Angel One Limited

September 22, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	750.00 (Enhanced from 500.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	**750.00** **(₹ Seven Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings 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 a leading player in terms of client base which also leads to its strong earning 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 severe 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

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.

Detailed description of the key rating drivers

Key Rating 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 Mr. 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. Mr. Narayan Gangadhar is the Chief Executive Officer of the company and has over 20 years of global experience in leading technology businesses in companies like Google, Microsoft, Amazon etc.

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.

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

Strong market position with 100% retail broking franchise

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 June 30, 2022, it stood at 10.60%. The market share has been consistently increasing over the last two years. The total no. of active clients on NSE stood at 4 million as on June 30, 2022 (2 million as on June 30, 2021). 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 98% of the pin codes in the country.

The entire client base of the company is retail in nature and has no exposure to institutional clientele. 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. Further, in the first quarter of current fiscal year, gross client acquisition was 1.3 million with total client base stood of 10.4 million. The company is positioned as the 4th largest broking house on NSE in terms of active client base and 2nd in terms of incremental NSE active client base as of June 30, 2022. On the basis of Average Daily Turnover (ADTO), it has an overall market share of 20.80% as on June 30, 2022.

Comfortable earnings profile

On a consolidated level, the company reported PAT of Rs.625 crore during FY22 as against a PAT of Rs.297 crore for FY21; a growth of 110% YoY. The substantial increase in PAT was majorly contributed by an increase in the broking income. Given the increase in client acquisition during FY22, broking income saw an increase from Rs.907 crore in FY21 to Rs.1,574 crore in FY22. It forms around 68% of the total consolidated income during FY22. PAT margin improved to 27.11% in FY22 from 22.95% in FY21. As on March 31, 2022, the loan book (including receivables) stood at Rs,1912 crore as against Rs.1,349 crore as on March 31, 2021. Given the robust risk management framework of the company, it ensures sufficient upfront margin and timely square off in case of any shortfall not being met by clients.

During Q1FY23, PAT stood at Rs.181 crore as against Rs.122 crore during Q1FY22 given the increase in brokerage and interest income. Given the increase in client acquisition and continued technology development as well as increased advertising and employee cost, opex increased from Rs.176 crore during Q1FY22 to Rs.269 crore during Q1FY23.

On a standalone level, the company reported PAT of Rs.615 crore during FY22 as against Rs.290 crore during FY21. During Q1FY23, PAT stood at Rs.178 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 Rs.1,576 crore as on March 31, 2022, as against Rs.1,121 crore as on March 31, 2021 on account of internal accruals. Also, given the increase in lending activities of the company, the total debt (including non-fund-based debt) rose to Rs.2,238 crore as on March 31, 2022, as against Rs.1,590 crore as on March 30, 2021, however, gearing remained stable at 1.42 times.

The resource profile constitutes of OD/WCDL facility which forms 89% of total borrowings on a consolidated level as on March 31, 2022 followed by CP which forms 11%. However, given the short-term tenure of its lending book, short term borrowings will continue to hold the majority portion.

As on June 30, 2022, the tangible net-worth stood at Rs.1,704 crore with a gearing (excluding non-fund based debt) of 0.71 times.

Key rating weakness

Presence in inherently risky and competitive broking business

AOL is exposed to fierce competition in the highly competitive brokerage space and with the introduction of 100% digital and zero brokerage firms, the entire brokerage industry is going through this change from the traditional approach to being completely digital along with competitive brokerage charges. With continuous efforts, traditional players like AOL have transformed their business from traditional platforms to digital platforms in the last 2 to 3 years with competitive brokerage plans. However, due to the entry of discount brokers which dominates the broking industry, the competition is huge and is further expected to increase with the entry of new broking firms which poses a risk to the AOL's business. Given the competition risk, the company's ability to maintain its market share will remain a key monitorable.

Broking revenue dominating the income profile

On a consolidated level, the total income earned by the company increased to Rs.2,305 crore during FY22 as against Rs.1,299 crore during FY21 majorly contributed by the increase in the brokerage income.

Brokerage forms 68% of the total income followed by interest income which constitutes 16% of the total income. The brokerage income 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 has applied for AMC license and in-principle approval from SEBI is under process.

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. The peak margin rules that were implemented in a phased manner, require brokers to collect full margins in advance from clients and was aimed at limiting the leverage used by traders to take positions in intraday trades. AOL has successfully managed to adopt these changes without significantly impacting their overall performance. However, the ability of the brokers 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.

Liquidity: Strong

As on July 31, 2022, AOL had free cash and bank balance of Rs. 111 crore along with unutilized WCDL/OD and BG lines of Rs. 2,014 crore. 89% of the total 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.

Analytical approach

CARE 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

Applicable criteria

CARE's policy on default recognition

Financial Ratios- Financial Sector

Consolidation

Short Term instrument

Rating Methodology- Service sector companies

About the company

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 September 15, 2022, stood at Rs.13,193 crore. As on June 30, 2022, the promoter and promoter group held 43.83% stake in the company.

The key consolidated financials of the company are presented below:

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Brokerage and Fee income	1,078	1,896	561
Total income	1,299	2,305	686
PAT	298	625	181
Total Assets	4,814	7,220	6,816
ROTA (%)	8.51	10.39	11.46
RONW (%)	35.02	46.35	49.88
PAT Margin (%)	22.95	27.11	26.42

A: Audited; UA: Unaudited

The key standalone financials of the company are presented below:

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Brokerage and Fee income	1,073	1,889	559
Total income	1,290	2,281	680
PAT	290	615	178
Total Assets	4,782	7,178	NA
PAT Margin (%)	22.48	26.95	26.21

A: Audited, UA: Unaudited

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate*	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	INE732I14446	06-Sept-22	-	06-Oct-22	25.00	CARE A1+
Commercial Paper	INE732I14438	06-Sept-22	-	06-Dec-22	25.00	CARE A1+
Commercial Paper	INE732I14438	07-Sept-22	-	07-Sept-22	15.00	CARE A1+
Commercial Paper- Proposed	-	-	-	-	685.00	CARE A1+

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+ (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 various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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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