

Press Release

Aum Capital Market Private Limited

November 24, 2020



Rating Assigned

Total Facilities Rated*	Rs. 200.00 Cr.
Total Fund Based Facilities Rated	Rs. 190.00 Cr.
Bank Facilities (Structured based Notch-up)	Rs. 50 Cr
Long Term Rating	ACUITE A-(CE)/ Outlook: Stable (Assigned)
Bank Facilities	Rs. 140 Cr
Long Term Rating	ACUITE BB+/Outlook: Stable (Assigned)
Total Non-Fund Based Facilities Rated	Rs. 10 Cr
Short Term Rating	ACUITE A4+ (Assigned)

*Refer annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE A-(CE)**' (**read as ACUITE A minus (Credit Enhancement)**) on the Rs. 50 Crore Bank Facility of Aum Capital Market Private Limited. Acuite has assigned the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating of '**ACUITE A4+** (**read as ACUITE A4 plus**) on the other Rs. 25 Crore Bank Facility and on Rs. 10 crore Short term Bank Facilities of Aum Capital Market Private Limited respectively. Acuité has assigned a long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on Rs. 115 crore Proposed Bank Facilities of ACPL. The outlook in respect of all the facilities is '**Stable**'.

(Please refer Analytical Approach for further details)

The Ratings in respect of instruments rated is underpinned by:

- 1) Diversified revenue streams; strength of the underlying structure.
- 2) These strengths are partially offset by the susceptibility of operating performance to a level of activity in capital markets and aggressive equity investment adds to the risk.

About the company

Incorporated in 2005, Kolkata based, Aum Capital Market Private Limited (ACPL) is a securities broking company engaged in offering brokerage services mainly to Institutional clients. It also provides ancillary services like providing depository services, distribution of mutual funds, financial advisory. ACPL is a member of National Stock Exchange (NSE), Bombay Stock Exchange (BSE) and Multi Commodity Exchange of India Limited (MCX). The company is promoted by Mr. Aditya Choudhary and Mr. Siddharth Choudhary. ACPL has two subsidiary companies Aum Bima Suraksha Broking Private Limited (engaged in Insurance Broking) and Aum Commodity Services Private Limited (engaged in Commodity Broking).

Analytical approach:

Acuite has assigned differential ratings based on the structure and stipulations of the lenders in respect of each facility. In respect of one of the facilities, which has been secured by the pledge of highly rated bonds/debentures, Acuite has considered a notch up from the standalone rating. Acuite has considered the standalone financial and business risk profile of ACPL to arrive at the standalone rating In respect of the other Bank facilities (no similar structure is present) and the proposed bank facilities.

Standalone/Unsupported Rating

ACUITE BB+/Stable/A4+

Key Rating Drivers

Strengths

- **Established Business Model based on Diversified Revenue Streams**

Aum Capital Market Private Limited (ACPL) has been in the capital market business of stock broking since 2007. The company is promoted by Mr. Aditya Choudhary and Mr. Siddharth Choudhary. Over the years, the company has built a relationship with more than 50 Institutional Clients and 6500 Retail Clients (including HNIs). The company has active operations in Debt and Equity Markets, both in Cash and F&O. They also have a presence in Mutual Fund and Financial Advisory (Debt Syndication)

The major revenue contributing segments are Brokerage Income and Trading Income. Of the total revenue, Broking Income contributing ~54% (Rs. 14.75 Cr in FY2020 as compared to Rs. 20.40 Cr in FY2019). Besides Brokerage revenue, the company is active in Trading in Debt and Equity Market. The Trading Income contributed ~35% of the total revenue (Rs. 9.63 Cr in FY2020 as compared to Rs. 4.35 Cr in FY2019). The company has benefitted from a gradual increase in volumes in the debt market segment. The volumes in the Debt Market Segment have increased from Rs. 3,665.12 Cr in FY2018 to Rs. 7972.53 Cr in FY2019 and Rs. 19,123.43 Cr in FY2020.

With the expected buoyancy in the debt market segment, Acuite believes that ACPL will benefit from its relations with institutional clientele and its expertise in Debt Market.

- **Strength of underlying structure in respect of one of the rated instruments**

In respect of facilities of Rs. 50 Cr rated at ACUITE A-(CE), Acuite has been guided by the structure of the underlying facilities. The structure being assessed envisages an aggregate borrowing limit of Rs. 50.00 crore in the form of cash credit from the bank secured by a pledge in the form of Central & State Government Securities with margin stipulations and other risk mitigations measures in place. The mentioned bank facility also has Intraday sub limit of Rs. 100 Cr for trading in Central & State Government Securities.

The government securities purchased by the company will be held in a designated Constituent Subsidiary General Ledger (CSGL) Account, which will be duly pledged to the bank. The joint holding of the account between the bank and the borrower facilitates for strict monitoring at the lenders end with respect to transactions. The bank stipulates a margin requirement of 10 percent and 5 percent for Intraday Trading. The stipulations also include the options available to the lending bank in case of a margin shortfall. The structure further provides for a shorter duration of the securities held like in case of securities outstanding in CSGL 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 lending bank provides for adequate covenants to safeguard the interest of the lenders. The lending bank has adequate buffers available to initiate corrective action and mitigate the risk arising out of any adverse market movements.

Weakness

- **Susceptibility to operating performance to volume and level of activity in capital markets**

Aum Capital Market 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 cyclical and other macroeconomic factors such as GDP, growth rate, inflation, movement in interest rates and policy actions adopted by RBI. ACPL generally engages in to 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, ACPL 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, ACPL 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 ACPL depends on the 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. 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 highly volatile and cyclical business with the presence of a large number of established players who provide significant competition to the other fragmented and small players. The company's operating performance is linked to the capital markets, which are inherently volatile as they are driven by economic and political factors as well as investor sentiments. Trading volume and earnings depend heavily on the level of trading activity in the capital market.

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.

• **Susceptibility of Credit Profile to the performance of equity division**

As on March 31, 2020, Networth stood at Rs. 27.44 Cr as compared to Rs. 26.19 Cr as on March 31, 2019. On the back of this, the company had equity investments of Rs. 4.62 Cr as on March 31, 2020 as compared to Rs. 95.90 Cr as on March 31, 2019. While the level of equity investment has dropped, the company has demonstrated the propensity to initiate large equity investment to gain from the likely capital appreciation. Most of these equity investments are in relatively less liquid counters (i.e non-index stocks) which are prone to high volatility and relatively higher level of market risk. Within these investments, there was a higher level of concentration risk with top 3 scrips accounting to 88.16 percent as on March 31, 2020 and 91.04 percent as on March 31, 2019 of the total investment. These significant exposures have been funded by way of unsecured loans from the market. The borrowings stood at Rs. 101.27 Cr as on March 31, 2019, which has declined, to Rs. 13.51 Cr as on March 31, 2020. ACPL has shown losses in the Equity segment of its investment income in the past year. In view of the above, the susceptibility of performance of large equity investments is expected to influence the credit profile over the near to medium term.

Acuité believes that the propensity of the company to initiate large equity exposures vis a vis networth will impinge the credit profile of the company.

Rating Sensitivities:

- Changes in Credit Quality of any securities in the investment portfolio.
- Changes in Regulatory environment

Material Covenants:

ACPL is subject to covenants stipulated by its lenders/investors in respect of various parameters. As per confirmation received from the client, vide mail dated November 11, 2020. 'The company is complying with the material covenants imposed by its lenders.'

Assessment for Adequacy of Credit Enhancement Structure

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

Liquidity Position: Adequate

ACPL had unencumbered cash and cash equivalents of Rs. 14.34 Cr. as on March 31, 2020. Currently, the company has a cash credit limit of Rs. 50.00 Cr against the pledge of Central and State Government Securities. The company also has a Line of Credit of Rs. 25 Cr against pledge of highly rated corporate bonds. These limits are moderately utilized at 20 percent to 30 percent.

Outlook: Stable

Acuité believes that ACPL will maintain 'Stable' credit risk profile over the medium term supported by its well-established business model with diversified revenue profile with a network of institutional clients. The outlook may be revised to 'Positive' in case of a sizeable improvement in its earnings translating to an improvement in its networth and quality of investment scrips. Conversely, the outlook may be revised to 'Negative' in case of a sharp deterioration in the credit quality of investments or profitability metrics.

About the Rated Entity – Key Financials

Parameters	Unit	FY2020	FY2019
Total Assets	Rs. Cr.	61.11	138.10
Total Income*	Rs. Cr.	27.53	35.98
PAT	Rs. Cr.	1.42	4.68
Net Worth	Rs. Cr.	27.44	26.19
Return on Average Assets (RoAA)	(%)	1.42	3.35
Return on Average Net Worth(RoNW)	(%)	5.28	19.56
Debt/Equity	Times	0.49	3.87
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

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

None

Any other information

None

Applicable Criteria

- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Explicit Credit Enhancement - <https://www.acuite.in/view-rating-criteria-49.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A- (CE)/Stable (Assigned)
Line of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE BB+/Stable (Assigned)

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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 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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