March 21, 2025

HDFC Securities Limited: Ratings reaffirmed

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	13,000.0	13,000.0	[ICRA]A1+; reaffirmed
Total	**13,300.0**	**13,300.0**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in HDFC Securities Limited's (HSL) strong parentage in the form of HDFC Bank Limited (HDFC Bank[1]; ~95% 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 expectations that the company will receive timely and adequate support (financial as well as operational) from HDFC Bank, if needed. ICRA notes that the bank participated in the recent rights issue, infusing ~Rs. 1,000 crore in Q1 FY2025. HSL also derives significant financial flexibility in fund-raising due to its parentage. Additionally, it benefits from being a well-established retail franchise, supported by its position as a bank-backed brokerage house.

The ratings also consider HSL's healthy financial profile with strong profitability and adequate capitalisation. In this regard, while some moderation in the performance cannot be ruled out amid the recent industry-wide headwinds, the company is expected to continue reporting healthy profitability.

While reaffirming the ratings, ICRA has taken note of the significant growth in HSL's debt-funded e-margin (margin trading facility; MTF) business. This, coupled with the increasing working capital requirement amid the evolving regulatory landscape and the high dividend payouts by the company, has been resulting in a rise in its financial leverage level. HSL's gearing increased to 4.7 times as on March 31, 2024 from 2.9 times as on March 31, 2023. While it has eased after the rights issue in the current fiscal, it remains elevated in relation to the historical levels at 3.1 times as on December 31, 2024. 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 in the form of HDFC Bank – HSL is a subsidiary of HDFC Bank, which holds a ~95% stake in the company. The company helps augment the bank's services portfolio 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 the company will receive timely and adequate support (both financial and operational) from the bank, if required. In this regard, HDFC Bank participated in the rights issue, infusing about Rs. 1,000 crore

[1] *Rated [ICRA]AAA (Stable)/[ICRA]A1+*

in Q1 FY2025. 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, 97% of broking income for 9M FY2025 was from the retail segment). The company has a strong retail franchise, supported by its position as a subsidiary of HDFC Bank. As on December 31, 2024, it had a National Stock Exchange (NSE) active client base of 14.2 lakh customers, translating to a market share of 3%. Moreover, it remains a prominent player in the MTF segment. 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.

Supported by industry tailwinds and increase in leverage positions in the segment (through MTF), HSL's growth momentum continued in 8M FY2025 with a sizeable rise in broking volumes and revenues. The cash average daily turnover (ADTO) increased by 35% in 8M FY2025 while the futures & options (F&O) ADTO rose by 39% from the FY2024 levels. Thereafter, the implementation of regulatory measures to discourage speculative trading in the derivatives segment by retail investors near the expiries led to an industry-wide decline in trading activity in the F&O segment. Additionally, investor sentiment has turned cautious in recent months. Consequently, the ADTO moderated sequentially by 33% in the cash segment and 11% in the F&O segment in December 2024 and January 2025. Nonetheless, the retail market share in 9M FY2025, in terms of broking volumes, remained largely stable at the FY2024 levels at ~2.5% for the cash segment and ~0.6% for the F&O sesgment.

Healthy financial profile with strong profitability and adequate capitalisation – HSL has reported strong profitability over the years with a 5-year average net profit (profit after tax; PAT)/net operating income (NOI)[2] of 50.6% and a return on net worth (RoE) of 48.1% during FY2020-FY2024. However, the industry saw a decline in trading activity in Q3 FY2025. In line with this industry-wide slowdown, HSL's NOI declined by 15% quarter-on-quarter in Q3 FY2025 due to a reduction in broking income and a contraction in its MTF book, leading to lower interest income. Nonetheless, its performance remained strong in 9M FY2025, driven by the robust growth in broking and allied revenues in H1 FY2025 amid favourable industry tailwinds. It reported a PAT of Rs. 874 crore in 9M FY2025 (Rs. 951 crore in FY2024), PAT/NOI of 47.4% (46.8% in FY2024, averaging 44.0% over FY2014-FY2024), and RoE of 44.2% (49.7% in FY2024, averaging 37.2% over FY2014-FY2024). Despite moderating, the profitability remained strong even in Q3 FY2025 with PAT/NOI of 46.8% and RoE of 40.3%.

Even though the company's profitability is strong, 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 4.7 times as on March 31, 2024 from 2.9 times as on March 31, 2023. Nonetheless, the company successfully concluded the rights issue in Q1 FY2025, whereby about Rs. 1,000 crore was raised from the promoter bank. This, coupled with the contraction in the MTF book in recent months, led to a decline in the gearing to 3.1 times as on December 31, 2024 from 4.7 times as on March 31, 2024. Thus, capitalisation remains adequate even though the gearing is elevated compared to historical levels.

Credit challenges

Exposed to risks inherent in capital market related businesses as well as credit and market risks associated with MTF 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

[2] *NOI refers to the sum of brokerage income, net interest income, distribution income, depository income and other fee income*

business in FY2019 and it ramped up its MTF book to Rs. 7,470 crore as on December 31, 2024 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.

Elevated competition, high dependence on technology, and evolving regulatory environment – Given the highly regulated nature of the industry, brokerage houses face significant regulatory risk. Ensuring compliance with evolving regulations is crucial. Recent changes, such as uniform exchange charges, have impacted profitability, especially for discount brokers. Measures to curb exuberance in the F&O segment, including rationalisation of weekly index derivatives and increased margins on expiry days, are being phased in during November 2024 to April 2025. These, along with the hike in securities transaction tax, pose risks to capital market volumes and profitability, particularly for discount brokers.

The sector is also characterised by intense competition and the entry of new players, leading to pricing pressure. However, the increasing financialisation of savings offers potential for expansion. Despite this, pressure on profitability during downturns remains a concern. Additionally, reliance on technology poses operational and reputational risks, as seen with HSL's four technical glitches[3] in 8M FY2025. Maintaining uninterrupted services will be crucial for customer experience.

Liquidity position: Adequate

Cash margin utilisation, basis month-end data, ranged between 45% and 75%, with the average cash margin placed on exchanges (including client funds) amounting to Rs. 4,505 crore during this period. As on February 28, 2025, HSL had total outstanding borrowings of ~Rs. 8,661 crore, which was due for repayment within three months, while it had an unencumbered cash and bank balance of Rs. 1,128 crore and drawable but unutilised lines fund-based bank lines of Rs. 2,670 crore. Additionally, its short-term loan book, which can be liquidated at short notice to generate liquidity if required, stood at Rs. 6,016 crore as on February 28, 2025. HSL also enjoys financial flexibility as it is a subsidiary of HDFC Bank and the same is evident from the regular commercial paper (CP) issuances, large investor base and competitive borrowing cost.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A revision in the credit profile of the parent (HDFC Bank) or a significant change in the company's shareholding or linkage with the parent could lead to pressure on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Stockbroking and Allied Services
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 expectations 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 between HDFC Bank Limited, HDFC Limited and Indocean eSecurities Holdings Limited for offering

[3] *Interruptions impacting trading for more than five minutes*

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, 2024, HDFC Bank's stake stood at ~95%.

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 135 branches. The company reported a PAT of Rs. 951 crore in FY2024 on NOI of Rs. 2,032 crore compared to Rs. 777 crore and Rs. 1,546 crore, respectively, in FY2023. The PAT stood at Rs 874 crore in 9M FY2025 on NOI of Rs. 1,843 crore.

Key financial indicators

HDFC Securities Limited	FY2023	FY2024	9M FY2025
	Audited	Audited	Provisional
Net operating income (NOI)	1,546	2,032	1,843
Profit after tax (PAT)	777	951	874
Net worth	1,797	2,029	3,247
Total assets	8,277	14,103	16,076
Gearing (times)	2.9	4.7	3.1
Return on average net worth (annualised)	45.0%	49.7%	44.2%

Source: Company, ICRA Research; 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 (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. rore)	Mar 21, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based/non-fund-based bank lines	Long term	300.0	[ICRA]AAA (Stable)	Mar 27, 2024	[ICRA]AAA (Stable)	Dec 05, 2022	[ICRA]AAA (Stable)	-	-
				Aug 08, 2023	[ICRA]AAA (Stable)	-	-	-	-
CP programme	Short term	13,000.0	[ICRA]A1+	Mar 27, 2024	[ICRA]A1+	Dec 05, 2022	[ICRA]A1+	Dec 14, 2021	[ICRA]A1+
				Aug 08, 2023	[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)
INE700G14MN5	Commercial paper	Dec-03-2024	7.55%	Mar-04-2025	725	[ICRA]A1+
INE700G14MO3	Commercial paper	Dec-04-2024	7.55%	Mar-05-2025	100	[ICRA]A1+
INE700G14MM7	Commercial paper	Dec-05-2024	7.55%	Mar-06-2025	250	[ICRA]A1+
INE700G14ML9	Commercial paper	Dec-06-2024	7.55%	Mar-07-2025	550	[ICRA]A1+
INE700G14MP0	Commercial paper	Dec-09-2024	7.51%	Mar-10-2025	300	[ICRA]A1+
INE700G14MR6	Commercial paper	Dec-10-2024	7.45%	Mar-11-2025	1,000	[ICRA]A1+
INE700G14MQ8	Commercial paper	Dec-11-2024	7.45%	Mar-12-2025	500	[ICRA]A1+
INE700G14MS4	Commercial paper	Dec-16-2024	7.50%	Mar-17-2025	25	[ICRA]A1+
INE700G14MT2	Commercial paper	Dec-17-2024	7.60%	Mar-18-2025	550	[ICRA]A1+
INE700G14MU0	Commercial paper	Dec-18-2024	7.60%	Mar-19-2025	200	[ICRA]A1+
INE700G14MV8	Commercial paper	Dec-19-2024	7.60%	Mar-20-2025	50	[ICRA]A1+
INE700G14MV8	Commercial paper	Dec-23-2024	7.65%	Mar-20-2025	275	[ICRA]A1+
INE700G14MW6	Commercial paper	Jan-06-2025	7.48%	Mar-21-2025	150	[ICRA]A1+
INE700G14MX4	Commercial paper	Jan-09-2025	7.80%	Apr-09-2025	50	[ICRA]A1+
INE700G14MY2	Commercial paper	Jan-15-2025	8.05%	Apr-16-2025	250	[ICRA]A1+
INE700G14MY2	Commercial paper	Jan-24-2025	8.02%	Apr-16-2025	100	[ICRA]A1+
INE700G14MZ9	Commercial paper	Jan-16-2025	8.05%	Apr-17-2025	275	[ICRA]A1+
INE700G14MZ9	Commercial paper	Jan-17-2025	7.90%	Apr-17-2025	10	[ICRA]A1+
INE700G14NC6	Commercial paper	Jan-21-2025	8.03%	Apr-22-2025	350	[ICRA]A1+
INE700G14NB8	Commercial paper	Jan-22-2025	8.03%	Apr-23-2025	150	[ICRA]A1+
INE700G14NB8	Commercial paper	Jan-23-2025	8.02%	Apr-23-2025	250	[ICRA]A1+
INE700G14ND4	Commercial paper	Jan-24-2025	8.03%	Apr-25-2025	25	[ICRA]A1+
INE700G14NE2	Commercial paper	Feb-04-2025	7.82%	May-06-2025	125	[ICRA]A1+
INE700G14NF9	Commercial paper	Feb-05-2025	7.82%	May-07-2025	250	[ICRA]A1+
INE700G14NG7	Commercial paper	Feb-11-2025	7.885%	May-13-2025	705	[ICRA]A1+
INE700G14NG7	Commercial paper	Feb-10-2025	7.72%	May-13-2025	125	[ICRA]A1+
INE700G14NH5	Commercial paper	Feb-12-2025	7.885%	May-14-2025	10	[ICRA]A1+
INE700G14NH5	Commercial paper	Feb-12-2025	7.85%	May-14-2025	547	[ICRA]A1+
INE700G14NI3	Commercial paper	Feb-13-2025	7.84%	May-15-2025	255	[ICRA]A1+
INE700G14NJ1	Commercial paper	Feb-25-2025	7.75%	May-27-2025	200	[ICRA]A1+
NA	Commercial paper (yet to be placed)*	-	-	30-365 days	4,648	[ICRA]A1+

*Source: Company; *As on February 28, 2025*

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Not applicable

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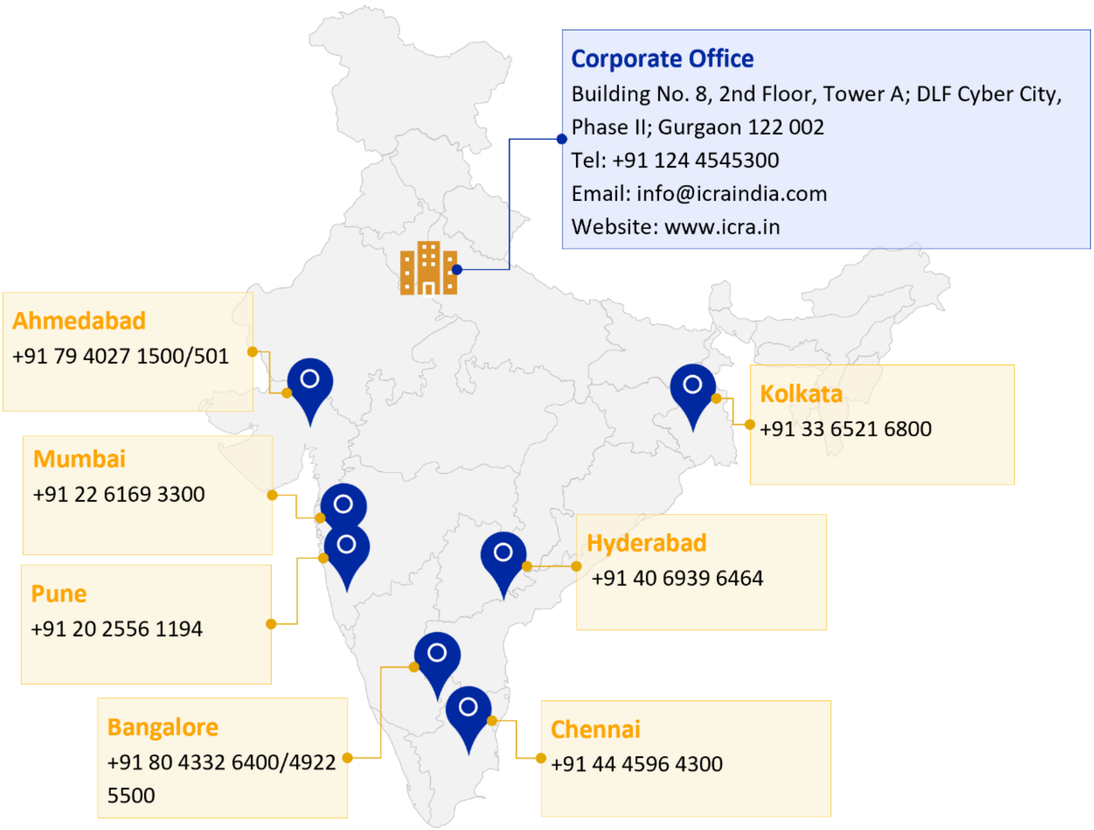

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