

October 22, 2024

Emkay Global Financial Services Limited: [ICRA]BBB+ (Positive) assigned to NCD programme; short-term rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|--------------------------------------|-------------------------------------|---------------------------------|
| Non-convertible debenture programme | - | 100.0 | [ICRA]BBB+ (Positive); assigned |
| Short-term non-fund based bank lines | 250.0 | 250.0 | [ICRA]A2+; reaffirmed |
| Total | 250.0 | 350.0 | |

*Instrument details are provided in Annexure I

Rationale

The assigned rating factors in Emkay Global Financial Services Limited's (Emkay) established market position and track record of over two and a half decades 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 is adequate.

The credit profile is, however, constrained by the company's modest scale of operations and its exposure to the inherently volatile capital markets, besides high dependence on technology and the evolving regulatory environment. ICRA also notes that Emkay's core operating performance has been constrained by the elevated cost structure over the years. Nonetheless, the company reported an improvement in its core operating performance in recent periods, driven by the increase in broking revenue and fee income from merchant banking deals amid industry tailwinds. Supported by gains from proprietary trading/investments, Emkay reported a net profit of Rs. 31 crore, profit after tax (PAT)/net operating income (NOI) of 12% and return on equity (RoE) of 14% in FY2024 compared to Rs. 14 crore, 9% and 7%, respectively, in FY2023. The profitability trajectory continued in Q1 FY2025 with a net profit of Rs. 14 crore, PAT/NOI of 18% and RoE of 23% on a provisional basis. 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.

The Positive outlook on the long-term rating factors in the improving trajectory of Emkay's financial performance, aided by the scale-up in the broking & non-broking businesses amid industry tailwinds. While its revenues will remain exposed to the inherent volatility in capital markets and the evolving regulatory environment, the traction in wealth /asset management and distribution businesses is likely to provide some stability to the company's revenue and profitability profile.

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 two and a half decades 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 is an institutional-focused brokerage house, deriving over 50% of its 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. 255 crore, on a provisional basis, as of June 30, 2024. 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 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. The proceeds of the proposed non-convertible debentures are expected to be used towards working capital requirements in the broking operations. With the increase in working capital requirements, Emkay is expected to witness a further rise in borrowings, though the capitalisation profile is expected to remain adequate.

Improved profitability amid industry tailwinds, though cost structure remains elevated – Driven by the increase in broking income and fee income from merchant banking deals amid industry tailwinds, Emkay reported an improvement in its core operating performance in FY2024 with an operating profit of Rs. 20 crore compared to losses in the past two fiscals. Additionally, income/gains from the proprietary trading/investment book boosted its headline profit. Emkay reported a net profit of Rs. 31 crore, PAT/NOI of 12% and RoE of 14% in FY2024 compared to Rs. 14 crore, 9% and 7%, respectively, in FY2023. With buoyant market conditions, the profitability trajectory continued in Q1 FY2025 with a net profit of Rs. 14 crore, PAT/NOI of 18% and RoE of 23% on a provisional basis, though the sustainability of the same across market cycles remains to be seen. Further, notwithstanding the recent improvement in profitability, the cost structure remains elevated with a cost-to-income ratio of more than 80%, given the sizeable employee-related expenses in the merchant banking and institutional equities businesses.

Credit challenges

Moderate scale of broking business – While Emkay has registered a robust increase in the average daily turnover (ADTO) in the equity broking business in recent periods on account of significant broking contribution from high frequency trading and direct market access arrangements, the scale of the broking business, in terms of revenues, remains limited. This is due to the flattish/low-yielding nature of the products/arrangements. Further, the diversification of the revenue profile remains limited with fee income from broking and advisory services accounting for over 70% of the net operating income.

Exposure to inherently volatile capital markets – Emkay's primary revenue stream remains exposed to the inherently volatile capital markets with 73% of the NOI arising from broking and advisory-related income. Further, it earns carry income in the asset management business, where it has deployed ~8-10% of its net worth as sponsor commitments for its alternative investment funds. Thus, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Elevated competition, high dependence on technology, and evolving regulatory environment – Securities broking companies rely heavily on technology for trade execution, fund management, etc. Thus, technical failures or disruptions pose operational and reputation risk. Moreover, given the highly regulated nature of the industry, brokerage houses remain exposed to regulatory risk. Their ability to ensure compliance with the evolving regulatory landscape remains crucial. As the sector also remains characterised by intense competition with susceptibility to the entry of new players, pressure on pricing cannot be ruled out. Additionally, regulatory changes such as higher margin requirements, uniform charges to be levied by market infrastructure institutions, and measures to be implemented for the strengthening of the index derivatives framework, could impact the profitability of the broking industry. Nevertheless, given the sizeable share of revenues from the institutional segment, the impact on Emkay could be relatively lower.

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 its lending operations are 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 did not witness any technical glitches in FY2024. Going forward, its ability to offer uninterrupted services will be imperative for maintaining customer experience. It is noted that customer preference is 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

Emkay's liquidity requirement is primarily for placing margins at the exchanges. During February 2024 to August 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. 880 crore with average utilisation of 22%. The liquidity profile is adequate with an unencumbered cash and bank balance of ~Rs. 7 crore and unutilised but drawable fund-based limits of ~Rs. 17 crore against nil external fund-based borrowings as of August 31, 2024. Additionally, it avails an intraday loan facility of ~Rs. 295 crore, which supports the working capital requirements of the broking operations. These intraday lines are backed by fixed deposits and fixed assets.

Rating sensitivities

Positive factors – Ability to sustain the improving profitability trajectory from core operations, while maintaining adequate capitalisation and liquidity

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 |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Consolidation |

About the company

Emkay, along with its wholly-owned subsidiaries, is engaged in securities broking, investment banking, and wealth/portfolio management services, besides undertaking the distribution of financial products and lending. It 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 Stockbrokers Limited. In July 2008, its name was changed to Emkay Global Financial Services Limited.

On a consolidated basis, Emkay reported a net profit of ~Rs. 31 crore on net operating income (NOI) of ~Rs. 254 crore in FY2024 compared to ~Rs. 14 crore and Rs. 163 crore, respectively, in FY2023. As of June 30, 2024, Emkay's capitalisation profile was characterised by a net worth of ~Rs. 255 crore and a gearing of 0.1 times on a provisional basis.

Key financial indicators

| Emkay Global Financial Services Limited (consolidated) | FY2023 | FY2024 | Q1 FY2025* |
|--|--------|---------|------------|
| Net operating income | 163.0 | 254.0 | 76.5 |
| Profit after tax | 14.0 | 30.6 | 14.0 |
| Net worth | 210.4 | 240.9 | 255.1 |
| Total assets | 731.0 | 1,065.3 | 1,091.4 |
| Gearing (times) | 0.1 | 0.1 | 0.1 |
| Return on average net worth | 6.8% | 13.6% | 22.5% |

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

| Current (FY2025) | | | | | | Chronology of rating history for the past 3 years | | | | | |
|--------------------------------------|------------|--------------------------|-----------------------|-------------|-----------|---|-----------|-------------|-----------|-------------|-----------|
| FY2025 | | | | | | FY2024 | | FY2023 | | FY2022 | |
| Instrument | Type | Amount rated (Rs. crore) | 22-OCT-2024 | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Short term - others – Non-fund based | Short term | 250.00 | [ICRA]A2+ | 17-APR-2024 | [ICRA]A2+ | 06-APR-2023 | [ICRA]A2+ | 06-APR-2022 | [ICRA]A2+ | 05-MAY-2021 | [ICRA]A2+ |
| NCD [^] | Long term | 100.00 | [ICRA]BBB+ (Positive) | - | - | - | - | - | - | - | - |

[^] to be issued

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|--|----------------------|
| Short-term non-fund based bank lines | Very Simple |
| Non-convertible debenture programme [^] | Very Simple |

[^] Complexity indicator mentioned in the table is subject to change when the terms are finalised

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 | Non-convertible debenture [^] | - | - | - | 100.0 | [ICRA]BBB+ (Positive) |

Source: Company, [^] Yet to be issued

[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 | 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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