Findoc Investmart Private Limited

February 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	510.00	CARE BBB; Stable / CARE A3+	Assigned

Rationale and key rating drivers

The rating assigned to the bank facilities of Findoc Investmart Private Limited (FIPL) derives strength from comfortable capitalization position, healthy earnings profile, experienced management and adequate risk management system. The rating is however constrained on account of dominance of proprietary trading income, its susceptibility to industry-wide regulatory changes and inherent competitiveness in the broking business.

Rating sensitivities: Factors likely to lead to rating actions

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

- Substantial increase in scale of operations
- Diversified revenue base with reduced reliance on proprietary trading

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

- Declining size and scale of operations on sustained basis
- Weakening in the capital structure with increasing gearing levels beyond 2.0x
- Regulatory changes affecting the business profile of the company

Analytical approach: Standalone

Outlook: Stable

The stable outlook factors in CARE Ratings Limited's (CARE Ratings') expectation that FIPL will be able to increase its market share with diversification of revenue base.

Detailed description of the key rating drivers

Key strengths

Comfortable capitalization profile

The company has a comfortable tangible net worth of ₹404.5 crore as on September 30, 2023, which increased from ₹372.3 crore as on March 31, 2023, on account of internal accruals. The resource profile constitutes of mainly non-fund-based borrowings, bank guarantees (BGs) which are used for fulfilling the margin requirements of the clients and traders. These BGs are backed by fixed deposits (FDs) to the extent of 50%. Apart from this, the company has small amount of fund-based borrowings of ₹2.84 crore in the form of vehicle loan and unsecured term loan. Gearing stood at 0.84 times including non-fund-based borrowings. Capitalization is a key monitorable given the high proportion of proprietary trading. The company is expected to maintain the on-book gearing below 1x going forward.

Improving earnings profile

The Findoc group has historically remained active in proprietary trading activities. The extensive experience of the promoters in this segment has enabled the company to build a proprietary trading desk. The company has sufficient number of jobbers and has developed different trading strategies for this. In FY23, total income of the company grew at a compounded annual growth

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

rate (CAGR) of 45% yoy to ₹306.5 crore from ₹211.2 crore in FY22 driven by increase in trading income, fee income and brokerage. Profit after tax (PAT) also increased at a CAGR of 19% yoy to ₹96 crore in the same period. Increase in PAT in FY23, was mainly due to increase in trading income. It was partially offset by increase in operating expenses which grew at a CAGR of 90% in FY23. Operating expenses are expected to be on the higher side as the company is investing a lot in infrastructure, servers and people.

Considering the inherent cyclicality of capital markets and high proportion of prop book, the ability of the company to sustain its earnings profile will be a key monitorable.

Experienced management

FIPL was incorporated in the year 2010 and has over 10 years of presence in the broking industry. The company is led by Hemant Sood, MD and Founder of FIPL. He has been in the capital market with over a decade of experience. FIPL is a member of various stock exchanges like NSE, BSE, MCX, among others. It has a basket of diversified products being offered which includes proprietary trading services, broking services in all segments (equity, derivatives, commodities and currency). The group is engaged in other ventures also like financial retailing business, non-banking financial company (NBFC) business, commodity broking, out-of-home advertisement, real-estate development, trading of electronics & healthcare devices, among others. It also has a wholly owned subsidiary- Findoc Investmart (IFSC) Private Limited at IFSC gift city for international markets.

Adequate risk management

With years of experience and long track record of the management, FIPL has built an adequate risk management system (RMS) which has ensured minimal system failure in the company in past one year. The RMS provides a warning regarding the square off of positions due to mark-to-market (MTM) losses. This warning is aimed at ensuring that clients are aware of potential risks and take necessary actions to manage their positions. It uses its risk management systems to monitor the live position of the trader with features like scenario-based testing, automatic squaring off positions, among others. Around 80% of trading is done on indexes and rest is in top 20 NIFTY stocks to ensure liquidity so that positions can be squared off quickly. This has helped FIPL in curbing losses which can be seen from the company reporting healthy bottom line in the past years.

Key weaknesses

High reliance on proprietary trading

FIPL has traditionally remained focused on hedged arbitrage-based trading, and it remains the major revenue source. In FY23, majority (90%) of the revenues came from trading, 5% came from brokerage and fee income and the remaining 5% from interest income. Thus, the overall revenue diversification remains limited given the proprietary trading activities and broking income are exposed to market volatility, the earnings profile becomes highly sensitive to market movements. Going forward, CARE Ratings expects the proprietary trading income to be a major revenue contributor.

Exposure to volatility in the capital markets and highly competitive nature of broking business

Capital and commodities market regulator, the Securities and Exchange Board of India (SEBI) board has been constantly stepping up the vigil in the brokerage industry through a series of regulatory changes aimed at protecting investor's interests. Some of the major regulations include peak margin (September 2021) which was introduced to set strict rules on leverage and thus was able to control excessive speculation since the margin is collected upfront and not at the end of the day. Then the "Demat Debit Pledge" (DDPI) was implemented (July 2022) and it replaced the Power of Attorney (PoA) provided by clients to brokers. All the regulatory changes while good for capital markets and investors, may increase the compliance cost for companies operating in capital markets. The ability of the company to adopt new technology, systems and risk management processes in response to the constantly evolving regulatory landscape without any adverse impact on its overall business profile will remain a key monitorable.

Liquidity: Adequate

As on September 30, 2023, the company had free cash of ₹11.97 crore against which it has nil external fund-based borrowing alongside undrawn overdraft (OD) limit of ₹16.14 crore. Also, the company's average margin utilization of the margins kept with the exchanges has remained below 75% in the past 12 months. The non-fund-based borrowings stood at ₹310 crore as on September 30, 2023.

Applicable criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Financial ratios – Financial Sector
Service Sector Companies
Broking criteria
Short term instruments

About the company and Industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Capital Markets	Stockbroking & Allied

FIPL, part of the Findoc group, is a Ludhiana-based equity broking firm and depositary participant. The company was incorporated in August 2010. FIPL is a corporate member of both National Stock Exchange of India Ltd (NSE) and Bombay Stock Exchange Ltd (BSE) and its operations include full spectrum equity, derivatives, currency broking services and commodity derivative services The company is led by Hemant Sood, MD and Founder of FIPL who has an extensive experience in the capital segment market. The company has developed a proprietary trading desk through which it is getting major revenue in the form of proprietary trading income.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1 FY24 (UA)
Brokerage Income	6.9	10.3	6.0
Total income	211.2	306.5	94.4
PAT	80.5	96.0	29.5
Total Assets	620.1	811.8	851.1
RONW (%)	34.5	29.6	15.2
PAT Margin (%)	38.0	31.3	31.2

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
As per CARE Ratings calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to 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: Please refer to Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	510.00	CARE BBB; Stable / CARE A3+

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 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	Fund-based - ST-Bank Overdraft	ST	-	-	-	-	-	1)Withdrawn (30-Apr-20) 2)CARE A4; ISSUER NOT COOPERATING# (30-Apr-20)
2	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	-	1)CARE A4; ISSUER NOT COOPERATING# (30-Apr-20) 2)Withdrawn (30-Apr-20)
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)CARE A3 (08-Sep-22) 2)Withdrawn (08-Sep-22)	1)CARE A3 (01-Dec-21)	1)CARE A3 (04-Sep-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	510.00	CARE BBB; Stable / CARE A3+				

*Long term/Short term.
#Issuer did not cooperate; based on best available information

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities : Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the 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 debtand capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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