

IDBI Capital Markets & Securities Limited

January 09, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term bank facilities	50.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total bank facilities	100.00 (₹ One hundred crore only)		
Commercial Paper	50.00	CARE A1+ (A One Plus)	Assigned
Total Short-Term Instruments	50.00 (₹ Fifty Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the instruments of IDBI Capital Markets & Securities Limited (ICMSL) reflects the improvement in credit profile of its parent entity, IDBI Bank Limited (rated 'CARE A+; Positive / CARE A1+'), characterised by improvement in profitability, asset quality parameters, and capitalisation levels post coming out of the Prompt Corrective Action (PCA) framework of the Reserve Bank of India (RBI) in March 2021.

The ratings factor in managerial and operational linkages with the parent along with shared resources and integrated customer base. Furthermore, the ratings derive strength from an experienced management team, long-standing experience of the company in the capital markets segment along with an adequate retail customer base, sound risk management systems, adequate capitalisation with low gearing and strong liquidity position.

The ratings are constrained on account of the risk inherent in the broking business, concentration of brokerage in retail broking segment and moderate profitability.

Rating sensitivities

Positive factors – Factors that could individually or collectively lead to positive rating action or upgrade:

- Improvement in credit profile of parent, i.e., IDBI Bank Limited.
- Profitable scaling up of operations with growth in market share of over 2% on a sustained basis.
- Significant improvement in revenue diversification along with maintaining profitability with ROE exceeding 40% on sustained basis.

Negative factors – Factors that could individually or collectively lead to negative rating action or downgrade:

- Weakening of parent's credit profile and any change in ownership structure impacting support from IDBI Bank Limited.
- Inability to scale up market share and volumes adversely impacting its overall profitability levels.
- Weakening of the capital structure.

Detailed description of the key rating drivers

Key rating strengths

Experienced management along with shared brand name of IDBI Bank Limited

ICMSL is a wholly owned subsidiary of IDBI Bank Limited, which in turn has a 94.72% holding by Life Insurance Corporation of India (LIC) and Government of India (GoI), and therefore ICMSL enjoys the ultimate parentage of LIC and GoI. However, both GoI and LIC have stated their intent to divest their shareholding in the bank through strategic stake sale with an intent to hand over management control in the bank.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The Board of Directors of ICMSL includes Mr. Kamal Kant Upadhyay (MD & CEO), who has over three decades of experience in IDBI Bank Ltd. It is further supported by a professional senior management team of Mr Dattatraya Bhosale (CFO), who has extensive experience in the banking and financial services sector. The presence of an experienced management team and demonstrated operational and managerial linkages with IDBI Bank Limited further strengthens the credit profile and operations of the company.

Diversified business profile

ICMSL has a diversified business profile and offers a full suite of products and services to corporate, institutional and individual clients in capital market as well as non-capital market segments. The company has a range of services within the capital market segment, which include investment banking, institutional stock broking, and retail broking. The activities in non-capital market segments are corporate advisory services, project appraisal, debt syndication and advisory, debt resolution, distribution of financial products, debt placement and underwriting, fund management (it manages two AIFs of Government of Maharashtra) and research services.

Strong risk management systems of ICMSL

ICMSL has robust risk management systems in place, which mitigates the credit risk, market risk and the operational risk associated with the equity broking. ICMSL has a centralised risk management system to monitor its exposure on each client, sub-broker, and branch on a real time basis. Necessary timely actions are taken by the risk team to ensure that margins remain within the required limits.

Key rating weaknesses**Moderate profitability**

For the year FY22, the company reported a profit of ₹19.16 crore as against ₹9.11 crore in FY21 on account of growth in the overall revenues; mainly because of higher revenues in the investment banking supported by stable retail broking segment. The increase in the revenue in investment banking segment can be attributed to higher QIP's placed during the year and other capital market mandates than last year, while revenue in retail broking segment was subdued due to low volumes in capital market segments. However, the sustainability of the same is yet to be established, as the overall significant increase in profit after tax (PAT) was majorly contributed by overall positive sentiments in the broking industry for last two fiscals.

The company reported a slight decline in profitability in H1FY23 with PAT of ₹7.06 crore on a total revenue of ₹49.69 crore as compared to the same period last year due to lower market volumes in retail cash segment impacting the brokerage income.

Concentration of business in the retail broking segment

The operations of the ICMSL remain predominantly dependent on retail participation in capital markets, particularly in the retail broking segment. It has limited presence in institutional broking. Thus, the discount brokers continue to pose a formidable challenge for ICMSL in the retail broking space.

Major presence in inherently competitive broking business

ICMSL's revenue mix profile, though moderated as compared to prior years, continues to be dominated by capital markets (45% of the total revenues in FY22), which are inherently vulnerable to market cycles. The net interest income from financing activities, which includes MTF book, loan against share and commodities (5% of the total revenue in FY22), is also dependent on the capital market segment. Thus, the group's ability to profitably improve the diversification would be a key monitorable. In addition to this, intense competitive pressures in the industry with zero brokerage firms seizing market share of traditional players, continue to impact the margins.

Liquidity: Strong

As on September 30, 2022, ICMSL had unencumbered cash and bank balance of ₹58.67 crore, excess margin of ₹254.53 crore and fixed deposit of ₹74.72 crore as against nil debt obligations. Besides, CARE Ratings also takes comfort from the fact that it also has support from the parent entity, i.e., IDBI Bank Limited, and therefore enjoys strong financial flexibility.

Analytical approach

ICMSL has been assessed on the basis of standalone financials, along with factoring in its strong linkages with its parent i.e., IDBI Bank Limited, and demonstrated financial and operational support.

Applicable criteria

[Policy on default recognition](#)

[Rating Methodology-Service Sector](#)

[Rating Methodology-Factoring linkages in Rating](#)

[Financial Ratios-Financial Sector](#)

[Short term instruments](#)

[Rating Outlook and Credit Watch](#)

[Policy on Withdrawal of Ratings](#)

About the company

IDBI Capital Markets & Securities Ltd., (IDBI Capital) is a wholly owned subsidiary of IDBI Bank Ltd and is a leading Investment Banking & Securities Company. It is registered as a merchant banker, stockbroker, depository participant, portfolio manager and research entity with the Securities and Exchange Board of India (SEBI). It was incorporated on December 14, 1993 and commenced operations in March 1995 as an equity broker on NSE Clearing Member segment. IDBI Capital offers a full suite of products and services to Corporate, Institutional and Individual clients. The range of services include: - Investment Banking, capital market products, private equity and stock broking (institutional and retail) and non-capital market segments like corporate advisory services, project appraisal, debt syndication and advisory, debt resolution, distribution of financial products, debt placement and underwriting, fund management (it manages two AIFs of Government of Maharashtra) and research services. The company has 33% holding in IDBI Asset Management Company Limited, which is the associate company of the entity.

About IDBI Bank Ltd

Industrial Development Bank of India (IDBI) was established under the IDBI Act, 1964, as a development financial institution (DFI). Initially, IDBI was set up as a wholly owned subsidiary of the RBI to provide credit and other facilities for the development of industries. However, The IDBI Act, 1964, was repealed and IDBI Ltd was incorporated as a banking company on September 27, 2004, under the Companies Act, 1956. On January 21, 2019, LIC completed an acquisition of 51% controlling stake, making it the majority shareholder of the IDBI Bank. The RBI has clarified vide a press release dated March 14, 2019, that IDBI Bank stands re-categorised as a private sector bank for regulatory purposes with effect from January 21, 2019. However, LIC and the GoI's holding in the bank was diluted and stood at 49.24% and 45.48% as on September 30, 2022, respectively, after it raised capital via a QIP in FY2021. As on September 30, 2022, the bank had a network of 1,888 branches and 3,345 ATMs. As on September 30, 2022, IDBI Bank has five subsidiaries, viz, IDBI Asset Management Ltd (66.67%), IDBI Capital Markets and Securities Ltd (100%), IDBI Intech Ltd (100%), IDBI Trusteeship Services Ltd (54.7%), and IDBI MF Trustee Company Ltd (100%). The bank sold its entire 48% stake in its life insurance JV, Ageas Federal Life Insurance Company Limited (formerly known as IDBI Federal Life Insurance Company Ltd), in two tranches of 23% during Q3FY21 and 25% during Q2FY23 to Ageas Insurance International NV for a sale consideration of ₹507 crore and ₹580 crore, resulting in a profit of ₹323 crore and ₹380 crore.

ICMSL-Standalone

Brief Financials (₹ crore)	March 31, 2021(A)	March 31, 2022 (A)	H1FY23 (UA)
Total income	91.64	109.95	41.76
PAT	9.11	19.16	7.06
Overall gearing (times)	0.03	0.00	0.00
Total Assets	411.42	416.61	362.90
ROTA (%)	2.65	4.63	3.62*
RONW (%)	2.73%	5.51%	4.15*

A: Audited; UA: Unaudited

*Annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISI N	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank facilities (Proposed)	-	-	-	-	50.00	CARE A+; Stable
Federal Bank	-	-	-	-	25.00	CARE A1+
Non-fund-based-short term bank facilities (Proposed)	-	-	-	-	25.00	CARE A1+
Commercial Paper (Proposed)	-	-	-	-	50.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based-Short Term Bank Facilities	ST	50.00	CARE A1+	-	1)CARE A1 (12-Oct-21) 2)CARE A1 (21-Sep-21) 3)CARE A1 (05-Jul-21)	1)CARE A1 (02-Jul-20)	-
2	Fund-based – LT-Bank Facilities	LT	50.00	CARE A+; Stable	-	1)CARE A; Stable (12-Oct-21) 2)CARE A; Stable (21-Sep-21)	-	-
3	Commercial Paper	ST	50.00	CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
Non-fund-based bank facilities- Bank Guarantee	i) TOL/TNW (including outstanding BG in TOL) \leq 0.50x ii) External rating shall not be lower than A2

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based – LT Bank Facilities	Simple
2	Non-fund-based-short term bank facilities	Simple
3	Commercial Paper	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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