November 29, 2017

5Paisa Capital Limited

Summary of rated instruments

Instrument *	Amount (in Rs. Crore)	Rating Action
Commercial Paper programme	150.00	[ICRA]A1+; assigned
Total	**150.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]A1+ to Rs. 150 crore Commercial Paper programme of 5Paisa Capital Limited (5PCL).

Rationale

The rating factors in 5PCL's financial flexibility arising from the reputable sponsors, as the entity is backed by the promoters of IIFL group, along with the Fairfax group; this mirrors the shareholding pattern to that of IIFL Holdings Ltd. 5PCL also receives managerial and strategic support from the sponsors. 5PCL, formerly IIFL Capital Limited, was demerged from IIFL Holdings Ltd. effective from October 01, 2016 and the shareholding pattern at the time of de-merger mirrored that of IIFL Holdings Limited. The share swap arrangement was such that for every 25 shares of IIFL, 1 share of 5PCL was created. 5PCL was listed on the Bombay Stock Exchange and National Stock Exchange in November 2017. The rating also takes into consideration that the management team has significant experience in the online and mobile broking space. The rating also factors in the low operating cost structure of the company given the fully digital business model. The rating is however constrained by 5PCL’s relatively new business model, small scale of operations and weak profitability indicators. ICRA notes that the company’s reliance on promoter and promoter group for funding remains high.

Key rating drivers

Credit strengths

- **Strong promoter backing with mirror shareholding of IIFL Holdings** – 5PCL mirrors the shareholding structure of its erstwhile parent, IIFL Holdings Ltd. As a result, the company is backed by the promoters of IIFL group along with Fairfax group and draws significant advantages from this association at managerial, financial and strategic levels.

- **Experienced management and strong board of director profile** – The company is headed by Mr. Prakarsh Gagdani (Chief Executive Officer) with considerable broking industry experience and established track record in driving a retail focussed online and mobile based broking business. Furthermore, the future growth strategy of the company would be guided by a strong board of director profile, comprising broking and financial services industry veterans.

- **Low operating cost structure** – Given the fully digital nature of business with a focus on customers who prefer limited intermediation, the company operates with minimal physical infrastructure and no relationship managers or value added services like research. The business model enables the company to function with low operating costs while focussing on higher customer and trade volume.

Credit weaknesses

- **Limited track record post the change in business model** – 5PCL was demerged and commenced operations as a standalone entity with effect from October, 2016. 5PCL focuses on the emerging Do It Yourself (DIY) customer segment and charges a flat fee per trade, irrespective of the trade volume. In ICRA's view, the business track record remains limited and its ability to significantly grow its client base in a competitive discount broking market remains to be seen.

- **Weak profitability indicators** – The company is yet to acquire a substantial client base to leverage its technology driven platform. Since the business model hinges on the company's ability to acquire and maintain a significant volume of active client base and the resulting number of trades, the company's ability to grow profitably would be a key monitorable from a credit perspective.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

Rating Methodology for Brokerage Houses

About the company:

5Paisal Capital Limited

5paisa Capital Limited (5PCL) is an online financial services provider engaged in providing an online technology platform through internet terminals and mobile applications for trading of securities on NSE & BSE Limited and providing a wider basket of financial services including distribution of mutual funds, insurance (life, motor and health), bonds, commodities etc. 5PCL focuses on the emerging DIY customer segment that prefers least intermediation cost for various financial products. The company leverages technology coupled with the spread of internet and mobile penetration to operate with minimal physical infrastructure and manpower (primarily relationship managers).

During the quarter ended September 30, 2017, the 5Paisa digital undertaking was demerged from IIFL Holdings and into 5PCL with the demerger effective from the Appointed Date i.e. October 01, 2016. As a result, 5PCL ceased to be a subsidiary of IIFL Holdings and mirrors the shareholding of IIFL Holdings Ltd. The company was listed on the National Stock Exchange and Bombay Stock Exchange in November, 2017.

Key Financial Indicators

	FY2016	FY2017
Brokerage Income (net)	(0.09)	0.79
Fee Income (other than broking)	0.00	0.31
Net Interest Income	(0.28)	(0.62)
Other Non-Interest Income	0.00	1.05
Net Operating Income	(0.38)	1.52
Total Operating Expenses	4.27	22.59
Profit Before Tax	(7.70)	(16.38)
Profit After Tax	(5.50)	(11.69)
Net Worth	12.13	88.23
Cost to Income Ratio	N.A.	N.M.
Return on Net Worth	(45.3%)	(13.3%)

Source: Company data and ICRA research; Amount in Rs. crore
All ratios are as per ICRA calculations
N.A. – Not Applicable, N.M. – Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November-2017	-	-	-
1	Commercial Paper Programme	Short Term	150.00	[ICRA]A1+	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

ISIN Number	Instrument	Date of issuance/ Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	NA	7-365 days	150.00	[ICRA]A1+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

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