

IDBI Capital Markets and Securities Limited

September 21, 2021

Ratings

Instrument	Amount (Rs. Crore)	Rating ¹	Rating Action
Proposed Short Term Bank Facilities (Non-fund based)	50 (Rs. Fifty crore only)	CARE A1 (Single A One)	Reaffirmed
Total	50 (Rs. Fifty crore only)		

Detailed Rationale & Key Rating Drivers

The rating assigned to the Proposed Short Term Bank Facilities in strong parentage of IDBI Bank Limited (IDBI Capital Markets & Securities being a wholly owned subsidiary of IDBI Bank Limited) along with shared managerial resources and integrated customer base with IDBI Bank Ltd. Further, the ratings derive strength from an experienced management team, longstanding experience of the company in the capital markets segment along with a strong retail customer base, robust risk management systems and comfortable liquidity position. The rating is constrained on account of the risk inherent in the broking business, concentration of brokerage in retail broking segment and moderate profitability. The Credit profile of parent and profitability of ICMSL are the key rating sensitivities.

Rating Sensitivities

Positive Factors: Factors that could, individually or collectively, lead to a review for positive rating action/upgrade:

- Improvement in profitability parameters, with ROE exceeding 5% on a sustained basis.
- Improvement in credit profile of parent i.e IDBI Bank Limited.

Negative Factors: Factors that could, individually or collectively, lead to a review for negative rating action/downgrade:

- Weakening of parent's credit profile and any change in ownership structure impacting support from IDBI Bank Limited.
- Any adverse event in the capital markets impacting financial and business profile of the company.
- Decline in profitability with sustained losses in coming quarters.

Detailed description of the key rating drivers of ICMSL
Key Rating Strength
Experienced management along with shared brand name of IDBI Bank Limited

IDBI Capital Markets and Securities Limited (ICMSL) is a wholly owned subsidiary of IDBI Bank Limited, which in turn has a 51% holding by Life Insurance Corporation of India (LIC), and therefore ICMSL enjoys the ultimate parentage of LIC. The Board of Directors of ICMSL includes Mr. Iswar Pradhan (MD & CEO), who has over 2 decades of experience in banking & finance spanning across different verticals. It is further supported by a professional senior management team of Mr Dattatraya Bhosale (CFO), Mr Aseem Saroop (Head-Retail Broking and Distribution) and Mr Nalin Kumar (Head- Investment Banking) who have extensive experience in the banking and financial services sector with specialized professional expertise. 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, 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 to two AIFs of Government of Maharashtra) and research services. The capital market segment contributes 91% of the total revenue while non-capital market segment contributes only 9% of the total revenue in FY21.

Strong risk management systems of ICMSL

ICMSL has robust risk management systems in place, which mitigate 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 risk team to ensure that margins remain within required limits.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weakness**Moderate Profitability**

The company has demonstrated moderate profitability profile with ROE(%) of 0.08, (3.03) & 2.73 during FY19, FY20 & FY21. For the year FY21, the company reported a profit of Rs. 9.11 crore in FY21 as compared to a loss of Rs. 9.67 crore in FY20 due to an increase of 28% in Total Revenues; mainly because of higher revenues in the Investment Banking and retail broking segment. The increase in revenue in investment banking segment can be contributed to higher QIP's placed during the year and other capital market mandates than last year, while increase in revenue in retail broking segment was mainly due to increase in volumes in capital market segments. However, profitability remains impacted due to higher provisions on account of investment banking fees receivable. We expect the provision to remain elevated as a consequence the profitability is expected to remain suppressed going forward.

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. During FY21, around 86% of brokerage income was contributed by retail segment, while as a percentage of total income, retail brokerage was 49%. It has limited presence in institutional broking with top 20 clients accounting for 72% of Total Brokerage earned from Institutional clients. Discount brokers continue to pose a formidable challenge for ICMSL in retail broking.

High presence in inherently competitive broking business

ICMSL' business and earning profile is significantly dependent on income earned as Broking fees which contributes to 56% of it's total revenues in FY21 (P.Y: 49%), this exposes ICMSL to fierce competition, and possibility of losing it's market share in the broking space to other big players. There are many big players in the broking business in India, who are in better position to reduce operating expenses and maintain their margins. Also, discount brokers are attracting the customers with lower brokerage and advanced technology.

Liquidity: Comfortable

ICMSL has a comfortable liquidity position with sufficient cash and cash equivalents. As on June 30, 2021, ICMSL had free cash & bank balance worth Rs. 168.94 crore (P.Y: 123.21 crore) comprising of Cash in current account of Rs 49.39 crores, Fixed deposit of Rs 97.44 crores and Liquid Mutual fund of Rs 22 crores. As on June 30, 2021, ICMSL has an Overdraft facility of Rs 11.26 crores against which the company has placed a FD of Rs 12.50 crores as collateral. Besides, CARE also takes comfort from the fact that it also has support from parent entity i.e IDBI Bank Limited and therefore enjoys strong financial flexibility.

Analytical approach: IDBI Capital Markets and Securities Limited has been assessed on the basis of standalone financials, along with factoring in its strong linkages with its parent IDBI Bank Limited and demonstrated financial and operational support.

Applicable Criteria:[Rating Outlook and Credit Watch](#)[CARE Policy on Default Recognition](#)[Rating Methodology: Factoring Linkages in Rating](#)[Financial ratios - Financial Sector](#)[Criteria for Short Term Instruments](#)**About the Company**

IDBI Capital Markets and 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, stock broker, 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 Corporates, 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 and the remaining 66% is held by parent entity i.e IDBI Bank Limited as on June 30, 2021.

Standalone Financial Performance ICMSL is as under:

Brief Financials (Rs. crore)	FY20 (Audited)	FY21 (Audited)
Total operating income	71.66	91.58
PAT	(9.67)	9.11
Total Assets	322.95	414.42
ROE (%)	(3.03)	2.73
Gearing (times)	0.00	0.02

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Short term bank Facility (Non-fund based)		-	-	-	50	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Proposed Short term bank Facility (Non-fund based)	ST	50	CARE A1	June 28, 2021; CARE A1	July 02, 2020; CARE A1	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1.	Proposed Short term bank Facility (Non-fund based)	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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