

September 30, 2020

SMC Global Securities Ltd.: Issuer rating withdrawn

Summary action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	[ICRA]A (Stable); Withdrawn
Commercial Paper	25	[ICRA]A1+; Outstanding
Long-term/Short-term Fund- based/ Non-fund Based Bank Lines	1000	[ICRA]A (Stable)/ [ICRA]A1+; Outstanding
Total	1025	

**Instrument details are provided in Annexure-1*

Rationale

The Issuer rating assigned to SMC Global Securities Ltd. has been withdrawn. Earlier on August 31, 2020, the issuer rating was put on a Notice for withdrawal for a period of 1 month. The withdrawal is at the request of the company.

The outstanding ratings for SMC Global Securities Limited (SMC) factors in its long track record in the capital market segment and its well- established network of 101 branches and 2,500+ authorised persons and sub brokers with a presence in 550+ cities with over 1.8 million clients. The ratings also factor in the company's established market position along with the synergistic benefits arising from the SMC Group's integrated presence across broking, clearing, distribution, wealth and lending activities. The ratings also derive comfort from the Group's comfortable capitalisation profile with a gearing of 0.3x and a net worth of Rs. 681.4 crore on a consolidated basis as on March 31, 2020. The ratings also consider the comfortable liquidity profile with adequate unutilised margins placed with the exchanges (average utilisation from April 19 to June 2020 was around 60%), sufficient unencumbered cash and bank balance of Rs. 233 crore as on March 31, 2020 and adequate sanctioned and unutilised bank lines.

While assigning the ratings, ICRA has taken note of the competition of the market in addition to the inherent volatility associated with capital markets. Sizable proportion of SMC's revenues (approximately 40% in FY2020) come from capital market and trading activities. ICRA has also taken note of the Group's deteriorating profitability indicators with a return on average net worth of 3.5% in FY2020 (11.3% in FY2019) owing to increase in losses in real estate vertical, increased operating expenses and rise in credit costs for the lending business. In Q1FY2021, however, profitability improved to return on average net worth of 14.1%, with improved brokerage revenues, higher trading gains and moderation in operating expenses.

Going forward, the company's ability to diversify its revenue stream, scale up its operations while leveraging its wide geographical reach, scale up its risk management systems in line with the business growth and improve its profitability remains critical.

Key rating drivers and their description

Credit strengths

Long track record and established market position – The company has a long track record of about three decades in

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the capital market segment. It caters to both retail and institutional clients though the bulk of the business (99.9% of the turnover in FY2020) remains retail focused. SMC has a well-established position in the capital markets: share (incl proprietary and trading member turnover) of 3.1% in equity market, 11.6% in currency and 2.1% in commodity in FY2020

Comfortable liquidity position and capitalisation profile – SMC's broking business has a comfortable liquidity profile with adequate unutilised margins placed at the exchanges (average margin utilisation of around 60% during April 2019- June 2020), sufficient unencumbered cash and bank balance of Rs. 233 crore as on March 31, 2020 and adequate sanctioned and unutilised bank lines. The capitalisation profile, on a consolidated basis, was comfortable with a reported gearing of 0.3x on a net worth of Rs. 681.4 crore as on March 31, 2020 compared to 1.1x and Rs. 681.0 crore, respectively, as on March 31, 2019. The decline in the consolidated gearing was largely on account of reduced borrowings at standalone level and slight degrowth in NBFC loan book. Going forward, given the challenges in the operating environment, the portfolio growth of the NBFC business is likely to remain muted. Thus, the overall Group leverage is expected to remain low over the medium term.

Good asset quality indicators – The asset quality remains largely under control at the company level with negligible write-offs in the capital market business in FY2020. It is further supported by SMC's risk management policy with automated margin monitoring systems. However, the company could face asset quality pressure and a deterioration in the reported numbers, given the target borrower profile and the impact of the Covid-19 pandemic on underlying businesses, especially in the SME segment. Overall, the ability of the NBFC to control slippages in the current challenging operating environment would be critical for maintaining the Group's credit profile.

Credit challenges

Sizable dependence on capital markets – SMC's revenue profile, on a consolidated basis, remains fairly dependent on capital markets (capital markets brokerage and trading segment accounted for approximately 40% of the total revenues in FY2020), which are inherently vulnerable to market cycles. Income from insurance broking (28%), interest income from financing activities (19%), distribution income (9%), real estate broking (2%), and other miscellaneous income (income from management and advisory services, PMS, other income and the dividend income) (2%) accounted for the remaining 60% of the revenue profile. ICRA expects the share of capital market related income to remain largely similar in the near term.

Competitive intensity likely to keep broking yields under pressure – The blended yields of the company in equity broking have been decreasing (0.25 bps in FY2020 against 0.83 bps in FY2019) as a result of higher rate of growth in turnover of the low-yielding futures and options (F&O) segment in the overall equity trading volumes (F&O segment accounted for 98% as on March 31, 2020 against 95% as on March 31, 2019 in SMC's equity trading volumes). With increasing share of derivative volumes and high competition in equity broking, the average yields are expected to remain under pressure.

Modest profitability indicators; deterioration seen in FY2020 – The Group's profitability indicators deteriorated in FY2020 with a return on average net worth of 3.5% in FY2020 (11.3% in FY2019) owing to increase in losses in real estate vertical, increase in operating expenses and rise in credit costs at the NBFC level. The increase in revenues remained modest because of the pressure on the average yields, low fee income and low contribution in terms of interest income from the NBFC. In Q1FY2021, however, profitability improved to return on average net worth of 14.1%, with improved brokerage revenues, higher trading gains and moderation in operating expenses. Going forward, the Group's ability to diversify its revenue stream and report an improvement in the profitability indicators across segments will be a key monitorable.

Liquidity position: Adequate

SMC's broking business has a comfortable liquidity profile with adequate unutilised margins placed at the exchanges (average margin utilisation of around 60% during April 2019-June 2020), sufficient unencumbered cash and bank balance of Rs. 233 crore at the consolidated level as on March 31, 2020 and adequate sanctioned and unutilised bank lines against consolidated debt repayments of Rs. 172 crore for FY2021.

Rating sensitivities

Positive triggers – ICRA believes that SMC will continue to benefit from its demonstrated track record and established position in capital market related businesses and its robust risk management systems. A significant improvement in the Group's revenue diversification and an improvement in its profitability indicators may result in a rating upgrade.

Negative triggers – The ratings could be revised downwards if there is a significant deterioration in the Group's profitability indicators on a sustained basis, thereby affecting its financial risk profile. A significant deterioration in the Group's asset quality indicators could also warrant a rating/outlook change.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Brokerage Houses
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated ¹

About the company

SMC Global Securities Limited (SMC), a Delhi-based stockbroking company, was incorporated on December 19, 1994 and is the flagship company of the SMC Group. SMC, with its subsidiaries, has a significant presence in almost all the important segments of the financial services sector such as broking, distribution of third-party products and initial public offerings (IPOs), insurance broking, financing (NBFC), real estate advisory and wealth management, investment banking, clearing services, depository participant, NRI and FPI services, etc. SMC has a presence in more than 550 cities across India and is also present in the UAE. It has a client base of over 1.8 million.

On a consolidated basis, SMC reported a profit after tax of Rs. 24 crore on a total asset base of Rs. 1,875 crore in FY2020 compared with a profit after tax of Rs. 75 crore on a total asset base of Rs. 2,350 crore in FY2019. The gearing stood at 0.3x as on March 31, 2020 (1.1x as on March 31, 2019).

Key financial indicators (audited; consolidated¹)

	FY2018	FY2019	FY2020
Brokerage Income	269	343	388
Net Interest Income	58	116	90
Net Operating Income (NOI)	437	551	562
Total Operating Expenses	512	598	666
Non-operating Income	172	145	162
Profit before Tax (PBT)	77	91	45
Profit after Tax (PAT)	51	75	24
Loan Book	573	571	498
Net Worth	641	681	681
Return on Average Net Worth (RoE)	8.2%	11.3%	3.5%

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information:

ICRA notes that there is a legal case ongoing against two of SMC employees. The matter is currently sub judice and SMC is not party to it as such the company is not expecting any liability from the same.

¹ Consolidated with SMC Comtrade Limited, SMC Investments & Advisors Limited, Moneywise Financial Services Pvt. Ltd, SMC Capital Limited, SMC Insurance Brokers Pvt. Ltd, SMC Comex International DMCC, Moneywise Finvest Limited, SMC Global USA Inc, SMC Global IFSC Private Limited, SMC Real Estate Advisors Pvt. Ltd, SMC & IM Capitals Investment Manager LLP

Rating history for past three years

	Current Rating (FY2021)						Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated	Rating			FY2020	FY2019	FY2018
				Amount Outstanding	30-Sep-20	31-Aug-20	26-Jul-19	1-Nov-2018	6-Mar-2018
1	Commercial Paper	Short Term	25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Issuer Rating	Long Term	-	-	[ICRA]A (Stable); Withdrawn	[ICRA]A (Stable); Put on notice of withdrawal for one month	[ICRA]A (Stable)	[ICRA]A (Stable)	NA
3	Long-term/Short-term Fund-based/Non-fund Based Bank Lines	Long / Short Term	1,000	1,000	[ICRA] A (Stable)/ A1+	[ICRA] A (Stable) / A1+	[ICRA] A (Stable) / A1+	NA	NA

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]A (Stable); Withdrawn
NA	Long-term/Short-term Fund-based/ Non-fund Based Bank Lines	NA	NA	NA	1,000	[ICRA] A (Stable)/ A1+
NA	Commercial Paper	NA	NA	7-365 days	25	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SMC Comtrade Limited	100.00%	Full Consolidation
SMC Investments & Advisors Limited	100.00%	Full Consolidation
Moneywise Financial Services Pvt. Ltd	100.00%	Full Consolidation
SMC Capital Limited	100.00%	Full Consolidation
SMC Insurance Brokers Pvt. Ltd	97.58%	Full Consolidation
SMC Comex International DMCC	100.00%	Full Consolidation
Moneywise Finvest Limited	100.00%	Full Consolidation
SMC Global USA Inc	50.00%	Full Consolidation
SMC Global IFSC Private Limited	100.00%	Full Consolidation
SMC Real Estate Advisors Pvt. Ltd	100.00%	Full Consolidation
SMC & IM Capitals Investment Manager LLP	50.00%	Equity method as per Ind AS 28

Source: Company

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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.

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