Geojit Financial Services Limited

January 13, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	393.00	CARE A+; Stable / CARE A1+	Upgraded from CARE A; Stable / CARE A1
Commercial Paper	100.00	CARE A1+	Upgraded from CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Upgrade in ratings assigned to the commercial paper program and bank facilities of Geojit Financial Services Limited (GFSL) factors in healthy growth in its revenues and profitability in FY24 and the current year, and the rights issue of ₹200 crore in October 2024 led to a comfortable capitalisation profile. Ratings also favourably factor in GFSL's long track record of about three decades in capital market segment, strong position in cash segment (especially cash delivery segment) along with experienced promoters and senior management team, and established presence in retail broking segment. CARE Ratings also notes that the recent regulatory changes related to derivatives trading to have a limited impact on GFSL's credit profile given its dominant presence in the retail cash segment.

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

Care Ratings also takes note of the ongoing restructuring of the group wherein the broking and allied activities will be transferred to a separate group entity (i.e. Geojit Investments ltd), which is expected to have no material impact on the credit profile of GFSL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade

- Significant improvement in market share, geographical diversification and profitability while maintaining a comfortable capital structure on a sustained basis.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade

- Significant deterioration in retail cash segment volumes and profitability.
- Weakening of the capital structure leading to consolidated gearing remaining higher than 2x on a sustained basis.

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 subsidiaries considered for consolidation is per Annexure 6.

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that GFSL will sustain its profitable growth momentum in the near-to-medium term while maintaining comfortable capitalisation levels.

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

Detailed description of key rating drivers:

Key strengths

Long track record of operations 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 segment, especially in cash market segment as reflected in its market share of 0.72% in retail cash segment in FY24. At an industry level, increase in volumes was driven by significant increase in Future & Options (F&O) volumes while volumes in cash segments had a comparatively slower growth. This is driven by high leverage availability in F&O segment and increase in active customer base supported mainly by discount brokers' offerings such as low brokerage and user-friendly interfaces. However, GFSL caters to customers who prefer investment over speculative trading activities leading to high cash delivery volumes. This can be seen from the stickiness of clients, where a major part of the customers are associated with the company for over 10 years. This helps the company in maintaining overall turnover in retail cash segment in low volume periods in the market. It has operations outside the country through subsidiaries, an associate and joint ventures in Oman, Kuwait and UAE.

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

GFSL is headed by 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. The senior management team is led by executive directors, Mr. Satish Menon and Mr. Balakrishnan, having close to three decades of experience in the financial sector.

Improving earnings profile; with focus on diversification

For H1FY25, the company reported net profit of ₹103 crore against the profit of ₹60 crore for H1FY24. This increase was due to increase in brokerage income from ₹122 crore in H1FY24 to ₹185 crore in H1FY25 aided by good performance of the retail cash segment. Income from distribution also increased from ₹53 crore in H1FY24 to ₹87 crore in H1FY25 as the company started focusing on distribution products like mutual funds and insurance.

In FY24, the company increased branches from 354 to 355 and the number of employees from 2,425 to 2,904. Increase in revenue and lower increase in opex led to a higher profit after tax (PAT) of ₹149 crore in FY24 against a PAT of ₹101 crore for FY23.

The company has been focusing on having a diversified revenue stream; with presence in distribution business to reduce its dependency on inherently volatile broking income. The company has gradually diversified with its distribution revenue, which formed 22% of the total income in FY23 and increased to 24% (₹152 crore) of the total income in FY24. With the increase in margin trade funding (MTF) book, the interest income contributed 18% (₹113 crore) to the total income in FY24.

The company's brokerage income stood at ₹283 crore in FY24 and increased from ₹209 crore in FY23 due to higher retail cash segment turnover for the company. In FY24, GFSL's cash market turnover increased by 29%, whereas the overall broking industry's retail cash market turnover (NSE+BSE) increased by 52% on account of the fact that most trading volume comes from cash deliveries, while the broader broking industry typically sees higher volumes in intraday trading.

Comfortable capital structure

On a consolidated basis, GFSL had a comfortable capitalisation profile with a gearing of 0.56x including non-fund-based debt, and 0.44x excluding non-fund based debt and had a tangible net worth of ₹803 crore as on March 31, 2024. As on September 30, 2024, tangible net worth stood at ₹949 crore on a consolidated basis, which would increase further post the rights issue of Rs. 200 crore in October 2024, which would keep the consolidated leverage under check despite the expected scale-up in the lending business (housed in the non-banking financial company (NBFC) – Geojit Credits Private Limited; GCPL). CARE Ratings expects the company to keep gearing below one time going forward.

The overall resource profile constitutes of overdraft, working capital limits, bank guarantees (OD/WCDL/BG) facility which are secured against fixed deposits. However, given the short-term tenure of its lending book, short term borrowings will dominate the resource profile.

Key weaknesses

Modest scale of operations

GFSL's scale of operations continues to remain modest with the market share in retail cash segment of 0.72% in FY24, which declined from 0.74% in FY23. However, the company's primary focus remains the cash deliveries segment where it has maintained the turnover in deliveries. The company's market position in terms of share of active client base on NSE stood at 18th as on December 2024. The company's active client base increased by 3.44% in FY24 and further increased by 3.97% in H1FY25. However, market share in turnover has declined in this period. With its sticky client base, the company is primarily focusing on increasing the volumes and average revenue per client while simultaneously increasing the mutual fund and distribution business.

High dependence on capital market industry

The company's revenue profile on a consolidated basis continues to be dominated by capital markets (46% of the total revenues in H1FY25), which are inherently vulnerable to market cycles. Interest income which includes income from MTF book, loan against shares and commodities (21% total revenue in H1FY25) again depends on the capital market segment. Income from distribution of financial products (22%), depository services and portfolio management services, on the other hand, provides diversification to the overall revenue. 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

Capital market industry witnessed continuous regulatory revisions. With the objective of further enhancing transparency levels and limiting misuse of funds, Securities and Exchange Board of India (SEBI) introduced multiple regulations in the last few years. In May 2023, SEBI prohibited stockbrokers from using client's funds for bank guarantees (BGs). Brokers now deploy their own funds; leading to increase in funding requirements and in turn higher finance cost. On-book gearing of the industry players is also increasing post this regulation. In June 2023, SEBI introduced a regulation under which stockbrokers are required to upstream clients' funds to the clearing corporation. These funds must be upstreamed to clearing corporation in the form of cash, lien on FD receipts or pledged units of mutual fund overnight schemes. Similarly, funds received from clearing corporation should be further downstreamed to clients' accounts. This increased operational and compliance cost for brokers. Recently, in July 2024, regulator directed market infrastructure institutes (MIIs) to revise charge structure and adopt a standardised fee structure to all members replacing existing volume-based slab-wise model. In October 2024, SEBI introduced multiple measures to curb retail participation. Some of the measures have become effective from November 2024 such as reduction in derivatives with weekly expiry which was highest F&O contributor, increase in lot size and increased in extreme loss margin by 2% on short options contracts. A few measures will be implemented in the coming quarters, which includes upfront collection of option premiums, removal of Calendar Spread Treatment on Expiry Day and intraday monitoring of client's and broker's limits. GSPL's top line is unlikely to be impacted by these developments as 80% of the company's revenue is contributed by the cash segment.

CARE Ratings will continue to monitor GFSL's ability to adapt its technology, systems, and risk management processes in response to the constantly evolving regulatory landscape to limit any material impact on its overall business profile.

Liquidity: **Strong**

As on September 30, 2024, GFSLhad free cash and bank balance of ₹15.55 crore and unutilised OD/BG/WCDL lines of ₹579.78 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 comfort. The company's average margin utilisation was ~34% for the last 12 months ended September 30, 2024.

Applicable criteria

Consolidation
Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Broking Firms
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 had its origin in 1987 as a partnership firm of C J George and his associates. In 1994, the firm was converted to a company with the objective of providing 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 and has 24.66% holding as on September 30, 2024.

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, and margin funding, among others. GFSL also 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 and UAE. The company's shares are listed on National Stock Exchange and Bombay Stock Exchange.

GFSL's distribution network consists of 506 offices (as on September 2024) spread over 19 states and two union territories in India and in 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 ₹ 1,12,976 crore as on September 2024.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total income	448	624	400
PAT	101	149	103
Tangible Net worth	777	803	949
Loan Book (MTF & T+1)	292	526	701
Cost-to-Income (%)	72%	68%	64%
Overall Gearing (x)	0.23	0.44	0.48
PAT Margin (%)	21%	23%	25%
RONW (%)	13%	19%	24%
ROTA (%)	7%	9%	11%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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 and 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 ₹50 crores

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based-LT/ST	LT/ST	393.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (22-Mar-24) 2)CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (11-Jan-23)	-

						(01-Dec-23)		
2	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1 (22-Mar-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of 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 Investments 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

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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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