January 24, 2025

Groww Invest Tech Private Limited: [ICRA]AA- (Stable) assigned to NCD programme; ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund-based/ Non-fund based bank lines – Others	108	108	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Commercial paper	500	500	[ICRA]A1+; reaffirmed
Non-convertible debentures	100	100	[ICRA]AA- (Stable); reaffirmed
Non-convertible debentures	-	300	[ICRA]AA- (Stable); assigned
Total	**708**	**1,008**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in Groww Invest Tech Private Limited's (GIT) strong market position in the equity broking segment[1], its comfortable capitalisation, strong liquidity, and the expectation of healthy profitability despite the likely moderation on account of near-term headwinds. These positives are, however, partially offset by the company's high dependence on capital markets, which are inherently volatile and cyclical in nature. Moreover, a sizeable share of the revenues is from the futures and options (F&O) segment (~73% of the net operating income; NOI in FY2024), which is facing industry-wide erosion of trading volumes following the measures implemented to curb hyperactive trading in short-tenor index derivatives and to protect the interests of retail investors.

GIT has emerged as one of the leading discount brokers in India as it had made substantial client additions since FY2022 amid industry tailwinds and record retail investor participation in capital markets. The continued growth in its client base has been supporting the increase in its broking volumes and earnings, as witnessed till FY2024. The company reported strong profitability with a return on net worth (RoNW) of 40.3% in FY2024. The healthy profitability trajectory continued in H1 FY2025 as well, though ICRA notes that the revenues and profitability would moderate in H2 FY2025 due to the erosion in derivatives volume due to the measures implemented by the regulator. Trading volumes in the cash segment (at industry level) have also moderated[2] in recent weeks as investor sentiment is not as bullish as in the preceding period.

GIT's capitalisation profile remains comfortable with a net worth of Rs. 887.4 crore and nil borrowings as on March 31, 2024. ICRA notes that the company has forayed into the margin trading facility (MTF) business in FY2024, which will lead to higher dependence on borrowings, although the financial leverage is expected to remain comfortable.

GIT is the flagship operating entity of the Groww Group[3] and a wholly-owned subsidiary of BGV, which houses the Group's tech platform. It remains strategically important for BGV and is a key contributor to its income stream for technology and other services availed. BGV's consolidated net worth stood at Rs. 2,224.0 crore[4] as on March 31, 2024 with negligible 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 GIT, as and when required.

[1] Leading position in terms of National Stock Exchange (NSE) active clients as of December 2024

[2] Source: Market data from NSE website

[3] BGV and its subsidiaries/associates are collectively referred to as the Groww Group or the Group

[4] 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

ICRA notes that GIT remains susceptible to regulatory changes as well as technological risks, given its predominantly online presence and the evolving fintech landscape. Going forward, its ability to sustain the momentum of client additions while improving its revenues and profitability and maintaining comfortable capitalisation would remain important from a credit perspective.

The Stable outlook on the long-term rating reflects ICRA's expectation that GIT will continue to maintain a strong market position in the equity broking business, which will support its healthy profitability trajectory and comfortable capitalisation.

Key rating drivers and their description

Credit strengths

Strong market position in equity broking segment – GIT 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 was ranked 1st in terms of NSE active clients as of December 2024, with a market share of ~26%. The continued growth in GIT's client base has been supporting the scale-up in its broking volumes and earnings, as witnessed till FY2024. Its average cash broking volume market share[5] (excluding proprietary turnover) stood at ~7% in FY2024 and ~6% in FY2023. The continuous growth in derivatives volume since FY2023 has also supported the company's overall market position and broking revenues. However, ICRA notes that the revenues and profitability would moderate in H2 FY2025 due to the erosion in derivatives volume. While GIT's leading market position has been achieved in a relatively short time span, the sustainability of the same will be a monitorable.

Comfortable capitalisation – GIT's capitalisation remains comfortable with a net worth of Rs. 887.4 crore and nil borrowings as on March 31, 2024. 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 that are used for intermittent, short-term funding requirements. ICRA notes that GIT has forayed into the MTF business in FY2024, which will lead to higher borrowings (as it would be funded through a combination of own funds and borrowings), though the financial leverage is expected to remain comfortable.

BGV has infused over Rs. 500 crore of equity capital in GIT till date. It is also noted that BGV's net worth and liquidity reserves are meaningfully more than that of GIT. BGV's consolidated net worth stood at Rs. 2,224 crore as on March 31, 2024 with negligible 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, BGV's consolidated capital position is expected to remain comfortable and ICRA expects GIT to receive management and financial support from the Group, as and when required.

Healthy profitability – Supported by the scale-up in broking volumes and earnings amid the expanding client base, GIT reported strong profitability with an RoNW of 40.3% in FY2024. The healthy profitability trajectory continued in H1 FY2025 as well. GIT's earnings profile was constrained till FY2022, given its limited vintage in the broking space. However, it improved thereafter as the company made significant client additions from FY2022. It reported a profit after tax (PAT) of Rs. 297.8 crore on NOI of Rs. 2,899.9 crore compared to Rs. 73.1 crore and Rs. 1,294.6 crore, respectively, in FY2023 (RoNW of 13.2%). Nevertheless, ICRA notes that the revenues and profitability would moderate in H2 FY2025 due to the erosion in derivatives volume following the measures implemented by the regulator, though the same is expected to remain healthy. Further, it is noted that GIT'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 availed from BGV.

At the consolidated level, BGV reported an operating profit[6] of Rs. 702.1 crore in FY2024 compared to Rs. 506.2 crore in FY2023; GIT is the key contributor to the consolidated profitability. Although BGV reported a net loss of Rs. 805.5 crore at the consolidated level in FY2024 compared to a PAT of Rs. 457.7 crore (RoNW of 16.7%) in FY2023, this was on account of a one-

[5] Market share is as per ICRA's calculations

[6] NOI – Operating expenses

time tax outgo related to the reverse merger of the erstwhile ultimate parent company – Groww INC. (domiciled in USA) into BGV.

Credit challenges

Concentrated dependence on capital markets; 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. 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 (includes deposits placed with stock exchanges as own margin as well as client margin) mainly accounting for the balance. While the Group has initiated diversification into other lines of business like MTF, the share of broking revenues remains sizeable, especially from the F&O segment (~73% of NOI in FY2024). Thus, its performance will remain sensitive to investor sentiments and activity in the capital market, particularly the derivatives segment.

Susceptible to intense competition, regulatory changes and/or technological risks – Securities broking companies rely heavily on technology for trade execution and fund management. 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 December 2024[7] (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. Additionally, given the multiple regulatory changes in recent periods, the ability of brokerage entities 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 have impacted the profitability of brokerage houses, especially discount brokers like GIT. Further, the regulator has implemented certain measures to curb the exuberance in the 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. These measures will be introduced in a phased manner between November 2024 and April 2025. The combined effect of these measures and the 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. The impact is expected to be more prominent for discount brokers while traditional brokers are likely to be less impacted.

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 has 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.

Liquidity position: Strong

GIT's funding requirement is primarily for placing margin buffers at the exchanges and for scaling up the MTF book. The company had unencumbered cash and liquid investments of Rs. 224 crore as on September 30, 2024 while the external debt outstanding was Rs. 160 crore. Further, it had unutilised, fund-based bank lines of Rs. 158.7 crore and intraday lines of Rs. 100 crore, which can be used in case of exigencies.

[7] *Source: NSE website*

Rating sensitivities

Positive factors – A meaningful and profitable diversification of the revenue profile, while maintaining a strong capitalisation and profitability trajectory, would have a positive impact. An improvement in BGV's credit profile will also remain imperative.

Negative factors – A significant decline in GIT's revenue or an increase in the leverage, resulting in the weakening of the financial profile, would be a negative factor. Moreover, a deterioration in the credit profile of the parent or any weakening in the strategic importance to the parent will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Stockbroking & Allied Services
Parent/Group support	BGV GIT is a wholly-owned subsidiary of BGV. 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

Groww Invest Tech Private Limited (GIT), incorporated in May 2016, is one of the leading discount brokers in the country with 1.3-crore active National Stock Exchange (NSE) customers as of December 2024. It offers equity broking services in the cash as well as derivatives segment, besides mutual fund distribution. It forayed into MTF in FY2024. The company was previously known as Nextbillion Technology Private Limited. It is a subsidiary of Billionbrains Garage Ventures Private Limited (BGV). GIT started business as a mutual fund investment platform. It obtained registration from the Securities and Exchange Board of India (SEBI) as a stockbroker. GIT is registered with the NSE and the Bombay Stock Exchange (BSE). Its registered office is in Bengaluru.

Key financial indicators (audited)

GIT – Standalone	FY2023	FY2024
Net operating income	1,294.6	2,899.9
Profit after tax	73.1	297.8
Net worth	590.0	887.4
Total assets	2,193.5	4,684.3
Gearing (times)	0.0	0.0
Return on average net worth	13.2%	40.3%

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 (FY2025)			Chronology of Rating History for the Past 3 Years							
	Type	Amount Rated (Rs. crore)	Jan 24, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Short-term fund-based/Non-fund based bank facilities	Short term	-	-	-	-	13-Jul-2023	[ICRA]A1+	-	-	-	-
		-	-	-	-	23-Jan-2024	[ICRA]A1+	-	-	-	-
Long-term/Short-term fund-based/Non-fund based bank lines – Others	Long term/ Short term	108	[ICRA]AA-(Stable)/ [ICRA]A1+	26-Sep-24	[ICRA]AA-(Stable)/ [ICRA]A1+	1-Mar-2024	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-
Commercial paper	Short term	500	[ICRA]A1+	26-Sep-24	[ICRA]A1+	1-Mar-2024	[ICRA]A1+	-	-	-	-
Non-convertible debentures	Long term	100	[ICRA]AA-(Stable)	26-Sep-24	[ICRA]AA-(Stable)	-	-	-	-	-	-
Non-convertible debentures	Long term	300	[ICRA]AA-(Stable)	-	-						

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term fund-based/Non-fund based bank lines – Others	Simple
Commercial paper	Very Simple
Non-convertible debentures	Simple*

**Subject to change once the terms are finalised*

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	**Long-term/Short-term fund-based/Non-fund based bank lines**	NA	NA	NA	108	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	**Commercial paper**	NA^	NA	NA	500	[ICRA]A1+
NA	**Non-convertible debentures**	NA^	NA	NA	400	[ICRA]AA- (Stable)

Source: Company; ^Yet to be placed

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

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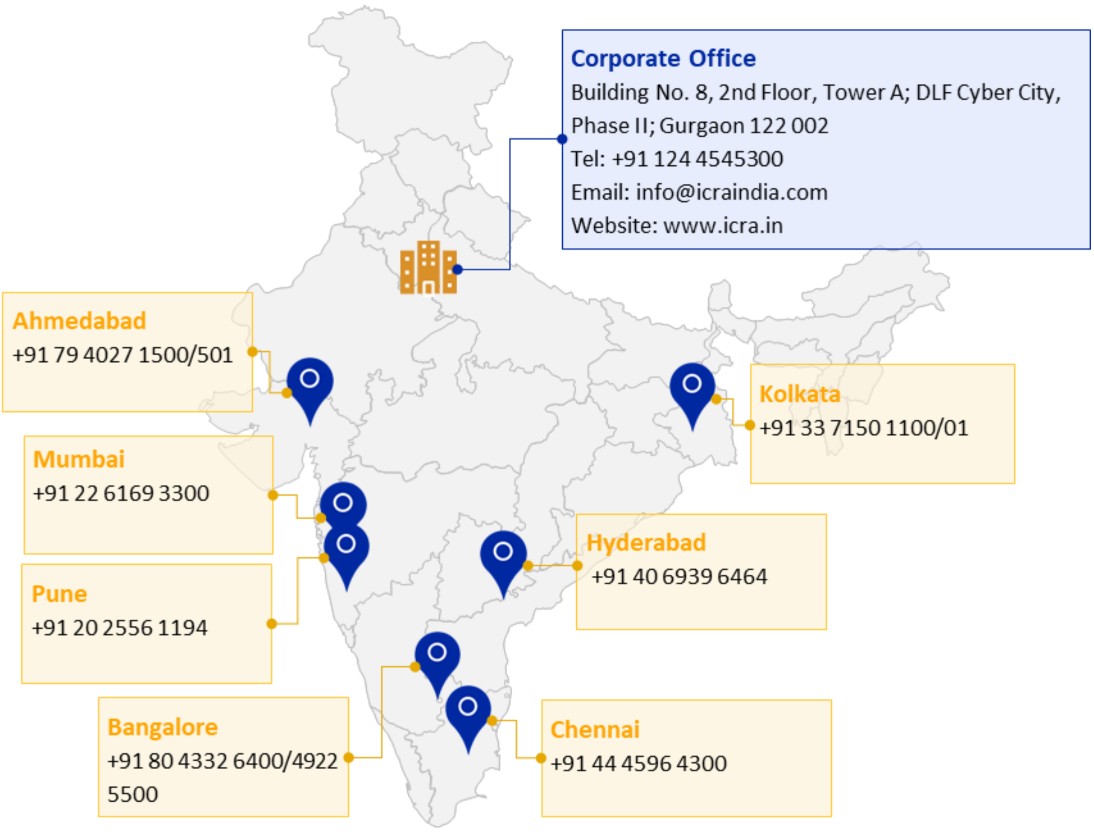

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