April 06, 2022

Emkay Global Financial Services Limited: [ICRA]A2+ reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Non-fund Based Bank Facility	275.00	175.00	[ICRA]A2+; reaffirmed
Short term bank facility (un-allocated)	0.00	25.00	[ICRA]A2+; reaffirmed
Total	**275.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the rating, ICRA takes a consolidated view of the business and financial profiles of Emkay Global Financial Services Limited (EGFSL) and its five subsidiaries, together referred to as the Group or EGFSL.

The rating reaffirmation factors in the Group's demonstrated track record of over 25 years in the financial services industry with focus on institutional segment, and adequate capitalisation level for current scale of operations. The rating is, however, constrained by the limited diversification in the Group's revenue profile, moderate core operating profitability with dependence on proprietary trading and exposure to the inherent volatilities in capital markets. The elevated cost structure, coupled with relatively low-yielding product mix and competitive pressure across the industry has resulted in muted profitability in recent years. ICRA, however, has noted the improvement in EGFSL's consolidated profitability in 9M FY2022 and in FY2021, supported by considerable contribution from income from proprietary trading and fair value gains from investment book. ICRA also takes note of the risks associated with the proprietary trading business, given the Group's limited track record in it. Moreover, ICRA notes that the company's liquidity position is adequate with low borrowings. As of December 2021, the company had adequate on-balance sheet liquidity to meet additional margin requirements, if required.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 75 crore bank facilities of EGFSL. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

Key rating drivers and their description

Credit strengths

Long track record of capital market-related business with focus on institutional broking – The Group has a track record of over 25 years in the capital markets with a presence in equity, currency and commodity broking along with lending, investment banking, alternative assets and wealth management services. With more than 300 institutional clients, EGFSL continues to be an institutional-focussed brokerage house, wherein it derived ~70% of its equity broking income from this segment in FY2021 (61% in 9MFY2022). Additionally, since 2020, the Group started offering high frequency trading and direct market access arrangement services to institutional clients on a fixed/flattish fee structure (accounting ~13% of overall broking income in FY2021 & 8% in 9MFY2022). Considering the volatile nature of the capital markets, the presence of institutional brokerage in the revenue stream tends to reduce the overall fluctuations in brokerage income.

Adequate capitalisation level for current scale of operations – The Group is well capitalised for the current scale of operations with a net worth of Rs. 205.0 crore (Rs. 166.4 crore as on March 31, 2021) and gearing of 0.05 times (0.06 times as of March 31, 2021) as of December 31, 2021. The Group primarily avails fund-based borrowings for supporting the loan book in its lending business and the working capital requirements in the broking business. In addition to fund-based borrowings, it avails of bank guarantees to meet the margin requirements of the broking operations at the exchange houses.

Credit challenges

Limited diversification in revenue stream; moderate scale of broking business – The Group's operating revenue comprises income from broking services, loan against shares, research and advisory services, wealth management (Portfolio/Asset management) and depository services; however, the revenue profile continues to be concentrated towards broking income (75% of net operating income; NOI in FY2021 and 77% in 9M FY2022). The Group registered a sharp increase in the average daily turnover (ADTO) in the equity broking business (Rs. 3.07 lakh crore in 9M FY2022, Rs. 1.26 lakh crore in FY2021 and Rs. 0.15 lakh crore in FY2020) led by clients availing of high frequency trading and direct market access arrangements. However, considering the flattish/ low yielding nature of the products/arrangements, the scale of the business, in terms of revenues, remains limited. EGFSL's gross broking income increased to Rs. 102.7 crore in FY2021 from Rs. 98.5 crore in FY2020, before increasing further to Rs. 102.6 crore in 9M FY2022. Going forward, the Group's ability to achieve meaningful diversification in its revenue stream would remain critical from a credit perspective.

Proprietary trading business exposed to market risk; profitability of core operations remains moderate – EGFSL actively commenced high frequency algorithm-based proprietary trading in July 2021 and thus it's track record in this business remains limited. Nonetheless, while the Group continued to report a moderate performance in its core operations[1] (net losses of Rs. 1.0 crore in 9M FY2022 and profit of Rs. 1.4 crore in FY2021) owing to the elevated cost structure, net gains of Rs. 53 crore from proprietary trading and investment book supported an improvement in reported profitability indicators with profit after tax (PAT) of Rs. 39.2 crore (Rs. 11.8 crore in FY2021), PAT/NOI of 32.9% (9.5% in FY2021) and an ROE of 28.2% (7.4% in FY2021) during 9M FY2022. Notwithstanding this, the proprietary trading business remains exposed to market risk and thus the variability of earnings remains high because of its increased dependence on the capital markets. Going forward, EGFSL's ability to maintain a healthy track record in this business, while ensuring adequate risk monitoring measures to manage the market risk, would remain imperative.

Dependence on inherently volatile capital markets – EGFSL's revenue and profitability profiles remain inherently dependent on the performance of the capital markets. This exposes the Group to the volatility inherent in the capital markets. The risks are further accentuated as the proprietary trading being is the company's key profitability driver. Moreover, with increasing competition in equity broking, the average yields for broking players have been under pressure. With the competitive intensity in the industry expected to remain high, the pressure on the industry margin is expected to continue. Going forward, EGFSL's ability to acquire new clients and manage the pressure on yields would be a key monitorable.

Liquidity position: Adequate

EGFSL's liquidity requirement is primarily for placing margins at the exchanges and scaling the loan against share book. The Group has an adequate liquidity profile with ~Rs. 88 crore of unencumbered liquid investments and un-utilised but drawable fund-based limits of ~Rs. 22 crore against nil fund-based borrowings as of January 31, 2022. During 9M FY2022, EGFSL deployed an average margin of ~Rs. 520 crore at the exchanges (funded through own and client funds/securities), wherein margin utilisation ranged between 49% and 59%. The company also avails an intra-day loan facility of ~Rs. 225 crore which supports the working capital requirements in the broking operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant and sustained improvement in the profitability from core operations while ensuring adequate risk management measures and maintaining healthy capitalisation.

[1] Excluding gains/ income from proprietary trading and investment book

Negative factors – The rating could be downgraded if there is a sustained deterioration in the Group's financial performance and liquidity profile. Pressure on the rating could also arise in case of any change(s) in the regulatory environment, which may impact its business operations and financial performance.

Analytical approach

Analytical approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Entities in the Brokerage Industry](#) [Consolidation and Rating Approach](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

EGFSL was founded in January 1995 as Emkay Share and Stock Brokers Private Limited by two first-generation entrepreneurs. The company was changed to a public limited one in October 2005 and it was renamed Emkay Share and Stock Brokers Limited. In July 2008, the name was changed to Emkay Global Financial Services Limited. Currently, the company, along with its wholly owned subsidiaries, is into equity broking, commodity broking, currency broking, lending, depository participant, wealth/portfolio management services, distribution of financial products and investment banking operations.

On a consolidated basis, EGFSL reported a net profit of Rs. 11.8 crore on net operating income (NOI) of Rs. 124.2 crore in FY2021 compared to a net loss of Rs. 11.9 crore on NOI of Rs. 110.3 crore in FY2020. In 9M FY2022, EGFSL continued to report overall improvement in profitability with a net profit of Rs. 39.2 crore on NOI of Rs. 119.2 crore.

Key financial indicators

EGFSL (Consolidated)	FY2020/ Mar-2020	FY2021/ Mar-2021	9M FY2022/ Dec-2021*
Net Brokerage Income	87.9	92.8	91.7
Net Interest Income	6.8	6.0	4.6
Other Non-interest Income	15.6	25.4	22.9
Net Operating Income	110.3	124.2	119.2
Total Operating Expenses	120.4	122.8	120.2
Profit before Tax	(16.8)	17.4	51.8
Profit after Tax	(11.9)	11.8	39.2
PAT/NOI	-10.8%	9.5%	32.9%
Cost-income Ratio	109.1%	98.8%	100.9%
Net Worth	152.8	166.4	205.0
Gearing (times)	0.1	0.1	0.1
Return on Average Net Worth	-7.4%	7.4%	28.2%

Source: *Company, ICRA Research; *Provisional figures; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 06, 2022	May 05, 2021	Apr 30, 2020 Apr 03, 2020	Mar 20, 2019	Feb 28,2018
1	Non-fund Based Bank Guarantee	Short Term	175.00	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A1**	**[ICRA]A1**
2	Short term bank facility (un-allocated)	Short Term	25.00	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
3	Non-fund Based Bank Guarantee	Short Term	-	-	**-**	**[ICRA]A2+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

Source: *Company; *As of December 31, 2021*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-fund Based Bank Guarantee	Very Simple
Short term bank facility (un-allocated)	Not Applicable

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund Based Bank Guarantee	-	-	-	175.00	[ICRA]A2+
NA	Short term bank facility (un-allocated)	-	-	-	25.00	[ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Emkay Fincap Limited	100% Subsidiary	Full Consolidation
Emkay Investment Managers Limited	100% Subsidiary	Full Consolidation
Emkay Wealth Advisory Limited (Formerly Emkay Insurance Brokers Limited)	100% Subsidiary	Full Consolidation
Emkay Commotrade Limited	100% Subsidiary	Full Consolidation
EmkayGlobal Financial Services IFSC Private Limited	100% Subsidiary	Full Consolidation

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.

For more information, visit www.icra.in

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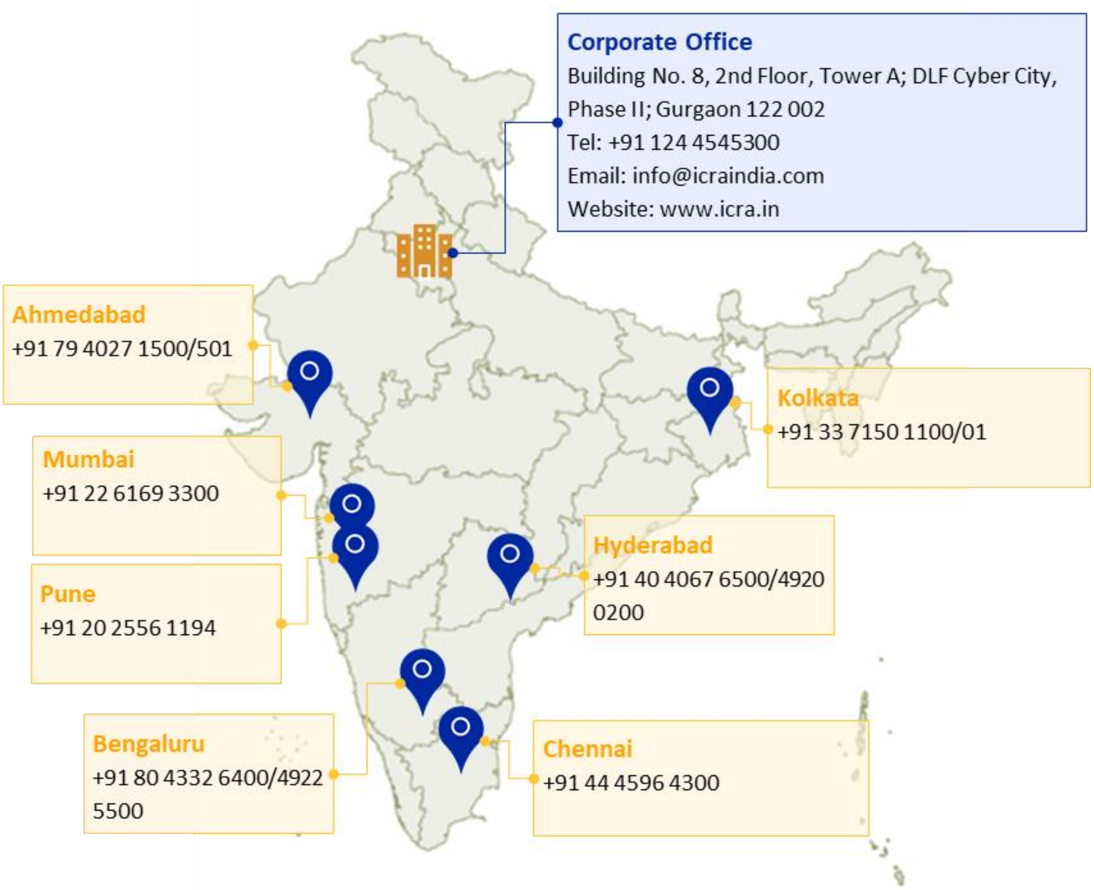

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