November 27, 2023

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), its subsidiaries and its Group company, Phillip Finance & Investment Services India Private Limited (PFISIPL), given the linkages between the 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 share (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 continues to factor 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 Phillip Group, which has significant experience in the financial services industry. Besides broking income, the Group's revenue profile remains supported by interest income, fee income and capital gains from the investment-cum-trading book. PGI's profitability remains adequate with an average return on equity (RoE) of 11.8% in the last four years (FY2020 to FY2023). The rating also factors in the Group's adequate capitalisation and liquidity profile.

The rating, however, remains constrained by the modest scale of operations and high dependence on capital markets, which are inherently volatile in nature. It 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 Phillip Group, with Phillip (Mauritius) Private Limited holding a 75% equity stake in both companies. The Phillip 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 Phillip Group's Indian operations and is engaged in institutional and retail broking, portfolio management services, margin funding, clearing services and wealth distribution services. PFISIPL serves as the lending arm of 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 ~48% of its net operating income (NOI)[1] in FY2023 (67% of gross broking income). PCPL's clientele in the institutional segment remains diversified, comprising mutual funds, domestic and

[1] *Excluding trading income and fair value gains/losses*

global banks, other domestic institutional investors (DIIs) and foreign portfolio investors (FPIs). The Group also offers clearing services to its institutional clients, though the number of such clients remains modest at present. Further, the company derives interest income on the float received from FPIs in this business.

Adequate profitability and capitalisation – PGI has maintained an adequate profitability trajectory with a 4-year average RoE of 11.8% during FY2020-FY2023. After a record performance in FY2021 and FY2022, the company witnessed some moderation in FY2023 in the backdrop of geopolitical tensions and higher inflation and commodity prices. The trend continued in Q1 FY2024 with a modest recovery in Q2 FY2024. Nevertheless, the overall performance remained adequate with a profit before tax (PBT) of Rs. 75 crore and RoE of 10.3% in FY2023 compared to Rs. 101 crore and 16.3%, respectively, in FY2022. ICRA estimates PGI's PBT for 5M FY2024 at Rs. 23 crore. While broking fees remain the largest contributor to the Group's revenue, support is derived from interest income, fee income and capital gains/fair valuation gains in the trading and investment book.

The Group's capitalisation profile remains adequate with a net worth of Rs. 568 crore as of March 31, 2023 and a gearing of 0.3 times. While the incremental growth in operations will be largely debt funded, the management plans to have a calibrated growth in its lending business. Thus, the gearing is expected to remain sub-1 times in the medium term.

Credit challenges

Modest scale of operations – PGI primarily offers broking services to institutional clients with this segment accounting for ~84% of its overall equity broking volume in FY2023. After growing by 40% in FY2022, the average daily turnover (ADTO) declined by 13% in FY2023. The contraction in trading volumes was higher than the industry average, resulting in a decline in PGI's market share. As of March 31, 2023, PGI's market share (basis turnover excluding proprietary trades) was 0.02% vis-à-vis 0.05% in FY2022 and remained unchanged in 5M FY2024. Further, the size of the margin trade funding book remained modest at Rs. 27 crore as of August 2023. The Group's wealth distribution assets under management (AUM) continues to be small.

PGI is also engaged in the lending business through PFISIPL, which had a loan book (LAS) of Rs. 197 crore as of August 31, 2023. PFISIPL's LAS book has shrunk compared to past periods without a corresponding decline in borrowings as related-party advances have increased to meet the working capital requirements of PCPL's broking operations. PFISIPL's borrowing mix remains concentrated towards commercial paper (CP) with the top 5 investors (typically high net worth individuals) accounting for 85% of the overall borrowings as of August 31, 2023. 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.

High dependence on capital markets and exposure to market and credit risks in the lending business – PGI's operations are linked to the inherently volatile capital markets. Thus, its revenue profile and profitability remain vulnerable to market performance. Further, PGI's revenue profile remains concentrated with broking income accounting for 55-70% of the NOI[2]. Moreover, PFISIPL's loan book primarily comprises LAS, which accounted for ~96% of the loan book as of August 31, 2023. The concentration risk in the lending business remains high with top-10 clients accounting for 74% of the loan book as of August 31, 2023. It also 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. While it is noted that PGI has reported satisfactory asset quality in recent years, a sharp erosion in the value of the underlying collateral stocks can result in loan call-backs/squaring off of positions, which would impact the asset quality as well as profitability. Further, an adverse event in the capital markets and/or increase in systemic rates can lead to an erosion in the value of the trading and investment book, thus impacting the Group's profitability.

Liquidity position: Adequate

PCPL's funding requirement is primarily for placing margins at the exchanges, besides meeting the working capital requirements of its debt facilitation business and the receivables in the broking business. PCPL deployed an average margin of

[2] *Excluding trading income and fair value gains/losses*

~Rs. 925 crore at the exchanges (funded through own and client funds/securities) between March 2023 and August 2023. While the average margin utilisation (day-end basis) stood at 26%, the peak margin requirements are relatively higher due to the intraday turnover requirements. As on August 31, 2023, PCPL had an unencumbered cash and bank balance of Rs. 14 crore, liquid investments of Rs. 23 crore and sanctioned and unutilised fund-based borrowings of Rs. 140 crore against nil fund-based borrowings.

As on August 31, 2023, PFISIPL's borrowings from related parties and CP stood at Rs. 216 crore with CP repayment obligations of Rs. 151 crore. Against this, it had an unencumbered cash and bank balance of Rs. 29 crore, undrawn bank lines of Rs. 5 crore and liquid investments of Rs. 12 crore.

Rating sensitivities

Positive factors – The Group's ability to scale up the operations and diversify its revenue stream while improving profitability and maintaining a comfortable capitalisation profile will be credit positives.

Negative factors – A sustained decline in the profitability of the broking operations (PAT/NOI declining below 12%) or a deterioration in the asset quality of the lending business will be credit negatives.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in Broking Industry Rating Methodology for Non-banking Finance Companies Consolidation and Rating Approach
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 Singapore-based Phillip Group's Indian operations. It is engaged in retail and institutional broking, portfolio management services, margin funding and distribution activities. The Singapore-based Phillip Group is a diversified financial services provider, which holds a 75% equity stake in the company through its subsidiary Phillip (Mauritius) Private Limited, while the balance is held by the trustees of PhillipCapital (India) Private Limited Management Employees Trust and others. PCPL reported a net profit of Rs. 47 crore in FY2023 on NOI of Rs. 206 crore and net worth (including minority interest) of Rs. 507 crore.

Phillip Finance & Investment Services India Private Limited

PFISIPL is the lending arm of the Singapore-based Phillip Group's Indian operations. It is registered as a non-banking financial company with the Reserve Bank of India (RBI) and primarily provides LAS. The Singapore-based Phillip Group holds a 75% equity stake in the company through its subsidiary Phillip (Mauritius) Private Limited, while the balance is owned equally by two individuals from PFISIPL's senior management team. PFISIPL reported a net profit of Rs. 8 crore in FY2023 on total income of Rs. 34 crore and net worth of Rs. 62 crore.

Key financial indicators

PCPL (consolidated)	FY2021/Mar-21	FY2022/Mar-22	FY2023/Mar-23
Net broking income	109	141	118
Net interest income	27	34	35
Other fee income	30	41	31
Other operating income	1	4	22
Net operating income	167	221	206
Non-operating income	44	33	23
Total operating expenses	140	165	165
Profit before tax	64	88	64
Profit after tax	45	66	47
Net worth	380	451	507
Borrowings	1	1	31
Profit after tax/Net operating income	27.1%	30.0%	22.8%
Profit after tax/(Net operating income + Non-operating income)	21.5%	26.2%	20.5%
Return on net worth	12.7%	15.9%	9.8%
Cost-income ratio (Total operating expenses/Net operating income)	83.9%	74.8%	80.3%
Gearing (times)	0.0	0.0	0.1

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

PGI (consolidated)	FY2021/Mar-21	FY2022/Mar-22	FY2023/Mar-23
Net broking income	109	141	118
Net interest income	32	41	41
Other fee income	34	50	34
Other operating income	1	5	23
Net operating income	177	237	217
Non-operating income	48	34	29
Total operating expenses	145	170	171
Profit before tax	73	101	75
Profit after tax	52	76	55
Net worth	424	504	568
Borrowings	270	154	176
Profit after tax/Net operating income	29.4%	32.0%	25.4%
Profit after tax/(Net operating income + Non-operating income)	23.1%	27.9%	22.4%
Return on net worth	13.1%	16.3%	10.3%
Cost-income ratio (Total operating expenses/Net operating income)	82.0%	71.8%	79.1%
Gearing (times)	0.6	0.3	0.3

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 (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Nov 27, 2023	Nov 21, 2022	Nov 25, 2021	Nov 27, 2020
1	**Commercial paper**	Short term	15.0	0.0*	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

*Source: Company; *As of October 31, 2023*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial paper	Very Simple*

**Subject to change based on terms of issuance*

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	7-365	15.00	[ICRA]A1

*Source: Company; *Proposed*

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 Services India Private Limited	49% Subsidiary	
Phillip Finance & Investment Services India Private Limited (PFISIPL)	Fellow Subsidiary	

Source: Company

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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.

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