# Inventure Growth & Securities Limited

**RATING HISTORY**

| Instrument | Amount Outstanding | Rating Outstanding | Previous Rating |
|---|---|---|---|
| | | Jan 2010 | |
| Rs.0.50 billion Short-Term non-fund based bank limits | | A3+ | None |

ICRA has assigned A3+ (pronounced as A three plus) rating to Inventure Growth & Securities Limited's (IGSL) Rs. 500 million short term (non-fund based) bank lines†. The rating factors in IGSL's long experience in the equity broking business, adequate capitalization level for the current scale of operations, negligible gearing level, comfortable liquidity profile and adequate risk management system deployed by the company. The ratings are constrained by the low diversification of business revenue with the company primarily dependent on retail broking & High Networth Individuals (HNI's) broking, relatively smaller market share and the company's dependence on capital market activities which is cyclical in nature. The rating at the current level also reflects IGSL's relative positioning with other ICRA rated brokerage houses.

IGSL group's promoter, Shri Nagji K. Rita started his share trading activities in late 1980s when he used to carry out such share Trading activity in his personal capacity. IGSL was incorporated as a public limited company in 1995 and since then all retail broking activities are being carried out under IGSL. IGSL revenue profile is largely concentrated on arbitrage and broking activities only which accounts for 90% of the total revenue of the company while it's other capital market related business operations like commodity broking, wealth management, wealth advisory continues to be on a relatively smaller scale. In ICRA's view, IGSL would continue to remain dependent on retail broking and arbitrage activity over short to medium term while in the longer run other lines of business especially the lending business could also become a big contributor.

Going forward, while the business environment has improved over the last couple of quarters, uncertainty prevailing in capital environment may affect equity broking turnover and arbitrage trading opportunities. However, ICRA believes Inventure group's networth of around Rs. 700 million would help IGSL to provide adequate cushion to absorb any adverse shocks. Also, IGSL is planning to raise funds through IPO in the near future which would further strengthen its capitalization level, thus the financial flexibility.

On the retail equity front, IGSL has been focused more upon the franchisee based retail network and added ~25 franchisee in FY09 to enhance its network to 8 branches and 140 franchisees servicing a clientele of close to 30,000 as on November 30, 2009. While IGSL's equity broking market share declined marginally during FY09 to 0.42% in FY09 from 0.53% (exclusive of arbitrage trading turnover) in FY08, it was able to increase it to 0.74% in H1FY10 (inclusive of arbitrage trading turnover).

Arbitrage business of the company contributes significantly to the total revenues of the entity. However, IGSL's revenues in arbitrage trading came under pressure in FY09 with lesser arbitrage opportunities and relatively lower yields in FY09. Also, with Securities Transaction Tax (STT) being treated as business expenditure with effect from April 1, 2008 further impacted the arbitrage trading yield. Accordingly, IGSL's revenue from trading activities declined by 76% to Rs. 31.3 million in FY09 from Rs.129.5 million in FY08. In H1FY10, IGSL has been able to report Rs. 36.2 million of trading income driven by higher activity level in the capital market.

IGSL's margin funding / loan against shares business which is done through a group entity Inventure Finance Private Limited (owned directly by the promoters) remains at a small scale. The challenging operating conditions restricted the growth in margin funding business during FY09. With the improvement in the current operating conditions and expectations of funds from the proposed IPO, the group has planned to scale up this line of business.

During challenging operating market conditions in FY09, IGSL's operating income (excluding trading income) declined to Rs. 119.0 million from Rs. 208.4 million in FY08 largely dragged by the decline in equity broking revenues. At the same time, IGSL's operating cost in FY09 continued to remain at the same level as that in FY08 on account of it shifting its office from Dalal Street, Mumbai to a bigger space in Andheri, Mumbai for undertaking higher scale of operations. Nevertheless, IGSL's operating cost is quite flexible with

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*† For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications*

large proportion of franchisee operated network and arbitrage trading dealers whose incentives are linked to the returns generated by them. Further with lesser trading profits, IGSL reported 84% decline in its net profit after tax to Rs 27.4 million in FY09 from Rs 163.3 million in FY08.

In H1FY10, with the improvement in operating conditions, rise in equity broking market share and arbitrage trading income and almost stable operating expenses, IGSL was able to report a net profit after tax of Rs 48.5 million during the period.

IGSL has taken adequate steps to mitigate the credit risks, market risks and operational risks associated with the retail broking and arbitrage business. IGSL has deployed centralized risk management system for its current scale of operations with limits assigned to the individual dealers, constant monitoring on the dealers position and ensuring that the dealers don't keep any open position. IGSL also collects upfront money from its clients in cash and calls for additional margins in case of any margin shortfall on clients positions. While the credit and market risk remain relatively low on proprietary trading and arbitrage trading, in analyst's view, IGSL's business model is exposed to the operational risk. Though the risk management system seems adequate for the current scale of operations, going forward, in analyst's view, considering the current expansion plans of the company, IGSL may need to scale up its risk management systems in line with the growing scale of operations of the company.

Asset liability profile of the company also remains comfortable with adequate networth for the current scale of operations, negligible debt levels, adequate bank lines available with the company and liquid nature of the arbitrage trading book where the company has the flexibility to square-off its position in a short time frame to meet any liquidity requirement.

**About the company**

**Inventure Group**

Incorporated by Mr. Nagji K. Rita who started his equity trading operations in late 1980's, incorporated the flagship entity of the group in 1995. Currently, Group is engaged in various capital market related operations like equity broking, institutional broking, commodity broking, investment activities, margin funding, and distribution of the financial products. Inventure Growth & Securities Limited is the flagship entity of the group being SEBI registered broker.

**Inventure Growth & Securities Limited**

Inventure Growth & Securities Limited (IGSL) is engaged in providing various capital market services like equity broking, institutional broking, depository operations and distribution of the financial products. IGSL is currently held 100% directly by the promoters while the group is planning to divest around 25-30% of the promoters stake by raising funds through an IPO.

During the year ended March 31, 2009, IGSL, on standalone basis, reported a net profit after tax of Rs. 27.36 million on a total income base of Rs. 177.38 million as compared to Rs 163.27 million on a total income of Rs 356.92 million in the year ended March 31, 2008.

**Recent Results:**

During the half year ended September 30, 2009, IGSL, on a standalone basis reported a profit after tax of Rs. 48.5 million on a total income of Rs. 207.2 million (gross of broking commission).

*January 2010*

**Key Financials**

| Inventure Growth & Securities Ltd. | Unit | Sep-09 | Mar-09 | Mar-08 | Mar-07 |
|---|---|---|---|---|---|
| **Number of months** | | **6** | **12** | **12** | **12** |
| **(Standalone)** | | **(Audited)** | **(Audited)** | **(Audited)** | **(Audited)** |
| Brokerage income[2] | Rs million | 73.59 | 87.04 | 162.46 | 96.75 |
| Total Revenues[3] | Rs million | 153.01 | 177.38 | 356.92 | 230.75 |
| Adjusted Profit After Tax[4] | Rs million | 52.03 | 27.36 | 163.27 | 109.32 |
| Networth | Rs million | 643.66 | 591.63 | 603.63 | 416.29 |
| Cost to Income Ratio | % | 61.15% | 89.37% | 52.49% | 48.60% |
| Return on Networth[5] | % | 16.17% | 4.62% | 27.05% | 26.26% |
| Debt / (Networth + Minority Interest) | Times | 0.16 | 0.16 | 0.13 | 0.00 |

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[2] Brokerage income is net of sub-brokerage commission
[3] Total Revenues is net of sub-brokerage commission
[4] Adjusted for prior period items and tax provision for earlier years
[5] Return on Networth = Adjusted Profit After Tax / (Networth + Minority Interest)

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