

Press Release

Trust Capital Services (India) Private Limited

March 14, 2019



Rating Reaffirmed and Assigned

Total Facilities Rated*	Rs. 125.00 Cr.
Facilities Rated	Rs. 5.00 Cr.
Long Term Rating	ACUITE PP-MLD AA(SO)/ Stable (Converted from Provisional Rating to Final Rating)
Facilities Rated	Rs. 45.00 Cr.
Long Term Rating	ACUITE PP-MLD Provisional AA(SO)/ Stable (Reaffirmed)
Facilities Rated	Rs. 75.00 Cr.
Long Term Rating	ACUITE Provisional AA(SO)/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has converted its provisional rating on the Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures of Rs. 5 Cr. of TCSPL to final rating of '**ACUITE PP-MLD AA (SO)**' (**read as ACUITE double A; structured obligation**). The outlook is '**Stable**'. The conversion from provisional ratings to the final ratings reflect the fulfilment of the conditions laid out in the press release dated December 24, 2018.

Acuité has reaffirmed its rating of '**ACUITE PP-MLD Provisional AA (SO)**' (**read as ACUITE Principal Protected Market Linked Debentures Provisional double A; Structured obligation**) to the Rs. 45.00 Cr. Proposed Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures of Trust Capital Services (India) Private Limited (TCSPL). The outlook is '**Stable**'.

Acuité has also reaffirmed its rating of '**ACUITE Provisional AA (SO)**' (**read as ACUITE Provisional double A; Structured obligation**) to the Rs. 75.00 Cr. Proposed Secured Non-Convertible Debentures of TCSPL. The outlook is '**Stable**'.

The prefix 'PP-MLD' indicates that while the NCD is a principal-protected instrument, there are other non-credit risks associated with the instrument. While the principal is protected, the coupon/return is not fixed and is linked to external variable, Indian Government Security. This could result in volatility in the returns to the investors because of the unpredictable and unfavourable movement in the external variable, which is not addressed by the rating.

The rating on the Rs. 45.00 Cr. and Rs. 75.00 Cr. NCD is provisional and the final rating is subject to:

- Appointment of a SEBI registered debenture Trustee and signing of trust deed
- Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and condition of term sheet

The provisional rating is valid for 90 days and Acuité reserves the right to alter/modify/extend/withdraw the rating any time prior to 90 days, if such an action is deemed appropriate.

Analytical approach:

Acuité has taken a consolidated view on TCSPL and its subsidiaries, namely, Trust Investment Advisors Private Limited, Trust Securities Services Private Limited, Sankhya Financial Services Private Limited, Trust Asset Management Private Limited, Chanakya Corporate Partners and Trust AMC Trustee Private Limited collectively referred to as 'Trust group'. This is because of the common promoters, shared brand name, and strong business, operational and financial synergies between the group companies. Extent of consolidation: full.

The consolidated rating has been notched up on account of presence of credit enhancement in the form of a Debt Service Reserve Account (DSRA) comprising specifically identified liquid investments/debt securities maintained by the company.

Rating rationale for the NCD of Rs. 5.00 Cr, Rs. 45.00 Cr and Rs. 75.00 Cr:

The rating on the NCDs of Rs. 5.00 Cr., Rs. 45.00 Cr. and Rs. 75.00 Cr. is structured, whereby a DSRA is to be maintained at a minimum 20 percent of the outstanding principal amount. DSRA needs to be maintained in the form of cash, bank fixed deposit, 'AAA' rated debt securities and sovereign debt securities, in any combination, for the minimum duration covering the tenor of the NCDs.

About the group and the company:

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, and non-banking financial operations, and is now expanding into asset management business.

TCSPL was incorporated in 1994 and commenced commercial operations in 2001. The company is the flagship company of Trust group and is a deposit based member of BSE. TCSPL is engaged in distribution of securities to Superannuation funds (presently, empanelled with ~ 1300 Retirement Benefit Trusts) and is also a SEBI registered Stock Broker taking proprietary trading positions.

The company has two direct and four indirect subsidiaries, namely, Trust Investment Advisors Private Limited (merchant banking arm), Trust Securities Services Private Limited (Broking services), Sankhya Financial Services Private Limited (NBFC), Trust Asset Management Private Limited (AMC), Chanakya Corporate Partners (a Mauritius based broking/advisory firm) and Trust AMC Trustee Private Limited.

Key Rating Drivers:

Strengths:

• Presence of DSRA and Structured Payment Mechanism (SPM):

The rating factors in the Structured Payment Mechanism (SPM) put in place by TCSPL to ensure timely servicing of the interest and principal obligations. The rating on the NCDs is secured by the presence of a DSRA equivalent to 20 percent of the outstanding principal amount throughout its tenure. The DSRA shall be either in the form of cash, Fixed Deposits, sovereign debt securities or "AAA" rated listed debt securities in any combination. The DSRA assets will be pledged in favor of the Debenture Trustee and would need to be created within seven days from the deemed date of allotment.

Further, TCSPL will also be required to maintain a minimum asset cover of 1.10 times at all times during the currency of the NCDs. In case the security cover falls below 1.10 times on any valuation date, the company would be required to pledge additional assets so as to restore security cover to 1.10 times within 7 working days.

The rating centrally assumes complete adherence to SPM by the debenture trustee and TCSPL on an ongoing basis.

• Strong presence in domestic capital market

TCSPL is the flagship company of the Trust group and is the holding/ultimate holding company for six group companies. TCSPL 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, structuring, underwriting, and distribution capability for debt issues through both public and private placements which has resulted in strong tie-ups with reputed institutional players. The group's overall business profile is supported by TIAPL, which is one of the leading arrangers for commercial papers and bonds in non-banking segment. TIAPL has managed Rs. 137798 Cr. bond placements in FY 2018, Rs. 171075 Cr. in FY2017 and Rs. 87715 Cr. in FY2016 through the private and

public route. The group also offers portfolio management services for both debt and equity segments along with wealth management services.

The group has demonstrated expertise in structuring and syndication of innovative and marquee structured transactions such as 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 the group'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**

Trust Group's strong competitive position is supported by the prudent risk management practices which help in managing the inherent risks of the business.

The Group 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 group primarily underwrites AAA/AA category rated debt instruments or instruments with specific structures to protect the investor interest which gives the group higher appetite for underwriting due to higher market acceptance. The group participates in syndication of lower rated debt instruments if they are backed by adequate investor appetite for such instruments.

The Group 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.

Trust Group's capital structure is marked by net worth of Rs. 325.67 Cr. and moderate gearing of 3.9 times as on March 31, 2018 (Rs. 249.48 Cr. and 4.3 times a year ago, respectively). The group's consolidated gearing is likely to remain below 5 times on a steady state basis over the medium term. The group's debt levels are linked to the level of activities in the debt market, investor acceptance and underwriting plans, and hence relatively volatile.

Acuité believes that the group's ability to maintain moderate leverage policy and prudent risk management practices including maintaining adequate liquidity cushion are likely to support its operational performance over the medium term.

Weaknesses:

- **Susceptibility of performance to inherent volatility in capital markets**

Trust group's business performance is linked to activities in the capital market, especially debt segment. The performance is 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 the group.

The domestic bond market was adversely impacted in FY2018 compared to FY2017 which had a bearing on the group's performance. The group's revenue from merchant banking operations had declined to Rs. 69.47 Cr. in FY2018 from Rs. 128.34 Cr. in FY2017. However, the overall revenues have increased to Rs. 327.15 Cr. in FY2018 from Rs. 290.40 Cr in FY2017 mainly supported by profit on trading of securities. A sizeable part of this trading profit is linked to the group's structuring and distribution capabilities as the group has been able to profitably down-sell many of these innovative debt instruments after initial subscription. The performance in the debt syndication segment may be impacted in the near term due to elevated interest rates and tight liquidity conditions in the market during the current financial year.

Further, the ability to generate trading profit/sell down the securities in the portfolio in a profitable manner may be impacted given the tight liquidity conditions and risk aversion in the debt capital market.

The group maintains a portfolio of securities with varied maturity profile for distribution to its clients. TCSPL had a portfolio of Rs. 664.55 Cr. as on September 30, 2018 with high sectorial concentration towards NBFC sector which is facing high volatility over the past few months. Additionally, top 4 issuers constituted nearly 63 percent of the investment book reflecting high concentration. Given the rising interest rate scenario, the group could be exposed to marked to market impact on these securities.

Further, the group continues to face stiff competition from banks which have inherent advantage as compared to non-bank players on account of their strong clientele and underwriting capabilities.

Acuité, therefore, believes that while the group will sustain its established position in the debt syndication segment, the overall performance will remain sensitive to risks emanating from volatile capital markets, hardening interest rates and performance of its portfolio of investments. The group's ability to reduce sector and issuer concentration in the portfolio and unwind the exposures in a timely and profitable manner will remain a key rating sensitivity factor.

Liquidity Position

TCSPL has adequate working capital limits of Rs. 400.00 Cr. of which the average utilisation in the last six months ended February 28, 2019 was ~86 percent. It also benefits from the back-up available in the form of a large proportion of highly rated liquid investments in the portfolio, which can be liquidated to meet the upcoming redemptions.

Outlook: Stable

Acuité believes that TCSPL will maintain 'Stable' credit risk profile over the medium term supported by the structured payment mechanism, Trust group's well established market position and experienced management. The outlook may be revised to 'Positive' in case of significant and sustained growth in the 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 (Consolidated)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	1951.77	1394.98	1077.50
Total Income*	Rs. Cr.	173.23	179.09	79.98
PAT	Rs. Cr.	76.72	88.01	27.46
Net Worth	Rs. Cr.	325.67	249.48	166.05
Return on Average Assets (RoAA)	(%)	4.58	7.12	5.10
Return on Average Net Worth(RoNW)	(%)	26.68	42.36	33.07
Total Debt/Tangible Net Worth (Gearing)	Times	3.99	4.32	3.42

*Total income equals to Total Income net off interest expense

About the Rated Entity - Key Financials (Standalone)

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Total Assets	Rs. Cr.	607.13	531.17	535.67
Total Income*	Rs. Cr.	39.03	37.70	33.05
PAT	Rs. Cr.	7.99	8.06	7.04
Net Worth	Rs. Cr.	65.74	57.76	49.75
Return on Average Assets (RoAA)	(%)	1.40	1.51	2.63
Return on Average Net Worth(RoNW)	(%)	12.94	15.00	28.31
Total Debt/Tangible Net Worth (Gearing)	Times	4.17	5.60	3.99

*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>
- Consolidation of Companies: <https://www.acuite.in/view-rating-criteria-22.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
24-Dec-2018	Secured Redeemable Principal Protected Market Linked Non- Convertible Debentures (Proposed)	Long Term	50.00	ACUITE *PP-MLD Provisional AA(SO)/Stable (Assigned)
	Secured Redeemable Non-Convertible Debentures (Proposed)	Long Term	75.00	ACUITE Provisional AA(SO)/Stable (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
Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE *PP-MLD AA(SO)/Stable (Assigned)
Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures (Proposed)	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE *PP-MLD Provisional AA(SO)/Stable (Reaffirmed)
Secured Redeemable Non-Convertible Debentures (Proposed)	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE Provisional AA(SO)/Stable (Reaffirmed)

*PP-MLD pronounced as Principal Protected Market Linked

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About Acuité Ratings & Research:

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