

June 27, 2024

ICICI Securities Primary Dealership Limited: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

The 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). Further, given its sizeable net worth, the company has a satisfactory cushion to withstand the impact of 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) for its Basel III Tier II bonds}, and the continued support as depicted by the managerial and financial aid received from the bank also remain key strengths.

ICRA notes that with the rise in the 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 associated with these instruments.

As policy rates are expected to witness a shallow cut in H2 FY2025, a decline in short-term rates is likely to have a favourable impact on the company's earnings profile. Nevertheless, ICRA notes that I-Sec PD's earnings profile will remain susceptible to 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 net interest income (NII) is expected to remain range-bound, given the flat yield curve, though the interest rate environment could remain conducive for increased trading opportunities in the near to medium term. 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 its 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 ratio¹ of 45.04% in the Treasury bills (T-bills) market in H1 FY2024 and 53.51% in H2 FY2024, above the regulatory requirement of 40%. It also achieved the minimum turnover ratio² target for FY2024.

¹ **Success ratio:** Bids accepted/Bidding commitment

² **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 26.59% as on March 31, 2024, well above the regulatory minimum of 15% for PDs. The daily average leverage increased to 17.30 times in FY2024 (12.25) times in FY2023) to maintain the NII amid the elevated short-term funding rates. The high leverage also resulted in a decline in the CRAR in FY2024.

Given the susceptibility of the profitability and capital profile to interest rate movements, I-Sec PD has a board-approved 1-day value at risk (VaR) limit of ~8-10% of its NOF for its consolidated fixed income portfolio. Its 1-day VaR had remained within this limit in FY2024. The NOF stood at Rs. 1,711 crore as on March 31, 2024, providing a comfortable loss-absorption cushion against adverse interest rate movements. This is depicted by the price value of basis point (PVB³) of 65 bps of the NOF as on March 31, 2024, indicating adequate ability to absorb 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 debt capital market (DCM) and portfolio management services. This helped in partly mitigating the volatility in the revenue/earnings stream in the adverse interest rate scenario. However, underwriting commission and other income of Rs. 26 crore in FY2024 (Rs. 27 crore in FY2023) remained lower in relation to its overall revenue on account of the high trading profit during the year. Further, commission and other income in FY2024 and FY2023 remained lower than Rs. 64 crore and Rs. 68 crore in FY2022 and FY2021, respectively, on account of the lower devolvement of G-Secs.

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 associated with 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 ~90% of the total non-SLR portfolio by value as on March 31, 2024.

Credit challenges

Profitability susceptible to volatility arising from interest rate movements – As mentioned earlier, the company’s earnings profile remains susceptible to adverse movements in the interest rates. This is reflected in the significant variation in the trading profit (Rs. 493 crore in FY2024 against Rs. 98 crore in FY2023 and Rs. 138 crore in FY2022). Further, the elevated short-term borrowing rates in FY2024 and FY2023 resulted in the narrowing of I-Sec PD’s net interest margin to 0.68% of average assets in FY2024 as well as FY2023 from 1.87% in FY2022 (2.68% in FY2021). The higher trading profit in FY2024 resulted in an increase in the net profit to Rs. 436 crore (Rs. 128 crore in FY2023 and 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 60% of its profit paid as dividend in FY2024, which is likely to continue. As a result, net worth accretion has been modest in relation to profit.

Higher leverage compared to peers – I-Sec PD has historically operated at a higher leverage compared with other PDs. Its daily average leverage stood at 17.3 times in FY2024 (12.3 times in FY2023 and 8.9 times in FY2022). A high leverage increases vulnerability to large adverse movements in interest rates. ICRA notes that the leverage has been consistently maintained within the board-approved limit. A significant portion of liquid Government debt securities, active portfolio management, and adherence to risk management limits mitigate this risk.

Susceptibility to 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.

³ PVB³ measures the gain/loss on the entire portfolio for a 1 basis point (0.01%) movement in the interest rate; PVB³ of minus 65 bps means that a 1 bps rise in the interest rate will lead to an erosion of 0.65% in the NOF

Therefore, a significant change in the regulatory framework for PDs, which adversely impacts the company's operational and financial profiles, can affect 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 (92% of total investments on a daily average basis in FY2024). Further, I-Sec PD's non-SLR book (8% of investments on a daily average basis in FY2024) 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 a material change in the credit profile of ICICI Bank or a 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	Comments
Applicable rating methodologies	Rating Methodology for Primary Dealers Impact of Parent or Group Support on an Issuer's Credit Rating
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. Incorporated in 1993, it 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 debt capital market (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. I-Sec PD is a Securities and Exchange Board of India (SEBI)-registered portfolio manager, offering discretionary as well as 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 of Rs. 436 crore on total income of Rs. 2,629 crore in FY2024 against a net profit of Rs. 128 crore on total income of Rs. 1,374 crore in FY2023. I-Sec PD achieved a success ratio of 45.04% and 53.51% in the T-bills market in H1 FY2024 and H2 FY2024, respectively, above the regulatory requirement of 40%.

Key financial indicators

ICICI Securities PD	FY2022	FY2023	FY2024
Profit after tax (PAT)	329	128	436
Net worth	1,590	1,582	1,852
Total assets	20,272	34,463	35,846
PAT/Net worth (return on net worth; RoNW)	20.68%	8.08%	23.55%
Leverage ratio (daily average; times)	8.92	12.25	17.30

Source: Company, ICRA Research; 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 (FY2025)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
		(Rs. crore)	(Rs. crore)	Jun-27-2024	Jun-30-2023	Mar-27-2023	Feb-06-2023	Feb-02-2022
1 Commercial paper	ST	2,500.00	1,800.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*As on June 17, 2024; 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
INE849D14HM9	Commercial paper	April 15, 2024	7.65%	June 24, 2024	900.00	[ICRA]A1+
INE849D14HN7	Commercial paper	May 15, 2024	7.99%	August 14, 2024	400.00	[ICRA]A1+
INE849D14HO5	Commercial paper	June 12, 2024	8.02%	December 10, 2024	500.00	[ICRA]A1+
NA	Commercial paper	Yet to be placed	-	7-365 days	700.00	[ICRA]A1+

Source: I-Sec PD; As on June 17, 2024

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

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About ICRA Limited:

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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.

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Branches



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