January 30, 2023

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	11,000	13,500	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Non-convertible debentures	50	50	[ICRA]AAA (Stable); reaffirmed
Total	**11,050**	**13,550**	

**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+; 74.85% 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 74.85% 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 87 lakh clients as of December 2022 managed through its network of 135 branches and over 37,000 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 (7.6% market share as of December 2022) and had a market share of 8.9% in the cash segment and 3.2% in the derivatives segment as of December 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 during the same period. The MTF/ESOP lending book stood at Rs. 7,354.1 crore as of December 31, 2022 compared to Rs. 6,857.9 crore as of March 31, 2022.

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 unit cost. 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 9M FY2023, the company reported a PAT of Rs. 855.0 crore on NOI of Rs. 1,994.8 crore due to the moderation in capital market activity as market sentiment was impacted by the escalation of geopolitical tensions into war, supply chain disruptions in relation to pent-up demand, turbulence triggered by diverging paths of monetary policy normalisation and strengthening of crude oil prices. Nonetheless, profitability remains strong with PAT/NOI of 42.9% and RoNW of 45.5%.

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. 2,582.9 crore and a gearing of 3.6 times as on December 31, 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. 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 making sizeable investments to enhance its digital interface with its customers.

Liquidity position: Strong

I-Sec's funding requirement is primarily for placing margins at the exchanges and for the MTF/ESOP book. Its margin utilisation ranged between 45% and 65% (basis month-end data) during September 2022 to December 2022, with the average margin placed on exchanges aggregating Rs. 4,900 crore during this period. Out of the outstanding borrowings of ~Rs. 10,830 crore as of January 17, 2023, ~Rs. 10,250 crore is due during the course of the next three months (till March 2023) while the company had an unencumbered cash and bank balance of Rs. 216 crore, un-lien FDs of Rs. 250 crore, liquid investments of Rs. 1,475 crore and drawable but unutilised lines of Rs. 1,501 crore as of January 17, 2023. Additionally, the company's short-term loan assets can be liquidated at short notice to generate liquidity, if required. The on-balance sheet liquidity, undrawn bank lines and inflows from the short-term, callable MTF book cover these debt repayment obligations. I-Sec also enjoys financial flexibility, being a subsidiary of ICICI Bank, and the same is evident from the regular CP issuances, large investor base and competitive borrowing cost.

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 December 31, 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.

The company reported PAT of Rs. 855.0 crore on a NOI of Rs. 1,994.8 crore (PAT/NOI of 42.9%) in 9M FY2023 compared to PAT of Rs. 1,382.6 crore on a NOI of Rs. 2,939.4 crore (PAT/NOI of 47.0%) in FY2022. As on December 31, 2022, the net worth stood at Rs. 2,582.9 crore.

Key financial indicators (audited)

I-Sec (consolidated)	FY2021	FY2022	9M FY2023*
Brokerage income	1,382.4	1,386.0	826.3
Fee income	696.1	1,102.0	805.3
Net interest income	237.6	444.8	352.8
Other non-interest income	2.1	6.5	10.4
Net operating income (NOI)	2,318.1	2,939.4	1,994.8
Total operating expenses	921.9	1,150.7	906.0
Profit before tax	1,430.8	1,852.8	1,147.9
Profit after tax (PAT)	1,067.7	1,382.6	855.0
Loan book (net)	2,901.5	6,856.7	7,354.1
Net worth	1,822.1	2,430.5	2,582.9
Borrowings	3,521.0	7,739.2	9,339.8
Gearing (times)	1.9	3.2	3.6
Cost-to-income ratio	39.8%	39.1%	45.4%
Return on net worth	70.4%	65.0%	45.5%
PAT/NOI	46.1%	47.0%	42.9%

*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

			Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 30, 2023	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)	[ICRA]AAA (Stable)
2	Commercial paper	Short term	13,500	10,830	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**As on January 17, 2023*

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 / 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)
INE763G14LV8	Commercial Paper	Feb 09, 2022	5.25	Feb 08, 2023	200	[ICRA]A1+
INE763G14LY2	Commercial Paper	Mar 17, 2022	5.35	Mar 16, 2023	100	[ICRA]A1+
INE763G14LV8	Commercial Paper	Aug 17, 2022	6.45	Feb 08, 2023	10	[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+
INE763G14NI1	Commercial Paper	Sep 26, 2022	7.15	Mar 17, 2023	175	[ICRA]A1+
INE763G14NL5	Commercial Paper	Oct 25, 2022	7.15	Jan 24, 2023	600	[ICRA]A1+
INE763G14NI1	Commercial Paper	Oct 25, 2022	7.25	Mar 17, 2023	5	[ICRA]A1+
INE763G14NO9	Commercial Paper	Oct 28, 2022	7.15	Jan 27, 2023	350	[ICRA]A1+
INE763G14NL5	Commercial Paper	Oct 28, 2022	7.15	Jan 24, 2023	125	[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+
INE763G14NP6	Commercial Paper	Nov 04, 2022	8.10	Nov 02, 2023	40	[ICRA]A1+
INE763G14NQ4	Commercial Paper	Nov 15, 2022	8.07	Nov 14, 2023	35	[ICRA]A1+
INE763G14NI1	Commercial Paper	Nov 15, 2022	7.35	Mar 17, 2023	5	[ICRA]A1+
INE763G14NR2	Commercial Paper	Nov 17, 2022	7.22	Feb 15, 2023	425	[ICRA]A1+
INE763G14NS0	Commercial Paper	Nov 17, 2022	7.22	Feb 10, 2023	200	[ICRA]A1+
INE763G14NT8	Commercial Paper	Nov 18, 2022	8.00	Nov 15, 2023	45	[ICRA]A1+
INE763G14NT8	Commercial Paper	Nov 21, 2022	8.00	Nov 15, 2023	75	[ICRA]A1+
INE763G14NU6	Commercial Paper	Nov 25, 2022	7.22	Feb 06, 2023	1000	[ICRA]A1+
INE763G14NV4	Commercial Paper	Nov 29, 2022	7.22	Feb 13, 2023	650	[ICRA]A1+
INE763G14NW2	Commercial Paper	Nov 29, 2022	7.22	Feb 23, 2023	45	[ICRA]A1+
INE763G14NX0	Commercial Paper	Nov 29, 2022	7.07	Mar 10, 2023	10	[ICRA]A1+
INE763G14NR2	Commercial Paper	Nov 30, 2022	7.22	Feb 15, 2023	340	[ICRA]A1+
INE763G14NY8	Commercial Paper	Dec 06, 2022	7.19	Feb 27, 2023	250	[ICRA]A1+
INE763G14NZ5	Commercial Paper	Dec 09, 2022	7.15	Feb 28, 2023	500	[ICRA]A1+
INE763G14NN1	Commercial Paper	Dec 09, 2022	7.05	Jan 30, 2023	50	[ICRA]A1+
INE763G14LY2	Commercial Paper	Dec 16, 2022	7.00	Mar 16, 2023	15	[ICRA]A1+
INE763G14NI1	Commercial Paper	Dec 20, 2022	7.22	Mar 17, 2023	500	[ICRA]A1+
INE763G14OA6	Commercial Paper	Dec 20, 2022	7.22	Mar 20, 2023	250	[ICRA]A1+
INE763G14OA6	Commercial Paper	Dec 23, 2022	7.22	Mar 20, 2023	950	[ICRA]A1+
INE763G14OC2	Commercial Paper	Dec 23, 2022	7.22	Mar 22, 2023	50	[ICRA]A1+
INE763G14OB4	Commercial Paper	Dec 26, 2022	7.22	Mar 27, 2023	550	[ICRA]A1+
INE763G14OE8	Commercial Paper	Jan 06, 2023	6.80	Mar 08, 2023	375	[ICRA]A1+
INE763G14OD0	Commercial Paper	Jan 06, 2023	7.21	Apr 06, 2023	100	[ICRA]A1+
INE763G14NX0	Commercial Paper	Jan 09, 2023	6.76	Mar 10, 2023	675	[ICRA]A1+
INE763G14OD0	Commercial Paper	Jan 09, 2023	7.21	Apr 06, 2023	25	[ICRA]A1+
INE763G14OF5	Commercial Paper	Jan 11, 2023	7.47	May 09, 2023	125	[ICRA]A1+

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE763G14OG3	Commercial Paper	Jan 11, 2023	7.53	Jun 20, 2023	75	[ICRA]A1+
INE763G14OH1	Commercial Paper	Jan 12, 2023	8.00	Jan 10, 2024	15	[ICRA]A1+
INE763G14OI9	Commercial Paper	Jan 18, 2023	7.95	Jan 18, 2024	25	[ICRA]A1+
NA	Commercial Paper – Yet to be placed	NA	NA	NA	2,945	[ICRA]A1+

Source: Company

Note: ISIN details as on January 20, 2023

Annexure II: List of entities considered for consolidated analysis

Company Name	I-Sec Ownership	Consolidation Approach
ICICI Securities Limited	NA	NA
ICICI Securities Holdings, Inc.	100.00%	Full Consolidation
ICICI Securities, Inc.*	100.00%	Full Consolidation

*Source: I-Sec annual report FY2022; *Step-down subsidiary*

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

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