

June 26, 2023 ^(Revised)

GEPL Capital Private Limited: [ICRA]BB- (Stable)/[ICRA]A4 assigned

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

The assigned ratings consider GEPL Capital Private Limited's (GEPL) track record in the equity broking business and its capitalisation level, which has been adequate for its scale of operations. The ratings, however, remain constrained by its modest scale of operations with low revenue diversification. The ratings also factor in the inherent volatility in the company's operations, given the linkages with capital markets. The intense competition in the broking industry is likely to continue to have a bearing on the volumes in the broking segment. Moreover, ICRA notes GEPL's exposure to market risk arising from proprietary trading and investments, 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.

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 and is engaged in equity broking. In addition to its 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. Over the years, GEPL has built its clientele to 30,657 as of December 31, 2022, and has empanelment with 36 institutions. It 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 of March 31, 2023, GEPL's capitalisation was characterised by a net worth of Rs. 15.8 crore. Moreover, the promoter group has infused about Rs. 11 crore through convertible preference shares. The company also enjoys an overdraft limit of Rs. 20 crore, with average utilisation of ~87% during the 6-month period ending January 2023. 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 – GEPL is a primarily a retail equity broking player with a modest presence in the institutional broking segment. Affected by the prevalent market conditions, the company's average daily turnover (ADTO) dipped by 16% in 9M FY2023 to Rs. 162 crore from Rs. 192 crore in FY2022. With the industry-wide slowdown in the cash segment (down 17%

in 9M FY2023), GEPL experienced a dip of 40% in cash volumes and a flattish performance in futures & options (F&O) volumes against the industry-wide growth of 84%. This translated to a drop in its overall market share to 0.001% in 9M FY2023 from 0.003% in FY2022. Its market share in the cash segment slipped to 0.05% in 9M FY2023 from 0.07% in FY2022 with a small presence in the F&O segment compared to the industry volumes. While its scale of operations has been modest, the company has been able to improve the broking yields, given the healthy share of the cash segment turnover (28% of total turnover in 9M FY2023), despite the industry-wide pressure on yields amid increasing competition.

Limited revenue diversification – Besides brokerage income, GEPL derives income through other avenues like the distribution of financial products, depositary participant income, etc. Despite this diversification, fee-based income (other than brokerage) contributes ~17% to the net operating income (NOI) with a tepid compound annual growth rate (CAGR) of 1.6% during the five years ended March 2023. The share of revenue from other diversified sources is expected to stay limited with the company focusing on regaining broking revenues. The Group plans to develop capital market lending and advisory services at GEPL Finance and GEPL Investment Advisory, respectively, further fuelling growth towards broking income.

Dependence on capital markets, which are inherently volatile and cyclical in nature; exposure to risks associated with proprietary trading – As the company’s revenues are linked to capital markets, which are inherently volatile and cyclical in nature, its revenue profile and profitability remain vulnerable to market performance. ICRA notes GEPL’s exposure to market risk arising from proprietary trading and investments, notwithstanding the management’s efforts to deploy hedged strategies. Gains/losses from the proprietary trading segment contribute significantly to the company’s net profitability. In FY2023, GEPL reported a net profit of Rs. 0.3 crore (profit after tax (PAT)/NOI of 2%) compared to a net profit of Rs. 2.8 crore in FY2022 (PAT/NOI of 14%). Income related to proprietary trading stood at Rs. 2.0 crore in FY2023 (Rs. 1.2 crore in FY2022).

Liquidity position: Stretched

GEPL is required to place margins at the exchanges, for which it primarily utilises sanctioned non-fund based lines (Rs. 55 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. While the utilisation of fund-based lines was Nil as of March 31, 2023, ICRA notes that the utilisation of the fund-based bank lines averaged 87% during the 6-month period ending January 2023. The limiter 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 – The ratings could be upgraded if there is a ramp-up in the scale of operations with a diversification in the revenue profile and a sustainable improvement in the profitability.

Negative factors – Pressure on the ratings could arise on a significant decline in the scale of operations, resulting in a deterioration in the company’s financial performance. Pressure on the ratings could also arise on any adverse change(s) in the regulatory environment, affecting the company’s business operations and financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Brokerage Industry
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. As of December 31, 2022, GEPL had 30,657 clients and was empanelled with 36 institutions.

The company reported a PAT of Rs. 0.3 crore on NOI of Rs. 16.1 crore in FY2023 (PAT/NOI of 2%) on a provisional basis compared to Rs. 2.8 crore on Rs. 19.8 crore in FY2022 (PAT/NOI of 14%). The net worth stood at Rs. 15.8 crore while preference share capital made up Rs. 11 crore of the total capitalisation as on March 31, 2023.

Key financial indicators

	FY2021	FY2022	FY2023
	Audited	Audited	Prov.
Brokerage income (net)	14.8	17.2	11.6
Other fee income	2.6	1.7	3.3
Net interest income	-0.8	0.9	1.2
Net operating income (NOI)	16.6	19.8	16.1
Total operating expenses	14.6	17.2	17.7
Net operating profit	2.0	2.6	-1.6
Non-operating income	0.1	1.2	2.0
Profit before tax (PBT)	1.9	3.1	0.3
Profit after tax (PAT)	1.4	2.8	0.3
Net worth	12.7	15.5	15.8
Preference shares	11.0	11.0	11.0
External borrowings	14.9	6.0	0.0
Total debt/Net worth (times)	2.0	1.1	0.7
External Debt/Net worth (times)	1.2	0.4	0.0
Cost-to-income ratio	88%	87%	110%
PAT /NOI	8%	14%	2%
Return on net worth	12%	20%	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	Type	Current Rating (FY2024)		Date & Rating June 26, 2023	Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
1	Short-term non-fund based bank facilities	55.00	55.00	[ICRA]A4	-	-	-
2	Long-term fund-based bank facilities	20.00	-	[ICRA]BB-(Stable)	-	-	-
3	Unallocated bank facilities	15.00	-	[ICRA]BB-(Stable)/[ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term non-fund based bank facilities	Simple
Long-term fund-based bank facilities	Simple

Unallocated bank facilities	Simple
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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 fund-based bank facilities	NA	NA	NA	20.00	[ICRA]BB- (Stable)
NA	Short-term non-fund based bank facilities	NA	NA	NA	55.00	[ICRA]A4
NA	Unallocated bank facilities	NA	NA	NA	15.00	[ICRA]BB-(Stable)/ [ICRA]A4

[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 June 26, 2023, has been revised with the below mentioned changes:

- Renaming the Line item "Gearing (Total debt/ Net worth; times)" to "External Borrowing/ Net worth" in Key financial indicator table (Page 3).
- Addition of line item "Total Debt/ Net worth (times)" with the corresponding values in the Key financial indicator table (Page 3).

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Branches



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