IDBI Capital Markets & Securities Limited

October 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	100.00	CARE A1+	Reaffirmed
Commercial paper	100.00 (Enhanced from 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 parentage of IDBI Bank (rated 'CARE AA; Stable/ CARE A1+'); ICMSL being a wholly owned subsidiary of IDBI Bank.

Ratings continue to 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. Ratings further factor in managerial and operational linkages with the parent, shared resources, integrated customer base, and shared brand identity.

Ratings also derive strength from ICSML's experienced management team, long-standing track record in capital markets segment, adequate retail customer base, sound risk management systems, adequate capitalisation with low gearing, and stable liquidity position.

Ratings are constrained due to inherent risk in the broking business due to high dependence on capital markets resulting in income volatility, 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

- Improvement in credit profile of the parent, i.e., IDBI Bank.
- Improvement in standalone financial risk profile of the company with significant scale up of operations.

Negative factors

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

Analytical approach: Standalone

ICMSL has been assessed on standalone financials, factoring in its strong linkages with its parent, IDBI Bank Limited, and demonstrated and expected financial and operational support.

Outlook: Stable

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

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

Detailed description of key rating drivers:

Key strengths

Parentage and expected support from IDBI Bank Limited from operational and managerial linkages and benefit of financial flexibility in fund raising

ICMSL is a wholly owned subsidiary of IDBI Bank Limited. The group has extended IDBI's brand identity with ICMSL. The company also enjoys managerial and operational linkages, and oversight with the parent bank. ICSML's Board of Directors has strong representation from the bank with Rakesh Sharma (Managing Director and Chief Executive Officer; MD & CEO of IDBI Bank) being the Chairman of the Board, Sumit Phakka (DMD of IDBI Bank) and Kamal Kant Upadhyay (MD & CEO of ICMSL), having over three decades of experience in IDBI Bank and has been deputed from the bank.

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

The presence of an experienced management team and demonstrated operational and managerial linkages with IDBI Bank Limited strengthens the company's credit profile and operations.

Majority (94.72% as on June 30, 2024) shareholding in IDBI Bank is held by Life Insurance Corporation of India (LIC; 49.24%) and Government of India (GoI; 45.48%), and ICMSL enjoys ultimate parentage of LIC and GoI. 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. However, IDBI Bank intends to maintain majority shareholding in ICMSL in the medium term.

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 and 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. 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.

In FY24, ~35% (PY: 43%) of the company's total income was through investment banking segment, while 47% (PY: 43%) was through institutional and retail broking segment, and the balance ~17% (PY: 14%) constituted income from MF redemptions, and treasury among others.

Comfortable capital position with low gearing levels

The company's tangible net worth (TNW) stood at ₹371 crore as on March 31, 2024 (₹355 crore as on March 31, 2023). Overall gearing stood low at 0.16x (PY: 0.10x) as on March 31, 2024. Since the company started margin trading facility (MTF) funding from FY20, and the company utilises borrowings to fund the MTF book, overall gearing is expected to go up; subject to board approved limit of ₹100 crore for fund based borrowings. Borrowings have been largely in the form of working capital demand loan. As on June 30, 2024, the company has fund-based borrowing of ₹44.96 crore, Non fund based borrowing of ₹65 crore. Further, the company raised ₹25 crore via commercial paper in August 2024.

Key weaknesses

Financial risk profile impacted by moderate profitability and small size of operations

In FY24, ICMSL's broking income increased from ₹43 crore in FY23 to ₹58 crore considering increase in the brokerage income from increased turnover of the company on both exchanges (NSE & BSE) in line with other industry players due to high market volatility from the geopolitical scenario, which resulted in the company reporting profits of ₹14 crore in FY24 against profit after tax (PAT) of ₹7 crore in FY23.

On a segmental basis, CARE Ratings notes that although the investment banking segment was profitable, the company reported losses in the broking business due to the lower turnover in FY24.

In Q1FY25, the company reported a PAT of ~₹4 crore due increase in broking income. CARE Ratings' expects the company to scale up its business in MTF, while increasing its brokerage income and maintaining operating costs, which will help improve its profitability. However, considering low margin and high competition, it is expected to remain moderate in the near term.

As on March 31, 2024, the company's active clients stood 88,364 and it further grew to 90,003 as on June 30, 2024. The company's turnover also improved from ₹39,247 crore in FY23 to ₹43,681 crore in FY24. ICMSL continues to be a bank owned small stock broker. Of the total market turnover in FY24, ICMSL's total turnover forms less than 1%.

Susceptibility toward regulatory changes

Capital market industry witnessed continuous regulatory changes and tightening. For further enhancing transparency levels and limiting misuse of funds, SEBI has introduced a few regulations in the last few years. In May 2023, SEBI prohibited stockbrokers from using client's funds for bank guarantees (BGs). Brokers now deploy their own funds; hence, increase in funding requirements is leading to higher finance cost. On-book gearing of the industry players is also increasing post this regulation. In June 2023, SEBI introduced a regulation. under which. stockbrokers are required to upstream clients' funds to clearing corporation. These funds must be up streamed to clearing corporation in the form of cash, lien on FD receipts or pledged units of mutual fund overnight schemes. Similarly, funds received from the clearing corporation should be further down streamed to clients' accounts. This has increased operational and compliance cost for brokers.

In July 2024, the regulator directed Market Infrastructure Institutes (MIIs) to revise the charge structure and adopt a standardised fee structure to all members, replacing the existing volume-based slab-wise model. This was made to make MIIs charge "True to Label' for end clients. However, ICMSL's top line is unlikely to be impacted post implementation of this circular as ICMSL's major broking revenue is through retail cash segment.

CARE Ratings will continue to monitor ICMSL's ability to adapt its technology, systems, and risk management processes in response to the constantly evolving regulatory landscape without adverse impacts on its overall business profile.

Presence in inherently volatile and competitive broking business

ICMSL's earning profile depends on capital market activities and overall trading volumes, which are inherently volatile. Income from brokerage accounts for 47% of total income and income from Investment banking services including but not limited to IPO fund raising, qualified institutional placements, offer for sale, and rights issue, among others, which also depends on the capital market segment, accounts for 35% of the total income in FY24. Income from MTF, distribution of the third-party products such as mutual funds, insurance, bonds, FDs, and IPOs give a diversification to the overall revenue.

The company is exposed to 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 prevalent competition from zero brokerage firms is critical for its growth.

Liquidity: Adequate

As on September 30, 2024, ICMSL had unencumbered cash & bank balance of ₹15.83 crore, excess margin of ₹40.91 crore against total debt outstanding of ₹70 crore. ICMSL's average margin utilisation is 46% for 12-months ending June 2024. Comfort is derived from ICMSL strong financial flexibility as subsidiary of IDBI Bank to obtain additional funding to repay maturing debt.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Broking Firms
Factoring Linkages Parent Sub JV Group
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Capital Markets	Stockbroking & Allied

Incorporated on December 14, 1993, ICMSL is a wholly owned subsidiary of IDBI Bank Limited (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)	FY23(A)	FY24(A)	Q1FY25(UA)
Total operating income	98.11	123.17	28.43
PAT	7.27	14.38	3.91
Short-term loan and advances	34.72	77.80	82.19
Tangible net worth	355.07	370.53	374.46
Gearing	0.10	0.16	0.12
PAT margin (%)	7.41%	11.67%	13.75%

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

CareEdge RATINGS

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 and Rating Outlook
Commercial Paper	INE835F14039	13-08-2024	8.95%	14-11-2024	25.00	CARE A1+
Commercial Paper (Proposed)	-	-	-	-	75.00	CARE A1+
Fund-based - LT-Bank Overdraft*	-	02-08-2022	Tenor Based MCLR (M/Q) + 15 bps	-	44.96	CARE AA-; Stable
Fund-based - LT-Bank Overdraft (Proposed)	-	-	-	-	55.04	CARE AA-; Stable
Non-fund-based-Short Term	-	24-11-2022	0.50%	-	15.00	CARE A1+
Non-fund-based-Short Term	-	13-05-2024	1.00%	-	50.00	CARE A1+
Non-fund-based-Short Term (Proposed)	-	-	-	-	35.00	CARE A1+

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

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based-Short Term	ST	100.00	CARE A1+	1)CARE A1+ (07-Oct-24)	1)CARE A1+ (08-Jan-24)	1)CARE A1+ (09-Jan-23)	1)CARE A1 (12-Oct-21) 2)CARE A1 (21-Sep-21) 3)CARE A1 (05-Jul-21)
2	Fund-based - LT-Bank Overdraft	LT	100.00	CARE AA-; Stable	1)CARE AA-; Stable (07-Oct-24)	1)CARE A+; Stable (08-Jan-24)	1)CARE A+; Stable (09-Jan-23)	1)CARE A; Stable (12-Oct-21) 2)CARE A; Stable (21-Sep-21)
3	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	1)CARE A1+ (07-Oct-24)	1)CARE A1+ (08-Jan-24)	1)CARE A1+ (09-Jan-23)	-

*LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Bank Overdraft	Simple
3	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

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

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