September 24, 2024

Angel One Limited: [ICRA]A1+ assigned to commercial paper programme

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	3,000.00	[ICRA]A1+; assigned
Total	3,000.00	

Rationale

The assigned rating factors in Angel One Limited's (Angel) strong market position in the securities broking segment, its comfortable capitalisation and strong profitability trajectory. Angel has transformed into a prominent digital broker in recent years, with sizeable client addition driven by digital initiatives, active marketing spend and industry tailwinds. As of June 2024, it held a 15% market share in National Stock Exchange (NSE) active clients. The increase in the client base has strengthened the scale of the broking business and earnings with the company demonstrating a strong return on net worth in each of the past five years (5-year average return on equity (RoE) of 37% during FY2020-FY2024). The performance remained strong in Q1 FY2025, though the reported profitability metrics witnessed a marginal moderation amid elevated marketing spend (seasonal uptick related to sponsorship of a sporting event).

While Angel has witnessed an increase in borrowings in the recent past due to the material scale-up of its debt-funded margin trade funding (MTF) book and higher working capital requirements, the capitalisation profile remains comfortable with a consolidated financial leverage (total debt/net worth) of 0.5 times as of June 2024. Capitalisation has been supported by sustained strong accruals in recent years as well as the equity capital raise of Rs. 1,500 crore in Q1 FY2025. ICRA is cognisant that a further scale-up of the capital market lending book is likely to lead to an increase in the company's dependence on borrowings. However, Angel is expected to continue maintain consolidated leverage of less than 2.5- 3 times.

These strengths are partially offset by the company's high dependency on broking income from the futures & options (F&O) segment and its relative vulnerability to regulatory risks in light of the evolving regulations and the operating environment. It is also significantly dependent on technology for its operations. Nevertheless, ICRA takes note of Angel's strategic plans of foraying into the wealth management, asset management, and distribution businesses to monetise its established franchise and customer base, which is expected to offer some linearity to the cyclical nature of the broking business as these businesses scale up. The rating also considers the credit and market risks associated with capital market related lending businesses, given the nature of the underlying assets. This is mitigated to an extent by the granular MTF loan book. However, maintaining adequate asset quality, and capitalisation and profitability will remain imperative along with the ability to seamlessly align with the evolving regulatory landscape.

Angel is in the process of reorganising its structure, whereby the broking business will be transferred to two-wholly owned subsidiaries: Angel Securities Limited (ASL) and Angel Crest Limited (ACL). As per the arrangement, the direct broking businesses through the online channel will be transferred to ACL while the assisted broking services offered via authorised persons is to be transferred to ASL by means of a slump sale. The proposed restructuring is not expected to impact the company's credit profile.

Key rating drivers and their description

Credit strengths

Strong market position in securities broking segment – Angel is one of the leading qualified stockbroker with 247 lakh clients. As of June 2024, it was third in terms of its active NSE clientele (67 lakh) with a market share of 15%. Supported by the significant increase in retail participation amid industry tailwinds, the company's active marketing spend and digital initiatives, it witnessed sizable client additions in recent years, resulting in a steady expansion of the market share of NSE active clients.

Driven by the expanding client base, it reported strong growth in its broking operations and income in recent years. Angel reported a compound annual growth rate (CAGR) of 128% during FY2020-FY2024 in the F&O order count to 108 crore in FY2024. It witnessed a CAGR of 14% in the count of orders executed during FY2021-FY2024 in the cash segment. While the company has been witnessing relatively consistent income contribution from clients onboarded in earlier years, the sustainability of the same during a prolonged period of market downturn remains to be seen.

Strong profitability – Supported by buoyant retail participation amid industry tailwinds, Angel reported strong profitability in the past few years. It recorded its highest-ever consolidated net profit of Rs. 1,126 crore in FY2024 (compared to Rs. 890 crore in FY2023 and past 5-year average of Rs. 604 crore) with profit after tax (PAT)/net operating income (NOI) of 34% (39% in FY2023 and past 5-year average of 32%) and RoE of 43%. The RoE remained strong in each of the past five years with a 5-year average RoE of 37% during FY2020-FY2024. The performance stayed strong in Q1 FY2025, though the reported profitability metrics saw a moderation amid elevated marketing spend. Angel reported a consolidated net profit of Rs. 293 crore, PAT/NOI of 26% and RoE of 30% in Q1 FY2025.

Comfortable capitalisation – With the material scale-up of the debt-funded MTF book and higher working capital requirements, Angel's borrowings have increased in recent periods. Nevertheless, the capitalisation profile remains comfortable, supported by the healthy internal capital generation trajectory as well as the recent equity raise (Rs. 1,500 crore in Q1 FY2025). The consolidated net worth stood at Rs. 4,829 crore while the gearing was 0.5 times as on June 30, 2024.

While the company has a dividend policy, whereby it endeavours to maintain a quarterly interim dividend payout and, if prudent, a final dividend, aggregating at least 35% of the PAT in every financial year, ICRA takes note of the recent plan of conserving capital in the near term for business growth requirements. Also, ICRA is cognisant that a further scale-up of the capital market lending book is likely to lead to an increase in Angel's dependence on borrowings. However, the company is expected to continue maintaining prudent capitalisation.

Credit challenges

High dependence on broking income from F&O segment; exposed to evolving regulatory environment and inherently volatile capital markets – On a consolidated basis, Angel's revenue profile remains skewed towards securities broking (net broking income), which accounts for 63% of the NOI[1], followed by ancillary transaction related exchange charges (11%), interest income on client funds (12%), depository (5%), net interest income (NII; 4%) from MTF and distribution & other miscellaneous income (the balance). Akin to other leading discount brokerages, Angel's broking income remains highly dependent on the retail F&O segment, which accounts for about 84% of the gross broking income. ICRA notes that broking income from retail F&O and interest income from client funds remain relatively vulnerable to regulatory risks in light of the evolving regulations and the operating environment. Moreover, with the implementation of uniform exchange charges starting October 2024, Angel's ancillary income will be adversely impacted albeit ICRA takes a note of the management's articulation

[1] *Comprising net broking income, NII, depository income, distribution income and other fee-related income from operating businesses*

of availability of additional levers for offsetting its impact on profitability. However, with most of its revenues being linked to the inherently volatile capital markets, the revenue profile and profitability also remain vulnerable to market performance.

Nevertheless, ICRA takes note of the company's strategic plan of foraying into the wealth management, asset management, and distribution businesses to monetise its established franchise and customer base. These initiatives are expected to offer some linearity to the cyclical nature of the broking business as these businesses scale up.

Intense competition and dependence on technology – Securities broking companies rely heavily on technology for trade execution and fund management. Thus, technical failures or disruptions pose operational and reputational risk. While the growth of discount brokers has been phenomenal during the last few years with their market share increasing to about 60% of NSE active clients, they would be at a comparatively greater risk of facing technology-related issues owing to their end-to-end digital presence. Additionally, given the multiple regulatory changes in recent periods, the ability of brokerage entities to ensure compliance with the evolving regulatory landscape remains crucial.

The sector also remains characterised by intense competition and susceptibility to entry by new players, though ICRA notes that Angel has maintained its market position in respect of active client base in recent years. Further, while the increasing financialisation of savings and the low share of wallet of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Environmental and social risks

Environmental considerations: While financial institutions do not face any material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. Nonetheless, such risk is not material for Angel as its lending operations are primarily focused on capital market related lending. Further, its business activities are typically short-to-medium term in nature, which will allow it to adapt if required.

Social considerations: With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. In this regard, while the company encountered six technical glitches[2] in FY2024, it was not a material outlier compared to peers. Going forward, its ability to offer uninterrupted services will be imperative for maintaining customer experience. Moreover, it is noted that customer preferences are increasingly shifting towards the digital mode of transacting, necessitating the adoption of technological advancements, besides providing an opportunity to reduce the operating costs. Angel has been at the forefront of this transition, making investments to enhance its digital interface with its customers.

Liquidity position: Strong

Angel's funding requirement is primarily for managing its working capital requirements and for scaling up its client funding book. Its average peak margin utilisation (computed on a month-end basis) during April - August 2024 remained comfortable. Additionally, as of August 31, 2024, it had an unencumbered cash and bank balance of ~Rs. 306 crore (12% of consolidated borrowings) and drawable but unutilised working capital lines of ~Rs. 1,387 crore. These, along with collections of ~Rs. 3,491 crore from the margin funding book (which can be liquidated at short notice to generate liquidity), are adequate for covering the phased principal repayment obligations of ~Rs. 2,495 crore till July 31, 2025.

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[2] *Interruptions impacting trading for more than 5 minutes*

Rating sensitivities

Positive factors – Not applicable

Negative factors – A sustained decline in the scale of the broking business or a deterioration in the asset quality of the lending business, impacting the company's profitability, capitalisation, or liquidity, will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

Incorporated in 1997, Angel is one of the leading retail brokers in the equity, derivatives and commodity segments. Promoted by Mr. Dinesh Thakkar, the company has transformed into a prominent digital broker in the past few years. As of June 2024, it was a qualified stockbroker catering to ~67 lakh NSE active clients (market share of 15%) across India. Moreover, the company recently forayed into allied capital market businesses such as wealth management, asset management (awaiting regulatory approval), credit & fixed income distribution.

On August 9, 2023, Angel announced a scheme of arrangement involving the transfer of business to two wholly-owned subsidiaries: Angel Securities Limited (ASL) and Angel Crest Limited (ACL). As per the arrangement, the direct broking businesses through the online channel will be transferred to ACL while the assisted broking services offered via authorised participants is to be transferred to ASL by means of a slump sale.

Angel reported a consolidated net profit of Rs. 1,126 crore on NOI of Rs. 3,327 crore in FY2024 compared to Rs. 890 crore and Rs. 2,274 crore, respectively, in FY2023. At the consolidated level, the company's net worth stood at ~Rs. 4,829 crore as on June 30, 2024 on a provisional basis.

Key financial indicators

Angel (consolidated)	FY2023	FY2024	Q1 FY2025
Net operating income	2,273.6	3,326.5	1,110.3
Profit after tax	890.0	1,125.5	292.7
Net worth (including Minority interest)	2,161.6	3,038.6	4,828.7
Total assets	7,477.7	13,253.7	16,955.3
Gearing (times)	0.4	0.8	0.5
Return on average net worth	47.5%	43.3%	29.8%

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. crore)	Sep 24, 2024	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	3,000.00	[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper- yet to be issued	-	-	-	3,000.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership (%)	Consolidation Approach
Angel One Limited	Rated Entity	Full Consolidation
Angel Financial Advisors Private Limited	100.00	
Angel Fincap Private Limited	100.00	
Angel Securities Limited	100.00	
Angel Digitech Services Private Limited	100.00	
Mimansa Software Systems Private Limited	100.00	
Angel One Asset Management Company Limited	100.00	
Angel One Trustee Limited	100.00	
Angel Crest Limited	100.00	
Angel One Wealth Limited	100.00	

Source: Company's annual report FY2024

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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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