

July 19, 2019

Globe Capital Market Limited: Ratings reaffirmed; rating amount enhanced

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Bank Lines (Fund-based/Non-Fund based)	911.70	1555.18	[ICRA]A+ (Stable); reaffirmed
Commercial Paper	200.00	200.00	[ICRA]A1+; reaffirmed
Total	1111.70	1755.18	

Rationale

While arriving at the rating, ICRA has taken a consolidated view of the credit profiles of Globe Capital Market Limited (GCML), Globe Fincap Limited (GFL) and Globe Commodities Limited (GCL) (hereafter, referred to as the Group) owing to the common management and clientele, infrastructure sharing between the companies, and the strategic importance of GCL and GFL to GCML.

The rating continues to factor in the Group's track record in broking and clearing activities, its established branch and franchisee network, and established market position along with synergistic benefits arising from the integrated presence across broking, clearing and lending activities. The rating also derives comfort from the Group's comfortable capitalisation profile on a consolidated basis with a net worth of Rs. 1,261 crore and a gearing of 0.62x as on March 31, 2019 (target gearing of less than 1x), besides healthy asset quality indicators with no write-offs in the past few years.

The rating, however, continues to be constrained by the Group's exposure to inherent volatility associated with capital markets, as reflected by moderation in profitability in FY2019 with a RoE of 9.6% in FY2019 compared to 11.4% in FY2018. ICRA notes that while the Group has been trying to diversify the revenue stream, the impact of the same would be visible over the medium term. Going forward, the Group's ability to diversify its revenue stream while expanding the geographical reach and maintaining adequate risk management systems, along with improvement in profitability profile will remain crucial.

Outlook: Stable

ICRA believes that the Globe group will continue to benefit from its established position in the capital market segment, while maintaining a comfortable capitalisation profile. Hence, the outlook on the long-term rating is 'Stable'. The outlook may be revised to 'Positive' if there is a substantial improvement in the Group's revenue diversification. The outlook may be revised to 'Negative' if there is significant deterioration in the profitability and asset quality indicators of the group, thereby impacting the capitalisation and/or liquidity.

Key rating drivers

Credit strengths

Long track record and established market position in the brokerage and clearing business - The Globe Group has a long track record of over 24 years in the brokerage and clearing segment with presence across equity, currency and commodity broking with focus on the HNI Clients. The Group operates through its 130 branches and over 1,500 franchises across the country with a total market share of around 30% in the clearing segment during FY2019.

Comfortable capitalisation profile: The Capitalisation position on the consolidated basis stands comfortable with a net worth (consolidated) of Rs. 1,261 crore as on March 31, 2019 and gearing of 0.62x. While the leverage may increase in the medium term with business expansion, it is however expected to remain below 1x.

Low operating expenses – The group benefits from the synergistic benefits arising from the operational linkages within the Group in form of shared infrastructure, sourcing of clients, common management etc., thereby facilitating operating efficiencies as reflected by relatively lower cost to income ratio (39.95% in FY2019) vis-à-vis peers.

Healthy asset quality indicators - The Group's asset quality indicators have remained healthy with no write-offs in the capital market segment in the past few years. The gross NPA's and Net NPAs for the NBFC also stood comfortable at 0.79% and 0.63% respectively as on March 31, 2019. However, with increasing share of non-capital markets loans which are relatively longer tenure and seasoning is low, the asset quality indicators might remain volatile and ability of the company to maintain asset quality in these segments would be a key monitorable.

Credit challenges

Vulnerable income profile because of exposure to inherent volatility associated with capital markets - The Group is exposed to the inherent volatility associated with capital markets, as its various businesses are directly or indirectly linked to the performance of the capital markets. While income from brokerage and trading book accounts for 42% of the total income (in FY2019); a significant proportion of the net interest income is also generated in form of interest on delayed payment charges or the margin trade funding (MTF) which are complimentary to the capital market activities. While the company is trying to diversify the revenue streams to non-capital markets segments, the impact of the same would only be visible over the medium term.

Moderation in Profitability Indicators: - The Group's consolidated profitability moderated in FY2019 with a return on average net worth of 9.6% as against 11.4% during FY2018, largely owing to the decline in the operating revenues as a result of subdued market conditions. Going forward, the Group's ability to diversify its revenue stream while expanding the geographical reach and maintaining adequate risk management systems, along with improvement in profitability profile will remain crucial.

Liquidity position

The liquidity profile of the company stands comfortable with average margin utilisation at ~65-70% in addition to availability of sufficient unencumbered cash and bank balances of Rs. 74 crore and sanctioned and unutilised fund based bank lines of Rs. 99 crore as on March 31, 2019. The liquidity profile is also supported by the availability of liquid securities in the self-trading book of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	While arriving at the rating, ICRA has taken a consolidated view of the credit profiles of Globe Capital Market Limited (GCML), Globe Fincap Limited (GFL) and Globe Commodities Limited (GCL) owing to the common management and clientele, infrastructure sharing between the companies, and the strategic importance of GCL and GFL to GCML.

About the Group:

Globe Group is engaged in broking and clearing activities in equity, commodities and currency, with a track record of about 24 years in the capital market segment. The group is a member of National stock exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange MCX-SX, USE in capital market & currency operations; and MCX, NCDEX (National Commodity and Derivatives Exchange Limited), NMCE (National Multi Commodity Exchange Limited), ICEX (Indian Commodity Exchange), ACE in commodity derivatives. It holds depository registration with NSDL (National Security Depository Limited), CDSL (Central Depository Services (India) Ltd.) besides being a SEBI registered portfolio manager.

The equity & currency broking, proprietary activities and clearing activities are carried under the flagship entity GCML, which is also the holding company of the Group. The commodity broking business is carried by Globe Commodities Limited (GCL, wholly owned subsidiary of GCML). Besides, Globe group also has a presence in the lending business through a wholly owned subsidiary Globe Fincap Limited (GFL) which is an NBFC and provides loan against shares (37% of total loan book as on March 31, 2019) and Loans Against Property (59%).

In FY2019, on a consolidated basis, the Group reported a PAT of Rs. 121.3 crore on a net worth of Rs. 1,261.2 crore as against Rs. 129.9 crore on a net worth of Rs. 1,137.8 crore. The consolidated gearing of the group stood at 0.62x as on March 31, 2019.

About the company:

GCML, is the flagship entity of the Group, which undertakes the Equity and Currency brokerage and clearing business of the Globe Group. It reported a profit after tax (PAT) of Rs. 63.66 crore on a managed asset base of Rs. 2346.38 crore in FY2019, compared to PAT of Rs. 77.54 crore on a total managed asset base of Rs. 1839.19 crore in FY2018.

Key financial indicators

In Rs. crore	FY 2018 Consolidated [^]	FY2019 Consolidated [^]
Net Brokerage income	97.99	92.26
Net Interest Income	160.29	160.96
Other Non-Interest income	17.09	17.21
Operating income (Excluding trading income)	278.52	273.84
Total Revenues	312.39	314.02
Total Operating expenses	114.82	122.78
Profit before tax	187.44	176.76
Profit after tax	129.91	121.33
Net Worth	1137.87	1261.15
Return on average Net worth	11.42%	9.62%

Source: GCML, ICRA research; [^]Consolidated financials for GCML, GFL and GCL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding (Rs Crore)	Jul-19	FY2019	FY2018	FY2017
			(Rs. crore)				Mar-18	Feb-17
1	Long Term Bank Lines	Long Term	1555.18	959.84	[ICRA]A+ (Stable), reaffirmed	n/a	[ICRA]A+ (Stable), Assigned	n/a
2	Commercial Paper	Short Term	200	0	[ICRA]A1+, reaffirmed	n/a	[ICRA]A1+, Assigned	[ICRA]A1+, Assigned

Source: ICRA research

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	Current Rating and Outlook
					(Rs. crore)	
n/a	Bank Guarantee 1	Jul-18	n/a	Jul-19	125.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 2	Jan-19	n/a	Jan-20	125.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 3	May-19	n/a	May-20	70.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 4	Nov-18	n/a	Nov-19	175.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 5	Aug-18	n/a	Aug-19	100.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 6	Oct-18	n/a	Oct-19	35.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 7	Sep-18	n/a	Sep-19	30.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 8	Mar-19	n/a	Mar-20	65.00	[ICRA]A+(Stable)
n/a	Bank Guarantee 9	Jan-19	n/a	Jan-20	100.00	[ICRA]A+(Stable)
n/a	Term Loan 1	Sep-16	n/a	Sep-21	70.00	[ICRA]A+(Stable)
n/a	Term Loan 2	Oct-16	n/a	Oct-20	125.00	[ICRA]A+(Stable)
n/a	Term Loan 3	Jul-18	n/a	Jul-19	75.00	[ICRA]A+(Stable)
n/a	Term Loan 4	Nov-18	n/a	Nov-19	87.50	[ICRA]A+(Stable)
n/a	OD Against Receivables 1	Nov-18	n/a	Nov-19	100.00	[ICRA]A+(Stable)
n/a	OD Against Receivables 2	Jul-18	n/a	Jul-19	75.00	[ICRA]A+(Stable)
n/a	OD Against Receivables 3	Jan-19	n/a	Jan-20	17.50	[ICRA]A+(Stable)
n/a	OD Against Receivables 4	May-19	n/a	May-20	75.00	[ICRA]A+(Stable)
n/a	Proposed BLR	n/a	n/a	n/a	105.18	[ICRA]A+(Stable)
n/a	Proposed CP	n/a	n/a	7-365 days	200.00	[ICRA]A1+
	Total				1755.18	

Source: GCML, ICRA research

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About ICRA Limited:

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