Geojit Financial Services Limited (Revised)

December 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	393.00 (Reduced from 740.00)	CARE A; Stable/CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings re-affirmed to the bank facilities of Geojit Financial Services Limited (GFSL) factors 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

- Sustained improvement in the market share and geographical diversification.
- Significant improvement in the revenue diversification along with maintaining profitability on a sustained basis.

Negative factors

- Inability to scale up its market share and volume in the retail cash segment.
- Weakening of the capital structure and profitability metrices.

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:

- Geojit Credits Pvt Ltd
- Geojit Techloan Pvt Ltd
- Geojit Technologies Pvt Ltd
- Qurum Business Group Geojit Securities LLC
- Geojit IFSC Ltd
- Geojit Investments Ltd

Joint ventures (JVs):

- Barjeel Geojit Financial services LLC

Associates:

- BBK Geojit securities KSCC

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

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation of continued financial performance of the company along with comfortable capitalization level.

Detailed description of the key rating drivers

Key strengths

Operational track record in retail cash segment and established client base

GFSL has a long track record of about three decades (1987) in the capital market segment. The company has its presence in retail broking, especially in the cash market segment, as reflected in its market share of 0.59% in the cash segment during September 2023. Its industry level volumes in future and options (F&O) have increased significantly while its volumes in the cash segments have declined in the past few fiscals. This is driven by the high leverage availability in the F&O segment along with the increase in active customer base, driven mainly by discount broker offerings such as low brokerage and user-friendly interfaces.

However, the client base of GFSL is sticky and this helps it maintain an overall turnover in the retail cash segment during low volume periods in the market. Furthermore, the company offers a 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 has operations outside the country through subsidiaries, an associate, and JVs in Oman, Kuwait and the UAE.

Extensive experience of the promoters and senior management team in the capital market segment

GFSL is headed by CJ 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 Satish Menon, Balakrishnan and Jones George, executive directors of the company, having close to three decades of experience in the financial sector.

Moderate earnings profile with focus on diversification

The company's brokerage income stood at ₹209 crore in FY23, which has decreased from ₹288 crore in FY22, due to lower turnover of the retail cash segment, which is the major contributor and had a 75% share in the brokerage income of the company. In FY23, overall broking industry's retail cash market turnover (National Stock Exchange [NSE] + Bombay Stock Exchange [BSE]) decreased by 28% whereas decline was on higher side for GFSL's leading to lower market share. The impact was on the higher side for GFSL because majority of its volumes come from cash deliveries, whereas the broking industry's cash volumes are generally skewed towards intraday trading.

During FY23, the company increased the branches from 338 to 357 and the number of employees from 2,308 to 2,425, which resulted in an increase in the opex. The reduction in revenue and higher opex led to a moderation in the profit-after-tax (PAT) to ₹101 crore during FY23 as against a PAT of ₹154 crore for FY22.

The company has been focusing on having a diversified revenue stream, especially to diversify in the distribution business in order to reduce its dependency on broking income, which is volatile in nature, as it is driven by market activities. The company has gradually diversified its distribution revenue, which formed 12% of the total income in FY18 and has now increased to 22%

(₹98.78 crore) in FY23 of the total income. Furthermore, with increase in the (MTF) book, the interest income contributed 19% (₹84 crore) for the year.

Given the scale of operations along with the market volatility, the earnings profile of GFSL will remain a key monitorable.

Comfortable capital structure

On a consolidated level, GFSL has a comfortable capitalisation profile with a gearing of 0.23x including non-fund-based debt, 0.10x excluding non-fund-based, and a tangible net worth (TNW) of ₹772 crore on a consolidated basis as on March 31, 2023. As on September 30, 2023, the TNW stood at ₹796 crore on a consolidated basis. 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 lending activities.

Furthermore, the overall resource profile constitutes of overdraft (OD), working capital limit (WCDL), bank guarantee (BG) facilities, which are secured against the fixed deposits (FDs). However, given the short-term tenure of its lending book, the short-term borrowings will continue to hold the majority portion. CARE Ratings expects the company to keep the gearing below 1x going forward.

Key weaknesses

Modest scale of operations

GFSL's size continues to remain modest, with a market share in the cash segment of 0.68% in FY23, which has declined from 0.81% in FY22. Furthermore, the market position of the company in terms of the share of an active client base on NSE, as reflected by its rank, has marginally improved from 17th in FY22 to 16th in H1FY24. The active client base of the company remained at a similar level since FY21, however, the market share in turnover has declined during the mentioned period. With its sticky client base, the company is, however, primarily focusing on increasing its volumes and average revenue per client along with increasing its mutual fund and distribution business.

High dependence on capital market industry

The company's revenue profile, on a consolidated basis, although moderated as compared to prior years, continues to be dominated by capital markets (47% of the total revenues in FY23), which are inherently vulnerable to market cycles. The interest income, which includes the MTF book, loan against share and commodities (19% of the total revenue in FY23), is again dependent on the capital market segment. Nevertheless, income from the distribution of financial products (22%), depository services, and portfolio management services gives a diversification to the overall revenue. Thus, the group's ability to profitably improve the diversification will be a key monitorable.

In addition to this, the intense competitive pressures in the industry with zero brokerage players continue to impact the margins. Given the competition risk, the company's ability to maintain its market share will remain a key monitorable.

Susceptibility to the risk of regulatory changes

The capital market industry has witnessed continuous regulatory revisions. With the objective of further enhancing the transparency levels and limiting the misuse of funds, the Securities and Exchange Board of India (SEBI) has introduced a few regulations in the past two years.

In July 2022, the Demat Debit Pledge (DDPI) was implemented and it replaced the Power of Attorney (PoA) provided by clients to brokers. In May 2023, SEBI prohibited stockbrokers from using client's funds for BGs. Brokers will now have to deploy their own funds; hence, increase in the funding requirements will lead to higher finance cost. The on-book gearing will also increase for brokers. In June 2023, SEBI introduced a regulation under which stockbrokers are required to upstream clients' funds to clearing corporation. No clients' funds can be retained by the stockbrokers or clearing members on an end-of-day basis. These funds must be upstreamed to clearing corporation in the form of cash, lien on FD receipts or pledged of units of mutual fund overnight schemes. Similarly, the funds received from the clearing corporation should be further downstreamed to the clients' accounts. This is expected to increase operational and compliance cost for the brokers.

The ability of the brokers to adapt their technology, systems and risk management processes, in response to the constantly evolving regulatory landscape, without any adverse impact on its overall business profile, remains a monitorable.

Liquidity: Strong

As on September 30, 2023, GFSL had a free cash and bank balance of ₹19.09 crore along with unutilised OD, BG, and WCDL lines of ₹431.01 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. The company's average margin utilisation was around 30% for the last 12 months.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Broking Firms

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Capital markets	Stockbroking and allied

GFSL is an investment service provider in India with an expanding presence in the Middle East. GFSL originated in 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 a 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. GFSL offers a 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 a presence in the GCC countries. It has operations outside the country through subsidiaries, an associate, and JVs in Oman, Kuwait and the UAE. The shares of the company are listed on the NSE and BSE.

GFSL's extensive distribution network consists of 501 offices (as on September 30, 2023), spread over 19 states and two Union Territories in India and four in the 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 ₹79,243 crore as on September 30, 2023.

Brief Financials – Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total income	501	448	261
PAT	154	101	60
Overall gearing (times)	0.44	0.23	0.31
Total assets	1,415	1,321	1,624
PAT margin (%)	30.82	22.56	22.78
ROTA (%)	11.96	7.38	8.08*

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

*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
Long-term/Short-term bank facilities*	-	-	-	-	393.00	CARE A; Stable/CARE A1

*includes Proposed Long term bank facilities of Rs. 50 crores.

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 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	Fund-based-LT/ST	LT/ST*	393.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (11-Jan-23)	-	-

*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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