

Press Release

Equirus Capital Private Limited

September 13, 2019



Rating Assigned

Instruments Rated*	Rs. 5.61 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 5.61 crore Preference Shares Program of EQUIRUS CAPITAL PRIVATE LIMITED (ECPL). The outlook is '**Stable**'.

ECPL was founded by Mr. Ajay Garg in 2007 as an investment banking and capital market advisory company. ECPL's key focus areas are rendering advisory services in the BFSI sector, IT Sector, Roads and Auto components sectors. ECPL has three subsidiary companies, namely Equirus Securities Private Limited (ESPL), Equirus Digital Private Limited (EDPL) and Equirus Wealth Private Limited (EWPL). ESPL provides equity research, institutional equities, stock broking and portfolio management services, EDPL operates a software platform by the name "Propeluss" for fundraising, acquisitions, strategic partnerships among start-ups, investors and corporates. EWPL is engaged in the business of distribution of financial products and offers advisory services in the area of wealth management to high networth Individual's (HNI). Equirus Group offers various advisory products and services under segments such as capital markets, institutional equities, wealth management, portfolio management services etc.

Analytical Approach

Acuite has consolidated the business and financial risk profile of Equirus Capital Private Limited (ECPL), and its subsidiaries Equirus Securities Private Limited (ESPL), Equirus Digital Private Limited (EDPL) and Equirus Wealth Private Limited (EWPL), together referred to as the 'Equirus Group' (EG). The consolidation is in view of common management, shared brand name and significant financial and operating linkages between the various entities of the group. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Business model based on support from marquee investors and expertise of seasoned professionals:

Equirus Group is promoted by Mr. Ajay Garg, who has over 22 years of experience in Investment Banking through his previous association with DSP Merrill Lynch and MAPE advisory group. Besides Mr. Garg, the flagship company ECPL has raised equity from marquee investors, Mr. Rakesh Jhunjhunwala and The Federal Bank Limited (FBL). FBL, in FY2019, invested in ECPL in the form of equity and convertible preference capital for a 19.59 per cent stake as on March 31, 2019.

Equirus Group has been able to build a team of seasoned professionals with domain and legal expertise. Mr. Ajit Deshmukh, Director, has over two decades of experience in the IT Industry and Investment Banking industry and has handled technology leadership position at Citigroup and US Department of Defence. Mr. Donald D'Souza, Director, has more than two decades of experience in Investment banking through his association with HDFC Bank as Head of Equity Capital Markets in its Investment Banking division and other positions at IIFL, Kotak, CLSA and JM Financial.

The team has, since inception, handled over 150 deals i.e. capital market transactions including deals in M&A and PE deals for the group. Equirus' clientele includes Shankara Building Products, L&T Finance Holdings, MSTC Ltd, Infosys, amongst others. EG's multi-disciplinary expertise and established network of key management employees helps in identifying business opportunities and converting them into deals. The Group's operations are spread across 8 offices located in Mumbai, Ahmedabad, Pune, Kochi, Delhi and Bangalore.

Acuite believes that the group will continue to benefit from support of these resourceful investors and experienced management team and its ability to cater to reputed clientele.

• **Benefits emanating from synergies from various business verticals:**

Equirus Group's gamut of product offerings include advisory and investment banking services, broking, wealth management services and related services. The group has also developed a software 'Propeluss' for fundraisings, acquisitions, strategic partnerships among start-ups, investors and corporates. Since clients generally prefer one-stop solution, the group has tied-up with FBL to offer funding support to these deals, whenever required. As per the arrangement with FBL, the deals being structured by EG will be referred to FBL for funding solutions, whenever required. Hence, EG will be able to keep its capital requirement at modest level, while satisfying the customer's requirement of advisory and funding support. The groups various verticals have significant alignment between themselves, the large HNI base (under wealth) can be tapped for the investment banking business. Similarly, there is a synergy between the PMS business and the broking business. The group also has plans to expand into derivatives segment and gain other domain expertise.

Acuite believes that Equirus group is well positioned to benefit from the opportunities in the M&A space and capital markets segment.

Weaknesses

• **Susceptibility of the revenue profile to volumes in the capital markets amidst an intensely competitive landscape:**

The group's services are linked to the number of deals in the M&A space and the volumes in capital markets. Any slowdown in the pipeline of these deals will impact the revenue profile of players such as Equirus Group, since a large number of the investment banking outfits will be competing for the same deals. Since there is a significant time lag between identification of a new deal and its final fructification, the pipeline of deals needs to be robust at all points of time. This is mostly on account of the fact that most of the deals taken up for preliminary screening may not eventually materialise, and hence may not generate any revenues for the company. The low hit ratio inherent in this business makes it imperative that the initial screening process are robust and conversion to final deal is done as quickly as possible.

Acuite believes that the level of activity in the capital markets will continue to impinge the revenue profile of these players and future growth trajectory.

• **Growth trajectory linked to ability to attract and retain key talent:**

The financial service industry is mainly based on intellectual capital. The entire gamut of investment banking business is based on domain expertise and network across various players in the industry. Hence, the ability of Equirus Group to attract and retain the right talent will be essential to maintain growth in revenues over the years. This is critical since there are large number of mid-size and large-size players including boutique investment bankers, who offer similar services and often compete for the same deals. The cost structures of players such as Equirus group are fixed cost intensive, making it is imperative for the group to maintain a healthy flow of revenues. Similarly, considering the competitive landscape and emergence of various players offering similar solutions, the ability of the group to maintain a strong product pipeline offering new and innovative solutions to the clients will be essential for future growth prospects and a key monitorable.

Liquidity Position: Adequate

The group has an adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. Net cash accruals of the group stood at Rs.5.32 crore for FY2019 as against Rs.3.24 crore for FY2018, while its debt obligation was Rs. 0.68 crore for FY2019 and NIL for FY2018. The group has low reliance on working capital borrowings; and its short term borrowings stood at Rs.0.82 crore as on March, 2019. The group's debtors were stretched and debtor days stood at 76 days as on March 31, 2019 as against 19 days as on March 31, 2018. The group had a cash and bank balance of Rs. 2.09 crore as on March, 2019. Acuite, believes that the liquidity of the group is likely to remain healthy over the near to medium term.

Outlook: Stable

Acuite believes Equirus group will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues, while achieving sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

Particulars	Unit	FY19(Actual)	FY18(Actual)	FY17(Actual)
Operating Income	Rs. Cr.	49.68	33.71	23.67
EBITDA	Rs. Cr.	6.04	4.15	2.72
PAT	Rs. Cr.	3.73	1.98	0.32
EBITDA Margin	(%)	12.16	12.32	11.49
PAT Margin	(%)	7.52	5.87	1.34
ROCE	(%)	18.18	12.44	15.24
Total Debt/Tangible Net Worth	Times	0.24	0.06	0.40
PBDIT/Interest	Times	19.55	11.38	3.07
Total Debt/PBDIT	Times	1.16	0.31	2.68
Gross Current Assets (Days)	Days	238	47	168

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in Service Sector - <http://acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Preference Shares Program	Not Applicable	Not Applicable	Not Applicable	5.61	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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