

## Emkay Global Financial Services Limited

March 20, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank facilities	175.00	200.00	[ICRA]A1; reaffirmed
<b>Total</b>	<b>175.00</b>	<b>200.00</b>	

### Rationale

The rating factors in the steady operating performance of Emkay Global Financial Services Limited (EGFSL or the company), its 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. The rating also takes into account the adequate capitalisation of the company for the current scale of operations with a net-worth of Rs. 168.68 crore as on December 31, 2018. 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 non-broking businesses, maintain stable asset quality and improve its profitability levels would be a key rating monitorable.

### Outlook

Not Applicable

### 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 services, wealth management 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 equity broking business. The company registered a total broking turnover of Rs. 6.79 lakh crore in 9M FY2019, attributing to about 0.37% of the industry turnover (broking turnover of Rs. 8.18 lakh crore in FY2018). The company is largely focused on the institutional clients with this segment attributing to 78% of its broking volumes in 9M FY2019 (77% in FY2018). EGFSL has a strong presence in the institutional broking business with 284 clients as on December 31, 2018 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 EFGSL's volumes, the company focuses on the high net-worth individual (HNI) clients with longstanding relationships.

**Adequate capitalization level for current scale of operations** – The company is well capitalized for the current scale of operations with a net-worth of Rs. 168.68 crore as on December 31, 2018. The company's borrowing requirements are

primarily for growing their margin funding loan book. The gearing levels remain comfortable at 0.22 times as on December 31, 2018. 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 FY2018 (80% in FY2017) of the net operating income (NOI). Although the company offers other sources of income such as interest income (5% of NOI in FY2018), investment banking (4% of NOI in FY2018) and portfolio management services (3% of NOI in FY2018); the contribution of the same remains small in the overall revenue profile at present.

**Businesses linked to the capital markets which are highly competitive and 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, as was witnessed in the current fiscal. EGFSL's net profitability (profit after tax to net operating income) moderated to 13.24% in 9M FY2019 (net profit of Rs. 12.65 crore) from 23.45% in FY2018 (net profit of Rs. 28.66 crore) due to slowdown in capital markets, though continues to remain healthy. With increasing competition in equity broking and the advent of discount brokerage houses, average yields for broking players have been under downward pressure. Going forward, the ability of the company to achieve a significant and substantial diversification in the revenue stream while maintain healthy profitability would be a key rating monitorable.

## Liquidity Position

EGFSL meets most of its margin requirements at the exchange houses through bank guarantee and overdraft facilities maintained against fixed deposits. At a consolidated level EGFSL had total borrowings of Rs. 37 crore as on December 31, 2018 which comprised of bank borrowings (Rs. 10 crore) and loan from other parties (Rs. 27 crore). As on December 31, 2018, EGFSL had unencumbered cash and bank balance amounting to Rs. 22.72 crore and an investment book of Rs. 20.57 crore (quoted equity investments as on December 31, 2018) which remains adequate to service the debt. Additionally, the company has access to fund based facilities of Rs. 46.25 crore (nil drawn down as of December 31, 2018), intra-day limits of Rs. 300 crore and non-fund based facilities of Rs. 170 crore (Rs. 160 crore utilized as of December 31, 2018).

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Entities in the Brokerage Industry</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	ICRA has taken a consolidated view of EGFSL along with its subsidiaries. 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

## 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 FY2018, EGFSL reported a net profit of Rs. 28.66 crore on an operating income of Rs. 122.22 crore as compared to a net profit of Rs. 12.19 crore in FY2017 on an operating income of Rs. 88 crore. In 9M FY2019, the company reported a net profit of Rs. 12.65 crore on an operating income of Rs. 95.59 crore. The company had a net worth of Rs. 168.68 crore as on December 31, 2018.

## Key financial indicators (Consolidated)

	FY2017	FY2018	9M FY2019
Brokerage Income (net)	70.23	97.61	72.22
Fee Income (other than broking)	3.10	8.30	10.50
Net Interest Income	6.65	5.81	6.11
Other Non-Interest Income	8.02	10.50	6.76
Net Operating Income	88.00	122.22	95.59
Total Operating Expenses	78.26	98.29	80.03
Profit Before Tax	16.42	36.53	16.06
Profit After Tax	12.19	28.66	12.65
Net Worth	135.14	161.55	168.68
Cost to Income Ratio	88.94%	80.43%	83.72%
Return on Net Worth	9.02%	19.32%	10.22%
PAT/NOI	13.85%	23.45%	13.24%

*Amounts in Rs. Crore; Source: Company & ICRA Research; All ratios as per ICRA calculations; PAT/NOI stands for profit after tax to net operating income*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Mar-19	FY2018 Feb-18	FY2017 Mar-17	FY2016 Feb-16
1 Short-term non-fund-based bank facilities	Short Term	200.00	NA	[ICRA]A1	[ICRA] A1	[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: 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	175.00	[ICRA]A1
NA	Short-term non fund-based bank facilities – Proposed	NA	NA	NA	25.00	[ICRA]A1

Source: Company

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

Company Name	Relationship with rated entity	Consolidation Approach
Emkay Global Financial Services Limited	Parent company	ICRA has taken a consolidated view of parent and its subsidiaries
Emkay Fincap Limited	100% subsidiary	
Emkay Investment Managers Limited	100% subsidiary	
Emkay Insurance Brokers Limited	100% subsidiary	
Emkay Commotrade Limited	100% subsidiary	
Azalea Capital Partners LLP	Partnership firm (45%)	

Source: Company

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Samriddhi Chowdhary**

+91 22 6114 3462

[samriddhi.chowdhary@icraindia.com](mailto:samriddhi.chowdhary@icraindia.com)

**Amlan Jyoti Badu**

+91 22 6114 3413

[amlan.badu@icraindia.com](mailto:amlan.badu@icraindia.com)

**Sainath Chandrasekaran**

+91 22 6114 3439

[Sainath.chandrasekaran@icraindia.com](mailto:Sainath.chandrasekaran@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents