

November 27, 2024

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 Phillip 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 derived as it is 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 gains from the bond warehousing and investment-cum-trading book. PGI's profitability remains adequate with an average return on equity (RoE) of 14.4% in the last four years (FY2021 to FY2024). The rating also considers 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 ~41% of its net operating income (NOI)¹ in FY2024 (60% of gross 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). The Group also offers clearing

¹ Excluding proprietary trading income, dividend income and other non-operating income

services to its institutional clients, though the number of such clients remains modest at present. It 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 14.4% during FY2021-FY2024. Favourable capital market sentiments boosted its performance across segments in FY2024. Growth was driven by higher brokerage as well as interest income (from float, margin trading facility (MTF), and LAS) along with increased income from the bond warehousing business. As a result, PGI's core operating performance saw a marked improvement with the net operating profit rising to Rs. 126 crore in FY2024 from Rs. 56 crore in FY2023. Meanwhile, non-operating income, which includes proprietary trading income, remained stable over the year. Driven by buoyant capital markets, PGI established a new high on the profitability front in FY2024 with its highest-ever profit after tax (PAT) of Rs. 112 crore, PAT/NOI of 33.1% and RoE of 17.9% compared to Rs. 55 crore, 24.2% and 10.3%, respectively, in FY2023.

The Group's capitalisation profile remains adequate for the current scale of operations with a net worth of Rs. 681 crore as on March 31, 2024 and a gearing of 0.4 times. The modest scale of the lending business limits PGI's borrowing requirement. Nevertheless, it needs borrowings for meeting its working capital requirements and for scaling up the MTF book and the bond warehousing business. The current capitalisation profile provides headroom for additional borrowings to support near and medium-term growth. While ICRA expects incremental growth to be largely debt funded, the gearing is expected to remain below 1.0 times in the near 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 and 66% of the overall equity broking income in FY2024. After moderating in FY2023, amid industry tailwinds, the Group's average daily turnover (ADTO) increased by 28% YoY in FY2024, registering a new high compared to the previously recorded all-time high in FY2022. As on March 31, 2024 and August 31, 2024, PGI's market share (basis turnover excluding proprietary trades) in the cash segment remained stable at 1.0% and 0.9%, respectively, compared to 1.0% in FY2023. As on August 31, 2024, the scale of the MTF book remained modest at Rs. 47 crore (Rs. 37 crore as on March 31, 2024, Rs. 18 crore as on March 31, 2023). The Group's wealth distribution assets under management (AUM) remains marginal.

PGI is also engaged in the lending business through PFISIP, which had an external loan book (LAS) of Rs. 74 crore as on August 31, 2024. PFISIP'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. PFISIP's borrowing mix remains concentrated towards a few commercial paper (CP) investors (typically high-net-worth individuals). Going forward, PFISIP'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 50-60% of the NOI. Moreover, PFISIP's loan book primarily comprises LAS, which accounted for ~90% of the loan book (excluding related-party loans) as on August 31, 2024. The concentration risk in the lending business remains high with the top 10 clients accounting for 76% of the loan book (excluding related-party loans) as on August 31, 2024. 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 an increase in systemic rates can lead to an erosion in the value of the trading and investment book, impacting the Group's profitability.

Liquidity position: Adequate

PCPL's liquidity requirement is primarily for placing margins at the exchanges. It also requires funds for meeting working capital requirements for its bond warehousing business and receivables in the broking business. PCPL deployed an average margin of ~Rs. 1,181 crore at the exchanges (funded through own and client funds/securities) between April 2023 and October 2024. While the average margin utilisation (day-end basis) stood at 31%, the peak margin requirement is relatively higher during the day. As per the management, the intraday margin utilisation peaks at ~80% on expiry days, wherein the margin placed is also supported by intraday lines. PCPL enjoys intraday sanctions of Rs. 450 crore for meeting the intraday margin requirement. As on October 31, 2024, it had an unencumbered cash and bank balance of Rs. 18 crore and sanctioned but unutilised and drawable fund-based borrowings of Rs. 141 crore compared to outstanding borrowings of Rs. 110 crore (primarily from PFISIPL).

Additionally, as far as PFISIPL is concerned, its money market borrowings aggregated Rs. 144 crore as on October 31, 2024 with CP repayment obligations of Rs. 79 crore over the next six months (November 2024 – April 2025). Against this, it had an unencumbered cash and bank balance of Rs. 18 crore. PFISIPL's liquidity profile is also supported by the callable nature of the LAS facilities, which stood at Rs. 74 crore.

Rating sensitivities

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

Negative factors – A decline in PGI's profitability (profit before tax (PBT)/NOI declining below 20%) or a deterioration in the asset quality of the lending business on a sustained basis will be a negative for the credit profile. Moreover, a deterioration in the capitalisation profile with a material increase in leverage will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & allied services Non-banking finance companies (NBFCs)
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of PCPL, its subsidiaries and PFISIPL, given the linkage between the two companies with a common management and complementary product portfolios.

About the company

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 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. 102 crore in FY2024 on NOI of Rs. 320 crore and net worth (including minority interest) of Rs. 609 crore as on March 31, 2024.

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 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. 10 crore in FY2024 on total income of Rs. 40 crore and net worth of Rs. 72 crore as on March 31, 2024.

Key financial indicators

PCPL (consolidated)	FY2023	FY2024
Net operating income (NOI)	213	320
Profit after tax (PAT)	47	102
Net worth	507	609
Total assets	1,259	1,925
Gearing (times)	0.1	0.3
Return on net worth	9.8%	18.2%
PAT/NOI	22.0%	31.7%

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

PGI (consolidated)	FY2023	FY2024
Net operating income (NOI)	227	338
Profit after tax (PAT)	55	112
Net worth	568	681
Total assets	1,470	2,119
Gearing (times)	0.3	0.4
Return on net worth	10.3%	17.9%
PAT/NOI	24.2%	33.1%

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 (FY2025)			Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025 Nov 27, 2024	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Nov 27, 2023	Nov 21, 2022	Nov 25, 2021
1 Commercial paper	Short term	15.0	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Source: Company

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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