October 31, 2022 (Revised)

Globe Fincap Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-Term bank lines (fund based/non-fund based)	494	494	[ICRA]A+ (Positive)/[ICRA]A1+; reaffirmed and outlook revised to Positive from Stable
Commercial paper	50	50	[ICRA]A1+; reaffirmed
Total	**544**	**544**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the ratings, 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, the shared infrastructure, and the operational synergies between the entities.

The ratings continue to factor in the Group's long track record in broking and clearing activities, its established branch and franchisee network, its established market position along with the synergistic benefits arising from its integrated presence across broking, clearing and lending activities. The Group's borrowing requirement largely arises in the lending activities, while the broking and clearing business requires bank guarantees. Accordingly, the consolidated on-balance sheet leverage was 0.5 times with a net worth of Rs. 1,950 crore as on March 31, 2022. As the lending business is largely driven by funding to clients in broking activities, the management has started to maintain this leverage going forward as well. The Group's profitability remains adequate, though it will remain volatile because of gains/losses from the proprietary investment book as well as the inherent cyclicality in broking volumes.

The regulatory changes, which require the deposit of upfront cash margins from the clients, resulted in an improvement in the net interest income. With higher brokerage income, the net operating income (NOI) increased, though this was offset by the decrease in the gains on the proprietary investment book, leading to a decline in the overall profitability in FY2022. The Group's liquidity profile is adequate, supported by client margins taken for placing at exchanges and the healthy level of margin utilisation with the exchanges. This apart, the proprietary investment book can be liquidated if needed.

The ratings, however, remain constrained by the Group's revenue concentration towards brokerage income (net) and gains from the proprietary investment book, which accounted for 49% of the NOI in FY2022. These could be inherently volatile because of the cyclicality in capital markets. Further, the net interest income (50% of NOI in FY2022) is driven by capital market activity in the form of interest on loans given for investing in capital markets through the non-banking financial company (NBFC) arm. As the Group largely deals with sub-brokers and trading members, GFL's loan book is concentrated, with the top 20 exposures accounting for 132% of its net worth as on June 30, 2022. The same is unlikely to change in the near to medium term. This exposes the company to the risk of lumpy slippages in the asset quality. However, the Group has been able to maintain adequate asset quality indicators so far with limited write-offs and slippages in the capital market operations and gross and net non-performing asset (NPA) ratios of 0.8% and 0.5%, respectively, as on June 30, 2022 at GFL.

The Positive outlook reflects ICRA's expectation that the Group would continue to report good profitability, leading to continued accretion to the net worth, enabling it to maintain a prudent capitalisation profile.

Key rating drivers and their description

Credit strengths

Long track record and established market position in brokerage and clearing business – The Group has a long track record of over three decades in the brokerage and clearing segment with a presence across equity, currency and commodity broking and a focus on high-net-worth individual (HNI) clients. It operates through ~19 branches and has over ~1,740 retail sub-brokers across the country. Its total market share was 27.0% in the clearing segment in FY2022.

Comfortable capitalisation profile – The capitalisation position, on a consolidated basis, stands comfortable with a gearing of 0.5 times on a net worth of Rs. 1,950 crore as on March 31, 2022. ICRA takes comfort from the management's stated intention of maintaining a conservative consolidated leverage. The Group's liquidity profile is also adequate, supported by the healthy level of margin utilisation with the exchanges, the sizeable proprietary investment book, which can be liquidated if needed, and the comfortable capital structure. The Group's borrowing requirement primarily arises in the lending activities, which are largely funded borrowings, while the broking and clearing business requires non-funded limits like bank guarantees mostly for maintaining a margin above the client margins.

Adequate profitability – On a consolidated basis, the Group's NOI increased by 9% year-on-year (YoY) in FY2022, driven by higher net interest income (+14% YoY), which was supported by the interest earned on the upfront margin deposited by clients with GCML, following the regulatory changes, as well as brokerage income (+7% YoY). The Group's earnings are also supported by gains on the proprietary investment book (overall gain of Rs. 89 crore in FY2022 compared to gain of Rs. 241 crore in FY2021 and loss of Rs. 40 crore in FY2020).

The Group benefits from the synergies arising from operational linkages in the form of shared infrastructure, sourcing of clients, common management, etc, across the three entities. This has facilitated the operating efficiency as reflected by the relatively lower cost-to-income ratio (41% in FY2022 compared to 46% in FY2021 and 43 % in FY2020) vis-à-vis peers. Overall, the Group's return on net worth remained adequate at 14% in FY2022, despite moderating from 21% in FY2021 (8% in FY2020). Also, notwithstanding the growth in the broking volumes and the increase in interest income, supported by the upfront margin collection rules, a significant part of the Group's business is linked to the performance of the capital markets. Hence, the profitability indicators are likely to remain volatile, going forward.

Credit challenges

Vulnerable income profile owing to concentration in capital markets – The Group is exposed to the inherent volatility associated with capital markets as its businesses are directly or indirectly linked to the performance of these markets. While income from the brokerage and trading book accounted for 49% of the total income in FY2022, a sizeable proportion of the net interest income is also generated on account of the higher margin requirement, which is linked to capital markets. Also, interest income is earned in the form of interest on loans given for investing in capital markets through the non-banking financial company (NBFC) arm, delayed payment charges or the margin trading facility (MTF), which are complementary to the capital market activities.

Concentration risk in NBFC book – As the Group largely deals with sub-brokers and trading members, GFL's loan book is concentrated, with the top 20 exposures accounting for 132% of its net worth as on June 30, 2022. This is unlikely to change in the near to medium term. Hence, the portfolio is vulnerable to lumpy slippages in the asset quality. The portfolio vulnerability is also augmented by the significantly lower collateral cover among these exposures. However, the Group has been able to maintain adequate asset quality indicators so far with limited write-offs and slippages in the capital market operations and gross and net NPA ratios of 0.8% and 0.5%, respectively, as on June 30, 2022, at GFL. Capital market loans will continue to occupy a dominant share in the NBFC segment, with some share of non-capital market loans which are relatively longer tenure and have lower seasoning. Therefore, the Group's ability to maintain the asset quality across segments and gradually reduce the concentration in the NBFC book would be a key monitorable.

Liquidity position: Adequate

The Group's liquidity profile is adequate, supported by the healthy level of margin utilisation with the exchanges, the sizeable proprietary investment book (~Rs. 446 crore as on March 31, 2022), which can be liquidated if needed, and the comfortable capital structure. As on March 31, 2022, the Group had an adequate unencumbered cash and bank balance of Rs. 305 crore on a consolidated basis against total debt repayments (excluding overdraft limits) of Rs. 506 crore in the next 12 months.

Rating sensitivities

Positive factors – The rating could be upgraded on GCML's ability to maintain the current level of profitability across segments on a sustained basis while maintaining a prudent capitalisation profile.

Negative factors – The ratings could be downgraded on a significant deterioration in the asset quality at the NBFC level or on credit losses in the broking segment, thereby impacting the profitability and capitalisation levels on a sustained basis. Also, changes in the regulatory landscape, impacting the overall income profile, would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Broking ICRA's Credit Rating Methodology for Non-banking Finance Companies (NBFCs) Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

Globe Fincap Limited (GFL), a wholly-owned subsidiary of Globe Capital Market Limited (GCML), undertakes the lending operations of the Group. The company's assets under management (AUM) stood at Rs. 783 crore as on June 30, 2022. The loan book mainly constitutes loan against property (74% of the portfolio as on June 30, 2022), loan against shares (25%) and unsecured loans (2%). GFL's gross and net NPAs stood at 0.8% and 0.5%, respectively, as on June 30, 2022 against 1.0% and 0.6%, respectively, as on March 31, 2021 (0.9% and 0.5%, respectively, as on March 31, 2022). It reported a profit after tax (PAT) of Rs. 40.5 crore in FY2022 on an asset base of Rs. 846.5 crore as on March 31, 2022 compared to Rs. 38.2 crore and Rs. 715.8 crore, respectively, as on March 31, 2021. It reported a PAT of Rs. 10.3 crore in Q1 FY2023.

About the group

The Globe Group is engaged in broking and clearing activities in equity, commodities and currency with a track record of over three decades in the capital market segment. It is a member of the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE) and the Multi Commodity Exchange (MCX-SX). It is also a member of the MCX, the National Commodity & Derivatives Exchange Limited (NCDEX), the National Multi Commodity Exchange of India Limited (NMCE), the Indian Commodity Exchange (ICEX), and ACE for commodity derivatives. The Group holds depository registrations with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) besides being a Securities and Exchange Board of India (SEBI)-registered portfolio manager.

The equity and currency broking, proprietary activities and clearing activities are carried under the flagship entity, Globe Capital Market Limited (GCML), which is also the holding company of the Group. The commodity broking business is conducted by Globe Commodities Limited (GCL; wholly-owned subsidiary of GCML). Besides, the Group has a presence in the lending business through a wholly-owned subsidiary, GFL, which is an NBFC that provides loan against property (79% of the portfolio as on March 31, 2021), loan against shares (17%) and unsecured loans (4%).

On a consolidated basis, the Group reported a PAT of Rs. 255 crore in FY2022 on a net worth of Rs. 1,950 crore as on March 31, 2022 compared to a PAT of Rs. 319 crore in FY2021 on a net worth of Rs. 1,691 crore as on March 31, 2021. In Q1 FY2023, the Group reported a PAT of Rs. 58 crore.

Key financial indicators (audited)

GCML (consolidated)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Gross brokerage income	124.2	182.2	202.4	53.8
Net brokerage income	105.6	147.3	157.5	42.6
Trading income	-39.8	177.3	103.2	8.0
Fee income	3.8	6.6	13.5	1.2
Net interest income	184.2	233.1	265.5	74.3
Net operating income (NOI)	300.7	405.9	442.3	118.8
Total operating expenses	129.7	185.9	180.5	45.6
Profit before tax	121.6	422.2	329.5	76.3
Profit after tax (PAT)	104.9	318.8	255.0	57.5
Net worth	1,354.2	1,690.6	1,950.0	
Borrowings	289.9	943.0	898.3	
Gearing (times)	0.2	0.6	0.5	
Cost-to-income ratio	43%	46%	41%	38%
Return on net worth	8%	21%	14%	
PAT/NOI	35%	79%	58%	48%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials*

Key financial indicators (audited)

GFL (standalone)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Total income	116.7	114.1	109.4	27.6
Profit after tax (PAT)	40.9	38.2	40.5	10.3
Net worth	322.3	360.8	401.5	411.8
Loan book	660.3	659.2	716.1	783.4
Total assets	708.0	715.8	846.5	928.3
Return on assets	5.6%	5.4%	5.2%	4.6%
Return on net worth	13.5%	11.2%	10.6%	10.1%
Gross gearing (times)	1.13	0.92	1.07	1.20
Gross NPA	2.0%	1.0%	0.9%	0.8%
Net NPA	1.6%	0.6%	0.5%	0.5%
Solvency	3.3%	1.1%	0.9%	0.9%
CRAR	49.6%	45.0%	51.7%	49.3%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Oct 31, 2022	Oct 05, 2021	Oct 28, 2020 Oct 06, 2020	Jul 19, 2019
1	**Long-term/ Short-term bank lines (fund based/non-fund based)**	LT/ST	494	394.66	**[ICRA]A+ (Positive)/[ICRA]A1+**	**[ICRA]A+ (Stable) /[ICRA]A1+**	**[ICRA]A+ (Stable) /[ICRA]A1+**	**[ICRA]A+ (Stable) /[ICRA]A1+**
2	**Commercial paper**	ST	50	36.08	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

LT – Long term; ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank lines (fund based/non-fund based)	Simple
Commercial paper	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

Annexure I: Instrument details as on June 30, 2022

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/short-term bank lines (fund based/non-fund Based)	NA	NA	NA	25.00	[ICRA]A+ (Positive)/[ICRA]A1+
NA	Long-term/short-term bank lines (fund based/non-fund Based)	NA	NA	NA	25.00	[ICRA]A+ (Positive)/[ICRA]A1+
NA	Long-term/short-term bank lines (fund based/non-fund Based)	NA	NA	NA	22.50	[ICRA]A+ (Positive)/[ICRA]A1+
NA	Long-term/short-term bank lines (fund based/non-fund Based)	NA	NA	NA	20.00	[ICRA]A+ (Positive)/[ICRA]A1+
NA	Long-term/short-term bank lines (fund based/non-fund Based)	NA	NA	NA	175.00	[ICRA]A+ (Positive)/[ICRA]A1+
NA	Long-term/short-term bank lines (fund based/non-fund Based)	NA	NA	NA	100.00	[ICRA]A+ (Positive)/[ICRA]A1+
Unallocated	Long-term/short-term bank lines (fund based/non-fund based)	NA	NA	NA	126.50	[ICRA]A+ (Positive) /[ICRA]A1+
INE013U14180	Commercial Paper	13-Jul-21	9.10%	13-Jul-22	15.00	[ICRA]A1+
INE013U14214	Commercial Paper	9-Sep-21	9.00%	9-Sep-22	22.00	[ICRA]A1+
Yet to be placed	Commercial paper	NA	NA	NA	13.00	[ICRA]A1+

Source: Company, ICRA Research

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Globe Capital Market Limited	100.00%	Full Consolidation
Globe Fincap Limited	100.00%	Full Consolidation
Globe Commodities Limited	100.00%	Full Consolidation

Source: Company

Corrigendum

In the rating history section, the amount outstanding as on March 31, 2022 against Long-term/ short-term bank lines (fund based/non-fund based) has been changed to Rs. 394.66 crore from Rs. 39.66 crore.

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Manushree Saggar
+91 124 4545 316
manushrees@icraindia.com

Jesse Vishwanathan
+91 124 4545 324
jesse.vishwanathan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 22 6114 3406
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

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

info@icraindia.com

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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.

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches