

January 30, 2024

Day1 Advisors Private Limited: Rating reaffirmed for Rs. 150 crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures (NCD) Programme	150.00	150.00	[ICRA]AAA(CE) (Stable); reaffirmed
Total	150.00	150.00	

Rating Without Explicit Credit Enhancement	[ICRA]B-
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

ICRA has reaffirmed the rating assigned to the Rs. 150.00-crore non-convertible debentures (NCDs). The rating for Day1 Advisors Private Limited (Day1) is based on the strength of an underwriting commitment from Axis Capital Limited (ACL) for the rated NCD programme. The underwriting commitment is unconditional and irrevocable and has a well-defined payment mechanism to ensure the timely servicing of the debt obligations. The rating draws comfort from ACL's strong parentage as a subsidiary of Axis Bank Limited (Axis Bank; rated [ICRA]AAA(Stable)/[ICRA]A1+).

ACL shares a common brand name (Axis) and has significant operational linkages with its parent, including common board members (at present, ACL's board has three representations from Axis Bank). As one of the leading investment bankers and institutional brokers in India, ACL is strategically important to Axis Bank. ICRA expects Axis Bank to continue providing ACL with management bandwidth and support. ACL's capitalisation profile remains strong with a net worth of Rs. 1,181 crore (net worth adjusted for other comprehensive income was estimated to be Rs. 950 crore) as on September 30, 2023, to support its investment banking (IB) and broking businesses. ACL has certain underwriting commitments for structured transactions performed in the past, but the same remains comfortable in comparison to its net worth.

Adequacy of credit enhancement

While reaffirming the rating, ICRA has assessed the attributes of the terms of ACL's underwriting commitment in favour of the said instrument. The underwriting commitment is legally enforceable, irrevocable, and unconditional, covering the entire amount and tenure of the rated instrument with a well-defined payment mechanism.

As per the transaction terms, Day1 and its promoters/ affiliates of promoters have pledged the equity shares of B9 Beverages Ltd. ("Bira") as security for the rated NCDs. Proceeds realised through pre-defined liquidity events such as initial public offering (IPO) of Bira or through a private placement would be used to redeem the NCDs. If the NCDs are not redeemed by the call option date (i.e., 30 months from the initial issuance of the Rs. 70-crore NCD programme) and the call option is not exercised, or any other event deemed as 'event of default (EoD)' as per the transaction documents, ACL would have the right to seek a buyer to sell the shares and redeem the NCDs from the proceeds.

If the NCDs are not fully redeemed at least five days prior to six months from the occurrence of the event of default or maturity date, whichever is earlier, ACL shall have an unconditional and irrevocable obligation to purchase the shares such that the proceeds realised from the same should be equivalent to the remaining NCD amount (including accrued coupon). ACL will fulfil the obligation within four days of such an event so that the NCD escrow account can be funded a day prior to the maturity date of NCDs.

Given these attributes, ACL's underwriting commitment is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AAA(CE) against the unsupported (without explicit support) rating of [ICRA]B-. Any deterioration in ACL's credit profile and its linkage with its parent or failure to meet its underwriting obligation as per the transaction documents will have a bearing on the rating of the aforesaid NCD programme.

Salient covenants of the rated facility

- » Mandatory redemption of NCDs in case of the occurrence of any of the pre-defined liquidity events, including IPO of Bira or private placement of shares
- » Security cover of minimum 2.75 times and 3.25 times of the outstanding principal amount of NCDs for the Rs. 70-crore and Rs. 80-crore NCDs, respectively, to be maintained at all times by pledging Bira shares held by Day1 and its promoters/affiliates of promoters
- » No change in the shareholding of Day1 without prior written consent of the debenture holders and ACL
- » No equity dilution or capital structure changes by Day1 unless the indebtedness has been taken for redemption of the NCDs
- » No incremental external debt to be availed by the issuer post this NCD issue, except with the prior written consent of ACL, the debenture trustee and debenture holders
- » Cross default with any outstanding facility/borrowing availed by Day 1, its promoters or Bira
- » The Rs. 70-crore programme has a scheduled tenor of 36 months from the deemed date of allotment. However, the NCDs to have a call option at the end of 30 months from the deemed date of allotment
- » The Rs. 80-crore NCD programme has an identical call option date and maturity date as the Rs. 70-crore NCD programme

Key rating drivers and their description

Credit strengths

Presence of ISRA, underwriting commitment from ACL and payment mechanism – The NCDs are backed by an underwriting commitment from ACL that covers all obligations that may arise on the rated NCDs. This commitment from ACL is unconditional and irrevocable and covers the entire tenure of the NCDs. The issuer shall maintain an interest service reserve account (ISRA) equal to four and five quarters of the interest payment NCDs for the Rs. 80-crore and Rs. 70-crore NCDs, respectively, on the principal outstanding created upfront and utilised on a quarterly basis to pay the NCD coupon if needed. For the entire NCD programme, the issuer will have to maintain a minimum ISRA equalling two quarters and non-maintenance of ISRA would be an EoD. ISRA will be maintained in the form of a fixed deposit/ mutual fund lien marked to the debenture trustee. Further, the payment mechanism is designed to ensure timely payments to the investors as per the terms of the transaction even if the issuer does not pay and the NCD redemption is made through the amount due from/arranged by ACL, as per the terms of the transaction. The underwriting commitment and defined payment mechanism also cover accelerated redemption in case of any event of default.

Strong parentage of ACL – ACL is a wholly owned subsidiary of Axis Bank ([ICRA]AAA (Stable)/ [ICRA]A1+). ICRA takes comfort from the shared brand name (Axis) and the common board members with Axis Bank. At present, ACL's board has three representatives from Axis Bank, Mr. Amitabh Chaudhary (MD and CEO, Axis Bank), Mr. Neelkanth Mishra (Chief Economist, Axis Bank) and Mr. Ganesh Sankaran (Group Executive – Wholesale Banking Coverage Group – Axis Bank). ICRA expects Axis Bank to extend managerial and financial support to ACL if required.

Established track record and franchise in IB domain with strong presence in public offering as well as structured transactions – ACL is primarily engaged in institutional broking and IB businesses. It offers services in the areas of institutional broking, mergers and acquisitions, private equity, structured finance, and equity capital market (ECM) issuance. ACL is one of the leading ECM bankers in the domestic market and it benefits from an established client network.

ACL's capitalisation profile remains strong as on September 30, 2023, with a net worth of Rs. 1,181 crore (~ Rs. 950 crore excluding fair value gains on strategic investments) to support its IB and broking businesses. ACL does not have any on-balance

sheet debt. It has certain underwriting commitments for its structured transactions in the past, but the same remains comfortable in comparison to its net worth. Although the quantum of the commitments is sizeable, ICRA takes comfort from ACL's expertise in such structured transactions, with a track record of exiting ~13 transactions of over the past nine years with no instance of devolvement. As these structured transactions are carried out with the parent company's approval, ICRA expects ACL to receive timely support from Axis Bank if required.

Credit challenges

Exposed to risks inherent in capital market related businesses - ACL's net brokerage income accounted for ~35% of the net operating income, while the remaining is derived from the advisory and equity capital market businesses. Therefore, ACL's revenues remain dependent on the capital markets, which are inherently volatile in nature.

Liquidity position

For the [ICRA]AAA(CE) (Stable) rating: Strong

The liquidity is deemed strong on the basis of the transaction structure's strength and ACL's liquidity profile, which has provided the underwriting commitment. ACL primarily requires funds for placing margins at the exchanges for its broking business. Its past performance in the structured finance business with no devolvement keeps the funding requirement in the IB segment low and provides comfort. As on September 30, 2023, ACL had comfortable on-balance sheet and off-balance sheet liquidity in the form of cash and cash equivalents, sanctioned and unutilised bank lines, intra-day bank limits and bank guarantees. Also, while ACL remains largely debt-free on the reporting date, ICRA notes that the fund-based limits are utilised during the month.

ICRA expects ACL to leverage the established client network and franchise in the IB business to liquidate the securities if the underwriting obligation falls due, thereby keeping the funding requirement low. Further, support from Axis Bank is expected if required. Thus, ACL's overall liquidity has remained strong. The NCDs would also have liquidity support in the form of the ISRA to the extent of four to five quarters to be created upfront and two quarters of ISRA to be maintained throughout the NCD tenure.

For the [ICRA]B- rating: Stretched

Day1's liquidity is stretched as it has no operations as on date and any payment obligations of the company are expected to be supported by its promoters. The company, as on date, has issued Rs. 195 crore of NCDs, out of which Rs. 150 crore is rated by ICRA. Day1 has no capital expenditure plans going forward. While the part interest payment on the rated NCDs will be covered by ISRA, ICRA expects timely support from the promoters and related entities, for the principal and balance interest payments.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be revised if the credit profile of ACL's parent (i.e. Axis Bank) deteriorates or their linkage weakens. The rating will also be under pressure if ACL fails to meet its underwriting obligation as per the transaction documents.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Brokerage Industry Approach for Rating Debt Instruments Backed by Third-party Explicit Support Rating Methodology for Investment companies
Parent/Group support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Day1 Advisors Private Limited is a private limited entity incorporated in November 2020. At present, the entity has no operations and holds ~8.12% stake (as on September 30, 2023) in B9 Beverages Limited, which manufactures and owns the Bira91 brand of beer. The key shareholders with a 100% stake in Day1 are Mr. Ankur Jain, who is also the Managing Director at B9 Beverages Limited (Bira), and his father, Mr. Ashok Jain.

Key financial indicators (provisional)

Day1's standalone	FY2022	FY2023
Operating income	-	9.5
PAT	NM	(3.6)
OPBDIT/OI	NM	4.2%
PAT/OI	NM	(38.0%)
Total outside liabilities/Tangible net worth (times)	(386.0)	(55.8)
Total debt/OPBDIT (times)	(325.1)	493.0
Interest coverage (times)	-	0.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, NM: not meaningful

About the underwriting commitment provider

ACL is a wholly owned subsidiary of Axis Bank Limited (Axis Bank) and is involved in the investment banking and institutional equities broking business. It is one of the leading institutional brokerage houses among domestic brokers and has also established a credible position in the investment banking segment in India. At present, ACL's board has three representations from Axis Bank - Mr. Amitabh Chaudhary (MD and CEO, Axis Bank), Mr. Neelkanth Mishra (Chief Economist, Axis Bank) and Mr. Ganesh Sankaran (Group Executive – Wholesale Banking Coverage Group – Axis Bank).

In FY2023, ACL reported a profit after tax (PAT) of Rs. 142 crore on net operating income of Rs. 410 crore compared with a PAT of Rs. 189 crore on an operating income of Rs. 502 crore in FY2022. In H1 FY2024, ACL reported PAT of Rs. 69 crore on NOI of Rs. 278 crore. ACL's capitalisation profile was characterised by a net worth of Rs. 1,181 crore and nil gearing as on September 30, 2023.

Key financial indicators (audited)

Axis Capital Limited	FY2021	FY2022	FY2023
Net brokerage income	124	136	163
Fee income (other than broking)	241	334	214
Net interest income	20	22	26
Other non-interest income	5	10	7
Net operating income (NOI)	390	502	410
Total operating expenses	196	244	215
Profit before tax	195	258	191
Profit after tax (PAT)	138	189	142
Net worth	519	982	1,075
Borrowings	0	1	1
Gearing (times)	0.0	0.0	0.0
Cost-to-income ratio (%)	50.2%	48.7%	52.5%
Return to net worth (%)	35.4%	37.7%	34.6%
PAT/NOI (%)	30.1%	62.4%	8.9%

Source: Company, ICRA Research; All ratios as per ICRA 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	Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
				Jan 30, 2024	Apr 17, 2023	Jan 02, 2023	Apr 26, 2022	Mar 31, 2022
1 NCD	Long Term	70.00	70.00	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	Provisional [ICRA]AAA(CE) (Stable)
2 NCD	Long Term	80.00	80.00	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	Provisional [ICRA]AAA(CE) (Stable)	-	-

Source: Company data, *outstanding as on December 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debentures (NCD) Programme	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 (p.a.)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0IFR07021	NCD	Apr-22	8.24%	Apr-25	70.00	[ICRA]AAA(CE) (Stable)
INE0IFR07047	NCD	Apr-23	9.65%	Apr-25	80.00	[ICRA]AAA(CE) (Stable)

Source: Company

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

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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

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