CareEdge RATINGS

Geojit Financial Services Limited

January 11, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	740.00	CARE A; Stable / CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Geojit Financial Services Limited (GFSL) factor in its long track record of about three decades in capital market segment along with experienced promoters and senior management team, and established presence in retail broking segment. Furthermore, the ratings also derive comfort from the company's comfortable capitalisation profile, adequate liquidity and sound risk management systems.

These rating strengths are partially offset by the modest scale of operations, inherent uncertainties in the core business of equity broking with exposure to the risks relating to sustenance of the income profile across market cycles along with evolving regulatory landscape.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in market share on a sustained basis.
- Significant improvement in revenue diversification along with maintaining profitability on a sustained basis.

Negative factors

- Inability to scale up market share and volumes in retail cash segment adversely impacting its overall profitability levels.
- Weakening of the capital structure.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken a consolidated view of GFSL and its subsidiaries. GFSL, the flagship company of the group, undertakes retail broking and third-party product distribution. The other group companies are given below:

Subsidiaries:

1. Geojit Credits Pvt Ltd
2. Geojit Techloan Pvt Ltd
3. Geojit Technologies Pvt Ltd
4. Qurum Business Group Geojit Securities LLC
5. Geojit IFSC Ltd

Joint venture

1. Barjeel Geojit Financial services LLC
2. Aloula Geojit Capital Company

Associates

1. BBK Geojit securities KSCC

Key strengths

Long track record of operations in retail cash segment and established client base

GFSL has a long track record of more than three decades (1987) in the capital market segment. During FY22, the company had highest ever gross client acquisition, which led to a spike in the overall clientele at 1.24 million as on September 2022 as against 1.01 million as of March 2019. (Active clients on NSE stood at 0.24 million as on September 2022). The company has its presence in retail broking segment, especially in cash market segment as reflected in its market share of around 0.71% in retail cash segment during September 2022. The market share in retail cash segment was impacted on account of high speculative

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

volumes in the Futures & Options (F&O) segment during the last two fiscals, thus the delivery volumes as a proportion of overall cash volumes declined. However, client base of GFSL is relatively sticky and this helps the company in maintaining overall turnover in retail cash segment during low-volume periods in the market. Furthermore, they offer wide spectrum of financial services to clients, including online broking for equities, commodities, derivatives and currency futures, custody accounts, financial products distribution, portfolio management services, margin funding, etc. It also has operations outside the country through subsidiaries, an associate, and joint ventures (JV) in Oman, Kuwait, UAE and Saudi Arabia.

Extensive experience of the promoters and senior management team in the capital market segment
Geojit is headed by Mr C J George, managing director, who has been instrumental in setting up the Geojit brand and has been engaged in equity broking since the early 1980s. His experience helps in providing guidance and direction to the group, which operates through many associates across India.
The senior management team is led by Mr. Satish Menon and Mr Balakrishnan, the executive directors of the company, having close to three decades of experience in the financial sector.

Comfortable earnings profile; with focus on diversification
On a consolidated level, the company reported a profit after tax (PAT) of ₹154 crore during FY22 as against a PAT of ₹127 crore for FY21 (growth of 22% y-o-y) and ₹51 crore for FY20 (compounded annual growth rate [CAGR] of 45% for three years). The substantial increase in PAT was majorly contributed by overall positive sentiments in the broking industry for last two fiscals. Given the increase in client acquisition during FY22, broking income stood at ₹288 crore in FY22. It forms around 58% of the total consolidated income during FY22. Furthermore, the loan book w.r.t margin funding improved from ₹102 crore in FY21 to ₹216 crore in FY22 (growth of 112%), thereby resulting in rise in the interest income from margin funding, which stood at ₹22 crore (FY21: ₹5 crore).
The company has been focussing on having a diversified revenue stream, especially to get into the distribution business in order to reduce its dependency on broking income, which is volatile in nature as it is driven by the market activities. In 2018, the distribution revenue formed 12% of the total income, while in FY22 it forms 16% of the total income.

The company reported decline in profitability in H1FY23 with PAT of ₹46 crore on a total revenue of ₹214 crore as compared with the same period last year due to lower market volumes in retail cash segment impacting the brokerage income. Also, given the expected moderation in cash volumes at the industry level and high competition, Geojit's profitability will be at same levels. Furthermore, given the scale in the operations along with market volatility, the earnings profile of GFSL will remain a key monitorable.

Comfortable capital structure
On a consolidated level, Geojit has a comfortable capitalisation profile with a gearing of 0.06x (excluding non-fund-based) and tangible net worth (TNW) of ₹753 crore as on March 31, 2022. The leverage could go up from the current level, with the scale-up in the lending business (housed in the non-banking financial company [NBFC] – Geojit Credits Private Limited [GCPL]), as the borrowing requirement for the company largely arises from the lending activities, while the broking business requires bank guarantees. However, currently, the lending business under GCPL is small with revenue of ₹2 crore and TNW of ₹8 crore.
Furthermore, the overall resource profile constitutes of over drafts, working capital limits, bank guarantees (OD/WCDL/BG) facilities, which are secured against the fixed deposits. However, given the short-term tenure of its lending book, short-term borrowings will continue to hold the majority portion.

Key weaknesses
Modest scale of operations

Geojit's size continues to remain modest given the market share of the company in retail cash segment remaining below 1%. Furthermore, the market position of the company in terms of share of active client base on NSE, reflected by its overall rank has declined due to the competition from discount brokers even though the active client base of the company is witnessing yearly growth. As on March 31, 2022, the market position was 17th as compared with the 14th position as on March 31, 2021. With its sticky client base, the company is, however, primarily focusing on increasing the volumes and average revenue per client.

Highly dependence on capital market industry
The company's revenue mix profile, on a consolidated basis, though moderated as compared to prior years, continues to be dominated by capital markets (58% of the total revenues in FY22), which are inherently vulnerable to market cycles. The net interest income from financing activities which includes MTF book, loan against share and commodities (14% of the total revenue in FY22) is also dependent on the capital market segment. Nevertheless, income from distribution of financial products

(16%), depository services, and portfolio management services gives diversification to the overall revenue. Thus, the group's ability to profitably improve the diversification would be a key monitorable.
In addition to this, intense competitive pressures in the industry with zero brokerage firms seizing market share of traditional players, continue to impact the margins. CARE Ratings expect the share of distribution income will increase from its current levels to partially offset the competition risk. The group's ability to profitably improve the diversification would be key monitorable.

Susceptibility to the risk of regulatory changes
The capital market industry has been witnessing increasing regulatory oversight and tightening of guidelines. With the objective of further enhancing the transparency levels and limiting the misuse of funds, SEBI has introduced a few regulations in the last two years. Some of these regulations include peak margin rule 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 and limiting the misuse of power of attorney with "Demat Debit Pledge Instructions" (DDPI). Furthermore, regulators are even in deliberation to enhance brokers and trading members' net worth criteria and provide a regulatory framework for third-party application programming interface-based trading strategies. CARE Ratings believes that the Geojit group has already streamlined its systems in accordance with the revised regulations as of yet, and the expectation of the group to constantly adapt the evolving regulatory landscape without any adverse impact on its overall business profile will remain a key monitorable.

Liquidity: Strong
As on September 30, 2022, Geojit had free cash and bank balance of ₹52 crore along with unutilised OD/BG/WCDL lines of ₹937 crore. In addition to the above liquidity, the company has been maintaining sufficient margin with the exchange over and above the required limit thus providing additional comfort.

Applicable criteria
Policy on Default Recognition
Rating Methodology- Service Sector
Rating Methodology- Consolidated
Financial Ratios-Financial Sector
Rating Outlook and Credit watch
Short Term Instruments
Policy on Withdrawal of ratings

About the company
Geojit Financial Services Limited (GFSL) is an investment service provider in India with an expanding presence in the Middle East. GFSL had its origin in the year 1987 as a partnership firm of C. J. George and his associates. In 1994, the firm was converted into a Company with the objective of providing technically superior trading platform for the investor community in Kerala. Over the years, the Company has spread its operations across the country through branch and franchisee network. In 2007, BNP Paribas SA became a major shareholder in the Company.
The Company offers complete spectrum of financial services, including online broking for equities, commodities, derivatives and currency futures, custody accounts, financial products distribution, portfolio management services, margin funding, etc. GFSL offers services to non-resident Indians with presence in Gulf Cooperation Council countries. It has operations outside the country through subsidiaries, an associate and joint ventures in Oman, Kuwait, UAE and Saudi Arabia. GFSL's total clients stood at 12,39,500 as of September 2022. The shares of the Company are listed on National Stock Exchange and Bombay Stock Exchange.
GFSL's extensive distribution network consists of 496 offices (as on September 2022) spread over 19 states and two union territories in India and four Middle Eastern nations. The Company has a strong presence in Tier-II and Tier-III cities in India. The assets under custody and management stood at ₹69,114 crore as of September 2022.

Brief Financials- Consolidated (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total income	427	501	214
PAT	127	154	44
Overall gearing (times)	0.02	0.06	0.07
Total assets	1,168	1,415	1,344
PAT margin (%)	29.64	30.82	41.00*
ROTA (%)	12.19	11.96	6.37*

A: Audited; UA: Unaudited
*Annualised

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bank guarantee	-	-	-	-	290.00	CARE A1
Bank guarantee	-	-	-	-	100.00	CARE A1
Working capital demand loan	-	-	-	-	100.00	CARE A1
Bank guarantee	-	-	-	-	100.00	CARE A1
Bank guarantee	-	-	-	-	50.00	CARE A1
Bank guarantee (Proposed)	-	-	-	-	50.00	CARE A1
Long-term bank facilities (Proposed)	-	-	-	-	50.00	CARE A; Stable

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	Fund-based-LT/ST	LT/ST*	740.00	CARE A; Stable / CARE A1	-	-	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Financial covenants	1. Current Ratio>=1.30 x
	2. TOL/ATNW<=2.00x

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-LT/ST	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.

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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.

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