

June 26, 2023

IIFL Securities Limited: Placed on Rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term (ST) fund-based bank lines	200	200	[ICRA]A1+; Placed on Rating Watch with Developing Implications
Commercial paper	1,050	1,050	[ICRA]A1+; Placed on Rating Watch with Developing Implications
Total	1,250	1,250	

*Instrument details are provided in Annexure I

Rationale

Material event

On June 19, 2023, the Securities and Exchange Board of India (SEBI) passed an order against IIFL Securities Limited (IIFL Sec), prohibiting it from onboarding new clients for two years in respect of its business as a stockbroker. The order follows multiple inspections carried out by the regulator for different periods between April 2011 and January 2017. The prohibition pertains to non-compliance by the company with certain requirements of the 'Enhanced Supervision Circular' dated September 26, 2016, which became effective from July 1, 2017. Lapses were found with respect to intermingling of client funds with own funds, misuse of clients' credit balances and incorrect designation of client bank accounts during FY2011-2014. The company informed the stock exchanges that the said order pertains to inspections carried out for periods prior to the issuance of the 'Enhanced Supervision Circular' in July 2017. The company also mentioned that the circular was applied retrospectively while the order mentioned that there was no instance of non-compliance, post the implementation of the order w.e.f. July 1, 2017.

Impact of material event

Considering the prohibition on the onboarding of new clients for two years, incremental business may be impacted. In this backdrop, the company has preferred an appeal to the Securities Appellate Tribunal (SAT) for the review of the SEBI order. Pending the outcome of the SAT decision, the impact on IIFL Sec's business in the near term due to the SEBI's order, remains a key monitorable. Hence ICRA has placed the rating on Watch with Developing Implications. ICRA will continue to monitor the developments on the company's operational and financial performance and will resolve the watch once SAT announces its decision on the matter and/or some clarity emerges on the impact of the same on the company.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Brokerage Industry Consolidation and Rating Approach
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

Incorporated in March 1996, IIFL Securities Limited (IIFL Sec; formerly India Infoline Limited) is a full-service securities broking company offering capital market services such as equity, commodity & currency broking, depository participant services, merchant banking and distribution of financial products. The company's clientele includes corporates, institutional investors, foreign portfolio investors (FPIs), mutual funds, insurance companies, alternative investment funds (AIFs), trusts, high-net-worth individuals (HNIs) and retail clients. It also has investments in subsidiaries that offer facilities and ancillary services such as real estate broking/advisory services and insurance broking. IIFL Sec was promoted by first-generation entrepreneurs – Mr. Nirmal Jain and Mr. R. Venkataraman. It was listed in September 2019 pursuant to the composite scheme of arrangement of the promoter group entities.

The company reported a profit after tax (PAT) of Rs. 249.8 crore on net operating income (NOI) of Rs. 1,029.6 crore in FY2023 (PAT/NOI – 24.3%) compared to Rs. 305.8 crore and Rs. 1,042.9 crore, respectively, in FY2022 (PAT/NOI – 29.3%). The net worth was Rs. 1,350.3 crore as on March 31, 2023 with a gearing of 0.4 times as on that date.

Key financial indicators

IIFL Sec (consolidated)	FY2021	FY2022	FY2023
Brokerage income (gross)	499.1	674.7	760.0
Investment banking income	73.6	150.4	128.7
Other fee income [^]	122.3	211.9	243.6
Net interest income	43.0	95.1	128.8
Net operating income (NOI)	664.4	1,042.9	1,029.6
Operating expenses	432.9	664.7	693.8
Profit before tax	284.7	402.1	340.9
Profit after tax (PAT)	220.3	305.8	249.8
Loan book (net)	98.0	473.3	490.6
Net worth	967.7	1,182.0	1,350.3
Borrowings	291.6	607.0	485.8
Gearing (times)	0.3	0.5	0.4
Cost-to-income ratio	65.2%	63.7%	67.4%
Return on net worth	23.9%	28.5%	19.8%
PAT/NOI	33.2%	29.3%	24.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

[^]Includes income from financial product distribution and insurance broking

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jun 26, 2023	Mar 08, 2023		
1	ST fund-based bank lines	ST	200	150	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	-	-
2	Commercial paper	ST	1,050	Nil	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	-	-

*May 31, 2023; ST – Short term;

Complexity level of the rated instruments

Instrument	Complexity Indicator
ST fund-based bank lines	Very Simple
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	ST fund-based bank lines	NA	NA	NA	200	[ICRA]A1+; Rating Watch with Developing Implications
NA	Commercial paper [^]	NA [^]	NA	NA	1,050	[ICRA]A1+; Rating Watch with Developing Implications

Source: Company; [^] Yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	IIFL Sec Ownership	Consolidation Approach
IIFL Securities Limited	NA	NA
IIFL Facilities Services Limited	100%	Full Consolidation
IIFL Management Services Limited	100%	Full Consolidation
Livlong Insurance Brokers Limited ¹	100%	Full Consolidation
IIFL Commodities Limited	100%	Full Consolidation
Livlong Protection and Wellness Solutions Ltd ²	95%	Full Consolidation
IIFL Securities Services IFSC Limited	100%	Full Consolidation
IIFL Wealth (UK) Limited	100%	Full Consolidation
IIFL Capital Inc	100%	Full Consolidation
Shreyans Foundations LLP	99%	Full Consolidation
Meenakshi Towers LLP	100%	Full Consolidation

Source: Company

¹ Formerly known as IIFL Insurance Brokers Limited

² Formerly known as IIFL Corporate Services Limited (formerly known as IIFL Asset Reconstruction Limited)

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Branches



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