

January 23, 2024^(Revised)

Nextbillion Technology Private Limited: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

The rating continues to factor in Nextbillion Technology Private Limited's (NBT) strong market position in the equity broking segment (leading position in terms of National Stock Exchange (NSE) active clients as of November 30, 2023), comfortable capitalisation, healthy profitability with improving trajectory and strong liquidity position. NBT, operating under the brand 'Groww', has emerged as one of the leading discount brokers in India as it made substantial client additions since FY2022 amid industry tailwinds and record retail investor participation in capital markets.

NBT is a subsidiary of Billionbrains Garage Ventures Private Limited (BGV; which owned 99.99% stake in NBT as of December 31, 2023), which is owned by Groww Inc. USA (the ultimate parent with 99.99% shareholding as of December 31, 2023). NBT is the Group's¹ flagship operating entity and a key contributor to BGV's income stream for 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% and a profit after tax (PAT) of Rs. 73.1 crore on net operating income (NOI) of Rs. 1,294.6 crore compared to a PAT of Rs. 6.8 crore and NOI of Rs. 367.4 crore in FY2022 (RoNW of 1.8%). The profitability remained on an improving trajectory in H1 FY2024.

NBT's net worth stood at Rs. 590.0 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 at the Group level, although NBT 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. BGV's consolidated net worth stood at Rs. 2,856.9 crore² as on March 31, 2023 with nil borrowings. ICRA notes that the Group has initiated diversification into other lines of business, which would require capital outlay in the near-to-medium term. Nonetheless, the capital position is expected to remain comfortable and 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 (75-80% of total broking income). Further, it remains susceptible to regulatory changes as well as technological risks, given its predominantly online presence and the evolving fintech landscape. 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 and its subsidiaries/associates are collectively referred to as the Groww Group or the Group

² Excluding goodwill of Rs. 276.8 crore; Note – In FY2021, other income included Rs. 244.9-crore on account of remeasurement of previously held interest in acquiree in business combination, which is included in net worth.

Key rating drivers and their description

Credit strengths

Strong market position in equity broking segment – NBT, a subsidiary of BGV and the key operating entity of the Group, is now the leading discount broker in the country in terms of NSE active clients. It was ranked 1st in terms of NSE active clients as of November 30, 2023, with a market share of 20%. The company made significant client additions since FY2022, supported by industry tailwinds and record retail participation in domestic capital markets, a trend which continued in H1 FY2024. Supported by the expanding client base, NBT reported a sizeable improvement in broking volumes and income in FY2023 and H1 FY2024. Its cash market share³ (excluding proprietary turnover) stood at ~6% in FY2023 compared to 3.8% in FY2022 and 0.8% in FY2021. The healthy improvement in derivatives volume in FY2023 and H1 FY2024 supported the company's overall market position and broking revenues further. Nonetheless, ICRA notes that NBT's leading market position has been achieved in a relatively short time span and the sustainability of the same will be a monitorable, given 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 exchanges, followed by certain amounts in the form of cash/bank balance 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.

BGV has infused over RS. 500 crore of equity capital in NBT till date. It is also 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. BGV's consolidated net worth stood at Rs. 2,856.9 crore as on September 30, 2023 with nil borrowings (BGV held consolidated liquid funds of ~Rs. 3,045 crore⁴ as of September 30, 2023, of which ~Rs. 2,200 crore was unencumbered). ICRA notes that the Group has initiated diversification into other lines of business, which would require capital outlay in the near-to-medium term. Nonetheless, the capital position is expected to remain comfortable and ICRA expects management and financial support from the Group to be forthcoming to NBT, as and when required.

Healthy profitability with improving trajectory – NBT's earnings profile was constrained till FY2022, given its limited vintage in the equity broking space. The earnings profile has, however, improved thereafter as the company made significant client additions from FY2022. The growth in NBT's client base led to improved broking volumes and earnings in FY2023 with RoNW of 13.2% and PAT of Rs. 73.1 crore on NOI of Rs. 1,294.6 crore compared to a PAT of Rs. 6.8 crore and NOI of Rs. 367.4 crore in FY2022. The profitability remained on an improving trajectory in H1 FY2024. Nonetheless, it is noted that NBT's profitability at the standalone level remains constrained by the elevated cost-to-income ratio. A sizeable portion of the operating expenses is on account of the software, server and technology services provided by the parent (BGV).

BGV reported an RoNW of 17.0% with a consolidated PAT of Rs. 448.8 crore on NOI of Rs. 1,419.5 crore (PAT/NOI – 31.6%) in FY2023 compared to a loss of Rs. 239.0 crore on NOI of Rs. 418.4 crore in FY2022. The earnings improved further in H1 FY2024. 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 with the balance mainly comprising interest income on fixed deposits. While the

³ Market share is as per ICRA's calculations

⁴ Includes Rs. 20 crore liquid funds of GCS, which was an associate of BGV as of September 30, 2023

Group has initiated diversification into other lines of business, the share of broking revenues remains sizeable, especially from the F&O segment (75-80% of total broking income). Thus, any downturn in the capital markets may impact NBT's financial performance.

Susceptibility to 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, 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 had 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 used in case of exigencies.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A significant decline in NBT's revenue, resulting in the weakening of the financial performance. A deterioration in the credit profile of the parent (BGV) or any weakening in the strategic importance to the parent and any adverse change(s) in the regulatory environment, affecting NBT's business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services 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 (financial and operational) from the parent, if required.
Consolidation/Standalone	Standalone

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 in 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 is one of the leading discount brokers in the country with ~71-lakh active NSE customers as on November 30, 2023. NBT offers equity broking services in the cash as well as derivatives segment, besides mutual fund distribution.

⁵ Source: NSE website

Key financial indicators

NBT – Standalone	FY2022	FY2023
Net operating income	367.4	1,294.6
Profit after tax	6.8	73.1
Net worth	516.6	590.0
Total assets	1,799.8	2,193.5
Gearing (times)	0.0	0.0
Return on average net worth	1.8%	13.2%

Source: Company, ICRA Research; 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* (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan 23, 2024	Jul 13, 2023			
1	Short-term fund-based/non-fund based bank facilities	Short term	108	Nil	[ICRA]A1+	[ICRA]A1+	-	-	-

*As on December 31, 2023

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

Corrigendum

Rationale dated January 23, 2024 has been revised with the following changes:

- Rating approach – implicit support from parent or group added under ‘Applicable rating methodologies’ in the ‘Analytical approach’ section on page 3.

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Branches



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