

March 27, 2024

HDFC Securities Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based/non-fund based bank lines	300.0	300.0	[ICRA]AAA (Stable); reaffirmed
Commercial paper programme	10,000.0	13,000.0	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Total	10,300.0	13,300.0	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in HDFC Securities Limited's (HSL) strong parentage by virtue of being a subsidiary of HDFC Bank Limited (HDFC Bank; 95.4% stake in HSL), its strong linkage with the parent and the shared brand name. HSL's importance to the parent is evident from the support received by it in the form of senior management deputations/transfers, customer sourcing and cross-selling, and access to the bank's retail clientele and branch network. The strong parentage and shared brand name strengthen ICRA's assumption that the company will receive timely and adequate support (financial as well as operational) from HDFC Bank, if needed. HSL also derives significant financial flexibility in fund-raising due to its parentage. The ratings also consider the company's robust retail franchise, supported by its position as a bank brokerage house, and its healthy financial profile with strong profitability and adequate capitalisation.

While reaffirming/assigning the ratings, ICRA has taken note of the significant ramp-up in the company's debt-funded e-margin (margin trading facility; MTF) business. This, coupled with increasing working capital requirement amid the evolving broking sector landscape and the high dividend payouts by the company, has resulted in an increase in its financial leverage level. HSL's gearing increased to 4.4 times as on December 31, 2023 from 2.9 times as of March 31, 2023, 2.8 times as of March 31, 2022 and 0.6 times as on March 31, 2020. Nevertheless, the proposed rights issue is expected to support the company's capitalisation profile. The ratings also take into account the credit and market risk associated with the e-margin business, given the nature of the underlying assets, the risks associated with capital market related businesses and the intense competition in the retail broking space.

Key rating drivers and their description

Credit strengths

Strong parentage by virtue of being a subsidiary of HDFC Bank – HSL is a subsidiary of HDFC Bank, which holds a stake of ~95% in the company. The company helps augment the services portfolio of HDFC Bank and enjoys customer sourcing and cross-selling support along with access to the bank's retail clientele and branches. HDFC Bank has a nominee director on HSL's board. The strong parentage and shared brand name strengthen ICRA's assumption that HSL will receive timely and adequate support (both financial and operational) from HDFC Bank, if required. Further, it derives significant financial flexibility due to its parentage, which is evident from the wide investor base and the competitive cost of its money market borrowings.

Established track record in retail broking – HSL, a full-service securities brokerage house, is primarily a retail broking player (~99% of the total broking volumes for 9M FY2024 was sourced from the retail segment). The company has a strong retail franchise, supported by its position as a subsidiary of HDFC Bank. As of January 31, 2024, HSL had a National Stock Exchange (NSE) active client base of 10.9 lakh customers, translating to a market share of 3%. Moreover, its market share in the MTF

segment stood at ~11% as of December 2023. HSL plans to ramp up its institutional broking business and has augmented its institutional broking team in the recent past, though the same is yet to register notable traction. ICRA notes that the company launched its discount broking platform 'HDFC SKY' on September 25, 2023; however, the share of discount broking volume and income in the overall revenue mix has remained negligible thus far.

HSL registered a ~52% increase in its average daily turnover (ADTO) in the cash segment in 9M FY2024, higher than the industry average. The ADTO in the futures & options (F&O) segment increased by 96%, but trailed the industry average. The company had a 2.1% market share¹ in the cash segment and a 0.3% market share in the F&O segment in 9M FY2024.

Healthy financial profile with strong profitability; proposed rights issue to support capitalisation – HSL has reported strong profitability over the years with a 4-year average net profit (PAT)/net operating income (NOI) of 51.0% and a return on net worth (RoE) of 47.6% during FY2020-FY2023. The cost-to-income ratio rose in 9M FY2024 to 38.8% from 34.4% in FY2023 (4-year average of 32.9% during FY2020-FY2023) due to the operating expense related to the launch and promotion of HDFC SKY. However, industry tailwinds, especially in Q2 FY2024 and Q3 FY2024, supported the overall performance. HSL reported a net PAT of Rs. 633 crore on NOI of Rs. 1,380 crore in 9M FY2024. PAT/NOI was 45.8% while the RoE was 44.4% during this period. Although the RoE moderated marginally in 9M FY2024 vis-à-vis the 4-year average, it remained strong compared to the 4-year minimum RoE of 31.5%.

Despite the strong profitability, the sizeable dividend payouts limit the accretion to reserves. This, coupled with the increase in borrowings to meet the working capital requirement and the ramp-up in the MTF book, resulted in an uptick in HSL's gearing to 4.4 times as on December 31, 2023 from 2.9 times as of March 31, 2023 and 0.6 times as on March 31, 2020. Nonetheless, the proposed rights issue is expected to support its capitalisation profile. On March 3, 2024, HSL had proposed a rights issuance in the ratio of 2 equity shares for every 19 equity shares held and the record date for this issuance was fixed as March 11, 2024. As on December 31, 2023, HSL's net worth was Rs. 1,995 crore.

Credit challenges

Exposed to risks inherent in capital market related businesses as well as credit and market risks associated with MTF funding business – HSL's revenues remain dependent on capital markets, which are inherently volatile in nature. Furthermore, it remains exposed to credit and market risks on account of the MTF lending book, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. HSL forayed into the MTF business in FY2019 and it ramped up its MTF book to Rs. 5,729 crore as on December 31, 2023 from Rs. 226 crore as on March 31, 2019. 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 growing popularity of discount brokerage houses, HSL's market share² in terms of NSE active clients contracted to 3% as on December 31, 2023 from 7% in March 2020. With competition in this cyclical industry expected to remain high, pressure on profitability cannot be ruled out, especially during downturns. However, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings indicate untapped potential for expansion in the broking market over the longer term.

Liquidity position: Strong

HSL's funding requirement is primarily for placing margins at the exchanges and growing the MTF book. The average cash margin placed on exchanges (including client funds) amounted to Rs. 4,000 crore between April 2023 and February 2024. Previously, margin utilisation ranged between 40% and 70% (basis month-end data) during October 2022 to June 2023, with

¹ Market share as per ICRA's calculations; market share excluding proprietary trades

² Market share as per ICRA's calculations

the average cash margin placed on exchanges (including client funds) amounting to Rs. 3,300 crore during this period. As on February 29, 2024, HSL had total outstanding borrowings of ~Rs. 9,620 crore, which is due for repayment within three months, while it had an unencumbered cash and bank balance of Rs. 737 crore and drawable but unutilised lines of Rs. 1,754 crore. Additionally, its short-term loan, which can be liquidated at short notice to generate liquidity if required, stood at Rs. 6,759 crore. HSL also enjoys financial flexibility as it is a subsidiary of HDFC Bank, with the same evident from the regular commercial paper (CP) issuances, large investor base and competitive borrowing cost.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on HSL’s ratings could arise if there is a deterioration in the credit profile of the parent, a change in HSL’s strategic importance to the parent or a decline in the linkages with the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in Stockbroking and Allied Services Rating Approach: Implicit Parent or Group Support
Parent/Group support	Parent: HDFC Bank HSL is a subsidiary of HDFC Bank, which holds a ~95% stake in the company. The strong parentage and shared brand name strengthen ICRA’s assumption that HSL will receive timely and adequate support (financial as well as operational) from HDFC Bank, if required. The company also enjoys significant financial flexibility as it is a subsidiary of HDFC Bank. It draws the advantage of strong operational linkages with the bank as demonstrated by the senior management deputations/transfers from the bank along with customer sourcing and cross-selling support.
Consolidation/Standalone	Standalone

About the company

HDFC Securities Limited (HSL), a subsidiary of HDFC Bank, is engaged in securities broking. The company was incorporated in 2000 as a joint venture among between HDFC Bank Limited, HDFC Limited and Indocean eSecurities Holdings Limited for offering capital market services like broking and distribution of financial products. HSL became a subsidiary of HDFC Bank in FY2006 following the acquisition of HDFC Limited’s stake by the bank. HDFC Bank acquired the shares held by Indocean eSecurities Holdings Limited in FY2014, increasing its stake to ~89% and further to ~98% in FY2015. Since then, the bank has been actively engaged in the management of HSL. As on December 31, 2023, HDFC Bank’s stake stood at 95.4%.

Currently, HSL offers online and offline broking facilities, margin trade facilities and distribution of third-party products like mutual funds and insurance products through a network of 198 branches. The company reported a PAT of Rs. 777 crore in FY2023 on NOI of Rs. 1,548 crore compared to Rs. 984 crore and Rs. 1,813 crore, respectively, in FY2022. The PAT stood at Rs. 633 crore in 9M FY2024 on NOI of Rs. 1,380 crore.

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Net operating income (NOI)	1,813	1,548	1,380
Profit after tax (PAT)	984	777	633
Net worth	1,658	1,797	1,995
Total assets	7,923	8,268	13,549
Gearing (times)	2.79	2.92	4.41
Return on average net worth	62.7%	44.9%	44.4%

Source: Company, ICRA Research; * Limited review; 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	Current rating (FY2024)			Chronology of rating history for the past 3 years						
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 15, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				Mar 27, 2024	Aug 08, 2023	Dec 05, 2022	Dec 14, 2021	Mar 16, 2021	Jan 22, 2021	Jul 23, 2020
1 Fund-based/non-fund-based bank lines	Long term	300.0	300.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-
2 CP programme	Short term	13,000.0	9,595.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Bank line facilities	Long term	-	-	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4 Long-term/short-term unallocated bank lines	Long term/short term	-	-	-	-	-	-	[ICRA]AAA (Stable)/[ICRA]A1+; withdrawn	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based/non-fund based bank lines	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	LT fund-based/non-fund based bank lines – Others	-	NA	-	300	[ICRA]AAA (Stable)
INE700G14HV8	Commercial paper	Dec 18, 2023	8.06%	Mar 18, 2024	200	[ICRA]A1+
INE700G14HV8	Commercial paper	Dec 27, 2023	8.12%	Mar 18, 2024	300	[ICRA]A1+
INE700G14IB8	Commercial paper	Jan 04, 2024	8.00%	Mar 19, 2024	150	[ICRA]A1+
INE700G14HW6	Commercial paper	Dec 20, 2023	8.06%	Mar 20, 2024	200	[ICRA]A1+
INE700G14HX4	Commercial paper	Dec 21, 2023	8.13%	Mar 21, 2024	200	[ICRA]A1+
INE700G14HY2	Commercial paper	Dec 22, 2023	8.13%	Mar 22, 2024	300	[ICRA]A1+
INE700G14HZ9	Commercial paper	Dec 26, 2023	8.13%	Mar 26, 2024	200	[ICRA]A1+
INE700G14IA0	Commercial paper	Dec 27, 2023	8.12%	Mar 27, 2024	50	[ICRA]A1+
INE700G14IH5	Commercial paper	Jan 19, 2024	8.40%	Apr 02, 2024	25	[ICRA]A1+
INE700G14IG7	Commercial paper	Jan 19, 2024	8.40%	Apr 03, 2024	25	[ICRA]A1+
INE700G14IR4	Commercial paper	Feb 09, 2024	8.60%	Apr 04, 2024	25	[ICRA]A1+
INE700G14IS2	Commercial paper	Feb 09, 2024	8.60%	Apr 05, 2024	50	[ICRA]A1+
INE700G14IE2	Commercial paper	Jan 18, 2024	8.49%	Apr 18, 2024	250	[ICRA]A1+
INE700G14IE2	Commercial paper	Jan 18, 2024	8.49%	Apr 18, 2024	255	[ICRA]A1+
INE700G14IF9	Commercial paper	Jan 19, 2024	8.49%	Apr 19, 2024	325	[ICRA]A1+
INE700G14IJ1	Commercial paper	Jan 23, 2024	8.49%	Apr 22, 2024	225	[ICRA]A1+
INE700G14IJ1	Commercial paper	Jan 29, 2024	8.70%	Apr 22, 2024	5	[ICRA]A1+
INE700G14II3	Commercial paper	Jan 29, 2024	8.49%	Apr 29, 2024	200	[ICRA]A1+
INE700G14II3	Commercial paper	Jan 29, 2024	8.70%	Apr 29, 2024	400	[ICRA]A1+
INE700G14IL7	Commercial paper	Jan 30, 2024	8.70%	Apr 30, 2024	400	[ICRA]A1+
INE700G14IM5	Commercial paper	Feb 02, 2024	8.70%	May 03, 2024	90	[ICRA]A1+
INE700G14IN3	Commercial paper	Feb 05, 2024	8.70%	May 06, 2024	50	[ICRA]A1+
INE700G14IN3	Commercial paper	Feb 06, 2024	8.70%	May 06, 2024	150	[ICRA]A1+
INE700G14IO1	Commercial paper	Feb 06, 2024	8.65%	May 07, 2024	150	[ICRA]A1+
INE700G14IO1	Commercial paper	Feb 09, 2024	8.75%	May 07, 2024	150	[ICRA]A1+
INE700G14IP8	Commercial paper	Feb 07, 2024	8.65%	May 08, 2024	75	[ICRA]A1+
INE700G14IQ6	Commercial paper	Feb 08, 2024	8.63%	May 09, 2024	50	[ICRA]A1+
INE700G14IU8	Commercial paper	Feb 12, 2024	8.75%	May 13, 2024	250	[ICRA]A1+
INE700G14IV6	Commercial paper	Feb 13, 2024	8.75%	May 14, 2024	100	[ICRA]A1+
INE700G14IV6	Commercial paper	Feb 13, 2024	8.85%	May 14, 2024	450	[ICRA]A1+
INE700G14IW4	Commercial paper	Feb 16, 2024	8.85%	May 17, 2024	600	[ICRA]A1+
INE700G14IX2	Commercial paper	Feb 20, 2024	8.75%	May 21, 2024	250	[ICRA]A1+
INE700G14IZ7	Commercial paper	Feb 21, 2024	8.80%	May 22, 2024	120	[ICRA]A1+
INE700G14IZ7	Commercial paper	Feb 22, 2024	8.80%	May 22, 2024	250	[ICRA]A1+
INE700G14IY0	Commercial paper	Feb 23, 2024	8.80%	May 24, 2024	250	[ICRA]A1+
INE700G14JA8	Commercial paper	Feb 26, 2024	8.70%	May 27, 2024	250	[ICRA]A1+
INE700G14JB6	Commercial paper	Feb 27, 2024	8.60%	May 28, 2024	25	[ICRA]A1+

ISIN	Instrument Name	Date of Issuance	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE700G14JC4	Commercial paper	Feb 29, 2024	8.55%	May 30, 2024	550	[ICRA]A1+
INE700G14JD2	Commercial paper	Mar 01, 2024	8.48%	May 31, 2024	250	[ICRA]A1+
INE700G14JE0	Commercial paper	Mar 05, 2024	8.43%	Jun 04, 2024	250	[ICRA]A1+
INE700G14JG5	Commercial paper	Mar 06, 2024	8.43%	Jun 05, 2024	250	[ICRA]A1+
INE700G14JF7	Commercial paper	Mar 07, 2024	8.40%	Jun 06, 2024	100	[ICRA]A1+
INE700G14JF7	Commercial paper	Mar 07, 2024	8.37%	Jun 06, 2024	25	[ICRA]A1+
INE700G14JH3	Commercial paper	Mar 12, 2024	8.33%	Jun 11, 2024	525	[ICRA]A1+
INE700G14JI1	Commercial paper	Mar 15, 2024	8.33%	Jun 14, 2024	400	[ICRA]A1+
INE700G14IK9	Commercial paper	Jan 25, 2024	8.74%	Jan 24, 2025	200	[ICRA]A1+
NA	Commercial paper (yet to be placed)*	-	-	30-365 days	3,405	[ICRA]A1+

Source: Company; *As on March 15, 2024

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Annexure II: List of entities considered for consolidated analysis

Not applicable

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