Press Release

Derivium Tradition Securities India Private Limited

December 31, 2021

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE A | CE | Stable | Reaffirmed	
Total	50.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE A (CE)' (read as ACUITE A (Credit Enhancement))** to the Rs. 50.00 Cr. bank facilities of Derivium Tradition Securities India Private Limited (DTSIPL). The outlook is **'Stable'**.

The rating factors in DTSIPL's large and reputed client network, expertise of the management in the bond market trade and the adequate liquidity buffers, which has enabled the company to scale up its transactional volume year-on-year basis. The rating also factors in DTSIPL's strong revenue and profitability metrics. DTSIPL's transactional volume increased from Rs. 9.674 Cr. in FY2020 to Rs. 12,684 Cr. in FY2021. The rating factors in growth in DTSIPL's total transactional value including Intra-day transactions, which constitute around 30 percent of the total trade. Consequently, total income and PAT increased from Rs. 26.18 Cr. and Rs. 3.03 Cr. in FY2020 to Rs. 36.41 Cr. and Rs. 6.99 Cr. in FY2021. The growth in total income was majorly driven by fee based income which increased from Rs. 19.91 Cr. in FY2020 to Rs. 29.57 Cr. in FY2021. As on September 30, 2021 total income and PAT levels stood at Rs. 15.09 Cr. and Rs. 1.60 Cr. respectively. Acuité also takes into account in established presence of Derivium Tradition group in the Indian capital market and the long-standing relationship with various clients. The rating further factors in the benefits arising from the strength of the structure and the underlying pledge of highly liquid securities while arriving at the rating.
The rating is however, constrained on account of income volatility as a result of dependence on debt market volumes, low margin and highly competitive scenario in merchant banking industry. While the company's trading volumes are mainly intraday, it is exposed to some price risk in its investment and treasury portfolio.

About the company

Incorporated in 2003, Mumbai based DTSIPL is a debt market intermediary catering to wide range of clients like provident funds, insurance companies, family offices, banks and others. The company is SEBI registered stock broker and exchange members. DTSIPL is a full-fledged broking and investment banking entity. The company is promoted by Mr. Kunal Shah and Mr. Ashish Ghiya and Switzerland based Tradition Group through its entity Tradition Asia Pacific (Pte.) Limited. Tradition Asia Pacific (Pte.) Limited holds ~50 percent equity shares of DTSIPL while Mr. Kunal Shah and Mr. Ashish Ghiya hold 25 percent each.

Analytical Approach

Acuité has considered standalone business and financial risk profile of DTSIPL 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/ Stable

Key Rating Drivers

Strength

Established presence in Capital Market

Derivium Tradition Securities (India) Private Limited (DTSIPL) is promoted by Tradition Group and Mr. Kunal Shah and Mr. Ashish Ghiya. Tradition Group is the interdealer broking arm of Compagnie Financière Tradition and one of the world's largest interdealer brokers in over-the-counter financial and commodity related products represented in over 29 countries. Its day- to-day operations are managed by its directors Mr. Kunal Shah and Mr. Ashish Ghiya. Mr. Kunal Shah is a finance professional with over two decades of experience in debt capital markets involving credit origination, fixed income portfolio management and advisory. Mr. Ashish Ghiya is an investment banker and has over two decades of experience in Indian currency, interest rate & credit markets.

DTSIPL 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). DTSIPL has grown from being a G-Secs & Bond intermediary to a full-fledged Investment Bank providing services across origination, intermediation, advisory and distribution. DTSIPL 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. 36.41 Cr. and its networth stood at Rs. 22.91 Cr. as on March 31, 2021.

DTSIPL benefits from the established presence in the Indian capital markets and long standing relationships with various clients. DTSIPL functions as an intermediary for its clients to buy and sell debt securities, both Government and private. Its network and market intelligence enable 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.

Besides DTSIPL, the promoters floated Genev Capital Private Limited in 2018 which will be functioning as a as a market maker and book runner for G-Secs, SDLs, Government guaranteed debt & highly rated corporate bonds on a matched principle basis. Going forward, DTSIPL will be mostly focusing on its broking and investment banking services with limited trading arrangements for specific clients.

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 being assessed envisages an aggregate borrowing limit of Rs. 100.00 Cr. 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 Cr. 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 to 12.5 percent (depending on the nature of the security i.e. lowest margin for risk-free securities like G-Sec). The stipulations also include the options available to the lender in case of a margin shortfall.
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 lendersbank 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 DTSIPL vide letter dated October 25, 2021) is central to the rating.

Weakness

Susceptibility of performance to optimal management of credit and market risks
Derivium Tradition Securities India Private Limited's 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. DTSIPL 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, DTSIPL 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, DTSIPL 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 DTSIPL 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. Besides trading of bonds, the company also has revenue streams from broking business, which is linked to the level of investment activities in the markets and also to the other factors such as regulatory environment.
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

DTSIPL is subject to covenants stipulated by its lender in respect of parameters like capital structure. As per confirmation received from client vide mail dated December 07, 2021, the company is adhering to all terms and conditions stipulated as covenants by its lender.

Liquidity: Adequate

Currently the company has cash credit limit of Rs. 100.00 Cr. against the pledge of highly rated bonds and securities acceptable to the bank. The networth of the company as on March 31, 2021 stood at Rs. 22.91 Cr. providing adequate buffer to meet any requirements in case of any credit events. Besides providing for margin money it also provides adequate buffer to meet any working capital requirements.

Outlook: Stable

Acuité believes that DTSIPL 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 a sizeable improvement in its earnings translating to an improvement in its networth and unencumbered inventory of securities. Conversely, the outlook may be revised to 'Negative' in case of sharp deterioration in credit quality of investment, reduction in the level of unencumbered securities or increase in debt levels (non-pledged based debt levels).

Assessment for Adequacy of Credit Enhancement Structure

The structure provides for adequate covenants to safeguard the interest of the lenders and has adequate buffers available to initiate timely corrective action and effectively mitigate the risk arising out of any adverse market movements.

Key Financials - Standalone / Originator

Particulars	Unit	FY21 (Actual)	FY20 (Actual)
Total Assets	Rs. Cr.	33.68	30.19
Total Income*	Rs. Cr.	36.41	26.18
PAT	Rs. Cr.	6.99	3.03
Networth	Rs. Cr.	22.91	14.93
Return on Average Assets (RoAA)	(%)	21.89	12.02
Return on Net Worth (RoNW)	(%)	36.96	22.41
Total Debt/Tangible Net Worth (Gearing)	Times	0.08	0.00
Gross NPA	(%)	N.A	N.A
Net NPA	(%)	N.A	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

- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Explicit Credit Enhancements: https://www.acuite.in/view-rating-criteria-49.htm
- Service Sector: https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Oct 2020	Cash Credit	Long Term	50.00	ACUITE A (CE) | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A | CE | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.