August 29, 2024

GEPL Capital Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based bank facilities – Bank guarantee	55.00	55.00	[ICRA]A4; reaffirmed
Long-term fund-based bank facilities – Overdraft	20.00	20.00	[ICRA]BB- (Stable); reaffirmed
Long-term/Short-term – Unallocated	15.00	15.00	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed
Total	**90.00**	**90.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in GEPL Capital Private Limited's (GEPL) track record in the equity broking business and its capitalisation level, which is adequate for the current scale of operations. The ratings, however, remain constrained by the modest scale of operations with low revenue diversification. The ratings also consider the inherent volatility in the company's operations, given the linkages with capital markets and its exposure to the evolving operating and regulatory environment. Further, the intense competition in the broking industry is likely to continue exerting pressure on GEPL's broking volumes and/or the yields. Moreover, ICRA takes note of GEPL's exposure to market risk arising from proprietary trading, notwithstanding the management's efforts to deploy hedged strategies.

Going forward, a significant ramp-up in the scale of operations, along with a meaningful diversification in the revenue profile and a sustained improvement in the financial performance, will remain critical from a credit perspective. Moreover, GEPL's ability to sustain the impact of the evolving regulatory landscape and rising working capital requirements will remain a key factor. The Stable outlook reflects ICRA's expectation that the company would continue to maintain an adequate financial profile commensurate with its scale of operations.

Key rating drivers and their description

Credit strengths

Track record in retail equity broking business – Incorporated in 1997 as Gupta Equities Pvt. Ltd., GEPL is the flagship company of the GEPL Group[1] and is primarily engaged in equity broking. In addition to a presence in retail broking through direct, franchisee and online channels, GEPL has a small presence in the institutional broking segment. The company is promoted by Mr. Vivek Gupta, who has more than two decades of experience in the equity broking industry. It had 10,642 clients through a network of 152 franchises and 21 branches as on March 31, 2024 compared to 10,150 clients serviced through 291 franchises and 22 branches as on March 31, 2023. Aided by industry tailwinds, it reported a healthy increase in broking volumes in FY2024, albeit on a small base. As of March 31, 2024, it also had empanelment with ~35-40 institutional clients. GEPL relies on references and institutional tie-ups, such as 3-in-1 account partnerships with banks, for expanding its client base.

Adequate capitalisation for current scale of operations – As on March 31, 2024, GEPL's capitalisation was characterised by a net worth[2] of Rs. 16.5 crore. Moreover, the promoter group has infused about Rs. 11 crore through convertible preference shares. The company also has an overdraft limit of Rs. 20 crore, with average utilisation of ~81% during the 12-month period

[1] Entities promoted by Mr. Vivek Gupta and family are collectively referred to as the GEPL Group

[2] Excluding 6% redeemable non-cumulative preference share capital of Rs. 11 crore

ending March 2024. Overall, the capitalisation level has remained adequate for the current scale of operations. ICRA, however, notes that GEPL's ability to sustain the impact of the evolving regulatory landscape and rising working capital requirements will remain a monitorable.

Credit challenges

Modest scale of operations and limited revenue diversification – GEPL is a primarily a retail equity broking player with a small presence in the institutional broking segment. Its market position remains modest, characterised by a cash segment market share of 0.1% (in terms of volumes) in FY2024, while its market share in the futures & options (F&O) segment remains negligible. Further, the broking yields declined in FY2024, notwithstanding the growth in broking volumes, amid industry-wide pressure on yields owing to increasing competition.

Broking income is the key revenue driver for GEPL, accounting for 61% of its net revenues in FY2024, followed by net interest income from fixed deposits with exchanges and a small margin trade funding (MTF) book (19%) and proprietary investment income (~11%). The company also derives income through other avenues like distribution of financial products, depository participant income, etc., although the same accounted for only ~9% of the net income in FY2024. On average, broking income accounted for ~80% of the net revenues during FY2019-FY2024. GEPL's ability to achieve meaningful scale-up and revenue diversification would remain critical from a credit perspective.

Exposed to risks inherent in capital market-related businesses – The trading volumes and revenues of securities broking companies are susceptible to the inherently volatile capital markets, which are cyclical in nature. Broking income accounted for 61% of GEPL's net income in FY2024 and ~80% of its net income, on average, during FY2019-FY2023. Further, other revenue streams like interest income on fixed deposits lien marked with exchanges or banks, delayed payment charges on the T+5 book/MTF, investment income, and distribution and depository income are directly or indirectly linked to the performance of the capital markets. Thus, GEPL's profitability remains dependent on the performance of the capital markets and any downturn in these markets may impact its financial performance and capitalisation profile.

Intense competition in capital markets; evolving operating and regulatory environment – The securities broking sector remains characterised by intense competition and susceptibility to the entry of new players. In this regard, heightened competition in the equity broking segment and the growing popularity of discount brokerage houses have led to pricing pressure in recent years. GEPL's yields too faced pressure in FY2024, notwithstanding the healthy growth in broking volumes. Moreover, securities broking companies rely heavily on technology. Thus, any technical failure or disruption can pose operational and reputational risk. Also, given the highly regulated nature of this industry, brokerage houses are exposed to regulatory risks. Hence, their ability to ensure compliance with the evolving regulatory landscape remains crucial. In this regard, the recent regulatory proposals/changes are likely to impact the profitability of the broking industry. The resultant steps taken by industry participants and their impact on yields and profitability remain to be seen. However, the impact is expected to be higher for discount brokers compared to traditional brokers like GEPL. Moreover, the increasing financialisaton of savings and the low share of wallet of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term. Nevertheless, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Liquidity position: Stretched

GEPL requires funds to place margins at the exchanges, for which it primarily utilises the sanctioned non-fund based lines (Rs. 50 crore). It also has a fund-based bank line of Rs. 20 crore, which is used for placing margins with banks for availing non-fund based lines, proprietary trading operations and/or placing additional margins with the stock exchanges. The fund-based line was utilised to the extent of 81% as of March 31, 2024 and the average utilisation in the last 12 months was ~71%. The non-fund based lines were fully utilised as of March 31, 2024. The limited buffer in bank lines impacts GEPL's ability to place additional margins with the exchanges in case of exigencies. Moreover, its ability to sustain the impact of the evolving regulatory landscape and rising working capital requirements will remain a key factor.

Rating sensitivities

Positive factors – A meaningful ramp-up in the scale of operations with diversification in the revenue profile and a sustainable improvement in the profitability would be a credit positive.

Negative factors – A significant decline in the scale of operations, resulting in a deterioration in the company's financial performance, would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1997 as Gupta Equities Pvt. Ltd., GEPL is the flagship company of the GEPL Group and is primarily engaged in equity broking. In addition to a presence in retail broking through direct, franchisee and online channels, GEPL has a small presence in the institutional broking segment. The company is promoted by Mr. Vivek Gupta, who has more than two decades of experience in the equity broking industry. GEPL had an active client base of 10,642 clients as on March 31, 2024 compared to 10,150 as on March 31, 2023.

The company reported a profit after tax (PAT) of Rs. 0.8 crore on net operating income (NOI) of Rs. 19.8 crore in FY2024 (PAT/NOI of 4.2%) on a provisional basis compared to Rs. 0.2 crore and Rs. 16.2 crore, respectively, in FY2023 (PAT/NOI of 1.0%). The net worth stood at Rs. 16.5 crore as on March 31, 2024.

Key financial indicators

GEPL Capital Private Limited – Standalone	FY2023/Mar-23	FY2024/Mar-24*
Net operating income	16.2	19.8
Profit after tax	0.2	0.8
Net worth@	15.7	16.5
Preference shares^	11.0	11.0
Bank borrowings	0.0	16.0
Total assets	102.3	168.5
Gearing (times)@	0.0	1.0
Return on net worth	1.1%	5.2%

*Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations; * Provisional numbers; ^ 6% redeemable non-cumulative preference shares; @ Excluding preference share capital of Rs. 11 crore*

Status of non-cooperation with previous CRA:

GEPL did not provide the requisite information to Brickworks for conducting the rating exercise, and is, therefore, classified as 'non-cooperative'. Based on the best available information, Brickworks revised the ratings in September 2023 to [BWR]BB-/Stable and [BWR]A4 from [BWR]BB/Stable and [BWR]A4+, based on best available data, vide their latest press release dated September 14, 2023.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)			Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Aug 29, 2024	Jun 26, 2023	-	-
1	**Short-term non-fund based bank facilities – Bank guarantee**	Short term	55.00	**[ICRA]A4**	**[ICRA]A4**	-	-
2	**Long-term fund-based bank facilities – Overdraft**	Long term	20.00	**[ICRA]BB- (Stable)**	**[ICRA]BB- (Stable)**	-	-
3	**Long-term/Short-term – Unallocated**	Long term/ Short term	15.00	**[ICRA]BB- (Stable)/[ICRA]A4**	**[ICRA]BB- (Stable)/[ICRA]A4**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term non-fund based bank facilities – Bank guarantee	Simple
Long-term fund-based bank facilities – Overdraft	Simple
Long-term/Short-term – Unallocated	Not applicable

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	Bank guarantee	NA	NA	NA	30.00	[ICRA]A4
NA	Bank guarantee	NA	NA	NA	25.00	[ICRA]A4
NA	Overdraft facilities	NA	NA	NA	20.00	[ICRA]BB- (Stable)
NA	Unallocated	NA	NA	NA	15.00	[ICRA]BB- (Stable)/[ICRA]A4

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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