

5Paisa Capital Limited

January 08, 2019

Ratings

| Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|------------------|--|--|---------------|
| Commercial Paper | 150.00 (Rs. One hundred fifty crore only) | CARE A1+ [A One Plus] | Reaffirmed |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating primarily derives strength from the promoters of 5paisa Capital Limited (5paisa) i.e. promoters of the IIFL group along with the Fairfax group. The company has high reliance and is expected to benefit from the operational and financial support provided by its main promoters and Fairfax group. The rating further draws comfort from experienced management team and low operating cost nature of the business model on a steady state basis.

The rating remains constrained due to small scale of operations, limited track record of its business model, poor profitability on account of high marketing and advertisement cost incurred for scaling up of business and presence in a competitive business segment.

Support from promoters and profitable scale up of operations are the key rating sensitivities.

In its meetings dated July 17, 2018 and September 12, 2018, the Board of Directors of the company approved the proposal to raise equity capital of Rs.101.90 crore from its existing shareholders by way of Rights Issue. The company has filed the Draft Letter of Offer with SEBI, NSE and BSE on September 17, 2018. The Company has received the in-principle approval from NSE and is awaiting the observation letter/in-principle approval from SEBI and BSE, respectively. CARE will track the capital raising activity and take suitable rating action, if required.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter support: 5paisa is backed by strong promoters (promoters of IIFL group) who have significant experience in the brokerage and financial services industry. The entity was demerged from IIFL Holdings Limited (IIFLHL) and was listed separately on the stock exchanges. 5paisa's major shareholders are Fairfax with 35.49% and promoters of IIFL group viz. Mr. Nirmal Jain, Mr. R Venkatraman and others with 30.01% stake who are also the majority shareholders in IIFLHL. During FY17 (refers to period from April 01 to March 31), the promoters infused Rs.100 crore in the company and are expected to extend financial and strategic support as and when required.

Experienced management team: The management is led by Mr. Prakash Gagdani (Wholetime Director and Chief Executive Officer) having significant experience in the field of brokerage and financial services. He was previously associated with Angel Broking and IIFL Group. The top management is supported by group of experienced persons, many of whom were previously associated with IIFL group.

Low cost business model: 5Paisa targets retail investors and high volume traders who actively invest and trade in securities markets and seek DIY (Do-it-Yourself) services at a low cost. The brokerage services are provided through online technology platform and mobile applications for trading in securities in NSE and BSE on a flat fee basis irrespective of the trade volumes. The financial advisory services are offered through Robo-advisory and there is no concept of relationship management, thereby reducing costs. The company has launched '5P School', an online investor education series to impart knowledge related to stock trading and finances to first time investors. The company aims to not have any physical branches and will provide services through digital medium only.

Key Rating Weaknesses

Small size of operations and limited track record of business model: The company has been operating under its new business model from January of 2016 and has been able to acquire approximately 1,21,345 clients as on September 30, 2018 vis-à-vis 23,438 clients as on September 30, 2017. The trade volumes have grown significantly with 5PCL volumes accounting for 0.38% of total market volumes in FY18 vis-à-vis 0.01% in FY17. The market share further increased to 0.90% in H1FY19. Even as the company has increased its market share over past one year, the concept of discount brokerage is still in its nascent stages and success and profitability of the model is yet to be seen.

Poor profitability: The company is in the phase of scaling up its franchise and increasing its customer base which entails significant expenses on advertising and marketing. As a result, it has been incurring operating costs which has impacted

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

the profitability of the company. During FY18, the company reported net loss of Rs.25.30 crore on total income of Rs.19.65 crore as compared to net loss of Rs.11.69 crore on total income of Rs.9.33 crore with high amount of operating cost and advertising and marketing costs.

During H1FY19 (refers to period from April 01 to September 30), the company reported net loss of Rs.12.71 crore on a total income of Rs.21.80 crore. In view of loss, 5 Paise would continue to depend on promoter support for funds and would continue to be a key rating sensitivity.

Increasingly competitive business segment: Broking business in India is highly competitive and 5paise faces fierce competition from both large broking firms and similar discount brokers. Many large broking firms have started or are in the process to start technology driven discount brokerage arms. Broking business in India is becoming increasingly competitive with reducing brokerage fees and volatile volumes.

Analytical approach:

5paise has been assessed on a standalone basis along with comfort from promoters group (promoter of IIFL group).

Liquidity position

As per the information provided by the company, Liquidity profile of the company is supported by arrangement with IIFL group companies for receiving and paying Inter Corporate Deposits (ICDs) with limit of Rs.95 crore from India Infoline Finance Limited (IIFL Finance), Rs.30 crore from IIFL Facilities Services Limited, Rs.28 crore from IIFL Holdings Limited and other group entities limit of Rs.75 lakh per entity. The company's borrowing as on September 30, 2018 stood at Rs.89.11 crore comprising of ICDs of Rs.45 crore from IIFL Facilities Services Ltd. and Rs.44.11 crore of overdraft facilities. As on December 31, 2018, the company's borrowing by way of Commercial Paper (CP) was nil. Further, the planned equity infusion of Rs.101.90 crore by way of right's issue would enhance the liquidity profile in the near term.

Applicable Criteria

[CARE's policy on default recognition](#)

[Financial Ratios- Financial Sector](#)

[CARE's Criteria for NBFC](#)

[Rating of Short term instruments](#)

[Factoring Linkages in Ratings](#)

About the Company

5paise Capital Limited (5paise) was originally incorporated on July 10, 2007 as a public limited company. The name of the Company was subsequently changed to IIFL Capital Limited on November 06, 2007 and thereafter changed again to 5paise Capital Limited on August 12, 2015. 5paise is engaged in providing financial products through online technology platform and mobile applications. It is registered with SEBI as a stock broker, depository participant and research analyst and are also registered with AMFI as a mutual fund distributor. The main focus is on providing equity brokerage services to retail investors in Tier II and Tier III cities and high volume traders. The company had a broking customer base of over 1.2 lakh as on September 30, 2018, which has grown over 5 times in the last one year out of which 64% is from Tier II and Tier III cities. The company offers a trading platform for equity broking services, clearing and depository services to clients, a mutual fund platform and Robo-advisory tool to help clients select the mutual fund and distribution of other financial products like insurance. 5paise is backed by the promoters of India Infoline Holdings Limited (IIFLHL) and was part of IIFLHL until its demerger.

The major shareholders are Fairfax group with 35.49% and Promoter group (Mr. Nirmal Jain, Mr. R Venkatraman and others) with 30.01%. The demerged entity was listed on NSE and BSE on November 16, 2017.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total income | 9.33 | 19.65 |
| PAT | (11.69) | (25.30) |
| Total Assets | 95.26 | 115.98 |
| Net NPA (%) | - | - |
| ROTA (%) | (17.03) | (23.95) |

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-----------------------------|------------------|-------------|----------------|-------------------------------|---|
| Commercial Paper (Proposed) | - | - | 7days – 1 year | 150 | 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 (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Commercial Paper | ST | 150.0 | CARE A1+ | 1) CARE A1+ (30-Nov-18) | | | |

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