

5Paisa Capital Limited

November 30, 2017

Ratings

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

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). The company is expected to benefit from the operational and financial support provided by its main promoters viz. IIFL group and Fairfax. The rating further draws comfort from experienced management team and low cost nature of the business model of 5paisa. The rating, however, remains constrained due to small scale of operations, limited track record of its business model, poor profitability and presence in a competitive business segment. Profitable scale up of operations and continued support from promoters are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter support: 5paisa Capital Limited (5paisa) is backed by strong promoters who have significant experience in the brokerage and financial services industry. The entity was demerged from IIFL Holdings Limited (IIFHL) and was listed separately on the stock exchanges. 5paisa's shareholding pattern mirrors that of IIFHL, with the major shareholders being Fairfax with 35% and promoters of IIFL group viz. Mr. Nirmal Jain & Mr. R Venkatraman with 29% stake. In FY17, 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. Prakarsh Gagdani (MD & CEO) having significant experience in the field of brokerage and financial services. He was previously associated with Angel Broking and IIFL Group. The board of directors also has Mr. Narendra Jain (Director) who has over 21 years of experience in capital markets and held various key positions in the IIFHL group. The top management is supported by experienced personnel who were previously associated with IIFL group.

Low cost business model: 5paisa operates in the discount brokerage space and 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 automated Robo-advisory and there is no concept of relationship management, thereby reducing costs. The company will 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 23,500 clients as on September 30, 2017. The trade volumes are low with 5paisa volumes accounting for only 0.01% of total market volumes in FY17 and 0.02% in H1FY18. Moreover, the concept of discount brokerage is still in its nascent stages and profitable scale up of the model is yet to be seen. However, the company has been aggressively acquiring new clients and the management aims to have a client base of 1,00,000 by the end of FY18.

Low profitability: 5paisa is yet to become profitable since changing its business model. This is mainly due to significant expenses on advertising to acquire new clients. The company reported a net loss of Rs.11.69 crore in FY17 on a total income of Rs.7.47 crore compared to a net loss of Rs.5.5 crore in FY16 on a total negative income of Rs.1.22 crore. The

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

company had advertising expenses of Rs.6.65 crore in FY17 and Rs.0.02 crore in FY16. For H1FY18, 5paisa reported a net loss of Rs.11.66 crore on a total income of Rs.6.42 crore with advertising expenses of Rs.6.18 crore.

Increasingly competitive business segment: Broking business in India is highly competitive and 5paisa 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:

5paisa has been assessed on a standalone basis along with comfort from promoters of IIFHL

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

5paisa Capital Limited (5paisa) 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 5paisa Capital Limited on August 12, 2015. 5paisa 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 is 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 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. 5paisa is backed by the promoters of India Infoline Holdings Limited (IIFHL) and was part of IIFHL until its demerger.

The major shareholders are Fairfax with 35% and Mr. Nirmal Jain & Mr. R Venkatraman with 29%. The demerged entity was listed on NSE and BSE on November 16, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	-1.22	7.47
PAT	-5.50	-11.69
Interest coverage (times)	NM	NM
Total Assets	42.02	95.26
Net NPA (%)	-	-
ROTA (%)	NM	NM

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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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		150.0	CARE A1+				

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