September 26, 2024

Billionbrains Garage Ventures Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]AA- (Stable); reaffirmed
Total	-	-	

**Instrument details are provided in Annexure I*

Rationale

To arrive at the rating, ICRA has considered the consolidated financials[1] of Billionbrains Garage Ventures Private Limited (BGV) while factoring in the support it is expected to provide to its subsidiary – Groww CreditServ Technology Private Limited {GCS; the non-banking financial company (NBFC) arm of the Groww Group[2]; rated [ICRA]A (Stable)/[ICRA]A1}. BGV owns and operates the web and application-based technology platforms – Groww and Groww Credit. Its subsidiary, Groww Invest Tech Private Limited {GIT; rated [ICRA]AA- (Stable)/[ICRA]A1+}, is a leading discount broker and enjoys the highest market share, in terms of National Stock Exchange (NSE) active clients as of August 2024.

The rating continues to factor in BGV's strong market position in the securities broking industry through GIT, its comfortable capitalisation, strong liquidity, and healthy profitability trajectory, notwithstanding the impact of exceptional items in FY2024. BGV benefits from GIT's leading position in the equity broking segment. GIT, 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. It is a key contributor to BGV's standalone income stream for the services offered to GIT as well as other Group entities. The growth in BGV's standalone as well as consolidated operating profitability, so far, is largely attributable to GIT's improving earnings trajectory.

ICRA notes that BGV's consolidated profitability was impacted due to a one-time tax outgo due to the reverse merger of the erstwhile ultimate parent entity - Groww INC. (based in USA) into BGV (domiciled in India) in Q4 FY2024. Nonetheless, ICRA notes that the operating profitability has remained strong and is on an improving trajectory. Moreover, the Group's consolidated profitability in H1 FY2025 is expected to exceed the FY2023/9M FY2024 levels, supported by industry tailwinds.

BGV's consolidated capitalisation was characterised by a net worth of Rs. 2,224.0 crore[3] and negligible gearing as on March 31, 2024. While the capitalisation remains comfortable for the current scale of operations and the near-term growth plans, ICRA notes that the Group has initiated diversification into other lines of business, which would require capital outlay in the near-to-medium term (especially in the Group's NBFC business housed under GCS). Notwithstanding the proposed capital infusion to incubate the new businesses, the capital position is expected to remain comfortable.

The above positives are, however, offset by the currently high dependence of revenues on capital markets as the Group is in the early stage of diversifying into other business segments. Capital markets are inherently volatile and cyclical in nature and the majority of BGV's consolidated revenues accrue from GIT, which is the broking arm of the Group. Further, it remains susceptible to regulatory changes as well as technological risks, given its predominantly online presence and the evolving fintech landscape. Going forward, BGV's ability to maintain its leading position in the broking segment, while incubating the

[1] List of entities considered for consolidation is as per Annexure II

[2] BGV and its subsidiaries/associates are collectively referred to as the Groww Group or the Group as per Annexure II

[3] Excluding goodwill of Rs. 318.7 crore; In FY2021, other income included Rs. 244.9 crore on account of the remeasurement of the previously held interest in the acquiree in the business combination, which is included in the net worth

proposed businesses successfully, would remain critical from a credit perspective. Moreover, the profitability and capitalisation trajectory would remain monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Groww Group will maintain a strong market position in the equity broking business, which will continue to support its healthy profitability trajectory. Further, the capitalisation is expected to remain comfortable, notwithstanding the proposed investments required to incubate new businesses.

Key rating drivers and their description

Credit strengths

Strong market position in equity broking segment – The Groww Group enjoys a strong position in the equity broking segment through its key operating entity – GIT, which 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 August 2024, with a market share of ~25%. 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 FY2024 and YTD FY2025. Supported by the expanding client base, GIT reported a sizeable improvement in broking volumes and income in FY2024 and YTD FY2025. Its cash broking volumes market share[4] (excluding proprietary turnover) stood at ~7% in FY2024 and ~6% in FY2023. The continuous growth in derivatives volume since FY2023 has supported the company's overall market position and broking revenues further. As GIT is the Group's flagship operating entity, its healthy performance augurs well for BGV's financial profile. Nonetheless, ICRA notes that GIT'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 – BGV's capitalisation remains comfortable with a consolidated net worth of Rs. 2,224.0 crore and negligible borrowings as on March 31, 2024. The net worth is primarily deployed in the broking business in the form of margins placed at the exchanges, followed by certain amounts in the form of cash/bank balance and liquid investments (BGV held unencumbered liquid funds of over Rs. 1,500 crore as of July 2024, at the consolidated level). BGV held equity investment of over Rs. 500 crore in GIT and ~Rs. 378 crore in GCS as on March 31, 2024.

ICRA also notes that the Group has initiated diversification into other lines of business, which would require capital outlay in the near-to-medium term. Notwithstanding the proposed capital infusion to incubate the new businesses, the capital position is expected to remain comfortable. BGV's capital profile remains supported by periodic equity infusions. The Group has raised ~Rs. 2,900-crore equity capital till date and there were no accumulated losses as of December 2023, though the reverse merger of Groww INC. into BGV resulted in a one-time tax outgo, impacting the consolidated profitability in FY2024. Going forward, notwithstanding the volatility likely to be imparted by exposure to cyclical capital markets, the cash accruals are expected to remain sizeable, thereby augmenting the Group's capital base.

Healthy profitability trajectory, notwithstanding impact of exceptional item in Q4 FY2024 – BGV's consolidated earnings profile was constrained till FY2022, given the limited vintage of the Group in the equity broking space. However, the core earnings profile improved thereafter, supported by the strong performance of the broking business. The company 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. The earnings improved further in 9M FY2024, before getting impacted in Q4 FY2024 by a tax-related exceptional outgo following the reverse merger of Groww INC. (erstwhile ultimate holding company) with BGV. Nonetheless, ICRA notes that the operating profitability has remained strong and is on an improving trajectory. Moreover, the consolidated profitability in H1 FY2025 is expected to exceed the FY2023/9M FY2024 levels, supported by the industry tailwinds.

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[4] *Market share is as per ICRA's calculations*

Credit challenges

Concentrated dependence on capital markets; presence in other capital market segments yet to be established – The Group's revenues are predominantly linked to the inherently volatile capital markets, given the strong presence of the flagship entity, GIT, in the equity broking segment. Thus, the profitability remains vulnerable to market performance. GIT's primary source of revenue remains retail broking, which accounted for over 90% of its NOI in FY2024, with interest income on fixed deposits mainly accounting for the balance. While the Group has initiated diversification into other lines of business like margin trade funding (MTF), the share of broking revenues remains sizeable, especially from the futures & options (F&O) segment (75-80% of total broking income).

Further, the lending business (housed under GCS) is still in a nascent stage of operations. While it is expected to contribute to Group revenues going forward, a sizeable share of the Group's income will remain linked to the inherently volatile capital markets. Thus, any downturn in the capital markets or any adverse regulatory action to curtail retail investor participation in the derivatives market may impact the financial performance in the interim.

Susceptible to intense competition, regulatory changes and/or technological risks – The securities broking sector remains characterised by intense competition and susceptibility to the entry of new players. Moreover, securities broking companies rely heavily on technology. Thus, any technical failure or disruption can pose operational and reputational risk. In fact, while the growth of discount brokers has been phenomenal during the last few years with their market share increasing to ~57% of NSE active clients as of August 2024[5] (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. 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 Securities and Exchange Board of India (SEBI) circular on uniform charges to be levied by market infrastructure institutions will impact the profitability of the broking industry, particularly discount brokers such as GIT.

ICRA has also taken note of the proposals being considered by the regulator to curb retail investor participation in the derivatives segment, especially hyperactive trading during expiries. These proposals, if accepted and implemented, can pose risk to capital market volumes and hence the revenues and profitability of the industry participants. Moreover, the resultant steps taken by industry participants and their impact on yields and profitability remain to be seen. Nonetheless, 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. Still, the possibility of pressure on profitability, especially during downturns, cannot be ruled out.

Ability to scale up new businesses profitably and achieve strong asset quality in the lending business – The Group has initiated diversification into other lines of business to tap cross-selling opportunities. This would require capital outlay in the near-to-medium term, especially for scaling up the lending business being incubated at GCS. Notwithstanding the proposed capital infusion into GCS and other businesses, comfort is drawn from the sizeable liquidity buffers at the Group level and the healthy cash accruals. The new businesses are either in a nascent stage of operations or are yet to be launched. Initial losses, if any, during the gestation period or asset quality issues could impact the profitability to a certain extent, although the consolidated profitability is expected to remain healthy. The Group's ability to scale up these businesses profitably, while maintaining healthy asset quality and robust capitalisation, remains a key monitorable.

Liquidity position: Strong

BGV's unencumbered cash & liquid investments stood at over Rs. 1,500 crore as of July 2024 at the consolidated level. At present, the liquidity requirements are largely limited to the broking business for placing margin buffers at the exchanges,

[5] *Source: NSE website*

working capital requirements for maintaining the Groww platform and for growth requirements at GCS. ICRA notes that certain funds would also be required to capitalise the other proposed businesses apart from the lending business, which would require periodic support to fund the planned growth. The Group is expected to continue maintaining sufficient on-balance sheet liquidity to support its new ventures as well as for the working capital requirements of the broking business and growth capital for the lending business. In this regard, the healthy profitability and resultant cash accruals are expected to augur well for the Group's liquidity profile.

Rating sensitivities

Positive factors – A meaningful and profitable diversification of the revenue profile, while maintaining a strong capitalisation and profitability trajectory, would be a positive factor. Maintaining good control on the asset quality in the lending business will also remain imperative.

Negative factors – A significant decline in revenue from the broking business or increase in leverage, leading to the weakening of the financial performance, would be a negative factor. Inability to scale up the proposed businesses profitably, impacting the capital profile, and/or any sustained asset quality pressure in the lending business would also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of BGV while also factoring in the ordinary and extraordinary support that is expected to be extended to its subsidiary – GCS (NBFC arm of the Group).

About the company

Billionbrains Garage Ventures Private Limited (BGV) was incorporated in January 2018 as a subsidiary of Groww INC. (based in Delaware, USA). Groww INC. was reverse merged into BGV in Q4 FY2024. Thus, BGV is now the holding company of the Groww Group[6], offering various financial services such as broking, distribution, lending, etc, through its subsidiaries. BGV owns and operates the web and app-based technology platform – Groww and Groww Credit. It provides services like software designing, maintenance, testing and benchmarking, designing, developing computer software and solutions, building and organising software tools, and marketing and innovation of licensed software.

Key financial indicators (audited)

BGV – Consolidated	FY2022	FY2023
Net operating income	418.4	1,419.5
Profit after tax	(239.0)	448.8
Net worth*	2,429.3	2,856.9
Total assets	3,720.4	4,639.1
Gearing (times)	0.0	0.0
Return on average net worth	-14.8%	17.0%

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

Status of non-cooperation with previous CRA: Not applicable

[6] BGV and its subsidiaries are collectively referred to as the Groww Group

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Sep 26, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Issuer rating	Long term	-	[ICRA]AA- (Stable)	-	-	1-Mar-2024	[ICRA]AA- (Stable)	-	-	-	-
						23-Jan-2024	[ICRA]AA- (Stable)				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	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	**Issuer rating**	NA	NA	NA	-	[ICRA]AA- (Stable)

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership as on March 31, 2024	Shareholding as of March 31, 2024	Consolidation approach
Billionbrains Garage Ventures Private Limited	Holding company	NA	Full consolidation
Groww Invest Tech Private Limited (formerly Nextbillion Technology Private Limited)	Subsidiary	99.99%	Full consolidation
Groww IFSC Private Limited	Step-down subsidiary	99.99%	Full consolidation
Groww Asset Management Limited	Step-down subsidiary	99.99%	Full consolidation
Groww Trustee Limited	Step-down subsidiary	99.99%	Full consolidation
Neobillion Fintech Private Limited	Subsidiary	100%	Full consolidation
Groww Serv Private Limited	Subsidiary	100%	Full consolidation
Billionblocks Finserv Private Limited	Subsidiary	100%	Full consolidation
Groww Pay Services Private Limited	Subsidiary	100%	Full consolidation
Groww Insurance Broking Private Limited	Subsidiary	100%	Full consolidation
Groww Wealth Management Private Limited (Formerly Finments Tech Private Limited)	Subsidiary	100%	Full consolidation
Groww CreditServ Technology Private Limited	Subsidiary	100%	Limited consolidation*

*Source: Company; *In line with ICRA's analytical approach*

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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.

For more information, visit www.icra.in

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