

RATING RATIONALE

26 March 2021

Arete Securities Limited (erstwhile SPA Securities Limited)

Brickwork Ratings reaffirms the ‘BWR BBB’/Stable and ‘BWR A3’ ratings for the Bank Loan Facilities of Rs. 57.00 Crs. of Arete Securities Limited (erstwhile SPA Securities Limited)

Particulars

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Dec 2019)	Present
Fund Based Cash Credit (CC)	50.00	50.00	Long Term	BWR BBB Stable	BWR BBB Stable (Reaffirmation)
Fund Based Overdraft Facility	1.00	1.00	Long Term	BWR BBB Stable	BWR BBB Stable (Reaffirmation)
Non Fund Based Bank Guarantee	6.00	6.00	Short Term	BWR A3	BWR A3 (Reaffirmation)
Total	57.00	57.00	INR Fifty Seven Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bank loan facility are provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the ‘BWR BBB’/Stable and ‘BWR A3’ ratings for the bank loan facilities of Rs. 57.00 Crs. of Arete Securities Limited (erstwhile SPA Securities Limited) (ASL or the company), as tabulated above. The rating factors in the company’s long track record of operations, low gearing and experienced management in the broking business. The rating is, however, constrained by the moderate scale of operations.

KEY RATING DRIVERS

Credit Strengths:

- **Long Track Record and Experienced Promoters:** The company has a long track record of operations, of more than a decade, in providing financial services. Mr. Kamal Somani, the promoter of the company, has nearly three decades of experience in investment banking, broking and corporate finance.
- **Reputed Customer Base:** The company primarily focuses on providing securities broking services to institutional clients like and acts as an intermediary by taking positions in debt securities and down selling it to mutual funds, retirement and provident fund trusts. The company has a reputable and established clientele. The company works as the bonds and government securities dealer for the above mentioned institutions and thus, follows a conservative approach in dealing in low risk securities.

- **Low Gearing:** The company's tangible net worth (excluding non-cumulative redeemable preference shares) increased to Rs. 38.02 Crs. as of 31 March 2020 and Rs. 41.59 Crs. as of 31 December 2020, given the ploughing back of yearly profits. The company's borrowings primarily comprise the cash credit limit used for the purchase and sale of debt securities. The gearing was low, at 0.37 times, as on 31 March 2020.

Credit Risks:

- **Small Scale of Operations:** The company's scale of operations continue to remain small, with a total operating income of Rs 16.62 Crs in FY20 and Rs 12.87 Crs during 9MFY21. The total sale of securities stood at Rs 920.63 Crs during FY20 and Rs 579.21 Crs. during 9MFY21.
- **Susceptibility of Income and Profitability:** The company's income and profitability are susceptible to volatilities inherent in debt markets. The company's major income is from brokerage, interest on securities and that from the trading of securities. The company earned Rs. 1.75 Crs. in profits from the trading of debt securities during FY20 as against Rs 2.71 Crs during FY19. The brokerage income stood at Rs 11.88 Crs during FY20 and Rs 8.71 Crs during 9MFY21.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the company's ability to increase its income and profit levels and maintain diversification in its investment portfolio will remain key rating sensitivities.

Positive: The company's ability to show a substantial improvement in the income and profitability is a key rating positive.

Negative: Decline in the company's income and profitability adversely impacting its networth are key rating negatives.

LIQUIDITY POSITION: ADEQUATE

The company has availed cash credit limits with low utilisation. The company had a cash bank balance / FD of ~ Rs 5.19 Crs as on 31 December 2020.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation.

BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

COMPANY PROFILE

Arete Securities Limited (erstwhile SPA Securities Limited) is a closely held public limited company registered with SEBI as a stock broker, depository participant and research analyst. The company is a member of the National Stock Exchange of India Limited (NSE), Bombay Stock Exchange (BSE Limited) and Metropolitan Stock Exchange of India (MSEI). The company is also a depository participant with the NSDL and CDSL. The company was promoted as SPA Securities Private Limited by Mr. Kamal Somani and Mr. Sandeep Parwal in 1994, which was subsequently changed to SPA Securities Limited. However, given certain disputes between the two promoters, the ownership and control of Arete Securities Limited (erstwhile SPA Securities Limited) and SPA Global Private Limited are given to the Mr. Kamal Somani group.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY18	FY19	FY20
Result Type		Audited	Audited	Audited
Revenue from Operations	Rs. Crores	19.48	18.83	16.62
Net Profit	Rs. Crores	3.78	3.21	4.21
Tangible Net Worth**	Rs. Crores	31.40	34.44	38.02
Total Assets	Rs. Crores	42.45	62.77	56.17
Adjusted Gearing	Times	0.14	0.62	0.37

**Excluding non-cumulative redeemable preference shares

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal and suspended)

Sr No	Name of Instrument	Current Rating (2021)			Rating History								
		Type	Amount (₹ Crs)	Rating	2020			2019			2018		
					--	--	--	03.12.2019			06.08.2018		
1	Cash Credit	Long Term	50.00	BWR BBB Stable	--	--	--	Long Term	50.00	BWR BBB Stable	Long Term	50.00	BWR BBB Stable
2	Overdraft	Long Term	1.00	BWR BBB Stable	--	--	--	Long Term	1.00	BWR BBB Stable	Long Term	1.00	BWR BBB Stable
3	Bank Guarantee	Short Term	6.00	BWR A3	--	--	--	Short Term	6.00	BWR A3	Short Term	6.00	BWR A3
	Total		57.00	INR Fifty Seven Crores									

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)

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Arete Securities Limited (erstwhile SPA Securities Ltd.)

ANNEXURE I Details of Facilities rated by BWR

Sl. No.	Name of the Lender	Type of Facility	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Bank of India	Cash Credit	50.00	--	50.00
2	Axi Bank	Overdraft	1.00	--	1.00
3	Axis Bank	Bank Guarantee	--	6.00	6.00
TOTAL					57.00

Total Rupees Fifty Seven Crores only.



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