

November 10, 2022^(Revised)

ICICI Securities Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	11,000	11,000	[ICRA]A1+; reaffirmed
Non-convertible debentures	50	50	[ICRA]AAA (Stable); reaffirmed
Total	11,050	11,050	

*Instrument details are provided in Annexure I

Rationale

The ratings factor in ICICI Securities Limited's (I-Sec) strong parentage by virtue of being a subsidiary of ICICI Bank Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+; 74.9% stake in I-Sec). I-Sec helps augment ICICI Bank's service portfolio and enjoys customer sourcing opportunities. Its importance to the parent is evident from the managerial and operational support, including senior management transfers (from ICICI Bank), shared brand name, and access to the bank's retail clientele, branch network and infrastructure. The ratings also consider I-Sec'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, its healthy financial profile and comfortable capitalisation.

To diversify its revenue profile, I-Sec has been increasing its secured margin trade funding (MTF) business in the past couple of years, which has also resulted in a sizeable uptick in its gearing. Given its competitive borrowing cost, I-Sec has a dominant market position in the MTF business. Depending on market conditions, the MTF book and gearing level are expected to remain elevated compared to the historical average. I-Sec also remains exposed to credit and market risks on account of the MTF lending book, given the nature of the underlying assets.

The ratings also consider the inherent volatility and the risks associated with capital market related businesses and the intense competition in the retail equity broking space. However, the increasing share of non-broking revenues in the recent past provides some diversification to the revenue profile. Going forward, I-Sec's ability to continue to ramp up the broking revenues and sustain the net interest income (NII), given the rising interest rate scenario, while ensuring adequate asset quality would be imperative for maintaining the profitability.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a subsidiary of ICICI Bank – I-Sec is a subsidiary of ICICI Bank, which holds a 74.9% stake in the company. I-Sec helps augment ICICI Bank's service portfolio and enjoys customer sourcing opportunities. Its importance to the parent is evident from the managerial and operational support, including senior management transfers (from ICICI Bank), shared brand name, and access to the bank's retail clientele, branch network and infrastructure. The strong parentage and shared brand name strengthen ICRA's expectation that I-Sec 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 an 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. To widen its customer base further, the company is increasing its sourcing outside the bank's ecosystem by onboarding clients digitally and through business network partners. I-Sec is among the leading players in the retail segment with more than 84.1 lakh clients as of September 2022 managed through its network of 139 branches and over 33,000 business network partners, consisting of authorised persons (AP), sub-brokers, independent financial associates (IFAs) and independent associates (IAs). The company is among the leading brokerage houses in the country in terms of NSE active clients (~8% market share as of September 2022) and had a market share of 8.5% in the cash segment and 3.0% in the derivatives segment as of September 2022.

I-Sec is also one of the prominent distributors of financial products and has an established presence in the domestic investment banking space. The company, through its investment banking division, has been associated with many marquee deals in the industry, especially in the initial public offering (IPO) space. I-Sec has also witnessed increased traction in its MTF business in the past two-three years. As a result, its overall loan book witnessed a sharp growth to Rs. 7,024.0 crore as of September 30, 2022 from Rs. 570.9 crore as of March 31, 2020.

Healthy financial profile with steady profitability and comfortable capitalisation – I-Sec reported a strong growth in its net operating income (NOI) in FY2022, supported by the robust performance of the capital markets. The company's NOI increased to Rs. 2,939.4 crore in FY2022 from Rs. 2,318.1 crore in FY2021 and Rs. 1,594.9 crore in FY2020. The resultant increase in the economies of scale facilitated an improvement in the company's cost structure. I-Sec's cost-to-income ratio, which had traditionally been on the higher side (over 50% during FY2018 to FY2020) improved to 39.1 % in FY2022 from 39.8% in FY2021 and 51.9% in FY2020, while the net profitability (profit after tax (PAT)/NOI) improved to 47.0% from 46.1% and 34.0%, respectively, during the same period. I-Sec reported an all-time high annual PAT of Rs. 1,382.6 crore in FY2022 (Rs. 1,067.7 crore in FY2021 and Rs. 542.0 crore in FY2020) with a return on net worth (RoNW) of 65.0% (FY2021: 70.4% and FY2020: 48.0%). In H1 FY2023, the company reported a PAT of Rs. 574.0 crore on NOI of Rs. 1,328.6 crore due to the moderation in capital market activity, given the weakening macroeconomic conditions and geopolitical tensions. Nonetheless, profitability remains strong with PAT/NOI of 43.2% and RoNW of 45.6%.

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 moderate its internal capital generation, although it remains substantial. The company's capitalisation profile remains comfortable with a net worth of Rs. 2,608.4 crore and a gearing of 3.1 times as on September 30, 2022. Going forward, the gearing is expected to remain elevated to support the ramp-up in the MTF and employee stock option plan (ESOP) funding books as well as for maintaining a margin buffer at the exchanges.

Credit challenges

Exposed to risks inherent in capital market related businesses – I-Sec's revenues remain dependent on capital markets, which are inherently volatile in nature. However, improving diversification by way of the ramp-up in the distribution business, wherein the revenues are linked to the assets under management (AUM), as well as sizeable revenue flow from the ramp-up of the MTF/ESOP book, lends some stability to the overall earnings profile. I-Sec, nevertheless, remains exposed to credit and market risks on account of the MTF lending book, given the nature of the underlying assets. Its ability to maintain adequate asset quality while ramping up the lending book would remain a monitorable.

Intense competition in capital markets – With increasing competition in equity broking and the advent of discount brokerage houses, I-Sec's market share remains under pressure. With the competitive intensity in this cyclical industry expected to remain high, pressure on profitability cannot be ruled out, especially during downturns. Nonetheless, the lower level of equity market penetration in the country offers significant untapped potential for growth.

Environmental and social risks

While financial institutions do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. Nonetheless, such risk is not material for I-Sec as its lending operations are primarily focused on capital market related lending and it also benefits from adequate portfolio diversification. Further, the business activities are typically short-to-medium term in nature, which will allow it to adapt if required.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as any material lapses could be detrimental to their reputation and invite regulatory censure. I-Sec has not faced such lapses over the years, which highlights its sensitivity to such risks. Additionally, it is noted that customer preferences are increasingly shifting towards the digital mode of transacting, a phenomenon that necessitates the adoption of technological advancements, besides providing an opportunity to reduce the operating costs. I-Sec has been at the forefront of making the requisite investments to enhance its digital interface with its customers.

Liquidity position: Strong

I-Sec had an unencumbered cash and bank balance of Rs. 208 crore, undrawn bank lines of Rs. 936 crore and liquid investments of Rs. 1,098 crore as on October 18, 2022. Apart from this, the company has loan assets, which may be liquidated at short notice. The borrowings outstanding stood at Rs. 9,245 crore and repayment obligations, till March 2023, stood at Rs. 9,200 crore. The on-balance sheet cash and liquid investments, undrawn bank lines and inflows from the short-term, callable MTF book cover the debt repayment obligations till March 2023.

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	ICICI Bank I-Sec is a subsidiary of ICICI Bank, which holds a 74.9% stake in the company. The strong parentage and shared brand name strengthen ICRA's assumption that I-Sec 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 the 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 I-Sec. As on September 30, 2022, the company had two subsidiaries.

About the company

ICICI Securities Limited (I-Sec), a subsidiary of ICICI Bank Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) is the broking arm of the ICICI Group. The company's business offerings include broking (retail and institutional broking including allied services of extending margin trade finance and ESOP finance), distribution of financial products, wealth management and investment banking.

Key financial indicators (audited)

I-Sec (consolidated)	FY2021	FY2022	H1 FY2023*
Brokerage income	1,382.4	1,386.0	555.2
Fee income	696.1	1,102.0	527.5
Net interest income	237.6	444.8	236.8
Other non-interest income	2.1	6.5	9.1
Net operating income (NOI)	2,318.1	2,939.4	1,328.6
Total operating expenses	921.9	1,150.7	598.9
Profit before tax	1,430.8	1,852.8	770.6
Profit after tax (PAT)	1,067.7	1,382.6	574.0
Loan book (net)	2,901.5	6,856.7	7,024.0
Net worth	1,822.1	2,430.5	2,608.4
Borrowings	3,521.0	7,739.2	8,097.1
Gearing (times)	1.9	3.2	3.1
Cost-to-income ratio	39.8%	39.1%	45.1%
Return on net worth	70.4%	65.0%	45.6%
PAT/NOI	46.1%	47.0%	43.2%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 10, 2022	Nov 10, 2021 Aug 24, 2021 Jun 21, 2021	Mar 10, 2021 Aug 13, 2020	Dec 26, 2019
1	Non-convertible debentures	Long term	50	Nil	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Commercial paper	Short term	11,000	8,170	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	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	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-convertible debentures – Yet to be placed	NA	NA	NA	50	[ICRA]AAA (Stable)
INE763G14MY0	Commercial paper	Aug 12, 2022	6.15	Nov 09, 2022	275	[ICRA]A1+
INE763G14MY0	Commercial paper	Sep 01, 2022	6.14	Nov 09, 2022	250	[ICRA]A1+
INE763G14NA8	Commercial paper	Aug 12, 2022	6.15	Nov 11, 2022	200	[ICRA]A1+
INE763G14NA8	Commercial paper	Aug 17, 2022	6.15	Nov 11, 2022	25	[ICRA]A1+
INE763G14NB6	Commercial paper	Aug 30, 2022	6.20	Nov 24, 2022	225	[ICRA]A1+
INE763G14NC4	Commercial paper	Sep 05, 2022	6.27	Nov 25, 2022	775	[ICRA]A1+
INE763G14NC4	Commercial paper	Sep 07, 2022	6.27	Nov 25, 2022	100	[ICRA]A1+
INE763G14NE0	Commercial paper	Sep 07, 2022	6.27	Nov 29, 2022	350	[ICRA]A1+
INE763G14NF7	Commercial paper	Sep 16, 2022	6.32	Nov 30, 2022	850	[ICRA]A1+
INE763G14MM5	Commercial paper	Jun 06, 2022	6.00	Dec 06, 2022	30	[ICRA]A1+
INE763G14MM5	Commercial paper	Sep 07, 2022	6.20	Dec 06, 2022	15	[ICRA]A1+
INE763G14MP8	Commercial paper	Jun 10, 2022	6.15	Dec 08, 2022	25	[ICRA]A1+
INE763G14NH3	Commercial paper	Sep 26, 2022	6.60	Dec 12, 2022	300	[ICRA]A1+
INE763G14NK7	Commercial paper	Oct 04, 2022	6.80	Dec 20, 2022	500	[ICRA]A1+
INE763G14NJ9	Commercial paper	Sep 26, 2022	6.72	Dec 23, 2022	540	[ICRA]A1+
INE763G14NJ9	Commercial paper	Oct 10, 2022	6.65	Dec 23, 2022	275	[ICRA]A1+
INE763G14NG5	Commercial paper	Sep 26, 2022	6.52	Dec 26, 2022	75	[ICRA]A1+
INE763G14NG5	Commercial paper	Oct 06, 2022	6.75	Dec 26, 2022	600	[ICRA]A1+
INE763G14NM3	Commercial paper	Oct 25, 2022	7.15	Jan 20, 2023	300	[ICRA]A1+
INE763G14NL5	Commercial paper	Oct 25, 2022	7.15	Jan 24, 2023	600	[ICRA]A1+
INE763G14NL5	Commercial paper	Oct 28, 2022	7.15	Jan 24, 2023	125	[ICRA]A1+
INE763G14NO9	Commercial paper	Oct 28, 2022	7.15	Jan 27, 2023	350	[ICRA]A1+
INE763G14NN1	Commercial paper	Oct 31, 2022	7.15	Jan 30, 2023	450	[ICRA]A1+
INE763G14NN1	Commercial paper	Nov 03, 2022	7.30	Jan 30, 2023	250	[ICRA]A1+
INE763G14NN1	Commercial paper	Nov 04, 2022	7.30	Jan 30, 2023	845	[ICRA]A1+
INE763G14LV8	Commercial paper	Feb 09, 2022	5.25	Feb 08, 2023	200	[ICRA]A1+
INE763G14LV8	Commercial paper	Aug 17, 2022	6.45	Feb 08, 2023	10	[ICRA]A1+
INE763G14LY2	Commercial paper	Mar 17, 2022	5.35	Mar 16, 2023	100	[ICRA]A1+
INE763G14NI1	Commercial paper	Sep 26, 2022	7.15	Mar 17, 2023	175	[ICRA]A1+
INE763G14NI1	Commercial paper	Oct 25, 2022	7.25	Mar 17, 2023	5	[ICRA]A1+
INE763G14ND2	Commercial paper	Sep 05, 2022	7.06	Sep 05, 2023	25	[ICRA]A1+
INE763G14ND2	Commercial paper	Sep 16, 2022	7.06	Sep 05, 2023	20	[ICRA]A1+
INE763G14NP6	Commercial paper	Nov 04, 2022	8.10	Nov 02, 2023	40	[ICRA]A1+
NA	Commercial paper – Yet to be placed	NA	NA	NA	2,095	[ICRA]A1+

Source: Company

Note: ISIN details as on Oct 7, 2022

Annexure II: List of entities considered for consolidated analysis

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

Source: I-Sec annual report FY2022

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

Corrigendum

Rationale dated November 10, 2022 has been revised with the following changes:

- In 'Liquidity position' section on page 3 – the liquidity position stands corrected to 'strong' instead of adequate.

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