

November 27, 2020

PhillipCapital (India) Private Limited: Rating reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Papers	15.00	15.00	[ICRA]A1; reaffirmed
Commercial Papers	35.00	0.00	[ICRA]A1; reaffirmed and withdrawn
Total	50.00	15.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 35 crore CP programme as there is no amount outstanding against this rated instrument. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

While reaffirming the rating, ICRA has taken a consolidated view of PhillipCapital(India) Private Limited (PCPL) and its group company, Phillip Finance & Investment Services India Private Limited (PFISIPL), given the strong linkages between the two entities with a common management and complementary offering portfolio. The entities are together referred to as Phillips Group India (PGI). PGI's broking business is housed under PCPL, while PFISIPL serves as the lending arm and provides loan against shares (LAS) facilities to PCPL's retail clientele.

The rating factors in PGI's experience in capital markets and the securities broking industry, its established position in the institutional segment, and adequate capitalisation profile. The rating factors in the company's parentage, as a part of the Singapore-based Phillip Capital Group, with significant experience in the financial services industry. The rating, however, remains constrained by the modest scale of operations with limited diversification in revenues, subdued yields amid a highly competitive industry and dependence on capital markets, which are inherently volatile in nature. The rating also takes into account the limited of diversification in liability profile and high concentration risk in the lending segment.

Key rating drivers and their description

Credit strengths

Part of PhillipCapital Group of Singapore – PCPL and PFISIPL are a part of the Singapore-based PhillipCapital Group, with Phillip Mauritius Private Limited holding a 75% equity stake in both companies. PhillipCapital Group has been operating in the capital markets space since 1975 and has a global footprint, currently operating in 15 countries with assets under management (AUM) of more than \$47 billion. The Group offers a wide array of financial products and services including broking, unit trusts, contracts for difference, exchange traded funds, fund management, managed accounts, insurance planning, regular savings plans, investment research, equity financing and property consultancy. PCPL is the broking arm of Phillip Capital Group's Indian operations and is engaged in retail and institutional broking, portfolio management services, margin funding and distribution services. PFISPL serves as the lending arm for PGI and complements PCPL's service portfolio by offering LAS facilities and margin funding to PCPL's clients. PFISIPL, thus, enjoys operational synergies with PCPL in terms of a shared infrastructure, besides ready access to the Group's client network

Established position in securities broking with focus on institutional segment – PCPL has been operational in the Indian equity markets for more than 15 years and has considerable experience in this segment. While it extends broking services to both retail and institutional clients, its business remains focused towards the institutional segment, which accounts for more than 80% of its overall volumes. However, the company’s share in overall market volumes is limited at 0.17% as of FY2020. PCPL’s clientele in the institutional segment remains diversified, comprising mutual funds, domestic and global banks and other domestic institutional investors (DIIs) and foreign portfolio investors (FPIs). Considering the volatile nature of the capital markets, the presence of institutional brokerage in the revenue stream tends to reduce the overall fluctuations in brokerage income.

Adequate capitalisation – PGI remains adequately capitalised with a net worth of ~Rs. 382 crore and gearing of 0.33 time as on March 31, 2020. The total borrowings, as of March 31, 2020, stood at Rs. 124.24 crore and were largely used for funding the loan book of PFISIPL. As of March 31, 2020, the gearing of PFISIPL stood at 3.33 times, while PCPL had nil borrowings.

Credit challenges

Modest scale of operations; relatively unseasoned book with high portfolio concentration - PCPL’s average daily turnover (ADTO) increased to Rs. 2,398 crore (YoY) growth of 12%. The company’s growth rate, however, trailed behind the industry (growth of 44%) resulting in a contraction in the market share to 0.17% in FY2020 compared to 0.22% in FY2019. Further, PCPL’s net broking income drove nearly 73% of the NOI in FY2020 over 78% in FY2019. However, the revenue profile of PCPL remains concentrated with broking income and is yet to achieve a meaningful diversification. The Group has a relatively short track record in the lending business. PCPL forayed into margin funding in FY2018, following the introduction of the revised margin funding guidelines by the Securities and Exchange Board of India (SEBI). Its current scale of operations remains limited (margin funding book of ~Rs. 2 crore as on March 31, 2020). PFISIPL commenced lending in FY2008 and the scale of operations remains modest with an external loan book size of ~Rs. 155 crore as on September 30, 2020 (~Rs. 91 crore as on March 31, 2019 on a net worth of ~Rs. 37 crore). Further, the portfolio concentration remained high with the top 10 clients accounting for more than ~80% of the external lending book as of September 30, 2020 (top three clients accounted for more than 70% of the external lending book).

Low diversification in liability profile of the lending segment- PFISIPL primarily relies on commercial papers (CP) for funding its LAS book. The Group typically issues CPs to its client base of high net worth individuals (HNIs). While the borrowing profile remains concentrated, PFISIPL has a demonstrated ability to consistently raise CP at competitive rates. Going forward, the company’s ability to expand its investor base and maintain adequate lines would remain critical.

Highly dependent on capital markets - PGI’s operations are linked to the inherently volatile capital markets. Thus, its revenue profile and profitability remain vulnerable to market performance. ICRA notes that any downturn in the capital markets may impact PGI’s financial performance, as was witnessed during Q4 FY2020. Further, any adverse event in the capital markets could lead to an erosion in the value of the underlying collateral stocks for the lending operations and would result in loan call backs/squaring-off of positions, which would impact the asset quality as well as profitability.

Liquidity position: Adequate

PCPL’s liquidity requirement is primarily for placing margins at the exchanges and growing the margin funding book and managing the accounts receivables. As of October 31, 2020, the company had ~Rs. 379 crore of cash and investments, of which ~Rs. 230 crore was deployed towards the exchange margin requirement. PCPL deployed an average of ~Rs. 878 crore of margins at the exchanges (funded through own and client funds/securities) during April 2020 and October 2020, when margin utilisation ranged between 51% and 67% during the period. As of October 31, 2020, the company had nil fund-based borrowings. Further, the company had Rs. 75 crore of unencumbered cash and bank balance, Rs. 74 crore of

stocks-in-trade and investments as of October 31, 2020, which are sufficient to cover the short-term debt obligations in case the need arises.

PFISIPL funds its loan book through short-term CP borrowings due to the short-term asset maturity profile. As of September 30, 2020, it had total borrowings of ~Rs. 189 crore, which would be due over the next 3-6 months. Free cash and liquid investments of ~Rs. 18 crore as of September 30, 2020, coupled with healthy churning from LAS book provides comfort. The company has also demonstrated decent ability in rolling over the CPs in the past 1-2 years, which provides some comfort.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if there is a significant and sustained improvement in the profitability with a meaningful diversification in the revenue stream while maintaining a comfortable capitalisation profile.

Negative triggers – Pressure on the rating could arise if there is a decline in the profitability of the broking operations (profit before tax to net operating income or PBT/NOI declining below 15%) or a deterioration in the asset quality of the lending business. Material, CP-funded growth in the loan book, without a commensurate increase in the backup credit lines along with significant deterioration in gearing, would be a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of PCPL and PFISIPL

About the company

PhillipCapital (India) Private Limited (PCPL) is the broking arm of Phillip Capital Group's Indian operations. The company is engaged in retail and institutional broking, portfolio management services, margin funding and distribution activities. PhillipCapital Group, which is a Singapore-based diversified financial services provider, holds 75% equity stake in the company, while the balance stakes in PCPL are held by the trustees of PhillipCapital (India) Pvt Ltd Management Employees Trust and others.

Key financial indicators (Audited)

	FY2018	FY2019	FY2020
Net Operating Income	124.22	117.90	127.03
Total Operating Expenses	103.76	103.81	111.10
Profit after Tax	23.55	18.27	22.85
PAT/Net Operating Income	18.96%	15.50%	17.99%
Cost-income ratio	83.53%	88.05%	87.46%
Net Worth	311.75	331.05	344.74
Gearing (times)	0.03	0.11	0.00
Return on Net Worth	7.85%	5.68%	6.76%

Amounts in Rs. Crore; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					Nov-27-2020	Oct-30-2020	Sep-3-2018	-
1	Commercial Paper	Short Term	15.00	0.00*	[ICRA]A1	[ICRA]A1	[ICRA]A1	-

**As of October 31,2020; Amount in Rs. crore*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	NA	15.00	[ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Relationship with rated entity	Consolidation Approach
PhillipCapital (India) Private Limited	Subsidiary of parent	ICRA has taken a consolidated view of PCPL and PFISIPL
Phillip Finance & Investment Services India Private Limited	Subsidiary of parent	

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