

Press Release

Tipsons Consultancy Services Private Limited

March 23, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB' (read as SMERA BBB)** on the Rs. 50.00 crore bank facilities of Tipsons Consultancy Services Private Limited. The outlook is '**Stable**'.

Tipsons Consultancy Services Private Limited (TCSPL) established in 2010 is the merchant banking arm of the Tipson group. The group includes Tipsons Financial Services Private Limited (Rated SMERA A2), True Value Share Broker Ltd, and True Value Commodities Pvt Ltd. The company is a SEBI registered category I Merchant banker, Issue Manager and Underwriter and is engaged in the private placement of debt issuances. The company assists corporates in mobilising funds from the capital market via debt securities, equity and other instruments. It also provides consultancy and advisory services for business valuations, mergers and acquisitions among others.

Key Rating Drivers

Strengths

- **Long track record of operations and well established market position**

TCSPL was promoted by Mr Jitendra Shah and Mr Dilip Shah who have more than two decades of experience in the financial services industry. The Tipson Group was promoted by the abovementioned. The group has been providing merchant banking, debt capital market intermediation, trading, broking and wealth management services to institutional clients for more than two decades. Tipsons Financial Services Private Limited is the flagship company of the group and commenced operations in 1993. TCSPL has been catering to reputed institutional clients and investors including Rural Electrification Corporation (REC), Power Finance Corporation (PFC), IFCI, Srei Infrastructure Finance Limited among others. The company reported significant increase in total debt placement to Rs.70,000 cr for the eleven months ended February, 2017 against Rs.43,000 cr in FY2015-16. SMERA believes that TCSPL's strong market presence, established relationships with marquee clients and investors shall enable it to sustainably grow its scale of operations.

- **Stringent underwriting policies and prudent risk management practices**

TCSPL primarily underwrites highly rated debt securities issued by NBFC banks and other corporates. The company typically underwrites an issue only when it has got firm commitments to the extent of 90-95 per cent of the issue. Since the company deals primarily in highly rated securities, it is normally able to generate commitments from investors within a short time period. The company has well established relationships with various mutual funds, banks and other institutions which enable it to sell on such securities thereby reducing its holding, financing costs and limiting its exposure to market risks. SMERA expects TCSPL to continue to benefit from the high quality nature of securities underwritten by the company and its ability to downsell such securities by leveraging its well established relationship with various investors. SMERA believes that TCSPL will also benefit from its comfortable liquidity profile marked by unencumbered cash and bank balance of Rs. 8 cr as on 31 March, 2016. The company is expected to maintain adequate liquidity on its books in order to hedge risks emanating from adverse price movements in the debt capital market and other

operational risks.

- **Healthy profitability metrics**

TCSPL typically caters to large institutional clients and has developed expertise in the debt capital markets segment. The company, in FY2015-16 reported substantial fee based income from debt arrangement and advisory services in addition to purchase and sale of securities. The company reported a comfortable Return on Average Assets (RoAA) of 12.47 per cent in FY2015-16. SMERA expects TCSPL to continue to maintain its profitability indicators at current levels by leveraging its market position and expanding its overall scale of operations.

Weaknesses

- **Susceptibility of performance to debt segment of capital markets**

TCSPL has an established track record in the debt capital market. Its performance is linked to the movements in the domestic bond market which in turn is dependent on the level of economic activity. Hence TCSPL's performance is largely influenced by economic cyclicity and other macroeconomic factors such as GDP, growth rate, inflation and expected movement in interest rates. Adverse events such as sharp spike in inflationary pressures or hardening of interest rates could translate into muted credit offtake thereby translating into lower transaction volumes for TCSPL.

- **Exposure to regulatory risk**

The debt capital market is subject to stringent regulations by SEBI and other institutions. The government is in the process of bringing in substantial policy changes to deepen the debt securities market in India while strengthening the governance framework surrounding the capital market. While such changes are expected to augur well for players like TCSPL, adverse changes may affect the underwriting volumes by limiting debt issuances and investor interest in debt instruments.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that the outlook on TCSPL's rated facilities will remain stable over the medium term on account of the company's established track-record of operations, well established market position and experienced management. The outlook may be revised to 'Positive' in case of significant and sustained growth in scale of operations while maintaining its profitability metrics. Conversely the outlook may be revised to 'Negative' in case of lower than expected quantum of debt placements and/or significant escalation in operating and financing costs.

About the Rated Entity - Key Financials

TCSPL reported Profit After Tax (PAT) of Rs 1.67 cr on total income of Rs 4.20 cr in FY2015-16 compared to PAT of Rs 1.76 cr on total income of Rs 3.85 cr in FY2014-15. The total income in FY2015-16 comprises net interest income of Rs 1.02 cr (Rs 0.97 cr in FY2014-15), net investment income of Rs 0.02 cr (Rs 0.16 cr in FY2014-15), arrangement fees of Rs 2.95 cr (Rs 2.43 cr in FY2014-15) and Rs 0.21 cr (Rs 0.29 cr in FY2014-15) as consultancy fees.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Criteria For Rating Of Banks And Financial Institutions - <https://www.smera.in/criteria-banks.htm>

Note on complexity levels of the rated instrument<https://www.smera.in/criteria-complexity-levels.htm>**Rating History (Upto last three years)**

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA BBB / Stable

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ABOUT SMERA

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