

CMP: ₹ 88

Target: ₹ 110 (25%)

Period: 12 months

August 7, 2020

BUY

Cash focused business model best suited...

About the stock: Geojit Financial Services is an investment service company in India with a presence in Middle East via subsidiaries, JVs and partnerships and has 466 offices throughout India and the Middle East.

- The company has a total client base of 11.2 lakh as on June 2021
- Cash ADTO market share for the company was at 0.92%

Q1FY22 Results: Geojit Financial Services reported a mixed performance.

- Yearly revenue grew 33% to ₹ 115 crore, brokerage income up 27% YoY
- Expenses declined 5.1% YoY, with PAT up 57% YoY to ₹ 35.1 crore
- Total ADTO up 56% YoY but down 12.1% QoQ at ₹ 3376 crore

What should investors do? Geojit has given ~2.2x returns over the past five years.

- We upgrade the stock from HOLD to BUY

Target Price and Valuation: We value Geojit at ~16.8x FY23E EPS and arrive at a revised target price of ₹ 110.

Key triggers for future price performance:

- Yearly rise in cash ADTO trends to aid business volumes
- Cost control on client acquisition to aid profitability
- Focus on affluent clients to help client retention and, thus, revenue
- Focus on wealth management vertical to aid sustained profitability

Alternate Stock Idea: Apart from Geojit, in our coverage we also like 5Paisa.

- It is a leading discount broker and offers a play on new age fintech financial intermediary with robust client addition
- BUY with a target price of ₹ 600



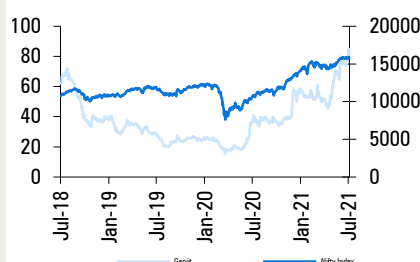
Particulars

	Amount
Market Capitalisation	₹ 2090 crore
Networth	₹ 697 crore
52 week H/L	102/32
Face Value	₹ 1

Shareholding pattern

	Jun-21
DII Holding (%)	0.0
FII Holding (%)	1.4
Promoter Holding (%)	62.2
Others (%)	36.4

Price Chart



Recent Event & Key risks

- Brokerage services income at ₹77.5 crore. Broking yield at 0.039%
- Key Risk:** (i) Continuous decline in market share may impact valuations

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Key Financial Summary

	FY19	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
ADTO (₹ crore)	1936.0	2189.0	3004.0	22.1%	3559.8	3804.5	12.5%
Market Share (%)	0.2	0.2	0.1		0.1	0.1	
Revenue (₹ crore)	264.9	305.3	425.0	14.8%	479.5	506.8	9.2%
Net Profit (₹ crore)	29.2	50.9	123.2	33.9%	146.0	155.5	12.4%
EPS (₹)	1.2	2.0	5.2		6.1	6.5	
P/E (x)	71.9	44.7	17.0		14.4	13.5	
RoE (%)	6.9	10.4	20.1		19.9	17.6	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Mixed bag performance

- Strong revenue growth on a yearly basis despite a fall in broking yields backed by 56.6% rise in ADTO. MTF book was up 33.6% QoQ while interest income jumped ~2x YoY and 13% QoQ
- Cost control helped the bottomline soar 57% YoY to ₹ 35.1 crore
- Market share in both cash and derivative segment has been on the decline for the past few quarters and is currently at 0.92% and 0.05%, respectively
- New client addition also remained weak due to the impact of the pandemic at 11130 vs. 28955 in the previous quarter
- Total AUM increased 8.3% sequentially to ₹ 55915 crore

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
IIFL Sec	122	115	Hold	3438	7.3	9.0	9.4	16.7	13.5	12.9	3.0	2.4	2.5	23.9	24.8	20.6
5 paisa	508	600	Buy	1514	6.8	12.6	20.6	74.7	40.3	24.7	8.2	3.5	3.0	11.7	12.7	13.2
Geojit	88	110	Buy	2090	5.2	6.1	6.5	17.0	14.4	13.5	3.2	2.6	2.2	20.1	19.9	17.6
MCX	1694	2000	Buy	8641	44.2	47.7	52.0	38.3	35.5	32.6	6.1	5.7	5.4	15.9	16.2	16.6

Source: Company, ICICI Direct Research

Geojit remains among smaller players in the broking industry with focus on middle & upper class customers and offering personalised services.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ	Comments
Revenue for operations	115.3	86.2	33.8	115.7	-0.3	Healthy YoY growth driven by brokerage income and depository services income
Other Income	0.3	0.2	48.3	1.2	-77.8	
Total Income	115.6	86.3	33.9	116.9	-1.1	
Finance Cost	0.7	0.8	-16.0	0.9	-24.4	
Employee Expenses	29.5	24.2	22.3	33.0	-10.5	Decline on account of lower office staff and other related expenses due to lockdowns
Other Expenses	32.7	25.5	28.1	32.5	0.6	
Depreciation	5.5	5.8	-5.6	5.6	-2.6	
Total Expenses	68.4	56.3	21.5	72.0	-5.1	
Profit Before Tax	47.2	30.1	57.0	44.9	5.3	
Tax	12.2	7.7	57.0	10.7	13.3	
Profit After Tax	35.1	22.3	57.0	34.1	2.8	
ADTO	3,376.0	2,156.0	56.6	3,841.0	-12.1	Sequential decline in turnover led by 14% fall in derivaive ADTO

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit & Loss		(` crore)				
Particulars	FY19	FY20	FY21	FY22E	FY23E	
Revenue from operation	265	305	425	479	507	
Other Income	20	1	2	2	2	
Total Income	285	306.4	427	482	509	
Employee expense	101	110	119	131	138	
Finance cost	1	3	3	4	4	
Depreciation	14	25	23	24	26	
Other expenses	114	95	116	127	134	
Total Expense	230	232	262	287	302	
Profit Before Tax	56	74	165	195	207	
Exceptional Items	8	4	0	0	0	
Tax	19	19	42	49	52	
Profit After Tax	29	50.9	123	146.0	155.5	
EPS	1.2	2.0	5.2	6.1	6.5	

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios		FY19	FY20	FY21	FY22E	FY23E
ADTO (` crore)		1936	2189	3004	3560	3804
Derivative (` crore)		1488	1736	2286	2806	3013
Cash (` crore)		448	453	718	754	792
Market Share (%)		0.19	0.15	0.11	0.08	0.09
Cash Market Share (%)		1.3	1.2	1.1	1.1	1.2
Derivative Market Shar		0.2	0.1	0.1	0.1	0.1
Yield (%)		0.040	0.033	0.038	0.036	0.035
ROE (%)		6.9	10.4	20.1	19.9	17.6
No of Shares (crore)		23.8	23.8	23.8	23.8	23.8
EPS (`)		1.2	2.0	5.2	6.1	6.5
PE (x)		71.9	44.7	17.0	14.4	13.5
Book Value (`)		17.2	23.8	27.6	33.8	40.3
P/BV (x)		5.1	3.7	3.2	2.6	2.2
Pat Margin (%)		10.2	16.6	28.9	30.3	30.5
CI Ratio (%)		81	76	61	60	59
Mcap/Sales (x)		7.7	7.2	5.2	4.6	4.3

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		(` crore)				
Particulars	FY19	FY20	FY21	FY22E	FY23E	
Source of Funds						
Equity Capital	23.8	23.8	23.8	23.8	23.8	
Reserve & Surplus	385.0	543.6	634.8	780.8	936.3	
Networth	408.9	567.4	658.7	804.6	960.1	
Non-Current Liabilities	2.4	18.2	17.6	22.9	29.8	
Current Liabilities	292.2	323.0	491.2	515.8	541.6	
Total	703.6	908.7	1167.5	1343.3	1531.5	
Application of Funds						
Fixed Asset	66.4	72.3	63.3	69.7	76.6	
Investment	45.0	104.6	12.9	14.2	15.7	
Advances	172.5	21.7	118.1	141.7	170.0	
Cash	204.9	136.0	73.1	80.4	88.5	
Other Asset	214.8	574.0	900.1	1037.3	1180.8	
Total	703.6	908.66	1167.5	1343.3	1531.5	

Source: Company, ICICI Direct Research

Exhibit 9: Growth Ratios		(%)				
Growth (%)	FY19	FY20	FY21	FY22E	FY23E	
Total Asset	5	29	28	15	14	
Advances	11	-87	443	20	20	
Borrowing	-47	645	-3	30	30	
Total Income	-15	7	39	13	6	
Operating expense	-1	1	13	10	5	
Net profit	57	75	142	18	7	
Book Value	-6	39	16	22	19	
EPS	-57	61	162	18	7	

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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