November 21, 2022

PhillipCapital (India) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	15	15	[ICRA]A1; reaffirmed
Total	**15**	**15**	

**Instrument details are provided in Annexure I*

Rationale

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 linkages between the two companies with a common management and complementary product portfolios. PCPL is primarily engaged in securities broking while PFISIPL serves as the lending arm and provides loan against shares (LAS) facilities to PCPL's retail clientele. The two companies are together referred to as the Phillips Group India (PGI) or the Group hereafter.

The rating factors in PGI's experience in capital markets and the securities broking industry, its established position in the institutional segment, and the benefits accruing by virtue of being a part of the Singapore-based PhillipCapital Group, which has significant experience in the financial services industry. The rating also considers PGI's adequate earnings profile. Supported by industry tailwinds in the past two years, the Group reported a strong growth in its net operating income (NOI). On the back of this, it reported profit after tax (PAT)/NOI of 32% and a return on equity (RoE) of 16% in FY2022. However, with the dampening of investor sentiments, the performance moderated in H1 FY2023, even though the Group's financial profile remains characterised by adequate consolidated capitalisation, profitability, and liquidity.

The rating, however, remains constrained by the modest scale of operations with limited diversification in revenues and high dependence on capital markets, which are inherently volatile in nature. The rating also factors in the exposure to credit and market risks, given the nature of the underlying assets (LAS accounts for a predominant share of the portfolio), and the concentrated resource profile.

Key rating drivers and their description

Credit strengths

Part of PhillipCapital Group – 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. The PhillipCapital Group has a global footprint and has been operating in capital markets since 1975. It offers an array of financial products and services including broking, exchange traded funds, fund management, insurance planning, regular savings plans, investment research, equity financing, and property consultancy.

PCPL is the broking arm of the PhillipCapital Group's Indian operations and is engaged in retail and institutional broking, portfolio management services, margin funding, clearing services and wealth distribution services. PFISIPL serves as the lending arm for PGI and complements PCPL's service portfolio by offering LAS facilities to its retail client base. Thus, PFISIPL enjoys operational synergies with PCPL in terms of a shared infrastructure along with ready access to the Group's client network.

Track record in securities broking with focus on institutional segment – PCPL has been operational in the Indian equity markets for more than 15 years. While it extends broking services to both retail and institutional clients, its business remains focused on the institutional segment, which accounted for ~49% of its NOI in FY2022 (83% of broking income). PCPL's clientele in the institutional segment remains diversified, comprising mutual funds, domestic and global banks, other domestic institutional investors (DIIs) and foreign portfolio investors (FPIs). In the past few years, the company has strengthened its focus on offering clearing services to FPIs, which has helped support its position in the institutional segment. Furthermore, the company derives interest income on the average float received from FPIs in this business.

Adequate profitability – PGI witnessed an improvement in its profitability in recent years, supported by the steady performance of the core operations with increased economies of scale. The improvement in the trajectory continued in FY2022 and the company achieved its best-ever profitability in FY2022. It reported a net profit of Rs. 75.7 crore, up 45% year-on-year (YoY), and PAT/NOI of 32.0% (29.4% in FY2021). However, with the decline in the high-yielding cash broking volume and the LAS book and the increase in the margin placement requirement on stock exchanges, PGI reported an overall moderation in its performance. However, the same remains adequate with a profit before tax (PBT) of Rs. 24.2 crore on a provisional basis in H1 FY2023.

Credit challenges

Modest scale of operations – PGI primarily offers broking services to institutional clients with this segment accounting for ~80% of its overall broking volume in FY2022. Supported by industry tailwinds, the Group's average daily turnover (ADTO) increased at a compound annual growth rate (CAGR) of 27% in the past two years to Rs. 3,835 crore in FY2022. However, PCPL's institutional ADTO growth lagged the industry institutional segment's turnover growth, resulting in a shrinkage in its market share in turnover to 0.50% in FY2022 from 0.71% in FY2020. Additionally, the Group's market share in retail broking remains marginal with a market share of 0.03% of the turnover in FY2022. Further, the share of income from margin trade funding and distribution remains modest in the NOI.

PGI is also engaged in the funding business through PFISIPL, which had a loan book (LAS) of Rs. 187 crore as of September 30, 2022. The loan book has declined compared to past periods without a corresponding decrease in borrowings, thereby resulting in a moderation in the net interest income (NII). The borrowings have not declined as a part of the funding is now required for working capital requirements in the broking operations of PCPL. PFISIPL's borrowing mix remains concentrated towards commercial paper borrowings with the top 5 investors accounting for 60% of the overall borrowings as of September 30, 2022. Going forward, PFISIPL's ability to grow its broking volumes and loan book, diversify its investor base and raise funds at competitive rates would remain critical for its profitability.

Exposure to market and credit risks in the lending business – PFISIPL's loan book primarily comprises LAS, which accounted for ~97% of the loan book as of September 30, 2022. Thus, it remains exposed to credit and market risks, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral stocks. It is, however, noted that PGI has reported satisfactory asset quality in recent years.

High dependence 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. Furthermore, PGI's revenue profile remains concentrated with broking income accounting for 73% of NOI in FY2022. Any adverse event in the capital markets could lead to a sharp erosion in the value of the underlying collateral stocks for the lending operations and 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 managing the working capital requirements in the debt instrument facilitation business and the receivables in the broking business. It deployed an average margin of ~Rs. 1,061 crore at the exchanges (funded through own and client funds/securities) between January 2022 and September 2022. While the average margin utilisation (day-end basis) stood at 31%, the peak margin requirements are relatively higher due to the intraday turnover requirements. As on September 30, 2022, PCPL had Rs. 54 crore of unencumbered cash and bank balances and Rs. 10 crore of liquid investments against nil fund-based borrowings.

As on September 30, 2022, PFISIPL borrowings comprising from related parties and commercial paper (CP) stood at Rs. 231 crore with CP repayment obligations, till March 2023, of Rs. 184 crore. Against this, it had an unencumbered cash and bank balance of Rs. 22 crore, undrawn bank lines of Rs. 5 crore and liquid investments of Rs. 9 crore. Apart from this, PFISIPL has loan assets, which may be liquidated at short notice.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the Group is able to scale up its operations and diversify its revenue stream while maintaining healthy profitability and a comfortable capitalisation profile.

Negative factors – Pressure on the rating could arise if there is a sustained decline in the profitability of the broking operations (PBT/NOI declining below 15%) or a deterioration in the asset quality of the lending business.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Broking Industry Consolidation and Rating Approach Rating Methodology for Non-banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of PhillipCapital (India) Private Limited (PCPL), its subsidiaries and Phillip Finance & Investment Services India Private Limited (PFISIPL), given the linkage between the two companies with a common management and complementary product portfolios.

About the company

PhillipCapital (India) Private Limited

PCPL is the broking arm of the PhillipCapital Group's Indian operations. It is engaged in retail and institutional broking, portfolio management services, margin funding and distribution activities. The Singapore-based PhillipCapital Group is a diversified financial services provider, which holds a 75% equity stake in the company, while the balance is held by the trustees of PhillipCapital (India) Private Limited Management Employees Trust and others. In FY2022, PCPL reported a net profit of Rs. 66.2 crore on NOI of Rs. 220.7 crore and net worth (ex-minority interest) of Rs. 441.8 crore.

Phillip Finance & Investment Services India Private Limited

PFISIPL is the lending arm of the PhillipCapital Group's Indian operations. PFISIPL is registered as a non-banking financial company with the Reserve Bank of India (RBI) and provides LAS. The Group holds an equity stake of 75% in the company through one of its subsidiaries, Phillip Brokerage Pte Ltd., while the balance is owned equally by two individuals from PFISIPL's senior management team. In FY2022, PFISIPL reported a net profit of Rs. 9.5 crore on operating income of Rs. 16.1 crore and net worth of Rs. 53.4 crore.

Key financial indicators

PCPL (Consolidated)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22
Net broking income	91.5	108.9	141.0
Net interest income	29.0	27.4	34.2
Other non-interest income	10.8	30.4	45.5
Net operating income	131.3	166.7	220.7
Total operating expenses	119.8	139.9	165.2
Non-operating income	20.3	43.5	32.5
Profit before tax	30.8	63.7	88.0
Profit after tax	23.5	45.2	66.2
Profit after tax/Net operating income	17.9%	27.1%	30.0%
Cost-income ratio	91.2%	83.9%	74.8%
Net worth (ex-minority interest)	331.9	376.9	441.8
Gearing (times)	0.00	0.00	0.00

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PGI (consolidated)	FY2020/Mar-20	FY2021/Mar-21	FY2022/Mar-22
Net broking income	91.5	108.9	141.0
Net interest income	32.7	32.3	41.2
Other non-interest income	11.6	36.1	54.6
Net operating income	135.9	177.3	236.9
Total operating expenses	124.1	144.8	170.1
Non-operating income	24.6	47.7	34.4
Profit before tax	35.2	72.9	101.3
Profit after tax	26.8	52.1	75.7
Profit after tax/Net operating income	19.8%	29.4%	32.0%
Cost-income ratio	91.3%	81.7%	71.8%
Net worth (ex-minority interest)	369.0	420.8	495.3
Gearing (times)	0.34	0.64	0.31

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

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 21, 2022	Nov 25, 2021	Nov 27, 2020	Oct 30, 2019
1	**Commercial paper**	Short term	15.00	0.00*	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

*Source: Company; *As of October 31, 2022*

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
Yet to be placed	Commercial paper	NA	NA	NA	15.00	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PhillipCapital (India) Private Limited (PCPL)	Rated Entity	Full Consolidation
Phillip Commodities India Private Limited	100% Subsidiary	
PhillipCapital (DIFC) Private Limited	100% Subsidiary	
Phillip Ventures IFSC Private Limited	100% Subsidiary	
Phillip Finance & Investment Services India Private Limited (PFISIPL)	Fellow Subsidiary	

Source: Company

ANALYST CONTACTS

Mr. Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Mr. Deep Inder Singh
+91 124 4545830
deep.singh@icraindia.com

Mr. Subhrajyoti Mohapatra
+91 22 6114 3463
subhrajyoti.mohapatra@icraindia.com

Ms. Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches