

Capital raising to aid business growth ahead...

5Paisa reported a mixed set of Q4FY21 numbers wherein the broking segment showed healthy momentum while non-broking business performance remained flat.

Revenue remained sequentially flat at ₹ 49.5 crore, on account of 23% and 4% QoQ fall in allied broking and cross sales income, respectively. Allied broking income declined due to a reduction in annual maintenance charges to nil from ₹ 45/month earlier for holdings up to ₹ 2 lakh while for customer holdings above ₹ 2 lakh will be charged ₹ 25/month. Broking revenue growth, on the other hand, was healthy at 18% QoQ to ₹ 23.2 crore due to strong sequential customer addition of 2 lakh and 16% QoQ rise in overall ADTO. Cash ADTO increased 9% QoQ to ₹ 2008 crore while ADTO in the derivative segment has increased 16% QoQ to ₹ 49965 crore.

Continuous focus on improving operational efficiency has led to a decline in client acquisition cost (CAC), which has reduced in Q4FY21 to ₹ 897 vs. ₹ 1148 earlier. Overall expenses for the quarter fell 6% QoQ to ₹ 41.6 crore, which helped the company post 64% QoQ rise in PAT to ₹ 6.1 crore.

Healthy client addition to aid topline

Customer addition during the quarter was healthy at 8.1% QoQ, 74% YoY as 5Paisa added 2.06 lakh clients. With this, total customer base has risen to 13.5 lakh from 11.5 lakh a quarter ago. Also, 65% of total clients are active, slightly lower than 69% in previous quarter. For 5Paisa, 83% of customers are from tier-II, tier-III cities and 84% are first time investors. Continued focus on technology, marketing is seen keeping client acquisition healthy ahead.

Fund raising to help sustain business momentum

The company announced substantial capital raise of ₹ 250 crore via equity shares and warrants issued at ₹ 500/share. These funds are to be utilised for technology upgradation, increasing pace of customer acquisition, branding, product development and working capital. Focus on web platform, algorithmic trading, tech based traders, should lead to improvement in F&O market share. On earnings front, declining CAC should boost profitability.

Valuation & Outlook

Recent capital raising would aid the company's plan to revamp existing products suite, increase pace of customer acquisition and improve share of non-broking business like P2P lending, distribution of financial products. However, utilisation & benefit of recent capital addition, impact of regulatory changes, level of customer burnout/leakage need to be monitored. **5Paisa being one of the strong cash players within discount brokers, decline in F&O share did not impact revenue much. However, we believe a focussed approach to raise F&O market share and capital to increase the margin funding book, should aid earnings. We expect earnings to rise at 79% CAGR in FY21-23E to ₹ 55 crore. However, recent capital raise would keep return ratios optically lower at ~12%. We maintain BUY rating on the stock and upgrade our target price to ₹ 450 (earlier TP ₹ 350) valuing at 25x FY23E EPS.**



Particulars

	Amount
Market Capitalisation	₹ 968 crore
Networth	₹ 159 crore
52 week H/L	467 /140
Face Value	₹ 10
DII Holding (%)	0
FII Holding (%)	17.5
Promoter Holding (%)	34.5
Others (%)	47.9

Key Highlights

- Healthy customer addition at 2.06 lakh with total customer base up 18% QoQ at 13.5 lakh
- Overall ADTO up 16% QoQ to ₹ 51973
- Maintain BUY with revised target price of ₹ 450

Risk to our call

- Regulatory changes could impact volumes and thereby earnings in near term
- Continued impact of second wave of pandemic could hamper business

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key Financial Summary

	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21E-23E)
ADTO (₹ crore)	14025	30150	39972	62532	84043	45.0%
Market Share (%)	1.4	2.1	1.4	2.0	2.4	
Revenue from operation (₹ crore)	62.6	108.1	192.4	276.6	375.1	39.6%
Net Profit (₹ crore)	-16.6	-7.9	17.3	30.4	55.3	78.6%
EPS (₹)	-13.0	-3.4	6.8	10.0	18.1	
P/E (x)	NA	NA	56.0	38.1	21.0	
RoE (%)	-30.3	-8.6	11.7	10.2	11.8	

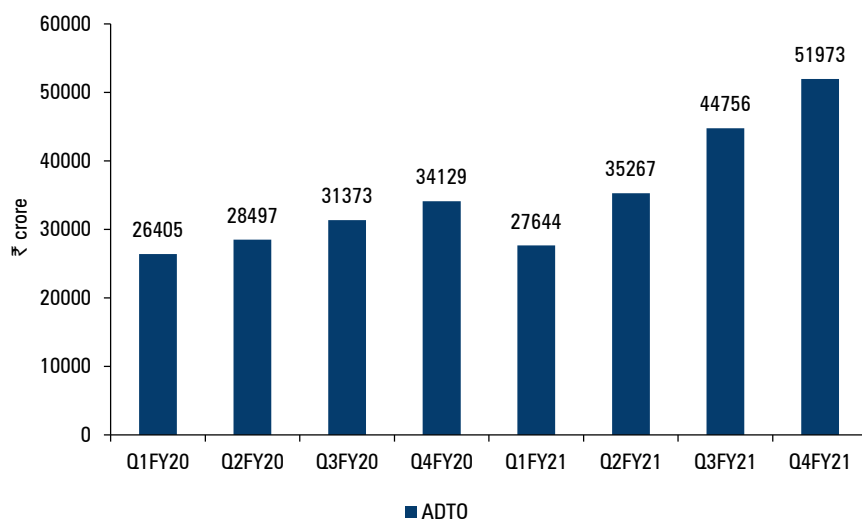
Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY	Q3FY21	QoQ	Comments
Revenue for operations	49.5	35.3	40.0	49.3	0.2	
Other Income	0.3	0.0	-	0.0	-	
Total Income	49.8	35.3	41.0	49.4	0.9	Healthy client addition lead to improvement in ADTO and, thus, broking revenue
Finance Cost	4.1	5.2	-22.3	4.0	1.1	
Employee Expenses	7.8	7.3	7.6	9.1	-14.2	Improving productivity kept employee expenses under control
Other Expenses	28.8	24.2	18.9	30.1	-4.3	Cost of client acquisiton on declining trend
Depreciation	0.9	1.0	-5.5	0.9	2.9	
Total Expenses	41.6	37.7	10.4	44.1	-5.7	
Profit Before Tax	8.2	-2.4	NA	5.2	56.5	
Tax	2.0	-0.6	NA	1.5	38.1	
PAT	6.1	-1.8	NA	3.7	63.9	Topline growth and cost control lead to jump in profit

Source: Company, ICICI Direct Research

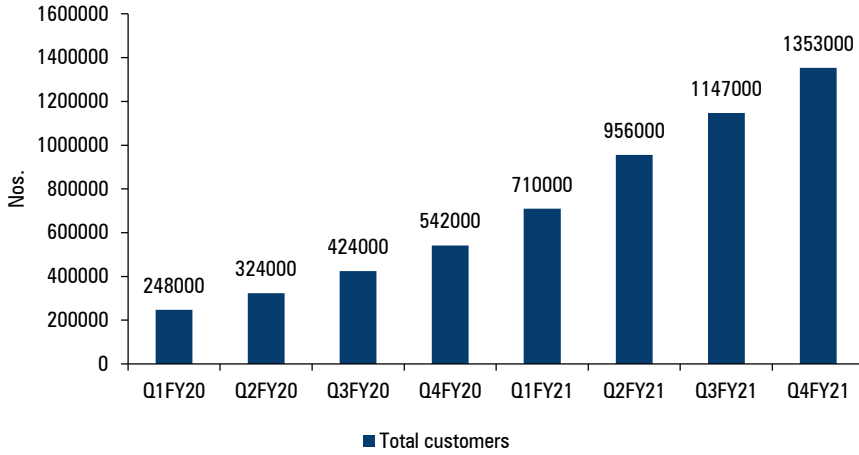
Story in Charts

Exhibit 2: Healthy ADTO growth due to strong client addition



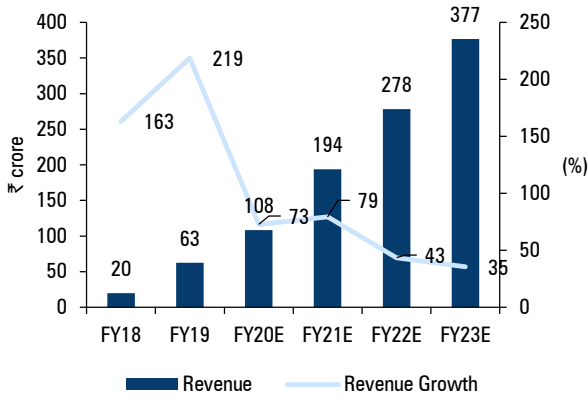
Source: Company, ICICI Direct Research

Exhibit 3: Client accretion continues to remain healthy



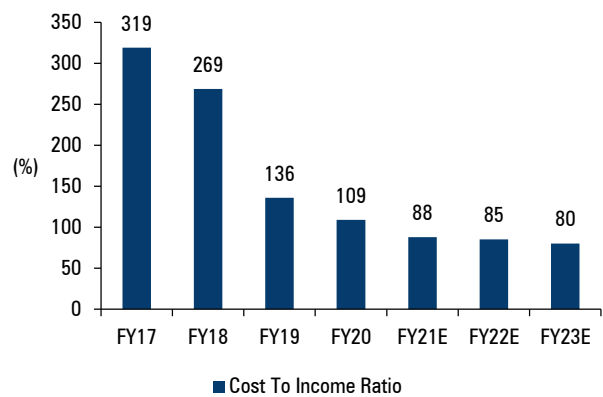
Source: Company, ICICI Direct Research

Exhibit 4: Revenue growth trajectory



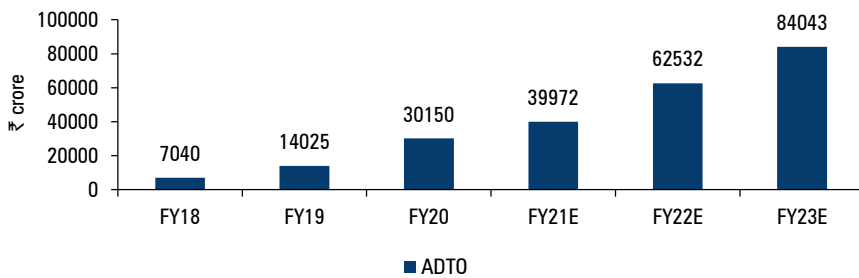
Source: Company, ICICI Direct Research

Exhibit 5: Decline in CAC to reduce C/I ratio



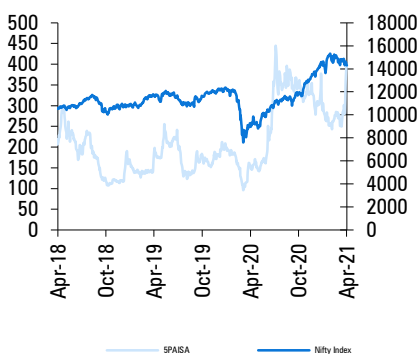
Source: Company, ICICI Direct Research

Exhibit 6: ADTO growth to remain robust ahead



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit & Loss					
(₹ crore)					
Particulars	FY19	FY20	FY21	FY22E	FY23E
Total Income	62.6	108.1	193.9	278.1	376.6
Employee expense	25.8	29.1	34.9	41.9	52.4
Finance cost	6.8	15.2	19.9	23.2	26.6
Depreciation	1.4	3.8	3.9	4.7	5.6
Other expenses	51.0	69.6	111.7	167.5	217.8
Total Expense	85.1	117.8	170.5	237.3	302.4
Profit Before Tax	-22.5	-9.6	23.4	40.9	74.2
Tax	-5.9	-1.7	6.1	10.4	18.9
Profit After Tax	-16.6	-7.9	17.3	30.4	55.3
EPS	(-13.0)	(-3.4)	6.8	10.0	18.1

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet					
(₹ crore)					
Particulars	FY19	FY20	FY21	FY22E	FY23E
Source of Funds					
Equity Capital	12.7	25.5	25.5	30.5	30.5
Reserve & Surplus	33.6	112.8	133.2	408.7	463.9
Networth	46.4	138.3	158.7	439.2	494.4
Borrowings	92.0	219.2	233.9	257.3	295.9
Other Liability	143.2	265.9	473.3	568.0	738.4
Total	281.5	623.4	866.0	1264.5	1528.7
Application of Funds					
Fixed Asset	2.3	1.7	1.6	2.0	2.4
Investment	2.1	10.9	12.5	13.8	15.1
Advances	36.8	67.1	139.1	222.5	333.8
Cash	113.0	270.5	523.9	628.7	691.5
Other Asset	127.3	273.2	188.9	397.6	485.9
Total	281.5	623.4	866.0	1264.5	1528.7

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios					
(₹ crore)					
Particulars	FY19	FY20	FY21	FY22E	FY23E
ADTO (₹ crore)	14025	30150	39972	62532	84043
Market Share (%)	1.4	2.1	1.4	2.0	2.4
Yield (%)	0.002	0.001	0.001	0.001	0.001
ROE (%)	-30.3	-8.6	11.7	10.2	11.8
No of Shares (crore)	1.3	2.5	2.6	3.1	3.1
EPS (₹)	-13.0	-3.4	6.8	10.0	18.1
PE (x)	NA	NA	56.0	38.1	21.0
Book Value (₹)	36.4	54.3	62.2	143.9	162.0
P/BV (x)	10.4	7.0	6.1	2.6	2.3
CI Ratio (%)	135.9	108.9	87.9	85.3	80.3
Mcap/Sales (x)	15.5	9.0	5.0	3.5	2.6

Source: Company, ICICI Direct Research

Exhibit 13: Growth					
(%)					
Growth (%)	FY19	FY20	FY21	FY22E	FY23E
Total Asset	115	121	39	46	21
Advances	1	82	107	60	50
Borrowing	470	138	7	10	15
Total Income	219	73	79	43	35
Operating expense	61	38	45	39	27
Net profit	NA	NA	NA	76	82
Book Value	-26	49	15	131	13
EPS	NA	NA	NA	47	82

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe - Broking

Sector / Company	CMP			M Cap (₹ Cr)	PAT			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Motilal	592	800	Buy	8665	1099	1297	1434	7.8	6.6	6.0	2.8	2.1	1.6	9.1	7.5	21.6
IIFL Sec	50	65	Buy	1520	195	240	269	97.1	78.8	70.3	1.5	1.2	1.0	19.9	20.1	18.6
5 paisa	380	450	Buy	963	17.3	30.4	55.3	87.2	59.4	32.7	6.1	2.6	2.3	11.7	10.2	11.8
Geojit	48	62	Hold	1152	118	132	148	119.1	107.3	95.4	1.7	1.4	1.2	18.9	17.5	16.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Narnolia, MBA and Sameer Sawant, MBA Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.