November 25, 2021

PhillipCapital (India) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	15.00	15.00	[ICRA]A1; reaffirmed
Total	**15.00**	**15.00**	

**Instrument details are provided in Annexure-1*

Rationale

While reaffirming the rating, ICRA has taken a consolidated view of PhillipCapital (India) Private Limited (PCPL) and its group company, Phillip Finance & Investment Services India Private Limited (PFISIPL), given the strong linkages between the two entities with a common management and complementary product portfolios. PCPL is engaged in equity broking while PFISIPL serves as the lending arm and provides loan against shares (LAS) facilities to PCPL's retail clientele. The two entities are together referred to as the Phillips Group India (PGI).

The rating factors in PGI's experience in capital markets and the securities broking industry, its established position in the institutional segment, and its parentage as a part of the Singapore-based PhillipCapital Group with significant experience in the financial services industry. The rating also takes into account PGI's healthy earnings profile on the back of the steady performance of the broking business. The rating, however, remains constrained by the modest scale of operations with limited diversification in revenues and high dependence on capital markets, which are inherently volatile in nature. The rating also factors in the high concentration in the loan book, the lending business' exposure to credit and market risks, given the nature of the underlying assets (predominant share of portfolio comprising LAS), and the limited diversification in the liability profile.

Key rating drivers and their description

Credit strengths

Established position in securities broking with focus on institutional segment – PCPL has been operational in the Indian equity markets for more than 15 years and has considerable experience in this segment. While it extends broking services to both retail and institutional clients, its business remains focused on the institutional segment, which accounts for ~78% of its overall volumes. PCPL's clientele in the institutional segment remains diversified, comprising mutual funds, domestic and global banks and other domestic institutional investors (DIIs) and foreign portfolio investors (FPIs). In the past one year, the company has also strengthened its focus on offering trading and clearing services to FPIs, which is expected to further support its position in the institutional segment. Considering the volatile nature of capital markets, the presence of institutional brokerage in the revenue stream tends to reduce the overall fluctuations in brokerage income.

Healthy profitability indicators – PGI has witnessed a steady improvement in its profitability on a year-on-year (YoY) basis supported by the steady performance of the core operations with increased economies of scale and cost optimisation efforts. PGI reported an improvement in the profitability[1] in FY2021 with a net profit of Rs. 39.1 crore (Rs. 26.2 crore in FY2020) and profit after tax (PAT)/net operating income (NOI) of 24.0% (20.0% in FY2020). It continued to report an improvement in its profitability[1] in H1 FY2022 with a profit before tax (PBT) of Rs. 39.0 crore (Rs. 25.9 crore in H1 FY2021) on a provisional basis.

[1] *Refers to consolidated financials of PCPL and PFISIPL*

PGI's cost-to-income[1] ratio improved to 82.5% in FY2021 from 87.7% in FY2020 and further to 71.2% in H1 FY2022. On a standalone basis, PCPL and PFISIPL reported a PAT of Rs. 32.2 crore and Rs. 6.8 crore, respectively, in FY2021.

Part of PhillipCapital Group of Singapore – PCPL and PFISIPL are a part of the Singapore-based PhillipCapital Group, with Phillip Mauritius Private Limited holding a 75% equity stake in both companies. The PhillipCapital Group has been operating in the capital markets space since 1975 and has a global footprint, currently operating in 15 countries with assets under management (AUM) of more than $47 billion. It offers a wide array of financial products and services including broking, unit trusts, contracts for difference, exchange traded funds, fund management, managed accounts, insurance planning, regular savings plans, investment research, equity financing and property consultancy.

PCPL is the broking arm of the PhillipCapital Group's Indian operations and is engaged in retail and institutional broking, portfolio management services, margin funding and distribution services. PFISIPL serves as the lending arm for PGI and complements PCPL's service portfolio by offering LAS facilities. PFISIPL, thus, enjoys operational synergies with PCPL in terms of a shared infrastructure along with ready access to the Group's client network.

Credit challenges

Modest scale of operations – PCPL's average daily turnover (ADTO) increased by 35% YoY to Rs. 3,443 crore in H1 FY2022; the company's growth rate, however, trailed behind the industry (growth of 211%), resulting in a contraction in its market share of turnover to 0.06% in H1 FY2022 from 0.10% in FY2021. The business diversification of the Group remains limited with broking income forming a predominant share of its revenue mix. PGI also extends margin funding to its clients through the broking company and this book stood at Rs. 1.6 crore as of March 2021 and Rs. 2.0 crore as of September 30, 2021. PGI is also engaged in the funding business through PFISIPL, which had a loan book of Rs. 305 crore as of March 31, 2021 and Rs. 290 crore as of September 30, 2021.

Exposure to market and concentration risks in the lending business – PFISIPL's loan book primarily comprises LAS, which accounted for ~98% of the loan book as of September 30, 2021. PGI remains exposed to credit and market risks, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. The loan book remains concentrated with the top 10 clients accounting for more than ~81% of the loans as of September 30, 2021. However, the LAS facilities are secured with group 1 securities with the loan-to-value not exceeding 50%. Further, the Group's monitoring systems and processes and healthy asset quality provide comfort so far.

High gearing and low diversification in liability profile of the lending business – PFISIPL primarily relies on commercial papers (CP) for funding its LAS book. Its gearing moderated to 6.1 times as of March 31, 2021 from 3.3 times as of March 31, 2020 with the scaling up of the loan book. The high gearing in the lending arm (compared to the regulatory threshold leverage level of 7 times[2]) leaves limited headroom for scaling up the business at the current capitalisation level.

The Group typically raises funding by issuing CPs to its client network of high net worth individuals (HNIs). However, the borrowing mix in the lending arm remains concentrated with the top investors accounting for 92.5% of the overall borrowings as of March 31, 2021. Considering the thin net interest margins, PFISIPL's ability to expand its investor base and raise funds at competitive rates would remain critical from a credit perspective.

Highly dependent on capital markets – PGI's operations are linked to the inherently volatile capital markets. Thus, its revenue profile and profitability remain vulnerable to market performance. Further, any adverse event in the capital markets could lead to an erosion in the value of the underlying collateral stocks for the lending operations and would result in loan call-backs/squaring off of positions, which would impact the asset quality as well as profitability.

[2] *Maximum leverage for non-deposit taking non-systemically important non-banking financial companies (NBFCs) stands at 7 times as per RBI master circular no: No.044/03.10.119/2015-16*

Liquidity position: Adequate

PCPL's liquidity requirement is primarily for placing margins at the exchanges and managing working capital requirements in the proprietary trading business and accounts receivable in the broking business. It deployed an average margin of ~Rs. 1,031 crore at the exchanges (funded through own and client funds/securities) between April 2021 and October 2021, wherein margin utilisation ranged between 41% and 57%. As on October 31, 2021, the company had Rs. 55 crore of unencumbered cash and bank balances and Rs. 31 crore of liquid investments against Rs. 21 crore of fund-based borrowings. Further, it had a short-term liquid margin trade funding book of ~Rs. 2 crore and Rs. 79 crore of drawable but unutilised lines, which are adequate to cover any short-term debt obligations if the need arises.

PFISIPL funds its loan book through short-term CP borrowings due to the short-term asset maturity profile. As of October 31, 2021, it had CP outstanding of Rs. 220 crore (falling due between November 2021 and June 2022) and related-party loans of Rs. 45 crore for funding the short-term LAS book of Rs. 310 crore. Free cash and liquid investments of ~Rs. 6 crore and drawable but unutilised lines of Rs. 5 crore as of October 31, 2021, coupled with healthy collections from the LAS book, provide comfort in meeting the debt obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the Group is able to scale up its operations and diversify its revenue stream while maintaining healthy earnings and a comfortable capitalisation profile.

Negative factors – Pressure on the rating could arise if there is a decline in the profitability of the broking operations (PBT/NOI declining below 15%) or a deterioration in the asset quality of the lending business.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-banking Finance Companies Rating Methodology for Entities in the Brokerage Industry Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of PCPL and PFISIPL

About the company

PhillipCapital (India) Private Limited
PCPL is the broking arm of the PhillipCapital Group's Indian operations. The company is engaged in retail and institutional broking, portfolio management services, margin funding and distribution activities. The Singapore-based PhillipCapital Group is a diversified financial services provider, which holds a 75% equity stake in the company, while the balance is held by the trustees of PhillipCapital (India) Private Limited Management Employees Trust and others.

Phillip Finance & Investment Services India Private Limited
PFISIPL is the lending arm of the PhillipCapital Group's Indian operations. PFISIPL is registered as a non-banking financial company with the Reserve Bank of India (RBI) and provides LAS. The Group holds an equity stake of 75% in the company through one of its subsidiaries, Phillip Brokerage Pte Ltd., while the balance is owned equally by two individuals from PFISIPL's senior management team.

Key financial indicators

PCPL (standalone)	FY2020/Mar-20	FY2021/Mar-21	H1 FY2022/Sep-21*
Net Broking Income (Rs. crore)	93.3	116.7	74.5
Net Interest Income (Rs. crore)	25.4	25.2	13.6
Other Non-interest Income (Rs. crore)	8.4	10.3	8.7
Net Operating Income (Rs. crore)	127.0	152.2	96.8
Total Operating Expenses (Rs. crore)	111.1	129.4	70.2
Non-operating Income (Rs. crore)	14.0	29.6	9.3
Profit before Tax (Rs. crore)	28.9	45.8	35.8
Profit after Tax (Rs. crore)	22.9	32.2	35.8^
PBT/Net Operating Income (%)	22.7%	30.1%	37.0%
Cost-Income Ratio (%)	87.5%	85.0%	72.5%
Net Worth (Rs. crore)	344.7	376.2	404.2
Gearing (times)	0.0	0.0	0.0
Return on Net Worth (%)	6.8%	8.9%	18.4%

***Source:** Company, ICRA Research; *Provisional figures as per IGAAP; ^Tax impact has not been factored in for H1 FY2022; All ratios as per ICRA's calculations*

PGI (consolidated)	FY2020/Mar-20	FY2021/Mar-21	H1 FY2022/Sep-21*
Net Broking Income (Rs. crore)	93.3	116.7	74.5
Net Interest Income (Rs. crore)	29.1	30.1	17.6
Other Non-interest Income (Rs. crore)	9.2	16.0	10.3
Net Operating Income (Rs. crore)	131.6	162.7	102.4
Total Operating Expenses (Rs. crore)	115.5	134.3	72.9
Non-operating Income (Rs. crore)	18.3	33.8	9.5
Profit before Tax (Rs. crore)	33.3	55.0	39.0
Profit after Tax (Rs. crore)	26.2	39.1	39.0 ^
PBT/Net Operating Income (%)	25.3%	33.8%	38.1%
Cost-Income Ratio (%)	87.7%	82.5%	71.2%
Net Worth (Rs. crore)	381.8	420.1	449.3
Gearing (times)	0.33	0.64	0.51
Return on Net Worth (%)	7.0%	9.8%	18.0%

***Source:** Company, ICRA Research; *Provisional figures as per IGAAP; ^Tax impact has not been factored in for H1 FY2022; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 25, 2021	Nov 27, 2020	Oct 30, 2019	Sep 3, 2018
1	Commercial Paper	Short Term	15.00	0.00*	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Source: *Company; *As of October 31, 2021*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper Programme	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: 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
Yet to be placed	Commercial Paper	NA	NA	NA	15.00	[ICRA]A1

Source: *Company; *As on October 31, 2021*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PhillipCapital (India) Private Limited	Associate	ICRA has taken a consolidated view of PCPL and PFISIPL
Phillip Finance & Investment Services India Private Limited	Associate	

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Samriddhi Chowdhary
+91 22 6114 3462
samriddhi.chowdhary@icraindia.com

Subhrajyoti Mohapatra
+91 22 6114 3400
subhrajyoti.mohapatra@icraindia.com

Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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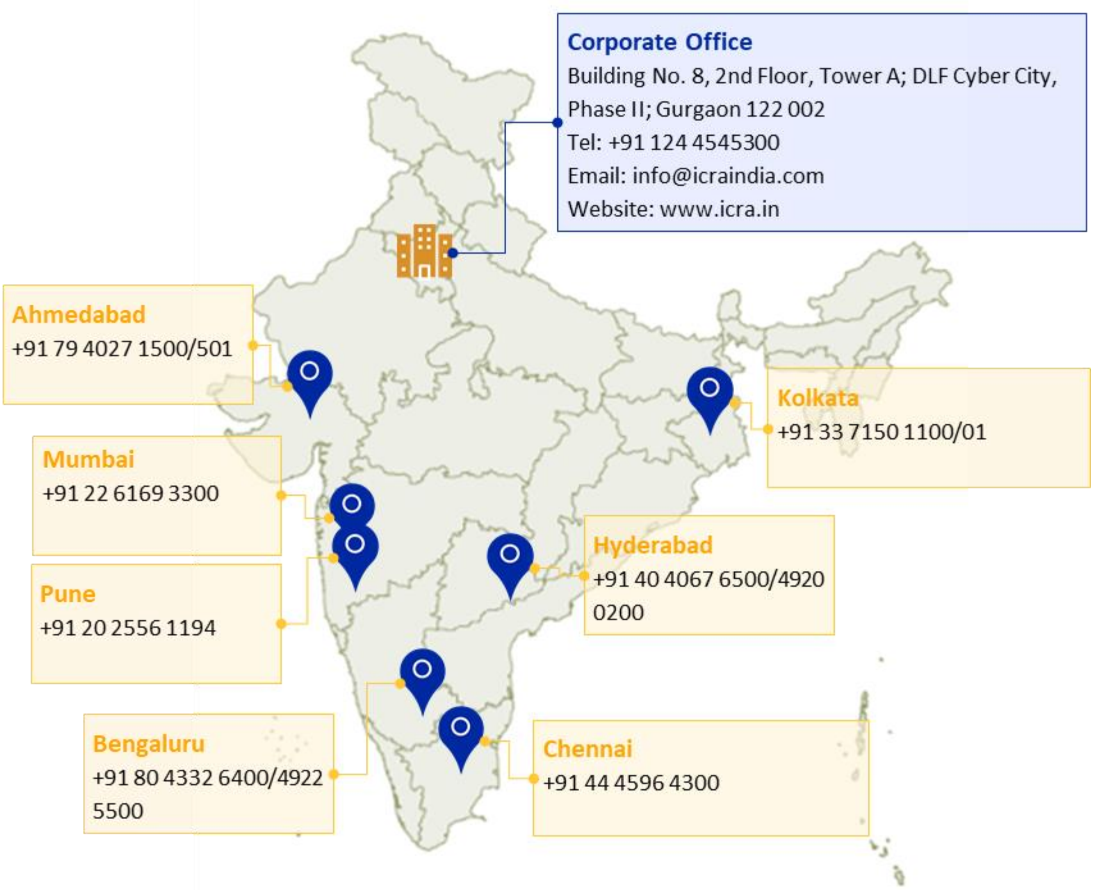
ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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