

February 27, 2025

Pace Stock Broking Services Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Bank facilities	1,100.00	1,100.00	[ICRA]A (Stable); reaffirmed
Total	1,100.00	1,100.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation factors in Pace Stock Broking Services Pvt. Ltd.'s (PSBSPL) track record in capital markets and the securities broking business as well as its healthy operational metrics. The rating considers the Group's¹ comfortable capitalisation profile for the current scale of operations, with a negligible leverage of 0.07x on a net worth of Rs. 1,170 crore on a consolidated basis as on March 31, 2024, and the management's stated intent of maintaining prudent leverage, going forward as well. The liquidity profile is adequate, supported by the healthy level of margin utilisation with the exchanges and the sizeable arbitrage book, which can be liquidated when needed.

The rating also factors in the improvement in PSBSPL's earnings profile over the years, mainly driven by the Group's proprietary business with established risk management systems, along with healthy broking income and net interest income. Nevertheless, income from the proprietary trading business will remain dependent on the company's ability to manage risks and identify arbitrage opportunities, which can be a function of liquidity in the market. In this regard, ICRA notes that the trading volumes in the futures & options (F&O) segment dipped in the last two months, following the implementation of new norms aimed at curbing hyperactive trading especially near expiries. ICRA notes that the measures are being implemented in a staggered manner and more clarity on trading volumes, and hence liquidity and arbitrage opportunities in the market, will emerge in the coming months.

The rating is constrained by the limited diversification in the revenue stream and the Group's sizeable arbitrage business, which exposes PSBSPL to market risks and volatile capital markets. The rating also considers the risks associated with the proprietary trading business. However, the stated intention of the management to not take directional calls, the sizeable net worth, which provides a cushion to absorb possible future losses that may arise from the proprietary business, PSBSPL's track record of consistently reporting trading gains amid adverse capital market conditions, and its ability to operate with minimal external debt and a low gearing, provide comfort.

PSBSPL employs simple arbitrage strategies, which are fully hedged, and has deployed adequate risk management systems to deal with the volatilities in the markets. ICRA also notes that PSBSPL is focussing on diversifying the Group's business and revenue profile and plans to grow the business in the retail broking operations. However, the impact of the same on the overall revenue mix would be visible over the medium term.

Going forward, PSBSPL's ability to meaningfully diversify its revenue stream and maintain healthy earnings and subsequently better net worth accretion, while constantly upgrading the risk management system for managing the portfolio and market risk, would be a key rating consideration. Also, ICRA notes that while recent proposals by the Securities and Exchange Board

¹ Pace Stock Broking Services Pvt. Ltd. and Pace Commodity Brokers Private Limited (PCBPL) together are referred to as the Group.

of India (SEBI) are likely to lead to increased working capital requirements for brokers, the impact on PSBSPL is expected to be supported by its liquidity and unutilised credit lines.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company's credit profile would remain steady while it expands its scale of operations and maintains a healthy earnings profile and prudent leverage.

Key rating drivers and their description

Credit strengths

Long track record of promoters in capital market related business – The Group has a long track record of over 29 years in the capital market segment with a presence in the equity, commodity, and currency broking segments. It caters to both retail and institutional clients, though the bulk of the business remains focussed on high-net-worth individual (HNI) clients. As of September 2024, it had ~27 branches and more than 230 retail franchises across the country.

Healthy earnings profile – The Group has witnessed an improvement in its profitability with the return on assets (RoA) and return on equity (RoE) improving to 11.7% and 17.0%, respectively, in FY2024 from 10.8% and 15.8%, respectively, in FY2023. The Group's net profit increased to Rs. 182 crore in FY2024 from Rs. 143 crore in FY2023 and broking income rose to Rs. 60 crore from Rs. 52 crore during this period. This was largely on account of the higher turnover and the increase in the net interest income, supported by improved market conditions. Going forward, the ability to maintain healthy profitability in this business and achieve growth in the broking business would be important for an improvement in the overall credit profile.

Comfortable capitalisation profile – Supported by good internal accruals, the Group's net worth increased to Rs. 1,170 crore as on March 31, 2024 (PY: Rs. 968 crore). The capitalisation profile is comfortable for the current scale of operations with a gearing of 0.07x as on March 31, 2024. In ICRA's opinion, sizeable net worth, which provides cushion to absorb any impact on the profitability that may arise from the business, and the company's ability to continue maintaining prudent capitalisation will remain key monitorable factors. ICRA expects the Group's gearing to remain low in the medium term, given the management's stated intent of keeping it below 0.2x.

Credit challenges

Limited diversification in revenue stream with focus on arbitrage business – The Group is engaged in securities broking and strategy-based proprietary trading with proprietary trading accounting for a sizeable portion of its earnings. ICRA also notes the risks associated with the proprietary trading business though it can be liquidated when needed. Moreover, the risk gets partially mitigated by the Group's diversified arbitrage strategies and the risk management systems for the alleviation of such risks such as scenario simulations, stress testing, etc. Proprietary trading income accounted for 70% of the Group's total income in FY2024 (74% in FY2023), while broking accounted for 12% (13% in FY2023), with net interest income and other fee-based income accounting for the balance. However, PSBSPL's track record of consistently reporting trading profits, amid adverse capital market conditions, and its ability to operate with negligible gearing demonstrates the Group's market-neutral arbitrage strategies, backed by appropriate risk management systems.

While the Group registered a steady increase in the average daily turnover (ADTO) over the years in the equity broking business, the scale of the broking business, in terms of revenues, remains limited. It is, nevertheless, supported by the concentration of transaction volumes in the low-yielding derivatives segment and the lower share of the high-yielding cash segment. ICRA notes that the Group is in the process of scaling up its retail-based broking income to diversify the income stream. The company has rolled out an improved and upgraded retail platform along with increased focus on marketing initiatives to improve its brand visibility. It has also been expanding its high frequency trading (HFT) desk. Going forward, PSBSPL's ability to achieve meaningful diversification in its revenue stream would remain critical for a further improvement in its credit profile.

Volatile earnings profile due to arbitrage business, which is exposed to market risks – PSBSPL is engaged in market-neutral arbitrage trading strategies, backed by appropriate risk management systems, and it also operates an HFT algorithm-based desk. The proprietary trading business remains exposed to market risks. Thus, earnings remain highly volatile because of the significant dependence on capital markets. However, the Group's track record in this business and the presence of adequate net worth to absorb possible losses provide comfort. Also, PSBSPL has reported profits from trading operations despite periods of extreme volatility. It reported proprietary trading income of Rs. 344 crore in FY2024 (YoY growth of ~12%). Going forward, PSBSPL's ability to maintain a healthy track record in this business, while ensuring adequate scale-up in the risk management processes to manage the portfolio and market risks, would be important.

Liquidity position: Adequate

PSBSPL's liquidity remained adequate as on September 30, 2024. The primary liquidity requirement is for placing margins at the exchanges, managing working capital requirements in the proprietary trading business and fulfilling client margin requirements in the broking business. PSBSPL deployed an average margin of ~Rs. 1,283 crore at the exchanges (funded through own and client funds/securities) during April 2024 to September 2024. As on September 30, 2024, it had an unencumbered cash and bank balance of ~Rs. 239 crore (~Rs. 8 crore as on March 31, 2024) and liquid investments of ~Rs. 256 crore against nil fund-based borrowings. Further, as on September 30, 2024, it had an overdraft limit of Rs. 140 crore and drawable but unutilised lines of ~Rs. 326 crore, which are adequate to cover any short-term debt obligations if required.

Rating sensitivities

Positive factors – ICRA could upgrade the rating on the Group's demonstrated ability to ramp up its scale of operations with a meaningful diversification in the revenue stream, sustain healthy performance in the trading business while ensuring adequate risk management measures, and maintain healthy capitalisation.

Negative factors – The rating could be downgraded on a deterioration in the Group's financial performance, liquidity profile and/or significant erosion of the net worth. Pressure on the rating could also arise in case of any change(s) in the regulatory environment, which may impact the Group's business operations and financial performance.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for stockbroking & allied services
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

PSBSPL and Pace Commodity Brokers Private Limited (PCBPL) are a combined brokerage house, providing broking, distribution and depository services to individuals and corporates, with a track record of over 29 years in capital markets. The entities are promoted by Mr. Atul Goel and Mr. Amit Goel. The principal business of the two entities is to provide stockbroking services to corporates and individuals as well as conduct arbitrage business. PSBSPL is listed as a member of Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Metropolitan Stock Exchange of India (MSEI), Multi Commodity Exchange of India (MCX) and National Commodity and Derivatives Exchange (NCDEX) while PCBPL is a member of MCX and NCDEX. The Group also holds depository registration with Central Depository Services Limited (CDSL).

PSBSPL and PCBPL reported a consolidated net profit of Rs. 182 crore on total income of Rs. 510 crore in FY2024 against a net profit of Rs. 143 crore on total income of Rs. 420 crore in FY2023. The Group's net worth stood at Rs. 1,170 crore as on March 31, 2024.

Key financial indicators (consolidated)

	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Net operating income (NOI)	100	91	119
Trading income	335	294	344
Profit after tax (PAT)	173	143	182
Net worth	835	968	1,170
Total assets	1,256	1,380	1,738
Gearing (times)	0.0	0.0	0.1
Return on average net worth	23.2%	15.8%	17.0%

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)	Feb 27, 2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					Dec 14, 2023	May 11, 2023	NA	Mar 24, 2022
1	Bank facilities	Long term	1,100	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	NA	[ICRA]A (Stable)

Complexity level of the rated instrument

Instrument	Complexity indicator
Bank facilities	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

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Bank facilities	Sep 2023 to Sep 2024	NA	Mar 2025 to Sep 2026	1,100.00	[ICRA]A (Stable)

Source: Company data

[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
Pace Stock Broking Services Pvt. Ltd.	Rated entity	Full consolidation
Pace Commodity Brokers Private Limited	100.00%	Full consolidation

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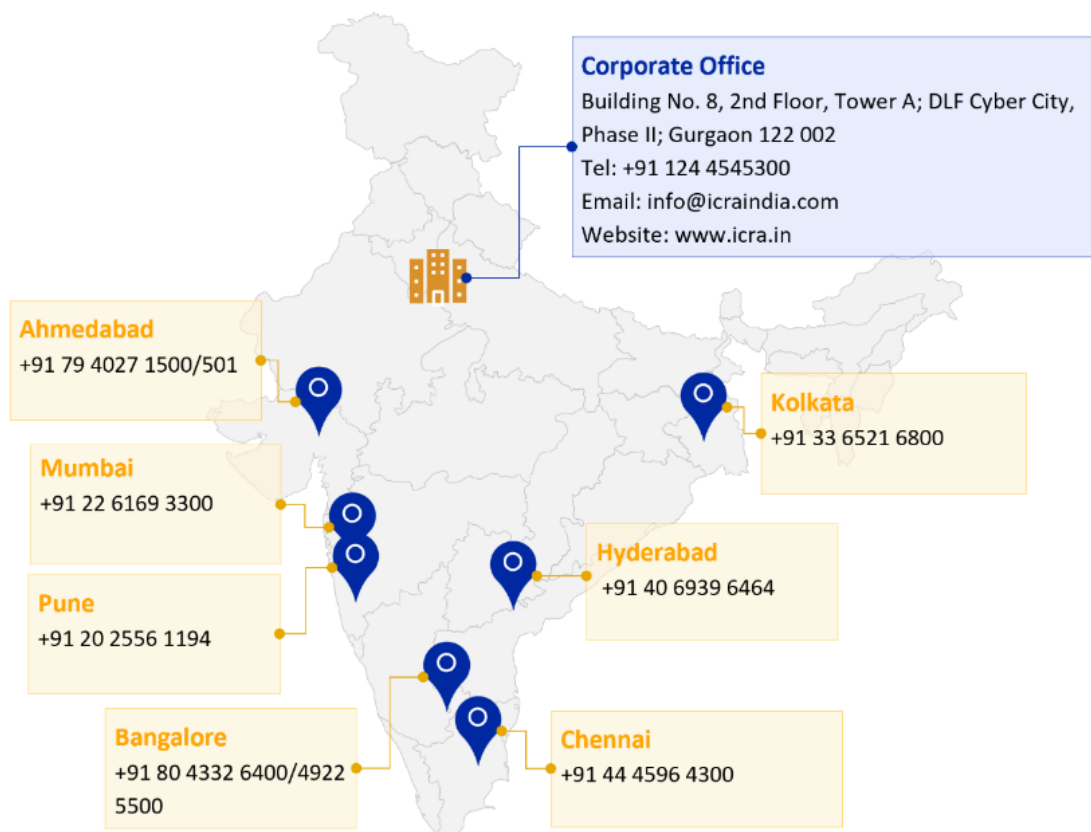


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