

## Rating Rationale

December 14, 2023 | Mumbai

### IIFL Securities Limited

Rating Reaffirmed

#### Rating Action

<b>Rs.1050 Crore Commercial Paper</b>	<b>CRISIL A1+ (Reaffirmed)</b>
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*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the commercial paper programme of IIFL Securities Limited (IIFL Securities).

The rating continues to reflect the strong market position of IIFL Securities in the broking and investment banking businesses and its adequate capitalisation. These strengths are partially offset by exposure to uncertainties inherent in capital market-related businesses.

The company onboarded 1 lakh customers in first half of fiscal 2024 and has served around 30 lakh customers, out of which 4.23 lakh customers were active in September 2023. Market share has remained at ~1% overall, and 2.8% in the cash segment. Average daily turnover increased to Rs 1.54 lakh crore for fiscal 2023 as compared to Rs 0.79 lakh crore in fiscal 2022 and further saw an increase to Rs 2.41 lakh crore in first half of fiscal 2024, in line with industry trends.

#### Analytical Approach

For arriving at the rating, CRISIL Ratings has combined the business and financial risk profiles of IIFL Securities and its subsidiaries. The rating also factors in the business synergies between IIFL Securities Ltd (IIFL Securities), IIFL Finance Ltd (IIFL Finance) and 360 One Wam Ltd (360 One), given their common promoters and shared brand.

*Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidated on.*

## **Key Rating Drivers & Detailed Description**

### **Strengths:**

#### **Strong market position in the retail broking and investment banking businesses**

IIFL Securities is primarily into broking and allied activities (70% of total income), financial product distribution (18%) and investment banking (9%). It is one of the leading players in the retail broking segment. The company has pan-India presence with more than 4.23 lakh active clients as on September 30, 2023. It had market share of 1% of the aggregate turnover volume (cash and derivatives segments) of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) during first half of fiscal 2024 and fiscal 2023. It also provides margin trading facility (MTF) to its clients and the book was Rs 895 crore as on September 30, 2023.

The company also has a strong institutional equity franchisee, and is a leading domestic investment banker, participating in several marquee initial public offerings (IPOs) and qualified institutional placements. In fiscal 2023, owing to lower traction in the investment banking space, revenue from this segment declined to Rs 129 crore in fiscal 2023 from Rs 150 crore in fiscal 2022 in line with market trend. With deals getting traction in the current fiscal, income from the segment stood at Rs 93 crore in first half of fiscal 2024.

The company also distributes third-party financial products such as insurance, mutual funds, bonds, alternative investment funds, portfolio management services, and deposits through its website, mobile app and branch network. Distribution assets under management (AUM) was around Rs 22,500 crore as on September 30, 2023, and income from distribution was Rs 170 crore during first half of fiscal 2024 (Rs 244 crore in fiscal 2023). Other businesses, such as currency and commodity broking businesses are modest in scale.

Risk management and monitoring systems are adequate to mitigate risks arising from uncertainties inherent in the retail broking business.

#### **Adequate capitalisation supported by healthy internal accruals**

Consolidated networth was Rs 1,535 crore as on September 30, 2023 (Rs 1,350 crore as on March 31, 2023 and Rs 1,182 crore as on March 31, 2022) supported by healthy internal accruals. In the past, a large portion of the borrowing was by the wholly owned subsidiary, IIFL Facilities Services, which was secured by the subsidiary's various real estate assets. Now, with the scale up of margin trade financing (MTF) book, borrowings at the broking entity is expected to increase. The MTF book (gross) stood at Rs 895 crore as on September 30, 2023 (Rs 595 crore in March 2023 and Rs 538 crore in March 2022). Overall gearing was 0.6 time (0.4 time as on March 31, 2023 and 0.5 time as on March 31, 2022).

IIFL Securities on a consolidated basis reported a net profit of Rs 250 crore in fiscal 2023 vis-à-vis Rs 306 crore in fiscal 2022. While the profitability was impacted in fiscal 2023 on the back of subdued capital market performance, it remained healthy. It has reported a net profit of Rs 182 crore in first of fiscal 2024 driven by improvement in market sentiments and pickup in broking volumes and investment banking deals. 3 year average cost to income ratio stands at ~70%. The healthy internal accruals have supported the capital position of the company and is expected to remain adequate over the medium term.

### **Weakness:**

#### **Exposure to uncertainties inherent in the capital market businesses and tightening regulatory environment**

The company's key broking business remains exposed to economic, political, and social factors that drive investor sentiments. Given the cyclical nature of the business, brokerage volumes and earnings are highly dependent on the level of trading activity in capital markets. This makes earnings and profitability volatile. However, the impact on earnings is partially offset by the high share of business coming through franchisees, resulting in a more variable cost structure.

Over the past couple of years, the broking industry has witnessed a dynamic regulatory environment. With the objective of enhancing transparency, limiting misuse of funds and safeguarding investor interests, Securities and Exchange Board of India (SEBI) has introduced several changes. Some of these include margin pledge/re-pledge mechanism, daily client collateral reporting and disclosure, collateral allocation at clearing corporations by brokers, and upfront margin collection for intraday positions. More recently, SEBI has approved blocking of funds facility for trading in secondary markets, and non-usage of client deposits for availing bank guarantees (BG) by brokers, which aim to prevent misuse of client funds, broker defaults and consequent risk to investor capital. This is similar to the Application Supported by Blocked Amount (ASBA) facility already available for the primary market, which ensures movement of money only when an allotment happens.

With increasing compliance intensity, associated costs are expected to increase. CRISIL Ratings understands that most large brokers and some mid-sized companies including IIFL Securities have streamlined their systems in accordance with the revised regulations. However, this could impact small and mid-sized brokers with not-so-advanced IT infrastructure and risk management systems. Fundamentally, while these revised regulations will benefit the broking industry in the long term by increasing transparency and lowering risks for customers, the changes do increase the compliance costs for brokers and require them to adapt their business models to keep pace.

SEBI had placed a ban on IIFL Securities to acquire new broking clients for two years as per an order dated June 19, 2023 based on various inspections carried out over 2011-17. Subsequently the company approached Securities Appellate Tribunal (SAT) and obtained a stay order on June 27, 2023. On December 07, 2023, SAT has set aside SEBI's ban on IIFL Securities on acquiring new clients and reduced the penalty amount.

### **Liquidity: Adequate**

IIFL Securities, at a consolidated level, has adequate liquidity for the current scale of operations. As on October 31, 2023, consolidated liquidity stood at Rs 591 crore in the form of cash and equivalent (Rs 456 crore), liquid investments (Rs 57 crore), and unutilized bank lines (Rs 78 crore) while debt repayments over November 2023 – January 2024 were Rs 467 crore. Of the debt repayments Rs 440 crore was in the form of WCDL which is typically rolled over.

### **Rating Sensitivity Factors**

#### **Downward factors**

- Impact on business profile as indicated by drop in market share thereby impacting broking income
- Weakening of the earnings profile or sustained increase in cost-to-income ratio to over 80%

**About the Company**

IIFL Securities, the erstwhile flagship company of the India Infoline group, was set up as Probity Research and Services in October 1995. The name was changed to India Infoline Ltd in March 2000 and to IIFL Securities in May 2018. The company is a member of the BSE and the NSE. IIFL Commodities Ltd (formerly India Infoline Commodities Ltd; a 100% subsidiary of IIFL Securities) sold a major part of its business in a slump sale to IIFL Securities, effective July 1, 2018.

In January 2018, IIFL Finance (earlier IIFL Holdings Ltd) reorganised itself into three entities: IIFL Finance (the loans and mortgages business), 360 One (the wealth and asset management business) and IIFL Securities (the capital markets and other businesses). Subsequently in September 2019, IIFL Securities was listed on the stock exchanges.

As on September 30, 2023, the promoters owned 31% stake in IIFL Securities. The Fairfax group owns 31% and the remaining 38% is held by the public.

On a consolidated basis, IIFL Securities reported total income and profit after tax (PAT) of Rs 1,370 crore and Rs 250 crore, respectively, in fiscal 2023, against Rs 1,316 crore and Rs 306 crore, respectively, in fiscal 2022. During first half of fiscal 2024 total income and PAT were Rs 945 crore and Rs 182 crore respectively.

On a standalone basis, IIFL Securities reported total income and PAT of Rs 1,269 crore and Rs 283 crore, respectively, in fiscal 2023, against Rs 1,151 crore and Rs 284 crore, respectively, in fiscal 2022. During first half of fiscal 2024 total income and PAT were Rs 852 crore and Rs 210 crore respectively.

**Key Financial Indicators: IIFL Securities - consolidated (CRISIL Ratings-adjusted numbers)**

As on / for the period ended	Unit	Sep 30, 2023 / H1FY24	Mar 31, 2023 / FY2023	Mar 31, 2022 / FY2022
Total assets	Rs crore	7001	5237	6041
Total income	Rs crore	945	1370	1316
Profit after tax	Rs crore	182	250	306
Return on equity	%	25.3	19.7	28.5
Gearing	Times	0.6	0.4	0.5

**IIFL Securities - Standalone (CRISIL Ratings-adjusted numbers)**

As on / for the period ended	Unit	Sep 30, 2023 / H1FY24	Mar 31, 2023 / FY2023	Mar 31, 2022 / FY2022
Total assets	Rs crore	6,599	4,805	5539
Total income	Rs crore	852	1,269	1151
Profit after tax	Rs crore	210	283	284
Return on equity	%	33.5	27.0	33.3
Gearing	Times	0.5	0.3	0.4

**Any other information:** Not Applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Outstanding rating with outlook
NA	Commercial paper	NA	NA	7-365 days	1,050	Simple	CRISIL A1+

**Annexure - List of Entities Consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
IIFL Facilities Services Ltd	Full	Subsidiary
IIFL Management Services Ltd	Full	Subsidiary
Livlong Insurance Brokers Ltd (Formerly known as IIFL Insurance Brokers Ltd)	Full	Subsidiary
IIFL Commodities Ltd	Full	Subsidiary
Livlong Protection & wellness Solutions Ltd (Formerly known as IIFL Corporate Services Limited)	95%	Subsidiary
IIFL Securities Services IFSC Ltd	Full	Subsidiary
IIFL Wealth (UK) Ltd	Full	Subsidiary
IIFL Capital Inc	Full	Subsidiary
Shreyans Foundation LLP	99%	Subsidiary
Meenakshi Towers LLP	Full	Subsidiary

**Annexure - Rating History for last 3 Years**

		Current		2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	1050.0	CRISIL A1+	28-06-23	CRISIL A1+	15-12-22	CRISIL A1+	31-08-21	CRISIL A1+	31-08-20	CRISIL A1+	CRISIL A1+
			--		--	26-08-22	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

**Criteria Details**

<b>Links to related criteria</b>
<a href="#">Rating Criteria for Securities Companies</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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