

Press Release

Trust Investment Advisors Private Limited

March 06, 2019



Rating Reaffirmed and Assigned

| | |
|-------------------------------------|--|
| Total Facilities Rated | Rs. 1250.00 Cr. |
| Total Bank Facilities Rated | Rs. 800.00 Cr. (Revised from Rs. 600 Cr.) |
| Long Term Rating | ACUITE A+/ Stable |
| Total Commercial Paper Rated | Rs. 450.00 Cr. (Revised from Rs. 350 Cr.) |
| Short Term Rating | ACUITE A1+ |

Rating Rationale

Acuité has reaffirmed its long term rating of '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs. 650 Cr. bank loan facilities and has assigned the rating of '**ACUITE A+**' (read as **ACUITE A plus**) on Rs. 150 Cr. proposed bank facilities of Trust Investment Advisors Private Limited (TIAPL; part of Trust group). The outlook is '**Stable**'.

Acuité has also reaffirmed its short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 350 Cr. Commercial Paper programme and has assigned the rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 100.Cr. Commercial Paper programme of TIAPL.

Trust group, promoted by Ms. Nipa Sheth who has over two decades of experience in the financial services industry, has transitioned from a boutique investment banking firm in 2001 to a diversified financial services provider with broking, merchant banking, wealth management services, portfolio management services, non-banking financial operations and is now expanding into asset management business.

TIAPL, incorporated in 2006, is the merchant banking arm of the Trust group and is registered with SEBI as a category 1 merchant banker. The company obtained portfolio manager licence effective from October 2006. TIAPL is a leading non-bank corporate debt market intermediary with a strong investor base comprising of retirement funds, mutual funds and corporate treasuries. TIAPL has three subsidiaries Sankhya Financial Services Private Limited (NBFC with TIAPL holding 93.75 percent), Trust Asset Management Private Limited (an AMC wholly owned by TIAPL) and Chanakya Corporate Partners (a Mauritius based broking/advisory firm wholly owned by TIAPL).

Analytical approach:

Acuité has considered the standalone business and financial risk profile of TIAPL to arrive at its rating.

List of key rating drivers and their detailed description:

Strengths:

Strong presence in domestic capital market

TIAPL is a wholly owned subsidiary of Trust Capital Services Private Limited (TCSPL; engaged in broking services), the flagship company of the Trust group.

TIAPL benefits from the established and diversified presence of the group in domestic capital markets. The group has deepened its presence in the market with its strong sourcing, underwriting, and distribution capability for debt issues through both public and private placements which has resulted in strong tie-ups with reputed institutional players. TIAPL is one of the leading arrangers for commercial papers and bonds in non-banking segment. The company managed Rs. 1.37 lakh Cr. bond placements in FY 2018, Rs. 1.71 lakh Cr. in FY2017 and Rs. 0.87 lakh Cr. in FY2016 both through the private and public route. The company also offers portfolio management services for both debt and equity segments along with wealth management services.

It has demonstrated expertise in structuring and syndication of innovative and marquee structured transactions like commercial mortgage backed securities for DLF Group and Phoenix Mills Group, climate and sustainable energy bonds for Hero Wind Energy Private Limited, BASEL III bonds for various banks, credit enhanced state government bonds for Uttar Pradesh Power Corporation Limited to name a few.

Acuité believes that TIAPL's strong market presence in the domestic debt market and diversified offerings, established relationships with marquee clients and investors should enable it to sustainably grow its scale of operations over the medium to long term.

Prudent risk management practices

TIAPL's strong competitive position is supported by the prudent risk management practices which helps in managing the inherent risks in the business.

The company has a policy to typically underwrite an issue with firm commitments from prospective investors for a substantial proportion of the issue coupled with visibility to sell down the balance amount in a time bound manner. The company primarily underwrites AAA/AA category rated debt instruments or instruments with specific structures to protect the investor interest which gives the company higher appetite for underwriting due to higher market acceptance. TIAPL participates in syndication of lower rated debt instruments if they are backed by adequate investor appetite for such instruments.

The company has well established relationships with various mutual funds, PFs, banks, corporate treasuries, and other institutions which enables it to sell down such securities thereby reducing its holding, financing costs and limiting its exposure to market risks.

The company's debt levels are linked to its level of activity which in turn is linked to activity in the debt market. TIAPL's capital structure is marked by moderate gearing of 3.9 times as on March 31, 2018 (3.7 times as on March 31, 2017). The borrowings mainly comprise of short term bank borrowings, Commercial Papers and Non-convertible debentures, majority of which are secured by government securities, AAA rated PSU bonds and bonds issued by listed corporates.

Acuité believes that TIAPL's ability to maintain moderate leverage policy including maintaining adequate liquidity cushion is likely to support its operational performance over the medium term.

Weaknesses:

Susceptibility of performance to inherent volatility in capital markets

TIAPL's business performance is linked to activities in the capital market, especially debt segment. The level of activity in the debt capital market is influenced by economic cyclicalities and other macroeconomic factors such as GDP, growth rate, inflation and expected movement in interest rates. The occurrence of events such as sharp spike in inflationary pressures or hardening of interest rates could translate into muted credit offtake/moderation in debt market activity thereby translating into lower transaction volumes for TIAPL. The domestic bond market was adversely impacted in FY2018 compared to FY2017 which had a bearing on TIAPL's performance. The company's revenues from merchant banking operations had declined in FY2018 to Rs. 69.34 Cr. when compared to Rs. 114.27 Cr. in FY2017. TIAPL's performance will continue to be influenced by the trend in interest rates and volumes in the debt market going forward.

In addition to the macro risks, the company is also exposed to specific risks emanating from its investment portfolio. In the event of a rising interest rate scenario, the company could be exposed to marked to market impact on these securities. Generally the company tries to mitigate this risk by minimizing the holding period, usually the company sells down these securities/investments to its clients within a short time frame. However, in the event of any major credit event affecting sharp decline in the credit quality usually evidenced by a downward revision in its credit rating, the company could face challenges in unwinding its exposure to these investments. The risk to overall portfolio is heightened if there is a concentration towards these securities. Since the investments are usually held by the company are offered as collateral to the lenders, the continued acceptability of the securities and margin requirements will also have a bearing on the financial flexibility of the company.

In view of the above, Acuite believes that the company's performance will be a function of its ability to generate adequate business volumes and maintain a sound investment portfolio at the same time so as to ensure optimal returns after considering the risk return tradeoff.

Liquidity Position

The company maintains large proportion of highly rated government securities, government and non-government bonds which are liquid in nature. Besides long term funds (Equity), the company resorts to short term borrowings from banks and commercial Papers. The company generally follows a policy of maintaining unutilized bank lines against Commercial Papers outstanding as a part of liquidity management policy. The investors to the Commercial Papers are Mutual Funds and banks indicating acceptability from marquee investors. The company has outstanding commercial papers of Rs. 349 Cr as on January 31, 2019 which is coming up for repayment in the next two months along with NCD redemption Rs. 225 Cr.

The company has maintained adequate liquidity in the form of unutilized bank lines against outstanding commercial papers which helps in meeting of redemption in a timely manner. The company has adequate working capital limits of Rs. 650 Cr. and is exploring opportunities to tie up additional Rs. 150 Cr.

Outlook: Stable

Acuite believes that TIAPL will maintain stable credit risk profile over the medium term on account of the company's well established market position and experienced management. The outlook may be revised to 'Positive' in case of significant and sustained growth in the competitive position and scale of operations while maintaining its profitability metrics and liquidity position. Conversely the outlook may be revised to 'Negative' in case of sustained weakening of competitive position or adverse operating performance on account of the volatile debt markets or sharp deterioration in capital structure.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|--|---------|------------------|------------------|------------------|
| Total Assets | Rs. Cr. | 1170.25 | 891.90 | 564.53 |
| Total Income* | Rs. Cr. | 106.13 | 117.44 | 50.09 |
| PAT | Rs. Cr. | 47.27 | 61.98 | 20.40 |
| Net Worth | Rs. Cr. | 232.05 | 184.78 | 122.79 |
| Return on Average Assets (RoAA) | (%) | 4.58 | 8.51 | 4.11 |
| Return on Average Net Worth (RoNW) | (%) | 22.68 | 40.31 | 18.12 |
| Total Debt/Tangible Net Worth (Gearing) | Times | 3.86 | 3.65 | 3.15 |

*Total income equals to Total Income net off interest expense

Applicable Criteria

- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|---------------------------------|------------|---------------------|-----------------------------|
| Nov 21, 2018 | Working Capital Demand Loan | Long Term | 100.00 | ACUITE A+/Stable (Assigned) |
| | Working Capital Demand Loan | Long Term | 300.00 | ACUITE A+/Stable (Assigned) |
| | Overdraft | Long Term | 200.00* | ACUITE A+/Stable (Assigned) |
| | Commercial Paper | Short Term | 350.00 | ACUITE A1+ (Assigned) |

*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 | NA | NA | NA | 150.00 | ACUITE A+/Stable (Reaffirmed) |
| Working Capital Demand Loan | NA | NA | NA | 300.00 | ACUITE A+/Stable (Reaffirmed) |
| Overdraft | NA | NA | NA | 200.00* | ACUITE A+/Stable (Reaffirmed) |
| Proposed Bank Facility | NA | NA | NA | 150.00 | ACUITE A+/Stable (Assigned) |
| Commercial Paper | NA | NA | NA | 350.00 | ACUITE A1+ (Reaffirmed) |
| Proposed Commercial Paper | NA | NA | NA | 100.00 | ACUITE A1+ (Assigned) |

*includes sublimit of working capital limit of Rs. 100 Cr.

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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