

## IDBI Capital Markets and Securities Limited

July 02, 2020

### Ratings

Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Short Term Bank Facilities (Non-fund based)	50.00 (Fifty crore only)	CARE A1 (A One)	Assigned
<b>Total</b>	<b>50.00</b> <b>(Fifty Crore only)</b>		

Details of instruments/facilities in Annexure-1

### Rating Rationale and Key Rating Drivers

The rating assigned to the Short Term Bank Facilities factors 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, strong 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 over the years with losses in FY20. Credit profile of parent and profitability of ICMSL are the key rating sensitivities.

#### Positive factors: Factors that could, individually or collectively, lead to positive rating action/upgrade

- Improvement in profitability parameters, with ROTA exceeding 2% 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 negative rating action/downgrade:

- Weakening of parent's credit profile and any change in ownership structure impacting support from IDBI Bank Limited.
- Substantial reduction in revenues and profitability in coming quarters.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### 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 of Life Insurance Corporation of India (LIC). The management team of ICMSL is led by Mr. Rakesh Sharma (Chairman), who is also the MD of the parent company IDBI Bank Ltd since October 2018, he has around four decades of experience in the banking and finance industry. The Board of Directors of ICMSL includes Mr. Nagaraj Garla (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 with extensive experience in the banking and financial services sector with specialized professional expertise. The presence of an experienced management team and managerial linkages with IDBI Bank Limited further strengthens the credit profile of the company.

##### Diversified Business Profile.

ICMSL has a fairly diversified business profile and offers a full suite of products and services to corporates, 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, capital market products, private equity and stock broking (institutional and retail) and non-capital market related activities like corporate advisory services, project appraisal, debt syndication and advisory, debt resolution, distribution of financial products, debt placement, fund management (it manages to two AIFs of Government of Maharashtra) and research services.

##### 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 business. ICMSL has a well defined risk management system to monitor its exposure

<sup>1</sup>Complete definition of the rating assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

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.

#### **Comfortable liquidity position & low gearing**

ICMSL enjoys a comfortable liquidity position with sufficient cash and cash equivalents balance and zero gearing. As on March 31, 2020, ICMSL had free cash & bank balance worth Rs.84 crore. Besides, CARE also takes comfort from the fact that it enjoys financial flexibility from parent entity i.e IDBI Bank Limited, as it has an unutilised OD limit and performance-linked bank guarantee (BG) from IDBI Bank Limited.

#### **Key Rating Weakness**

##### **Concentration of business in the retail broking segment with limited presence in institutional broking**

The operations of the ICMSL remain predominantly dependent on retail participation in capital markets, particularly in the retail broking segment. During FY20, around 88% (P.Y: 86%) of brokerage earned was contributed by retail segment. It has limited presence in institutional broking segment, with most of the revenue coming from specific clients.

##### **Presence in inherently competitive broking business**

ICMSL's business and earning profile is significantly dependent on income earned as Brokerage which contributed to about 55% of its total revenues in FY20 (P.Y: 46%), this exposes ICMSL to fierce competition in the highly competitive brokerage space. Also with introduction of zero brokerage firms, the entire brokerage industry in its current form may go through a change with traditional players like ICMSL being forced to look for more remunerative business opportunities under the capital markets segment.

##### **Declining trend in profitability with losses in FY20**

The company has been facing a declining trend in profitability in the past two years. For the year FY20, the company reported a loss of Rs.9.7 crore as compared to a PAT of Rs.21 lacs (FY18: 20.02 crore) due to a decline of 25% in Total Revenues; mainly because of lower revenues in the Investment Banking segment where certain deals could not be executed during Q4FY20 coupled with lower fee booking in Q4FY20 due to COVID related disruption. However, the management expects 50% of these deals to be executed in the current year (i.e FY21). Profitability of the company has also been under pressure due to the higher provisioning/write off which was Rs.21.62 crore in FY19 and Rs.10.22 crore in FY20.

**Analytical approach:** CARE has assessed the standalone profile of ICMSL. Additionally, CARE has also taken into account ICMSL's strong linkages with its parent, IDBI Bank Limited and the benefits derived thereof.

#### **Applicable Criteria**

[Rating of Short term instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Financial ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[CARE Policy on Default Recognition](#)

#### **Liquidity: Strong**

As on March 31, 2020 ICMSL had nil borrowing, with free cash & liquid investments of Rs.84 crore. Besides, we also take comfort from the fact that ICMSL enjoys strong financial flexibility being a subsidiary of IDBI Bank Limited. The company has Rs.9 crore worth of unutilized OD limit and Rs.0.25 crore of performance-linked BG sanctioned from IDBI Bank Limited. The company's tangible net worth (adjusted for Deferred Tax Assets and intangibles) stood at Rs.297 crore as on March 31, 2020.

#### **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 CM segment. As on March 31, 2020, the company has 17 branches and 517 terminals serving over 3 lac customers nationwide. It has a network of 221 sub broker/franchise and on NSE and 215 on BSE. 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

#### Standalone Financial Performance ICMSL

Brief Financials (Rs. crore)*	FY19 (A)	FY20 (P)
Total Income	96.70	71.66
PAT	0.21	-9.67
Interest coverage (times)	NA	NA
Total Assets^	348.25	322.95
Net NPA (%)	NA	NA
ROTA (%)	0.07	-2.88

A- Audited P: Provisional ^Net of Deferred tax assets and Intangible assets. \*As per IGAAP.

**Note:** All the Financials for FY20 are provisional in nature.

**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
Non-fund based-Bank Guarantees-ST	-	-	-	25.00	CARE A1
Proposed Non-fund based Bank Guarantees-ST	-	-	-	25.00	CARE A1
<b>Total</b>				<b>50.0</b>	

\*as on June 05, 2020

#### 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.	Non-fund based-Bank Guarantees-ST	ST	50.0	CARE A1 (A One)	-	-	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications

## Contact us

### Media Contact

Mradul Mishra

Contact no. →91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact 1

Mr. Abhijit Urankar

Contact no.- 022-6754 3669

Email ID- [abhijit.urankar@careratings.com](mailto:abhijit.urankar@careratings.com)

### Analyst Contact 2

Mr. Sanjay Kumar Agarwal

Contact no. : (022) 6754 3500 / 582

Email ID- [sanjay.agarwal@careratings.com](mailto:sanjay.agarwal@careratings.com)

### Business Development Contact

Name: : Ankur Sachdeva

Contact no. : 91 98196 98985

Email ID : [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

### 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.

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**