October 05, 2021

Globe Commodities Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines (Fund Based/Non-fund Based)	388.66	388.66	[ICRA]A+ (Stable); Reaffirmed
Total	**388.66**	**388.66**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the credit profiles of Globe Capital Market Limited (GCML), Globe Fincap Limited (GFL) and Globe Commodities Limited (GCL), hereafter referred to as the Group, owing to the common management and clientele, the shared infrastructure, and the operational synergies between the entities.

The ratings continue to factor in the Group's track record in broking and clearing activities, its established branch and franchisee network, and established market position along with the synergistic benefits arising from its integrated presence across broking, clearing and lending activities. The ratings also derive comfort from the Group's comfortable capitalisation profile with a gearing of 0.6x on a net worth of Rs. 1,691 crore on a consolidated basis as on March 31, 2021 and the management's stated intention of maintaining the consolidated leverage below 1x going forward as well.

ICRA notes that the Group's profitability improved significantly in FY2021 with a rise in the return on net worth to 21% in FY2021 from 8% in FY2020. This was driven by higher brokerage income as well as the higher interest income earned on the upfront margin deposited with the Group following the regulatory changes. The earnings were also supported by sizeable trading gains and an increase in the market value of investments. However, these can be volatile and hence the sustainability of the earnings would be a key monitorable going forward. The Group's liquidity profile is adequate, supported by the healthy level of margin utilisation with the exchanges, the sizeable arbitrage book, which can be liquidated if needed, and the comfortable capital structure.

The ratings, however, remain constrained by the Group's concentration towards capital markets, which are inherently volatile, with income from the brokerage and trading book accounting for 44% (average) of the total income over the past five years. A sizeable proportion of the net interest income is also generated in the form of interest on loans given for investing in capital markets through the non-banking financial company (NBFC) arm, delayed payment charges or margin trade funding (MTF), which are complementary to the capital market activities. Also, the increase in interest income was on account of the higher upfront margin, which is again linked to the capital markets.

ICRA has also taken note of the high concentration risk in the NBFC loan book with the top 20 exposures accounting for 123% of the company's total net worth as on March 31, 2021. This exposes the company to the risk of lumpy slippages in the asset quality. However, the Group has been able to maintain good asset quality indicators so far with low write-offs in the capital market operations and gross and net non-performing assets (NPA) ratios of 1.0% and 0.6%, respectively, as on March 31, 2021 in the NBFC business. Going forward, the Group's ability to diversify its revenue stream and borrowing mix while maintaining the asset quality and earnings stability would be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Long track record and established market position in brokerage and clearing business – The Group has a long track record of over 25 years in the brokerage and clearing segment with a presence across equity, currency and commodity broking and a focus on high-net-worth individual (HNI) clients. It operates through ~19 branches and has over 1,740 retail franchises across the country. Its total market share (including trading members) was 4.3% in equity and 34.1% in the F&O clearing segment in FY2021.

Comfortable capitalisation profile – The capitalisation position, on a consolidated basis, stands comfortable with a gearing of 0.6x on a net worth of Rs. 1,691 crore as on March 31, 2021. While there might be some increase in the leverage in the medium term with business expansion, ICRA takes comfort from the management's stated intention of maintaining a consolidated leverage of less than 1x going forward as well.

The Group's liquidity profile is also adequate, supported by the healthy level of margin utilisation with the exchanges, the sizeable arbitrage book, which can be liquidated if needed, and the comfortable capital structure. The majority of GCML's borrowing base is in the form of overdraft limits (75% as on March 31, 2021), with bank loans (15%), financial institution (FI) loans (2%) and inter-corporate deposits (8%) accounting for the rest.

On a standalone basis, GCL's capitalisation profile remained comfortable with a gearing of 0.6x and a net worth of Rs. 272 crore as on March 31, 2021.

Improved profitability indicators – On a consolidated basis, the Group's net operating income grew by 35% year-on-year (YoY) in FY2021, driven by higher brokerage income (+39% YoY) as well as a rise in the interest income (+27% YoY) earned on the upfront margin deposited with the Group following the regulatory changes. The Group's earnings were also supported by sizeable trading gains and an increase in the market value of investments (overall gain of Rs. 241 crore in FY2021 vs. loss of Rs. 40 crore in FY2020). However, these can be volatile and hence the sustainability of the earnings would be a key monitorable going forward.

The Group benefits from the synergies arising from operational linkages in the form of shared infrastructure, sourcing of clients, common management, etc, across the three entities. This has facilitated operating efficiencies as reflected by the relatively lower cost-to-income ratio (45.8% in FY2021 and 43.1% in FY2020) vis-à-vis peers. Overall, the Group's return on net worth improved to 21% in FY2021 from 8% in FY2020. Its ability to generate high returns from proprietary trading will be opportunity driven. Also, notwithstanding the growth in the broking volumes and increase in interest income, supported by the upfront margin collection rules, a significant part of the Group's business is linked to the performance of the capital markets. Hence, the profitability indicators are likely to remain volatile going forward.

On a standalone basis, higher brokerage and net interest income led to a 62% YoY rise in GCL's net operating income in FY2021. At the same time, non-operating income (trading gains) stood lower at Rs. 7.3 crore in FY2021 (vs. Rs. 17.6 crore in FY2020) while provisioning charges remained low at Rs. 2.9 crore despite recording an increase. Overall, higher revenues led to a 24% YoY rise in the net profit to Rs. 40.1 crore in FY2021. Accordingly, the return on net worth improved to 15.9% in FY2021 from 15.0% in FY2020.

Credit challenges

Vulnerable income profile owing to concentration on capital markets – The Group is exposed to the inherent volatility associated with capital markets as its businesses are directly or indirectly linked to the performance of these markets. While income from the brokerage and trading book accounted for 44% (average) of the total income over the past five years, a sizeable proportion of the net interest income is also generated in the form of interest on loans given for investing in capital markets through the NBFC arm, delayed payment charges or the MTF, which are complementary to the capital market activities. Also, the increase in interest income was on account of the higher upfront margin, which is again linked to capital markets.

Concentration risk in NBFC book – The borrower concentration is relatively high in the NBFC loan book with the top 20 borrowers amounting to 67.1% of GFL's total advances and 123% of the total net worth as on March 31, 2021 (61.5% as on March 31, 2020 and 53.5% as on March 31, 2019). This exposes the company to the risk of lumpy slippages in the asset quality. The portfolio vulnerability is also augmented by the significantly lower collateral cover in a few cases.
However, ICRA notes that the Group's asset quality indicators have remained healthy so far with low write-offs in the capital market segment, though the same increased in FY2021. The gross NPAs for the NBFC also stood comfortable at 1.0% as on March 31, 2021 (2.0% as on March 31, 2020). Given the increased share of non-capital markets loans in the NBFC segment, which are relatively longer tenure and have low seasoning, the asset quality indicators might remain volatile in the current challenging operating environment. Therefore, the Group's ability to maintain the asset quality across segments would be a key monitorable.

Liquidity position: Adequate

The Group's liquidity profile is adequate, supported by the healthy level of margin utilisation with the exchanges, the sizeable arbitrage book (~Rs. 455 crore, as on March 31, 2021), which can be liquidated if needed, and the comfortable capital structure. As on March 31, 2021, the Group had adequate unencumbered cash & bank balances of Rs. 329 crore on a consolidated basis compared with total debt repayments (excluding overdraft limits) of Rs. 237 crore.

Rating sensitivities

Positive factors – The rating could be upgraded on the scale-up of the operations and an improvement in the profitability indicators across segments on a sustained basis. The rating could also be upgraded on the ability to raise funds from diverse sources for the lending business at competitive rates or on further diversification of the income and profitability profile with a reduction in the reliance on capital markets.
Negative factors – The ratings could be downgraded on a significant deterioration in the asset quality at the NBFC level or on credit losses in the broking segment, thereby impacting the profitability and capitalisation levels on a sustained basis. Also, a significant reduction in the cash surplus and liquidity buffers available with the Group, which have so far supported the volatility associated with the arbitrage trading activities, would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Brokerage Houses Implicit parent or group support Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated While arriving at the rating, ICRA has taken a consolidated view of the credit profiles of GCML, GFL and GCL owing to the common management and clientele, shared infrastructure, and the strategic importance of GCL and GFL to GCML

About the Group

The Globe Group is engaged in broking and clearing activities in equity, commodities and currency with a track record of over 25 years in the capital market segment. It is a member of the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE) and the Multi Commodity Exchange (MCX-SX). It is also a member of the MCX, the National Commodity & Derivatives Exchange Limited (NCDEX), the National Multi Commodity Exchange of India Limited (NMCE), the Indian Commodity Exchange (ICEX), and ACE for commodity derivatives. The Group holds depository registrations with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) besides being a Securities and Exchange Board of India (SEBI)-registered portfolio manager.

The equity and currency broking, proprietary activities and clearing activities are carried under the flagship entity, Globe Capital Market Limited (GCML), which is also the holding company of the Group. The commodity broking business is conducted by Globe Commodities Limited (GCL; wholly-owned subsidiary of GCML). Besides, the Group has a presence in the lending business through a wholly-owned subsidiary, Globe Fincap Limited (GFL), which is an NBFC that provides loan against property (79% of the portfolio as on March 31, 2021), loan against shares (17%) and unsecured loans (4%).

On a consolidated basis, the Group reported a profit after tax (PAT) of Rs. 319 crore on a net worth of Rs. 1,690.6 crore in FY2021 against a PAT of Rs. 105 crore on a net worth of Rs. 1,354.2 crore in FY2020. In Q1 FY2022, the Group reported a PAT of Rs. 112 crore.

About Globe Commodities Limited

Globe Commodities Limited (GCL), a wholly-owned subsidiary of GCML, undertakes the commodity brokerage and clearing business of the Globe Group. It reported a PAT of Rs. 40.1 crore on a net worth of Rs. 272.3 crore as on March 31, 2021, compared to Rs. 32.4 crore and Rs. 232.3 crore, respectively, as on March 31, 2020.

Group's key financial indicators (audited; consolidated ^)

	FY2019	FY2020	FY2021
Brokerage Income	93	106	147
Net Interest Income	161	184	233
Net Operating Income (NOI)	267	301	406
Total Operating Expenses	123	127	186
Non-operating Income	47	-40	241
Profit before Tax (PBT)	177	125	422
Profit after Tax (PAT)	121	105	319
Net Worth	1,261	1,354	1,691
Return on Average Net Worth (RoE)	10.1%	8.3%	20.9%

Amount in Rs. crore; ***Source:*** *GCML, ICRA Research; ^ Consolidated financials for GCML, GFL and GCL*

GCL's key financial indicators (audited; standalone)

	FY2019	FY2020	FY2021
Brokerage Income (net)	10.2	10.7	22.1
Net Interest Income	18.1	27.4	39.7
Net Operating Income (NOI)	28.4	38.2	61.9
Total Operating Expenses	11.4	12.7	26.2
Non-operating Income	10.6	17.6	7.3
Profit before Tax (PBT)	27.6	42.9	40.1
Profit after Tax (PAT)	17.8	32.4	40.1
Cost-to-Income Ratio	40.1%	33.2%	42.3%
Return on Net Worth	9.4%	15.0%	15.9%
Net Worth	199.9	232.3	272.3
Total Debt	112.4	2.0	165.9
Gearing (times)	0.6	0.0	0.6

Amount in Rs. crore; ***Source:*** *GCL, ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Amount Outstanding (Rs. crore)	Oct 5, 2021	Oct 6, 2020	Jul 16, 2019	-
1	Long-term Bank Lines	Long Term	388.66	206.3*	**[ICRA]A+ (Stable)**	[ICRA]A+/ Stable	[ICRA]A+/ Stable	NA

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term 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: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	NA	NA	NA	175.00	[ICRA]A+ (Stable)
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]A+ (Stable)
NA	Bank Guarantee	NA	NA	NA	90.00	[ICRA]A+ (Stable)
NA	Bank Guarantee	NA	NA	NA	0.19	[ICRA]A+ (Stable)
Proposed Credit Facility	-	-	-	-	103.47	[ICRA]A+ (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Globe Capital Market Limited	100.00%	Full Consolidation
Globe Fincap Limited	100.00%	Full Consolidation
Globe Commodities Limited	100.00%	Full Consolidation

Source: *Company*

ANALYST CONTACTS

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

Manushree Saggar
+91-124-4545316
manushrees@icraindia.com

Neha Kadiyan
+91-124-4545321
neha.kadiyan@icraindia.com

Abhinav Hans
91-124-4545383
abhinav.hans@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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