

Press Release
Equirus Capital Private Limited

September 10, 2020

Rating Reaffirmed



Instruments Rated*	Rs. 5.61 Cr.
Long Term Rating	ACUITE BBB+/ Negative (Reaffirmed; Outlook revised from Stable)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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 revised from '**Stable**' to '**Negative**'.

Revision of Outlook

The revision in outlook from 'Stable' to 'Negative' is on account of significant deterioration in the operating performance during FY2020 and Acuite's expectation that any revival in the performance over the near to medium term would be challenging. The group incurred EBITDA losses of Rs. 9.16 crore during FY2020 on account of decline in revenues leading to sub-optimal absorption of overheads. The current subdued operating environment is likely to translate into further top-line pressures, specially in the investment banking segment, thereby leading to an elevated possibility of operating losses even for FY2021.

About ECPL

Incorporated in 2007 by Mr. Ajay Garg, ECPL is an investment banking and capital market advisory company. ECPL's key focus areas are rendering advisory services in the BFSI, IT Sector. 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, stockbroking 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.

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

Equirus Group is promoted by Mr. Ajay Garg, who has over two decades 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 Jhunjunwala and The Federal Bank Limited (FBL). FBL has invested in ECPL in the form of equity and convertible preference capital. The investors have also recently subscribed to the right issues of convertible preference shares in the second quarter in current fiscal year FY2021.

Equirus Group has been able to build a team of seasoned professionals with domain and legal expertise. Mr. Ajay Garg (Founder & Managing Director), has over two decades of experience in investment banking and was previously associated with DSP Merrill Lynch and MAPE advisory group. Mr. Ajit Deshmukh (Director), has over two decades of experience in the IT Industry and Investment Banking industry and has handled the technology leadership position at Citigroup and the US Department of Defense. Mr. Rajiv Agarwal – Director, is Managing Director at RARE Enterprises and has been associated with RARE for over a decade. Mr. Harsh Dugar – Director, is the head of wholesale banking division at the Federal Bank Ltd. He has expertise in the field of corporate banking with around two decades of experience with HDFC Bank.

Equirus Group's gamut of product offerings includes 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 Federal Bank (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 a modest level, while satisfying the customer's requirement of advisory and funding support. The group's various verticals have significant alignment between themselves.

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 an established network of key management employees help in identifying business opportunities and converting them into deals.

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

Weaknesses

• Susceptibility of the operating performance to volumes in the capital markets and deal pipeline amidst a subdued operating environment

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 materialize, 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 is robust and conversion to the 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.

Rating Sensitivities

- Future movements in earnings and profitability metrics
- Major changes in management and ownership pattern
- Changes in regulatory environment

Material Covenants

None

Liquidity position: Adequate

The group reported negative Net Cash Accruals of ~Rs. 6.43 crore and had maturing debt obligations of ~Rs. 1.31 crore as on March 31, 2020. Though the cash flows from operations are insufficient to match the debt obligations the group has cash & bank balance of Rs. 0.35 crore and liquid investments of Rs. 6.37 crore as on March 31, 2020. The promoters have supported the liquidity by infusion of funds in the way of rights issue of Rs. 2.9 crore in the second quarter of FY2021 and have plans for further infusion. Hence, the continued support from the promoters is expected to support the liquidity profile of the group.

Outlook: Negative

Acuite believes that the Equirus group's operating performance is likely to be impacted over the near term on account overall challenging economic environment. The outlook may be revised to 'Stable' in case the operating profitability is significantly better than expected while maintaining the debt protection indicators. Conversely, if the group faces challenges in arresting further deterioration in its earning and profitability metrics, it would impart negative bias to the rating.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	40.76	49.68
PAT	Rs. Cr.	(8.49)	3.73
PAT Margin	(%)	(20.84)	7.52
Total Debt/Tangible Net Worth	Times	0.36	0.10
PBDIT/Interest	Times	(5.77)	19.55

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

None

Any other information

None

Applicable Criteria

- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
13-Sep-19	Preference Share Program	Long term	5.61	ACUITE BBB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Preference Share Program	Not Applicable	Not Applicable	Not Applicable	5.61	ACUITE BBB+/Negative (Reaffirmed; Outlook revised from Stable)

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About Acuite Ratings & Research:

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