SMC Global Securities Limited (Revised)

September 3, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Commercial Paper	25 **(Rupees Twenty Five Crore Only)**	CARE A1+ (A One Plus)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has based its assessment on the combined view of SMC Global Securities Ltd and its subsidiaries (together called the SMC Group). The rating assigned to SMC Global Securities Limited (SMC) takes into consideration the experienced promoters and management team, long track record of operations of SMC group in the capital markets segment with established brand and market position, wide franchisee network and large client base and diversified product profile leading to diversified earnings of the group. The rating also derives strength from risk management systems in place, comfortable gearing levels of the group and comfortable liquidity position at parent entity level supported by arbitrage book of Rs.150-200 crore which can be liquidated in case of need, comfortable capital structure and healthy level of margin utilization with exchanges.

These rating strengths are, however, off-set to some extent by the volatility in earnings and thin broking margins associated with capital markets however dependence reducing with increasing presence in lending business (NBFC) and other products which are less susceptible to capital market conditions. The ratings are also constrained on account of market risk owing to significant proprietary trading book, however, most trades are hedged and algo-based and there is established track record of consistent stable profits in arbitrage book. Also, the group's profitability remains moderate with profitability largely driven by arbitrage and lending business and moderate profitability in the broking and distribution business. Also, given recent origination of most of the lending portfolio in the NBFC, the loan book is yet to season fully though asset quality indicators remain under control so far.

Going forward, the ability of the group to profitably grow its operations, while maintaining a comfortable capital structure and liquidity position, would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

The group is promoted by first generation entrepreneurs, Mr. Subhash C. Aggarwal (Chairman and MD) and Mr. Mahesh C. Gupta (Vice-Chairman and MD). Both the promoters are Chartered Accountant by qualification and have more than 25 years of diverse experience in financial services and securities market. SMC group is well supported by a very strong management team having rich experience in their respective fields. Mr. Ajay Garg (Whole-time Director) and Mr. Anurag Bansal (Whole-time Director) have over two decades of experience in the securities and commodity market. The company has a strong and experienced Board of 13 members, including 7 Independent Directors. The group has a strong and stable second line of management to support the various businesses. Mr. V.K. Jamar, Group CFO, has over three decades of experience in finance, taxation and fund management.

Long track record of operations with established brand

SMC Group was incorporated in December 1994 and has more than two decades of track record of operations in the equity broking business. The company diversified into commodity broking through its wholly owned subsidiary SMC Comtrade Ltd in 2003, insurance broking in 2006 and NBFC business in 2008. The company also has international

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

presence in Dubai (for commodity trading on DGCX). Over the years, the company has established its brand in the broking and advisory services.

Given its track record and established brand, the company has been able to enter into various strategic partnerships viz. being the insurance broker for Honda cars under Honda Assure, preferred broker for PNB providing trading facilities and demat services and also has a tie-up for equity trading facility with Indian Overseas Bank.

Wide branch network with large franchisee network and client base

SMC has a strong pan India presence through its network of 89 branches and 2500+ sub-brokers and authorized persons as on March 31, 2018. SMC has a client base of around 18 lacs which includes largely retail customers and few institutional customers with most of the brokerage income (equity, commodity and currency) coming from retail customers. SMC leverages its wide network for distribution of various financial products (Mutual Funds, Insurance, Debt, etc.). The wide network would also allow SMC to grow its retail lending business by cross selling to SMC’s customers.

Diversified product profile with increasing presence in lending business (NBFC) and other products which are less susceptible to capital market conditions

SMC group is increasing its presence in financial services sector through its various subsidiaries. The group has presence in broking, depositary services, proprietary trading, distribution of financial products (Mutual Funds, Insurance, Debt instruments, IPO, etc.), lending operations, PMS & Wealth management, real estate broking and advisory services and investment banking. Furthermore, within broking, the company has a well-diversified product profile with presence in equity, derivatives, currency and commodity.

During FY18, the income from broking (net) accounted for 27% of the net income followed by proprietary trading (27%), income from lending operations (14.5%), income from distribution of financial products (17%), Management & advisory services (1%) and depository services (1%). There is reducing dependency on the capital markets with increasing income from distribution segment (cross selling) and lending business. Also, within the lending segment as well the loan book is fairly well diversified across products with increasing focus on building consumer retail lending, SME book and reducing the proportion of LAP and LAS book.

Adequate Risk Management systems

SMC has well documented risk management framework to handle the risk in the broking, proprietary trading and lending business. There is Risk Management Committee of the Board which is responsible for identifying the risk and setting up processes to mitigate the risk. SMC has separate risk management teams which constantly evaluate the various risk, viz. market risk, credit risk, operational risk, and puts necessary mitigation measures in place on near real time basis for both broking and arbitrage operations.

On the back of adequate risk management systems, the company has been able to control credit losses / write-offs in broking segment (Rs.6.81 cr in FY18 and Rs.9.24 cr in FY17).

Comfortable capital structure

The capital structure of SMC Group was comfortable with overall gearing being 0.85x given the Tangible Networth of Rs.619.16 crore and on-book debt of Rs.526.03 cr as on March 31, 2018. Besides the on-book debt, SMC also avails bank guarantees for trading on the exchanges. Bank Guarantees (at consolidated level) to the exchange stood at Rs.706.93 crore as on March 31, 2018.

Comfortable Liquidity Profile

The liquidity profile of SMC is comfortable supported by arbitrage book of Rs.150-200 crore which can be liquidated in case of need, comfortable capital structure and healthy level of margin utilization with exchanges. The company had free cash and bank balances of Rs.74.47 crore as on Mar-18. In addition, the company had un-encumbered proprietary / arbitrage book of Rs. 109 crore as on Mar-18 (Average book of Rs.150-200 cr), which can be liquidate in case of funding need. Furthermore, the company maintains adequate margin with stock exchanges and the unutilized margin offers liquidity cushion to SMC in the case of eventuality.

Key Weaknesses

Dependency on capital markets which has inherent volatility; albeit track record of profitable operations

Capital market led activities which include broking, arbitrage operations, margin lending, portfolio management and depository services contribute over 60% share in SMC's net revenue. The revenue from capital markets remains susceptible to market volatility. Also over the recent times there has been a trend of lower margins in broking business seen owing to heightened competition which exposes the company to the risk of volatility in income and profitability. The group's arbitrage book also remains susceptible to capital market conditions, however, most trades are hedged and algo-based and there is established track record of consistent stable profits in arbitrage book. However, despite the presence in capital market segment, SMC has exhibited track record of profitable operations.

Also, with the growing lending / NBFC business and distribution of various financial products leveraging the existing franchisee network and client base will help in further diversifying the risk and dependency on capital markets.

Moderate Profitability levels and also largely driven by arbitrage and lending (NBFC) business and moderate profitability in broking and distribution business

The company reported PAT of Rs.52.52 crore on net income of Rs.529.16 crore in FY18 as against PAT of Rs.45.83 cr on net income of Rs.472.38 cr in FY17 (growth in net income by 12% and PAT by 33.5% (adjusted for extra-ordinary expenses on ADR issue). SMC reported Adj. PBILDT and PAT margin (basis net income) of 29.30% and 9.62% respectively in FY18 (25.35% and 9.54% in FY17). RONW however remains moderate at 9.72% during FY18 (excluding impact of extraordinary expenses on ADR issue). The profitability is largely driven by arbitrage and lending operations of the group and profitability of broking and distribution business remains moderate.

Limited track record in NBFC lending business with borrower concentration

SMC Group commenced lending business in 2008, however, much of the growth in loan book has been seen during the last three years. Thus, given the recent origination, the loan book is yet to season fully though asset quality indicators remain under control so far (Gross and Net NPAs of 1.43% and 0.70% as on Mar-18). Also, given a moderate book size and wholesale lending largely, the borrower concentration remains high. The Top 10 borrowers constituted 33% of the loan book of Rs.615 crore as on June-18. However, large part of the book (over 80%) is secured loan book.

Analytical approach: CARE has based its assessment on the combined view of SMC Global Securities Limited including all its subsidiaries based on consolidated financials of SMC Global Securities Limited.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
CARE Methodology for Non Banking Financial Companies
Financial Sector –Financial Ratios

About the Company

SMC Global Securities Limited (SMC), a Delhi based stock Broking Company which was incorporated on December 19, 1994 and is the flagship company of the SMC group. The group is one of the old integrated capital market intermediaries in the financial sector engaged in the business of broking, arbitrage trading, financial product distribution (Mutual Funds, Debt Products and Insurance), depository services, portfolio management services (PMS) and lending operations. SMC has pan-India branch and franchisee presence and is present in over 500 Cities and has a network of 89 branches, 2950+ employees, 2500+ Sub-brokers, 9800+ Independent Distributors, client base: 18+ Lac as on Mar-18. SMC has 8 domestic subsidiaries namely SMC Comtrade Ltd, Moneywise Financial Services Private Limited, SMC Finvest Ltd, SMC Global IFSC Ltd, SMC Capitals Ltd, SMC Investments & Advisors Ltd, Moneywise Finvest Ltd and Indunia Realtech Ltd. It also has one foreign subsidiary, SMC Global USA Inc. and 3 step-down subsidiaries namely SMC Real Estate Advisors Pvt Ltd, SMC Insurance Brokers Private Limited and SMC Comex International DMCC, UAE.

Brief Financials (Rs. crore) – Consolidated	FY17(A)	FY18(A)
Total income	533.87	657.81
Net Income (adjusted for commission to sub-brokers)	472.38	529.16
Interest coverage (times)	3.66	3.15
Total Assets	1,558.24	1,804.69
ROTA (%)	3.11	3.03

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

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.

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
Commercial Paper Issue (Proposed)	-	-	-	25.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper Issue	ST	25.00	CARE A1+	-	-	-	-

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