Almondz Global Securities Limited

September 22, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	21.50 (reduced from 26.82)	**CARE BBB-; Negative [Triple B Minus; Outlook: Negative]**	**Reaffirmed**
Total Facilities	**21.50 (Rs. Twenty one crore and fifty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE, while assigning rating on the bank facilities of Almondz Global Securities Limited (AGSL), has taken a consolidated view based upon financial and business profile of AGSL and its six wholly owned subsidiaries namely Almondz Global Infra Consultant Limited (AGICL), Almondz Finanz Limited (AFL), Almondz Commodities Private Limited, Almondz Wealth Advisors Limited, North Square Project Private Limited and Skiffle Healthcare Services Limited. This has been done as all these entities have strong financial linkages and operate under a common promoter and management.

The rating of CARE BBB- factors in the modest earning profile with group reporting net profit of Rs.4.3 crore in FY20, NBFC arm remaining range bound over the last few years, longer working capital cycle in infra business with debtors of Rs.9 crore on total assets of Rs.27.6 crore as on March-20 and change in overall business trajectory of the company as it shifts from the core financial businesses to engineering consultancy and non-financial businesses as evidenced by increased focus towards engineering consultancy such as infrastructure advisory business (through AGICL) and distillery business (through Premier Alcobev Private Limited (PAPL)-associate company).

The ratings continues to derive strength from comfortable capitalization profile, low overall gearing at 0.16 times as on March-20 and comfortable liquidity position. The ratings also take into account group's experienced promoter and management team and its long track record of operations with established presence in capital market related business. However the shift in business from capital market related business to engineering consultancy and non-financial business remains a key rating sensitive. Going forward, the ability of AGSL to scale up its operations in infrastructure advisory and distillery business, effectively manage working capital cycle in infrastructure advisory business while improving the profitability and maintaining the capitalization profile would be the key rating sensitivities.

Further, the group plans to merge AGICL with AGSL, and the merger has already been approved by the Board of Directors of AGSL. The first motion application for the merger has been filed with the NCLT in April 2020 and is expected to be finalized by the end of current fiscal. CARE will monitor the developments in this regard.

Rating Sensitivities

Positive factors-

- Scaling up its operations in infrastructure advisory and distillery business in a steady manner, effectively managing working capital cycle in infrastructure advisory business while improving the profitability with RoTA (consolidated) on a sustainable basis of about 5%,
- Comfortable liquidity metrics while maintaining capitalization profile with gearing below 1 times.

Negative factors-

- Any delay in merger of AGICL with AGSL
- Decline in profitability, asset quality and/or scale of operations of the group (including that of its subsidiaries) due to the change in business strategy of the group
- More than envisaged increase in borrowings with gearing rising above 1 time.

Outlook: Negative

The Outlook is Negative on account of revamp in AGSL's business strategy with group shifting its focus from its core capital market related business to relatively new infrastructure advisory and distillery business. Also, the group is foraying into international infrastructure advisory business mainly in road sector in African subcontinent. Presently, these businesses are in the incipient stage and progress on the same need to be registered over medium term. The ratings may be revised downwards if the credit profile including the profitability and scale of operations of the group (including that of its

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

subsidiaries) weakens due to the change in business strategy of the group or the increase in borrowings is more than envisaged. The outlook may be revised to 'Stable' if the company is able to sustain in the new business segment while maintaining its capital structure and profitability margins.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: The group is promoted by Mr. Navjeet S Sobti, who has more than 30 years of diverse experience in Indian financial services spanning across Corporate Finance, Money Markets, and Merchant Banking. Mr Sobti continues to be one of the largest shareholders in holding company Avonmore Capital and Management Services Limited. Avonmore held 56.87% in AGSL as on March 31, 2020. AGSL has an experienced Board of 8 members with 1 promoter director and has experienced second line of management to carry out business operations in an efficient manner.

Comfortable capitalization: The capitalization levels of the group remain comfortable to support its current scale of operations. AGSL (consolidated) reported tangible net worth of Rs.138.8 crore and total debt of Rs.21.85 crore as on March 31, 2020 vis-à-vis tangible net worth of Rs.133.9 crore and total debt of Rs.20.21 crore as on March 31, 2019. On a consolidated basis, AGSL has maintained conservative leverage policy with consolidated gearing of 0.16 times as on March 31, 2020 (0.15 times as on March 31, 2019). However, adjusted for investment of Rs.14.51 crore in PAPL and contingent liabilities of Rs.28.43 crore; the gearing will be 0.47 times as on March 31, 2020. The capitalization profile of the group is expected to maintain comfortable in the near to medium term.

Increasing focus on non-financial business supported by merger of AGICL with AGSL which is under process: AGSL was incorporated in 1994 and has more than two decades of track record of operations in the financial and capital market related business such as advisory and consulting in the area of debt and equity capital market, broking in equity, commodity and debt market, distribution of financial products and trading and investment in debt market. However, with the Indian capital market being hugely impacted post IL&FS crisis in Sept 2018; the group's management planned to shift its focus towards infrastructure advisory business through (AGICL) and distillery business (through PAPL). With the increasing focus of the group towards infrastructure advisory business, the group plans to merge AGICL with AGSL and the first motion application of the merger has been filed with the NCLT in April 2020. Per management the merger is expected to be completed in the current fiscal. Also, the revenue generated through distillery business will only contribute 50% to the bottom line of AGSL; it being an associate company. The company's track record of managing new businesses in a sustainably profitable manner will be critical for its credit profile.

Key Rating Weaknesses

Moderate earning profile: AGSL's profitability metrics have been moderate over last few years primarily on account of prohibition on its merchant banking activities since December 2011, Indian capital market being hit post IL&FS crisis that led to liquidity crunch in FY 19 and the covid pandemic situation on FY 20 that further adversely affected profitability in infrastructure advisory business.

End fiscal 2020, AGSL (consolidated) reported total income and PAT of Rs.64.4 crore and Rs.4.32 crore, down from total income and net profit of Rs.78.3 crore and Rs.6.4 crore respectively in fiscal 2019. Due to de growth in revenue, the consolidated PAT de grew by 33% Y-o-Y to Rs 4.3 crore end fiscal 2020. The decline in income is on account of 17% y-o-y decline in fee based income, 48% y-o-y decline in investment income though partially offset by 9.5% y-o-y rise in other income. End FY20, the income from advisory and consultancy accounted for 68.6% of total income increased from 66.0% of the total income in FY19 followed by broking & financial products distribution activities constituting another 15.24% reduced from 18.13% in FY19 and remaining is income from lending operations and other income.
The group reported return on total assets (RoTA) and return on net worth (RoNW) of 2.34% and 3.17% respectively in FY20 vi-a-vis RoTA and RoNW of 3.46% and 4.86% respectively in FY19. During Q1FY20, the group reported PAT of Rs.3.06 crore on total income of Rs.13.42 crore.
Going forward, as the management expects its share of revenue from infra advisory business to increase; the profitability is also expected to improve.

Unsecured lending in NBFC business: The lending activities of AGSL are undertaken by its wholly owned subsidiary Almondz Finanz Limited (AFL). As on March 31, 2020, AFL's loan book stood at Rs.24 crore reduced from Rs.29 crore a year ago. NBFC business remained modest over last few years. The loan book comprises unsecured loans for tenure less than a year and provided to companies/individuals known to the promoters of Almondz group and the company has not granted any moratorium to its borrowers. Per management, the NBFC business will be sold off during the year and there may not be any incremental loan growth. However it continues to contribute 5% to the group's total income and 28% of group's PAT as on March 31, 2020. The Gross NPAs was Nil as on March 31, 2020. On a consolidated basis, the company wrote off bad debts and unrecoverable advances and interests amounting to Rs.0.78 crore (includes Rs.0.24 crore in AFL) in FY20 and Rs.1.49 crore (includes Rs.1.32 crore in AFL) in FY19.

Longer working capital cycle in infrastructure advisory business: Almondz Group (AGSL direct as well as through wholly owned subsidiary AGICL) provide technical consultancy services in various infrastructure sectors such as Smart cities, Urban Infrastructure, Roads, Bridges, Highways, Tunnels, Water & Waste Water, Tourism, Railways & Metro Rail, Ports & Inland Waterways & Airport. Going forward, the group plans to scale up its infra advisory business up with about 70% of incremental business from government projects and rest 30% from private sector players. During FY20, the company booked total revenues of approx. Rs.34 crore in infrastructure advisory business and its debtors were Rs.9 crore as on March 31, 2020. On account of higher debtors, the working capital requirement in infrastructure advisory business remains high. Also, the group is planning to diversify its infrastructure advisory business to international sectors (in Africa), however the foray into international infrastructure advisory remains a new trajectory, the progress on acceptance of bids and further execution of the projects and its impact on financial profile of the group remains to be seen.

Liquidity Position: Adequate
The liquidity profile of the group remains comfortable on the back of low leverage. The group has consolidated debt of Rs.21.85 crore as on March 31, 2020 and against this, the group had total cash and cash equivalents amounting to Rs.28.84 crore as on March 31, 2020 and inventory of bonds of around Rs.1.76 crore which provides comfort to the liquidity profile. In view of the Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer six month moratorium to borrowers (till August 31, 2020), the company had secured moratorium from its lenders for initial three months (April 20-June 20), however now the group has been servicing its debt repayment on an adhoc basis for those three months.

Analytical approach: Consolidated, on account of strong financial and management linkages and corporate guarantee provided by AGSL for the bank facilities of AGICL.
Following are the wholly owned subsidiaries of AGSL:

- Almondz Global Infra Consultant Limited
- Almondz Finanz Limited
- Almondz Commodities Private Limited
- Almondz Wealth Advisors Limited
- Skiffle Healthcare Services Limited
- North Square Projects Private Limited

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector
Rating Methodology - Service Sector Companies
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company
AGSL (formerly Allianz Securities Limited) is incorporated in 1994 and is the flagship company of Almondz Group. Avonmore Capital and Management Services Limited is the holding company of Almondz Global securities holding 56.87% as at end fiscal 2020. Avonmore is 8.55% held by Mr Navjeet Sobti, promoter, director of Almondz Group. Apart from being a SEBI registered merchant banker, AGSL is also engaged in corporate finance advisory, investment banking, trading / investments in debt & equity securities, equity, commodity and fixed income broking, distribution of financial products and wealth management and NBFC business. Over last few years, the company has also entered into non-financial sector businesses such as infrastructure advisory (through 100% subsidiary), distillery (through JV) and chain of eye care clinics.
AGSL support staff spread across 5 branches, with corporate offices in Delhi and Mumbai.

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

Brief Financials# (Rs. crore)	FY19 (A)	FY20 (A)
	IND AS	IND AS
Total Income	78.3	64.4
PAT	6.4	4.3
Interest coverage (times)	3.9	1.9
Total Assets	185.2	183.7
ROTA (%)	3.5	2.3

#: Consolidated, 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Apr 2022	6.50	CARE BBB-; Negative
Fund-based - LT-Bank Guarantee	-	-	-	15.00	CARE BBB-; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	6.50	CARE BBB-; Negative	-	1)CARE BBB-; Negative (09-Oct-19)	1)CARE BBB-; Stable (29-Aug-18)	-
2.	Fund-based - LT-Bank Guarantee	LT	15.00	CARE BBB-; Negative	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Guarantee	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. 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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