

## IDBI Capital Markets & Securities Limited

January 08, 2024

Facilities/Instruments@	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	50.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	50.00	CARE A1+	Reaffirmed
Commercial paper	50.00	CARE A1+	Reaffirmed

@Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the debt instruments and bank facilities of IDBI Capital Markets & Securities Limited (ICMSL) factor in the parentage and expected support from IDBI Bank Limited (rated 'CARE AA-; Stable/ CARE A1+'), with ICMSL being its wholly-owned subsidiary. The ratings also factor in the strategic importance of ICMSL to the group by providing the bank's customers access to a broader suite of capital market and investment products. The ratings further 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 of ICMSL, long-standing track record 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 stable liquidity position. These rating strengths are, however, partially offset by the risk inherent in the broking business due to high dependence on the capital markets resulting in volatility in the income, moderate profitability, relatively smaller size and market share and increasing competition in the sector.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:

- Improvement in standalone financial risk profile of the company and improvement in credit profile of the parent, i.e., IDBI Bank Limited.
- Significant scale up of operations with stable profitability on a sustained basis.

#### Negative factors: Factors that could, individually or collectively lead to negative rating action/downgrade:

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

### Analytical approach:

Standalone

### Outlook: Stable

Stable outlook factors in the experienced management team, long-standing experience of the company in the capital markets segment, adequate capitalisation with low gearing, and strong liquidity position.

### Detailed description of the key rating drivers:

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key strengths

### **Parentage and expected support from IDBI Bank Limited due to the operational and managerial linkages as well as benefits in terms of financial flexibility in fund raising**

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. The group has extended the identity of IDBI brand with ICMSL. The company also enjoys managerial and operational linkages with the parent bank. The Board of Directors of ICMSL includes Kamal Kant Upadhyay who is the Managing Director and Chief Executive Officer (MD & CEO) of ICMSL and has over three decades of experience in IDBI Bank Ltd. The Board of Directors has representation from IDBI Bank with Rakesh Sharma (MD & CEO) being the Chairman of the Board and Arun Kumar Bansal being a designated director on the Board of ICMSL.

The operations of ICMSL are run by a professional senior management team who have extensive experience in the banking and financial services sector. Furthermore, the company has access to established customer base and franchise of the bank, business synergies which allows the group to offer a full bouquet of financial services. Furthermore, ICMSL benefits from widespread presence of IDBI Bank Limited across the nation with diverse clientele base which in turn helps ICMSL in getting leads for its business.

The presence of an experienced management team and demonstrated operational and managerial linkages with IDBI Bank Limited thus 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 the 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, and research services. During FY23, around 43% (P.Y.- 39%) of the total income of the company was through investment banking segment, 43% (P.Y.- 52%) was through institutional and retail broking segment, and the balance income around 14% (FY22- 9%) constituted income from MF redemptions, treasury etc.

### **Comfortable capital position**

The company's tangible net worth (TNW) stood at ₹359 crore as on March 31, 2023 (₹360 crore as on March 31, 2022) on earnings partly offset by dividend payments. The overall gearing of the company stood low at 0.10x as on March 31, 2023. Since the company has started MTF funding from FY20, and the company utilises borrowings to fund the MTF book the overall gearing is low. The borrowings have been in the form of working capital demand loan. Furthermore, the bank uses non-fund-based bank facility for margin requirements with the Securities and Exchange Board of India (SEBI).

## Key weaknesses

### **Financial risk profile impacted by moderate profitability**

During FY23, ICMSL's broking income reduced from ₹50 crore during FY22 to ₹36 crore on account of reduction in the brokerage income on the back of reduced turnover of the company on both the exchanges (NSE & BSE) in line with the other players in the industry due to the high volatility in the market due to the geopolitical scenario which

resulted in the company reporting profits of ₹7 crore during FY23 as against profit after tax (PAT) of ₹19 crore during FY22. Furthermore, CARE Ratings notes that on a segmental basis, although investment banking segment of the company was profitable, the company has reported losses in the broking business due to the lower turnover. During H1FY24, the company reported a net loss of around ₹1 crore due to the impairment of financial instruments (trade receivable) of ₹7.55 crore in Q2FY24. As per CARE Ratings' opinion, increasing the brokerage income while maintaining the operating cost is critical for the profitability of the company.

#### **Presence in inherently volatile and competitive broking business**

The earning profile of ICMSL is dependent on the capital market activities and overall trading volumes which are inherently volatile in nature. The income from brokerage accounts for 43% of the total income and income from Investment banking services including but not limited to IPO fund raising, qualified institutional placements, offer for sale, rights issue, etc, which is also dependent on the capital market segment accounts for 43% of the total income during FY23. Nevertheless, income from MTF, distribution of the third-party products such as mutual funds, insurance, bonds, FDs, IPOs gives a diversification to the overall revenue.

Furthermore, the company is exposed to the intense competitive pressures in the brokerage industry with zero brokerage firms seizing market share from entrenched players. Thus, the company's ability to add more active clients in the coming years with the prevalent competition from the zero brokerage firms is critical for its growth.

#### **Liquidity: Adequate**

As on September 30, 2023, ICMSL had unencumbered cash and bank balance of ₹45.66 crore, excess margin of ₹43.27 crore and access to unutilised bank lines of ₹10 crore as against the total debt outstanding including non-fund-based limits of ₹46.99 crore. Furthermore, comfort is derived from ICMSL strong financial flexibility as a subsidiary of IDBI Bank to obtain additional funding to repay maturing debt.

#### **Assumptions**

Not applicable

#### **Environment, social, and governance (ESG) risks**

Not applicable

#### **Applicable criteria**

- [Factoring Linkages Parent Sub JV Group](#)
- [Financial Ratios - Financial Sector](#)
- [Rating Outlook and Rating Watch](#)
- [Short Term Instruments](#)
- [Definition of Default](#)
- [Service Sector Companies](#)
- [Broking Firms](#)

#### **About the company and industry**

#### **Industry classification**

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Capital markets	Stockbroking & allied

ICMSL, incorporated on December 14, 1993, is a wholly-owned subsidiary of IDBI Bank Ltd (rated 'CARE AA-; Stable/ CARE A1+'). The company is registered as a merchant banker, stockbroker, depository participant, portfolio manager and research entity with the SEBI. ICMSL offers a full suite of products and services ranging from investment banking, corporate advisory services, retail and institutional stock broking, distribution of financial products, portfolio management and research services.

Brief Financials (₹ crore)	FY21(A)	FY22(A)	FY23(A)	H1FY24(UA)
Total operating income	91.64	109.97	98.11	52.86
PAT	9.11	19.16	7.27	-1.02
Short-term loan and advances	29.28	35.83	34.72	42.2
Tangible net worth	341	360	359	358
Gearing	0.03	-	0.10	0.13
PAT margin (%)	9.94%	17.42%	7.41%	-1.93%

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:**

Not applicable

**Any other information:**

Not applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Commercial Paper (Proposed)	-	-	-	-	50.00	CARE A1+
Fund-based - LT-Bank Overdraft*	-	02-08-2022	Tenor Based MCLR (M/Q) + 15 bps	-	45.00	CARE A+; Stable
Fund-based - LT-Bank Overdraft (Proposed)	-	-	-	-	5.00	CARE A+; Stable
Non-fund-based-Short Term	-	24-11-2022	0.50%	-	25.00	CARE A1+
Non-fund-based-Short Term (Proposed)	-	-	-	-	25.00	CARE A1+

\*The company has availed WCDL facility which is an inner limit to Bank overdraft.

**Annexure-2: Rating history of 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 2023-2024	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
1	Non-fund-based-Short term	ST	50.00	CARE A1+	-	1)CARE A1+ (09-Jan-23)	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 overdraft	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable (09-Jan-23)	1)CARE A; Stable (12-Oct-21) 2)CARE A; Stable (21-Sep-21)	-
3	Commercial paper-	ST	50.00	CARE A1+	-	1)CARE A1+ (09-Jan-23)	-	-

LT= Long term / ST= Short term

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

Name of the Instrument	Detailed Explanation
<b>A. Financial covenants</b>	
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**

Sr No	Name of the 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: Lender details**

Click here to view Bank Lender Details

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.

### Disclaimer:

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