

## Rating Rationale

September 18, 2023 | Mumbai

# BOB Capital Markets Limited

*Rating Reaffirmed*

### Rating Action

<b>Corporate Credit Rating</b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>
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*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

### Detailed Rationale

CRISIL Ratings has reaffirmed its Corporate Credit Rating of BOB Capital Markets Ltd (BOBCAPS) at 'CRISIL AAA/Stable'. The rating continues to centrally factor in the high strategic importance of BOBCAPS to, and expectation of strong support from, its parent, Bank of Baroda (BoB; rated CRISIL AAA/Stable/CRISIL AA+/Stable<sup>[1]</sup>). The rating also reflects BOBCAPS' comfortable capitalisation for current and planned scale of operations. These strengths are partially offset by its small, albeit increasing, scale of operations and modest earnings profile.

<sup>1</sup>Tier I Bonds (under Basel III).

### Analytical Approach

For arriving at its rating, CRISIL Ratings has considered the standalone business, financial, and management risk profile of BOBCAPS and has factored in the support that BOBCAPS is expected to receive from its parent, BoB.

### Key Rating Drivers & Detailed Description

#### **Strengths:**

#### **Expectation of strong support from parent**

BOBCAPS will continue to receive strong support from BoB given its high strategic importance to the latter and strong moral obligation due to 100% ownership and name sharing.

While the company's current scale of operations is small, its strategic importance remains high as BOBCAPS is being developed as a core platform for the fee-based offerings of the bank. A professional management team has been put in place to build capabilities and product offerings in investment banking (IB) and broking businesses of BOBCAPS.

Board-level oversight from BoB is expected to remain strong and operational synergies is expected to increase over the medium term. The company's board of directors comprise senior personnel from BoB (Mr. Debadatta Chand, the managing director and CEO of BoB) as chairman. The Board of the Company is further strengthened with Mr. Sanjeev Dobhal as MD & CEO who has rich experience of 30 years in the banking sector and Mr. Sanjiv Saraff as Joint MD having 27 years of varied financial services experience from the private sector. All the strategy formulations are at the board level.

Incremental sourcing of IB deals is also expected to build upon BoB's existing corporate relationship.

Furthermore, the retail broking business will primarily help to serve BoB's extensive customer base. The company has recently obtained a depository participant license from SEBI, allowing it to offer demat services alongside trading accounts to its customers. As a result, all existing demat accounts will be transferred from BoB to BoB Capital Markets. As BOBCAPS's retail broking business grows over the medium term, it will primarily leverage upon BoB's existing branch and digital network leading to more operational synergies.

#### **Comfortable capital position**

Capitalisation remains adequate for its current and planned scale of operations. Total networth was Rs. 159 crore and Rs. 161 crore as on June 30, 2023 and March 31, 2023 respectively (Rs 165 crores as on March 31, 2022). The company neither has any debt on its books nor has any immediate plan to raise capital in the near term. Also, while it plans to expand operations, focus on fee-based business limits incremental capital requirement. Overall, capitalisation will continue to be supported by flexibility to recapitalise (if needed) from BOB.

#### **Weaknesses:**

**Small, albeit increasing, scale of operations**

Scale has been subdued, with mainly BoB-linked investment banking business and a limited yet growing broking presence. However, the company plans to ramp up operations over the medium term. The investment banking capabilities has been strengthened by hiring a team of specialist bankers to build product capabilities and acquire new clients. The institutional broking team has been strengthened with additional resources, especially on the research side and recent tie-up with a global bank which will enable offerings to international clients. Furthermore, the retail broking business is picking up scale as operational linkages have been put in place. The company also has strategic plans to invest in technology for revamping its retail brokerage platform.

BOBCAPS will be able to tap the parent's existing base of clients for its investment banking as well as broking business and ramp up operations from the current levels. However, the company's ability to manage intense competition within the capital markets business will need to be demonstrated.

### **Modest earnings profile**

Earnings profile is underpinned by subdued scale. The company primarily generates revenue from investment banking and broking income, while interest on investments forms a smaller proportion of total turnover. In fiscal 2023, investment banking formed 59% of core operating income. The company reported a profit after tax (PAT) of Rs 1.25 crore for the period ending March 31, 2023, as compared to Rs 7.7 crore in the last fiscal. The profitability was impacted majorly on account of reduction in income owing to challenging capital market conditions in FY23, although operating expenses (in absolute terms) were largely flattish in FY23 and FY22.

Initiatives of transferring the demat accounts from BoB and revamping the technology will benefit the company in long run. These are expected to lead to higher customer acquisition costs, thereby increasing overall operating expenses and ultimately impacting the profitability in medium term. However, in the long run, the operating costs are expected to normalize which is expected to aid the profitability metrics.

### **Liquidity: Superior**

On a standalone basis, liquidity is adequate for the current scale of operations and associated operating expenses, given the absence of any fund-based borrowing or debt obligation. BOBCAPS avails borrowings on occasions but they are typically intra-day borrowings or 100% backed by fixed deposits. The company maintains adequate liquidity, in the form of PSU bonds of ~Rs 11.5 crore as on March 31, 2023. Besides, company also had fixed deposits of ~Rs 111.4 crore (including ~Rs 102.8 crore which is lien marked) as on March 31, 2023. The company also has intra-day and overdraft facilities from banks. Overall superior liquidity is backed by the funding support expected from parent in case of any liquidity requirements or during exigencies.

### **Outlook: Stable**

CRISIL Ratings believes BOBCAPS will continue to receive strong support from BoB given its high strategic importance, 100% ownership, and name sharing. The company's capital position is also expected to remain comfortable for the nature of the business and proposed scale of operations.

### **Rating Sensitivity Factors**

#### **Downward Factors**

- Downward revision in rating of parent by 1 notch or higher
- Significant diminution in stake held by, or support expected from, BOB

### **About the Company**

Incorporated under the Companies Act of 1956, BOBCAPS is a wholly owned subsidiary of BoB. Formed on March 11, 1996, it is a SEBI (Securities and Exchange Board of India)-registered Category I Merchant Banker and a Stock Broker. The company has presence in Mumbai via its registered and corporate offices and branches in Mumbai, Delhi and Puducherry. The Company has been a profit making and dividend paying entity for the last 3 financial years.

For the fiscal ended March 31, 2023, the company reported a profit of Rs 1.2 crore on total revenue of Rs 47 crore, against a profit of Rs 7.7 crore on total revenue of Rs 55 crore for the previous fiscal.

### **Key Financial Indicators\***

As on March 31	Unit	2023	2022	2021
<b>Total assets</b>	<b>Rs.Cr.</b>	<b>179</b>	<b>188</b>	<b>176</b>
<b>Total income</b>	<b>Rs.Cr.</b>	<b>47</b>	<b>55</b>	<b>47</b>
<b>Profit after tax</b>	<b>Rs.Cr.</b>	<b>1.2</b>	<b>7.7</b>	<b>9.3</b>
<b>Gross NPA</b>	<b>%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjusted gearing</b>	<b>Times</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Return on assets</b>	<b>%</b>	<b>0.7</b>	<b>4.2</b>	<b>5.6</b>

\*These are CRISIL Ratings' adjusted figures

**Any other information:** Not applicable

### **Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Level	Rating Assigned with outlook
NA	NA	NA	NA	NA	NA	NA	NA

#### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	0.0	CRISIL AAA/Stable	18-09-23	CRISIL AAA/Stable	12-12-22	CRISIL AAA/Stable	28-09-21	CCR AAA/Stable	29-09-20	CCR AAA/Stable	CCR AAA/Stable
			--		--	23-09-22	CCR AAA/Stable		--		--	--

All amounts are in Rs.Cr.

#### Criteria Details

<a href="#">Links to related criteria</a>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating Criteria for Securities Companies</a>
<a href="#">Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p><b>Aveek Datta</b> Media Relations <b>CRISIL Limited</b> M: +91 99204 93912 B: +91 22 3342 3000 <a href="mailto:AVEEK.DATTA@crisil.com">AVEEK.DATTA@crisil.com</a></p> <p><b>Prakruti Jani</b> Media Relations <b>CRISIL Limited</b> M: +91 98678 68976 B: +91 22 3342 3000 <a href="mailto:PRAKRUTI.JANI@crisil.com">PRAKRUTI.JANI@crisil.com</a></p> <p><b>Rutuja Gaikwad</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:Rutuja.Gaikwad@ext-crisil.com">Rutuja.Gaikwad@ext-crisil.com</a></p>	<p>Ajit Velonie Senior Director <b>CRISIL Ratings Limited</b> B: +91 22 3342 3000 <a href="mailto:ajit.velonie@crisil.com">ajit.velonie@crisil.com</a></p> <p>Rounak Agarwal Team Leader <b>CRISIL Ratings Limited</b> B: +91 22 3342 3000 <a href="mailto:rounak.agarwal@crisil.com">rounak.agarwal@crisil.com</a></p> <p>Rashi Agrawal Rating Analyst <b>CRISIL Ratings Limited</b> B: +91 22 3342 3000 <a href="mailto:Rashi.Agrawal2@crisil.com">Rashi.Agrawal2@crisil.com</a></p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></p> <p>For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a></p>



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