

Emkay Global Financial Services Ltd — Oct 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline / Improving **One-line:** Emkay returns to consolidated profitability (₹2.23 Cr) driven by its Asset Management "jewel," but the core Capital Markets segment remains stuck in a persistent loss-making cycle despite robust market conditions.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Beat	Consolidated PAT of ₹2.23 Cr vs. (₹0.54 Cr) loss in Q1FY24.	☐
Earnings Quality	Moderate	Profitability driven by AMC (₹1.8 Cr) and "Others" (₹0.85 Cr); core Capital Markets still bled ₹0.43 Cr.	☐
Guidance Confidence	Neutral	Aggressive leadership hiring (AMC/Research) suggests a growth tilt, but timeline for core breakeven remains opaque.	☐
Management Credibility	Neutral	Successfully onboarded Tier-1 talent (Manish Sonthalia), but Wealth AUD plateaued/dipped 0.5% QoQ despite market tailwinds.	☐
Business Quality Signal	Stable	The transition to a "360-degree" player is progressing, but operating leverage is not yet manifesting in the core brokerage.	☐
Key Q&A Exchange	N/A	Section not applicable — investor presentation only.	☐
The Street's Primary Anxiety	High Opex Floor	Continued losses in the core segment despite a 22% QoQ jump in segment revenue.	☐
Capital Cycle Stage	Investment	Heavy focus on tech (Emtrade Pro, Naavik) and senior talent acquisition.	☐
Margin Trajectory	Improving	Consolidated PAT margin turned positive to 1.7% from negative in Q1.	☐
Pricing Power	Stable	Maintaining full-service positioning; no pivot toward discount brokerage model.	☐
FCF Conversion & Quality	Not in doc	Cash flow statement not provided in quarterly PPT.	☐
Competitive Moat Signals	Widening	Institutional research coverage now at 216 companies; hiring Seshadri Sen (ex-Alchemy/JPM) strengthens research moat.	☐
Balance Sheet Strength	Strong	Very low leverage (Debt/Equity < 0.1x); high liquid assets (Cash/Bank balances > ₹430 Cr).	☐
Working Capital Efficiency	Stable	Trade receivables increased 18% QoQ to ₹124.6 Cr, roughly in line with revenue growth.	☐
Mgmt Guidance Track Record	Mixed	Delivered on senior hiring but failed to sustain the rapid growth trajectory in Wealth AUD this quarter.	☐
Key Vulnerability	Negative Operating Leverage	Core Capital Markets segment PAT remained exactly (₹0.43 Cr) despite revenue increasing ₹23.6 Cr QoQ.	☐
Management Tone	Confident	Optimistic on "India's Golden Decade" and high-conviction product launches in AMC.	☐

Sentiment: ☐Neutral

Key Takeaways (Positives & Negatives): * **Positives:** Emkay broke its string of losses to post a consolidated PAT of ₹2.23 Cr. This was anchored by the Asset Management vertical, which nearly doubled its PAT contribution from ₹1.0 Cr to ₹1.8 Cr. The hiring of high-profile leaders (Manish Sonthalia as CIO of AMC and Seshadri Sen as Head of Research) signals a serious intent to compete with Tier-1 institutional and wealth peers. * **Negatives:** The "Broking & Allied" core (Capital Markets) remains a structural drag, posting its second consecutive loss of ₹0.43 Cr. More concerning is that this segment's loss did not narrow even as revenue grew significantly, implying that new costs (likely employee and tech) are absorbing all incremental gross margins. Wealth AUD slightly declined to ₹2,603.9 Cr (from ₹2,616.5 Cr), failing to capture the broader market rally in Q2. * **Street Concern:** The market is watching the cost of the "Digital First" transition. Management is spending heavily on security (SOC, XDR) and robust infrastructure, but the revenue productivity of this tech stack in terms of retail/HNI acquisition is not yet visible in the PAT. * **Forward Watchpoint:** Monitor the traction of the new AMC products ("India's Golden Decade") and whether the Investment Banking pipeline can convert recent advisor roles into significant fee income to swing the Capital Markets segment into the black.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: Concall not available — Mgmt Commentary column absent.

Metric	Current Qtr (Q2FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	₹132.3	↑ 20.5%	↑ 20.5%	↑	Calculated from 1,323 Mn Op. Revenue.
PAT (₹Cr)	₹2.23	↑ (Loss to Profit)	↑ (Loss to Profit)	↑	Consolidated PAT of 22.25 Mn.
NIM (AUM basis %)	Not in doc	-	-	-	AMC revenue/yield not explicitly split.
Cost of Funds %	Not in doc	-	-	-	Interest expense was ₹0.9 Cr (9 Mn).
Loans Growth (% YoY)	(₹26.1 Cr)	↓ 49.2%	↓ (vs Mar'23)	↓	Loans at 260.9 Mn vs 513.6 Mn in Mar'23.
Capital Adequacy %	Not in doc	-	-	-	Net worth is strong at ₹216.7 Cr.
GNPA %	Not in doc	-	-	-	Broking-led; loan book is small.
Wealth AUD (₹Cr)	₹2,603.9	↑ 30.0%	↓ 0.5%	↘	Slight decline from ₹2,616.5 Cr in Q1.
Wealth Revenue (₹ Cr)	₹2.8	Not in doc	↑ 3.7%	↑	₹28 Mn reported for Q2FY24.
Insti. Coverage (Cos)	216	↓ (vs 279)	↓	↓	Note: Prior Q reported 279; current slide says 216.
Fee Income Growth (%)	↑ 22.4%	Not in doc	↑ 22.4%	↑	Advisory/Transactional revenue up QoQ.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin (PAT)	Trend	vs Co. Avg	Key Development
Capital Markets	₹129.0*	↑ 22.4%	(0.33%)	↘	Below	Loss held steady at ₹0.43 Cr despite revenue jump.
Asset Management	Not split	Not split	Positive	↑	Above	Segment PAT rose to ₹1.8 Cr (80% QoQ growth).
Others	Not split	Not split	Positive	↑	Above	Includes ₹0.85 Cr PAT contribution.

*Note: Advisory, Transactional & Other Related Activities revenue. Segment revenue includes both Capital Markets and Wealth distribution.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Strategy	Talent Acquisition	Strengthen Research & AMC leadership.	N/A	Delivered: Hired Seshadri Sen (Research) and Manish Sonthalia (CIO).	Low
Strategy	Digital Journey	Complete rewrite of in-house systems for better performance.	N/A	Ongoing: Launched "Naavik" (Wealth app) and "Emtrade Pro".	Medium
Strategy	Wealth Mgmt	Scale from start-up to established player (9 locations).	N/A	Delivered: Now operating across 9 locations; AUD up 72% over 2 years.	Low
Strategy	AMC Vertical	Empower investors via "India's Golden Decade" PMS.	N/A	New Initiative: Product launched in Q2.	Medium
Macro	Market View	Focus on manufacturing, consumption, and financialisation of savings.	N/A	Consistent narrative across AMC product launches.	Low
Balance	Infrastructure	Deployed Next-Gen Antivirus and SOC as per SEBI guidelines.	N/A	Delivered: Fully compliant with regulatory cybersecurity norms.	Low

(N/A — no concall conducted for Q2FY24; targets derived from presentation roadmap.)

4. ANALYST Q&A

Section not applicable — investor presentation only. No concall conducted or available.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY24)	This Quarter (Q2FY24)	Direction
Consolidated Profitability	(₹0.54 Cr) Loss	₹2.23 Cr Profit	↑ (Turnaround)
AMC Contribution (PAT)	₹1.00 Cr	₹1.80 Cr	↑ (Scaling)
Wealth AUD	₹2,616.5 Cr	₹2,603.9 Cr	↓ (Plateaued)
AMC Leadership	Building phase	Onboarded Manish Sonthalia as CIO	↑ (Credibility)
Research Leadership	Noted gap	Onboarded Seshadri Sen as Head	↑ (Moat)
Research Coverage	279 Companies	216 Companies	↓ (Refining Focus?)
Wealth Branding	General Wealth App	Rebranded app as "Naavik"	↑ (Marketing)
Cash & Bank Balances	₹348.6 Cr (Mar'23)	₹438.3 Cr	↑ (Liquidity)

Investor Notes:

- * **The "Profitability Anchor":** The Asset Management vertical (EIML) has officially moved from a peripheral segment to the primary profit engine. Its PAT grew 80% QoQ, subsidizing the stagnant broking operations.
- * **The Broking Paradox:** Revenue in the Advisory/Transactional segment grew by ~₹24 Cr QoQ, yet the segment PAT did not improve by a single Rupee. This implies a 100% marginal cost of revenue at this stage, or significant front-loaded investments in the new research and tech teams.
- * **Wealth Momentum Stall:** For a market-linked business, a QoQ decline in AUD (0.5%) during a period where indices reached new highs is a subtle red flag. It suggests either high churn in the client base or a defensive portfolio tilt that missed the mid-cap/small-cap rally.
- * **Thesis Trajectory:** The thesis remains a "Sum-of-the-parts" play where investors are waiting for the Wealth and AMC arms to dwarf the volatile Broking business. This quarter confirms that AMC is on track, but Wealth needs to regain its AUM growth velocity to justify its high-cost physical presence (9 locations).
- * **Watch Item:** The disconnect in research coverage (216 vs 279 in the previous presentation) needs clarification. If it represents a deliberate focus on "Active" coverage, it may improve research quality but reduce the "Institutional Hook" breadth.