Angel One Limited

April 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	750.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the short-term debt instrument of Angel One Limited (AOL) factors in its experienced management team along with a long track record of the company in the broking industry. The ratings also factor in its strong market position wherein the company is one of the leading players in terms of client base which also leads to its strong earnings profile and comfortable capitalization levels.

These rating strengths are however partially offset by the inherent market risk and competitive pressures that AOL is exposed in its core broking business and like other brokerage firms, it's also susceptible to industry-wide regulatory changes, if any. The company's ability to maintain its market share as well as diversify its income profile will continue to remain the key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors- Factors that could individually or collectively lead to positive rating action/upgrade: NA

Negative Factors- Factors that could individually or collectively lead to negative rating action/downgrade:

- Deterioration in the market share of the company on a sustained basis.
- Moderation in earnings profile and liquidity of the company.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has analysed the consolidated business and financial risk profiles of Angel One Limited along with its wholly owned subsidiaries.

Subsidiaries considered as a part of consolidated financials:

1. Angel Financial Advisors Private Ltd
2. Angel Fincap Private Ltd
3. Angel Securities Ltd
4. Angel Digitech Services Private Ltd
5. Mimansa Software Systems Private Ltd

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key Strengths

Long track record of the company along with experienced management team

AOL was incorporated in the year 1996 and has over 25 years of presence in the broking industry. The company is led by Dinesh Thakkar, MD and Chairman of Angel One Limited. He is also the promoter of the group. He has been in the capital market with over three decades of experience. With respect to the exchange disclosure dated February 16, 2023, the management announced the resignation of Narayan Gangadhar (Chief Executive Officer) with effect from May 17, 2023 in a step towards consolidating key business operations under Dinesh Thakkar.

In line with the change in the broking industry, AOL has successfully revamped its traditional broking business to a completely digitally-driven broking business in the last 2 to 3 years with a robust risk management framework in place which has helped the company to gain a significant market position in the broking industry.

Strong market position with 100% retail broking franchise

During FY22, the company had highest ever gross client acquisition of 5.3 million as against 2.4 million in FY21 which led to a spike in the overall clientele from 4.1 million in March 2021 to 9.2 million in March 2022. The total number of active clients on NSE stood at 4.20 million as on December 31, 2022 (3.10 million as on December 31, 2021). As on March 31, 2022, AOL's market share in NSE active clients improved and stood at 10.10% as against 8.30% as on March 31, 2021. As on December 31, 2022, it further improved and stood at 12%. The market share has been consistently increasing over the last three years. The entire client base of the company is retail in nature and has no exposure to institutional clientele. The market position of the company on NSE in terms of active client base also improved by 1 rank to 3rd position as on December 31, 2022. On the basis of Average Daily Turnover (ADTO), it has an overall market share of 21.50% as on December 31, 2022.

The gross client addition for the industry as a whole, has been impacted since April 2022 where many players have lost their share of active clients. However, AOL is one of the few players which has been successful in addition new client base every quarter in the face of industry de-growth, though the rate at which it was adding new clients has slowed down. During Q3FY23, the company did a gross client addition of 1 million; 16% dip over Q2FY23.

Given, the company's continued focus on providing best in class product offerings and client experience; from traditional to fully digital broker, has helped it in acquiring a new and higher clientele base. The company has been able to spread its presence widely and is currently available in more than 98% of the pin codes in the country. CARE Ratings will continue to monitor the company's ability to maintain its market share in the industry and is a key monitorable.

Comfortable earnings profile

Post reporting a PAT growth of 110% Y-o-Y during FY22, the company surpassed the FY22 profitability during 9MFY23 and reported PAT of ₹623 crore; Y-o-Y growth of 48%. The increase in PAT was majorly contributed by an increase in the broking income. Given the continued client acquisition during 9MFY23, broking income witnessed a growth of 37% Y-o-Y to ₹1,499 crore. It forms around 68% of the total consolidated income during 9MFY23. Consequently, PAT margin improved to 28.46% in 9MFY23 from 26.05% during 9MFY22. Given the increase in sub-brokerage, client acquisition and continued technology development as well as increased advertising and employee cost, opex increased to ₹814 crore during 9MFY23 from ₹602 crore during 9MFY22. Due to the operating leverage, the cost to income ratio improved to 60.74% during 9MFY23 as against 63.77% during 9MFY22. Due to onset of Super-App, the opex is expected to remain at a current levels due to increase in promotional expenses on the same as well as continued client acquisition.

On a standalone level, the company reported PAT of ₹615 crore during FY22 as against ₹290 crore during FY21. During 9MFY23, PAT stood at ₹617 crore. AOL contributes 99% share in the consolidated assets as well as the profits. Given the scale in the operations along with market volatility, the earnings profile of AOL will remain a key monitorable.

Comfortable capitalization

On a consolidated level, the tangible net worth of the company increased and stood at ₹2,030 crore as on December 31, 2022, as against ₹1,431 crore as on December 31, 2021 on account of internal accruals. Also, given the continued expansion in client base, the total debt (including non-fund-based debt) rose to ₹1,543 crore as on December 31, 2022, as against ₹1,230 crore as on December 31, 2021. These funds are used for fulfilling the cash margin requirements of the clients to the exchange as well as lending through the Margin Trade Funding (MTF) product. As on December 31, 2022, the net gearing (debt adjusted for fixed deposits (FDs) lien marked against debt) remained stable at 0.72 times. The resource profile constitutes of non-fund-based borrowings, i.e, Bank Guarantees (BGs) which formed 65% of the total debt as on December 31, 2022. These BGs are backed by FDs to the extent of 50%. The fund-based borrowings forms the balance 35% of the total debt consisting of overdraft (OD), working capital demand loan (WCDL) and commercial papers (CPs). The company has been able to diversify its fund-based borrowings across both Banks/NBFCs and listed unsecured CPs. Given the short-term tenure of its lending book, short term borrowings will continue to hold the majority portion.

Key weaknesses

Broking revenue dominating the income profile

On a consolidated level, the total revenue of the company increased by 36% Y-o-Y to ₹2,190 crore during 9MFY23 majorly contributed by the increase in the brokerage income. Brokerage forms 68% of the total income followed by interest income which constitutes 17% of the total income. Of the total brokerage income, F&O accounts for 82% of the share followed by cash with 12% share during 9MFY23 which further concentrates the broking income in one segment.

The interest income is earned by way of interest on FDs as well as funding through the MTF product. The brokerage income and interest income from MTF lending is directly a function of the market performance which is very volatile in its nature and hence the earnings of AOL may also face volatility and it may get impacted in the event of any significant change in the market performance on the negative side. However, in order to diversify its income profile, the company had applied for AMC license and received in-principle approval from SEBI on February 08, 2023 for sponsoring a mutual fund. The company will now set up an Asset Management Company (AMC) and the trustee company for running the mutual fund business. Given the huge competition in the broking industry, AOL's ability to diversify its income profile will remain a key monitorable.

Susceptibility towards regulatory changes

Capital and commodities market regulator, the Securities and Exchange Board of India (SEBI) board has been constantly stepping up the vigil in the brokerage industry through a series of regulatory changes aimed at protecting investor's interests.

Some of the major regulations include peak margin (Sep 2021) which was introduced to set strict rules on leverage and thus it was able to control excessive speculation since the margin is collected upfront and not at the end of the day. Then the "Demat Debit Pledge (DDPI) was implemented (July 2022) and it replaced the Power of Attorney (PoA) provided by clients to brokers. Also, during the month of February 2023, SEBI came up with the regulation for designating some of the country's top brokers as Qualified Stock Brokers (QSBs). The stock broker designated as a QSB will be under increased regulatory oversight and shall be required to meet enhanced obligations. AOL is one of the brokers that has been designated as a QSB. All the regulatory changes while good for capital markets and investors, may increase the compliance cost for broking companies. Furthermore, digital brokers have a larger share of F&O volumes which is low yielding as compared to cash segment, and the discount brokers have to maintain the growth in volumes in F&O or to increase the yield in F&O to match the cash revenues. Thus, any regulatory change in the F&O segment may impact the overall revenue profile of the discount brokers which are concentrated in F&O segment. However, the ability of the company to adopt new technology, systems and risk management processes in response to the constantly evolving regulatory landscape without any adverse impact on its overall business profile will remain a key monitorable.

Presence in inherently risky and competitive broking business

The broking industry is currently witnessing a moderation in the active client growth as well as volumes on account of volatility in the capital market activities due to various global events. In these circumstances, many broking firms have lost their share in the incremental active client base. However, AOL has been able to acquire incremental client base, at a time where the industry is witnessing a de-growth, but a slower rate. Given the competition risk, the company's ability to maintain its market share will remain a key monitorable.

Liquidity: Strong

As on February 28, 2023, AOL had free cash and bank balance of ₹143 crore along with unutilized WCDL/OD lines of ₹ 3,556 crore. 96% of the total fund-based borrowings of the company is in the form of overdraft and WCDL. These facilities are matched against the exposures extended to the clients. In addition to the above liquidity, the company has been maintaining sufficient margin with the exchange majorly in the form of fixed deposits and bank guarantees over and above the required limit thus providing additional comfort.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios - Financial Sector
Short Term Instruments
Service Sector Companies

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Capital Markets	Stockbroking & Allied

Angel One Limited (formerly Angel Broking Limited) (AOL) was incorporated in 1996. The company is engaged in retail broking in equity, commodity, and currency segments. It is a member of BSE, NSE, Metropolitan Stock Exchange of India Ltd, Multi Commodity Exchange of India Ltd and National Commodity and Derivatives Exchange Ltd. Also, the company is a depository participant with Central Depository Services (India) Limited (CDSL). The company is a Fin-Tech entity that provides a one-stop-shop for broking & advisory services, margin trading facility, loans against shares (through one of the Subsidiaries, Angel Fincap Private Ltd (AFPL)) and financial products distribution to retail clients under the brand "Angel One". The company was listed on BSE and NSE on October 5, 2020, and the market cap as on March 29, 2023, stood at ₹9,703 crore. As on December 31, 2022, the promoter and promoter group held 43.68% stake in the company.

The key consolidated financials of the company are presented below:

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Brokerage and Fee income	1,078	1,896	1,789
Total income	1,299	2,305	2,190
PAT	298	625	623
Total Assets	4,814	7,220	8,557
ROTA (%)	8.51	10.39	11.01
RONW (%)	35.02	46.35	47.89
PAT Margin (%)	22.95	27.11	28.46

A: Audited; UA: Unaudited

Note: 'the above results are latest financial results available'

The key standalone financials of the company are presented below:

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Brokerage and Fee income	1,073	1,889	1,785
Total income	1,290	2,281	2,177
PAT	290	615	617
Total Assets	4,782	7,178	NA
PAT Margin (%)	22.48	26.95	28.36

A: Audited, UA: Unaudited

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper	INE732I14545	19-01-2023	-	19-04-2023	13.00	CARE A1+
Commercial Paper	INE732I14552	31-01-2023	-	02-05-2023	10.00	CARE A1+
Commercial Paper	INE732I14560	21-02-2023	-	23-05-2023	5.00	CARE A1+
Commercial Paper-Proposed	-	-	-	-	722.00	CARE A1+

ISINs INE732I14446 and INE732I14438 have been matured and redeemed.
***CPs are issued at discount.**

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	750.00	CARE A1+	1)CARE A1+ (22-Sep-22)	1)CARE A1+ (02-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	Name: Sanjay Agarwal Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3500 E-mail: sanjay.agarwal@careedge.in Name: Gaurav Dixit Director **CARE Ratings Limited** Phone: +91-11-45333237 E-mail: Gaurav.dixit@careedge.in Name: Niketa Kalan Associate Director **CARE Ratings Limited** Phone: +91-22-6754-3456 E-mail: Niketa.kalan@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in