

November 15, 2024

## Geojit Financial Services Limited: [ICRA]A+ (Stable)/[ICRA]A1+ assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term – Fund-based/ Non-Fund based bank lines – Others	100.0	[ICRA]A+(Stable)/[ICRA]A1+; assigned
<b>Total</b>	<b>100.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

The assigned ratings factor in Geojit Financial Services Limited’s (GFSL) established market position, long track record across market cycles, comfortable capitalisation and healthy profitability. The ratings also take into account the company’s presence in an array of capital market related products and services. In this regard, it is noted that GFSL has historically focused on the cash segment in the equity market and its dependence on the derivatives segment has remained lower than most peers. Thus, the downside risk on account of the tightening of the regulatory framework to curb speculative trading in derivatives is limited compared to discount brokers. The impact of the transition to the ‘true to label’ charges pertaining to market infrastructure institutions is also not expected to be material.

Aided by industry tailwinds, GFSL has been clocking record profitability in recent quarters like its peers. The company reported its highest-ever quarterly profit in Q2 FY2025 with a consolidated profit after tax (PAT) of Rs. 57 crore and a return on equity (RoE) of 24.3%. It had reported an RoE of 17.5% in FY2024 compared to the 5-year average of 13.7% during FY2019-FY2023. The healthy profitability trajectory has been supporting the capitalisation profile, notwithstanding the growing working capital requirements and loan book. The recent rights issues of Rs. 200 crore further augments GFSL’s capital base. As of September 30, 2024, the consolidated capitalisation was characterised by a net worth of Rs. 979 crore<sup>1</sup> and a gearing of 0.5 times. The ratings also factor in the company’s focus on scaling up its distribution and wealth business, which augurs well for revenue diversification. Moreover, the calibrated growth in the lending business has led to higher net interest income. Accordingly, GFSL’s revenue profile stands diversified with no segment accounting for more than 45% of the net operating income (NOI) in the last three years.

The aforesaid strengths are, however, partially offset by the company’s relatively lower geographical diversification despite its long-standing experience, exposure to the inherently volatile capital markets, heightened competition in equity broking amid the growing popularity of discount brokerage houses, and vulnerability to regulatory risks in light of the evolving regulations and the operating environment. The ratings also consider the credit and market risks associated with capital market-related lending businesses, given the nature of the underlying assets. This is partially mitigated by the granular margin trade financing (MTF) loan book. However, maintaining adequate asset quality, capitalisation and profitability will remain imperative along with the ability to seamlessly align with the evolving regulatory landscape.

GFSL is in the process of reorganising its structure, whereby the broking, research and MTF lending businesses will be transferred to its wholly-owned subsidiary – Geojit Investments Limited (GIL), through a slump sale. The proposed restructuring is not expected to impact the company’s credit profile.

<sup>1</sup> Net worth is expected to be Rs. 1,179 crore after the rights issuance in October 2024

## Key rating drivers and their description

### Credit strengths

**Established market position and long track record** – Incorporated in 1987, GFSL has a long track record through market cycles and an established market position, especially in South India. It is among the leading traditional broking companies incorporated and operating out of South India, with a prominent presence in Kerala and Tamil Nadu. As of September 30, 2024, it had 500 branches/franchises in 20 states and 3 Union Territories. The company also has a presence in the Gulf countries. With 2.5 lakh National Stock Exchange (NSE) active retail clients as of August 2024, it is one of the top 20 broking companies in India.

**Healthy profitability and diversified revenue profile** – GFSL offers a wide array of capital market related products and services. The focused scaling-up of the distribution and wealth business augurs well for revenue diversification. Moreover, the calibrated growth in the lending business has led to higher net interest income. Accordingly, GFSL's revenue profile stands diversified with no segment accounting for more than 45% of the NOI in the last three years. Broking income from the cash segment accounted for 39% of the NOI in Q1 FY2025, followed by net interest income (20%), distribution income (19%), broking income from the derivatives segment (8%), depository services (6%), portfolio management services (PMS; 5%) and others (3%).

Aided by industry tailwinds, GFSL has been clocking record profitability in recent quarters like its peers. The company reported its highest-ever quarterly profit in Q2 FY2025 with a consolidated PAT of Rs. 57 crore and RoE of 24.3%. It had reported an RoE of 17.5% in FY2024 compared to the 5-year average of 13.7% during FY2019-FY2023. GFSL has historically focused on the cash segment in the equity market and its dependence on the derivatives segment has remained lower than most peers. Thus, the downside risk on account of the tightening of the regulatory framework to curb speculative trading in derivatives is relatively limited compared to discount brokers. The impact of the transition to the 'true to label' charges pertaining to market infrastructure institutions is also not expected to be material.

**Comfortable capitalisation; capital base augmented by recent rights issue** – GFSL's capitalisation stands comfortable with a consolidated net worth of Rs. 979 crore and a gearing of 0.5 times as of September 30, 2024. The net worth trajectory has been supported by healthy accretion to reserves, notwithstanding the track record of regular dividend payouts. The recent rights issue of Rs. 200 crore, in October 2024, has further augmented the capital base. Currently, the company's funding requirements are largely managed through its net worth with modest dependence on fund-based borrowings, besides non-fund based lines from banks. However, with the scale-up in the broking and lending businesses, an increase in the borrowing level cannot be ruled out. Herein, it is noted that GFSL's net worth remains comfortable for scaling up the operations, especially the MTF book, and provides adequate headroom for additional borrowings. The gearing is expected to remain under 1.8 times over the medium term. ICRA also notes that GFSL does not intend to undertake proprietary trading operations.

### Credit challenges

**Modest scale of operations with high dependence on home territories; vulnerability to risks inherent in capital market related businesses** – While GFSL has a long-standing track record and offers several capital market services, its scale remains modest. As of June 30, 2024, it had a market share of ~1% in terms of NSE active clients while its market share in the retail cash segment (in terms of broking volume) and the MTF segment stood at 0.5% and 0.9%, respectively. GFSL is still in the expansion phase in the lending and distribution of financial products. Moreover, its dependence on the southern states of Kerala, Tamil Nadu, and Karnataka remains high. In this regard, ICRA notes the management's stated intent of scaling up the lending and distribution of financial products. This is reflected in the recent increase in the MTF book and income from the distribution of mutual funds, insurance and PMS, albeit on a lower base.

Furthermore, GFSL's revenues remain dependent on capital markets, which are inherently volatile in nature. Accordingly, the possibility of pressure on profitability, especially during market downturns, cannot be ruled out. It is also exposed to credit

and market risks on account of the MTF lending book, given the nature of the underlying assets, as any adverse event in the capital markets could erode the value of the underlying collateral. While this is partially mitigated by the granular MTF and loan against shares (LAS) book, the company's ability to maintain adequate asset quality and capitalisation while ramping up the lending book would remain a monitorable. GFSL has pursued the calibrated ramp-up of its capital market lending book, which increased to ~Rs. 700 crore as on September 30, 2024 from Rs. 291 crore as of March 2023.

**Exposure to intense competition and evolving regulatory environment; high dependence on technology** – Given the highly regulated nature of the industry, brokerage houses remain exposed to regulatory risk. Their ability to ensure compliance with the evolving regulatory landscape remains crucial. While the regulatory changes in the preceding years necessitated higher working capital requirements, recent changes, such as uniform exchange charges, are likely to impact the profitability of brokerage houses, especially discount brokers (though the impact on GFSL is likely to be less than 0.5% of its profit before tax; PBT). Further, the regulator has proposed certain measures to curb the exuberance in the futures & options (F&O) segment. These include the rationalisation of weekly index derivatives, increase in their contract size, upfront collection of option premium from buyers, increase in margins on expiry days, removal of calendar spread benefits on expiry days, and enhancing the monitoring of position limits. The proposed measures will be introduced in a phased manner between November 2024 and April 2025. The combined effect of the aforesaid measures and the recent hike in the securities transaction tax in the F&O segment pose a risk to capital market volumes and, hence, the revenues and profitability of industry participants. However, the impact is expected to be more prominent for discount brokers while traditional brokers, like GFSL, are likely to be less affected.

The sector also 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. However, the increasing financialisation 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. Moreover, securities broking companies rely heavily on technology for trade execution, fund management, etc. Thus, technical failures or disruptions pose operational and reputational risk. In this regard, it is noted that GFSL encountered three technical glitches in FY2024. Going forward, its ability to offer uninterrupted services will be imperative for maintaining customer experience.

## Environmental and social risks

**Environmental considerations:** While financial institutions do not face any material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. Nonetheless, such risk is not material for GFSL as its lending operations are primarily focused on capital market related lending. Further, its business activities are typically short-to-medium term in nature, which will allow it to adapt if required.

**Social considerations:** Regarding social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. In this regard, while the company encountered three technical glitches<sup>2</sup> in FY2024, it was not a material outlier compared to peers. Going forward, its ability to offer uninterrupted services will be imperative for maintaining customer experience. Moreover, it is noted that customer preferences are increasingly shifting towards the digital mode of transacting, necessitating the adoption of technological advancements, besides providing an opportunity to reduce the operating costs. GFSL has been making investments to continue enhancing its digital interface with its customers.

---

<sup>2</sup> Interruption impacting trading for more than five minutes

## Liquidity position: Strong

GFSL's funding requirement is primarily for placing margins at the exchanges and for funding the capital market lending book. Its margin utilisation (excluding client's non-cash collateral/margin) was in the range of 37-42% (basis month-end data) during July 2023 to June 2024, with the daily average cash margin placed on exchanges aggregating Rs. 550-830 crore during this period. As of June 30, 2024, the outstanding debt obligation (excluding related-party debt) was Rs. 403 crore while the company had a cash balance of Rs. 42 crore and drawable but unutilised lines of ~Rs. 300 crore against the sanctioned limited of Rs. 605 crore<sup>3</sup>. Additionally, GFSL's short-term loan assets, which can be liquidated at short notice to generate liquidity if required, stood at Rs. 687 crore as on June 30, 2024.

## Rating sensitivities

**Positive factors** – A significant improvement in the scale of operations and market position while maintaining healthy profitability and comfortable capitalisation and asset quality on a sustained basis would be a positive factor.

**Negative factors** – A sustained decline in the scale of the broking business or a deterioration in the asset quality of the lending business, materially impacting the profitability with PBT/NOI falling below 25% on a sustained basis, will be a credit negative. A deterioration in the capitalisation with the leverage exceeding 2 times and/or a weakening in the liquidity profile will also be credit negatives.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Stockbroking and allied services</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

## About the company

Incorporated in 1987, Geojit Financial Services Limited (GFSL) has more than three-and-a-half-decades of experience in the capital markets. Between 1987 and 1994, it underwent structural changes before it was converted to a public limited company in November 1994 and went public in October 1995. GFSL, along with its subsidiaries, has a presence in the retail broking segment (equity, currency, and commodity) through traditional and online channels. The Group's lending business comprises margin trade financing, loan against shares (LAS) and direct selling agents (DSAs) for personal loans. Additionally, its services portfolio includes the distribution of investment and insurance products encompassing mutual funds, initial public offerings (IPOs), PMS, life insurance, health insurance, etc. In the advisory segment, the company offers fee-based services such as financial planning, investment analysis, and retirement planning, among others.

GFSL has an established presence in the southern states of India and the Gulf countries. As on September 30, 2024, it operated through 500 branches across 20 states and 3 Union Territories. The Group manages its international operations through six foreign set-ups. The assets under management and custody aggregated Rs. 1.1 lakh crore as of September 30, 2024.

GFSL reported a consolidated profit after tax (PAT) of Rs. 103 crore on NOI of Rs. 340 crore in H1 FY2025. It reported a PAT of Rs. 149 crore on NOI of Rs. 547 crore in FY2024 compared to Rs. 101 crore and Rs. 398 crore, respectively, in FY2023.

<sup>3</sup> Excluding sanctioned fund-based lines secured against MTF receivables of Rs. 135 crore as of June 30, 2024

### Key financial indicators (audited)

GFSL	FY2023	FY2024	H1 FY2025 <sup>^</sup>
Net operating income (NOI)	397.9	546.7	340.3
Profit after tax (PAT)	101.0	149.4	103.2
Net worth	797.5	911.5	979.0
Total assets	1,321.3	2,020.3	2,202.0
Gearing (times)	0.1	0.4	0.5
Return on average net worth	12.9%	17.5%	21.8%

Source: GFSL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; <sup>^</sup> Limited review

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Nov 15, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based / Non-fund based bank line - Others	Long term/ Short term	100.0	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term – Fund-based/Non-Fund based bank line – Others	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	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long Term / Short Term – Fund-based/Non-fund-based bank line – Others	-	-	-	100.0	[ICRA]A+ (Stable)/ [ICRA]A1+

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

**Annexure II: List of entities considered for consolidated analysis**

	GFSL Ownership	Consolidation Approach
Geojit Financial Services Limited*	Holding company	Full consolidation
Geojit Credit (Private) Limited	94.32%	Full consolidation
Geojit Technologies (Private) Limited	65.00%	Full consolidation
Geojit Techloan (Private) Limited	100.00%	Full consolidation
Geojit IFSC Limited	100.00%	Full consolidation
Geojit Investments Limited*	100.00%	Full consolidation
Qurum Business Group Geojit Securities LLC, Onam	51.00%	Full consolidation
Barjeel Geojit Financial Services LLC	30.00% (joint venture)	Equity method
BBK Geojit Consultancy and Information KSC(C) (formerly known as BBK Geojit Securities KSC)	30.00% (joint venture)	Equity method

Source: Company; As of March 31, 2024; \* In the backdrop of the regulatory advisory refraining broking companies from having a non-banking financial company as its subsidiary, GFSL has proposed to transfer its broking, MTF and capital market related allied advisory services to the newly incorporated Geojit Investments Limited

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Anil Gupta**

+91 124 4545 314

[anilg@icraindia.com](mailto:anilg@icraindia.com)

**Deep Inder Singh**

+91 124 4545 830

[deep.singh@icraindia.com](mailto:deep.singh@icraindia.com)

**Kruti Jagad**

+91 22 6114 3447

[kruti.jagad@icraindia.com](mailto:kruti.jagad@icraindia.com)

**Subhrajyoti Mohapatra**

+91 80 4332 6406

[subhrajyoti.mohapatra@icraindia.com](mailto:subhrajyoti.mohapatra@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.