

June 30, 2023

## ICICI Securities Primary Dealership Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	2,000.00	2,500.00	[ICRA]A1+; Reaffirmed/Assigned
<b>Total</b>	<b>2,000.00</b>	<b>2,500.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The highest short-term rating for ICICI Securities Primary Dealership Limited's (I-Sec PD) commercial paper programme factors in its superior liquidity profile. This is reflected in the high share of liquid Government securities (G-Secs) in the overall assets and access to call money and borrowings under repo from the market, apart from access to a standing liquidity facility (SLF) from the Reserve Bank of India (RBI). With increase in yield on corporate bonds, the non-statutory liquidity ratio (non-SLR) securities have increased in relation to the net owned funds (NOF) and other long-term funds; however, these securities largely include highly rated corporate bonds, thereby mitigating the credit and liquidity risks in these instruments. Further, given its sizeable net worth, the company has a satisfactory cushion to withstand the impact of any adverse interest rate movements, resulting in a strong capitalisation profile. I-Sec PD's parentage, in the form of ICICI Bank Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+), and the continued support as depicted by the managerial and financial aid received from the bank also remain key strengths.

However, ICRA notes that I-Sec PD's earnings profile will remain susceptible to any adverse interest rate movements as the portfolio largely comprises debt securities. Moreover, the company's leverage has been traditionally higher than its peers, which increases its vulnerability to market risks. The short-term rate is expected to remain elevated in the near term and continue to result in a moderation in the net interest income (NII). Trading income is also expected to remain moderate as monetary conditions are expected to remain tight for some time. As a result, the profitability levels are likely to remain moderate in the near future. Going forward, I-Sec PD's ability to withstand the volatility in interest rates while adhering to its internal risk management policies, continued linkages with its parent, and the ability to adapt to regulatory changes for primary dealers (PDs), will remain key rating sensitivities.

### Key rating drivers and their description

#### Credit strengths

**Wholly-owned subsidiary of ICICI Bank with strong financial linkage and management support** – I-Sec PD is a wholly-owned subsidiary of ICICI Bank, with strong operational, financial and managerial linkages. Its board of directors is headed by Mr. B. Prasanna, the Head of Markets Group, and a Group Executive at ICICI Bank. Moreover, given the shared brand name, ICRA expects I-Sec PD to receive capital/liquidity support if required. ICICI Bank has sanctioned an intraday limit of Rs. 3,500 crore to the company for participating in the primary auctions of G-Secs by the RBI.

Regarding adherence to the operational guidelines for PDs, as set by the RBI, I-Sec PD achieved a success ratio<sup>1</sup> of 54.97% in the treasury bills (T-bills) market in H1 FY2023 and 75.39% in H2 FY2023, above the regulatory requirement of 40%. Besides this, I-Sec PD has also achieved the minimum turnover ratio<sup>2</sup> target for FY2023.

<sup>1</sup> **Success ratio:** Bids accepted/Bidding commitment

<sup>2</sup> **Minimum turnover ratio:** 1% of the average market turnover of central government dated securities during the previous three Financial years

**Large net worth aids strong capital profile** – I-Sec PD’s capital adequacy remains strong with its capital-to-risk weighted assets ratio (CRAR) at 42.95% as on March 31, 2023, well above the regulatory minimum of 15% for PDs. The daily average leverage<sup>3</sup> remained range-bound at 12.25 times in FY2023 (8.92 times in FY2022).

Given the susceptibility of the profitability and capital profile to interest rate movements, I-Sec PD has a board-approved one-day value at risk (VaR) limit of ~8-10% of its NOF for its consolidated fixed income portfolio and the one-day VaR was always within this limit in FY2023. The NOF stood at Rs. 1,542 crore as on March 31, 2023, providing a comfortable loss-absorption cushion against any adverse interest rate movements. This is depicted by the price value of basis point (PVBP)<sup>4</sup> of 15 bps of the NOF as on March 31, 2023, thus indicating adequate ability to absorb any large adverse movements in interest rates, while maintaining the CRAR above the regulatory requirement.

**Diversified revenue stream** – I-Sec PD has traditionally maintained a more diversified revenue stream vis-à-vis other PDs, supported by fee/commission income from non-core activities including the debt capital market (DCM) and portfolio management services. This helped in partly mitigating the volatility in the revenue/earnings stream in an adverse interest rate scenario. However, underwriting commission and other income declined to Rs. 27 crore in FY2023 on account of the lower devolvement of G-Secs against Rs. 64 crore in FY2022.

**Adequate internal prudential norms and risk management systems** – Prudent risk management policies and adherence to the same are critical for a PD, given the susceptibility to market risk on account of debt securities and credit risk on account of non-SLR securities. ICRA takes comfort from the adequate risk management policies approved by the Risk Management Committee of the company’s board. The committee also monitors and ensures adherence to these policies.

As per the risk management policy, investment in non-SLR securities is allowed only for AAA to A- (with reducing limits for lower rating levels) and A1+ rated entities, which mitigates any credit risk. AAA rated entities accounted for ~78% of the total non-SLR portfolio by value as on March 31, 2023. Moreover, the daily average of the non-SLR portfolio stood at ~89% of the NOF for FY2023, which also limits the credit or liquidity risk in this portfolio.

## Credit challenges

**Profitability susceptible to volatility arising from interest rate movements** – As mentioned earlier, the company’s earnings profile remains susceptible to any adverse movements in the interest rates. This is reflected in the significant variation in the trading profits. With rising yields, I-Sec PD generated a trading loss (including mark-to-market (MTM) gains/losses) during Q1 FY2023 and Q4 FY2023, though on an overall basis, it had a trading gain of Rs. 98 crore and a net profit of Rs. 128 crore in FY2023 compared to a trading profit of Rs. 138 crore and a net profit of Rs. 329 crore in FY2022. As the interest rates are expected to stay elevated in the near term, the profitability could remain subdued in the next few quarters.

The NII also declined amid higher short-term rates to Rs. 186 crore in FY2023 (from Rs. 374 crore in FY2022). This, coupled with the lower trading gain of Rs. 98 crore (Rs. 138 crore in FY2022), resulted in a decline in the net profit (total comprehensive income) to Rs. 128 crore in FY2023 from Rs. 329 crore in FY2022. Given its strong capitalisation and profitable operations, I-Sec PD has continued to maintain a high dividend payout ratio with 50% of its profits paid as dividends in FY2023, which is likely to continue. As a result, net worth accretion has been modest in relation to profits.

**Higher leverage compared to peers** – I-Sec PD has historically operated at a higher leverage compared with other PDs. Daily average leverage stood at 12.3 times in FY2023 (8.9 times in FY2022 and 12.1 times in FY2021)). A high leverage increases vulnerability to any large adverse movements in interest rates. ICRA notes that it has been consistently maintained within the board-approved limit. Nonetheless, a significant proportion of liquid Government debt securities, active portfolio management, and adherence to risk management limits mitigate this risk.

<sup>3</sup> **Leverage:** Total debt/ NOF

<sup>4</sup> **PVBP** measures the gain/loss on the entire portfolio for a 1 basis point (0.01%) movement in the interest rate; PVBP of minus 13 bps means that a 1 bps rise in the interest rate will lead to an erosion of 0.13% in the NOF

**Adverse developments in regulatory framework for PDs** – The RBI is the regulatory authority for PDs and has prescribed operational guidelines for underwriting commitments for G-Secs, bidding commitments and success ratios for T-bills, the achievement of minimum turnover ratios and funding support in the form of liquidity adjustment facility (LAF)/SLF. Therefore, any significant change in the regulatory framework for PDs, which adversely impacts the company's operational and financial profiles, can impact its funding costs and profitability.

### Liquidity position: Superior

I-Sec PD has a superior liquidity profile, given the inherent nature of its business. This is demonstrated by the high share of G-Secs in the investment portfolio (94% of total investments on a daily average basis in FY2023). Further, I-Sec PD's non-SLR book (6% of investments on a daily average basis in FY2023) largely comprises highly liquid corporate debt securities and remained comfortable vis-à-vis its NOF, thereby minimising any liquidity risk in the corporate bond portfolio. Additionally, it has access to call money/LAF and SLF funding from the RBI. ICRA also notes that the company has intraday liquidity facilities from banks, which can be used to meet its intraday liquidity requirements.

### Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – The rating can be downgraded, if there is any material change in the rating of ICICI Bank, or, any significant change in the shareholding or linkages with the parent. Moreover, any regulatory change adversely impacting the PD business will remain a key negative trigger.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Primary Dealers</a> <a href="#">Impact of Parent or Group Support on an Issuer's credit rating</a>
Parent/Group support	Parent/Group Company – ICICI Bank Limited The rating factors in the strong support from ICICI Bank, given the shared brand name, financial linkages and management support
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of the company

### About the company

ICICI Securities Primary Dealership Limited is one of the seven standalone PDs in India. It was incorporated in 1993 and is a wholly-owned subsidiary of ICICI Bank. It trades in G-Secs, interest rate derivatives, and corporate bond markets. I-Sec PD also offers DCM and portfolio management services. The range of activities undertaken by the DCM desk includes resource mobilisation through the private placement of debentures, advisory on debt restructuring/rationalisation and rating advisory. It is a Securities and Exchange Board of India (SEBI)-registered portfolio manager and provides both discretionary and advisory services to its clients. It provides services to various large provident, pension and gratuity funds in the country.

The company reported a net profit (total comprehensive income) of Rs. 128 crore on total income of Rs. 1,374 crore in FY2023 against a net profit (total comprehensive income) of Rs. 329 crore on total income of Rs. 1,048 crore in FY2022. I-Sec PD achieved a success ratio of 54.97% and 75.39% in the T-bills market in H1 FY2023 and H2 FY2023, respectively, above the regulatory requirement of 40%.

### Key financial indicators

ICICI Securities Primary Dealership Limited	FY2021	FY2022	FY2023
Net interest income	498	374	186
Trading profit (including MTM gain/loss)	316	138	98
Income from services, dividend & other income	68	64	27
Operating costs	118	134	137
Profit before tax (PBT)	764	443	174
Profit after tax (PAT)	570	329	128
Net worth	1,441	1,590	1,582
Borrowings	16,660	15,959	30,279
Stock-in-trade	15,768	15,864	24,784
Total assets	19,720	20,272	34,463
PAT/ATA	3.07%	1.64%	0.47%
PAT/Net worth (RoNW)	39.60%	20.68%	8.08%
Leverage ratio (daily average; times)	12.08	8.92	12.25

Amount in Rs. crore

Source: Company, ICRA Research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument		Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated	Amount Outstanding	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021			
						(Rs. crore)	(Rs. crore)	June-30- 2023	Mar-27- 2023	Feb-06- 2023	Feb-02- 2022	Mar-19- 2021	Apr-20- 2020
1	Commercial paper	ST	2,500.00	2,000.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+			

\*As on June 27, 2023; ST – Short term

### Complexity level of the rated instrument

Instrument	Complexity Indicator
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
INE849D14HC0	Commercial paper	April 24, 2023	7.31%	July 21, 2023	450.00	[ICRA]A1+
INE849D14HD8	Commercial paper	April 24, 2023	7.31%	July 24, 2023	500.00	[ICRA]A1+
INE849D14HE6	Commercial paper	June 02, 2023	7.08%	Sep 01, 2023	500.00	[ICRA]A1+
INE849D14HF3	Commercial paper	June 23, 2023	7.18%	Sep 21, 2023	550.00	[ICRA]A1+
NA	Commercial paper	Yet to be Placed	-	7-365 days	500.00	[ICRA]A1+

Source: I-Sec PD; As on June 27, 2023

#### Annexure II: List of entities considered for consolidated analysis – Not applicable

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Anil Gupta**

+91 124 4545 314

[anilg@icraindia.com](mailto:anilg@icraindia.com)

**Aashay Choksey**

+91 22 6114 3430

[aashay.choksey@icraindia.com](mailto:aashay.choksey@icraindia.com)

**Vaibhav Arora**

+91 124 4545 386

[vaibhav.arora@icraindia.com](mailto:vaibhav.arora@icraindia.com)

**Devesh Lakhotia**

+91 22 6114 3404

[devesh.lakhotia@icraindia.com](mailto:devesh.lakhotia@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

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



### Branches



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