Geojit Financial Services Limited

March 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	393.00	CARE A; Stable / CARE A1	Reaffirmed
Commercial Paper	100.00	CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the Commercial Paper program and 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 market share and geographical diversification.
- Significant improvement in revenue diversification along with maintaining profitability on a sustained basis.

Negative factors

- Inability to scale up its market share and volumes in 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 list of the subsidiaries considered for consolidation is as per Annexure 6.

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:

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

Key strengths

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

Geojit Financial Services Ltd (GFSL) has a long track record of about three decades (1987) in the capital market segment. The company has its presence in retail broking segment, especially in cash market segment as reflected in its market share of 0.74% in retail cash segment during December 2023. At an industry level volumes in Future & Options (F&O) have increased significantly while volumes in cash segments have declined in last few fiscals. This is driven by high leverage availability in F&O segment along with increase in active customer base driven mainly by discount brokers offerings such as low brokerage, user friendly interfaces. However, client base of Geojit is sticky and this helps to maintain overall turnover in retail cash segment during low volume periods in the market. Further they offer wide spectrum of financial services to offer 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 joint ventures 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, and he 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, both are the Executive Director of the company having close to three decades of experience in the financial sector.

Moderate earnings profile; with focus on diversification

For 9MFY24, the company reported profit of Rs 96.74 crore as against the profit of Rs 71.53 crore for 9MFY23. This increase was due to increase in brokerage income from Rs. 164.97 crore in 9MFY23 to Rs. 194.22 crore in 9MFY24 because of the retail cash market performing well. Income from distribution has also increased from Rs. 65.82 crore in 9MFY23 to Rs. 87.59 crore in 9MFY24 because the company has started focusing on distribution products like mutual funds and insurance.

The Company's brokerage income stood at Rs. 209 crore in FY23 which has decreased from Rs. 288 crores in FY22 due to lower retail cash segment turnover for the company which is the major contributor and had a 75% share in the brokerage incomer of the company. In FY23, Geojit's cash market turnover declined sharply by 48% whereas the overall broking industry's retail cash market turnover (NSE+BSE) decreased by 28%. The impact was on higher side for Geojit because majority of the Geojit's volume comes from cash deliveries whereas broking industry's cash volumes are generally skewed towards intraday trading.

During FY23, the company has increased the branches from 338 to 354 and the number of employees from 2,308 to 2,425 which resulted in increase in opex. Reduction in revenue and higher opex led to moderation in PAT to Rs. 101 crore during FY23 as against a PAT of Rs. 154 crore for FY22.

The company has been focusing on having a diversified revenue stream; especially to diversify in distribution business in order to reduce its dependency on broking income which is volatile in nature as it is driven by the market activities. The company has gradually diversified with its distribution revenue, which formed 12% of the total income in FY18 has now increased 22% (Rs. 98.78 cr) in FY23 of the total income. Further, with increase in MTF book, the Interest income contributed 19% (Rs. 84 crores) for the year.

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 0.23 times (including non fund-based debt), 0.10 times (excluding non-fund based) and tangible net worth of Rs. 777 crore on a consolidated basis as on March 31, 2023. As on September 30, 2023, tangible net worth stood at Rs. 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 the lending activities.
Further, the overall resource profile constitutes of overdrafts, working capital limits, bank guarantees (OD/WCDL/BG) facility 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. The company is expected to keep gearing below 1 time going forward.

Key weaknesses

Modest scale of operations

Geojit's size continues to remain modest with the market share in retail cash segment of 0.74% in 9MFY24 which has declined from 0.81% in FY22. Further, the market position of the company in terms of share of active client base on NSE, stood at 18^{th} as on December 2023. The active client base of the company remained at similar level since FY21, however market share in turnover has declined during the said period. With its sticky client base, the company is, however, primarily focusing on increasing the volumes and average revenue per client along with increase in Mutual fund and distribution business.

High dependence on capital market industry

The company's revenue profile, on a consolidated basis, though moderated as compared to prior years, continues to be dominated by capital markets (47% of the total revenues in 9MFY24), which are inherently vulnerable to market cycles. Interest income which includes MTF book, loan against share and commodities (19% of total revenue in 9MFY24) which is again dependent on the capital market segment. Nevertheless, income from distribution of financial products (21%), depository services and portfolio management services give 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 players, continue to impact 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, SEBI has introduced a few regulations in the last 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 bank guarantees. Brokers will now have to deploy their own funds, hence increase in the funding requirement will lead to higher finance cost. On book gearing will also increase for the brokers. In June 2023, SEBI introduced regulation under which stockbrokers are required to upstream clients' fund to clearing corporation. No clients' funds can be retained by the stockbrokers or clearing members on end of day basis. These funds must be upstreamed to clearing corporation in the form of cash, lien on fixed deposit 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.
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 December 31, 2023, Geojit had free cash and bank balance of Rs. 39.53 crores along with unutilized OD/BG/WCDL lines of Rs. 431.01 crores. 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 utilization was around 36% for the last 9 months ended December 31, 2023.

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 & Allied

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. 2. 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 December 2023) 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 ₹89,269 crore as of December 2023.

Brief Financials- Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	December 31, 2023 (UA)
Total income	501	448	415
PAT	154	101	97
Overall gearing (times)	0.44	0.23	0.30
Tangible Net Worth	753	777	834^
PAT margin (%)	31	23	23
RONW (%)	22	13	12

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
^ *Adjusted NW considering Rs. 25 crores of DTA and Intangible (Same as H1FY24)*

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
Commercial Paper (Proposed)	-	-	-	-	100.00	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	CARE A; Stable / CARE A1 (01-Dec-2023)	1)CARE A; Stable / CARE A1 (11-Jan-23)	-	-
2	Commercial Paper (Proposed)	ST	100.00	CARE A1	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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
2	Commercial Paper	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Geojit Credits Pvt Ltd	Full	Subsidiary & linkages with Geojit Financial Services Limited
2	Geojit Techloan Pvt Ltd	Full	Subsidiary & linkages with Geojit Financial Services Limited
3	Geojit Technologies Pvt Ltd	Full	Subsidiary & linkages with Geojit Financial Services Limited
4	Qurum Business Group Geojit Securities LLC	Full	Subsidiary & linkages with Geojit Financial Services Limited
5	Geojit IFSC Ltd	Full	Subsidiary & linkages with Geojit Financial Services Limited
6	Geojit Investment Services Limited	Full	Subsidiary & linkages with Geojit Financial Services Limited
7	Barjeel Geojit Financial Services LLC	Moderate	Joint Venture & linkages with Geojit Financial Services Limited
8	BBK Geojit Securities Co K.S.C.C	Moderate	Associate & linkages with Geojit Financial Services Limited

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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