Almondz Global Securities Limited

October 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	26.82 (reduced from Rs.75 crore)	**CARE BBB-; Negative**	**Ratings reaffirmed and Outlook revised from Stable to Negative**
Total Facilities	**26.82 (Rs. Twenty six crore and eighty two 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 revision in the outlook on the rating assigned to the bank facilities of AGSL takes into account changes in the business profile of the group as it shifts from the core financial businesses to non-financial businesses. Post the system wide liquidity issues that began in September 2018; the group has reduced its focus from financial businesses such as equity and commodity broking, merchant banking and distribution of financial products. Also group's financing arm AFL that provides unsecured loans to companies/individuals has registered only modest growth with loan book remaining range bound over the last few years. Per the changed trajectory, the group does not intend to increase its NBFC, wealth management and merchant banking business significantly from the current levels and will instead focus on non-financial businesses such as infrastructure advisory business (through AGICL) and distillery business (through Premier Alcobev Private Limited (PAPL)-associate company).

The ratings continue to derive strength from comfortable capitalization levels, gearing and liquidity levels. Also ratings 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 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.

Outlook: Negative

The Outlook for the long term facilities of AGSL has been revised from Stable to 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 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, 2019. 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.

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

Long track record of operations with established presence in capital market related business; however there is change in trajectory of Almondz group with increasing focus on non-financial business: 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. With the renewal of merchant banking license, the company was expected to ramp up its corporate finance business in FY19. However, the Indian capital and equity market was adversely affected post IL&FS crisis in Sept 2018; which impacted the overall capital market business including that of AGSL. AGSL was not able to generate significant traction in its equity and commodity broking, merchant banking business or increase its financial product distribution portfolio. Also, the group's NBFC business has remained modest over last few years. The group's management has mentioned given the tepid prospects for them in the financial service industry, the group is shifting its focus towards infrastructure advisory business (AGICL) and distillery business (PAPL). The revenue generated through distillery business will only contribute 50% to the bottom line of AGSL; it being an associate company. The management also stated that it is also planning to merge AGSL and AGICL in next 6 to 9 months since going forward, infrastructure advisory will be group's main focus area. The company's track record of managing new businesses in a sustainably profitable manner will be critical for its credit profile.

Comfortable capitalization: The capitalization levels of the group remain comfortable to support its current scale of operations. Almondz group reported tangible net worth of Rs.139.35 crore and total debt of Rs.20.34 crore as on March 31, 2019 vis-à-vis tangible net worth of Rs.130.16 crore and total debt of Rs.26.15 crore as on March 31, 2018. On a consolidated basis, AGSL has maintained conservative leverage policy with gearing of 0.15 times as on March 31, 2019 (0.17 times as on March 31, 2018). However, adjusted for investment of Rs.14.51 crore in PAPL and contingent liabilities of Rs.30 cr; the gearing will be 0.47 times as on March 31, 2019. As the group does not intend to raise significant fresh borrowings, its capitalization profile is expected to maintain comfortable.

Key Rating Weaknesses

Moderate earning profile: AGSL's profitability metrics has been moderate over last few years primarily on account of prohibition on its merchant banking activities since December 2011, higher non-performing assets (NPAs) in NBFCs business, and low profitability in infrastructure advisory business.

End fiscal 2019, AGSL reported total income and PAT of Rs.78.2 crore and Rs.9.7 crore respectively, up from total income and PAT of Rs.76.7 crore and Rs.6.3 crore respectively in fiscal 2018. The marginal increase in total income (up 2% Y-o-Y) was mainly on account of increase in corporate advisory fees to Rs.51.7 cr in FY19 (up 15% Y-o-Y), though partially offset by decline in its brokerage and commission revenues. End fiscal 2019, the total operating income and PBT from financial sector business (broking, distribution, wealth advisory, corporate finance advisory, interest income on loan book, trading of shares, trading of bonds and derivatives) contributed to 48% and 68% of total operating income and PBT respectively. Hence, going forward, as the management expects its share of revenue from infra advisory business to increase while that from financial business to come down; the share of the latter in profitability is also expected to moderate.

In spite of muted revenue growth, the consolidated PAT grew by 53% Y-o-Y to Rs 9.7 crore end fiscal 2019 mainly due to lower provisioning costs and doubling of profit from minorities and associates. End fiscal 2019, the provisioning expenses stood at Rs 1.4 crore, down 87% Y-o-Y due to absence of write offs off about Rs 10 crore that were undertaken in fiscal 2018. Also, the profit from associates doubled from Rs 3.34 crore from 1.64 crore due to growth in distillery business.

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, 2019, AFL's loan book stood at Rs.30 crore vis-a-vis Rs.26 crore as on March 31, 2018. 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. Per management, the NBFC will become a less focus area for the group and there may not be any incremental loan growth. However it continues to contribute 35% of group's PAT as on March 31, 2019. The Gross NPAs was Nil as on March 31, 2019 vs. Rs.3.01 crore (12.2% of loan book) as on March 31, 2018 as AFL wrote off one account amounting to Rs.10 crore in 2018.

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 FY19, the company booked total revenues of approx. Rs.36 crore in infrastructure advisory business and its debtors were Rs.11 crore as on March 31,

2019. 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) mainly in the road sector. The projects will be for a tenor of 10-12 months and the project will be routed through multi-lateral development institutions. Since 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. Cash and Cash equivalents stood at Rs.16.02 crore as on March 31, 2019 (Rs.28.27 crore as on March 31, 2018). Company has Rs.14.5 crore of investments in associates as on March 31, 2019 (Rs.14.5 crore as on March 31, 2018) and Rs.9.61 crore of investments in other companies; out of which Rs.7.20 crore of investments are quoted investments (Rs.7.55 crore of investments as on March 31, 2018, out of which Rs.5.14 crore of investments are quoted investments). Further, company has the outstanding long term loan obligations of around Rs.7 crore to be repaid during FY20.

Rating sensitivity factors
Positive-CARE could change the outlook back to Stable if AGSL scales 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 asset quality and liquidity metrics while maintaining capitalization profile with gearing below 0.5 times.
Negative- The ratings/outlook may be revised downwards if the credit profile including the profitability, asset quality and/or scale of operations of the group (including that of its subsidiaries) weakens due to the change in business strategy of the group or the increase in borrowings is more than envisaged (above 0.5 times).

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 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 to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE Methodology for Non Banking Financial Companies
Financial Sector –Financial Ratios

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 2019. Avonmore is 8.58% 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 has a team of around 170 professionals and support staff spread across 5 branches, with corporate offices in Delhi and Mumbai.

Brief Financials# (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	76.75	78.19
PAT	6.33	9.67
Interest coverage (%)	2.63	4.21
Total Assets	185.84	191.00
ROTA (%)	3.41	5.06

#: Consolidated, A: Audited
Status of non-cooperation with previous CRA: NA

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-Long Term	-	-	-	26.82	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-Long Term	LT	26.82	CARE BBB-; Negative	-	1)CARE BBB-; Stable (29-Aug-18)	-	-

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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