December 13, 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
Long-term/Short-term fund-based /Non-fund based bank lines	1,500	2,200	[ICRA]A (Stable)/[ICRA]A1+; reaffirmed /assigned
NCD	400	400	[ICRA]A (Stable); reaffirmed
Total	**1,925**	**2,625**	

**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 favourable capital market activities, the Group reported a healthy performance in H1 FY2025, achieving a consolidated return on net worth (RoNW) of 17.3%. While this is slightly below the FY2024 level of 18.6%, the profitability of the broking, distribution, and other capital market-related businesses retained momentum. However, the non-banking financial company's (NBFC) profitability faced pressure due to the compression in the net interest margin (NIM), resulting from the rising borrowing costs amid firm systemic interest rates in H1 FY2025. The healthy performance of the broking business was accompanied by an increase in the working capital requirement. As a result, SMC's gearing at the standalone level inched up to 0.9 times as on September 30, 2024 from 0.8 times as on March 31, 2024 (consolidated gearing, excluding MFSPL, stood at 0.9 times as on September 30, 2024). Nonetheless, the Group's consolidated gearing remained stable at 1.3 times as on September 30, 2024 on account of the temporary moderation in the leverage of the NBFC arm, in line with the subdued growth in its assets under management (AUM) in H1 FY2025. Going forward, the Group's growth is likely to be debt funded to meet additional capital requirements for placing margins at the exchanges in the broking business and for funding 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. 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 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, higher delinquencies were observed in the softer buckets in H1 FY2025. 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.

Key rating drivers and their description

Credit strengths

Long track record and established market position – SMC has a track record of over three decades in the capital market and allied businesses. Its full-service stockbroking operations (primarily engaged in retail equity broking segment) had an extensive network of 198 branches and 2,297 franchisees as of September 2024 and an National Stock Exchange (NSE) active client base of 2 lakh as of October 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 (NSE active client base of ~16,200 as of October 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. 1,182 crore and a consolidated gearing of 1.3 times as on September 30, 2024 compared to Rs. 933 crore and 1.0 times, respectively, as on March 31, 2023. The growth in the broking operations in recent years has been accompanied by a rise in the working capital requirement with the tightening of the regulatory framework. As a result, SMC's gearing at the standalone level also inched up to 0.9 times on September 30, 2024 from 0.6 times as on March 31, 2023 (consolidated gearing, excluding MFSPL, stood at 0.9 times as on September 30, 2024). However, the financial leverage in the lending business under the NBFC arm witnessed mild moderation on account of subdued AUM growth in H1 FY2025. Hence, the Group's consolidated gearing remained stable at 1.3 times as on September 30, 2024. Going forward, the Group's growth is likely to be debt funded to meet additional capital requirements for placing margins at the exchanges in the broking business and for funding growth in financing activities. Nonetheless, the capitalisation level is expected to remain adequate.

As far as MFSPL is concerned, its capitalisation profile is adequate with a managed gearing and a capital-to-risk weighted assets ratio (CRAR) of 1.8 times and 37%, respectively, as on September 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.

Adequate profitability, 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 H1 FY2025 with a consolidated PAT of Rs. 98 crore and RoNW of 17.3%. 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 faced pressure in H1 FY2025 and FY2024 on account of the uptick in borrowing costs and the resultant pressure on the lending spreads and NIM. Nonetheless, MFSPL reported an RoA of 3.6% in H1 FY2025 and 4.5% in FY2024, supported by gains on investments in initial public offerings (IPOs). Even after excluding the NBFC, the profitability remained adequate with an RoNW of 16.1% in H1 FY2025 as well as 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' headline asset quality indicators remained under control as of September 2024, though higher delinquencies were observed in softer buckets. As on September 30, 2024, MFSPL's gross and net stage 3 assets remained stable at 2.2% and 1.0%, respectively. Going forward, its ability to grow the business while controlling slippages as the portfolio seasons would be imperative.

ICRA

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 continues to be 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. 224 crore as on September 30, 2024 from Rs. 186 crore as on March 31, 2023. Additionally, its T+5 receivable exposure aggregated ~Rs. 661 crore as on September 30, 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 41 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 reputational risk. In this regard, it is noted that SMC has not encountered any technical glitches in H1 FY2025. Going forward, its ability to offer uninterrupted services will be imperative for maintaining customer experience.

Also, brokerage houses are exposed to regulatory risks, given the highly regulated nature of the industry. Their ability to ensure compliance with the evolving regulatory landscape remains crucial. While the regulatory changes in the preceding years necessitated higher working capital requirements, recent changes, such as uniform exchange charges, are likely to impact the profitability of brokerage houses, especially discount brokers (though the impact on SMC is likely to be less than 1% of its PAT). Further, the regulator has proposed certain measures to curb the exuberance in the futures & options (F&O) segment. These include the rationalisation of weekly index derivatives, increase in their contract size, upfront collection of option premium from buyers, increase in margins on expiry days, removal of calendar spread benefits on expiry days, and enhancing the monitoring of position limits. The proposed measures will be introduced in a phased manner between November 2024 and April 2025. The combined effect of the aforesaid measures and the recent hike in the securities transaction tax in the F&O segment pose a risk to capital market volumes and, hence, the revenues and profitability of industry participants. However, the impact is expected to be more prominent for discount brokers while traditional brokers, like SMC, are likely to be less affected. At the industry level, the steps taken by industry participants and the impact of these regulatory changes 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.

High share of unsecured loans in NBFC arm – MFSPL is primarily an SME financing company (~80% of the AUM as on September 30, 2024). Thus, it is susceptible to the underlying risk associated with the borrowers, who are vulnerable to economic shocks and have limited income buffers. Moreover, ~40% of the AUM, as on September 30, 2024, was unsecured, adding to the risks associated with the portfolio. Nonetheless, the headline asset quality metrics have remained under control, though some build-up in stress was observed in the softer buckets in H1 FY2025. While the stage 3 assets stayed stable at 2.0% as of September 2024 and March 2024 (2.3% as on March 31, 2023), the 60+ days past due (dpd; as a

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[1] *Net operating income (NOI) 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. 86 crore in H1 FY2025 and at Rs. 170.0 crore in FY2024, accounting for ~18-19% of total income. Total income is defined as the sum of NOI, trading income and fair value gain on investments*

percentage of AUM) increased to 3.0% as of September 2024 from 2.2% as of March 2024. However, credit costs, as a percentage of average managed assets, moderated to 0.9% in H1 FY2025 from 1.5% in FY2024. The net stage 3 percentage also remained stable at 1.0% as on September 30, 2024. 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.

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. Also, 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 60% and 70% during the eight-month period of April 2024 to November 2024. The average margin placed on exchanges aggregated ~Rs. 2,427 crore during this period (excluding non-cash collateral). Borrowings outstanding at the standalone level aggregated Rs. 871 crore[3] as on September 30, 2024, of which Rs. 493 crore is due in the next six months (till March 2025). Against this, SMC had on-balance sheet liquidity of ~Rs. 85 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. 224 crore as on September 30, 2024. The on-balance sheet liquidity of Rs. 85 crore, drawable, sanctioned but unutilised bank lines of ~Rs. 150 crore (backed by T+5 receivables; aggregate unutilised sanctions of Rs. 247 crore) and inflows from the short-term, callable MTF book (Rs. 224 crore) are available to cover these debt repayment obligations.

As per the asset-liability maturity (ALM) statement as on September 30, 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. 226 crore falling due in H2 FY2025 (till March 31, 2025) compared to expected inflows from advances of Rs. 211 crore. Additionally, MFSPL had modest on-balance sheet liquidity of Rs. 17 crore as on September 30, 2024.

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 be imperative for an improvement in the credit profile.

Negative factors – The sustained weakening of 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. Specific metrics that could exert pressure on the ratings include profit before tax PBT/NOI of less than 20% in the capital market segment and consolidated gearing of more than 2.5 times on a sustained basis.

[3] *Includes lease liability of Rs. 26 crore, working capital loans of Rs. 655 crore*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & allied services Non-banking Finance Companies (NBFCs)
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 434 cities with 198 branches (including 1 in Dubai), as of September 2024, and an active client base of 2 lakh as of October 2024.

On a consolidated basis, SMC reported a PAT of Rs. 98 crore in H1 FY2025 on an asset base of Rs. 5,228 crore as on September 30, 2024 compared to a PAT of Rs. 188 crore in FY2024 on an asset base of Rs. 4,767 crore as on March 31, 2024.

On a standalone basis, SMC reported a PAT of Rs. 81 crore in H1 FY2025 on an asset base of Rs. 3,996 crore as on September 30, 2024 compared to a PAT of Rs. 141 crore in FY2024 on an asset base of Rs. 3,611 crore as on March 31, 2024.

Key financial indicators

SMC (consolidated)	FY2023/Mar-23	FY2024/Mar-24	H1 FY2025/Sep-24
	Audited	Audited	Provisional
Net operating income (NOI)	526	656	367
Proprietary trading income	165	170	83
Profit after tax (PAT)	120	188	98
Net worth	933	1,096	1,182
Total assets	3,323	4,767	5,228
Gearing (times)	1.0	1.3	1.3
Return on net worth	13.0%	18.6%	17.3%

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

SMC (standalone)	FY2023/Mar-23	FY2024/Mar-24	H1 FY2025/Sep-24
	Audited	Audited	Provisional
Net operating income (NOI)	355	457	267
Proprietary trading income	159	161	82
Profit after tax (PAT)	93	141	81
Net worth	768	884	952
Total assets	2,507	3,611	3,996
Gearing (times)	0.6	0.8	0.9
Return on net worth	12.0%	17.1%	17.7%

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	H1 FY2025/Sep-24
Net operating income (NOI)	446	567	323
Proprietary trading income	165	170	83
Profit after tax (PAT)	84	132	74
Net worth	763	883	952
Total assets	2,531	3,703	4,214
Gearing (times)	0.5	0.8	0.9
Return on net worth	10.8%	16.1%	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
				Dec 13, 2024	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+	[ICRA]A1+
2	Long-term/Short-term fund-based/Non-fund based bank lines	LT/ST	2,200	[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+	[ICRA]A (Stable)/ [ICRA]A1+
3	NCD	LT	400	[ICRA]A (Stable)	[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 December 13, 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	2,200.00	[ICRA]A (Stable)/ [ICRA]A1+
Yet to be placed	**Commercial paper**	NA	NA	NA	25.00	[ICRA]A1+
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:

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.

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