

ICICI Securities Primary Dealership Limited

March 20, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,000.00	1,500.00	[ICRA]A1+; Reaffirmed
Total	1,000.00	1,500.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) on the commercial paper (CP) programme of ICICI Securities Primary Dealership Limited (I-Sec PD)¹, for an enhanced amount of Rs. 1,500 crore² from Rs. 1,000 crore.

The rating continues to factor in I-Sec PD's adequate risk management policies and internal prudential norms, which mitigate the market risks, as well as the strong net worth which aids the capitalisation profile. The rating further considers the strong parentage in the form of ICICI Bank (rated [ICRA]AAA(Stable)/[ICRA]A1+) and the financial and managerial support received from the bank. Further, the company's liquidity position is comfortable, as reflected by the high share of liquid government securities (G-Secs) in the total assets and access to call money and repo borrowings. In addition to this, the liquidity support from the Reserve Bank of India (RBI) in the form of a liquidity adjustment facility (LAF) and standing liquidity facility (SLF) adds to the liquidity comfort.

ICRA notes that while I-Sec PD's earnings profile is more diversified compared to its peers, it remains constrained by its susceptibility to interest rate movements. Moreover, the company's leverage has been traditionally higher than its peers, which increases its vulnerability to market risks. However, a comfortable liquidity profile with a large share of portfolio invested in G-Secs, coupled with a sizeable net worth, provides comfort in this respect. Going forward, I-Sec PD's ability to withstand the increased volatility in interest rates while adhering to its internal risk management policies, continued linkages with its parent and ability to withstand any regulatory changes for primary dealers (PDs) will remain key rating monitorables.

Key rating drivers

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, who is the Head of Market & Proprietary Trading and Group Executive at ICICI Bank. The company has an unsecured intraday facility from ICICI Bank, which can be used for intraday liquidity requirements as required. Moreover, given the shared brand name, ICRA expects I-Sec PD to receive capital support from ICICI Bank, if

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

² 100 lakh = 1 crore = 10 million

required. Adhering to the operational guidelines set by the RBI, I-Sec PD achieved a success ratio³ of 45.56% in the treasury bills (T-bills) market in H1 FY2019 and 41.58% in H2 FY2019 (October-December 2018), above the regulatory requirement of 40%. I-Sec PD achieved a turnover ratio⁴ of 416 times (229 in FY2018) for dated G-Secs in FY2019 (for the period April 2018 - December 2018), above the regulatory requirement of 5 times.

Large net worth aids strong capital profile – I-Sec PD’s capital profile remains strong with a capital to risk-weighted asset ratio (CRAR) of 23.81% as on December 31, 2018 (as per PD criteria), above the regulatory minimum of 15%. Being a PD, the underwriting and trading of G-Secs constitute the company’s core activity, thereby subjecting its profitability and capital profile to market risks arising out of interest rate movements. In this respect, a sizeable net worth of Rs. 999 crore, as on December 31, 2018, provides a comfortable cushion against adverse interest rate movements. As on December 31, 2018, I-Sec PD had a price value of basis point (PVB⁵) of less than 30 bps of the net worth, indicating adequate ability to absorb large adverse movements in interest rates. As per ICRA’s assessment, such sizeable net worth also provides sufficient headroom for the company to maintain CRAR above the regulatory requirement. The company has a board-approved value at risk (VaR) limit for its consolidated fixed income portfolio and the 1-day VaR in FY2018 and 9M FY2019 was always below this limit.

Adequate internal prudential norms and risk management systems – Being a PD, I-Sec PD faces significant risks because of adverse interest rate movements as well as exposure to credit risks associated with non-SLR debt instruments. In this regard, prudent risk management policies and adherence to the same are critical for a PD. ICRA takes comfort from the adequate risk management policies approved by the company’s risk management committee, comprising members from the board, with well-defined limits for various exposures and loss mitigation measures. 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. On an average, AAA rated entities accounted for ~90% of the total non-SLR portfolio in 9M FY2019. Although the leverage level maintained by the company is higher than that of its peers, ICRA notes that it has been consistently maintained within the board-approved leverage limit.

Diversified revenue stream – Compared to some other PDs, I-Sec PD has a more diversified revenue stream, which partly mitigates volatility in profitability in an adverse interest rate scenario. The company has diversified into other non-core businesses allowed for PDs and provides debt capital market (DCM) and portfolio management services. Apart from interest income and trading profits, a substantial portion of its income is derived from debt syndication (Rs. 48 crore in FY2018 and Rs. 47 crore in FY2017).

Large portfolio of G-Secs and access to short-term funds provide liquidity comfort – Being a PD, the company is required to maintain at least 50% of its total financial investments in G-Secs at any point in time. Against this, I-Sec PD’s investment in G-Secs accounted for ~79% of its total financial investments as on December 31, 2018 (~87% as on June 30, 2018). Apart from maintaining a large stock of liquid investments, the company’s access to the money market for call and repo borrowings and to the RBI’s LAF provide further liquidity comfort.

Credit challenges

Higher leverage compared to peers – I-Sec PD had a daily average leverage of 13.65 times in FY2018 (14.19 times in FY2017). This is relatively high compared to other standalone PDs, which had an average leverage of 4.12–13.46 times in

³ Success ratio - Bids accepted/Bidding commitment

⁴ Turnover ratio - Total purchase and sales during the year in the secondary market / Average month-end stocks

⁵ PVB⁵ measures the gain/loss on the entire portfolio for a 1 basis point (0.01%) movement in interest rate

FY2018. The company's average leverage in 9M FY2019 increased to 16.58 times as the borrowings increased on a daily average basis. This increases its vulnerability to large adverse movements in interest rates. Nonetheless, a significant proportion of liquid Government debt securities, active portfolio management, and adherence to risk management limits are some risk mitigants.

Profitability susceptible to volatility arising from interest rate movements – As mentioned earlier, being a PD, I-Sec PD's earnings profile is susceptible to market risks. As the underwriting and trading of G-Secs constitute its core business activity, rising interest rates tend to adversely affect the revenue stream, and consequently, the reported profit after tax (PAT). After rising sharply in H1 FY2019, as yields softened in Q3 FY2019, I-Sec PD's trading loss remained limited at Rs. 45 crore for 9M FY2019, with reported total comprehensive income after tax for 9M FY2019 of Rs. 54 crore. ICRA, therefore, believes that the company's earnings will continue to be susceptible to interest rate movements, given the inherent nature of the PD business. With sufficient net worth, I-Sec PD has maintained a high dividend payout ratio with 70% of its profits paid out as dividends in FY2018.

Regulatory framework for PDs – The RBI is the regulatory authority for PDs and has prescribed operational guidelines for underwriting commitments for G-Secs and T-bills, the achievement of minimum turnover ratios and funding support in the form of LAF. Any significant change in the regulatory framework for PDs, which adversely impacts the company's operational and financial profile, would be a key rating sensitivity.

Liquidity position

I-Sec PD has a large portfolio of highly liquid Government securities (G-Secs, state development loans (SDLs) and GoI T-bills). As on December 31, 2018, the company's investment in G-Secs accounted for ~79% (Rs. 9,939 crore) of its total financial investments. On a daily average basis, G-Secs accounted for ~83% of the company's average total investments in 9M FY2019 with non-SLR investments accounting for another ~12%. The majority of the non-SLR securities are also maintained in highly liquid securities and are partly funded through long-term sources. This ensures that liabilities arising out of other short-term borrowings can be met without any liquidity risks. For non-SLR investments of Rs. 2,629 crore as on December 31, 2018, the borrowings from short-term sources⁶ that are eligible for funding non-SLR investments stood at ~Rs. 2,400 crore. With the funds parked in highly liquid investments, I-Sec PD's overall liquidity remains strong. The liquidity is also supported by the company's access to the money market for call and repo borrowings, in addition to the RBI's LAF. Moreover, I-Sec PD has an unsecured intraday facility from its parent, ICICI Bank, which provides further liquidity comfort.

Analytical approach

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 Limited, given the shared brand name, financial linkages and management support
Standalone	Standalone

⁶ Such as commercial paper, inter-corporate deposits, term money and call money (a PD can use call money up to 50% of net owned funds for non-SLR investments)

About the company

ICICI Securities Primary Dealership Limited is one of the seven standalone primary dealers in India. The Mumbai-based company, which was incorporated in 1993, is a wholly-owned subsidiary of ICICI Bank. It trades in Government securities, swaps, and corporate bond markets. I-Sec PD also offers 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 the largest fund manager, in terms of assets under management (AUM), among all standalone PDs in India. It is a SEBI-registered portfolio manager and provides both discretionary and advisory services to its clients. It provides services to various large provident, pension and gratuity funds in the country.

The company reported total comprehensive income of Rs. 54 crore on total income of Rs. 893 crore in 9M FY2019 against total comprehensive income of Rs. 57 crore on total income of Rs. 801 crore in 9M FY2018. I-Sec PD achieved a success ratio of 45.56% in the T-bills market in H1 FY2019 and 41.58% in H2 FY2019 (October-December 2018), above the regulatory requirement of 40%. In 9M FY2019, the company had a turnover ratio of 416 times (229 in FY2018) for dated G-Secs, above the regulatory requirement of 5 times.

Key financial indicators (audited)

	FY2017	FY2018	9M FY2018	9M FY2019
Gross Interest Income	1,04	1,034	783	904
Trading Profits	519	-30	-22	-45
Income from Services & Other Income	60	67	40	34
Finance Cost	866	824	628	730
Operating Costs	127	116	86	79
Profit before Tax	634	131	88	84
Profit after Tax (PAT)	412	84	57	54
Net Worth	944	963	981	999
Borrowings	9,884	15,540	13,461	13,937
Stock-in-Trade	9,335	15,137	13,877	12,568
Total Assets	13,170	17,225	15,807	15,102
PAT/ATA	2.84%	0.55%	0.39%	0.24%
PAT/Net Worth (RoNW)	43.62%	8.72%	5.92	5.54%
Leverage Ratio (average)	14.19	13.65	13.72	16.58

Amounts in Rs. crore

Source: I-Sec PD, ICRA research

Note: FY2018, 9M FY2018 and 9M FY2019 figures as per IND-AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				March 2019	Sept 2018			
Commercial Paper	ST	1,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; Assigned	-	-

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	NA	NA	7-365 days	1,500.00	[ICRA]A1+

Source: ICRA, ICICI Securities Primary Dealership Limited

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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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