September 25, 2024

Master Capital Services Ltd: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank lines	100	100	[ICRA]A2+; reaffirmed
Total	**100**	**100**	

**Instrument details are provided in Annexure I*

Rationale

The rating continues to factor in Master Capital Services Ltd's (MCSL) long track record of almost three decades in capital market and allied businesses. The rating also takes into consideration MCSL's improving profitability, amid favourable industry tailwinds, with the company reporting an all-time high profit after tax (PAT) of Rs. 93 crore and a return on net worth (RoNW) of 32.1% compared to Rs. 55.4 crore and 26.2%, respectively, in FY2023. Moreover, MCSL's net worth increased to Rs. 338 crore as of March 31, 2024, supported by healthy internal accruals in recent years. The capitalisation profile remains adequate with a gearing of 0.7 times as of March 2024, with borrowings mainly from related parties; excluding this, the gearing is 0.1 times.

The rating is, however, constrained by low revenue diversification, which remains dominated by broking income and proprietary trading income. With net brokerage[1] and trading income accounting for ~80% of its total income[2], MCSL's profitability remains dependent on the performance of the capital markets. ICRA also notes that the proprietary trading income, which is exposed to idiosyncratic risks, has expanded in the ongoing market upcycle with a compound annual growth rate (CAGR) of 78% in the last five years (FY2020 to FY2024), accounting for about 50% of the profit before tax. Hence, MCSL's ability to sustain the performance of this segment during a market downturn remains to be seen. Moreover, the company remains exposed to intense competition in capital markets, the evolving operating and regulatory environment, and the associated technology-related risks.

Key rating drivers and their description

Credit strengths

Long track record and established position in capital market related businesses – Incorporated in 1994, MCSL is the flagship company of the Master Group and is predominantly engaged in capital market and allied businesses. Besides equity broking (primarily catering to the retail segment), MCSL has a small presence in commodity broking, currency broking, margin trade funding and distribution of financial products. It also undertakes proprietary trading operations, which have scaled up significantly in the last four years. MCSL has a pan-India presence with a network of 54 branches and 936 franchisees as of March 2024 and 63,554 National Stock Exchange (NSE) active clients as of July 2024.

Adequate capitalisation for current scale of operations – Supported by healthy internal accruals in recent years, amid industry tailwinds, MCSL's net worth increased to Rs. 338 crore as of March 31, 2024 from Rs. 140 crore as March 31, 2021 (Rs. 240 crore as of March 31, 2023). The capitalisation profile remains adequate for the current scale of operations with a gearing of 0.7 times as on March 31, 2024. ICRA notes that a significant part of the debt is from related parties (bank lines accounted for 14% of borrowings as of March 31, 2024). Excluding this, the leverage is stands at 0.1 times. Nonetheless, it is observed that

[1] Net brokerage income is defined as the difference between gross brokerage income and sub-brokerage commission paid
[2] Total income is defined as the sum of net brokerage income, net interest income, distribution income, depository income, professional income and proprietary trading income

a sizeable portion of the borrowings from related parties is in the form of deep discount bonds maturing in the upcoming quarters (Rs. 40 crore maturing in January 2025).

The sanctioned fund-based lines (bank overdraft against fixed deposits and working capital loan) are used as liquidity backup for placing additional margins at the exchanges. The company also has non-fund-based lines, aggregating Rs. 640[3] crore as of March 2024, which are utilised for placing margins at the exchanges.

Improving profitability amid industry tailwinds – MCSL's revenue profile remains exposed to the inherent volatility in the capital markets as its key revenue contributors are the proprietary trading and broking operations. Nonetheless, supported by favourable activity in capital markets, the company reported a healthy performance in FY2024 as reflected by the all-time high PAT of Rs. 93 crore and RoNW of 32.1% compared to Rs. 55.4 crore and 26.2%, respectively, in FY2023 (4-year average (FY2021 – FY2024) of Rs. 53 crore and 25.0%, respectively). It is noted that the profitability trajectory was particularly supported by the scale-up of the proprietary trading operations. The broking and proprietary trading operations are estimated to have contributed equally to the profit before tax in FY2024.

Going forward, MCSL's ability to continue identifying opportunities in the capital market will remain key for maintaining the current level of trading income and hence the profitability profile. Additionally, given the intense competition from discount brokerages, the company's ability to sustain its market position and broking volumes will remain imperative.

Credit challenges

Limited revenue diversification – Notwithstanding its long-standing track record in capital markets, MCSL's revenue profile remains dominated by broking income and proprietary trading income. Proprietary trading operations accounted for 52% of MCSL's total income in FY2024 while net brokerage income accounted for 27% with interest and other operating income accounting for the balance. The company also undertakes the distribution of third-party financial products such as mutual funds and initial public offerings (IPOs), though revenue contribution from this segment remains insignificant.

Exposed to inherent volatility in capital markets and idiosyncratic risks associated with proprietary trading – The trading volumes and revenues of securities broking companies are susceptible to the inherently volatile capital markets, which are cyclical in nature. With net brokerage and trading income accounting for ~80% of its total income, MCSL's profitability remains dependent on the performance of the capital markets. ICRA also notes that proprietary trading income, which is exposed to idiosyncratic risks, has expanded in the ongoing market upcycle at a CAGR of 78% in the last five years (FY2020 to FY2024). MCSL's ability to sustain the performance of this segment during market downturns remains to be seen. However, ICRA notes that the company claims to be undertaking only fully hedged trades and that it has not sustained a single day loss of over ~Rs. 1 crore in recent years.

MCSL remains exposed to credit and market risks on account of the capital market lending book, although the scale of the same remains small. 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. As of March 31, 2024, MCSL's margin trading facility (MTF) and T+5 receivables stood at Rs. 69 crore and Rs. 56 crore, respectively. Going forward, the company's ability to maintain adequate asset quality while ramping up the lending book would remain a monitorable.

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. 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 reputational risk. Also, given the highly regulated nature of this industry, brokerage houses are exposed to

[3] As of March 2024, the utilized non-fund-based lines stood at Rs. 473 crore

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. Nonetheless, the increasing financialisaton 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.

Liquidity position: Adequate

MCSL's liquidity requirement is primarily for placing margins at the exchanges and for funding the MTF book. During April 2023 to March 2024, the average margin placed at the exchanges (basis quarter-end data, including client margin) stood at Rs. 2,971 crore, while utilisation ranged between 30% and 35%. The company's margin placement ability is supported by the non-fund based bank lines as well as borrowings from related parties. In this regard, it is noted that deep discount bonds (primarily from the promoter group), aggregating Rs. 123 crore as on March 31, 2024, are maturing in the upcoming quarters (Rs. 40 crore maturing in January 2025). Against this, MCSL had drawable unutilized overdraft bank lines of ~Rs. 30 crore and on-balance sheet liquidity of ~Rs. 34 crore as of March 31, 2024 in the form of mutual fund investments and unencumbered cash and bank balance. Moreover, the short-term, callable MTF book (Rs. 69 crore as on March 31, 2024) can be liquidated at short notice to generate liquidity, if required.

Rating sensitivities

Positive factors – An improvement in the scale of operations and market position or revenue diversification, while maintaining prudent capitalisation and healthy profitability on a sustained basis, would have a positive impact.

Negative factors – A sustained weakening of the profitability and/or capitalisation affecting the financial risk profile would be credit negatives.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & allied services
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Master Capital Services Ltd (MCSL) is a 100% subsidiary of Master Trust Ltd (MTL). It has been operating in the capital markets since 1994. The company is the stockbroking arm of MTL and is engaged in the equity broking, commodity broking, currency broking, margin funding, depository and distribution of financial products businesses. MCSL is a corporate member of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) and National Commodity and Derivatives Exchange (NCDEX) and primarily offers secondary market broking services to its retail customers. It has a pan-India presence with a network of 54 branches and 936 franchisees as of March 2024 and 63,554 NSE active clients as of July 2024.

MCSL reported a net profit Rs. 93 crore in FY2024 on net operating income (excluding trading income) of Rs. 167 crore compared to Rs. 55 crore and Rs. 125 crore, respectively, in FY2023. Its net worth stood at Rs. 338 crore as on March 31, 2024.

Key financial indicators (audited)

Master Capital Services Ltd	FY2023	FY2024
	Audited	Audited
Net operating income (NOI)*	125	167
Proprietary trading Income	106	184
Profit after tax (PAT)	55	93
Net worth	240	338
Total assets	1,121	1,672
Gearing (times)	0.8	0.7
Return on net worth	26.2%	32.1%
PAT/NOI	44.3%	55.8%

Source: Company, ICRA Research

Amount in Rs. crore; All ratios as per ICRA's calculations

** Does not include trading income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sep 25, 2024	Date	Rating	Date	Rating	Date	Rating
Non-fund based bank lines	Short term	100	[ICRA]A2+	25-Jul-2023	[ICRA]A2+	27-Jun-2022	[ICRA]A2+	-	-

Complexity level of the rated instruments

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 as of September 25, 2024

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Short-term non-fund based bank lines**	NA	NA	NA	100	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

Niharika Tomar
+91 124 4545 324
niharika.tomar@icraindia.com

Subhrajyoti Mohapatra
+91 80 4332 6406
subhrajyoti.mohapatra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches