

March 30, 2022

## Manubhai Mangaldas Securities Pvt Ltd: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	4	4	[ICRA]BB (Stable); reaffirmed
Short-term non-fund based bank facilities	22	22	[ICRA]A4+; reaffirmed
<b>Total</b>	<b>26</b>	<b>26</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings remain constrained by Manubhai Mangaldas Securities Pvt. Ltd.'s (MMSPL) modest scale of operations, low diversification in operations (broking income accounted for 69% of the net operating income (NOI) in FY2021) and the risks associated with the capital market related businesses, which are inherently volatile in nature. Further, the intense competition in the broking industry is likely to continue to have a bearing on volumes and yields, thereby exposing the company to profitability pressure. Nevertheless, it is noted that while MMSPL's broking volumes have remained volatile over the years, the healthy yields on account of established client relationships have supported revenues. The ratings also factor in MMSPL's limited geographical presence and small client base.

However, comfort is drawn from the long track record of the promoter in the capital market related businesses and MMSPL's established, albeit limited, client relationships. The ratings also favourably factor in the adequate capitalisation profile and liquidity for the current scale of operations. Going forward, the company's ability to ramp up its scale of operations while improving its profitability remains critical from a credit perspective.

The Stable outlook on the long-term rating reflects ICRA's opinion that MMSPL will continue to benefit from the long track record of operations and established, albeit limited, client relationships.

### Key rating drivers and their description

#### Credit strengths

**Long track record of the promoter in capital market related business** – Incorporated in 1998, the company has been engaged in this business for the last two decades. The promoter has extensive experience in capital markets and has worked as a partner at one of the leading broking firms in Mumbai prior to the incorporation of MMSPL. The business was initially started as a proprietary concern in 1986 and was corporatized in 1998.

#### Credit challenges

**Modest scale of operations** – MMSPL is a retail equity broking player with a small client base and no presence in the institutional segment. The scale of operations remains modest and the client profile is restricted to individuals and non-resident individuals including a few high-net-worth individuals. Further, its operations are geographically concentrated in two cities, namely Mumbai and Surat.

On account of the intense competition from discount broking houses and the regulatory changes necessitating higher upfront margin from the clients, the broking volumes declined during FY2019-FY2021. After achieving a peak of Rs. 0.46 lakh crore in

FY2018, the company's broking volumes declined to Rs. 0.14 lakh crore in FY2021 (Rs. 0.20 lakh crore in FY2020 and Rs. 0.29 lakh crore in FY2019), resulting in a contraction in its market share. MMSPL witnessed a marginal recovery in broking volumes in Q1 FY2022 due to the healthy performance of the domestic capital markets and reported a turnover of Rs. 0.05 lakh crore (34% growth on an annualised basis). However, its market share remained stagnant as the industry volumes grew at a much faster pace.

**Low diversification of revenues with high dependence on broking revenues** – Broking income is the primary revenue driver for MMSPL, accounting for 69% of the NOI in FY2021 compared to 89% in FY2019. Other sources of revenue include interest income (14% of NOI in FY2021 compared to 34% in FY2020) and depository fee income (10% of NOI in FY2021 and FY2020). The dependence on a single source of income is a credit negative. Over the medium term, the company's revenue profile is expected to remain dominated by broking income as it has no immediate plans of diversification. Going forward, MMSPL's focus on improving its profitability by scaling up the trading volumes, especially the derivatives segment, would remain imperative.

**Business linked to capital markets, which are highly competitive and cyclical in nature** – With MMSPL's revenues being linked to capital markets, which are inherently volatile and cyclical in nature, the revenue profile and profitability remain vulnerable to the markets' performance. Any impact on the capital markets' performance may affect the company's financial profile. Further, the gains/losses from the proprietary trading segment significantly impact the company's net profitability. In FY2021, MMSPL reported a net profit of Rs. 1.78 crore (profit after tax (PAT)/NOI of 32.18%) compared to a net loss of Rs. 1.48 crore in FY2020 (PAT/NOI of -30.32%; primarily on account of losses in proprietary trading segment and error trades).

## Liquidity position: Adequate

MMSPL requires funds for placing margins with the exchanges. The company had unencumbered cash and bank balances (excluding fixed deposits; FDs) of Rs. 3.94 crore as on March 31, 2021. Comfort is also drawn from the investments in shares of Rs. 4.32 crore and the proprietary trading book of Rs. 1.47 crore as on March 31, 2021, which can be liquidated at short notice. Further, MMSPL has an unutilised bank facility (overdraft against shares) of Rs. 4 crore, which can be used for placing margins with the exchanges if required. With no borrowings as on March 31, 2021, the company's liquidity position is adequate.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if there is a ramp-up in the scale of operations with a diversification in the revenue profile and a sustained improvement in profitability.

**Negative factors** – Pressure on the ratings could arise on a significant decline in the scale of operations, resulting in a deterioration in the company's financial performance.

## 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	The ratings are based on the standalone financial statements of the company

## About the company

Manubhai Mangaldas Securities Pvt. Ltd. (MMSPL) was promoted by Mr. Manubhai M Bhagat (partner at one of the leading broking firms in Mumbai for 30 years) in 1986 as a proprietary concern and was incorporated as a private limited company in 1998. It has branches in Mumbai and Gujarat. The company is a member of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). It is also a depository participant (DP) of Central Depository Services Limited (CDSL).

## Key financial indicators

MMSPL (standalone)	FY2020	FY2021	H1 FY2022*
Brokerage Income (Rs. crore)	4.31	3.83	2.35
Fee Income (other than broking; Rs. crore)	0.51	0.58	0.03
Net Interest Income (Rs. crore)	1.64	0.80	0.57
Other Non-interest Income (Rs. crore)	(1.59)	0.33	0.34
Net Operating Income (NOI; Rs. crore)	4.87	5.54	3.28
Total Operating Expenses (Rs. crore)	5.51	3.70	2.17
Profit before Tax (Rs. crore)	(2.89)	2.46	1.48
Profit after Tax (PAT; Rs. crore)	(1.48)	1.78	1.44
Net Worth (Rs. crore)	29.45	31.24	32.68
Borrowings (Rs. crore)	11.00	0.00	0.38
Gearing (times)	0.37	0.00	0.01
Cost-to-Income Ratio (%)	113.13%	66.78%	66.05%
Return to Net Worth (%)	-4.89%	5.87%	9.00%
PAT/NOI (%)	-30.32%	32.18%	43.81%

Source: Company, ICRA Research; \*Unaudited numbers; All ratios as per ICRA's calculations

## Status of non-cooperation with previous CRA

MMSPL did not provide the requisite information to CRISIL needed to conduct the rating exercise, and is, therefore, classified as 'non-cooperative'. Based on the best available information, CRISIL revised the rating in September 2019 to 'CRISIL B+/Stable/CRISIL A4' from 'CRISIL BB/Stable/CRISIL A4+'. In December 2020, CRISIL continued with the rating of 'CRISIL B+/Stable/CRISIL A4 ISSUER NOT COOPERATING' for MMSPL.

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 30, 2022	Dec 31, 2020	Nov 29, 2019	May 04, 2018
1	Long-term fund-based bank facilities	Long term	4	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Short-term non-fund based bank facilities	Short term	22	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities	Very Simple
Short-term non-fund based bank facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based bank facilities	NA	NA	NA	4	[ICRA]BB (Stable)
NA	Short-term non-fund based bank facilities	NA	NA	NA	22	[ICRA]A4+

Source: Company

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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