Press Release

Genev Capital Private Limited

February 12, 2020

Rating Assigned

Total Bank Facilities Rated	Rs. 100.00 crore
Long Term Rating	ACUITE AA-(CE)*/ Stable (Assigned)

*Credit Enhancement for structure based on pledge of highly rated bonds/ debt securities

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE AA-(CE)' (read as ACUITE double A minus (Credit Enhancement))** to the Rs. 100.00 crore bank facilities of Genev Capital Private Limited (GCPL). The outlook is **'Stable'**.

About GCPL:

GCPL, incorporated in April 2018, is a debt market intermediary catering to wide range of clients like provident funds, insurance companies, family offices, banks and others. GCPL's head office is at Mumbai and has its branch offices at New Delhi, Kolkata and Bengaluru. The company is promoted by Mr. Kunal Shah and Mr. Ashish Ghiya, (both from Derivium Securities Tradition India Private Limited) and Switzerland based Tradition Group through is entity Tradition Asia Pacific (Pte.) Limited. Tradition Asia Pacific (Pte.) Limited holds ~26 percent equity shares of GCPL.

Analytical Approach

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

Standalone (Unsupported) Rating: ACUITE BBB-

Key Rating Drivers

Strengths

- **Benefits emanating from association with Derivium Tradition Group**

  Genev Capital Private Limited (GCPL) is promoted by Mr. Kunal Shah and Mr. Ashish Ghiya directors of Derivium Tradition Securities India Private Limited (DTIPL) along with Tradition Group.

  DTIPL was incorporated in 2003 by Mr. Ashish Ghiya & Mr. Kunal Shah, and is a SEBI registered stock broker and a member of Bombay Stock Exchange (BSE), National Stock Exchange (NSE) & Metropolitan Stock Exchange (MSEI). DTIPL has grown from being a G-Secs & Bond intermediary to a full-fledged Investment Bank providing services across origination, intermediation, advisory and distribution. DTIPL has strong transactional relationship with more than 1300 institutional & corporate clients and is also an exchange broker in the Interest Rate Futures (IRF) segment of the NSE, BSE and MSEI & FIMMDA accredited broker for OTC interest rate derivatives. It earned total operating income of Rs. 21.2 crore and its networth stood at Rs. 12.1 crore as on March 31, 2019.

  GCPL benefits from the established presence of the Derivium Tradition group in the Indian capital markets and long standing relationships with various clients. GCPL functions as an intermediary for its clients to buy and sell debt securities, both Government and private. Its network and market intelligence enables it to offer solutions to its clients which mostly comprise banks, mutual funds, insurance companies, foreign portfolio investors, provident and pension funds as well as semi institutional clients like wealth management companies, corporates, family offices.

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

- **Strength of underlying structure**

The structure envisages an aggregate borrowing limit of Rs. 100.00 crore 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. 100.00 crore. The bank has carved out a sub-limit of Rs. 50.00 crore for corporate bonds. 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, 10 percent and 12.5 percent for Government securities, AAA rated corporate bonds and AA+ rated corporate bonds respectively and in case of margin shortfall, the bank can initiate sale for the G-Sec pledged in the event of 20 bps rise in benchmark G-Sec yield of comparable security or in case value of the G-Sec goes down by 5 percent or in the event where the balance in the account exceeds drawing power.

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 (as advised by the lender to GCPL vide letter dated September 23, 2019) is central to the rating.

Weaknesses

- **Susceptibility of performance to optimal management of credit and market risks**

Genev Capital 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 cyclicality and other macroeconomic factors such as GDP, growth rate, inflation, movement in interest rates and policy actions adopted by RBI. GCPL generally engages into buy and sell transactions on behalf of its clients which comprise provident and pension funds, mutual funds, banks, family offices etc. Most of the purchases of the securities are simultaneously sold to its clients. As a prudent strategy, GCPL 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, GCPL 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 GCPL 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.

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.

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.

Material Covenants

- The lenders have stipulated material covenant pertaining to leverage indicators and the company complies with the same.

Liquidity: Adequate

Currently the company has cash credit limit of Rs. 100.00 crore against the pledge of highly rated bonds and securities acceptable to the bank. The networth of the company as on September 30, 2019 stood at Rs. 29.08 crore. Besides providing for margin money it also provides adequate buffer to meet any working capital requirements.

Outlook: Stable

Acuité believes that GCPL 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 major capital infusion resulting in significant and sustainable increase in unencumbered security investment portfolio. Conversely, the outlook may be revised to 'Negative' in case of sharp deterioration in credit quality of investment or in case of higher than expected increase in debt levels.

About the Rated Entity - Key Financials

Particulars	Unit	FY19 (Actual)	FY18 (Actual)
Total Assets	Rs. Cr.	26.91	-
Total Income*	Rs. Cr.	1.89	-
PAT	Rs. Cr.	0.16	-
Networth	Rs. Cr.	26.28	-
Return on Average Assets (RoAA)	(%)	1.17	-
Return on Net Worth (RoNW)	(%)	1.20	-
Total Debt/Tangible Net Worth (Gearing)	Times	0.00	-
Gross NPA	(%)	N.A	-
Net NPA	(%)	N.A	-

** Total income equals to Net interest income plus other income*

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Entities in Service Sector: http://acuite.in/view-rating-criteria-8.htm
- Explicit Credit Enhancements: https://www.acuite.in/view-rating-criteria-49.htm
- Application of 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)

None

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit (for G-Sec)	Not Applicable	Not Applicable	Not Applicable	100.00**	ACUITE AA-(CE)*/ Stable (Assigned)

*Credit Enhancement for structure based on pledge of highly rated bonds/ debt securities
** Sub limit of Rs. 50 crore to be utilized as cash credit against pledge of AA+ and above rated corporate bonds

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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.