

February 28, 2024

Centrum Broking Limited: Rating downgraded to [ICRA]A3 from [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund/non-fund based bank facilities	150	150	[ICRA]A3; downgraded from [ICRA]A3+
Total	150	150	

*Instrument details are provided in Annexure I

Rationale

The rating downgrade takes into account the prolonged weakness in Centrum Broking Limited's (CBL) operational and financial performance with sustained pressure on the profitability metrics despite the buoyancy in the capital markets. Delays in the planned scale-up of the operations, elevated borrowing costs and higher operating expenses due to the strengthening of the systems and processes also led to the weak financial performance. The company reported a loss of Rs. 1.3 crore in 9M FY2024 on net operating income (NOI) of Rs. 36.6 crore, following the loss of Rs. 3.9 crore on NOI of Rs. 49.2 crore in FY2023. The rating also factors in CBL's limited revenue diversification, modest capitalisation, and high revenue dependence on capital markets, which are inherently volatile in nature.

ICRA takes note of CBL's established track record in the broking business and the portfolio management services (PMS) segment as well as the operational synergies as it is a part of Centrum Group¹, a financial services group with a diversified presence in the small finance banking, broking, wealth management, insurance brokerage and housing finance segments. CBL has been sourcing clients/business from its fellow subsidiary. However, Centrum Wealth Management (CWL) faced issues like loss of clients and the associated assets under management, impacting CBL's broking revenues. Although broking volumes/revenues recovered to a certain extent in 9M FY2024 following the leadership change at CWL, the same remains a monitorable. CBL is also likely to benefit from its access to the franchise of Unity Small Finance Bank (Unity SFB; rated [ICRA]A-(Stable)/[ICRA]A1), going forward, although the same was delayed due to tech integration related issues. Overall, the company's ability to scale up its operations while diversifying its revenues and improving its profitability would remain a key determinant of its credit profile.

Key rating drivers and their description

Credit strengths

Track record in broking business – CBL, incorporated in 1994, is the brokerage arm of Centrum Group. The company is registered as a trading member with leading stock exchanges and provides broking services to clients. It is also registered as a depository participant with Central Depository Services (India) Limited. CBL is a full-service broking house offering a range of equity-oriented solutions to a cross-section of clients, comprising high-net-worth individuals (HNIs) and institutions. Currently, it provides equity broking, portfolio management, and depository services. It also offers institutional research, brokerage and placement services and plans to diversify its customer and product offerings further, going forward. Additionally, the retail business is expected to be carved out into a separate entity, while the institutional business would continue in CBL, with a view to ensure efficient capital allocation across segments.

¹ Centrum Capital Limited (CCL) and its subsidiaries and associates are collectively referred to as Centrum Group or the Group

Part of Centrum Group – CBL stands to benefit from operational synergies as it is a part of Centrum Group, a financial services group with a diversified presence in the financial services sector. The Group has an established position in debt capital markets with a clientele across public sector units, banks, state-level undertakings, private corporates and provident funds. The Group ventured into the distribution of insurance products and the asset management business in FY2018. In FY2019, it had shifted its focus to grow the fund-based businesses and set up a non-banking financial company {NBFC; Centrum Financial Services Limited (CFSL)}, a housing finance company (Centrum Housing Finance Limited) and a microfinance institution (Centrum Microcredit Limited; CML).

The Group received a small finance bank licence from the Reserve Bank of India in FY2022 and it merged CFSL, CML and PMC Bank Limited to form Unity SFB. With this, the Group has been expanding its reach and customer base, providing wider opportunity to cross-sell its offerings including the services offered by CBL. CBL's ability to tap the Group's franchise and reach and execute its business plan to expand its presence in the retail segment, along with its established presence in the merchant banking and wealth management segments, will drive its profitability. ICRA notes that the 3-in-1 account partnership with Unity SFB was delayed due to tech integration related issues and the partnership is likely to go live in the coming months. ICRA also notes that CBL's ultimate parent, i.e. Centrum Capital Limited (CCL), has extended guarantees and collateral for securing its bank facilities.

Credit challenges

Modest capitalisation and weak profitability – CBL had a net worth of Rs. 35.0 crore as of December 31, 2023 and a gearing of 0.8 times. The net worth declined in FY2022 and FY2023 due to the losses reported by the company. CBL received a capital infusion of Rs. 3.74 crore (to be used to redeem the 10% cumulative preference share capital of Rs. 2.5 crore) in 9M FY2024, which resulted in a marginal increase in its net worth, notwithstanding the losses in 9M FY2024. The capitalisation level is thus moderate, especially for the envisaged scale of operations. The company had borrowings outstanding of Rs. 29.2 crore as of December 31, 2023, largely comprising unsecured loans from related parties. Thus, CBL's external debt repayment obligation remains limited.

The losses were attributable to the subdued broking turnover as well as the decline in the PMS assets under management (AUM) due to the challenges faced by the Group's wealth management entity, which is the key source of customer acquisition for CBL. Further, delays in the launch of the partnership with Unity SFB and a few fintechs hampered the planned scale-up of the broking business. The partnerships are expected to be launched in Q1 FY2025, which could help augment revenues going forward. CBL's expenses were elevated on account of the higher finance costs (due to cash collateral requirement for intra-day facility), increase in operating expenses due to the planned improvement in the information technology (IT) infrastructure/digitisation, and higher revenue sharing in the broking business to revive the broking volumes. Thus, declining revenues, coupled with elevated borrowing costs and operating expenses, resulted in losses in FY2023 and 9M FY2024. The company reported a loss of Rs. 3.9 crore on NOI of Rs. 49.2 crore in FY2023 compared to a loss of Rs. 2.2 crore on NOI of Rs. 57.5 crore in FY2022. The reported loss stood at Rs. 1.3 crore in 9M FY2024 on NOI of Rs. 36.6 crore.

Limited revenue diversification with high dependence on broking income – CBL's income profile is concentrated towards equity broking income, which accounted for ~50% of the NOI on average between FY2019 and FY2023, followed by asset management income (PMS), other fee income and net interest income. The NOI moderated to Rs. 49.2 crore in FY2023 from Rs. 57.5 crore in FY2022 due to the decrease in broking volumes. The challenges faced by CWL in FY2023 and 9M FY2024 impacted CBL's broking volumes as it is the captive broker for the Group's wealth management clients. The asset management income also moderated marginally in FY2023 due to the decline in the PMS AUM while other fee income, including advisory and research fees, commission income, etc, improved in FY2023.

CBL is mainly an institutional broking player with a modest-to-below-average presence in the retail broking segment. On account of its limited geographical presence and the increased competition in the broking industry, its market share has been

modest. Going forward, CBL plans to leverage the retail franchise and reach of Unity SFB and introduce additional services such as the distribution of mutual funds, bonds, Government securities, digital gold, investment in global markets, etc. To give its customers a holistic investment and financial management platform, the company is planning to provide value-added services such as loan against securities and margin trade funding features along with tax and insurance solutions. It also aims to completely revamp its offerings through a new digital platform. CBL intends to tie up with various partners such as independent financial advisors, small brokers, banks, fintechs and other players for sourcing customers. ICRA notes that these plans were delayed due to tech integration related issues, which impacted the planned scale-up in FY2023. Going forward, the progress on these initiatives remains a key monitorable.

Dependence on capital markets, which are inherently volatile and cyclical in nature – CBL’s revenues remain dependent on capital markets, which are inherently volatile in nature. Net broking income accounted for ~50% of NOI on average between FY2019 and FY2023. Further, CBL derives 60-70% of its broking income from the cash segment. Although this segment is higher yielding in nature, it has displayed a correlation with capital market movements. Thus, any downturn in the capital markets may impact the company’s financial performance and capitalisation profile. Moreover, given the increasing competition in equity broking and the pricing pressure, especially owing to the discount broking business model, the average yields for broking players have come under pressure.

Liquidity position: Adequate

CBL’s liquidity requirement is primarily for placing margins at the exchanges. It deployed an average margin of ~Rs. 380 crore at the exchanges (funded through own and client funds/securities) during September 2022 to December 2023. Basis the existing net worth, CBL’s ability to place additional margins through own sources is limited. The margin utilisation during this period ranged between 39% and 83% with average utilisation of 55%. The company has a drawable intra-day facility and an unutilised overdraft facility (backed by fixed deposits) of Rs. 50 crore each. The intra-day facility is used intermittently for margin requirements. It had borrowings of Rs. 29.2 crore as of December 2023, of which Rs. 25.7 crore pertains to unsecured loans from related parties, which is repayable on demand. As the company does not have any major external debt repayment obligation, its liquidity position remains adequate. CBL had a cash balance of ~Rs. 4 crore as of December 2023, which was unencumbered.

Rating sensitivities

Positive factors – A sustained improvement in the profitability with a ramp-up in the scale of operations, while maintaining adequate capitalisation and liquidity, would lead to a rating upgrade.

Negative factors – Inability to demonstrate a profitable scale-up in its operations, besides the weakening of its liquidity position and/or any adverse change(s) in the regulatory environment, affecting the company’s business operations and financial performance would lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking and Allied Services
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

CBL, incorporated on May 2, 1994, is the brokerage arm of Centrum Group. The company is registered as a trading member with leading stock exchanges {National Exchange of India Limited (NSE) and BSE Limited (BSE)} and provides broking services to clients. It is also registered as a depository participant with Central Depository Services (India) Limited (CDSL). The company is a full-service broking house offering a range of equity-oriented solutions to a cross-section of clients, comprising high-net-

worth individuals and institutions. Currently, it provides equity broking, portfolio management, depository services, institutional research, brokerage and placement services. CBL is owned by Centrum Capital Limited (51% as of December 31, 2023) and Centrum Retail Services Limited (49%). It reported a loss of Rs. 1.3 crore in 9M FY2024 on NOI of Rs. 36.6 crore. The net worth stood at Rs. 35.0 crore as of December 31, 2023 with a gearing of 0.8 times.

Key financial indicators (audited)

Centrum Broking Limited – Standalone	FY2022	FY2023	9M FY2024*
Net operating income	57.5	49.2	36.6
Profit after tax	-2.2	-3.9	-1.3
Net worth	35.1	32.2	35.0
Total assets	127.3	151.3	157.3
Gearing (times)	0.1	1.4	0.8
Return on average net worth	-6.2%	-11.6%	-5.1%

Source: Company, ICRA Research; * Provisional 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

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 28, 2024	Dec 2, 2022	-
1 Short-term fund/non-fund based bank facilities	Short term	150	Nil	[ICRA]A3	[ICRA]A3+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund/non-fund based bank facilities	Very 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	Short-term fund/non-fund based bank facilities	NA	NA	NA	150	[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

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

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Deep Inder Singh
+91 124 4545 830
deep.singh@icraindia.com

Komal M Mody
+91 22 6114 3424
komal.mody@icraindia.com

Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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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



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