

March 22, 2017

## Emkay Global Financial Services Limited

Instrument*	Rated Amount (Rs. Crore)	Rating Action
Short term non fund based bank lines	150 (enhanced from 125)	[ICRA]A2+; reaffirmed

\*Instrument details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed the rating of [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 150 crore (enhanced from Rs. 125 crore) short term non fund bank lines of Emkay Global Financial Services Limited.

### Rationale

The rating reaffirmation factors in Emkay's established track record in the capital markets space, its strong brand name in the institutional broking business and sound asset quality with low debtors. The rating, however, remains constrained by the inherent volatility in the company's primary business of brokerage services, its low diversification of business revenues, elevated cost structures compared to peers, declining broking yield with increase in share of derivative volumes and moderate profitability indicators. The rating also reflects Emkay's relative positioning amongst other ICRA rated brokerage houses. In ICRA's view, going forward, the rating would be sensitive to Emkay's ability to improve upon profitability metrics while further scaling its business.

### Credit Strengths

- Established track record with over 25 years of operating history in various segments within the capital markets space
- Strong brand name and client loyalty enjoyed in the institutional equity broking business

### Credit Challenges

- Profitability susceptible to volatility of the capital markets space
- Volume profile, of late, has tilted heavily in favour of the institutional segment where client concentration remains high. Consequently, company's volume growth has become highly susceptible to external shocks
- Other than the broking business, most other lines of businesses have a small scale
- Maintaining asset quality in its broking and margin funding business remains critical

### Description of key rating drivers highlighted above:

Emkay has established itself as an institutional equity broker in the Indian capital markets. Given its focus towards institutional clients, the company has been rationalizing its franchisee network over the last two years based on strict income generating criteria thereby resulting in a decline in broking volumes from the retail segment in the last two years. Consequently, in FY2016, the share of the institutional segment in the company's overall broking volumes rose to 86% from 74% in FY2015. Aided mainly by the institutional segment, Emkay's overall broking volumes increased by 53% YoY from Rs. 3.59 lakh crore in FY2015 to Rs. 5.49 lakh crore in FY2016. As a result, the market share<sup>1</sup> of Emkay increased to 0.74% in FY2016 from 0.44% in FY2015. During H1FY2017, Emkay reported an overall broking volume of Rs. 2.33 lakh

<sup>1</sup> For computing market turnover, ICRA has considered the Cash and F&O volumes in both BSE and NSE

crore translating to a market share of 0.52%. However, ICRA notes that the high concentration of broking volumes in the institutional segment increases the susceptibility to external shocks.

During FY2016, the yields in the institutional segment witnessed a decline from 1.48 bps in FY2015 to 0.90 bps in FY2016 due to increase in proportion of derivative volumes. The yields in the retail segment have also seen a decline in yields from 3.33 bps in FY2015 to 3.13 bps in FY2016. Consequently, the overall blended broking yields moderated to 1.21 bps during FY2016 from 1.96 bps during FY2015. As a result, despite a 53% increase in total broking volumes in FY2016, the company's broking income witnessed a marginal decline of 4%. The net interest income on fixed deposits placed with banks and from the margin funding business also moderated by ~20% for Emkay during FY2016. While the company is present in other segments such as such as, investment banking, portfolio management services and distribution services, the scale of these segment remains limited albeit a moderate growth witnessed in the past fiscal. Notwithstanding this, the total net operating income of the company declined by 8% YoY to Rs. 89.11 crore from Rs. 96.42 crore in FY2015. Due to a subdued capital market environment in FY2016, the trading income for Emkay declined to Rs. 0.43 crore from Rs. 1.97 crore in FY2015. Emkay thus reported a consolidated net profit of Rs. 12.03 crore in FY2016 as compared to a net loss of Rs. 15.73 crore in FY2015. The company's profitability in FY2015 was marred by the one-time write-off pertaining to a prior period error trade incident resulting in a loss of Rs. 35.87 crore at net level. During H1FY2017, the company reported a net profit of Rs. 5.07 crore on a total net operating income of Rs. 39.82 crore.

Emkay meets most of its margin requirements at the exchange houses in the form of bank guarantees and overdraft facilities against the fixed deposits. Emkay's net worth increased to Rs. 127.96 crore on September 30, 2016 from Rs. 122.89 crore as on March 31, 2016. Also, Emkay has sanctioned bank lines of Rs. 299 crore with a gearing of 0.09 times as on March 31, 2016 which increased to 0.18 times on September 30, 2016. In addition to margins provided by clients, the available net worth and unutilized bank lines provides comfort to meet any increased margin requirements at the bourses. Further, the liquid nature of the arbitrage trading book provides additional comfort where the company has the flexibility to square off positions to meet any contingency.

**Analytical approach:**

To arrive at the ratings ICRA has taken into account the standalone financials of the firm and the key operational developments in the recent past.

**Links to applicable Criteria:**

[Rating Methodology for Brokerage Houses](#)

**Company Profile**

Emkay Global Financial Services Limited was founded in January 1995 as "Emkay Share and Stock Brokers Private Limited" by two first generation entrepreneurs and was converted into a Public Limited Company in October 2005 and the name was changed to "Emkay Share and Stock Brokers Limited". Further in July '08, the name of the company was changed to "Emkay Global Financial Services Limited". Currently the company, along with its wholly-owned subsidiaries, is engaged in various activities such as equity broking, commodity broking, insurance broking, margin funding, depository, wealth/ portfolio management services, distribution of financial products and investment banking operations.

**Recent Results**

In FY2016, Emkay reported a net profit of Rs. 12.03 crore on an operating income of Rs. 89.11 crore as compared to a net loss of Rs. 15.73 crore in FY2015 on an operating income of Rs. 96.42 crore. During



H1 FY2017, the company reported a net profit of Rs. 5.07 crore on an operating income of Rs. 39.82 crore. The company had a net worth of Rs. 127.96 crore as on September 30, 2016.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	March 2017	FY2016	FY2015	FY2014
					February 2016	February 2015	February 2014
1	Short term non fund based bank lines	Short Term	150.00	[ICRA]A2+	Upgraded to [ICRA]A2+	[ICRA]A2	[ICRA]A2

**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](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the Instrument</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Short term non fund based bank lines	-	-	-	150.00	[ICRA]A2+

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About ICRA Limited:

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