

## Rating Rationale

November 22, 2024 | Mumbai

### SMC Global Securities Limited

Rating reaffirmed at 'CRISIL A/Stable'

#### Rating Action

<b>Rs.175 Crore Non Convertible Debentures<sup>&amp;</sup></b>	<b>CRISIL A/Stable (Reaffirmed)</b>
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*& Proposed public/private issue for quantum of Rs 75.19 crore*

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A/Stable' rating on the non convertible debentures (NCD) of SMC Global Securities Limited (SMC).

The ratings continue to factor in the established presence and track record of the group in capital market businesses, healthy diversification in revenue across multiple segments, adequate capital position and the extensive experience of the promoters in the business.

These strengths are partially offset by a moderate albeit improving earnings profile and susceptibility to risks associated with capital market-related businesses.

The group has been in the broking business since 1994 with presence in both cash equity and derivatives market segments, including the currency and commodity derivatives division. The group's other key offerings include lending through a non-banking financial company (NBFC), insurance broking, wealth management and real estate advisory services. The group also distributes third-party products such as mutual funds, corporate fixed deposits (FDs), bonds and initial public offerings. The broking business had a large retail client base of over 11.0 lakh customers as on September 30, 2024 (grew at 13.7% on-year in fiscal 2024). Active clients for the broking business stood at 2.04 lakh as on September 30, 2024.

The group has adequate capitalization, with reported networth of Rs 1,182 crore as on September 30, 2024 (Rs 1,096 crore as on March 31, 2024). With respect to earnings profile, the group reported profit after tax (PAT) of Rs 188 crore and return on equity (RoE) of 18.6% for fiscal 2024 compared to Rs 120 crore and 13.0%, respectively, for the previous fiscal. Profitability improved in fiscal 2024 owing to relative increase in the broking income, interest income and net gain on fair value changes. For the half year ended September 30, 2024, the company reported PAT of Rs 99 crore and RoE of 17.4% (annualized).

#### Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of SMC and its subsidiaries. That is because the entities, collectively referred to as the SMC group, have integrated operations and operate under a common brand name.

*Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

#### Key Rating Drivers & Detailed Description

##### Strengths:

- Track record in capital market business, supported by experienced management and robust risk management systems:** The group has been in the broking business since 1994 and has an established operational track record. The group's senior management team comprises the promoters -- Mr. Subhash Chand Aggarwal and Mr. Mahesh C Gupta, who have more than four decades of experience in the capital market industry. Further, the group has hired professionals having significant relevant expertise. The CEO and head of the broking division, Mr Ajay Garg, has more than 25 years of experience in the capital market industry. The promoter and top management have witnessed several cycles in the capital markets business. This has led to building sound risk management systems that partially offset risks arising from uncertainties inherent in the trading and broking business.

All the Securities and Exchange Board of India (SEBI) and exchange-prescribed regulations have been adhered to by instilling requisite systems and processes. The group sets client trading limits upfront and monitors client exposure on a real-time basis. It also sets scrip-wise exposure limit to keep a check on illiquid scrips or scrips under any kind of surveillance. Upfront margin along with peak margin is collected necessarily and clients are required to maintain adequate margin as prescribed by exchanges. In case of adverse/volatile price movements real-time risk-based square off could be initiated at any time during the day.

On the trading side the group engages largely in arbitrage strategies, which limits likelihood of losses. A dedicated surveillance team monitors trader limits, outstanding exposures, and mark to market on real-time basis. The sound risk management system has resulted in nil quarterly losses since inception. The group also set up an in-house technology team in fiscal 2023 to strengthen their IT infrastructure.

- **Increasing diversification across financial services businesses, supporting stability in earnings profile:** SMC is an established player in the retail equity broking segment. The market share of the combined volumes of the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) in both the cash and derivatives segments stood at 0.18% for fiscal 2024, with higher market share in the retail cash segment at 0.74%. It has a modest presence in the commodity and currency segment and earns ~8-9% of its total broking income from these two segments. Furthermore, amidst high competition from discount brokers, the group started its own discount broking platform in 2019 under the brand name 'Stoxkart' where customers are charged only for profitable transactions (only for cash transactions - intraday). The platform has a client base of over 2.5 lakh customers as on September 30, 2024 (grew at 23.4% on-year in fiscal 2024). With gradual scale up of fund-based businesses (NBFC) and the presence of fee-based businesses, such as insurance broking, distribution (financial products), wealth management, advisory, revenue streams have become more diverse. Contribution from these businesses to overall revenue has increased in the last few fiscals. The group is focusing on scaling up its insurance broking and distribution businesses by strengthening the technology infrastructure.

The wealth management business had assets under management (AUM) worth Rs 1,010 crore as on September 30, 2024 (Rs 908 crore as on March 31, 2024). The AUM of mutual funds under the distribution business was over Rs 4,600 crore as on September 30, 2024. The company has been able to create a niche for itself in distributing FDs and had distributed FDs worth Rs 2,864 crore for the half year period ended September 30, 2024. For their insurance broking business, it has sold over 4.7 lakh policies worth Rs 1,315 crore of insurance premium for the half year period ended September 30, 2024.

The group provides lending through its wholly owned subsidiary, Moneywise Financial Services Private Limited (Moneywise). The lending business commenced operations in 2008 and offers a wide bouquet of small and medium-sized enterprises (SME)-focused loan products such as working capital term loans, loan against property, asset financing, loan to other NBFCs, capital market funding, consumer durable loans, supply chain financing and gold loan. AUM grew ~37% (on-year) in fiscal 2024 and stood at Rs 1,237 crore as on March 31, 2024, against Rs 900 crore a year ago; AUM further increased marginally to Rs 1,278 crore as on September 30, 2024. The asset quality of the book remains stable as gross non-performing assets stood at 2.2% as on September 30, 2024 (2.2% as on March 31, 2024), against 2.3% as on March 31, 2023. However, it is supported by higher write-offs in fiscal 2024. Including write-offs (net of recovery) the adjusted gross non-performing assets stood at 3.1% as on March 31, 2024 as against 2.6% as on March 31, 2023. The subsidiary reported PAT of Rs 56 crore and return on assets of 4.8% for fiscal 2024, compared to Rs 36 crore and 4.0%, respectively, in the previous year.

- **Adequate capitalization:** The group is adequately capitalised for its current and planned scale of operations. The group reported networth of Rs 1,182 crore and gearing of 1.3 times as on September 30, 2024, as against Rs 1,096 crore and 1.3 times, respectively as on March 31, 2024. Absolute networth includes investment of Rs 377 crore in subsidiaries (of which Rs 230 crore is deployed in Moneywise). Capital augmentation has largely been driven by internal cash accrual since SMC operates in capital light businesses where borrowing needs are largely to meet working capital requirement and for margin trade funding business. But with plans to scale up the non-capital market related NBFC business, gearing is expected to increase gradually over the near to medium term. However, with gearing of the NBFC business modest at 1.6 times as on September 30, 2024, the need for raising capital is not immediate in the near term. Hence, the capital position is expected to remain adequate over the medium term.

#### Weaknesses:

- **Moderate-albeit-improving earnings profile:** The earnings profile of the group is well diversified on a consolidated basis. The income from traditional broking (capital market) comprises ~22% of total income in fiscal 2024 while insurance broking contributes ~32%. The group earns 21% of its total income through interest income (float and delayed interest charges, interest income from margin trade funding and NBFC business). Income from proprietary trading contributes another 10% of total income. Contribution from other fee-based income streams, such as distribution of financial products, research, wealth management, portfolio management is around 10% while other miscellaneous income comprises the rest 5% of total income.

The group reported total income of Rs 1,645 crore in fiscal 2024, vis-à-vis Rs 1,216 crore in the previous fiscal. In terms of expenses, variable expenses constitute 50-51% of the total expenses due to sub-brokerage model of various businesses (traditional broking, insurance broking, distribution). The rest 49-50% cost is fixed, of which ~31% comprises employee and finance costs and the rest (~18%) cost includes other operational expenses. The cost to income (net of sub-brokerage expenses) ratio is elevated in comparison to similar or larger-size peers; however it improved to 67.3% in fiscal 2024 from 73.4% in fiscal 2023 owing to higher operating expenses incurred in fiscal 2023 to strengthen the IT infrastructure. The operating efficiency is likely to remain in similar range over the next few years as technology infrastructure expenses will continue to remain a drag on earnings. The group reported net profit of Rs 188 crore in fiscal 2024 vis-à-vis Rs 120 crore in the previous fiscal. Going forward, the ability of the group to improve its operating leverage, and in turn profitability, will remain a key monitorable.

- **Highly competitive landscape, exposure to risks associated with capital market-related businesses:** Most businesses of the group are confined to the capital market industry, which faces intense competition from multiple players offering low-cost products. Additionally, competition from various proprietary trading businesses has increased

considerably. Given that trading volumes are the highest for most arbitrage players, trader retention will remain a challenge with the entrance of various players in the futures and options trading business.

The broking industry has seen a huge transformation in the last three years, with technology-based discount brokers entering and dominating the market. The key broking business remains exposed to economic, political and social factors that drive investor sentiments. Given the volatility in the business, brokerage volume and earnings are highly dependent on the level of trading activity in capital markets. Specifically, since March 2020, the stock markets have seen high retail participation and daily trading volume coinciding with the Covid-19 pandemic-led lockdown and people remaining at home. A significant proportion of client additions in the industry are of the 25-30 year age demographic, without significant savings surplus. The upward movement of the key benchmark indices during this period, too, has further contributed to the lure of stock market trading and potential gains. While this has benefited the group as well as other broking players, sustainability of this market momentum will remain a key monitorable.

- **Susceptibility to regulatory risks:** Over the past couple of years, the broking industry has witnessed a dynamic regulatory environment. With the objective of enhancing transparency, limiting misuse of funds and safeguarding investor interests, SEBI has introduced several changes. Some of these include margin pledge/re-pledge mechanism, daily client collateral reporting and disclosure, collateral allocation at clearing corporations by brokers, and upfront margin collection for intraday positions. Furthermore, SEBI has approved blocking of funds facility for trading in secondary markets, and non-usage of client deposits for availing bank guarantees (BG) by brokers, which aim to prevent misuse of client funds, broker defaults and consequent risk to investor capital. This is similar to the Application Supported by Blocked Amount (ASBA) facility already available for the primary market, which ensures movement of money only when an allotment happens.

Recently, SEBI has introduced a slew of measures on derivatives trading, with a three-pronged intent. One, raising entry barriers for transacting in derivatives, thereby controlling retail participation, by hiking futures and options contract sizes and mandating upfront premium collections from option buyers. Two, curbing market volatility due to speculative activity close to expiry dates by limiting weekly index derivatives offered by exchanges to one each and removing the margin benefit available on offsetting positions across different expiries on the expiry day. Three, controlling and building a cushion for risk by mandating intraday monitoring of position limits and requiring additional margins on short options contracts on the expiry day. These changes will come into effect in a phased manner. This is in addition to the exchange announcing the flat fee structure for transaction charges which is further expected to impact derivatives volumes

#### **Liquidity: Adequate**

Liquidity is comfortable for the current scale of operations. The company had cash and cash equivalents of Rs 134 crore and unutilised bank lines of Rs 131 crore as on September 30, 2024. This is in addition to the margin deposited with exchanges which amounts to Rs ~2,436 crore as on same date. Against this, company has scheduled repayments of Rs 258 crore over the next two months.

Liquidity of Moneywise is also comfortable as the asset liability management profile had positive cumulative mismatches across all buckets as on September 30, 2024. As on September 30, 2024, the company had cash and cash equivalents, and liquid investments aggregating to Rs 79 crore. Further, expected monthly collections over the next three months were Rs 153 crore which is sufficient to meet the debt repayment obligation of Rs 123 crore over the same time period.

#### **Outlook: Stable**

CRISIL Ratings believes the SMC group will continue to maintain healthy capitalisation metrics while benefitting from the modest presence across the financial services businesses and its adequate risk management systems. The ability to improve its market position and profitability will have to be monitored.

#### **Rating sensitivity factors**

##### **Upward factors:**

- Cost-to-income ratio (net of sub-brokerage expense) improving to below 60% on a steady-state basis
- Improvement in income diversity and profitability on a sustained basis
- Significant scale-up in market position of the NBFC businesses while maintaining asset quality and profitability

##### **Downward factors:**

- Weakening of the earnings profile or sustained increase in cost-to-income ratio (net of sub-brokerage expense) to over 80%
- Impact on business risk profile, indicated by sustained drop in market share impacting revenue from the core broking operations
- Significant deterioration in asset quality of the NBFC business on a sustained basis impacting group's profitability

#### **About the Company**

SMC, the holding company of the SMC group, was incorporated in 1994. The group offers diversified financial services across different business segments such as brokerage, investment banking, wealth management, distribution of third-party financial products, research, financing, depository services, insurance broking, clearing services and real estate advisory services. The group had customer base of over 11 lakhs as on September 30, 2024. Apart from online presence, it has a well spread-out distribution network with 198 branches and 2,297 authorized persons across 434 cities in India as on September 30, 2024.

For fiscal 2024, the group reported PAT of Rs 188 crore on total income of Rs 1,645 crore, against Rs 120 crore and Rs 1,216 crore, respectively, for the previous fiscal. For the half year ended September 30, 2024, it reported a PAT of Rs 99 crore on total income of Rs 903 crore.

On a standalone basis, SMC reported PAT of Rs 141 crore on total income of Rs 884 crore, against Rs 93 crore and Rs 693 crore, respectively, for the previous fiscal. For the half year ended September 30, 2024, it reported a PAT of Rs 81 crore on total income of Rs 519 crore.

#### Key Financial Indicators: (Consolidated)

For the period ended	Unit	Sep 2024	March 2024	March 2023
Total assets	Rs crore	5208	4747	3307
Total income	Rs crore	903	1645	1216
PAT	Rs crore	99	188	120
Cost to income (net of sub-brokerage expenses)	%	67.8	67.3	73.4
Return on network	%	17.4 <sup>^</sup>	18.6	13.0
Gearing	Times	1.3	1.3	1.0

<sup>^</sup>On an annualised basis

#### Key Financial Indicators: (Standalone)

For the period ended	Unit	Sep 2024	March 2024	March 2023
Total assets	Rs crore	3996	3611	2507
Total income	Rs crore	519	884	693
PAT	Rs crore	81	141	93
Cost to income (net of sub-brokerage expenses)	%	65.8	66.8	72.7
Return on network	%	17.7 <sup>^</sup>	17.1	12.0
Gearing	Times	0.9	0.7	0.5

<sup>^</sup>On an annualised basis

**Any other information:** Not Applicable

#### Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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#### Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
INE103C07017	Non Convertible Debentures	07-Aug-24	10.2	07-Aug-27	21.61	Simple	CRISIL A/Stable
INE103C07025	Non Convertible Debentures	07-Aug-24	10	07-Aug-26	26.72	Simple	CRISIL A/Stable
INE103C07033	Non-convertible debentures	07-Aug-24	10.0 (Cumulative)	07-Aug-26	6.8	Simple	CRISIL A/Stable
INE103C07058	Non-convertible debentures	07-Aug-24	10.2 (Cumulative)	07-Aug-27	11.58	Simple	CRISIL A/Stable
INE103C07041	Non-convertible debentures	07-Aug-24	9.94	07-Aug-29	14.98	Simple	CRISIL A/Stable
INE103C07066	Non-convertible debentures	07-Aug-24	10.40	07-Aug-29	18.12	Simple	CRISIL A/Stable
NA	Non Convertible Debentures <sup>#</sup>	NA	NA	NA	75.19	Simple	CRISIL A/Stable

<sup>#</sup>Yet to be issued (Quantum of Rs 75.19 crore to be issued by way of public/private issue)

#### Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Pulin Comtrade Limited	Full	Subsidiary
SMC Insurance Brokers Private Limited	Proportionate	Subsidiary
SMC Comex International DMCC	Full	Subsidiary
SMC Capitals Limited	Full	Subsidiary
Moneywise Financial Services Private Limited	Full	Subsidiary
SMC Investment & Advisors Limited	Full	Subsidiary
SMC Real Estate Advisors Private Limited	Full	Subsidiary
Moneywise Finvest Limited	Full	Subsidiary
SMC Global IFSC Private Limited	Full	Subsidiary
SMC Global USA Inc.#	Proportionate	Subsidiary

SMC & IM Capitals Investment Manager LLP*	Proportionate	Joint Venture
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# It has been voluntarily dissolved w.e.f. December 20,2023

\* It has been struck off w.e.f. November 05,2024

**Annexure - Rating History for last 3 Years**

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	175.0	CRISIL A/Stable		--	24-11-23	CRISIL A/Stable		--		--	--

All amounts are in Rs.Cr.

**Criteria Details****Links to related criteria**[Rating Criteria for Securities Companies](#)[CRISILs Criteria for Consolidation](#)

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