

August 24, 2021

ICICI Securities Limited: Ratings reaffirmed; rated amount enhanced for commercial paper

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Commercial Paper	0	2,000.00	[ICRA]A1+; assigned
Non-convertible Debentures	50.00	50.00	[ICRA]AAA (Stable); reaffirmed
Total	6,050.00	8,050.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in ICICI Securities Limited's (ISec) strong parentage, being a subsidiary of ICICI Bank Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+; 75% stake in the company), its significant operational linkages with the parent and the 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.

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 ratings, ICRA has taken note of the increasing prominence of the company's secured margin trade funding (MTF) business. The enhanced limits are expected to be utilised for funding this business and the company's gearing (2.3 times as of June 2021) is expected to increase with the scaling up of the MTF book. The MTF book remains exposed to market risk, given the nature of the underlying assets. However, ISec's risk management systems provide comfort. The Stable outlook reflects ICRA's expectation that the company would maintain its earnings profile supported by its strong retail franchise and its position as a bank brokerage house.

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.

Established track record in retail broking and investment banking – The company has a strong and established 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 21.9 lakh broking clients managed through

its network of 148 ICICI direct branches and over 18,400 business network partners, consisting of authorised persons (APs), sub-brokers, 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 ~9% 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. The company has an established i-banking franchise and has been associated with many marquee deals in the industry especially in the initial public offering space. ISec has witnessed increased momentum in its margin funding business in the past one year. As a result, its overall loan book grew considerably to Rs. 2,901 crore as of March 31, 2021 from Rs. 571 crore as of March 31, 2020.

Healthy financial profile with steady profitability and adequate capitalisation – ISec reported a strong growth in its net operating income (NOI) in FY2021, supported by the strong performance of the capital markets. The company's NOI increased by ~45% to Rs. 2,318.1 crore in FY2021 from Rs. 1,594.9 crore in FY2020. The resultant increase in the economies of scale facilitated an improvement in the company's cost structure. ISec's cost-to-income ratio, which had been on the higher side (over 50% during FY2018 to FY2020) improved to 39.8% in FY2021 from 51.9% in FY2020, while the net profitability (profit after tax (PAT)/NOI) improved to 46.1% from 34% during the same period. ISec reported an all-time high annual PAT of Rs. 1,068 crore in FY2021 (Rs. 542 crore in FY2020).

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 the same 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. Moreover, the company's MTF/ESOP funding scaled up significantly in the past couple of quarters and stood at ~Rs. 4,754 crore as of June 2021 (Rs. 2,910.3 crore as of March 2021 and Rs. 580.1 crore as of March 2020). The underlying assets, being equity securities, are exposed to market risk. However, the company's risk management processes provide comfort.

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. While the company's active clients increased to 15.8 lakh as of March 2021 from 10.8 lakh as of March 2020, its share in total active clients moderated in light of the increasing prominence of discount brokerage houses. 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.

¹ Market share basis gross turnover

Liquidity position: Strong

ISec had an unencumbered cash and bank balance of ~Rs. 143 crore, undrawn bank lines of ~Rs. 494 crore (from ICICI Bank), investments in liquid mutual funds of ~Rs. 60 crore and unencumbered fixed deposits of ~Rs. 152 crore as on July 31, 2021. The total borrowings outstanding stood at Rs. 5,820 crore (Rs. 5,670-crore commercial paper and Rs. 150-crore bank lines) as on that date. The on-balance sheet cash and liquid investments, undrawn bank lines and inflows from the maturity of the loan book are sufficient to cover the debt maturity.

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 Rating Approach – Implicit Support from Parent or Group
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, 2021, 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

ICICI Securities Limited	FY2020	FY2021	Q1 FY2022*
Brokerage Income (Rs. crore)	903.9	1,382.4	359.1
Fee Income (other than broking; Rs. crore)	521.8	696.1	210.8
Net Interest Income (Rs. crore)	148.6	237.6	90.0
Other Non-interest Income (Rs. crore)	20.6	2.1	2.8
Net Operating Income (NOI; Rs. crore)	1,594.9	2,318.1	662.6
Total Operating Expenses (Rs. crore)	827.6	921.9	256.3
Profit before Tax (Rs. crore)	752.9	1,430.8	416.7
Profit after Tax (PAT; Rs. crore)	542.0	1,067.7	310.7
Net Worth (Rs. crore)	1,209.5	1,822.1	2,137.6
Borrowings (Rs. crore)	1,497.5	3,521.0	4,823.6
Gearing (times)	1.2	1.9	2.3
Cost-to-income Ratio (%)	51.9%	39.8%	38.7%
Return on Net Worth (%)	48.0%	70.4%	62.8%
PAT/NOI (%)	34.0%	46.1%	46.9%

*Unaudited figures; **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
					Aug 24, 2021	Jun 21, 2021	Mar 10, 2021	Aug 13, 2020		
1	Non-convertible Debentures	Long Term	50	Nil	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Commercial Paper	Short Term	6,000	5,670*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Commercial Paper	Short Term	2,000		[ICRA]A1+	-	-	-	-	-

*Face value as on July 31, 2021

Complexity level of the rated instrument

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

*Yet to be placed

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	[ICRA]AAA (Stable)
INE763G14JJ7	Commercial Paper	Dec 04, 2020	4.25	Dec 03, 2021	100	[ICRA]A1+
INE763G14JK5	Commercial Paper	Dec 15, 2020	4.37	Dec 10, 2021	100	[ICRA]A1+
INE763G14JQ2	Commercial Paper	Feb 16, 2021	4.40	Aug 11, 2021	75	[ICRA]A1+
INE763G14JT6	Commercial Paper	Feb 24, 2021	4.35	Aug 23, 2021	150	[ICRA]A1+
INE763G14JW0	Commercial Paper	Mar 03, 2021	4.30	Aug 06, 2021	150	[ICRA]A1+
INE763G14JX8	Commercial Paper	Mar 03, 2021	4.30	Aug 25, 2021	50	[ICRA]A1+
INE763G14JZ3	Commercial Paper	Mar 18, 2021	4.87	Mar 11, 2022	250	[ICRA]A1+
INE763G14KC0	Commercial Paper	Apr 30, 2021	3.87	Sep 15, 2021	50	[ICRA]A1+
INE763G14KC0	Commercial Paper	Apr 30, 2021	3.87	Sep 15, 2021	350	[ICRA]A1+
INE763G14JW0	Commercial Paper	May 10, 2021	3.64	Aug 06, 2021	200	[ICRA]A1+
INE763G14KD8	Commercial Paper	May 21, 2021	3.65	Aug 13, 2021	400	[ICRA]A1+
INE763G14KE6	Commercial Paper	May 25, 2021	3.66	Aug 24, 2021	150	[ICRA]A1+
INE763G14JX8	Commercial Paper	May 28, 2021	3.66	Aug 25, 2021	350	[ICRA]A1+
INE763G14KF3	Commercial Paper	Jun 03, 2021	3.70	Sep 01, 2021	450	[ICRA]A1+
INE763G14KG1	Commercial Paper	Jun 08, 2021	3.69	Sep 03, 2021	350	[ICRA]A1+
INE763G14JK5	Commercial Paper	Jun 16, 2021	4.02	Dec 10, 2021	200	[ICRA]A1+
INE763G14KH9	Commercial Paper	Jun 23, 2021	4.10	Dec 17, 2021	275	[ICRA]A1+
INE763G14KI7	Commercial Paper	Jun 25, 2021	3.73	Sep 24, 2021	425	[ICRA]A1+
INE763G14KJ5	Commercial Paper	Jun 29, 2021	4.10	Dec 20, 2021	200	[ICRA]A1+
INE763G14KK3	Commercial Paper	Jun 29, 2021	4.28	Mar 25, 2022	45	[ICRA]A1+
INE763G14KK3	Commercial Paper	Jul 06, 2021	4.28	Mar 25, 2022	250	[ICRA]A1+
INE763G14KL1	Commercial Paper	Jul 16, 2021	4.10	Jan 12, 2022	125	[ICRA]A1+
INE763G14KK3	Commercial Paper	Jul 16, 2021	4.28	Mar 25, 2022	125	[ICRA]A1+
INE763G14KM9	Commercial Paper	Jul 28, 2021	3.78	Oct 26, 2021	250	[ICRA]A1+
INE763G14KN7	Commercial Paper	Jul 28, 2021	3.71	Sep 28, 2021	250	[ICRA]A1+
INE763G14KH9	Commercial Paper	Jul 28, 2021	4.00	Dec 17, 2021	150	[ICRA]A1+
INE763G14JW0	Commercial Paper	Jul 29, 2021	4.40	Aug 06, 2021	200	[ICRA]A1+
NA	Commercial Paper – Yet to be placed	NA	NA	NA	2,330.00	[ICRA]A1+

Source: Company; *As of July 31, 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 for FY2021

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

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