October 10, 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	25	25	[ICRA]A1+; reaffirmed
Commercial paper	75	0	[ICRA]A1+; reaffirmed & withdrawn
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
Total	**2,000**	**1,925**	

**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 the capital market & allied businesses, and 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 {MFSPL; rated [ICRA]A- (Stable)}.

Supported by the favourable activity in the capital markets, the Group reported a healthy performance in FY2024 and Q1 FY2025 as reflected by the consolidated return on net worth (RoNW) of 18.6% and 19.1%, respectively. However, this was accompanied by an increase in the working capital requirement and growth in financing activities. Thus, the Group's dependence on borrowings rose and resulted in an uptick in the consolidated gearing to 1.3 times as of June 30, 2024 from 1.0 times as of March 31, 2023 (consolidated gearing, excluding MFSPL, stood at 0.8 times as of June 30, 2024). In this regard, the leverage could increase further with the additional requirement of funding for growth in 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 capital markets, the evolving regulatory and operating environment, and the highly competitive and fragmented nature of the broking industry. The Group 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 MFSPL. 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 the NBFC's reported headline asset quality indicators have remained under control, this 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 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.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 75-crore commercial paper programme with no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Long track record and established market position – The Group has a track record of over three decades in the capital market and allied businesses with its full-service stockbroking operations (primarily engaged in retail equity broking segment) having an extensive network of 188 branches and 2,322 franchisees as of June 2024 and an active National Stock Exchange (NSE) client base of 2.0 lakh as of August 2024. Furthermore, discount broking services are offered by SMC's wholly-owned subsidiary, namely Moneywise Finvest limited (MFL), through the platform/application – Stoxkart. However, its contribution to the Group's broking revenues and trading volumes remains marginal (~16,200 active NSE client base as of March 2024). Besides securities broking, the Group has an integrated presence across diverse business segments including margin trade financing (MTF), 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 MFSPL.

Adequate capitalisation – SMC's capitalisation profile is characterised by a consolidated net worth of Rs. 1,136 crore and a consolidated gearing of 1.3 times as on June 30, 2024 compared to Rs. 1,096 crore and 1.3 times, respectively, as on March 31, 2024 (Rs. 933 crore and 1.0 times, respectively, as on March 31, 2023). The growth in the broking operations was accompanied by a rise in the working capital requirement due to regulatory changes, whereby the dependence on borrowings increased and resulted in higher gearing in recent years. Nonetheless, capitalisation remains adequate.

MFSPL's capitalisation profile is also adequate with a gearing and a capital-to-risk weighted assets ratio (CRAR) of 1.8 times and 36%, respectively, as of June 30, 2024. ICRA, however, notes that MFSPL 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 growth. The consolidated leverage of the broking operations (excluding NBFC) remained stable at 0.8 times as of June 30, 2024 as well as March 31, 2024 and 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 crore and RoNW of 18.6% compared to Rs. 120 crore and 13.0%, respectively, in FY2023 (4-year average of Rs. 147 crore and 16.6%, respectively). The performance trajectory was maintained in Q1 FY2025 with a consolidated PAT of Rs. 53 crore and RoNW of 19.1%. MFSPL's profitability has also remained adequate over the years with a 4-year average return on assets (RoA) of 3.7%. However, its operating profitability came under pressure in Q1 FY2025 and FY2024 on account of the uptick in borrowings and the resultant pressure on the lending spreads and net interest margins (NIMs). The profitability was also impacted by elevated credit costs in FY2024. Nonetheless, MFSPL reported an RoA of 4.7% in Q1 FY2025 and 4.5% in FY2024, supported by gains on investments in initial public offerings (IPOs). Excluding the NBFC, the consolidated profitability also stood adequate with an RoNW of 15.6% in Q1 FY2025 and 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 during the year. As on June 30, 2024, MFSPL's gross and net stage 3 assets stood at 2.0% and 0.9%, respectively, compared to 2.2% and 1.0%, respectively, as on March 31, 2024. Going forward, its 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[1], 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, given 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 MTF business in FY2023 and it ramped up its 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. Its ability to maintain adequate asset quality while ramping up the lending book would remain a monitorable. SMC also has sizeable proprietary trading operations[2], exposing 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, brokerage houses are exposed to regulatory risks, given the highly regulated nature of the industry. Hence, the ability of these entities 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 steps taken by industry participants and their impact on yields and profitability remains to be seen[3]. 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.

High share of unsecured loans in NBFC arm – MFSPL is primarily an SME financing company (~80% of assets under management (AUM) as on June 30, 2024 and March 31, 2024). Thus, it is susceptible to the underlying risk associated with the borrowers, who are susceptible to economic shocks and have limited income buffers. Additionally, ~40% of the AUM, as on June 30, 2024, was unsecured, adding to the risks associated with the portfolio. Nonetheless, the headline asset quality metrics have remained under control. The stage 3 assets stayed stable at 2.0% as of June 2024 and March 2024 (2.3% as of March 31, 2023). As on March 31, 2024, the headline asset quality metrics were partially supported by higher write-offs, as depicted by the increase in the gross stage 3 assets, including write-offs[4], 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 the higher write-offs and the increased stage 2 and stage 3 provision coverage due to the implementation of the reviewed expected credit loss (ECL) framework. As a result, the net stage 3 percentage eased to 1.0% as of March 31, 2024 from 1.4% as of March 31, 2023. As of June 30, 2024, the net stage 3 percentage stood at 0.9%. Going forward, MFSPL's ability to maintain good control over the asset quality as the portfolio evolves and seasons, considering the expected scale-up in the operations, will remain a monitorable.

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[1] Net operating income is defined as the sum of net securities broking income, advisory, insurance broking income, distribution fee related to other financial products, depository income, and net interest income

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

[3] In FY2024, income from exchange incentives stood at Rs. 6.6 crore (2.7% of consolidated profit before tax; PBT) for SMC

[4] 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 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). 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, MFSPL'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 due in H1 FY2025 compared to expected inflows from advances of Rs. 243 crore. Additionally, MFSPL 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 face pressure if the asset quality of the lending business deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services Non-banking Finance Companies (NBFCs) Policy on Withdrawal of Credit Ratings
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 Group has a presence in 437 cities with 188 branches (including 1 in Dubai) as of June 2024 and an active client base of 2.0 lakh as of August 2024.

On a consolidated basis, SMC reported a PAT of Rs. 188 crore in FY2024 on an asset base of Rs. 4,767 crore as on March 31, 2024 compared to a PAT of Rs. 120 crore in FY2023 on an asset base of Rs. 3,323 crore as on March 31, 2023. In Q1 FY2025, the Group reported a consolidated PAT of Rs. 53 crore.

On a standalone basis, SMC reported a PAT of Rs. 141 crore in FY2024 on an asset base of Rs. 3,611 crore as on March 31, 2024 compared to a PAT of Rs. 93 crore in FY2023 on an asset base of Rs. 2,507 crore as on March 31, 2023.

Key financial indicators

SMC (consolidated)	FY2023/Mar-23	FY2024/Mar-24	Q1 FY2025/Jun-24
	Audited	Audited	Provisional
Net operating income (NOI)	526	657	NA
Proprietary trading income	165	170	42
Profit after tax (PAT)	120	188	53
Net worth	933	1,096	1,136
Total assets	3,323	4,767	NA
Gearing (times)	1.0	1.3	1.3
Return on net worth	13.0%	18.6%	19.1%

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

SMC (consolidated; excl. MFSPL)	FY2023/Mar-23	FY2024/Mar-24	Q1 FY2025/ Jun-24
Net operating income (NOI)	446	567	NA
Proprietary trading income	165	170	42
Profit after tax (PAT)	84	132	35
Net worth	763	883	905
Total assets	2,531	3,703	NA
Gearing (times)	0.5	0.8	0.8
Return on net worth	10.8%	16.1%	15.6%

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

SMC (standalone)	FY2023/Mar-23	FY2024/Mar-24
	Audited	Audited
Net operating income (NOI)	355	457
Proprietary trading income	159	161
Profit after tax (PAT)	93	141
Net worth	768	884
Total assets	2,507	3,611
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

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
				Oct 10, 2024	Jul 23, 2024	Jul 24, 2023	Nov 04, 2022	Aug 30, 2022	Aug 30, 2021
1	Commercial paper	ST	25	[ICRA]A1+	[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+	[ICRA]A (Stable)/[ICRA]A1+
3	NCD	LT	400	[ICRA]A (Stable)	[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 October 10, 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	1,500.00	[ICRA]A (Stable)/ [ICRA]A1+
Yet to be placed	Commercial paper	NA	NA	NA	25.00	[ICRA]A1+
Yet to be placed	Commercial paper	NA	NA	NA	75.00	[ICRA]A1+ (withdrawn)
INE103C07025	NCD	Aug-07-2024	10.0 %	Aug-07-2026	26.72	[ICRA]A (Stable)
INE103C07033	NCD	Aug-07-2024	10.0 %	Aug-07-2026	6.80	[ICRA]A (Stable)
INE103C07017	NCD	Aug-07-2024	10.2 %	Aug-07-2027	21.61	[ICRA]A (Stable)
INE103C07058	NCD	Aug-07-2024	10.2 %	Aug-07-2027	11.58	[ICRA]A (Stable)
INE103C07041	NCD	Aug-07-2024	10.4 %	Aug-07-2029	14.98	[ICRA]A (Stable)
INE103C07066	NCD	Aug-07-2024	10.4 %	Aug-07-2029	18.12	[ICRA]A (Stable)
Yet to be placed	NCD	NA	NA	NA	300.19	[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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About ICRA Limited:

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