

October 30, 2023

AY Securities & Commodities Limited: Rating upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines (fund based/non-fund based)	488.66	488.66	[ICRA]AA- (Stable); upgraded from [ICRA] A+ (Positive) and outlook revised to Stable from Positive
Total	488.66	488.66	

*Instrument details are provided in Annexure I

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 AY Securities and Commodities Limited (AY) (erstwhile Globe Commodities Limited (GCL)), hereafter referred to as the Group, owing to the common management and clientele, shared infrastructure, and operational synergies among the entities. The consolidated financials include few more subsidiaries as mentioned in annexure II.

The rating upgrade factors in the Group's steady scale-up of operations and consistently maintained adequate profitability metrics, which led to healthy increase in its consolidated net-worth base to Rs. 2,263.4 crore as on March 31, 2023. Further, the rating continues to take into account the Group's long track record in broking and clearing activities, its established branch and franchisee network, and established market position along with the synergistic benefits arising from its integrated presence across broking, clearing and lending activities. While the broking and clearing businesses require bank guarantees, the Group's borrowing requirement largely arises from the lending activities, which are majorly driven by funding to clients for broking activities. Accordingly, the Group needs to maintain some level of borrowings. The consolidated on-balance sheet leverage was 1.1 times as on March 31, 2023, though during the year, the leverage usually remains below 1 times. The Group's profitability remains adequate, though it will stay volatile because of gains/losses from the proprietary investment book as well as the inherent cyclicity in broking volumes.

The regulatory changes related to margin requirement and reporting, upstreaming of clients' funds to clearing corporations, and ban on pledging of clients' funds for availing non-fund based lines have not impacted the company's balance sheet materially. Improvement in net interest income combined with higher gains on the proprietary investment book, resulted in an improvement in the overall profitability in FY2023 and Q1 FY2024. The Group's liquidity profile is adequate, supported by the adequate client margins taken for placing at the exchanges and the comfortable level of margin utilisation with the exchanges. This apart, the proprietary investment book can be liquidated, if needed.

The rating remains constrained by the Group's revenue concentration towards brokerage (net) and gains from the proprietary investment book, which accounted for 43% of the net operating income (NOI) in FY2023 (49% in FY2022) though reduced to 33% in Q1 FY2024. These could be inherently volatile because of the cyclicity in the capital markets. Further, net interest income (47% of NOI in FY2023 and 50% in FY2022) is driven by capital market activity in the form of interest on loans given for investing in the 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 111% of its total net worth as on March 31, 2023 (128% as on March 31, 2022), which 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 assets (NPA) ratios of 2.5% and 1.9%, respectively, as on March 31, 2023 for GFL.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that Globe will be able to maintain a steady credit profile while expanding its scale of operations and maintaining its profitability and low gearing level supported by its experienced management team and adequate systems and processes.

Key rating drivers and their description

Credit strengths

Long track record and established market position in brokerage and clearing businesses – The Group has a long track record of over three decades in the brokerage and clearing segments with a presence across equity, currency and commodity broking and a focus on high-net-worth individual (HNI) clients. It operates through ~29 branches and has over ~500 retail franchises across the country. Its total market share was ~18% in the clearing segment in FY2023.

Comfortable capitalisation profile – The capitalisation position, on a consolidated basis, is comfortable with a gearing of 1.1 times on net worth of Rs. 2,263 crore as on March 31, 2023. 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 largely arises from the lending activities, which are largely funded borrowings, while the broking and clearing businesses require non-funded limits like bank guarantees mostly for maintaining margin above the client margins.

Adequate profitability – On a consolidated basis, the Group's NOI increased by 13% in FY2023 (7% annualised growth in Q1 FY2024), largely driven by 17% increase in net interest income in FY2023 (10% annualised growth in Q1 FY2024) due to the interest earned on the upfront margin deposited with the Group following the regulatory changes. The Group's earnings are also supported by gains on the proprietary investment book (overall gain of Rs. 141 crore in FY2023 compared to Rs. 89 crore in FY2022).

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 its operating efficiency reflected in the relatively lower cost-to-income ratio (38% in Q1 FY2024 and FY2023 compared to 41% in FY2022) vis-à-vis its peers. Hence, the Group's return on net worth (RoNW) improved to 15% in FY2023 from 14% in FY2022. During Q1 FY2024, its RoNW further increased to 28%, supported by trading gains and fair value changes. However, its ability to generate high returns from proprietary trading will be opportunity driven.

Also, notwithstanding the higher 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. ICRA also notes that the proposed changes with respect to the introduction of an optional facility for the blocking of funds for trading in the secondary markets, may impact the float available with intermediaries to an extent, and hence, the interest income on the float.

Credit challenges

Vulnerable income profile owing to concentration on capital markets – The Group is exposed to the inherent volatility associated with the 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 33% of the NOI in Q1 FY2024 (42% in FY2022), a sizeable portion of the net interest income is also generated on account of the higher margin requirement, which is linked to the capital markets. Also, interest income is earned in the form of interest on loans given for investing in the capital markets through the 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 111% of the total net worth as on March 31, 2023 (128% of total net

worth as on March 31, 2022), which 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. The gross and net NPA ratios were 2.5% and 1.9%, respectively, as on March 31, 2023 (0.9% and 0.5%, respectively, as on March 31, 2022) for 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. 478 crore, as on March 31, 2023), which can be liquidated if needed, and the comfortable capital structure. As on March 31, 2023, the Group had an adequate unencumbered cash & bank balance of Rs. 683 crore on a consolidated basis compared with total debt repayments (excluding overdraft limits) of Rs. 759 crore in the next 12 months.

Rating sensitivities

Positive factors – The rating could be upgraded on significant scale-up of operations, while maintaining/further improving profitability across segments on a sustained basis and maintaining a prudent capitalisation profile.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Brokerage Houses 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

The Globe Group is involved in broking and clearing activities in the equity, commodities and currency segments 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 conducted 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 AY Securities and Commodities Limited (AY, a wholly-owned subsidiary of GCML). Besides, the Group is present in the lending business through a wholly-owned subsidiary, Globe Fincap Limited (GFL), which is an NBFC that provided loan against property (74%), loan against shares (18%) and unsecured loans (8%) as on March 31, 2023.

On a consolidated basis, the Group reported a profit after tax (PAT) of Rs. 311 crore in FY2023 on net worth of Rs. 2,263 crore as on March 31, 2023 compared to a PAT of Rs. 255 crore in FY2022 on net worth of Rs. 1,950 crore as on March 31, 2022. In Q1 FY2024, the Group reported a PAT of Rs. 163 crore.

On a standalone basis, AY reported a PAT of Rs. 37 crore in FY2023 on net worth of Rs. 337 crore as on March 31, 2023 compared to a PAT of Rs. 28 crore in FY2022 on net worth of Rs. 300 crore as on March 31, 2022. In Q1 FY2024, AY reported a PAT of Rs. 22 crore on net worth of Rs. 356 crore.

Key financial indicators (audited)

GCML (consolidated)	FY2021/Mar-21	FY2022/Mar-22	FY2022/Mar-23	Q1 FY2024/ Jun-23*
Gross brokerage income	182.2	202.4	202.2	55.3
Net brokerage income	147.3	157.5	154.3	45.3
Trading income	177.3	103.2	128.9	46.6
Fee income	6.6	13.5	21.2	0.0
Net interest income	233.1	265.5	310.4	85.1
Net operating income (NOI)	405.9	442.3	498.5	132.8
NOI including gains on the proprietary investment book	646.5	532.2	639.6	268.2
Total operating expenses	185.9	180.5	189.4	50.5
Profit before tax	422.2	329.5	419.5	210.1
Profit after tax (PAT)	318.8	255.0	311.2	162.6
Net worth	1,690.6	1,950.0	2,263.4	2425.9 [^]
Borrowings	943.0	898.3	2,483.3	-
Gearing (times)	0.6	0.5	1.1	-
Cost-to-income ratio	46%	41%	38%	38%
Return on net worth	21%	14%	15%	28%
PAT/NOI	79%	58%	62%	122%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *provisional financials; [^]estimated

Key financial indicators (audited)

AY (standalone)	FY2021/Mar-21	FY2022/Mar-22	FY2022/Mar-23	Q1 FY2024/ Jun-23*
Gross brokerage income	25.4	21.6	3.6	0.9
Net brokerage income	22.2	21.0	3.6	0.9
Trading income	12.4	15.2	15.8	2.3
Net interest income	39.7	25.6	29.8	7.4
Net operating income (NOI)	62.0	47.2	34.5	8.9
NOI including gains on the proprietary investment book	81.6	68.4	63.2	24.4
Total operating expenses	26.3	31.3	14.0	2.4
Profit before tax	52.4	37.0	49.2	21.9
Profit after tax (PAT)	40.1	27.6	37.4	17.2
Net worth	272.3	299.9	337.4	354.6
Borrowings	165.9	135.1	290.4	90.3
Gearing (times)	0.6	0.5	0.9	0.3
Cost-to-income ratio	42%	66%	40%	27%
Return on net worth	15.9%	9.6%	11.7%	19.9%
PAT/NOI	65%	58%	108%	193%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Oct 31, 2023	Apr 04, 2023	Oct 31, 2022	Oct 05, 2021	Oct 06, 2020
Long-term bank lines 1 (fund based/non-fund based)	LT	488.66	50.00	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank lines (fund based/non-fund based)	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: [Click Here](#)

Annexure I: Instrument details as on September 30, 2023

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term bank lines (fund based/non-fund based)	NA	NA	NA	50.00	[ICRA]AA- (Stable)
Unallocated	Long-term bank lines (fund based/non-fund based)	NA	NA	NA	438.66	[ICRA]AA- (Stable)

Source: Company, ICRA Research

[Please click here to view details of lender-wise facilities rated by ICRA.](#)

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
AY Securities and Commodities Limited	100.00%	Full Consolidation
Globe Derivatives and Securities Limited	100.00%	Full Consolidation
Globe Capital (IFSC) Limited	100.00%	Full Consolidation
Globe Comex (DMCC) Limited	100.00%*	Full Consolidation

Source: Company; *wholly owned subsidiary of AY.

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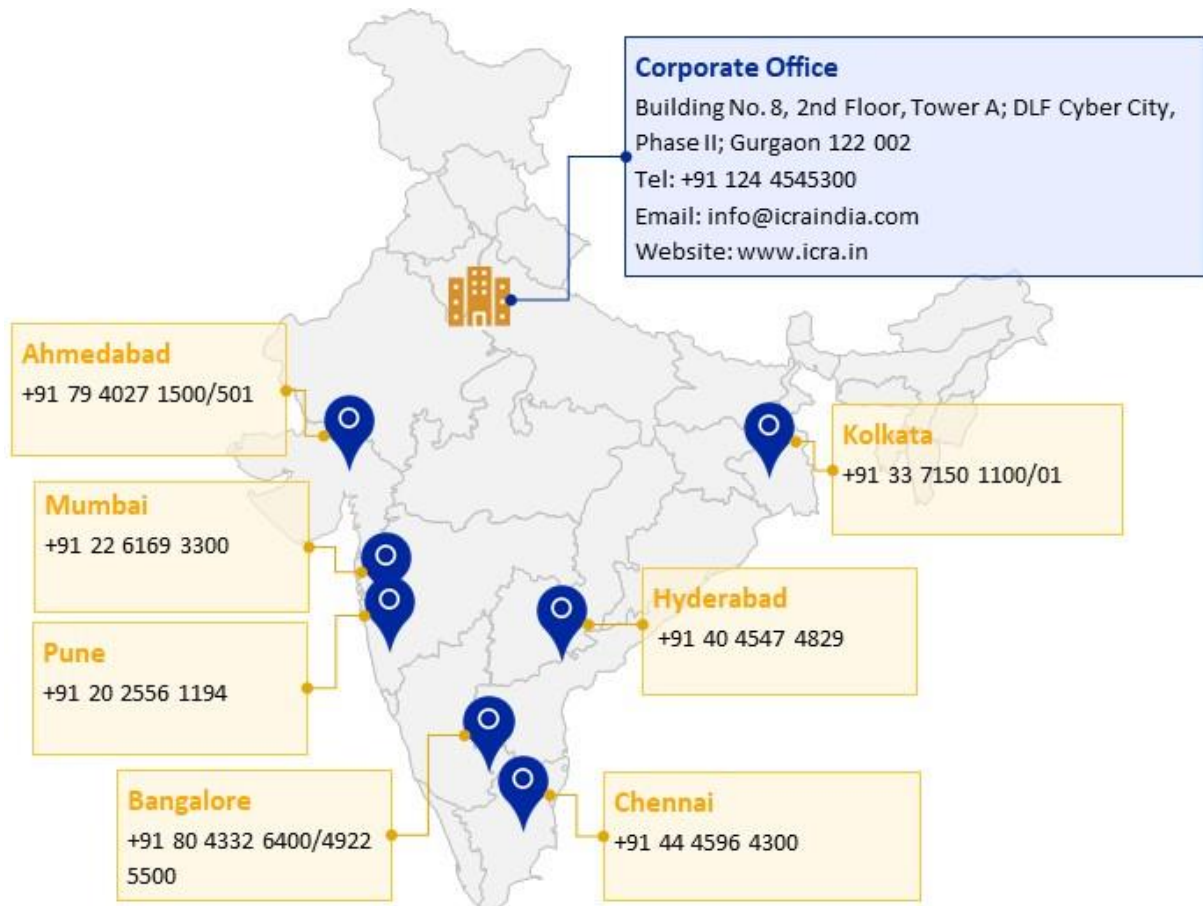
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