

HDFC Securities Limited (Revised)

December 22, 2023

Facilities/Instruments@	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	3,000.00	CARE AAA; Stable / CARE A1+	Reaffirmed
Commercial paper	5,000.00	CARE A1+	Reaffirmed
Commercial paper	5,000.00	CARE A1+	Reaffirmed

@Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the instruments of HDFC Securities Limited (HSL) factor in the parentage and expected support from HDFC Bank Limited (HDFC Bank- rated CARE AAA; Stable/ CARE A1+) considering the majority shareholding of HDFC Bank (95.48% stake as on September 30, 2023) and strategic importance of HSL to the group by providing the bank's customers access to a broader suite of capital market and investment products. The ratings further factor in the managerial and operational linkages it shares with the parent as well as the broader benefits including financial flexibility in raising funds, it enjoys due to extension of HDFC's brand identity and shared client base.

Additionally, the ratings continue to derive strength from HSL's strong retail broking franchise, comfortable capitalization, and healthy earning profile. As on September 30, 2023, the active client base of the company on NSE stood at around 10 lakhs.

These rating strengths are, however, partially offset by the risk inherent in the broking business due to high dependence on the capital markets resulting in volatility in the income and profitability and increasing competition in the sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Weakening of the credit profile of HDFC Bank
- Weakening of parent support or linkage with HDFC Bank or significant change in the shareholding of HDFC Bank in HSL
- Sustained losses in HSL

Analytical approach:

The approach adopted is Standalone along with factoring in linkages with the parent, HDFC Bank Limited (rated 'CARE AAA; Stable/ CARE A1+') owing to its strong operational and managerial linkages along with shared brand name.

Outlook: Stable

The stable outlook factors in the expectation that HSL will continue to have a healthy and diversified earnings profile considering its strong retail broking franchise and comfortable capitalization of the company along with a good active client base.

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

Detailed description of the key rating drivers:**Key strengths****Parentage and expected support from HDFC Bank due to the operational linkages and managerial linkages as well as benefits in terms of financial flexibility in fund raising**

The majority stake in HSL is owned by HDFC Bank Limited, the largest private sector bank in India designated as a Domestic Systematically Important Bank (D-SIB) with a stake of 95.48% as on September 30, 2023. The group has extended the identity of HDFC brand with HSL and HSL has operational linkages, access to established customer base and franchise of the bank, business synergies which allows the group to offer a full bouquet of financial services. Furthermore, HSL benefits from widespread presence of HDFC Bank across the nation with diverse clientele base which in turn helps HSL in getting leads for its business. More than 95% of the customers of the company are HDFC Bank's customers.

Furthermore, HSL has board representation from HDFC Bank. Arvind Vohra (Country Head of Retail Assets at HDFC Bank) is a Director on the Board of HSL. Furthermore, several personnel serving in key roles at HSL are deputed from HDFC Bank. Dhiraj Relli, serving as the Managing Director & CEO, was serving as Senior Executive Vice President & Head of Branch banking in HDFC Bank. He has been associated with the HDFC group since 2008. From an operational perspective, HDFC Bank's scale, widespread network and the group's overall diverse clientele aid HSL in lead generation for its broking business. Likewise, HSL's broking customers serve in further strengthening the retail liability franchise of the bank. Given the existence of significant managerial and operational linkages, name and brand sharing as well as a financially strong parent, CARE Ratings expects that commensurate support will be forthcoming to HSL from its parent in times of need.

Strong retail broking franchise with adequate risk management

HSL is among the top ten retail brokers in India in terms of active clients (around 10 lakh clients as of September 30, 2023). It offers broking services, both in the equity and derivatives market segment for retail and institutional clients and distributes third-party products, such as mutual funds, insurance policies, fixed deposits, IPOs, etc. Along with these, the company also provides margin trading facility (MTF), a short-term loan to the customers which stood at ₹5,098 crore as on September 30, 2023.

The company's cash turnover decreased during FY23 in line with the overall industry to ₹3,76,576 crore as against ₹5,21,209 crore in FY22. About 96% of the total brokerage as on September 30, 2023 is from retail clients. In line with the industry trend of digitalisation and greater emphasis on digital offerings, the company rationalised its distribution network via consolidation of the existing branches lowering the branch count to 196 as on October 30, 2023. It significantly ramped-up its digital presence with digital sources contributing 85% of the brokerage in FY23, up from 60% in FY20.

Furthermore, during September 2023, the company launched a discount broking application "HDFC Sky" through which the company is targeting Gen-Z, millennials and new-age investors which will further increase the client base. The seamless integration with HDFC Bank as well as benefits of the common branding will continue to play a key role in growing and managing the overall broking franchise.

Healthy earnings profile

The company's brokerage income reduced in FY23 on the back of reduced turnover of HSL on both the exchanges (NSE & BSE) in line with the other players in the industry. The overall market turnover was impacted during FY23 due to the high volatility in the market due to the geopolitical scenario. However, in H1FY24 the turnover improved to ₹2.6 lakh crore as against ₹3.7 lakh crore for the entire year due to the favorable market conditions.

Due to the inherent volatility in the broking business, the broking companies have a diversified income profile. HSL, apart from brokerage income, also earns fee income from cross selling of financial products and interest on MTF loans. The company reported brokerage and fee income of ₹680 crore in H1FY24 as against ₹581 crores in H1FY23. Furthermore, the MTF book of the company increased to ₹5,098 crore as on September 30, 2023, from ₹3,283 crore as on March 31, 2022. During Q2FY24, the company started a separate channel to focus on HNI customers which further led to the increase in the MTF book. The company reported an increase in the interest income from

₹528 crore in FY22 to ₹648 crore in FY23. While finance costs increased from ₹156 crore in FY22 to ₹296 crore in FY23 as the company saw increase in commercial paper borrowings to finance MTF book. Furthermore, there was an increase in the cost of funds of commercial papers during FY23 which ranged from 7% to 8% as against 4% to 5% in FY22.

The company's operating expenses have largely remained stable in FY23. However, in H1FY24, the expenses have increased on account of an increase in advertising & business promotion expenses for launching of HDFC SKY application and payment of corporate social responsibility (CSR) liability in Q2FY24.

Thus, the increase in the operating expenses during H1FY24 and increase in the finance cost to fund the increasing MTF book and comply with margin requirements with Securities & Exchange Board of India (SEBI), coupled with increase in the total assets of the company, led to the company reporting return on total assets (ROTA) of 7.7% as on September 30, 2023 (9.59% as on March 31, 2023) as against 15.52% as on March 31, 2022.

Comfortable capital position:

The company's tangible net worth (TNW) increased to ₹1,905 crore as on September 30, 2023 (₹1,741 crore as on March 31, 2023) from ₹1,627 crore as on March 31, 2022, on healthy earnings partly offset by dividend payments of ₹440 per share during FY23. Prior to FY20, the company utilised borrowings mainly to meet exchange obligations from the broking business. However since FY20, HSL utilizes the borrowings to fund the MTF book as well and hence borrowings have grown in tandem with the loan book from ₹691 crore as on March 31, 2020 to ₹8,402 crore as on September 30, 2023, which has led to the increase in the overall gearing to 4.4x as on September 30, 2023 (3.02x as on March 31, 2023) from 2.84x as on March 31, 2022. The borrowings have been entirely in the form of commercial paper (CP). HSL has been able to raise CP at a rate of 7% to 8% during FY23 with tenors not exceeding three months. It also has access to bank lines for meeting its working capital requirements. The company plans to maintain overall gearing in the range of 4.50x to 4.75x in the near term with the company's strategy of further growing its MTF book, subject to regulatory cap on leverage. CARE Ratings derives comfort from HSL's strong financial flexibility, as a subsidiary of HDFC Bank providing it access to diversified sources of funding.

Key weaknesses

Presence in inherently volatile and competitive broking business:

HSL's earning profile is significantly dependent on the capital market activities and overall trading volumes which are inherently volatile in nature. Income from brokerage accounts for 43% of the total income and income from MTF book which is also dependent on the capital market segment accounts for 34% of the total income in FY23. Nevertheless, income from the distribution of the third-party products such as mutual funds, insurance, bonds, FDs, IPOs gives a diversification to the overall revenue.

Furthermore, the company is also impacted by the intense competitive pressures in the brokerage industry with zero brokerage firms seizing market share from entrenched players. Although this is expected to reduce in the next few years with the company entering into the discount broking space with its application HDFC Sky launched in September 2023.

Liquidity: Adequate

HSL's funding requirements are largely towards maintaining margin with the stock exchanges and for its MTF business. The margin requirements are largely met through bank guarantees which are backed by fixed deposits, and for MTF business company usually borrows in the form of commercial paper.

As on November 30, 2023, the company had borrowings of ₹8,650 crore through commercial paper, against which the company had an unencumbered cash and cash equivalent of ₹1,462 crore and unutilized sanctioned lines of credit of ₹2,096 crore. Furthermore, the company's MTF book is a short-term book thus the inflows from the book will also be used to meet debt obligation.

Furthermore, the company enjoys financial flexibility, being a subsidiary of HDFC Bank to obtain additional funding from banks or issue additional commercial paper to repay maturing debt.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

- [Factoring Linkages Parent Sub JV Group](#)
- [Financial Ratios - Financial Sector](#)
- [Rating Outlook and Rating Watch](#)
- [Short Term Instruments](#)
- [Definition of Default](#)
- [Service Sector Companies](#)
- [Broking Firms](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Capital markets	Stockbroking & Allied

HSL was incorporated in April 2000 as a joint venture of HDFC Bank Limited, HDFC Limited and Indocean Securities Holdings Limited. It is engaged in a single line of business as a provider of broking services to its clients in the capital market. The company is a public limited company listed in the debt market in BSE. HDFC Bank has been gradually increasing its stake in HSL. It obtained a controlling interest of 55% in HSL in FY 2006 and as on September 30, 2023, the bank's overall shareholding in HSL stood at 95.48%. The company is registered as a "Stockbroker" with the Securities and Exchange Board of India ("SEBI") and as a "Corporate Agent" with the Insurance Regulatory and Development Authority ("IRDA"). The company started with equity trading and later rolled out derivatives trading. Currently, it offers a broad suite of savings and investment products along with the core broking product. It also distributes third party products and plays a key role in crossselling products of its group companies. In FY19, HSL started offering Margin Trading Facility (MTF), as part of which the company extends short term loans to its broking customers fully secured against cash and/ or collateral of approved securities.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total income	1,990	1,891	1,101
PAT	984	777	403
Loan portfolio	3,283	2,748	5,098
Total Assets	7,923	8,268	13,328
PAT Margin (%)	49.46%	41.04%	36.62%
Gearing ratio (times)	2.84	3.02	4.41

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 last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities (as on December 19, 2023)

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper	INE700G14GQ0	5-Oct-23	7.45%	20-Dec-23	200.00	CARE A1+
Commercial paper	INE700G14GR8	12-Oct-23	7.68%	11-Jan-24	350.00	CARE A1+
Commercial paper	INE700G14GS6	13-Oct-23	7.68%	12-Jan-24	75.00	CARE A1+
Commercial paper	INE700G14GT4	16-Oct-23	7.68%	15-Jan-24	50.00	CARE A1+
Commercial paper	INE700G14GU2	17-Oct-23	7.68%	16-Jan-24	100.00	CARE A1+
Commercial paper	INE700G14GU2	17-Oct-23	7.68%	16-Jan-24	50.00	CARE A1+
Commercial paper	INE700G14GW8	19-Oct-23	7.68%	18-Jan-24	25.00	CARE A1+
Commercial paper	INE700G14GW8	19-Oct-23	7.70%	18-Jan-24	200.00	CARE A1+
Commercial paper	INE700G14GV0	20-Oct-23	7.68%	19-Jan-24	300.00	CARE A1+
Commercial paper	INE700G14GX6	23-Oct-23	7.75%	22-Jan-24	100.00	CARE A1+
Commercial paper	INE700G14GX6	23-Oct-23	7.75%	22-Jan-24	125.00	CARE A1+
Commercial paper	INE700G14GY4	25-Oct-23	7.95%	1-Mar-24	100.00	CARE A1+
Commercial paper	INE700G14GY4	25-Oct-23	7.95%	1-Mar-24	100.00	CARE A1+
Commercial paper	INE700G14HA2	26-Oct-23	7.68%	25-Jan-24	100.00	CARE A1+
Commercial paper	INE700G14HA2	27-Oct-23	7.83%	25-Jan-24	100.00	CARE A1+
Commercial paper	INE700G14HA2	27-Oct-23	7.83%	25-Jan-24	50.00	CARE A1+
Commercial paper	INE700G14GZ1	27-Oct-23	7.70%	27-Dec-23	400.00	CARE A1+
Commercial paper	INE700G14HA2	31-Oct-23	7.83%	25-Jan-24	100.00	CARE A1+
Commercial paper	INE700G14HB0	31-Oct-23	7.83%	30-Jan-24	10.00	CARE A1+
Commercial paper	INE700G14HB0	31-Oct-23	7.83%	30-Jan-24	20.00	CARE A1+
Commercial paper	INE700G14HC8	1-Nov-23	7.77%	31-Jan-24	200.00	CARE A1+
Commercial paper	INE700G14HC8	1-Nov-23	7.77%	31-Jan-24	100.00	CARE A1+
Commercial paper	INE700G14HC8	2-Nov-23	7.77%	31-Jan-24	25.00	CARE A1+
Commercial paper	INE700G14HD6	8-Nov-23	7.75%	29-Jan-24	600.00	CARE A1+
Commercial paper	INE700G14GD8	10-Nov-23	7.77%	9-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HE4	15-Nov-23	7.82%	14-Feb-24	50.00	CARE A1+
Commercial paper	INE700G14HG9	16-Nov-23	7.88%	15-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HF1	17-Nov-23	7.88%	16-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HF1	17-Nov-23	7.88%	16-Feb-24	50.00	CARE A1+
Commercial paper	INE700G14HF1	17-Nov-23	7.88%	16-Feb-24	50.00	CARE A1+
Commercial paper	INE700G14HF1	17-Nov-23	7.85%	16-Feb-24	50.00	CARE A1+
Commercial paper	INE700G14HH7	20-Nov-23	7.88%	12-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HI5	20-Nov-23	7.88%	13-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HJ3	20-Nov-23	7.85%	19-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HK1	21-Nov-23	7.88%	20-Feb-24	200.00	CARE A1+
Commercial paper	INE700G14HK1	21-Nov-23	7.88%	20-Feb-24	25.00	CARE A1+
Commercial paper	INE700G14HL9	23-Nov-23	7.88%	22-Feb-24	50.00	CARE A1+
Commercial paper	INE700G14HM7	24-Nov-23	7.90%	23-Feb-24	200.00	CARE A1+
Commercial paper	INE700G14HN5	30-Nov-23	7.90%	29-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HO3	4-Dec-23	8.05%	4-Mar-24	150.00	CARE A1+
Commercial paper	INE700G14HO3	4-Dec-23	8.05%	4-Mar-24	25.00	CARE A1+
Commercial paper	INE700G14HP0	6-Dec-23	8.05%	6-Mar-24	150.00	CARE A1+
Commercial paper	INE700G14HP0	6-Dec-23	8.05%	6-Mar-24	50.00	CARE A1+
Commercial paper	INE700G14HP0	6-Dec-23	8.05%	6-Mar-24	50.00	CARE A1+
Commercial paper	INE700G14HP0	6-Dec-23	8.05%	6-Mar-24	50.00	CARE A1+
Commercial paper	INE700G14HP0	6-Dec-23	8.05%	6-Mar-24	25.00	CARE A1+

Commercial paper	INE700G14HP0	6-Dec-23	8.05%	6-Mar-24	25.00	CARE A1+
Commercial paper	INE700G14HP0	6-Dec-23	8.00%	6-Mar-24	100.00	CARE A1+
Commercial paper	INE700G14HQ8	7-Dec-23	8.00%	7-Mar-24	50.00	CARE A1+
Commercial paper	INE700G14HQ8	7-Dec-23	8.00%	7-Mar-24	150.00	CARE A1+
Commercial paper	INE700G14HR6	11-Dec-23	8.00%	11-Mar-24	250.00	CARE A1+
Commercial paper	INE700G14HT2	12-Dec-23	8.03%	28-Feb-24	250.00	CARE A1+
Commercial paper	INE700G14HS4	13-Dec-23	7.95%	13-Mar-24	25.00	CARE A1+
Commercial paper	INE700G14HU0	15-Dec-23	8.06%	15-Mar-24	200.00	CARE A1+
Commercial paper	INE700G14HU0	15-Dec-23	8.06%	15-Mar-24	75.00	CARE A1+
Commercial paper	INE700G14HU0	15-Dec-23	8.06%	15-Mar-24	100.00	CARE A1+
Commercial paper (Proposed)	-	-	-	-	2370.00	CARE A1+
Long-term / Short-term bank facilities	-	-	-	-	1494.00	CARE AAA; Stable / CARE A1+
Long-term / Short-term bank facilities (Proposed)	-	-	-	-	1506.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating history of 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 2023-2024	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
1	Commercial paper-Commercial paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (29-Dec-21)	1)CARE A1+ (12-Mar-21)
2	Commercial paper-Commercial paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (29-Dec-21)	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST *	3000.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (27-Dec-22)	1)CARE AAA; Stable / CARE A1+ (29-Dec-21)	-

*Long term / Short term

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

Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on 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.

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About us:

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Disclaimer:

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