

Phillip Finance & Investment Services India Private Limited

April 10, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	50	75	[ICRA]A1; assigned
Total	50	75	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 75 crore (enhanced from Rs. 50 crore) enhanced commercial paper programme of Phillip Finance & Investment Services India Private Limited (PFISIPL)¹.

Rationale

The rating factors in the strong parentage of PFISIPL, being a part of the Singapore based PhillipCapital Group having significant experience in financial services industry and the company's operational linkages with the group by virtue of being a lending arm of the group's broking business housed under Phillip Capital (India) Private Limited (PCPL). The rating also factors in the PFISIPL's adequate capitalization levels for current scale of operations, favourable liquidity profile, and presence of adequate risk management and operational systems. The rating, however, remains constrained by the small size of PFISIPL's loan book and the risks inherent in the asset-class given the dependence on capital market and volatility in the group's primary business of equity broking, which is prone to cyclical downturns. In ICRA's view, going forward, PFISIPL's rating would be sensitive to its ability to scale up business operations while maintaining healthy asset quality and profitability metrics.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Part of the PhillipCapital group of Singapore – PFISIPL is a wholly owned subsidiary of Phillip Mauritius Private Limited and is part of the Singapore based PhillipCapital Group. The company, along with its sister concern of Phillip Capital (India) Private Limited (PCPL), which is engaged in securities broking, forms the India operations of the PhillipCapital Group. The PhillipCapital Group has been operating in the capital markets space since 1975 and has a global footprint, currently operating in 16 countries with asset under management (AUM) in excess of \$30 billion. PCPL and PFISIPL remain strategically important to the group as it marks the group's foray into the India markets with the two businesses being complementary in nature. The companies thus enjoy benefits of managerial oversight and board level supervision from the parent. Presence of a shared brand name also supports ICRA's opinion of their importance to the group.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Operational synergies enjoyed by PFISIPL as the NBFC arm of the broking business – PFISIPL is a sister concern of PCPL and operates as the NBFC arm for the broking operation, providing margin funding to the clients of PCPL. PCPL has been operational in the Indian equity markets for more than a decade and a half and has a strong management team with considerable experience in Indian equity markets. While PCPL extends broking services to both retail and institutional clients, its business remains focussed towards the institutional segment which accounts for 70-80% of its overall volumes. During 9MFY2018 PCPL's broking volumes grew by 35% (absolute) to Rs. 4.45 lakh crore as compared to Rs. 3.52 lakh crore in FY2017 supported by strong growth of 32% (absolute) seen in the institutional broking volumes. PCPL's market share in equity broking was 0.37% in 9MFY2018 (as compared to 0.35% in FY2017). PFISIPL enjoys significant operational synergies with PCPL in terms of shared infrastructure and risk management systems besides ready access to its client network.

Adequate capitalization and liquidity profile – PFISIPL had a book size of ~Rs. 102 crore as on December 31, 2017 as compared to a book size of ~Rs. 119 crore as on March 31, 2017. The company is primarily engaged in offering margin funding and loan against shares services to the broking client of PCPL while it also extends unsecured personal loans (the size of the book however remains very small, <2% of the overall book) to their retail clients. PFISIPL remains adequately capitalized for their scale of operations with a net worth of ~Rs. 32 crore and a gearing of 2.94 times as on December 31, 2017. The liquidity profile of the company remains comfortable with funding lines from NBFC's and track record of raising funds through commercial paper issuances. Going forward, with increase in scale of the retail broking business of PCPL, the size of the lending book of PFISIPL and thus the gearing levels is expected to increase.

Strong risk management system – PFISIPL's has strong risk management systems with the infrastructure shared with PCPL. Till FY2016, the company had traditionally capped the loan to value (LTV) at 70% to be maintained at all times, in line with its internal policies. With the loan-book exceeding Rs. 100 crore, the company is required to adhere to the Reserve Bank of India (RBI) guidelines, which stipulate a maximum LTV of 50% (or security cover of two times). The value of the underlying collateral (includes multiple securities with cap on single scrip concentration) is monitored on real-time basis with margin calls issued to clients in case the internal LTV (which allow for some buffer as compared to the threshold LTV) norms are breached. In case the margin calls are not honoured, PFISIPL squares off the positions to bring the LTV's under 50%.

Credit challenges

Relatively short track record in the lending business with modest scale of operations – PFISIPL has a relatively short track record in the lending business with primary focus on complementing the brokerage operations. The scale of operations for PFISIPL thus remains modest with a book size of Rs. 102 crore as on December 31, 2017 on a net worth of Rs. 32 crore. PFISIPL also introduced a personal loan product in FY2016 however the book size in the segment remains small with no plans of significant ramp up in the near term.

Significant portfolio concentration risk – PFISIPL's portfolio remains concentrated with its top 10 clients accounting for ~65% of the book as on December 31, 2017. The portfolio thus remains vulnerable to asset quality shocks in case of slippage in the larger accounts which would adversely affect their profitability. Concentration risk for the portfolio however gets partly mitigated by availability of adequate share collateral.

Highly dependent on capital markets - Any adverse event in the capital markets could lead to erosion in value of underlying collateral stocks and would lead to loan call backs/squaring-off of positions which would adversely affect the top line for the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

Phillip Finance & Investment Services India Private Limited (PFISIPL) is the NBFC arm of PhillipCapital Group's Indian operations. 75% of PFISIPL is owned by the PhillipCapital Group through one of its subsidiaries, Phillip Brokerage Pte Ltd, while the rest is owned equally by two individuals from PFISIPL's senior management team.

As on December 31, 2017, PFISIPL had a net worth of Rs. 31.68 crore with a gearing of 2.94 times and a loan book of ~Rs. 102 crore. In 9MFY2018, PFISIPL reported a net profit of Rs. 1.35 crore as compared to a net profit of Rs. 1.33 crore in FY2017 and a net profit of Rs. 1.65 crore in FY2016.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating income (includes fee income)	4.61	4.94
Operating expenses	2.19	2.94
Profit before tax	2.42	2.00
Profit after tax	1.65	1.33
Net worth	29.00	30.34
Total managed portfolio	51.41	135.94
Total managed assets	55.21	141.23
Return on average managed assets	1.36%	2.34%
Return on equity	5.86%	4.49%
Gross NPA	0.00%	0.00%
Net NPA	0.00%	0.00%
Gearing (times)	0.84	3.57

Amount is Rs. crore

Source: Company; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Apr 2018	FY2018 Oct 2017	FY2017 Aug 2016	FY2016 Jul 2015
1 Commercial Paper Programme	Short Term	75	-	[ICRA] A1	[ICRA] A1	[ICRA] A1	[ICRA] A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	NA	7-365 days	75	[ICRA]A1

Source: Company

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