



Press Release
SOVEREIGN GLOBAL MARKETS PRIVATE LIMITED
November 26, 2024
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	30.00	ACUITE BBB+ CE Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+(CE)**' (read as **ACUITE Triple B plus (Credit Enhancement)**) on the Rs. 30.00 Cr. bank facilities of Sovereign Global Markets Private Limited (SGMPL). The outlook is '**Stable**'.

Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B plus**) on the Rs. 20.00 Cr. bank facilities of Sovereign Global Markets Private Limited (SGMPL). The outlook is '**Stable**'.

Rationale for rating

The rating action factors in the substantial increase in the business volume reflected by a total transactional value of securities at ~Rs. 33,795 Cr. during FY2024 as against ~Rs. 8,253 Cr. during FY2023. Accordingly, the PAT stood at Rs. 1.73 Cr. for FY2024 as against Rs. 0.05 Cr. for FY2023. The rating continues to factor in the growing client network, and expertise of the management in the bond market. However, the rating remains constrained on account of income volatility as a result of dependence on debt market volumes, low margin and highly competitive scenario in the industry. While the company's trading volumes are mainly intraday, it is exposed to some price risk in its investment and treasury portfolio. Acuite believes that SGMPL's business operations would remain susceptible to inherent risks in capital market and overall economic environment.

About the Company

Delhi based Sovereign Global Markets Private Limited (SGMPL) was incorporated on Aug 12, 2010. The company is promoted by Mr. Umesh Kumar Tulsyan & Ms Nidhi Tulsyan. SGMPL is mainly dealing in trading of fixed income securities and derivatives of both equity and interest rates. The company is also involved in Investment Services with emphasis on Fixed Income including Investment Banking, Private Equity advisory, Debt Syndication, M&A Advisory and Institutional securities trading. The company has a network of 3 branches in India. The company services Financial Institutions, HNI, family offices and corporate clients.

Unsupported Rating

ACUITE BB+/Stable

Analytical Approach

Acuite has assigned differential ratings based on the structure and stipulations of the lender in respect of the facility. In respect of the facility, 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 SGMPL to arrive at the standalone rating.

Key Rating Drivers

Strengths

Established business model based on diversified revenue streams

Sovereign Global Markets Private Limited (SGMPL) has been in the capital market business of trading for more than a decade. The company is promoted by Mr. Umesh Tulsyan and Ms. Nidhi Tulsyan. Mr. Umesh is a seasoned Fixed Income Fund Manager with around two decades of experience in the finance industry. The company has active operations in Debt and Equity Markets. They also have a presence in Mutual Fund and Financial Advisory. SGMPL has transactional relationship with over 1000 institutional & retail clients. As on March 31, 2024, SGMPL has a well-diversified portfolio of business verticals comprising of Fixed Income Investment Services, Merchant Banking, Equity Prop Desk etc. The company has a professional team managing each of these business verticals. With the expected buoyancy in the debt market segment, Acuité believes that SGMPL 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. 30 Cr. rated at ACUITE BBB +(CE), Acuité has been guided by the structure of the underlying facilities. The structure being assessed envisages an aggregate borrowing limit of Rs. 30.00 crore in the form of Overdraft facility from the bank secured by a pledge in the form of SLR and Non SLR Securities (Bonds) with margin stipulations and other risk mitigations measures in place. The bank stipulates a cash margin requirement of 5 percent for Overnight and Intraday Trading. The lending bank has adequate buffers available to initiate corrective action and mitigate the risk arising out of any adverse market movements.

Weaknesses

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

Sovereign Global Markets 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 cyclicity and other macroeconomic factors such as GDP, growth rate, inflation, movement in interest rates and policy actions adopted by RBI. SGMPL generally engages in to buy and sell transactions on behalf of its clients, which comprises of 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, SGMPL prefers to minimize the holding period in respect of any securities, which significantly mitigates the associated credit risk and market risk. However, this approach doesn't eliminate vulnerabilities. The practice, though prudent, is not always perfectly matched. As a result, SGMPL occasionally maintains an inventory of securities. This residual inventory, even if minimal, exposes the company to market risks. Such exposure, though reduced compared to conventional trading strategies, remains a point of concern.

Modest scale of operations, albeit improving

Sovereign Global Markets Private Limited's business is supported by a networth of Rs 13.86 Cr. as on March 31, 2024. During the fiscal year 2024, total transactional value (buy and sale) of securities stood at ~Rs. 33,795 Cr. during FY2024 as against ~Rs. 8,253 Cr. during FY2023. SGMP's profitability stood at Rs. 1.73 Cr. during FY2024 as against Rs. 0.05 Cr. during FY2023. The company's profitability has seen significant improvement since last financial year primarily because of the expansion in the scale of operations during the same period. Acuité believes that the company's ability to increase its scale of operation along with maintaining a positive trend in profitability would be a key monitorable.

Assessment of Adequacy of Credit Enhancement (Applicable only for CE Ratings)

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.

Rating Sensitivities

- Movement in the credit quality of securities in the investment portfolio
- Movement in profitability metrics
- Changes in regulatory environment

All Covenants (Applicable only for CE & SO Ratings)

1. The intraday facility will be used for purchase and sale of Bonds.
2. Margins 5% shall be provided upfront before initiating any Intraday transactions for Bonds.
3. The EOD balances in the Intraday facility should be Nil. The purchase deals need to be squared off on the same day by sale on same day. In case the same is not done the company shall inform the bank to pledge the securities in Demat account.
4. The company undertakes to repay the total amount drawn from the Bank under any Drawdown Request before close of business hours on such day that any amounts are disbursed by the Bank to the Company pursuant to such Drawdown Request ("Day T") by depositing the total amount repayable including applicable interest into the bank account through which the amounts were disbursed by the Bank.
5. The Company shall promptly intimate the Bank of the reasons resulting or which may result in the

Accounts becoming overdrawn.

6. The company confirms that in case our Account(s) go/goes into an overdraft or is overdrawn, whether for a temporary period of time or otherwise, it shall, without any further reminders from the Bank execute a promissory note and a letter of continuity, and such other documents as required by the Bank, in form and manner acceptable to the Bank within a period of 3 (three) calendar days of our Account(s) being overdrawn.
7. Notwithstanding anything contained in this request cum Undertaking and the Terms, the Company confirms that in case the Account(s) go/goes into an overdraft or is overdrawn or if called upon by the Bank, the Company shall without any delay or demur and forthwith furnish such sums/properties/securities acceptable to the Bank as security to fully collateralize and secure the facilities and execute such agreements, documents, undertaking, indemnity etc. as may be required to give effect to the same.
8. The Bank is entitled to settle any indebtedness whatsoever owed by the Company to the Bank by adjusting, setting-off any deposit(s) and/or transferring monies lying to the balance of any account(s) held by the Company with the Bank to combine or consolidate at any time all or any of our accounts and liabilities including accounts not related to the Facilities, to sell any of the Company's assets or properties held by the Bank or its group companies. The Bank's rights hereunder shall not be affected by the Company's bankruptcy or winding-up. It shall be the Company's sole responsibility and liability to settle all disputes/objections with joint account holders, if any. The Company hereby unconditionally and irrevocably agrees that all the credit facilities availed by the Company from the Bank, including the Facilities are cross collateralized against all securities/monies/properties furnished by the Company to the Bank for securing any credit facility and the Company unconditionally agrees to execute any documents required to be executed by the Bank for the same. Further, the Company unconditionally and irrevocably agrees to the Bank's absolute right to sell/invoke any security with the Bank under any of its credit facilities extended to the Company against any default under the same or any other credit facility and set off any or all monies owed to the Bank by the Company.

Liquidity Position

Adequate

SGMPL has unencumbered cash and cash equivalents of Rs. 2.87 Cr. as on March 31, 2024. Currently SGMP has an Overdraft facility of Rs. 30 Cr. against pledge of highly rated g-secs & corporate bonds.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials :

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	88.85	39.81
Total Income*	Rs. Cr.	8.55	2.09
PAT	Rs. Cr.	1.73	0.05
Net Worth	Rs. Cr.	13.86	5.53
Return on Average Assets (RoAA)	(%)	2.69	0.14
Return on Average Net Worth (RoNW)	(%)	17.84	0.89
Debt/Equity	Times	5.26	6.13
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

*Total income equals to Net Interest Income plus other income.

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Aug 2023	Secured Overdraft	Long Term	30.00	ACUITE BBB+ (CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE BB+ Stable Assigned
SBM Bank (India) Ltd.	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	30.00	Simple	ACUITE BBB+ CE Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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