

September 12, 2024

AY Securities & Commodities Limited: Rating reaffirmed

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); reaffirmed
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, or GCL), hereafter referred to as the Group, owing to their common management and clientele, shared infrastructure, and operational synergies among the entities. The consolidated financials include a few more subsidiaries.

The rating factors in the Group's steady scale-up of operations and consistently maintained adequate profitability metrics, which have led to healthy increase in its consolidated net-worth base to Rs. 2,886 crore as on March 31, 2024. Further, the rating continues to take into account the Group's track record of more than three decades in broking and clearing activities, its established branch and franchisee network, and market position along with the synergistic benefits of 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 0.2 times as on March 31, 2024, which typically remains below 1.0 times. The Group's profitability remains adequate, though it is expected to stay volatile because of gains/losses from the proprietary investment book as well as the inherent cyclicity in broking volumes.

The rating also considers the healthy increase in net interest income, which combined with higher gains on the proprietary investment book, resulted in an improvement in the overall profitability in 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. In addition, the proprietary investment book can be liquidated, if needed.

The rating, however, remains constrained by the Group's revenue concentration towards brokerage and gains from the proprietary investment book, which accounted for 49% of the net operating income (NOI) in FY2024 (43% in FY2023). These could be inherently volatile because of the cyclicity in the capital markets. Further, GFL's loan book is concentrated, with the top-20 exposures accounting for 98% of its total net worth as on March 31, 2024 (111% as on March 31, 2023). 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. Gross and net non-performing assets (NPA) remained under control and were reported at 2.0% and 1.1%, respectively, as on March 31, 2024 for GFL.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the Group 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 enjoys an extensive track record of over three decades in the brokerage and clearing segments, across equity, currency and commodity broking and a focus on high net-worth individual (HNI) clients. It operates through ~29 branches and has over ~377 retail franchises across the country. Its total market share was ~18% in the clearing segment in FY2024.

Comfortable capitalisation profile – The capitalisation position, on a consolidated basis, is comfortable with a gearing of 0.2 times on a net worth of Rs. 2,886 crore as on March 31, 2024. 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 its lending activities, which are largely funded borrowings, while the broking and clearing businesses require non-funded limits like bank guarantees, mainly for maintaining the margin above client margins.

Adequate profitability – On a consolidated basis, the Group's NOI increased by 28% in FY2024 (13% in FY2023), driven by a healthy 24% increase in net interest income in FY2024 (17% increase in net interest income in FY2023). The Group's earnings are also supported by gains on the proprietary investment book (overall gain of Rs. 482 crore in FY2024 over Rs. 141 crore in FY2023). The Group continues to benefit from the synergies arising from operational linkages in the form of shared infrastructure, sourcing of clients, common management, etc., across the three entities, resulting in healthy cost-to-income ratio (41% in FY2024 over 38% in FY2023). Hence, the Group's return on net worth (RoNW) improved to 24% in FY2023 from 15% in FY2023.

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 their performance. While income from the brokerage and trading book accounted for 49% of the NOI in FY2024 (43% in FY2023), a sizeable portion of the net interest income is also generated by the 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 activities in the capital markets.

Concentration risk in NBFC book – GFL's loan book is concentrated, with the top-20 exposures accounting for 98% of the total net worth as on March 31, 2024 (111% of the total net worth as on March 31, 2023), 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 2.0% and 1.1%, respectively, as on March 31, 2023 (2.5% and 1.9%, respectively, as on March 31, 2023) 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 of 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.

Elevated competition, high dependence on technology and evolving regulatory environment – The sector remains characterised by intense competition and susceptibility to the entry of new players. In this regard, heightened competition in the equity broking segment and the growing popularity of discount brokerage houses have led to pricing pressure in recent years. While the Group has ceded some market share to competition in the cash and F&O segments, it has been able to maintain its market position in terms of clearing volumes in FY2024 (~18% market share in FY2023 and FY2024). Though it has managed to synthesise healthy average revenue per client, the pricing pressure cannot be ruled out given the growing popularity of discount brokerage houses.

Securities broking companies rely heavily on technology for trade execution and fund management, among other services. Thus, technical failures or disruptions pose operational and reputational risks. Moreover, given the highly regulated nature of the industry, brokerage houses remain exposed to regulatory risk. Hence, their ability to ensure compliance with the evolving regulatory landscape remains crucial. In this regard, the recent regulatory proposals/changes are likely to impact the profitability of the broking industry. The resultant steps taken by industry participants and their impact on yields and profitability remain to be seen. However, the impact is expected to be higher for discount brokers than traditional brokers like the Globe Group. Nonetheless, the increasing financialisation of savings and the low wallet share of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term. Still, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Liquidity position: Adequate

At the consolidated level, the Group has an adequate liquidity position with a free unencumbered cash and bank balance of ~Rs. 744 crore (1.3 times of external borrowings) and sanctioned unutilised lines of ~Rs. 1,605 crore as on May 31, 2024. Along with the arbitrage book of ~Rs. 664 crore (which can be liquidated at short notice to generate liquidity) and collections from the home loan book, these are adequate for covering the external borrowings of ~Rs. 584 crore till March 31, 2025.

In the broking business, the Group had placed an average margin (including client margins) of Rs. 23,694 crore at the exchanges during October 2023 to March 2024, with the average margin utilisation standing at 41% (basis day-end figures). ICRA notes that the Group’s consolidated unencumbered investment book, comprising investments in preference and equity instruments (~Rs. 266 crore as of March 31, 2024), also boosts its financial flexibility.

Rating sensitivities

Positive factors – Significant increase in scale of operations, while maintaining/ improving profitability across segments on a sustained basis and maintaining a prudent capitalisation profile could positively impact the rating.

Negative factors – Significant deterioration in the Group’s profitability, or leverage indicators, thereby adversely affecting its financial risk profile or a significant deterioration in the asset quality of the NBFC could negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s Credit Rating Methodology for Stockbroking & Allied Services ICRA’s Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

The Globe Group is engaged in broking and clearing activities in equity, commodities and currency with a track record of about 30 years in the capital market segment. The Group 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 Ahmedabad Commodity Exchange (ACE) for commodity derivatives. It holds depository registrations with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) besides being a SEBI-registered portfolio manager.

The equity and currency broking, proprietary, and clearing activities are carried out under the flagship entity, Globe Capital Market Limited, which is also the holding company of the Group. The commodity broking business was earlier conducted by AY Securities and Commodities Limited (a wholly-owned subsidiary of GCML). AY's broking business was gradually shifted to GDSL, and AY currently operates as a Professional Clearing Member (PCM). In addition, the Group has a presence in the lending business through a wholly-owned subsidiary, Globe Fincap Limited, which is an Non-Banking Financial Company (NBFC) that provides loan against property (67% of the portfolio as on March 31, 2024), loan against shares (21%) and unsecured loans (12%).

In FY2024, on a consolidated basis, the Group reported a PAT of Rs. 623 crore on a net worth of Rs. 2,886 crore against a PAT of Rs. 311 crore on a net worth of Rs. 2,263 crore in FY2023.

Key financial indicators (audited)

Consolidated (GCML)	FY2022	FY2023	FY2024
Net operating income*	442	498	637
Profit after tax	255	311	623
Net worth	1,950	2,263	2,886
Total assets	10,297	13,490	15,003
Gearing	0.5	1.1	0.2
Return on average net worth	14.0%	14.8%	24.2%

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

Standalone (AY)	FY2022	FY2023	FY2024
Net operating income*	47	34	3
Profit after tax	28	37	69
Net worth	300	337	407
Total assets	1,166	1,738	613
Gearing	0.5	0.9	0.2
Return on average net worth	9.6%	11.7%	18.6%

Source: Company, ICRA Research; *excluding trading income; All ratios as per ICRA's calculations; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	SEP-12-2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term-others-fund based/non fund based	Long Term	488.66	[ICRA]AA-(Stable)	APR-04-2023	[ICRA]A+(Positive)	OCT-31-2022	[ICRA]A+(Positive)	OCT-05-2021	[ICRA]A+(Stable)
				OCT-30-2023	[ICRA]AA-(Stable)	-	-	-	-

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

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	488.66	[ICRA]AA- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	AY 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: Globe Capital Market Limited consolidated annual report FY2024; ^wholly owned subsidiary of AY; *till May 2022.

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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.

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Branches



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