

Emkay Global Financial Services Limited

February 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank facilities	150.00	175.00	[ICRA]A1; Upgraded from [ICRA]A2+
Total	150.00	175.00	

Rating action

ICRA has upgraded the short-term rating for the Rs. 175 crore (enhanced from Rs. 150.00 crore) short term non-fund based bank facilities of the Emkay Global Financial Services Limited (EGFSL) to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus)

Rationale

The rating upgrade factors in the company's favourable operating performance, with scaling up of the business, resulting in healthy improvement in the profitability indicators. The rating continues to take into account the company's demonstrated track record in the equity broking industry and its established presence in the institutional broking segment with a strong clientele comprising reputable domestic and foreign institutional investors. ICRA also takes note of the adequate capitalisation of the company for the current scale of operations with a networth of Rs. 156.75 crore as on December 31, 2017. The rating, however, remains constrained by the limited diversification in the company's revenue stream, high dependence on capital markets which are prone to cyclical downturns and the high competitive intensity in the broking industry. Going forward, the company's ability to scale up its broking and non-broking businesses, maintain adequate asset quality and improve its profitability levels would be a key rating monitorable.

Key rating drivers

Credit strengths

Long track record of the company in the capital markets related business- EGFSL along with its wholly-owned subsidiaries is engaged in various capital market related activities such as equity broking, commodity broking, insurance broking, margin funding, depository, wealth and portfolio management services, distribution of financial products and investment banking operations. The company has a long track record, spanning over two decades, in equity broking and other capital markets related businesses and has built a strong franchise over the years.

Strong presence in the broking business with focus on the institutional segment –EGFSL has an established presence in the broking business with a healthy market share (0.48% in 9MFY2018). The company is largely focused on the institutional clients with this segment attributing to 77% of its broking volumes in 9M FY2018 (78% in FY2017). EGFSL has a strong presence in the institutional broking business with 265 clients as on December 31, 2017 with a mix of domestic institutional investor (like mutual funds) and foreign portfolio investors (FPI, formerly known as foreign institutional investors). In the retail segment, which attributes to 23% of the volumes, the company focuses on the high networth individual (HNI) clients with longstanding relationships with such clients.

Healthy profitability indicators – The company reported net operating income of Rs. 89.55 crore in 9M FY2018 as against Rs. 88 crore in FY2017 supported by the increase in scale of operations. EGFSL reported a healthy increase in profitability levels with the net profit increasing from 12.19 crore (PAT/NOI of 13.85% and RoE of 9.02%) to 23.95 crore (PAT/NOI of 26.75% and RoE of 15.28%) in the same period supported by the increase in economies of scale.

Adequate capitalization level for current scale of operations - With healthy internal accruals, the company is well capitalized for the current scale of operations with a networth of Rs. 156.75 crore as on December 31, 2017. The borrowing requirements are primarily for growing their margin funding loan book through Emkay Fincap Limited. The gearing levels remain comfortable at 0.34 times as on December 31, 2017. EGFSL meets most of its margin requirements at the exchange houses through bank guarantee and overdraft facilities maintained against fixed deposits. The company's net worth, unutilised bank lines and clients margins available provide adequate liquidity for meeting any increased margin requirement at exchange houses.

Credit challenges

High reliance on equity broking in the revenue profile of the company – Equity broking income continues to remain the primary revenue driver of EGFSL and contributed 80% of the income in FY2017 (75% in FY2016 and 72% in FY2015). Although the company has other sources of revenue such as net interest income (9% of FY2017 operating income), investment banking (3%) and portfolio management services (2%); the contribution of the same remains small in the overall revenue profile at present. While assigning the rating ICRA has taken note of the company's attempts at diversify its revenue stream. The company's tie-up with DBS for research services as well as recent launch of Emkay Emerging Stars Fund (Alternative Investment Fund, AIF, with an AUM of Rs. 212 crore), is expected to help the company in increasing its non-broking income. Going forward, the ability of the company to scale up its other businesses would be a key rating monitorable.

Businesses linked to the capital markets which are cyclical in nature - With the company's revenues being linked to the inherently volatile capital markets, the company's revenue profile and profitability remain vulnerable to market performance. ICRA notes that any downturn in the capital markets may impact the company's financial performance.

High intensity of competition in capital markets – With increasing competition in equity broking and the advent of discount brokerage houses, average yields for broking players have been under downward pressure. However, the low level of equity market penetration in the country (number of demat accounts in India is about 2% of the country's population) coupled with the gradual trend of financialisation of household savings indicate towards significant untapped potential for expansion.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Brokerage Houses](#)

About the company

EGFSL was founded in January 1995 as “Emkay Share and Stock Brokers Private Limited” by two first generation entrepreneurs. The constitution of the company was change to public limited in October 2005 and the company was rechristened “Emkay Share and Stock Brokers Limited”. Further in July 2008, 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.

In 9MFY2018, EGFSL reported a net profit of Rs. 23.93 crore on an operating income of Rs. 89.55 crore as compared to a net profit of Rs. 12.19 crore in FY2017 on an operating income of Rs. 88 crore. The company had a net worth of Rs. 156.75 crore as on December 31, 2017.

Key financial indicators (Consolidated)

	FY2016	FY2017	9MFY2018
Brokerage Income (net)	66.48	70.23	72.09
Fee Income (other than broking)	3.73	3.10	4.99
Net Interest Income	8.40	6.65	4.20
Other Non-Interest Income	10.50	8.02	8.27
Net Operating Income	89.11	88.00	89.55
Total Operating Expenses	73.52	78.26	70.37
Profit Before Tax	16.66	16.42	30.33
Profit After Tax	12.03	12.19	23.95
Net Worth	122.89	135.14	156.75
Cost to Income Ratio	82.51%	88.94%	78.58%
Return on Net Worth	9.79%	9.02%	15.28%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Feb-18	FY2017 Mar-17	FY2016 Feb-16	FY2015 Feb-15
1 Short-term non-fund-based bank facilities	Short Term	175.00	NA	[ICRA]A1	[ICRA] A2+	Upgraded to [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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term non fund-based bank facilities	May-17	NA	NA	150.00	[ICRA]A1
NA	Short-term non fund-based bank facilities – Proposed	NA	NA	NA	25.00	[ICRA]A1

Source: Emkay Global Financial Services Limited

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