

## IDBI Capital Markets & Securities Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	100.00 (Enhanced from 50.00)	CARE AA-; Stable	Upgraded from CARE A+; Stable
Short Term Bank Facilities	100.00 (Enhanced from 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 upgrade in rating assigned to the long term bank facilities of IDBI Capital Markets & Securities Limited (ICMSL) primarily factors in the upgrade in the rating of IDBI Bank (rated 'CARE AA; Stable/ CARE A1+'), on account of improvement in financial risk profile of the bank factoring strong capitalisation levels and improvement in profit and asset quality parameters. ICMSL is a wholly owned subsidiary of the IDBI bank. Further, the rating revision also factors in the improvement in the financial performance of ICMSL during FY24 and Q1FY25.

The 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. The ratings further factor in managerial and operational linkages with the parent along with shared resources, integrated customer base and shared brand identity.

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 capitalization with low gearing and stable liquidity position.

The ratings are constrained due to the inherent risk 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

- 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 the basis of standalone financials, along with factoring in its strong linkages with its parent i.e., IDBI Bank Limited, and demonstrated and expected financial and operational support.

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

**Outlook: Stable**

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

**Detailed description of key rating drivers:****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. The group has extended the identity of IDBI brand with ICMSL. The company also enjoys managerial and operational linkages along with oversight with the parent bank. The Board of Directors of ICMSL has strong representation from the bank with two board members i.e. Mr. Rakesh Sharma (Managing Director and Chief Executive Officer; MD & CEO of IDBI Bank) being the Chairman of the Board and Mr. Sumit Phakka (DMD of IDBI Bank) along with Mr. Kamal Kant Upadhyay (MD & CEO of ICMSL) who has over three decades of experience in IDBI Bank and has been deputed from the bank.

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 the 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 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.

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 therefore ICMSL enjoys the ultimate parentage of LIC and GoI. 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. However, IDBI Bank intends to maintain majority shareholding in ICMSL over 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 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 FY24, around 35% (P.Y.: 43%) of the total income of the company was through investment banking segment, while 47% (P.Y.: 43%) was through institutional and retail broking segment, and the balance ~17% (P.Y.: 14%) constituted income from MF redemptions, treasury etc.

**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). The overall gearing of the company stood low at 0.16x (P.Y.: 0.10x) as on March 31, 2024. Since the company has started MTF funding from FY20, and the company utilises borrowings to fund the MTF book, the overall gearing is expected to go up. The borrowings have been 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 has raised ₹25 crore via commercial paper in August 2024.

## **Key weaknesses**

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

During FY24, ICMSL's broking income increased from ₹43 crore during FY23 to ₹58 crore on account of increase in the brokerage income on the back of increased 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 ₹14 crore during FY24 as against profit after tax (PAT) of ₹7 crore during FY23.

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 FY24.

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

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

### **Susceptibility towards regulatory changes**

Capital market industry has witnessed continuous regulatory changes and tightening. With the objective of further enhancing the transparency levels and limiting the 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 the 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, the funds received from the clearing corporation should be further down streamed to the clients' accounts. This has increased the operational and compliance cost for the brokers.

Recently in July 2024, the regulator directed Market Infrastructure Institutes (MIIs) to revise the charge structure and adopt a standardized fee structure to all members, replacing the existing volume-based slab-wise model. This was made to make the MIIs charges "True to Label" for the 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 any adverse impact on its overall business profile.

### **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 47% 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 35% of the total income during FY24. 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 June 30, 2024, ICMSL had unencumbered cash & bank balance of ₹41.74 crore, excess margin of ₹57 crore as against the total debt outstanding of ₹44.96 crore. ICMSL's Average margin utilisation is 46% for the last 12 months ending June 2024. Furthermore, 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

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)	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

**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	INE835F14039	13-08-2024	8.95%	14-11-2024	25.00	CARE A1+
Commercial Paper (Proposed)	-	-	-	-	25.00	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+ (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 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	50.00	CARE A1+	-	1)CARE A1+ (08-Jan-24)	1)CARE A1+ (09-Jan-23)	-

\*LT: Long term; ST: Short term; LT/ST: Long term/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 the 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:

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