

Press Release

Trust Capital Services (India) Private Limited (TCSPL)

February 12, 2020

Rating Reaffirmed and Assigned



Total Facilities Rated*	Rs. 275.00 Cr.
Facilities Rated	Rs. 150.00 Cr.
Long Term Rating	ACUITE AA/ Stable (Converted from Provisional to Final rating)
Facilities Rated	Rs. 21.00 Cr.
Long Term Rating	ACUITE AA/ Stable (Reaffirmed)
Facilities Rated	Rs.4.00 Cr.
Long Term Rating	ACUITE Provisional AA/ Stable (Reaffirmed)
Facilities Rated	100.00 Cr.
Long Term Rating	ACUITE A+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has converted the long term rating of '**ACUITE Provisional AA**' (**read as ACUITE Provisional Double A**) to final rating of '**ACUITE AA (read as ACUITE Double A)**' on the Rs. 150.00 Cr. Secured Non-Convertible Debentures of TCSPL. The outlook is '**Stable**'.

Acuité has reaffirmed its rating of '**ACUITE AA**' (**read as ACUITE double A**) on the Rs. 21 Cr. Secured Non-Convertible Debentures of TCSPL. The outlook is '**Stable**'.

Acuité has reaffirmed the long term rating of '**ACUITE Provisional AA (read as ACUITE Provisional Double A)**' on the Rs. 4.00 Cr. Proposed Secured Non-Convertible Debentures of TCSPL. The outlook is '**Stable**'.

Acuité has assigned the long term rating of '**ACUITE A+**' (**read as ACUITE A Plus**) on the Rs. 100.00 Cr. bank facilities of TCSPL. The outlook is '**Stable**'.

The rating on the Rs. 4.00 Cr. NCD for TCSPL 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.

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 Capital Partners and Trust AMC Trustee Private Limited collectively referred to as 'Trust group'. This is because of the common promoters, shared brand name, significant operational and financial synergies between the companies. Extent of consolidation: full.

The rating in respect of the NCDs (issued by TCSPL) of Rs.175.00 Cr factors in the presence of a DSRA in form of 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 along with the T structure. The differential in the ratings of regular bank facilities vis. a vis. the rating on the NCDs is on account of these structures.

About Trust Group and the TCSPL:

Trust Group is promoted by Ms. Nipa Sheth who has over two decades of experience in the financial services industry. The Group 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, the holding company of the Trust group 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 holding company of the group 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:

• Established presence in domestic capital market:

The Trust group has interests in merchant banking, wealth management, advisory business, portfolio management services and offers a wide array of financial services to domestic and overseas clients. Besides the established presence in domestic capital markets, Trust group has made a foray into overseas markets through Chanakya Capital Partners which is the advisory arm of the group catering to international clients. The group has been able to fortify its presence in both capital markets with its strong sourcing, structuring, underwriting, and distribution capabilities for debt issuances. Trust group has been associated with some of the marquee issues like Bank of India, IDBI bank, JM Financial, L & T Finance Limited and ECL Finance Limited amongst others. The group's clientele includes leading banks, family offices, provident funds and high networth individuals (HNIs). 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.211444 Cr. bond placements in FY 2019 and Rs. 137798 Cr. bond placements in FY 2018. The group has been honored with IFR Asia awards with the title of 'India Bond House' for the year 2014 and 2017.

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.

Acuite believes that the government's thrust on deepening the corporate bond market and regulatory initiatives in that direction should help in augmenting the volumes in the bond market. This should augur well for established players like Trust group who have a demonstrated track record in the domestic debt markets and diversified range of offerings. Acuité believes that the group's track record and established relationships with marquee clients and investors will provide a strong platform to leverage on the opportunities created due to expected buoyancy in the volumes of the bond market.

Weaknesses:

- **Susceptibility of operating performance to volumes in the debt market and adverse credit events**

Trust group has an established presence in various financial services like merchant banking, portfolio management services, wealth management, asset management and advisory amongst others. Trust group's revenues are mainly derived from a mix of merchant banking fees, gains from trading of securities, underwriting commission, portfolio management fees etc. As a mandatory lead arranger for debt issuances, it advises the potential issuer on pricing, type of instruments, structuring etc. The group has relationships with leading investors like leading banks, provident funds, HNIs etc. Most of the issues underwritten and arranged by Trust group are usually presold to these set of investors to a large extent. The residual inventory of investments is carried by the group which is gradually down sold depending upon the pricing and appetite for that issuance. The revenues of the Trust group are linked to level of activity in the bond markets which in turn is linked to the overall economic activity. Any significant slowdown in the economy will result in lower demand for funds which in turn would translate to lower volumes of bond issuances. The corporate bond market in India has mostly been dominated by issuances from non-banking finance companies. Recently, the NBFC sector in India witnessed several credit events which led to reduced investor appetite, especially for the moderate quality issuers for a brief period of time. Occurrence of significant credit events such as credit cliffs i.e. sharp deterioration in credit quality, often results in a material decline in the bond prices and impacts the liquidity of the counter. Such events could trigger demands for accelerated payments by lenders in case of pledge based borrowings. Trust group's borrowings under pledge comprise ~72 percent of the overall borrowings as on September 30, 2019. (~64 % as on March 2019).

The group has had exposure to certain bonds which faced credit cliffs in the recent past, however they have been able to initiate prompt corrective action and materially curtail their exposures to these counters. The group still has certain residual exposure to low rated bonds which are expected to be illiquid till a resolution is in place for these issuers. Any significant concentration to a single bond which faces a credit cliff exposes the group to a high level of credit and liquidity risk. The group's holding in respect of the bonds issued by a state DISCOM over the past two years (around 30 percent of the overall portfolio) exposes it to a similar risk. The said bonds are credit enhanced through RBI administered direct debit mechanism into central account of the state maintained with RBI for bond servicing which significantly mitigate credit risk. Since the investments held by the company are offered as collateral in case of pledge based borrowings, the continued acceptability of the investments and margin requirements also have a bearing on the financial flexibility of the company. Any decision by the lender to curtail drawings/ increase margin requirements against such bonds to which the group is highly exposed will have an impact on the financial flexibility of the company.

Acuité, therefore, believes that the group's performance will be susceptible to volumes in the bond markets, adverse macro-economic events and ability to maintain an optimal risk return trade off in respect of its investment exposures. The group's ability to maintain an optimal buffer of unencumbered liquid investments (liquid investments over and above the stipulated coverage) at all times will be critical. Besides, the unencumbered assets, another critical monitorable will be the level of non-core assets such as advances against immovable property and loans/investments to sister concerns. Any significant headwinds faced by Trust Group in unwinding these exposures over the short term will impart a negative bias to the rating.

Rating Sensitivities

- Level of non-core exposures i.e. advances to immovable property and exposures to group companies
- Level of exposure below investment grade category
- Unencumbered liquid investments
- Any changes in credit quality of major investments in inventories

Material Covenants: None

Liquidity Position: Adequate

The Trust group's (consolidated) assets as on September 30, 2019, mostly comprises of investments

in PSU bonds and corporate bonds. The group also has moderate exposures to certain non-core assets such as advances for property, loans/investments to sister concerns. The management expects to unwind some of these exposures over the near term. The group is geared at 2.69 times as on September 30, 2019. The borrowings comprise a mix of pledge based overdraft, commercial paper, non-convertible debentures (NCDs) and loans from sister concerns. The group has upcoming obligations in respect of certain NCDs of Rs.170.0 Cr which are falling due in Q1 and Q2 of FY 2021. The management expects that these obligations shall be met through a mix of fresh issuances, unwinding of certain non-core exposures and utilization of unencumbered liquid assets.

Acuite believes that liquidity profile of the group over the near term will depend on the timely unwinding of these exposures of non-core assets and fresh issuances of the bonds. Any challenges faced by the group in augmenting its liquidity through these measures could result in a liquidity stress, impeding the group's ability to meet its commitments to lenders/investors

Outlook: Stable

Acuité believes that Trust group will maintain 'Stable' credit risk profile over the medium term supported by the group's well established market position in the capital markets and experienced management. The outlook may be revised to 'Positive' in case of a significant and sustained growth in the scale of operations while improving its profitability and gearing metrics. Conversely, the outlook may be revised to 'Negative' in case of significant decline in operating performance, deterioration in the credit quality of major exposures, or elevated refinancing risk due to challenges in maintaining adequate liquidity buffers vis. a. vis. near term debt obligations

About the Rated Entity TCSPL- Key Financials (Consolidated)

Parameters	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	1879.37	1951.77
Total Income*	Rs. Cr.	139.41	173.23
PAT	Rs. Cr.	56.57	76.72
Net Worth [^]	Rs. Cr.	374.28	320.62
Return on Average Assets (RoAA)	(%)	2.95	4.58
Return on Average Net Worth(RoNW)	(%)	16.28	27.04
Total Debt/Tangible Net Worth (Gearing)	Times	3.85	4.05

*Total income equals to Total Income net off interest expense

[^]adjusted for minority interest

About the Rated Entity TCSPL- Key Financials (Standalone)

Parameters	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	749.27	607.13
Total Income*	Rs. Cr.	34.93	39.03
PAT	Rs. Cr.	3.77	7.99
Net Worth	Rs. Cr.	69.51	65.74
Return on Average Assets (RoAA)	(%)	0.56	1.40
Return on Average Net Worth(RoNW)	(%)	5.57	12.94
Total Debt/Tangible Net Worth (Gearing)	Times	7.69	4.17

*Total income equals to Total Income net off interest expense

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

None

Any Other Information

None

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
23-July-2019	Secured Redeemable Non-Convertible Debentures (Proposed)	Long Term	54.00	ACUITE Provisional AA(SO)/ Stable (Reaffirmed)
	Secured Redeemable Non-Convertible Debentures	Long Term	21.00	ACUITE AA(SO)/ Stable (Reaffirmed)
	Secured Redeemable Non-Convertible Debentures (Proposed)	Long Term	100.00	ACUITE Provisional AA(SO)/ Stable (Assigned)
	Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures	Long Term	5.00	ACUITE *PP-MLD AA(SO) (Withdrawn)
	Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures (Proposed)	Long Term	45.00	ACUITE *PP-MLD Provisional AA(SO) (Withdrawn)
14-Mar-2019	Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures	Long Term	5.00	ACUITE *PP-MLD AA(SO)/Stable (Assigned)
	Secured Redeemable Principal Protected Market Linked Non-Convertible Debentures (Proposed)	Long Term	45.00	ACUITE *PP-MLD Provisional AA(SO)/Stable (Reaffirmed)
	Secured Redeemable Non-Convertible Debentures (Proposed)	Long Term	75.00	ACUITE Provisional AA(SO)/Stable (Reaffirmed)
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)

*PP-MLD pronounced as Principal Protected Market Linked

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
-	Overdraft	NA	NA	NA	90.00	ACUITE A+/Stable (Assigned)
-	Proposed Bank facility	NA	NA	NA	10.00	ACUITE A+/Stable (Assigned)
INE05TX07033	Secured Redeemable Non-Convertible Debentures	30-Jul-2019	9.50%	29-Jul-2022	150.00	ACUITE AA /Stable (Assigned)
-	Proposed Secured Redeemable Non-Convertible Debentures	NA	NA	NA	4.00	ACUITE Provisional AA /Stable (Reaffirmed)

	(Proposed)					
INE05TX07025	Secured Redeemable Non- Convertible Debentures	28-Mar-2019	9.01%	26-Mar- 2021	21.00	ACUITE AA/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Vinayak Nayak Vice President- Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in</p> <p>Mehak Bhadricha Rating Analyst - Rating Operations Tel: 022-49294073 Mehak.bhadricha@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in</p>

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.