



Press Release

Arete Capital Service Private Limited (ACSPL)

(Erstwhile SPA Global Private Limited)

January 24, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund based – Overdraft	20.00	IVR A-/ Stable (IVR A Minus Stable Outlook)	Rating Revised	Simple
Long Term Fund based - Cash Credit (G. Sec. only)	25.00	IVR A-/ Stable (IVR A Minus Stable Outlook)	Rating Revised	Simple
Total	45.00			

Reason for review of CE rating:

The Reserve Bank of India (RBI) has issued a fresh set of guidelines and FAQ to the credit rating agencies vide letter dated April 22, 2022 and July 26, 2022 specifically for bank loan ratings which are credit enhanced.

- As per this guideline, CE ratings can be assigned only in case of those corporate guarantees which are characterized inter alia by unconditionality, irrevocability, enforceability, entirety and presence of payment mechanism.
- Also, the guidelines highlight that letter of comfort / support/undertaking/ responsibility / acknowledgement / obligor – co obligor structure / pledge of shares will not qualify for CE ratings.

Adequacy of credit enhancement structure

In view of the RBI's Guidance Note dated April 22, 2022 and the FAQ document dated July 26, 2022 for assigning CE ratings, Infomerics has reviewed the structure and this does not comply with recent RBI guidelines wherein pledge of securities does not qualify CE ratings. Accordingly, Infomerics has revised the approach to Standalone and removed the Credit enhancement ratings.



Press Release

Details of Facilities are in Annexure 1

Detailed Rationale

The standalone rating of Arete Capital Services Private Limited (ACSPL) factors in 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 Factors

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

Downward Factors

- 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.

List of Key Rating Drivers with Detailed Description

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.



Press Release

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 system created by RBI where buyer must deposit the money and seller has to deposit the securities through their own banker. Therefore, the system of buying and selling of securities are done under the transaction / payment guaranteed by the exchange.

The bank has also stipulated differential margin for different category of securities to be purchased under this arrangement. The government securities purchased by the company will be held in a designated Constituent Subsidiary General Ledger (CSGL) Account and a joint depository participant account for corporate bonds, which will be duly pledged to the bank.

Comfortable Capital Structure

The overall gearing ratio of the Company stood comfortable at 0.66x as on March 31, 2022. Total debt of the company stood at Rs.5.15 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 9.01x in FY22. TOL/TNW of the company has increased from 0.73x in FY20 to 0.92x in FY22 on account of increase in short term debt for working capital.

Key Rating Weaknesses

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

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

Analytical Approach: Standalone Approach



Press Release

Applicable Criteria:

[Rating Methodology for Service Sector Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of Rating Outlook | Infomerics Ratings](#)

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.

Financials (Standalone):

(In Crore)

For the year ended/ As on*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Income#	1.27	10.17
PAT	0.64	1.11
Total Debt	8.11	5.15
Tangible Net Worth	6.73	7.84
PAT margin (%)	42.21	10.72
Overall Gearing Ratio (x)	1.20	0.66

* Classification as per Infomerics' standards

Total Income= Sale amount of G Secs (plus other operational income) – Purchase amount of G Sec.

Status of non-cooperation with previous CRA: None



Press Release

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Feb 10, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit (G.Sec only)	Long-term	25.00	IVR A-/ Stable	IVR AA+ (CE)/ Stable	-	- IVR AA+ (CE)/ Stable (Jun 19, 2020) - IVR AA+ (CE)/ Stable (Dec 30, 2020)
2.	Overdraft	Long-term	20.00	IVR A-/ Stable	IVR AA+ (CE)/ Stable	-	- IVR AA+ (CE)/ Stable (Jun 19, 2020)

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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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management



Press Release

and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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 A-/ Stable
Long Term Fund based – Overdraft	-	-	-	20.00	IVR A-/ Stable

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Arete-Capital-jan23.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