



Press Release

Arete Capital Service Private Limited (ACSPL)

(Erstwhile SPA Global Private Limited)

February 10, 2022

Ratings

Facilities	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Fund based – Overdraft	20.00	IVR AA+ (CE)/ Stable Outlook; [IVR Double A Plus (Credit Enhancement) with Stable Outlook]	IVR AA+ (CE)/ Stable Outlook; [IVR Double A Plus (Credit Enhancement) with Stable Outlook]	Reaffirmed	Simple
Long Term Fund based - Cash Credit (G. Sec. only)	25.00	IVR AA+ (CE)/ Stable Outlook; [IVR Double A Plus (Credit Enhancement) with Stable Outlook]	IVR AA+ (CE)/ Stable Outlook; [IVR Double A Plus (Credit Enhancement) with Stable Outlook]	Reaffirmed	Simple
Total	45.00				

**CE rating based on the limits fully secured by pledge of Central Government securities & State Development Loans in CSGL account with 6.00% margin.*

Details of facilities are in Annexure 1

Detailed Rationale

The rating reaffirmation to the bank facilities of Arete Capital Service Private Limited (ACSPL) (Erstwhile SPA Global Private Limited) continuous to derive comfort from the bank limits being fully secured by the pledge of Central Government securities & State Development Loans in CSGL account with 6.00% 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



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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.

Key Rating Sensitivities:

Upward Factor:

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

Downward 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

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

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. ACSPL is having 400 to 500 clients (mainly provident funds trust) in various part of Country.

Secured Trading mechanism



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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. Almost daily there is one or more invitation and after working on offers, they place order with ACSPL and they supply the securities. The system of buying and selling of securities between the investors and buyers are done through a platform system created by RBI where buyer must 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 done under the transaction / payment guaranteed by the exchange. So, this is a fully secured business as they deal only in G-Sec and there is no risk of credit. Repayment of State Development loans (State Government Securities) in times of stress if any is managed by RBI by ways & means (WMA) advances to various State Governments. The other risk which is interest risk is negligible looking at the nature of securities.

Comfortable Capital Structure

The overall gearing ratio of the Company stood comfortable at 1.20x as on March 31, 2021. Total debt of the company stood at Rs.8.11 crore which is in the form of working capital (CC/OD). The company has not availed any long-term debt. Interest coverage of the company stood adequate at 1.59x in FY21. TOL/TNW of the company has increased from 0.73x in FY20 to 1.38x in FY21 on account of increase in short term debt for working capital.

Key Rating Weaknesses

Low operating profitability margin

The EBITDA margin stood very low (below unity) at 0.20%, 0.09% & 0.24% in FY19, FY20 & FY21 respectively. Resultantly, PAT margin also stood very low at 0.16%, 0.05% & 0.08% in FY19, FY20 & FY21 respectively.

Interest rate risk

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

Competition



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

Analytical Approach:

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 CSGIL account with 6.00% margin.

Applicable Criteria:

Rating Methodology for Trading Companies

(<https://www.infomerics.com/rating-methodology-detail/trading-companies>)

Financial Ratios & Interpretation (Non-Financial Sector)

(<https://www.infomerics.com/rating-criteria-detail/financial-ratios--implication>)

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 -0.7% during the eight months ended November 30, 2021.

About the Company

Arete Capital Service Private Limited (ACSPL) [Earthwise SPA Global Private Limited] incorporated in 1996, 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.



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Financials (Standalone)

For the year ended* As on	INR in Crore	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	386.72	746.01
EBITDA	0.36	1.79
PAT	0.19	0.63
Total Debt	0.00	8.11
Tangible Net Worth	6.10	6.73
EBITDA Margin (%)	0.09	0.24
PAT Margin (%)	0.05	0.08
Overall Gearing Ratio (x)	0.00	1.20

* Classification as per Infomerics' standards

Details of Non-Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (Dated: December 30, 2020)	Date(s) & Rating(s) assigned in 2020-21 (Dated: June 19, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit (G.Sec only)	Long Term	25.00	IVR AA+ (CE)/ Stable	IVR AA+ (CE)/ Stable	IVR AA+ (CE)/ Stable	-
2.	Overdraft	Long Term	20.00	IVR AA+ (CE)/ Stable	IVR AA+ (CE)/ Stable	-	-



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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund based - Cash Credit (G. Sec. only)	-	-	-	25.00	IVR AA+ (CE)/ Stable
Long Term Fund based – Overdraft	-	-	-	20.00	IVR AA+ (CE)/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable



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Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Arete-Capital-lenders-feb22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.