

July 13, 2023

Nextbillion Technology Private Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based/non-fund based bank facilities	108	[ICRA]A1+; assigned
Total	108	

*Instrument details are provided in Annexure I

Rationale

The assigned rating factors in Nextbillion Technology Private Limited's (NBT) leading market position in the equity broking segment (2nd in terms of National Stock Exchange (NSE) active clients as on March 31, 2023), its comfortable capitalisation with nil gearing, improving profitability trajectory and strong liquidity position. NBT has, under the brand 'Groww', emerged as one of the leading discount brokers in India as it made substantial client additions during FY2022-FY2023 amid industry tailwinds and record retail investor participation, especially in FY2022.

NBT is a subsidiary of Billionbrains Garage Ventures Private Limited (BGV)¹, which in turn is wholly owned by the ultimate parent, i.e. Groww Inc. NBT is the Group's flagship operating entity² and a key contributor to the income stream of the parent (BGV) for the services offered. The growth in NBT's client base led to improved broking volumes and earnings in FY2023 with the company reporting a return on net worth (RoNW) of 13.2%³ and a profit after tax (PAT) of Rs. 73.0 crore on net operating income (NOI) of Rs. 1,294.0 crore compared to a PAT of Rs. 6.8 crore and NOI of Rs. 367.4 crore in FY2022.

NBT's net worth stood at Rs. 590 crore as on March 31, 2023 and remains comfortable for the current scale of operations and the near-term growth plans. There were no borrowings outstanding as of March 2023, although the company has availed overdraft facilities which are utilised for intermittent, short-term funding requirements. ICRA notes that NBT is preparing to foray into the margin trading facility (MTF) business, which will lead to higher borrowings, although ICRA expects the financial leverage to remain comfortable. BGV's net worth and liquidity reserves are meaningfully more than that of NBT, supported by equity capital infusions by the ultimate parent. While the Group has initiated diversification into other lines of business, ICRA expects management and financial support from the Group to be forthcoming to NBT, as and when required.

The above positives are, however, offset by NBT's high dependence on capital markets, which are inherently volatile and cyclical in nature. Moreover, the Group is yet to diversify the income stream as a sizeable share of the broking revenues is from futures and options (F&O) broking (over 80% of broking income in FY2023). Further, the rating remains susceptible to regulatory changes as well as technological risks, given its predominantly online presence. Going forward, NBT's ability to maintain the momentum of client additions while improving its revenues and profitability and maintaining comfortable capitalisation would remain critical from a credit perspective.

¹ BGV holds 99.99% of the shares

² BGV and its subsidiaries collectively

³ While the RoNW of NBT on a standalone basis stood at 13.2% for FY2023, the RoNW of BGV (on a consolidated basis) was meaningfully higher compared to NBT's standalone RoNW in FY2023

Key rating drivers and their description

Credit strengths

Leading position in equity broking segment – NBT is one of the leading discount brokers in the country. It is ranked 2nd, in terms of NSE active clients as on March 31, 2023, with a market share of 16%. The company made significant client additions during FY2022-FY2023, supported by industry tailwinds and record retail participation in domestic capital markets in the country, especially in FY2022. Supported by the expanding client base, NBT reported a sizeable improvement in broking volumes and income in FY2023. Its cash market share⁴ (excluding proprietary turnover) is estimated to have improved to ~6% in FY2023 from 3.8% in FY2022 and 0.8% in FY2021. The healthy improvement in derivatives volume in FY2023 further supported the broking revenues. As NBT's leading market position has been achieved in a relatively short time span, its sustainability will be a monitorable in the evolving industry landscape.

Comfortable capitalisation – NBT's capitalisation remains comfortable with a net worth of Rs. 590.0 crore and nil borrowings as on March 31, 2023. The net worth is primarily deployed in margins placed at the exchange, followed by certain amounts parked in the form of cash/bank balances and liquid investments. While the company has sanctioned overdraft facilities, these are backed by fixed deposits which are utilised for intermittent, short-term funding requirements. ICRA notes that NBT is preparing to foray into the MTF business that will lead to higher borrowings, though the financial leverage is expected to remain comfortable. Further, ICRA expects financial support from the parent to be forthcoming if required, given NBT's strategic importance to the Group. In this regard, it is noted that BGV's net worth and liquidity reserves are meaningfully more than that of NBT, supported by equity capital infusions by the ultimate parent. The Group has raised over Rs. 2,800-crore equity capital till date and there are no accumulated losses. Of this, the capital infusion in NBT by BGV amounts to ~Rs. 500 crore till date.

Improving earnings profile – NBT's earnings profile remained constrained till FY2022, given its limited vintage in the equity broking space. The earnings profile improved thereafter as the company made significant client additions during FY2022-FY2023. It reported an RoNW of 13.2% with a PAT of Rs. 73.0 crore on NOI of Rs. 1,294.0 crore (PAT/NOI – 3.7%) compared to a PAT of Rs. 6.8 crore and NOI of Rs. 367.4 crore in FY2022 (PAT/NOI – 0.6%). Nonetheless, it is noted that the profitability at NBT's standalone level remains constrained by an elevated cost-to-income ratio. A sizeable portion of the operating expenses is on account of software, server and technology services provided by the parent (BGV). Going forward, a sustained improvement in NBT's revenues and profitability will remain imperative from a credit perspective.

Credit challenges

Concentrated dependence on capital markets, which are inherently volatile and cyclical in nature; presence in other capital market segments yet to be established – As the company's revenues are linked to the inherently volatile capital markets, its profitability remains vulnerable to market performance. NBT's primary source of revenue remains retail broking which accounted for over 90% of its NOI in FY2023. Interest income on fixed deposits largely made up the balance NOI. Moreover, the Group has initiated diversification in to other lines of business and the share of broking revenues remain sizeable, especially from the F&O segment (over 80% of broking income in FY2023). Thus, any downturn in the capital markets may impact NBT's financial performance.

Susceptibility to risk of regulatory changes and/or technological risks – The broking industry has witnessed multiple regulatory changes in the last couple of years aimed at enhancing investor confidence and ensuring the protection of investor interest. These changes have increased the working capital requirements and compliance burden across players. However,

⁴ Market share as per ICRA calculations

NBT takes an upfront margin from its clients, which limits its own funding requirement. While the growth of discount brokers has been phenomenal during the last few years with their market share increasing to 58% of NSE active clients in FY2023⁵ (less than 10% till FY2017), they would be at a comparatively greater risk of facing technology-related issues owing to their end-to-end digital presence.

Liquidity position: Strong

NBT's funding requirement is primarily for placing margin buffers at the exchanges as it has nil debt outstanding as on March 31, 2023. Its margin utilisation ranged between 12% and 15% (basis month-end data) during April 2022 to March 2023. As on March 31, 2023, the margin placed at the exchanges aggregated ~Rs. 1,664 crore, of which ~Rs. 575 crore was from the company's own fund. The overall margin utilisation, as on March 31, 2023, was ~6% of the margin placed. As on March 31, 2023, the company had liquid investments of Rs. 93 crore. Further, it had unutilised, fund-based bank lines of Rs. 157.5 crore, which can be utilised in case of exigencies.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded if there is a significant decline in NBT's revenue, leading to a weakening of the financial performance. The rating would also come under pressure in case of a deterioration in the credit profile of the parent (BGV) or any weakening in the strategic importance to the parent. Any adverse change(s) in the regulatory environment, affecting NBT's business operations and financial performance, would also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Brokerage Industry Rating Approach – Implicit Support from Parent or Group
Parent/Group support	Billionbrains Garage Ventures Private Limited (BGV) NBT is a wholly-owned subsidiary of BGV and ICRA expects that the company will receive adequate and timely support from the parent, if required.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of NBT.

About the company

Nextbillion Technology Private Limited (NBT) was incorporated in May 2016. It is a subsidiary of Billionbrains Garage Ventures Private Limited (BGV) and its ultimate parent company is Groww Inc., which is based out of Delaware, USA. The company started its business as a mutual fund investment platform, under the brand name 'Groww'. Subsequently, it obtained registration from the Securities and Exchange Board of India (SEBI) as a stockbroker. NBT is registered with the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Its registered office is in Bengaluru. It had 53.7-lakh active NSE customers as on March 31, 2023 and stood 2nd in terms of active NSE clients as on that date. NBT offers equity broking services in the cash as well as derivatives segment, besides mutual fund distribution.

⁵ Source: NSE website

Key financial indicators

Nextbillion Technology Private Limited – Standalone	FY2022/Mar-22	FY2023/Mar-23*
Fee income (including broking)	324.1	1,204.0
Net interest income	43.3	89.5
Net operating income (NOI)	367.4	1,294.0
Total operating expenses	357.3	1,197.2
Non-operating income	1.4	2.9
Profit before tax	9.3	97.7
Profit after tax (PAT)	6.8	73.0
Net worth	516.6	590.0
Borrowings	0.0	0.0
Gearing (times)	0.0	0.0
Cost-to-income ratio	97.3%	92.5%
Return on net worth	1.8%	13.2%
PAT/NOI	1.9%	5.6%

Source: Company, ICRA Research; *Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jul 13, 2023				
1	Short-term fund-based/non-fund based bank facilities	Short term	108	-	[ICRA]A1+	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based/non-fund based bank facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term fund-based/non-fund based bank facilities	NA	NA	NA	108	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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