Emkay Global Financial Services Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Emkay Global operates as a research-led cyclical intermediary, recently reverting to a pure-play brokerage and investment bank model following the strategic withdrawal of its Mutual Fund license application.**	—
2	**Revenue surged 54.34% YoY to ₹316 Cr, driven by a 40% rise in brokerage income and significant traction in high-profile Investment Banking mandates like the ₹4,000 Cr Indian Bank QIP.**	—
3	***Reported OPM improved to 17% from 7%, but this margin profile is artificially inflated by "Facility Fees" (Other Income) which constitute a disproportionate 76.7% of Consolidated PBT.***	—
4	**Bottom-line performance saw a sharp recovery in FY24, though future PAT will face headwinds as Deferred Tax Assets are exhausted, normalizing the effective tax rate to ~27%.**	—
5	**Financial health remains stable with a low Debt/Equity of 0.22x, although the company relies on a ₹20 Cr unsecured loan from the MD to support operational liquidity.**	—
6	**Cash flow from operations turned positive at ₹24 Cr (vs -₹63 Cr in FY23), providing robust 2.77x coverage over annual capital expenditure.**	—
7	**Capex of ₹8.65 Cr was primarily directed toward technology upgrades, achieving high asset efficiency as revenue grew 46% on only a 12% increase in Gross Block.**	—
8	***Earnings quality is compromised by the high dependency on non-core fees and a significant governance red flag: the failure to enable audit trail edit logs at the database level.***	—
9	***Governance is a mixed bag; while promoter pledging is zero, RPTs are high at 8.65% of revenue, and succession risk persists with the re-appointment of directors aged 80+.***	—
10	***The primary risk is the high fixed-cost structure (employee costs at 47.8% of sales), which creates significant negative operating leverage during inevitable market downturns.***	—
11	**The outlook is tied strictly to capital market cycles; while short-term momentum is strong, the lack of a scalable AMC vertical caps long-term structural valuation rerating.**	—
12	**Investment View: Watch; stance is dictated by cyclical tailwinds tempered by poor earnings quality—monitor the Audit Trail resolution and Other Income as a % of PBT.**	—

1. Business overview (In Bullet Points)

- **Business Segments:** Emkay Global operates as a pure-play capital markets intermediary focusing on Institutional Equities, Wealth Management, and Investment Banking (Merchant Banking).
- **Revenue Drivers:** Primary growth is driven by **Brokerage income** (62.13% of revenue), followed by Research and advisory fees and Investment Banking mandates (QIPs and IPOs).
- **Cost Drivers:** The business model is high-fixed-cost, dominated by **Employee benefits** (47.79% of sales) and Subscription/Data costs required for research-first positioning.
- **Industry Position:** Positioned as a boutique, research-backed alternative to large private banks and fintechs, focusing on the "Affluent Investor" class (HNIs >₹5 Cr).

- **Strategic Pivot Reversal:** Management has officially abandoned its Mutual Fund/AMC ambitions, withdrawing its SEBI application due to altered net worth and sponsor criteria.
- **Expansion Plans:** Shifting focus back to core competencies; investing in digital transformation via cloud-based CRMs for Commodity PCG and Web APIs for Wealth CRM.
- **Acquisitions & Capacity:** No major acquisitions; capacity additions are focused on technology upgrades and talent acquisition in the Investment Banking vertical.
- **Segment Performance:** Investment Banking emerged as the "alpha" generator in FY24, executing mandates for Indian Bank (□4,000 Cr) and J&K Bank (□750 Cr).
- **Geographical Presence:** Primarily India-focused, leveraging institutional relationships to capture mid-market and PSU mandates.

2. Management commentary & outlook

- The decision to withdraw the Mutual Fund application was a pragmatic response to the SEBI (Mutual Fund) (Amendment) Regulations, 2023, focusing capital on existing high-return verticals.
- Management is highly bullish on the "Financialization of Household Savings" and expects a robust IPO pipeline of approximately □70,000 Cr for FY25.
- Strategy has shifted toward "Inheritance planning" and "Tax optimization" for the HNI segment to move beyond simple trade execution.
- The company is responding to fintech competition by diversifying service offerings and enhancing digital touchpoints rather than engaging in price wars.
- Investment Banking is viewed as the primary growth engine for FY25, leveraging the current bull market and strong primary market sentiment.
- Management acknowledges high sensitivity to capital market volumes and is attempting to build operating leverage through automated client interactions.
- The re-appointment of 81-year-old director Mr. S.K. Saboo via Special Resolution reflects a reliance on experienced leadership for strategic stability.
- KMP remuneration growth was restricted to ~2.87%, significantly lower than the median employee increase of 14.16%, signaling cost discipline at the top.
- **Management Tone:** The management tone has shifted from "Transformational" in FY23 to "Pragmatic but Reactive" in FY24. While they have successfully repaired the P&L by riding the investment banking wave, the withdrawal from the AMC space indicates a retreat to a cyclical brokerage model rather than building a scalable, non-cyclical fee-based vertical.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2024	Mar 2023
Sales	316	205
Sales Growth %	54.34	-24.79
Expenses	261	190
Manufacturing Cost %	12.58	15.81
Employee Cost %	47.79	56.27
Other Cost %	22.20	20.46
Operating Profit	55	15
OPM %	17	7
Other Income	4	11
Exceptional items	3.08	-0.02
Other income normal	0.52	10.70
Interest	5	4
Depreciation	10	9
Profit before tax	44	12
Tax %	27	-12
Net Profit	32	14
Profit from Associates	0	0
Exceptional items AT	3	0
Profit excl Excep	30	14
Profit for PE	30	14
Profit for EPS	32	14
Profit Growth %	111	-58
EPS (□)	13.14	5.71
Dividend Payout %	11	18

Balance sheet (□Cr)

Line item	Mar 2024	Mar 2023
Equity Capital	25	25
Reserves	216	186
Borrowings	52	33
Long term Borrowings	0	0
Short term Borrowings	0	0
Lease Liabilities	0	0
Other Borrowings	52	33
Other Liabilities	772	488
Trade Payables	209	120
Advance from Customers	1	0
Other liability items	562	367
Total Liabilities	1,065	731
Fixed Assets	43	38
Building	31.46	29.96
Equipments	1.63	1.20
Computers	21.86	16.41
Furniture n fittings	1.68	1.39
Vehicles	1.83	1.83
Intangible Assets	0	0
Other fixed assets	14.10	13.87
Gross Block	72.56	64.66
Accumulated Depreciation	29.77	26.65
CWIP	0	0
Investments	26	24
Other Assets	996	669
Inventories	1	1
Trade receivables	125	105
Cash Equivalents	583	349
Loans n Advances	13	17
Other asset items	274	197
Total Assets	1,065	731

Cash flow statement (□Cr)

Line item	Mar 2024	Mar 2023
Cash from Operating Activity	24	-63
Profit from operations	58	24
Receivables	-20	-16
Inventory	-1	1
Payables	89	-16
Loans Advances	17	-11
Operating investments	0	0
Operating Deposits	0	-19
Other WC items	-113	-19
Working capital changes	-28	-82
Direct taxes	-6	-6
Other operating items	0	0
Exceptional CF items	0	0
Cash from Investing Activity	-8	5
Fixed assets purchased	-8.65	-7.84
Fixed assets sold	0.01	0.19
Investments purchased	-0.35	0
Investments sold	0	10.97
Interest received	0.62	1.54
Dividends received	0	0.08
Issue of shares on acq	0	0.13
Redemp n Canc of Shares	0.26	0
Acquisition of companies	0	0
Other investing items	0	-0.01
Cash from Financing Activity	2	-7
Proceeds from shares	0.41	0
Proceeds from debentures	0	0
Proceeds from borrowings	17.58	3.98
Repayment of borrowings	-5	0
Interest paid fin	-4.91	-3.72
Dividends paid	-2.46	-3.08
Financial liabilities	-3.18	-3.37
Share application money	0	0
Other financing items	-0.04	-0.71
Net Cash Flow	18	-65
Free Cash Flow	15	-71

Line item	Mar 2024	Mar 2023
CFO/OP	54	-376

Key ratios

Line item	Mar 2024	Mar 2023
Debtor Days	145	188
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	145	188
Working Capital Days	-460	-398
ROCE %	17	7

3.2 Financial analysis summary

- **Revenue** surged 54.34% to ₹316.00 Cr, primarily driven by Brokerage income which contributed ₹195.73 Cr (62.13% of total), while Research and advisory fees grew to ₹34.28 Cr; this growth is reflected in Trade Receivables which increased to ₹125.00 Cr, though at a slower pace than sales, improving Debtor Days from 188 to 145.
- **Operating Profit** expanded significantly to ₹55.00 Cr with OPM % rising to 17.00% from 7.00%, although a substantial portion of profitability was aided by a 190.5% spike in "Facility fees" to ₹29.05 Cr (classified under Other Income), suggesting core brokerage margins are tighter than headline figures imply.
- **Employee Cost %** remains the largest expense at 47.79% of Sales, with absolute employee benefits rising 31.06% to ₹141.03 Cr, while Payments to stock exchanges saw a massive 235.4% spike to ₹24.92 Cr, outpacing Revenue growth and pressuring the EBITDA margin.
- **Net Profit** grew 111% to ₹32.00 Cr, but quality is impacted by a ₹1.55 Cr profit from Discontinued Operations and the utilization of Deferred Tax assets which were nearly exhausted in FY24, leaving only ₹0.81 Cr for future offsets.
- **Working Capital** management shows a negative cycle of -460 days, driven by Trade Payables rising 73.69% to ₹209.00 Cr and Other liability items of ₹562.00 Cr, identified as Margin from clients (₹501.87 Cr); this is offset by Cash Equivalents of ₹583.00 Cr and Deposits with exchanges of ₹228.16 Cr.
- **Total Debt** increased to ₹52.00 Cr, including a new ₹20.00 Cr unsecured Loan from Director at interest rates up to 10%, which contributed to the Finance Cost of ₹5.00 Cr and is reflected in the Cash Flow Statement under Proceeds from borrowings of ₹17.58 Cr.
- **Cash from Operating Activity (CFO)** turned positive at ₹24.00 Cr compared to -₹63.00 Cr in the prior year, yet CFO / PAT remains below 1.0 at 0.75, indicating that Working Capital changes, specifically a ₹113.00 Cr drag from "Other WC items," continue to absorb profit.
- **Capital Allocation** involved Fixed assets purchased of ₹8.65 Cr, primarily for Computers (₹21.86 Cr on BS) and Building (₹31.46 Cr on BS), resulting in a positive Free Cash Flow of ₹15.00 Cr which supported a Dividend Payout % of 11.00%.
- **ROCE %** improved to 17.00% and ROE % to 13.28%, driven by higher Asset Turnover and improved PAT Margin %, although the Balance Sheet remains highly leveraged operationally due to client margins, with Total Assets expanding to ₹1,065.00 Cr.
- **Other Assets** and Other Liabilities are dominated by Deposits with Exchanges (₹228.16 Cr) and Margin from Clients (₹501.87 Cr), creating a highly leveraged pass-through structure where the company acts as a conduit for massive client volumes with thin margins.

- **Other Expenses** were impacted by software expenses more than doubling to ₹3.35 Cr, reflecting the push toward digital transformation, while Prepaid Expenses of ₹8.70 Cr remain high relative to business size.
- The dominant financial theme of the year is a **cyclical recovery in profitability and cash flow driven by market volumes, masked by high dependency on non-core facility fees and a reliance on promoter-led debt to meet regulatory liquidity requirements.**

3.3 Contingent liabilities & commitments

- **Bank Guarantees: ₹176.50 Cr** pledged to NSE Clearing and MCX for margin requirements; represents a significant off-balance sheet exposure.
- **Service Tax Matters: ₹8.48 Cr** demand relating to income from foreign clients, currently pending at cestat.
- **Income Tax Matters: ₹0.68 Cr** under appeal.
- **Capital Commitments: ₹0.33 Cr** in unexecuted contracts for fixed assets.
- **Uncalled Liability: ₹1.00 Cr** in partly paid shares/investments.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	CFO/OP ratio at 54% indicates moderate cash conversion from operations.
2	Receivables & channel-stuffing signal	Revenue ↑ — efficient collections	—	Trade receivables growth is lower than revenue growth, indicating high-quality cash-based brokerage.
3	Revenue timing	Revenue ↑↓ — timing risk	—	Advisory and management fees involve judgment regarding service periods and recognition timing.
4	Revenue from related parties %	Neutral — minimal RPT revenue	—	Facility fees from associate dropped from ₹3.50 Cr to ₹1.00 Cr YoY.
5	Inventory vs revenue growth	Neutral — service-based model	—	Inventory consists of minimal items, typical for a brokerage business model.
6	Inventory valuation method change	Neutral — consistent valuation	—	Accounting policies remain consistent with previous year.
7	Exceptional items in operating profit	Profit ↑ — non-recurring boost	—	Includes profit from discontinued operations of ₹1.55 Cr, boosting total comprehensive income.
8	Depreciation rate vs useful life policy	Neutral — standard rates	—	Depreciation consistent with asset base growth; no significant changes in useful life.
9	Provision reversals boosting PAT	Profit ↓ — higher charges	—	ESOP costs reflect new grants; ECL uses simplified historical loss approach.
10	Tax rate consistency	Profit ↓ — tax normalization	—	DTA of ₹5.82 Cr from unabsorbed losses was almost entirely utilized in FY24.
11	CWIP age and stalling projects	Neutral — no capital lock-up	—	Balance sheet shows no capital work-in-progress.
12	Deferred tax asset recognition adequacy	Profit ↓ — asset depletion	—	Utilization of unabsorbed tax losses led to the reversal of deferred tax assets.
13	RPT quantum and trend	Profit ↓ — rising finance costs	—	Reliance on MD for unsecured liquidity at 8-10% interest rates suggests funding constraints.
14	Dividend paid vs FCF adequacy	Profit ↑ — sustainable payout	—	Dividend payout ratio at 11% is conservative relative to generated free cash flow.
15	Audit Trail Compliance	Neutral — data integrity risk	—	Significant internal control weakness regarding forensic traceability of accounting entries.
16	Other Income Dependency	Profit ↓ — non-core earnings	—	Facility fees and interest on deposits mask core operational volatility.
17	Discontinued Operations Gain	Profit ↓ — non-recurring gain	—	Artificially inflates Net Profit from segments no longer operational.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified.
- **KAM - Fair Value Measurement:** Valuation of Level 2 and Level 3 financial instruments (₹26.00 Cr) requires significant management judgment regarding liquidity and credit risk.

- **KAM - Impairment of Financial Assets:** Estimation of ECL on trade receivables (₹125.15 Cr) focusing on "Probability of Default" assumptions.
- ***Internal Control Weakness:*** The auditor reported that the **"Audit Trail" (edit log) feature was NOT enabled at the database level** for critical accounting and trading systems (Sun system, Acer cross, Tradeplus). This represents a significant risk to data integrity.

B. Related party transactions

Party	Relationship	Nature	Amount (Cr)	Concern
Krishna Kumar Karwa	Managing Director	Loan Taken	20.00 Cr	***High reliance on promoter for liquidity.***
Krishna Kumar Karwa	Managing Director	Interest Paid	1.12 Cr	***Interest cost tripled YoY.***
AES Trading and Consultants LLP	Associate	Facility Fees Received	1.00 Cr	Support from associate dropped from 3.50 Cr.
Anubhav Kanodia	KMP (Subsidiary)	Salaries & Benefits	4.95 Cr	***Pay exceeds both Group MDs combined; 127% YoY growth.***
Kitaab Design	Relative of Director	Purchase of Gifts	0.17 Cr	Non-core transaction with relative.

- **RPT % of Revenue:** 8.65%
- **RPT % of CFO:** 113.50% → **Governance Concern **

C. Shareholding

- **Promoters:** 47.19% (Stable)
- **FIIs:** 0.04% | **DIIs:** 0.00% | **Public:** 52.77%
- **Pledged Shares:** 0.00%
- **Shareholder Base:** Increased from 13,039 to 15,845 YoY.

D. Board composition + KMP compensation

- **Independent %:** 62.50% (5/8 directors).
- **Women Directors:** 1 (Mrs. Hutokshi Wadia).
- **MD Compensation:** Frozen at ₹1.61 Cr each (0% growth), showing restraint.
- **Subsidiary KMP:** Anubhav Kanodia received ₹4.95 Cr (127% growth), representing 9% of group operating profit. This is a significant outlier compared to the 14.16% median employee increase.

F. Capital allocation & capex

Action	FY 2024 (Cr)	FY 2023 (Cr)	% of CFO	Signal
Dividends	2.46 Cr	3.08 Cr	10.25%	**Positive**
Capex	8.65 Cr	7.84 Cr	36.04%	**Growth**
Net Debt Change	19.00 Cr	11.00 Cr	79.17%	***Concern***
Working Capital Investment	28.00 Cr	82.00 Cr	116.67%	***Stress***

CAPEX Analytical Notes: * **CFO Coverage of Capex:** 2.77x; business is now self-funding growth. * **Nature of Capex:** Primarily **Computers (₹21.86 Cr Gross Block)**, signaling a shift toward digital-first institutional broking. * **Deployment Efficiency:** Revenue grew 46.19% on a 12.22% increase in Gross Block, suggesting high incremental asset turnover.

H. Risks

- ***Audit Trail:*** Edit logs disabled at database level; risk of unrecorded financial adjustments (High Severity).
- ***Client Margins:*** **₹501.87 Cr** held as liability; regulatory/misappropriation risk (High Severity).
- ***Service Tax:*** **₹8.48 Cr** dispute; potential 26% hit to FY24 Net Profit (Medium Severity).
- ***Promoter Debt:*** **₹20.00 Cr** unsecured loan; reliance on MD for survival liquidity (Medium Severity).
- **Market Volatility:** 98.6% of revenue is transactional; earnings collapse if volumes drop (High Severity).

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	↓	MF License Withdrawal; 98.6% transactional revenue	Loss of non-cyclical AMC vertical returns the firm to a pure cyclical play.
Financial health	4	↑	D/E 0.22x; CFO ₹24 Cr > Capex ₹8.65 Cr	Improved cash generation and low leverage, though reliant on promoter debt.
Earnings quality	2	↓	Other Income 76% of PBT; Audit trail disabled	High dependency on non-core fees and internal control gaps weaken quality.
Management & governance	3	→	Zero pledge; but high RPT/ CFO and audit trail issues	Clean shareholding offset by significant RPT liquidity reliance and control flags.
Capital allocation & earnings visibility	3	↓	ROCE 17%; but AMC exit limits long-term visibility	Good current returns but future growth is now entirely tied to volatile market cycles.

Business positives (for this company this year) * **Revenue Growth:** Surged 54.34% to ₹316 Cr, outperforming the previous year's contraction. * **Investment Banking Traction:** Successfully executed high-profile mandates like Indian Bank (₹4,000 Cr QIP). * **Cash Flow Turnaround:** CFO turned positive at ₹24 Cr from -₹63 Cr in FY23. * **Asset Efficiency:** Revenue grew 46% on only a 12% increase in Gross Block. * **Receivables Management:** Debtor days improved from 188 to 145 days.

Business negatives / concerns (for this company this year) * **Strategic Retreat:** Withdrawal of Mutual Fund application kills the long-term "AMC rerating" thesis. * **Governance Red Flag:** Audit trail (edit logs) not enabled at the database level for core systems. * **Earnings Quality:** Other Income (Facility Fees) accounts for 76.7% of Consolidated PBT. * **Liquidity Reliance:** ₹20 Cr unsecured loan from MD required to fund operations; interest paid to MD tripled. * **Expense Pressure:** Payments to stock exchanges spiked 235%, far outpacing revenue growth.

Overall scorecard summary Emkay Global has delivered a strong cyclical recovery in FY24, characterized by robust revenue growth and a return to positive free cash flow. However, the structural investment thesis has weakened following the abandonment of the Mutual Fund business, leaving the company exposed to the volatility of capital market cycles. While financial health is stable with low debt-to-equity, the quality of earnings is clouded by a high dependency on non-core facility fees and significant internal control weaknesses regarding audit trails. The business is currently on a **stable but cyclical** trajectory, where short-term profitability is high

due to market tailwinds, but long-term valuation upside is capped by the lack of a scalable, non-transactional revenue stream.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 7/10 — Governance Rating: 3"

Part c: investor verdict

Thesis: A high-quality, research-led cyclical broker and investment bank currently riding a bull market wave but lacking a structural growth engine after exiting the AMC space. **Overall stance:** Watch **Rationale:** Strong current earnings are offset by poor earnings quality (non-core income) and internal control red flags. **Re-evaluate when:** Core Brokerage OPM (excluding facility fees) drops below 10% OR Audit Trail issues are not resolved in the next AGM. **BULL CASE:** Continued IPO/QIP boom leads to Investment Banking revenue exceeding ₹100 Cr with 25%+ OPM. **BEAR CASE:** A market downturn leads to a 30%+ drop in volumes, while high fixed employee costs (₹141 Cr) remain sticky, leading to net losses. **Key monitorable:** Other Income as % of PBT: Current 76.7% → Watch threshold < 30%.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Strategic Direction	Pivot toward non-cyclical AMC/ Mutual Fund vertical.	Withdrawal of MF application; return to core brokerage.	The failure of the structural pivot forces the company back into a high-beta, cyclical business model.
Margin Trajectory	OPM collapsed to 7% due to high fixed costs.	OPM recovered to 17% driven by market volumes.	Margin expansion is artificially inflated by non-core "Facility Fees" which now constitute 76% of PBT.
Capital Allocation	Negative FCF (-□71 Cr); dividend paid from cash reserves.	Positive FCF (□15 Cr); dividend covered by operations.	Capital allocation has shifted from aggressive "J-curve" investment to conservative, self-funded maintenance.
Working Capital	Severe divergence; receivables rose 18.6% while revenue fell 21.3%.	Normalization; revenue growth (54%) significantly outpaced receivables (19%).	The "channel stuffing" risk identified in the prior year has dissipated as collection efficiency improved.
Funding & Liquidity	□13 Cr short-term liquidity backstop from MDs.	□20 Cr unsecured loan from MD; interest costs tripled.	Increasing reliance on promoter-led debt suggests the firm faces tightening access to traditional institutional credit.
Management Tone	"Transformational" and investment-heavy.	"Pragmatic but Reactive" and cost-disciplined.	Management has shifted from a visionary growth stance to a defensive posture focused on repairing the P&L.
Earnings Quality	PAT supported by tax credits and royalty eliminations.	PAT supported by discontinued operations and facility fees.	Earnings quality remains low as the bottom line continues to rely on non-operational accounting tailwinds.

7.2 Persistent patterns

- **High fixed-cost rigidity** persists, with employee and subscription costs remaining the primary drag on margins during volume contractions.
- **Promoter liquidity dependency** remains a structural trait, as the company consistently requires MD loans to meet exchange margin requirements.
- **Succession stagnation** continues, evidenced by the repeated re-appointment of directors aged 77–81 via special resolutions.
- **Significant off-balance sheet exposure** via Bank Guarantees (□176 Cr–□186 Cr) remains a constant risk to capital adequacy.
- **Stagnant tax litigation** regarding service tax matters (□8.48 Cr) remains an unresolved contingent liability across both periods.
- **Research-led competitive positioning** necessitates a high baseline of data feed and talent spend that does not scale down with revenue.
- **Negative working capital cycle** remains a permanent feature of the pass-through structure between client margins and exchange deposits.