November 04, 2022

SMC Global Securities Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	25	25	[ICRA]A1+; reaffirmed
Long-term/short-term fund-based/non-fund based bank lines	1,000	1,500	[ICRA]A (Stable)/[ICRA]A1+; reaffirmed/assigned
Total	**1,025**	**1,525**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of SMC Global Securities Limited (SMC) and its subsidiaries (collectively referred to as the SMC Group/the Group), given the synergies and operational linkages between the entities. The ratings factor in SMC's long track record in the capital market segment and its well-established network of branches and sub-brokers. The ratings also factor in the company's established market position along with the synergistic benefits arising from the Group's integrated presence across broking, clearing, distribution, wealth and lending activities.

The ratings derive comfort from the Group's comfortable capitalisation profile with a gearing of 0.55x and a net worth of Rs. 926 crore on a consolidated basis as on March 31, 2022. The leverage could go up from the current level, with the scale-up in the lending business (housed in the non-banking financial company (NBFC) – Moneywise Financial Services Pvt. Ltd.), as the borrowing requirement for the Group largely arises from the lending activities while the broking business requires bank guarantees. Moreover, the liquidity profile is adequate, supported by the client margins taken for placing at exchanges and the healthy level of margin utilisation with the exchanges (average utilisation was around 65% from April 2021 to July 2022), sufficient unencumbered cash and bank balance of Rs. 40 crore as on June 30, 2022 and adequate sanctioned and unutilised bank lines.

ICRA also notes that the Group's profitability improved in FY2022 with a return on average net worth (RoNW) of 21% on a consolidated basis (14% in FY2021 and 3% in FY2020), driven by higher revenues (largely from the broking business). However, the sustainability of the same over an extended period remains to be seen. The asset quality indicators remain under control on a consolidated basis with negligible write-offs. ICRA also notes the recovery in the asset quality indicators at the NBFC level in FY2022, following some deterioration witnessed in FY2021 due to the impact of the Covid-19 pandemic. The performance of the lending business, in terms of growth and asset quality, would have a bearing on the overall credit profile of the Group.

These strengths are partially offset by the inherent volatility in capital markets and the highly competitive and fragmented nature of the broking industry. The risk is somewhat augmented as a significant portion of SMC's revenues (approximately 57% in FY2022) is from capital market related activities (broking and trading activities). However, ICRA has noted some improvement in diversification over the years with the increasing share of lending and other fee-based businesses (such as asset management, insurance broking) in the overall revenue mix. The Group's experience in the lending business remains limited compared with its track record in capital market operations. In this regard, the steps taken by the management to strengthen the risk management and underwriting processes and the calibrated growth approach provide comfort. Going forward, the company's ability to diversify its revenue stream, expand its operations while leveraging its wide geographical reach, scale up its risk management systems in line with the business growth and improve its profitability remains critical.

Key rating drivers and their description

Credit strengths

Long track record and established market position – The company has a long track record of about three decades in the capital market segment. It caters to retail as well as institutional clients, though the bulk of the business remains focused on retail. SMC has a well-established position in the capital markets with a market share of 0.8% and 0.4% in FY2022 and Q1 FY2023, respectively (0.9% in FY2021).

Comfortable liquidity position and capitalisation profile – SMC has a comfortable liquidity profile with adequate unutilised margins placed at the exchanges (average margin utilisation of around 65% in FY2022 and Q1 FY2023), sufficient unencumbered cash and bank balance of Rs. 40 crore as on June 30, 2022 along with an adequate amount of sanctioned and unutilised bank lines. The capitalisation profile, on a consolidated basis, stood comfortable with SMC's reported gearing at 0.55x on a reported net worth of Rs. 926 crore as on March 31, 2022 (Rs. 922 crore as on June 30, 2022). With the NBFC operating at a modest gearing level, the capital requirement to grow the loan book further is expected to be limited in the near term. Overall, ICRA expects the Group to continue to grow while maintaining prudent capitalisation levels.

Good asset quality indicators – SMC's asset quality remains largely under control with negligible write-offs in FY2022 and Q1 FY2023. It is further supported by the company's risk management policy with automated margin monitoring systems. ICRA has also noted that the NBFC's asset quality indicators recovered with the gross non-performing advances (GNPAs) improving further to 2.6% as on June 30, 2022 from 2.8% as on March 31, 2022 (6.2% as on March 31, 2021). The NBFC's ability to control slippages, going forward, would be critical for maintaining the credit profile of the Group.

Improving profitability indicators though sustainability needs to be established – The Group's profitability improved in FY2022 with a RoNW of 21% on a consolidated basis (14% in FY2021 and 3% in FY2020), driven by higher revenues (largely from the broking business) as well as contribution from trading operations. However, the sustainability of the same is yet to be established. Also, given the expected moderation in broking volumes at the industry level and the high competition (which is likely to keep broking yields under pressure), the Group's profitability indicators could moderate from the FY2022 levels. Similarly, the company's ability to make significant trading gains on the propriety book would depend on its ability to identify such opportunities and is difficult to predict.

Credit challenges

High dependence on capital markets – The company's revenue profile, on a consolidated basis, continues to be dominated by capital markets (approximately 57% of the total revenues were from the brokerage and trading segment in FY2022), which are inherently vulnerable to market cycles. Net interest income from financing activities (21% of total income for FY2022), fee income received as commission on the sale of insurance and mutual funds to clients (18%) and other miscellaneous income {income from advisory services, delayed payment charges/interest on the company's margin trade funding (MTF) book and dividends received} accounted for the balance revenues. ICRA expects the share of capital market related income to remain high with a similar revenue mix in the near term.

While the share of capital market related revenue (combination of trading income and net broking income) in the Group's overall revenue has moderated over the years (57% in FY2022 from 64% in FY2020), the profitability continues to be driven by capital market related activities with financing activities accounting for less than 20% of the overall profit before taxes on a consolidated basis. The Group's ability to profitably improve the diversification would be a key monitorable.

Competitive intensity likely to keep broking yields under pressure – The company's blended yields in equity broking have been under pressure due to competitive intensity and the substantial share of the low-yielding futures & options (F&O) segment in the overall equity trading volumes (98% in FY2022, 97% in FY2021). The average yields are likely to remain under pressure, going forward as well, given the competitive pressure and the increase in market volatility in recent times, thereby leading to an increase in low-yielding intraday trades.

Environmental and social risks

Given the service-oriented business of the SMC group, its direct exposure to environmental risks/ physical climate risk and any regulatory risks pertaining to environment is not material. Further, while the group's incremental operations encompass a diversified set of activities, its lending exposure will primarily remain concentrated towards segments such as SME financing, and loan against property, besides broking activities. Thus, while in general, lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, SMC group's exposure to environmentally sensitive segments remains low and hence indirect transition risks arising from changes in regulations or policies concerning the underlying assets are not material.

With regard to social risks, data security and customer privacy are among the key sources of vulnerabilities for lending institutions as any material lapses could be detrimental to the reputation and invite regulatory censure. As majority of SMC's services are digitally driven with high utility of information technology, SMC faces the risk of data breaches, cyber-attack and other operational risks affecting the customer data, trading, broking etc. However, SMC had no such instances in the past which indicate the risk management and processes are adequate.

Liquidity position: Adequate

SMC has an adequate liquidity profile with unutilised margins placed at the exchanges (average margin utilisation of around 65% in FY2022 and Q1 FY2023), sufficient unencumbered cash and bank balance of Rs. 40 crore as on June 30, 2022 and an adequate amount of sanctioned and unutilised bank lines. The liquidity position of Moneywise Financial Services Pvt. Ltd., SMC's NBFC subsidiary, remains comfortable with positive cumulative mismatches across all the buckets due to its low gearing as on March 31, 2022.

Rating sensitivities

Positive factors – A significant improvement in the Group's revenue diversification along with maintaining the current levels of profitability on a sustained basis may result in a rating upgrade.

Negative factors – The ratings could be revised downwards if there is a significant deterioration in the Group's profitability indicators, thereby adversely affecting its financial risk profile. The ratings could also face significant pressure if the credit quality of the NBFC deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Broking Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

SMC Global Securities Limited (SMC) is a Delhi-based stockbroking company, which was incorporated on December 19, 1994 and is the flagship company of the SMC Group. SMC, with its subsidiaries, has a significant presence in almost all the important segments of financial services such as broking, distribution of third-party products and initial public offerings (IPOs), insurance broking, financing (NBFC), real estate advisory and wealth management, investment banking, clearing services, depository participant, non-resident Indian (NRI) and foreign portfolio investment (FPI) services, etc. SMC has a presence in more than 447 cities across India and is also present in the United Arab Emirates (UAE). It has a client base of over 2.0 million.

On a consolidated basis, SMC reported a profit after tax (PAT) of Rs. 175 crore for FY2022 on a managed asset base of Rs. 2,954 crore as on March 31, 2022 compared with a PAT of Rs. 105 crore for FY2021 on a managed asset base of Rs. 2,411 crore as on March 31, 2021. In Q1 FY2023, SMC reported a PAT of Rs. 37.0 crore on a consolidated basis.

On a standalone basis, SMC reported a PAT of Rs. 144.6 crore in FY2022 on an asset base of Rs. 2,371.6 crore as on March 31, 2022 compared to a PAT of Rs. 74.9 crore in FY2021 on an asset base of Rs. 1,940.5 crore as on March 31, 2021. SMC reported a PAT of Rs. 35.8 crore in Q1 FY2023.

Key financial indicators (audited)

SMC (consolidated)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Gross brokerage income	388.4	470.3	543.9	180.6^
Net brokerage income	151.7	171.5	190.3	NA
Trading income	158.9	170.9	191.0	44.6
Fee income	79.9	90.9	122.8	NA
Net interest income	90.7	110.4	141.0	42.9
Net operating income (NOI)	325.7	388.7	478.4	224.4
Total operating expenses	429.6	399.2	472.1	220.9
Profit before tax	45.1	142.5	221.4	49.4
Profit after tax (PAT)	23.9	105.0	174.6	37.0
Net worth	681.4	772.7	926.1	922.3
Borrowings	291.5	499.31	513.91	NA
Borrowings (excl. lease liabilities)	184.7	465.47	480.99	NA
Gearing (times)	0.32	0.64	0.55	NA
Gearing (times; excl. lease liabilities)	0.27	0.60	0.52	NA
Cost-to-income ratio	132%	103%	99%	98%
Cost-to-income ratio (incl. trading income)	89%	71%	71%	82%
Return on net worth	3%	14%	21%	16%
PAT/NOI	7%	27%	36%	16%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials; ^ Includes other fee income*

Key financial indicators (audited)

SMC (standalone)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22	Q1 FY2023/Jun-22*
Gross brokerage income	388.4	213.6	251.5	92.0^
Net brokerage income	151.7	117.6	134.8	NA
Trading income	158.9	123.6	151.4	43.3
Fee income	80.9	77.3	108.7	NA
Net interest income	88.1	48.6	75.3	20.0
Net operating income (NOI)	328.6	265.9	338.5	121.3
Total operating expenses	429.6	289.2	346.5	120.8
Profit before tax	45.2	105.2	182.2	44.7
Profit after tax (PAT)	23.9	74.9	144.6	35.8
Net worth	681.4	671.5	793.2	NA
Borrowings	86.3	262.78	174.47	NA
Borrowing (excl. lease liabilities)	65.2	238.12	150.74	NA
Gearing (times)	0.14	0.39	0.22	NA
Gearing (times; excl. lease liabilities)	0.11	0.35	0.19	NA
Cost-to-income ratio	131%	109%	102%	100%
Cost-to-income ratio (incl. trading income)	88%	74%	71%	73%
Return on net worth	7%	11%	20%	NA
PAT/NOI	7%	28%	43%	29%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited financials; ^ Includes other fee income*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

ICRA notes the legal proceeding by the investigating authority with regard to the alleged violation of the Securities and Exchange Board of India's (SEBI) framework on system audit between October 2012 and September 2015 in relation to the NSE co-location facility. There has not been any adverse regulatory action on the Group, so far. Further, as per the management's perspective, there is no likely adverse impact of the same on the business or credit profile of the Group.

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 04, 2022	Aug 30, 2022	Aug 30, 2021	Aug 31, 2020* Sep 30, 2020^	Jul 26, 2019
1	Commercial paper	ST	25	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Long-term/short-term fund-based/non-fund based bank lines	LT/ST	1,500	1,000	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+	[ICRA]A (Stable)/[ICRA]A1+
3	Issuer rating	LT						[ICRA]A (Stable); Withdrawn	[ICRA]A (Stable)

*LT – Long term, ST – Short term; *Issuer rating was put on notice of withdrawal on August 31, 2020; ^withdrawn as on September 30, 2020*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Long-term/short-term fund-based/non-fund based bank lines	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details as on September 30, 2022

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	100.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	150.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	125.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	125.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	60.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	65.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	48.50	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	20.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	40.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	65.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	95.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	5.00	[ICRA]A (Stable)/[ICRA]A1+
NA	Long-term/Short-term fund-based/non-fund based bank lines	NA	NA	NA	601.50	[ICRA]A (Stable)/[ICRA]A1+
Yet to be placed	Commercial Paper	NA	NA	7-365 days	25.00	[ICRA]A1+

Source: Company, ICRA Research

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SMC Comtrade Limited	100.00%	Full Consolidation
SMC Investments & Advisors Limited	100.00%	Full Consolidation
Moneywise Financial Services Pvt. Ltd.	100.00%	Full Consolidation
SMC Capital Limited	100.00%	Full Consolidation
SMC Insurance Brokers Pvt. Ltd	97.58%	Full Consolidation
SMC Comex International DMCC	100.00%	Full Consolidation
Moneywise Finvest Limited	100.00%	Full Consolidation
SMC Global USA Inc	50.00%	Full Consolidation
SMC Global IFSC Private Limited	100.00%	Full Consolidation
SMC Real Estate Advisors Pvt. Ltd	100.00%	Full Consolidation
SMC & IM Capitals Investment Manager LLP	50.00%	Equity Method

Source: Company; Note: ICRA has taken a consolidated view of the parent (SMC), its subsidiaries and associates while assigning the ratings

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About ICRA Limited:

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