



SMERA RATINGS LIMITED

Magnum Equity Broking Limited (MEBL)

*Rating
Rationale*

February 12, 2015

Facilities	Amount (Rs. Crore)	Ratings
Overdraft Against Shares	0.95	SMERA BB-/Stable (Assigned)
Overdraft Against Shares	2.00	SMERA BB-/ Stable (Assigned)
Bank Guarantee	8.00	SMERA A4+ (Assigned)
Bank Guarantee	20.00	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.30.95 crore bank facilities of Magnum Equity Broking Limited. The outlook is '**Stable**'. The ratings are constrained by the company's moderate-scale operations and weak profitability in a highly competitive and cyclical broking industry. The ratings are also constrained by the company's high debtor levels. The ratings factor in risks related to proprietary trading activity undertaken by the company. However, the ratings draw comfort from the company's adequate capitalization levels and experienced management.

MEBL, incorporated in 1996, is a Mumbai-based broking firm. MEBL provides broking services in equities and derivatives segments. Notwithstanding established presence in Maharashtra, the company has modest-scale operations with 0.39 per cent market share in equity broking segment and 0.16 per cent market share in futures and options segment of the Indian capital markets.

MEBL's operations are susceptible to the inherent cyclicity in the equity markets which is reflected in its weak profitability margins and declining return on equity. The company faces intense competition from several players in the broking industry. The company has outstanding debtors of Rs.24.7 crore as on March 31, 2014, of which receivables of Rs.2.31 crore are outstanding for a period exceeding six months.

MEBL undertakes proprietary trading, which accounts for ~25 per cent of the total trades executed by the company. The earnings from proprietary trading activity are volatile in nature.

MEBL's adequate capitalisation is reflected in tangible net worth of ~Rs.31.22 crore and gearing (debt-equity ratio) of 0.10 times as on March 31, 2014. The company's healthy capitalization is supported by self-liquidating nature of borrowings and conservative gearing philosophy.

MEBL benefits from its experienced management. Mr. Dhiraj Lakhamshi Shah, promoter of MEBL, is a chartered accountant with around three decades of experience in the capital markets.

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Outlook: Stable

SMERA believes MEBL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with clients. The outlook may be revised to 'Positive' in case the company registers healthy growth in earnings while achieving a strong capital structure. The outlook may be revised to 'Negative' in case of decline in the company's earnings, or in case of deterioration in the company's capital structure.

About the company

MEBL, established in 1996, is a Mumbai-based broking firm promoted by Mr. Dhiraj Lakhamshi Shah. MEBL provides broking services in equities and derivatives segments. The company is affiliated with BSE, NSE, MCX-SX and CDSL. MEBL has presence in Maharashtra, Gujarat, Madhya Pradesh and Kolkata through a network of five branches and over 250 sub-brokers.

For FY2013-14, MEBL reported profit after tax (PAT) of Rs.0.34 crore on total income of Rs.5.51 crore, as compared with PAT of Rs.0.35 crore on a total income of Rs.6.23 crore in the previous year. The company's tangible net worth stood at Rs.31.22 crore as on March 31, 2014, as compared with Rs.30.88 crore a year earlier.

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