

June 21, 2021

ICICI Securities Limited: [ICRA]A1+ assigned to enhanced CP programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Commercial Paper	0	1,500.00	[ICRA]A1+; assigned
Non-convertible Debentures	50.00	50.00	[ICRA]AAA (Stable); outstanding
Total	4,550.00	6,050.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in ICICI Securities Limited's (ISec) strong parentage, as it is a subsidiary of ICICI Bank Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+; 75% stake in the company), with significant operational linkages with the parent and a shared brand name. ISec's strategic importance to the parent is evident from the managerial and operational support received by it, including senior management transfers (from ICICI Bank), customer-sourcing and cross-selling support, and access to the bank's retail clientele, branch network and infrastructure. The ratings also take into account the company's leading position in securities broking, its strong retail franchise supported by its position as a bank brokerage house, its track record in the investment banking business, and its healthy financial profile with steady profitability and comfortable capitalisation.

The ratings also factor in the inherent volatility in ISec's primary business of equity broking, the risks associated with capital markets related businesses and the competition in this space. While assigning/reaffirming the rating, ICRA has taken note of the increasing prominence of the company's secured margin trade funding (MTF) business. ISec's ability to scale up the MTF book while maintaining adequate capitalisation as well as asset quality (in the MTF book) will remain a key monitorable. The Stable outlook indicates ICRA's expectation that the company would continue to have a strong retail franchise and market position, supported by its position as a bank brokerage house, and steady profitability levels.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a subsidiary of ICICI Bank – ISec is a subsidiary of ICICI Bank, which holds a 75% stake in the company. The company draws the advantage of strong operational linkages with ICICI Bank, as demonstrated by senior management transfers to ISec from the bank. ISec helps augment ICICI Bank's service portfolio and enjoys customer-sourcing and cross-selling support and access to the bank's retail clientele, branch and infrastructure network. The strong parentage and shared brand name strengthen ICRA's expectation that ISec will receive timely and adequate operational support from ICICI Bank, if required. The company also draws the advantage of enhanced financial flexibility by virtue of being a subsidiary of ICICI Bank.

Strong market position in retail broking and investment banking – The company has a strong retail franchise supported by its position as a bank brokerage house with access to ICICI Bank's retail clientele, its branch network and physical presence. ISec is among the leading players in the retail segment with more than 5.40 million clients managed through its network of 148 ICICI direct branches and over 18,400 business network partners, consisting of authorized persons, independent Financial associates (IFAs) and independent associates (IAs). The company is among the leading brokerage houses in terms of trading

volumes with a market share of 3.43%¹ in FY2021 (compared to 5.31% in FY2020). ISec is the third largest broker in terms of active clients with a share of about ~8.4% of the National Stock Exchange's (NSE) active clients as of March 31, 2021 (about 10% as on March 31, 2020).

ISec is also among the prominent distributors of financial products and has a strong presence in the domestic investment banking space. It has been an investment banker for many marquee deals in the industry especially in the initial public offering space. ISec has witnessed increased momentum in its margin funding business in past one year; on account of this the company's overall loan book has reported considerable growth from Rs. 571 crore as of March 31, 2020 to Rs. 2,901 crore as of March 31, 2021.

Healthy financial profile with steady profitability and comfortable capitalisation – ISec reported a profit after tax (PAT) of Rs. 1,067.7 crore in FY2021 with net profitability (PAT to net operating income or PAT/NOI) of 46.06% compared to Rs. 542 crore and 33.98%, respectively, in FY2020. With the industry-wide contraction in yields owing to competitive pressure as well as the changing product mix (reducing share of high-yield delivery volumes), there has been a moderation in the profitability across players. However, ISec continues to maintain a healthy financial profile. ICRA takes note of the management's stated policy of maintaining a dividend payout ratio of at least 50% in the near term, which may limit its internal capital generation, although it remains substantial.

The company's capitalisation profile remains healthy with a net worth of Rs. 1,822.11 crore and a gearing of 1.93 times as on March 31, 2021 (Rs. 1,209.54 crore and 1.24 times, respectively, as on March 31, 2020). Going forward, the gearing is expected to increase on account of higher borrowings to support the ramp-up in the MTF and employee stock option plan (ESOP) funding books as well as the higher margin requirements at the exchanges.

Credit challenges

Exposed to risks inherent in capital markets related businesses – ISec's revenues remain dependent on capital markets, which are inherently volatile in nature. However, the company has been intending to diversify by further increasing its focus on the distribution business wherein the revenues are linked to the assets under management (AUM), thereby imparting stability to the overall earnings profile.

Intense competition in capital markets – With increasing competition in equity broking, the advent of discount brokerage houses and a significant surge in derivative volumes, the average yields for broking players have been under pressure. With competition expected to remain high, the pressure on the industry margin is expected to continue. However, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings indicate huge untapped potential for rapid expansion in the broking market over the long term.

Liquidity position: Strong

ISec's liquidity profile is supported by its cash and bank balances, unutilised bank lines and liquid investments. As on May 31, 2021, it had an unencumbered cash and bank balance of Rs. 206 crore (approx.), unutilised bank lines from ICICI Bank of ~Rs. 643 crore, liquid investments of ~Rs. 61 crore and unencumbered fixed deposits of ~Rs. 85 crore. The total borrowings stood at ~Rs. 3,520 crore while the company had a loan book of ~Rs. 2,901 crore as on March 31, 2021. The on-balance sheet liquidity and healthy inflows from the loan book are sufficient to cover the debt maturity.

¹ Market share basis gross turnover

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could arise if there is a deterioration in the credit profile of the parent, a significant change in the company's shareholding or a decline in the linkages with the parent.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry Consolidation and Rating Approach
Parent/Group Support	ISec is a subsidiary of ICICI Bank, which holds a 75% stake in the company. The strong parentage and shared brand name strengthen ICRA's assumption that ISec will receive timely and adequate operational support from ICICI Bank, if needed. The company also enjoys significant financial flexibility by virtue of being a subsidiary of ICICI Bank. It draws the advantage of strong operational linkages with ICICI Bank as demonstrated by the senior management deputations from the bank along with customer-sourcing and cross-selling support.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ISec. As on March 31, 2020, the company had two subsidiaries, which are enlisted in Annexure-2.

About the company

ICICI Securities Limited, a subsidiary of ICICI Bank Limited, is the broking arm of the ICICI Group. It offers broking services to retail and institutional clients and has a strong presence in the investment banking space. The company also offers wealth management services and distributes financial products.

Key financial indicators (audited)

ICICI Securities Limited	FY2019	FY2020	FY2021
Brokerage Income (Rs. crore)	895.33	903.86	1,382.36
Fee Income (other than broking; Rs. crore)	573.28	521.75	696.07
Net Interest Income (Rs. crore)	136.86	148.61	237.59
Other Non-interest Income (Rs. crore)	25.11	20.63	2.07
Net Operating Income (NOI; Rs. crore)	1,630.58	1,594.85	2,318.09
Total Operating Expenses (Rs. crore)	885.03	827.62	930.05
Profit before Tax (Rs. crore)	757.23	752.93	1,430.78
Profit after Tax (PAT; Rs. crore)	490.73	542.00	1,067.72
Net Worth (Rs. crore)	1,047.27	1,209.54	1,822.11
Borrowings (Rs. crore)	447.30	1,497.53	3,520.96
Gearing (times)	0.43	1.24	1.93
Cost-to-income Ratio (%)	54.28%	51.89%	40.12%
Return on Net Worth (%)	51.79%	48.03%	70.44%
PAT/NOI (%)	30.10%	33.98%	46.06%

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2022)		Chronology of Rating History for the Past 3 Years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
				Jun 21, 2021	Mar 10, 2021	Aug 13, 2020	Dec 26, 2019	Nov 13, 2018	
1 Non-convertible Debentures	Long Term	50	Nil	[ICRA]AAA (Stable); outstanding	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Commercial Paper	Short Term	6,000	4,085*	[ICRA]A1+; assigned/reaffirmed	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

*Face value as on June 11, 2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple
Non-Convertible Debentures*	NA

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: www.icra.in

Annexure-1: Instrument details

ISIN*	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-convertible Debentures – Yet to be placed	NA	NA	NA	50.00	[ICRA]AAA (Stable)
INE763G14IZ5	Commercial Paper	Oct 27, 2020	3.86	Jun 25, 2021	150.00	[ICRA]A1+
INE763G14IZ5	Commercial Paper	Nov 06, 2020	3.86	Jun 25, 2021	50.00	[ICRA]A1+
INE763G14IZ5	Commercial Paper	Nov 12, 2020	3.86	Jun 25, 2021	60.00	[ICRA]A1+
INE763G14JJ7	Commercial Paper	Dec 04, 2020	4.25	Dec 03, 2021	100.00	[ICRA]A1+
INE763G14JK5	Commercial Paper	Dec 15, 2020	4.37	Dec 10, 2021	100.00	[ICRA]A1+
INE763G14JM1	Commercial Paper	Jan 11, 2021	3.72	Jun 28, 2021	100.00	[ICRA]A1+
INE763G14JS8	Commercial Paper	Feb 16, 2021	4.35	Jul 15, 2021	125.00	[ICRA]A1+
INE763G14JQ2	Commercial Paper	Feb 16, 2021	4.40	Aug 11, 2021	75.00	[ICRA]A1+
INE763G14JT6	Commercial Paper	Feb 24, 2021	4.35	Aug 23, 2021	150.00	[ICRA]A1+
INE763G14JW0	Commercial Paper	Mar 3, 2021	4.30%	Aug 6, 2021	150.00	[ICRA]A1+
INE763G14JX8	Commercial Paper	Mar 3, 2021	4.30%	Aug 25, 2021	50.00	[ICRA]A1+
INE763G14JZ3	Commercial Paper	Mar 18, 2021	4.87%	Mar 11, 2022	250.00	[ICRA]A1+
INE763G14KC0	Commercial Paper	Apr 30, 2021	3.87%	Sep 15, 2021	400.00	[ICRA]A1+
INE763G14KB2	Commercial Paper	Apr 30, 2021	3.60%	Jul 28, 2021	425.00	[ICRA]A1+
INE763G14JW0	Commercial Paper	May 10, 2021	3.64%	Aug 6, 2021	200.00	[ICRA]A1+
INE763G14KD8	Commercial Paper	May 21, 2021	3.65%	Aug 13, 2021	400.00	[ICRA]A1+
INE763G14KE6	Commercial Paper	May 25, 2021	3.66%	Aug 24, 2021	150.00	[ICRA]A1+
INE763G14JX8	Commercial Paper	May 28, 2021	3.66%	Aug 25, 2021	350.00	[ICRA]A1+
INE763G14KF3	Commercial Paper	Jun 03, 2021	3.70%	Sep 01, 2021	450.00	[ICRA]A1+
INE763G14KG1	Commercial Paper	Jun 08, 2021	3.69%	Sep 03, 2021	350.00	[ICRA]A1+
NA	Commercial Paper – Yet to be placed	NA	NA	NA	1,915.00	[ICRA]A1+

Source: Company; *As of June 11, 2021

Annexure-2: List of entities considered for consolidated analysis

Company Name	ISec Ownership	Consolidation Approach
ICICI Securities Holdings, Inc.	100.00%	Full Consolidation
ICICI Securities, Inc.	100.00% (step-down subsidiary)	Full Consolidation

Source: ISec's annual report FY2020

Note: ICRA has taken a consolidated view of the parent (ISec) and its subsidiaries while assigning the ratings

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