



Press Release

SPA Global Private Limited [SGPL]

June 19, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned*	Rating Action
1	Fund based (Long Term) Cash Credit (G. Sec. only)	25.00	IVR AA+ (CE)/ Stable Outlook; [IVR Double A Plus (Credit Enhancement) with Stable Outlook]	Assigned

* CE rating based on the limits fully secured by pledge of Central Government securities & State Development Loans in CSGL account with 7.5% margin.

Details of facilities are in Annexure 1

Rating Rationale

The rating assigned to the bank facilities of SPA Global Private Limited (SGPL) derive comfort from the bank limits being fully secured by the pledge of Central Government securities & State Development Loans in CSGL account with 7.5% margin. This pledge of Central Government securities & State Development Loans in CSGL account results in credit enhancement in the rating of the said bank facilities to IVR AA+ (CE)/ Stable Outlook [IVR Double A Plus (Credit Enhancement) with Stable Outlook] against the unsupported rating of IVR BBB/ Stable [IVR Triple B with Stable Outlook].

Further, the rating derives strength from secured trading mechanism, experienced promoters, repetitive business from reputed customer base and comfortable capital structure. The rating is however constrained by low profitability, interest rate risk and competition.



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Key Rating Sensitivities:

➤ **Upward Rating Factor:**

Substantial & sustained improvement in the revenue & EBITDA margin while maintaining the debt protection metrics

➤ **Downward Rating Factor:**

Any further decline in revenue and/or EBITDA margin leading to decline in debt protection metrics

Any substantial losses incurred in trading activities due to interest rate risk

Detailed Description of Key Rating Drivers

Key Rating Strengths

Cash Credit facilities secured by pledge of securities

The Cash Credit facility of INR 25 Crore sanctioned by the Bank are primarily secured against the pledge of Central Government securities & State Development Loans in CGSL A/c maintained with the Bank with 7.50% margin, thus ensuring highly secured bank facilities, having negligible credit risk.

Secured trading mechanism

The Company purchases securities in bulk at the time of issuance and keeps it in their book and sells the same to these retirement funds or insurance companies as per their need.

The system of buying and selling of securities between the investors and buyers are done through a platform created by RBI where buyer has to deposit the money and seller has to deposit the securities through their own banker. RBI gives securities to the buyer and money to the seller. Therefore the system of buying and selling of securities are covered by RBI. Thus, the transaction mechanism makes it fully secured resulting in least credit risk. Repayment of State Development Loans (State Government Securities) in times of stress if any is managed by RBI by ways & means (WMA) advances or otherwise. The other risk which is interest risk is negligible looking at the nature of securities.



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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 SPA Global Private Limited has an experience of nearly 3 decades in investment banking, broking and corporate finance.

Repetitive business from reputed customer base

The Company has a reputable and established clientele. The Company majorly sells securities to Retirement Funds viz. Provident Fund, Pension Fund, Gratuity Fund Trusts & Insurance Companies. The above entities have to strictly invest their funds in the specific securities as per government guidelines.

Comfortable capital structure

The Total outside liabilities to Tangible Net Worth of the Company stands strong at 0.12x as at FY19 & 0.70x as at FY20-Provisional.

Key Rating Weaknesses

Low profitability

The EBITDA margin remains low (below unity) at 0.42%, 0.48%, 0.20% & 0.13% in FY17, FY18, FY19 & FY20-Provisional respectively which is inherent to business. Resultantly, PAT margin also stood low at 0.34%, 0.32%, 0.16% & 0.06% in FY17, FY18, FY19 & FY20-Provisional respectively.

Interest rate risk

All the securities are exposed to an inherent interest rate risk which depends on various factors & market conditions, although movement of interest rates are low in Government securities.

Competition

The industry is characterized by competition from various players to tap the market share at competitive pricing.



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Analytical Approach & Applicable Criteria:

- Unsupported Rating: Standalone
- Credit Enhancement (CE Rating): CE rating based on the limits fully secured by pledge of Central Government securities & State Development Loans in CSGL account with 7.5% margin
- Rating methodology for Trading Companies
- Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate

The Company has been earning a moderate level of GCA for the last few years and the same is expected to increase further with an increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained low at 15% during the 12 months ended April 30, 2020.

About the company

SPA Global Pvt. Ltd. works as a G Secs dealer and supply G Secs to various retirement funds such as Provident Fund, Pension Funds, Gratuity funds and Insurance Companies etc. The company also deals in Corporate bonds & Mutual funds.

Financials

For the year ended / As on	INR in Crore	
	31-Mar-19 (Audited)	31-Mar-20 (Provisional)
Total Operating Income	318.66	390.20
Interest	-	0.23
PAT	0.52	0.22
Tangible Net Worth	8.73	6.13
PAT Margin (%)	0.16	0.06
Overall Gearing ratio (x)	0	0

* Classification as per Infomerics' standards



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Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Rating assigned in 2019-20	Rating assigned in 2018-19	Rating assigned in 2017-18
Fund Based Facility (Long Term)	Cash Credit (G. Sec. only)	25.00	IVR AA+ (CE)/ Stable Outlook; [IVR Double A Plus (Credit Enhancement) with Stable Outlook]	--	--	--

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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Fund based (Long Term) Cash Credit (G. Sec. only)	--	--	--	25.00	IVR AA+ (CE)/ Stable Outlook; [IVR Double A Plus (Credit Enhancement) with Stable Outlook]

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