



## Globe Capital Market Limited

Instrument	Amount	Rating Action
Commercial Paper Programme	Rs. 100 crore	[ICRA]A1+ reaffirmed

ICRA has reaffirmed short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 100 crore commercial paper programme of Globe Capital Market Limited (GCML)<sup>†</sup>. The rating is based on the consolidated business and financial profile of GCML group of companies, which are involved in broking and clearing activities in equity, commodity and currency segments, arbitrage trading on proprietary investment book and lending activities (primarily loan against shares).

The rating factors in the company's considerable experience and track-record in broking and clearing activities; its well established branch/franchise network; its moderate market share in equity and commodity broking segments and synergistic benefits of integrated presence across broking, clearing and lending activities. The rating also derives comfort from stable profitability trend (return on net worth of 11-12% during FY13-FY15); comfortable capitalisation and liquidity profile and adequate net worth (Rs 975 crore as on June 2015) in relation to the current scale of operations. Further ICRA favourably takes note of the company's adequate risk management systems which have enabled low level of debtors and credit losses (though level of debtors and credit losses increased to some extent in FY15); and its low fixed cost intensive structure owing to dominance of franchisee outlets in the network, which gives it the flexibility to prune costs in the event of a significant decline in business volumes. Globe's liquidity profile is comfortable supported by lower leverage and adequate arbitrage book which could be liquidated in case of need.

The key credit challenges for the company include developing fee based revenue sources so as to better withstand the vagaries and cyclicity of capital and commodity markets; expanding geographical reach on a pan India basis from a North India focus currently; strengthening risk management systems as business is scaled up; providing an exit route to the private equity investor without significantly straining capital structure and maintaining adequate profitability profile and yield amidst intense competition in capital market activities.

GCML's profitability is heavily dependent on arbitrage income; the company had a arbitrage book of Rs 510 crore as on March 2015, management's ability to identify reasonable opportunities in arbitrage segment and manage risk there would be critical for its profitability profile. Asset quality profile of loan book of NBFC arm of the GCML group (Globe Fincap Limited) has slipped to some extent with Gross NPA % increasing from Nil as on March 2014 to 4.7% as on June 2015 however moderate size of loan book (Rs 312 crore as on June 2015 and moderate growth plans in relation to consolidated net worth of group as well as management's long experience in capital market activities mitigate risk to some extent. ICRA will closely monitor the asset quality profile of loan book.

The rating at the current level reflects GCML's relative positioning with other ICRA rated brokerage houses. Going forward, GCML's ability to control costs in order to maintain profitability levels, maintaining adequate risk management systems with growth in scale of operations, maintaining prudent capital structure & liquidity profile in view of the PE buyback liability, control on asset quality profile of loan book, managing risk in arbitrage book and improving fee based income would remain key rating sensitivities.

GCML group is engaged in equity broking, commodity broking, currency broking, loan against shares, clearing, pro trading and related activities; during FY15, broking<sup>†</sup> & clearing operations contributed around 29% of GCML's consolidated total income (net), 31% was contributed by net interest income,

\* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

† Net of sub brokerage expenses and interest expenses



39% by trading/arbitrage profits (including dividend income) and balance was contributed by other activities like depository, PMS etc.

As for equity broking operations, the company is a medium size broking company and is primarily present in retail broking segment with some presence in institutional broking segment. GCML's consolidated profit after tax (PAT) increased from Rs 101.02 crore in 2013-14 to Rs 123.10 crore in 2014-15 supported arbitrage gains; net brokerage income increased marginally from Rs. 84.92 crore in FY14 to Rs. 85.19 crore in FY15 mainly because of improvement in retail equity broking operations but limited by continuing weak commodity and currency broking operations.

GCML's capitalization and liquidity position remains comfortable with total net worth of Rs. 893.78 crore (as on March 2015) and low fund based gearing of 0.42x as at March 31, 2015 (29% of total borrowings were in the form of loan against FDRs; excluding these borrowing gearing would reduce to 0.30 times). In addition to fund based borrowings, GCML also had sanctioned non-fund based bank lines of Rs 785 crore of which Rs 591 crore was utilised as on March 31, 2015. Company also has consolidated arbitrage book of Rs. 510 crore as on March 31, 2015 (Rs. 353 crore as on June 2015).

### **Company Profile**

Globe Capital Market Limited (GCML) was incorporated in 1985 and is the flagship entity of the GCML Group which is engaged in broking and clearing activities in equity; commodities and currency, arbitrage activities and capital market financing activities through various group companies. The Group has a long track record of around 20 years in capital market activities and operates with a network of 15 own branches and 1,380 retail franchisees/sub brokers. The group is a member of NSE, BSE, MCX-SX in capital market & currency operations, MCX, NCDEX, NMCE for commodity derivatives and holds depository registration with NSDL, CDSL besides being a SEBI registered portfolio manager.

The equity and currency broking and clearing activities in future & options (F&O) and currency broking are carried out under the main entity GCML which is also the holding company of the Group. Other main entities of the Group include- Globe Commodities Limited (GCL)-100% subsidiary, which is engaged in commodity broking and clearing activities; Globe Fincap Limited (GFL)- 100% subsidiary, which is an NBFC engaged in the lending business (mainly loan against shares) and Globe Derivatives & Securities Limited (GDSL)- 100% subsidiary- which holds a part of the proprietary trading/arbitrage book of the Group. GCML Group also has a marginal overseas presence through a step-down subsidiary in Dubai- Globe Comex International DMCC which holds registration of Dubai Commodities & Gold Exchanges and Bahrain Financial Exchange.

### **Recent Results**

GCML reported a consolidated profit after tax (PAT) of Rs 123.1 crore on a total net operating income<sup>‡</sup> (including trading income & profit on sale of investments) of Rs. 298.1 crore in FY 15<sup>§</sup> compared to profit of Rs 101.0 crore on a total net operating income (including trading income and profit on sale of investments) of Rs. 248.2 crore in FY14. In Q1 FY16, GCML (Consolidated) has reported a PAT of Rs 26.3 crore compared to Rs. 30.9 crore in Q1 FY15. GCML's net worth (consolidated) was at Rs 975.8 crore as on June 2015 (Provisional).

**October 2015**

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<sup>‡</sup> Net of sub brokerage expenses and interest expenses

<sup>§</sup> FY14-15 numbers are based on Audited Financials



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