

Press Release

Jainam Share Consultants Private Limited

May 05, 2021

Rating Assigned



Total Bank Facilities Rated	Rs. 130.00 Cr.
Short Term Rating	ACUITE A2+ (Assigned)

*Refer annexure for details

Rating Rationale

Acuite has assigned a short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 130.00 Cr. bank facilities of Jainam Share Consultants Private Limited (JSPL).

The rating factors in JSPL's established track record of operations in stock broking business, healthy capitalization levels and established position in its segment. The rating also takes into consideration the focused approach of the company to concentrate more on delta trading segment, this has helped the company to significantly increase its business volume, revenue and profitability over the last few years. On account of this business model, JSPL has less dependence on proprietary trading and plain vanilla brokerage business, which is a highly competitive segment. JSPL has reported healthy earnings with an increase in PAT to Rs. 32.49 Cr. for FY2020 as compared to Rs. 22.45 Cr. for FY2019. For 9M FY2021 (standalone) the company reported a PAT of Rs. 54.77 Cr. JSPL has comfortable capitalization with a networth of Rs. 188.15 Cr. as on December 31, 2020 (standalone & provisional).

The rating is however constrained on account of JSPL's delta trading revenues susceptibility to the level of volatility in the capital markets as well as highly competitive landscape in broking business. JSPL operates majorly in Gujarat and has limited presence in the conventional broking business, operating with low institutional client base. Further, baring 9MFY21, the company's retail brokerage volumes and revenues have been declining. During FY21, most of the broking companies have witnessed significant traction in broking volumes on account of sharp rebound and volatility in capital/ commodity markets which may not be sustainable. Going forward, the company's ability to grow its delta trading business, maintain share of retail broking revenues and thereby maintain earnings growth shall be key monitorable.

About JSPL

Surat based Jainam Share Consultants Private Limited (JSPL) was incorporated in 2003. The company was founded by Mr. Milan Parikh, Mr. Chirag Shah, Mr. Bharat Parikh, Dr. Jitendra Shah and Mr. Nipun Shah. Currently, Mr. Milan Parikh is heading the operations of the company and handling day-to-day activities with support of his family members. JSPL has two subsidiary companies, namely Jainam Fincap Private Limited (previously known as Jainam Wealth Management Private Limited) and Jainam IFSC Mavens Private Limited. Jainam Fincap is engaged in wealth management services and Jainam IFSC has been set up to function under International Financial Services Center.

About Jainam Group

Jainam Group was founded in 2003 with the incorporation of Jainam Share Consultants Private Limited. Jainam Group comprises of three companies JSPL and its two subsidiaries. The Group offers a wide array of services under securities business ranging from broking activities under various segments to delta trading desk, research, portfolio management services, depository services, auto investment planner, NRI services, amongst others.

Analytical Approach

Acuite has considered a consolidated business and financial risk profile of Jainam Share Consultants Private Limited and its subsidiaries Jainam Fincap Private Limited (previously known as Jainam Wealth Management Private Limited) and Jainam IFSC Mavens Private Limited to arrive at the rating. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Mr. Milan Parikh is the founder director of the company. He has an experience of over three decades in the stock market business. In 2003, Mr. Milan Parikh along with Mr. Nipun Shah, Dr. Jitendra Shah, Mr. Chirag Shah and Mr. Bharat Parikh founded Jainam Share Consultants Private Limited. In 2019, the rest of the founder members sold their stake to Mr. Milan and currently Mr. Milan along with his family members are operating the Jainam Group. Mr. Milan and the promoter group have 100 percent equity shareholding of the Jainam Group as on March 16, 2021. Mr. Milan oversees Jainam's strategic growth and development and acts as a chief strategist.

The company has been able to diversify its revenues by venturing into delta trading and has been since able to significantly grow its delta trading volumes and revenues significantly. The Group had ventured into delta trading business in 2008-09 under JSPL and currently has over 1,500 traders. Jainam Group has 23 branches and a network of 450 franchise/ sub-brokers and has presence in the states of Gujarat, Maharashtra and Silvassa. JSPL had total traded volumes of around Rs. 3.30 lakh Cr. for 9M FY2021 which comprised 69 percent towards retail broking and 31 percent towards delta trading. Around 60 percent of the total traded volumes were in F&O segment, 17 percent in equities segment, 14 percent in commodities segment and rest 8 percent in currency segment.

Acuite believes that group will continue to benefit from experienced management and established track record of operations.

- **Healthy earning profile**

The Group's earning profile is healthy marked by total revenue from operations of Rs. 88.29 Cr. as on March 31, 2020 as compared to Rs. 63.45 Cr. as on March 31, 2019. The brokerage revenue earned from retail clients is fairly stable and the growth in total revenue is led by income derived by way of interest income under delta trading activities. Brokerage income constituted around 28 percent of the total revenue while, interest income (by the way of providing margin funding to traders for delta trading) constituted around 27 percent of the total revenue in FY2020. Total revenue earned further increased to Rs. 126.57 Cr. (provisional) for 9M FY2021 (standalone) of which interest income (delta trading) comprised 68 percent and brokerage income comprised 23 percent. Delta trading is done under the proprietary book of Jainam Group. Under delta trading segment, Jainam provides part margin funding to the traders in the form of Bank Guarantee on which the company charges interest. Jainam Group does not have share in profits or losses earned/incurred by the trader. The Group monitors its traders' position on a real time basis so as to cap the trader's position vis-à-vis margin deposited by them. The Group reported a PAT of Rs. 32.49 Cr. as on March 31, 2020 as compared to Rs. 22.46 Cr. as on March 31, 2019. While, PAT for 9M FY2021 (standalone) further increased to Rs. 54.77 Cr. (provisional). Given a competitive landscape under securities business especially broking segment, Jainam Group has been able to improve its earning profile by dealing in products like delta trading which has resulted in healthy revenue profile.

Acuite believes the while most of the broking companies have witnessed significant traction in broking volumes during FY21 on account of sharp rebound in capital/ commodity markets, the same may not be sustainable. While the Group continues to benefit from its business model driven by delta trading activity, the level of activity in the capital markets will be key determinant of its revenue profile and future growth trajectory.

- **Comfortable capitalization**

Jainam Group's capitalization profile is comfortable with a networth of Rs. 133.55 Cr. as on March 31, 2020. Since Jainam's operations are capital markets driven, a significant proportion of the Groups borrowings are in the form of non-fund based limits consisting bank guarantees and overdraft facilities for margin purposes with almost 100 percent utilization for bank guarantees and low utilization for overdraft facilities. Gearing stood at 0.85 times as on March 31, 2020. Improvement was seen in networth (standalone) at Rs. 188.15 Cr. and gearing at 0.33 times as on December 31, 2020 (provisional).

Acuite believes that the capitalization of Jainam Group would remain comfortable on the back of healthy internal accruals based on strong earning profile.

Weaknesses

- **Limited growth in conventional broking business**

JSPL commenced its business in 2003 in Gujarat. The company has limited geographical presence, with its operations majorly concentrated in Gujarat. The company has opened a branch each in Maharashtra and Silvassa and has been expanding by way of franchise/ sub-brokers. JSPL's limited presence has restricted the company to increase its retail as well as institutional clientele base towards conventional broking business. JSPL brokerage revenue in this segment remained relatively low as reflected in its brokerage income at Rs. 24.70 Cr. in FY2020 reducing from Rs. 27.59 Cr. in FY2019. For 9M ended FY2021, JSPL reported brokerage income of Rs. 29.60 Cr. with comparatively less traction as witnessed in other established players in this segment.

Acuite believes that JSPL can build upon its conventional broking business by increasing its retail client base and bringing on-board a range of institutional clients.

- **Susceptibility to uncertainties inherent in the capital market business**

Broking is a highly volatile and cyclical business with the presence of a large number of established players who provide significant competition to the other fragmented and small players. The company's operating performance is linked to the capital markets, which are inherently volatile as they are driven by economic and political factors as well as investor sentiments. The group's revenue has been significantly dependent on delta trading activities carried out under derivatives which are inherently volatile. Any decline in operating revenues could lead to sub-optimal absorption of overheads and consequently result in operating losses.

Given the competition from larger brokerages and technology-focused new entrants, the ability of the Group to grow its revenues on a sustainable basis will be a key monitorable.

Rating Sensitivity

- Change in profitability metrics due to sharp movements in capital markets
- Changes in regulatory environment

Material Covenants

JSPL is subject to covenants stipulated by its lenders/investors in respect of minimum networth stipulation of Rs. 25 Cr.

Liquidity: Adequate

Jainam Group has bank facilities comprising of bank guarantee and overdraft facilities, which are used for margin requirements. The bank guarantee has 100 percent utilization levels, while overdraft facilities have low utilization level. The company had a cash and bank balance of Rs 23.16 Cr. as on March 31, 2020. As on December 31, 2020 the company had BG limits of Rs. 350.50 Cr. and OD facilities of Rs. 25 Cr. Acuite believes the liquidity position will remain adequate in the near to medium term.

About the Rated Entity - Key Financials – Consolidated

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	88.29	63.45
PAT	Rs. Cr.	32.49	22.45
PAT Margin	(%)	36.80	35.38
Networth	Rs. Cr.	133.55	101.15
Debt/Equity	Times	0.33	0.85
PBDIT/Interest	Times	5.27	8.27

About the Rated Entity - Key Financials – Standalone

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	88.30	63.45
PAT	Rs. Cr.	32.38	22.40
PAT Margin	(%)	36.66	35.31
Networth	Rs. Cr.	133.38	101.10
Debt/Equity	Times	0.33	0.86
PBDIT/Interest	Times	5.26	8.26

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of Facilities	Bank	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Ratings/ Outlook
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	130.00	ACUITE A2+ (Assigned)

Contacts

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About Acuité Ratings & Research:

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