

Ganganagar Commodity Limited

Name of Instrument/Facility	Amount (Rs In Crores)	Rating Action (August 2016)
Fund-Based & Non-Fund Based Bank Lines	60.00	[ICRA]A4 (Reaffirmed)

ICRA has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs 60 crore short-term fund-based and non-fund based bank lines of Ganganagar Commodity Limited (GCL)[†].

The rating is constrained by GCL's small scale of operations (with nearly all clients sourced through personal relationships), weak profitability indicators, high dependence on proprietary trading activities (which are highly risky) and the inherently volatile nature of GCL's primary business of commodity broking. The rating, however, takes into account the promoters' adequate experience in commodity market activities and their strong commitment to the business (GCL received fresh equity capital of around Rs 33.0 Crores during FY2014)

GCL, incorporated in 1994 by Mr. Tilak Raj Sharma, is primarily engaged in commodity broking and proprietary trading activities in the commodity segment. The company operates out of its head office/ corporate office located in Sri Ganganagar, Rajasthan and five branches/franchisees to cater to a modest client base of ~500. In commodity broking, GCL is a small player with a market share of 0.6% as on Mar-16. Though, it caters to retail and institutional clients, the latter accounts for a minuscule proportion of its business.

In FY2016, GCL's traded volumes (excluding proprietary trading) declined marginally to Rs.40,467 Crores (from Rs. 41,329 Crores in FY2015). Due to this decline in volume, GCL's market share (excluding Proprietary book) declined to 0.60% in FY2016 from 0.66% in FY2015. Commodity broking blended yields for the company also declined marginally to 0.29 bps in FY2016 from 0.32 bps in FY2015.

GCL's revenue profile has high dependence on Commodity Broking (accounted for 30% of total revenues in FY2016) and on proprietary trading (accounted for 35% of total revenues in FY2016). The other sources of income for the company include interest income on fixed deposits. Shrinking yields coupled with declining broking volumes, adversely impacted the company's broking income (declined to Rs. 1.16 crore in FY2016 from Rs. 1.31 Crores in FY2015). However, decline in broking income stood adequately cushioned by the healthy proprietary trading income (Rs. 1.36 Crores in FY2016 vis-a-vis Rs. (0.34) Crores in FY2015) which aided total revenues to rise from Rs. 2.7 Crores in FY2015 to Rs. 3.9 Crores in FY2016. In ICRA's view, the proprietary trading/arbitrage activities of the company are riskier in nature as the company executes positional/pair trades in commodities unlike most other ICRA-rated companies (primarily focus on spread/calendar arbitrage). Nevertheless, management intends to reduce the scale of its trading activities and as a step towards the same, group has entered into equity and currency broking (through a different group company). GCL's ability to scale-up its risk management systems & processes while ramping up the broking business is a key rating sensitivity.

GCL's operating expenses rose in FY2016 (to Rs. 3.3 Crores from Rs. 2.6 crore in FY2015) mainly on account of higher employee expenses as it began to focus on fresh recruitments and scale up its business operations. Management, however, expects cost-income ratio to reduce in the foreseeable future as it expects robust top-line growth. Increase in costs were, however, adequately absorbed by the improvement in the company's revenue profile and enabled the company to report a rise in its Profit Before Taxes (PBT) to Rs. 0.62 crore in FY2016 from Rs. 0.07 Crore in FY2015.

GCL's net worth remains adequate at Rs. 17.1 crore as on March 31, 2016 for its current scale of operations. GCL's outstanding fund based borrowings were Rs. 1.95 crore as on March 31, 2016; its gearing was 0.11 times as on March 31, 2016. In addition, GCL has sanctioned non fund based limit of Rs. 35.0 Crores from Punjab National Bank. The last round of equity infusion was held in FY2014 when the promoters had infused Rs. 33 Crores into GCL.

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

Ganganagar Commodity Limited

Ganganagar Commodity Limited (GCL) is a Ganganagar based commodity broking company. The company was founded in 1994 by Mr Tilak Raj Sharma. The company is member of National Commodity and Derivative Exchange (NCDEX) and Multi Commodity Exchange (MCX) and offers its members access to trading platforms of both NCDEX and MCX using the TRADEX and ODIN technology. It also has membership on NCDEX SPOT Exchange. The company operates out of head office at Ganganagar and five branches/franchisees and has a client base of ~500 clients.

During FY2016 (Provisional), GCL reported profit before tax¹ of Rs.0.62 crore as compared to profit of Rs. 0.07 crore in FY2015. As on March 31, 2016, company reported a net worth of Rs 17.10 crore as compare to networth of Rs. 16.48 crore as on March 2015. On book gearing as on March 31, 2016 stands at 0.11 times.

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¹ Company has not provided taxation figure for FY2016 financials. FY2016 numbers are based on provisional financials submitted by company

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