indicators (audited)

SMC (consolidated)	FY2023/Mar-23	FY2024/Mar-24
Net operating income (NOI)	525.7	656.5
Proprietary trading income	165.1	170.0
Profit after tax (PAT)	120.4	188.3
Net worth	932.7	1,095.7
Total assets	3,323.1	4,767.2
Gearing (times)	1.0	1.3
Return on net worth	13.0%	18.6%

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

### Key financial indicators (audited)

SMC (standalone)	FY2023/Mar-23	FY2024/Mar-24
Net operating income (NOI)	354.6	457.2
Proprietary trading income	159.0	160.6
Profit after tax (PAT)	93.4	141.0
Net worth	768.0	883.8
Total assets	2,507.3	3,611.4
Gearing (times)	0.6	0.8
Return on net worth	12.0%	17.1%

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

### Key financial indicators

SMC (consolidated; excl. MFSP)	FY2023/Mar-23	FY2024/Mar-24
Net operating income (NOI)	446.4	567.0
Proprietary trading income	165.1	170.0
Profit after tax (PAT)	84.3	132.3
Net worth	762.5	882.7
Total assets	2,530.5	3,703.4
Gearing (times)	0.5	0.8
Return on net worth	10.8%	16.1%

Source: Company, ICRA Research; 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	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	
			Jul 23, 2024	Jul 24, 2023	Nov 04, 2022	Aug 30, 2022	Aug 30, 2021	
1 Commercial paper	ST	100	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2 Long-term/short-term fund-based/non-fund based bank lines	LT/ST	1,500	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+	
3 NCD	LT	400	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	

Source: ICRA Research; LT – Long term, ST – Short term

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
NCD	Simple
Long-term/short-term fund-based/non-fund based bank lines	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 July 23, 2024**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	1,500	[ICRA]A (Stable)/ [ICRA]A1+
Yet to be placed	Commercial paper	NA	NA	7-365 days	100.00	[ICRA]A1+
Yet to be placed	NCD	NA	NA	NA	400.00	[ICRA]A (Stable)

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
SMC Global Securities Ltd.	Parent (rated entity)	Full Consolidation
Pulin Comtrade Limited	100.00%	Full Consolidation
SMC Investments & Advisors Limited	100.00%	Full Consolidation
Moneywise Financial Services Private Limited	100.00%	Limited consolidation
SMC Capitals Limited	100.00%	Full Consolidation
SMC Insurance Brokers Pvt. Ltd	90.00%	Full Consolidation
SMC Comex International DMCC	100.00%	Full Consolidation
Moneywise Finvest Limited	100.00%	Full Consolidation
SMC Global IFSC Private Limited	100.00%	Full Consolidation
SMC Real Estate Advisors Pvt. Ltd	100.00%	Full Consolidation

Source: ICRA Research, Company

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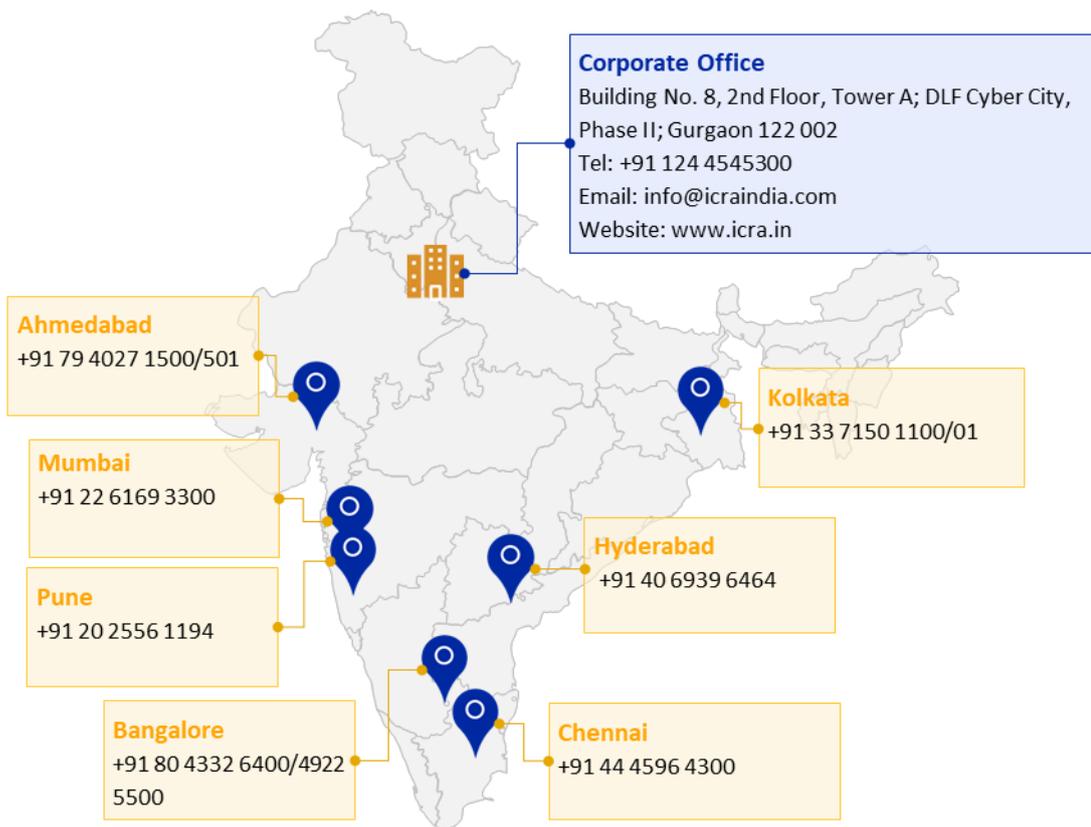
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### Branches



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