

CMP: ₹ 40

Target: ₹ 46 (15%)

Period: 12 months

BUY

August 7, 2020

Cash focused business model best suited...

Geojit reported a healthy performance on all fronts. Total revenue was up 22.9% to ₹ 91.1 crore, on the back of robust increase in cash average daily turnover (ADTO) thereby, improving yields. Healthy topline & steady opex led to strong PAT growth of 669% YoY & 38% QoQ to ₹ 23.8 crore.

Higher proportion of cash business drives healthy performance

Geojit Financial services (GFS) is a leading retail financial services company in India with a growing presence domestically and in Middle East. In Q1FY21, the company added 10,600 new customers taking customer count to ~10.6 lakh. Overall ADTO for the quarter was flattish at 1.2% YoY to ₹ 2156 crore. Growth in cash ADTO was robust at 53.7% YoY & 41.1% QoQ to ₹ 690 crore, which led overall yields to increase 0.048% vs. 0.036% in Q1FY20. On the back of higher cash volumes, equity related growth was at ₹ 70.4 crore, up 28% YoY. Financial product income saw QoQ regressive growth to ₹ 10.2 crore (down 28% YoY) mainly due to slowdown of mutual fund, insurance distribution income. Total MF AUM was down 9.2% YoY to ₹ 6286 crore. Quarterly SIP inflows were at ₹ 167 crore, with SIP market share at 1.93% vs. 1.85% in March 2020.

Geographical focus, customer stickiness remain strength

Geojit has been focused in terms of target customers and geography. Geography wise, ~60% of business is driven by South India with focus on Kerala, Tamil Nadu. Middle & upper middle class remain target customer base. Focus on client relationship through branches leads to higher customer stickiness. Continued focus on targeted customer acquisition, personalised service through branches, cash business would enable customer stickiness, revenues. With higher proportion of offline business (~95% of MF revenue derived from offline channels), focus on digitisation would enable greater customer reach in a cost efficient manner.

Valuation & Outlook

Geojit remains a small player in terms of clientele with acquisition pace lagging behind large peers. However, in the current scenario witnessing higher volume in cash segment, GFS remains a clear beneficiary given largest proportion of cash business. Continued focus on targeting middle, upper middle-class customers and engaging in personalised service would enable better stickiness. Continued focus on cash ADTO is seen keeping yields elevated. Harnessing client relationship, distribution of financial products remains one of the focus areas seen to garner fee income (expect growth to stay subdued in FY21E due to lockdown). Expect steady growth in ADTO at ₹ 2413 crore coupled with higher proportion of cash business at ₹ 613 crore to support traction in revenue. We expect earnings to grow at 24% CAGR in FY21-22E to ₹ 77.8 crore. Given higher proportion of cash business that is positive in current scenario, we revise our target price to ₹ 46, valuing the company at 14x FY22E EPS. We upgrade from HOLD to **BUY**.

Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
ADTO (₹crore)	1994	1936	2173	2174	2413	5.4%
Market Share (%)	0.28	0.19	0.15	0.15	0.15	-0.5%
Revenue (₹crore)	304	265	305	310	340	5.5%
Net Profit (₹crore)	67.5	29.2	50.9	65.5	77.8	23.7%
EPS (₹)	2.8	1.2	2.0	2.8	3.3	
P/E (x)	14.4	33.3	20.7	14.8	12.5	
P/BV (x)	2.2	2.4	1.7	1.5	1.4	
RoE (%)	16.2	6.9	10.4	10.9	11.6	

Source: Company, ICICI Direct Research



Particulars

	Amount
Market Capitalisation	₹610 crore
Networth (FY19)	₹567 crore
52 week H/L	37/15
Face Value	₹1
DII Holding (%)	2.3
FII Holding (%)	0.1
Promoter Holding (%)	62.2
Others (%)	35.5

Key Highlights

- Higher cash market share to support topline
- Wealth management to remain focus area, going forward
- Upgrade rating from HOLD to BUY with revised target price of ₹ 46 per share

Research Analyst

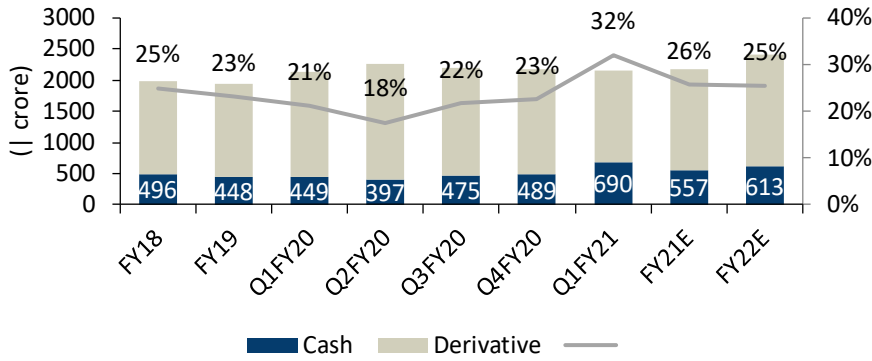
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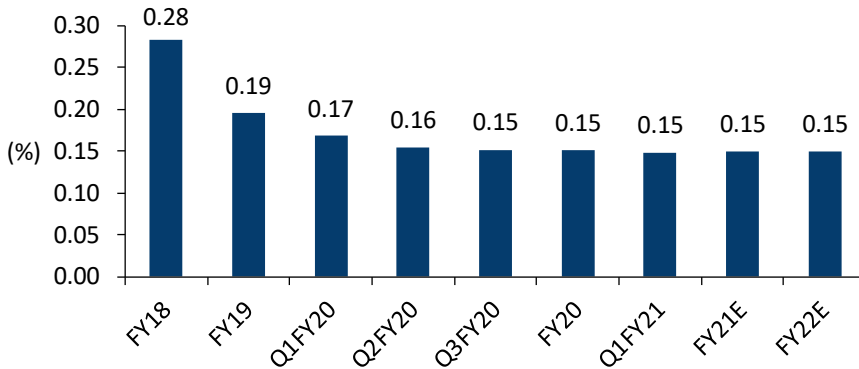
Snapshot of company

Exhibit 1: ADTO growth trend over the years



Source: Company, ICICI Direct Research

Exhibit 2: Market share to dip, going ahead



Source: Company, ICICI Direct Research

Exhibit 3: Revenue breakup

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Brokerage Income	168	185	224	186	236	252	274
Distribution Income	18	24	45	43	38	40	46
Others	31	35	35	36	31	18	20

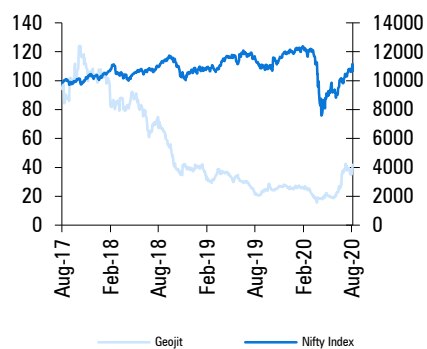
Source: Company, ICICI Direct Research

Exhibit 4: Quarterly P&L

Particulars	Q 1FY20	Q 2FY20	Q 3FY20	Q 4FY20	Q 1FY21
Revenue from operation	68	69	72	77	86
Brokerage Income	52	46	51	57	70
Interest Income from Marg	8	8	8	0	0
Others	9	14	14	19	16
Other Income	0.3	0.2	0.5	0.4	0.2
Total Income	69	69	73	77	86
Expenses					
Employee expense	26	25	26	24	24
Finance cost	0.3	0.4	2	1	1
Depreciation	5	5	7	7	6
Other expenses	25	25	22	24	26
Total Expense	57	55	57	56	56
Profit Before Tax	12	14	16	21	30
Exceptional Items	-10	0	0	0	0
Tax	4	3	2	5	8
Profit After Tax	-3	10	14	16	22
EPS	0	0	0.6	0.7	0.9

Source: Company, ICICI Direct Research

Exhibit 5: Price Chart



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit & Loss		(₹ crore)				
Particulars	FY18	FY19	FY20	FY21E	FY22E	
Revenue from operation	304.1	264.9	305.3	309.9	340.1	
Other Income	30.1	20.2	1.0	10.0	11.5	
Finance cost	0.4	0.7	2.9	2.9	3.5	
Depreciation	12.4	13.7	25.0	26.2	28.8	
Other expenses	126.9	113.9	94.6	90.8	97.2	
Total Expense	232.7	229.6	232.3	231.9	247.1	
Profit Before Tax	101.4	55.5	74.1	88.0	104.5	
Tax	34.0	18.8	18.7	22.4	26.6	
Profit After Tax	67.5	29.2	50.9	65.5	77.8	
EPS	2.8	1.2	2.0	2.8	3.3	

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios						
Particulars	FY18	FY19	FY20	FY21E	FY22E	
ADTO (₹crore)	1994	1936	2173	2174	2413	
Derivative (₹crore)	1498	1488	1684	1617	1800	
Cash (₹crore)	496	448	489	557	613	
Market Share (%)	0.3	0.2	0.2	0.2	0.2	
Yield (%)	0.046	0.040	0.045	0.048	0.047	
ROE (%)	16.2	6.9	10.4	10.9	11.6	
No of Shares (crore)	23.8	23.8	23.8	23.8	23.8	
EPS (₹)	2.8	1.2	2.0	2.8	3.3	
PE (x)	14.4	33.3	20.7	14.8	12.5	
Book Value (₹)	18.3	17.2	23.8	26.6	29.8	
P/BV (x)	2.2	2.4	1.7	1.5	1.4	
Pat margin (%)	20.2	10.2	16.6	20.5	22.1	
CIRatio (%)	69.6	80.5	75.8	72.5	70.3	
Mcap/Sales (x)	2.8	3.3	3.1	3.0	2.7	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		(₹ crore)				
Particulars	FY18	FY19	FY20	FY21E	FY22E	
Source of Funds						
Equity Capital	23.8	23.8	23.8	23.8	23.8	
Reserve & Surplus	411.8	385.0	543.6	609.1	687.0	
Networth	435.6	408.9	567.4	633.0	710.8	
Borrowings	4.6	2.4	18.2	25.5	33.2	
Other Liability	227.6	292.2	323.0	339.2	356.1	
Total	667.8	703.6	908.7	997.6	1100.1	
Application of Funds						
Fixed Asset	55.3	66.4	72.3	79.5	87.5	
Investment	114.7	45.0	104.6	115.1	126.6	
Advances	155.9	172.5	21.7	22.8	25.1	
Cash	188.0	204.9	136.0	149.6	164.6	
Other Asset	153.8	214.8	574.0	630.6	696.4	
Total	667.8	703.6	908.7	997.6	1100.1	

Source: Company, ICICI Direct Research

Exhibit 9: Growth Ratios		(%)				
Growth (%)	FY18	FY19	FY20	FY21E	FY22E	
Total Asset	5	5	29	10	10	
Advances	37	11	-87	5	10	
Borrowing	0	-47	645	40	30	
Total Income	25	-15	7	4	10	
Operating expense	21	-1	1	0	7	
Net profit	-76	57	74	29	19	
Book Value	9	-6	39	12	12	
EPS	74	-57	61	40	19	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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