

Acquisition of online retail trading business....

About the stock: 5Paisa is a leading discount stock broker backed by the Nirmal Jain led IIFL group.

- Aggressive client accretion with ~86% of incremental client from Tier II & below cities and ~75% of customers below 35 years of age
- The company has overall cash market share of ~3% as on September 2022

Acquisition of online retail trading business from IIFL Securities:

- The boards of IIFL Securities Ltd & 5Paisa Capital Ltd approved the transfer of former's online retail trading business to 5Paisa Capital subject to statutory approvals. The reorganisation between the two IIFL Group entities aims to consolidate online retail trading businesses under one single entity
- Business reorganisation has been undertaken to mitigate overlap and, thus, focus on scalability, profitability and efficient utilisation of capital. Accordingly, ~15 lakh low ticket size customers which contributes ~5% of ADTO (low ticket size defined as customer with asset base of up to ₹ 10 lakhs) will be shifted to 5Paisa Capital from IIFL Sec**
- Following the transfer, 5Paisa Capital will issue its one share of ₹ 10 paid up for every 50 shares of ₹ 2 paid up in IIFL Securities held by them as on the record date
- Acquisition will increase scale for 5Paisa. Client base will increase from ~32 lakh to ~47 lakh with market share rising from current 3.2% to 4.5%
- Proposed dilution will be 16.58% after issue of additional shares (on the basis of post issue of shares)

What should investors do? Cross-selling opportunity for newly acquired clients provide additional resource for revenue generation. Anticipated improvement in revenue to drive earnings as incremental cost addition will not be substantial. Engagement of new clients and thus synergy benefit remains watchful.

- We downgrade our recommendation on the stock from BUY to **HOLD**

Target Price and Valuation: We continue to value 5Paisa at ~24x FY24E EPS to keep target price at ₹ 375.

Alternate Stock Idea: Apart from 5Paisa, in our coverage we also like MCX.

- MCX is a leader in commodity derivative exchanges in India with ~94% market share in the commodities future space
- BUY with a target price of ₹ 1700

Key Financial Summary

	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
ADTO (₹ crore)	14025	30150	54214	120993	105.1%	157829	190579	25.5%
Market Share (%)	1.4	2.1	1.9	1.7		2.0	2.3	
Revenue from operation (₹ crore)	62.6	108.1	193.1	297.1	68.0%	372.6	457.1	24.0%
Net Profit (₹ crore)	-16.6	-7.9	14.8	13.8		31.8	45.4	
EPS (₹)	-13.0	-3.4	5.8	4.7		10.8	15.5	
P/E (x)	-25.1	-96.5	56.4	69.7		30.2	21.2	
RoE (%)	-30.3	-8.6	10.0	5.2		8.2	10.6	

Source: Company, ICICI Direct Research



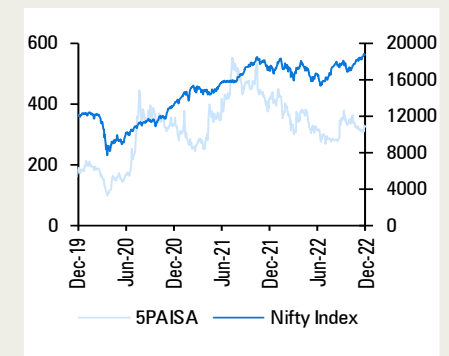
Particulars

	Amount
Market Capitalisation	₹ 1004 crore
Networth (Calc.)	₹ 438 crore
52 week H/L	464 /265
Face Value	₹ 10

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	30.0	30.0	30.0	29.9	32.7
FII	25.0	24.9	24.9	24.9	23.9
DII	-	-	-	-	-
Others	45.0	45.2	45.2	45.2	43.4

Price Chart



Recent Event

- Acquisition of online retail business division.
- Key Risks:** i) Synergy benefits need to be watched ii) Higher than anticipated client activation

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

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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, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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