



Press Release
Tipsons Financial Services Private Limited
November 21, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	310.00	ACUITE AA CE Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	310.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE AA (CE)**' (read as **ACUITE double A credit enhancement**) on the Rs. 310.00 crore bank facilities of Tipsons Financial Services Private Limited (TF SPL). The outlook is '**Stable**'.

The rating factors in established presence of Tipsons Group in the capital market, TF SPL's large and reputed client network, its management expertise and the adequate liquidity buffers. The rating further factors in the benefits arising from the strength of the structure and the underlying pledge of highly liquid securities while arriving at the rating. Acuite also takes into account in established presence of Tipsons Group in the Indian capital market and the longstanding relationship with various clients.

The rating is however, constrained on account of marginal growth in trading volume by ~7 percent y-o-y (Rs 33,427.20 Cr as on March 2023 vis-à-vis 31,130.14 Cr as on March 2022). Also, the company's total income remained moderate at Rs 63.54 Cr as on March 2023 (Rs 61.61 Cr as on March 2022) and reported PAT of Rs 26.53 Cr for FY2023 (Rs 30.18 Cr for FY2022). Further, the rating is constrained on account of income volatility as a result of dependence on debt market volumes, low margin and highly competitive scenario in merchant banking industry. While the company holds investments only for a shorter duration, it is exposed to some price risk in its investment and treasury portfolio.

About the company

Incorporated in 1993, Gujarat based TF SPL, promoted by Mr. Dilip Shah and Mr. Jitendra Shah, is a SEBI registered Category-I Merchant Banker and provides financial services including GSec & bond trading, Investment banking, corporate advisory services, equity & commodities trading and mutual fund distribution etc. through its PAN India presence. TF SPL is the group's flagship company and is amongst the top 10 leading players in G-Sec and bonds trading in India. It primarily provides intermediary services for fixed income securities (largely G-Sec and corporate bonds) to reputed clients in the financial sector viz. banks, mutual funds, insurance companies, provident funds, pension funds, trusts and corporate treasuries etc

Unsupported Rating

ACUITE A-/Stable

Analytical Approach

Acuite has taken consolidated view on the business and financial risk profile of Tipsons Financial Services Private Limited, Tipsons Consultancy Services Private Limited (TCSPL), Tipsons

Stockbrokers Private Limited (TSBPL), Tipsons Commodities Private Limited (TCPL), Times Comtrade Private Limited (Times) and FinCred Investment Limited and has further factored in

the benefits arising from the strong structure while arriving at the rating. The suffix (CE) indicates credit enhancement arising from the strength of the structure and the underlying pledge of highly liquid securities. The strength of the underlying structure and continued adherence to the same is central to the rating.

Extent of Consolidation

- Full

Key Rating Drivers

Strength

Established presence in Capital Market

Tipsons Financial Services Private Limited (TFSPL) is promoted by Mr Dilip Shah and Mr Jitendra Shah. Mr Dilip Shah has more than 28 years of experience across various sectors. Mr. Jitendra Shah is an engineer and has more than 25 years of experience in various segments.

Incorporated in 1993, Gujarat based TFSPL, is a SEBI registered Category-I Merchant Banker and provides financial services including G-Sec & bond trading, Investment banking, corporate advisory services, equity & commodities trading and mutual fund distribution etc. through its PAN India presence. TFSPL is the group's flagship company and is amongst the top 10 leading players in G-Sec and bonds trading in India. TFSPL benefits from the established presence in the Indian capital markets and long standing relationships with various clients. TFSPL functions as an intermediary for its clients to buy and sell debt securities, both Government and private. Its network and market intelligence enable it to offer solutions to its clients which mostly comprise banks, mutual funds, insurance companies, provident funds, pension funds, trusts and corporate treasuries etc. TFSPL's net worth stood at Rs. 212.89 Cr. as on March 31, 2023.

Acuité believes that Tipson's group presence in the domestic capital market and established relationships with various clients and investors should support its business risk profile over the near to medium term.

Strength of underlying structure

The structure being assessed envisages an aggregate borrowing limit of Rs. 280.00 Cr. in the form of cash credit from the bank secured by pledge of underlying bonds and securities. The underlying securities will be government securities and corporate bonds rated AA and above within overall limit of Rs. 280.00 Cr. The bank has also stipulated differential margin for different category of securities to be purchased under this arrangement.

The government securities purchased by the company will be held in a designated Constituent Subsidiary General Ledger (CSGL) Account and a joint depository participant account for corporate bonds, which will be duly pledged to the bank. The limits as sanctioned by the bank stipulates purchase of only Government securities and corporate bonds rated AA and above.

The joint holding of the account facilitates for strict monitoring at the lenders end with respect to transactions. The bank stipulates margin requirement in the range of 5 percent to 15 percent (depending on the nature of the security i.e. lowest margin for risk-free securities like G-Sec). The stipulations also include the options available to the lender in case of a margin shortfall.

The securities pledged against which funding would be provided is restricted to Government securities and Corporate Bonds rated AA and above and requires its inclusion in the lenders bank pre-approved list thus providing an effective mitigation of credit risk at the initial stage of selecting securities for trade purposes. The structure further provides for shorter duration of the securities held like in case of securities outstanding in CGSL account for more than 30 days would not be reckoned while calculating drawing power. Hence, the exposure to credit risk is limited to the period the security is held and the structure facilitates for a shorter duration.

Acuité believes that the structure sanctioned by the lender provides for adequate covenants to safeguard the interest of the lenders. The lenders have adequate buffers available to initiate corrective action and mitigate the risk arising out of any adverse market movements. The strict adherence to the sanctioned terms and conditions is central to the

rating.

Weakness

Moderate Financial Performance

The company reported marginal growth in trading volume by ~7 percent y-o-y (Rs 33,427.20 Cr as on March 2023 vis-à-vis 31,130.14 Cr as on March 2022). The growth might be subdued as compared to previous years on account of overall market activities in wholesale debt market as a result of dip in overall market volumes and pressure on interest rates.

Also, the company's total income remained moderate at Rs 63.54 Cr as on March 2023 (Rs 61.61 Cr as on March 2022) and reported PAT of Rs 26.53 Cr for FY2023 (Rs 30.18 Cr for FY2022).

Susceptibility of performance to optimal management of credit and market risks

Tipsons Financial Services Private Limited business performance is linked to the level of activity in the bond markets which in turn is linked to the overall economic activity. The volumes in the debt capital market are influenced by economic cyclicalities and other macroeconomic factors such as GDP, growth rate, inflation, movement in interest rates and policy actions adopted by RBI. TFSPL generally engages into buy and sell transactions on behalf of its clients which comprise provident and pension funds, mutual funds, banks, etc. Most of the purchases of the securities are simultaneously sold to its clients. As a prudent strategy, TFSPL prefers to minimize the holding period in respect of any securities which significantly mitigates the associated credit risk and market risk. However, since a complete matching and synchronization of purchase and sale orders may always not be feasible, TFSPL will always be required to maintain certain inventory at any point of time. This exposes the company to certain credit and market risk. The risk assumed by TFSPL depends on nature of the security, volatility in the price of the security and the period of the holding. The timely churning of the portfolio also becomes important. Occurrence of significant credit events such as credit cliffs i.e. sharp deterioration in credit quality, may often result in a material decline in the bond prices and impact the liquidity of the counter. Such events could also trigger demands for accelerated payments by lenders in case of pledge-based borrowings. Besides trading of bonds, the company also has revenue streams from broking business, which is linked to the level of investment activities in the markets and also to the other factors such as regulatory environment. Since the investments held by the company are offered as collateral in this structure of pledge-based borrowings, the continued acceptability of the investments and margin requirements also have a bearing on the financial flexibility of the company. Besides market related factors, changes in bank's policies regarding the investments offered as collateral can also impact the performance and financial flexibility of the company.

Acuité believes that the ability to manage the tradeoff between various risks such as credit risk, market risk and operational risk and the returns is critical to the maintenance of a stable credit risk profile.

Assessment of Adequacy of Credit Enhancement

The structure provides for adequate covenants to safeguard the interest of the lenders and has adequate buffers available to initiate timely corrective action and effectively mitigate the risk arising out of any adverse market movements.

Rating Sensitivity

- Credit cliff in respect of any major security held by the company.
- Level of unencumbered liquid investments vis-à-vis borrowings.
- Any changes in credit quality of any bonds in security investment portfolio

All Covenants

TFSPL is subject to covenants stipulated by its lender in respect of parameters like capital structure.

Liquidity Position

Adequate

TF SPL has maintained adequate margins through a mix of fixed deposits and lien marking of current account. As on March 31, 2023, TF SPL had cash and cash equivalents of Rs.17.53 crore providing adequate liquidity cover. The net worth of the company as on March 31, 2023, stood at Rs. 212.89 Cr. providing adequate buffer to meet any requirements in case of any credit events. Besides providing for margin money it also provides adequate buffer to meet any working capital requirements.

Outlook:

Acuité believes that TF SPL will maintain 'Stable' credit risk profile over the medium term supported by its well-established position in the capital markets and experienced management. The outlook may be revised to 'Positive' in case of a sizeable improvement in its earnings translating to an improvement in its net worth and unencumbered inventory of securities. Conversely, the outlook may be revised to 'Negative' in case of sharp deterioration in credit quality of investment, reduction in the level of unencumbered securities or increase in debt levels (non-pledged based debt levels).

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	556.04	398.11
Total Income*	Rs. Cr.	63.54	61.61
PAT	Rs. Cr.	26.53	30.18
Net Worth	Rs. Cr.	212.89	186.36
Return on Average Assets (RoAA)	(%)	5.56	9.91
Return on Average Net Worth (RoNW)	(%)	13.29	17.62
Debt/Equity	Times	1.58	1.11
Gross NPA	(%)	-	-
Net NPA	(%)	-	-

*Total income equals to Net Interest Income plus other income.

Key Financials - Consolidated

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Revenue from Operations	Rs Cr.	522.06	643.56
Total Assets	Rs. Cr.	906.24	712.9
Total Income	Rs. Cr.	533.60	647.96
PAT	Rs. Cr.	47.67	40.34
Networth	Rs. Cr.	311.55	263.87
Return on Average Assets (RoAA)	(%)	5.89	7.05
Return on Net Worth (RoNW)	(%)	16.57	16.72
Total Debt/Tangible Net Worth (Gearing)	Times	1.77	1.42
Gross NPA	(%)	-	-
Net NPA	(%)	-	-

*Total income equals to Net Interest Income plus other income

Status of non-cooperation with previous CRA (if applicable):

Not Applicable

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE AA CE Stable Assigned
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	280.00	ACUITE AA CE Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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