

CMP: ₹ 294

Target: ₹ 375 (28%)

Target Period: 12 months

July 12, 2022

BUY

## Curb in opex aids bottomline....

**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 June 2022

**Q1FY23 Results:** Moderation in client acquisition; cost control aid PAT

- ADTO was up 13% QoQ and 136% YoY to ₹ 1.36 lakh crore
- Moderation in client acquisition at 2.3 lakh; total clients at 29.6 lakh
- Revenue was up 40% YoY but down 5% QoQ due to decline in brokerage
- Sequentially opex declined 10%. Thus, PAT was up 62% QoQ to ₹ 7.5 crore

**What should investors do?** 5Paisa's share price has grown more than 40% over the past three years. Sustained improvement in profitability margin needs to be vetted. However, fintech offering in large opportunity market keeps us positive on the future growth prospects.

- We retain our **BUY** rating on the stock

**Target Price and Valuation:** We lower multiple and value 5Paisa at ~24x FY24E EPS and 2.4x FY24E revenue to arrive at revised target price of ₹ 375 per share.

**Key triggers for future price performance:**

- Focus on improving quality of customer to aid revenues growth & ARPU
- Major IT spends over, thus control on opex to aid earnings trajectory
- Improving granularity in client funding book to mitigate risks
- Sustained earnings & gain in market share remain upside triggers

**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 commodities future space
- BUY with a target price of ₹ 1600



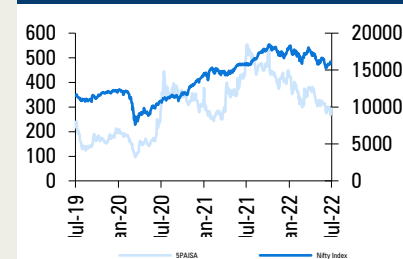
### Particulars

	Amount
Market Capitalisation	₹ 866 crore
Networth (Calc.)	₹ 381 crore
52 week H/L	577 /265
Face Value	₹ 10

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	30.0	30.0	30.0	30.0
FII	25.1	25.0	24.9	24.9
DII	-	-	-	-
Others	45.0	45.0	45.2	45.1

### Price Chart



### Recent Event & Key risks

- Sequential fall in client addition & decline in ARPU
- **Key Risk:** (i) Decline in client activation rate, (ii) fall in ARPU could dent revenues

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Namolia  
vishal.namolia@icicisecurities.com

Sameer Sawant  
sameer.sawant@icicisecurities.com

Pravin Mule  
pravin.mule@icicisecurities.com

### 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)	-22.6	-86.7	50.7	62.6		27.2	19.0	
RoE (%)	-30.3	-8.6	10.0	5.2		8.2	10.6	

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Moderation in client acquisition; opex control to aid PAT

- 5 Paisa has witnessed slower client addition in this quarter at 2.3 lakh (down 36% QoQ, 18% YoY)
- Active customers were at 18.9 lakh compared to 17.5 lakh QoQ and were 64% of total customer base
- Average daily turnover (ADTO) increased 13% QoQ and 136% YoY to ₹ 136022 crore
- Total income has grown 40% YoY to ₹ 84 crore but was down 5% QoQ as broking & allied income (forms 77% of total income) was down 6% QoQ
- Calculated ARPU was down to ₹ 294 compared to ₹ 345 QoQ and ₹ 402 YoY. This can be attributed to decline in orders
- Cost of client acquisition was up from ₹ 768 to ₹ 895 QoQ
- Total opex declined 10% QoQ. Thus, PAT was up 62% sequentially to ₹ 7.5 crore
- Average client funding book was at ₹ 316.7 crore vs. ₹ 223 crore YoY and ₹ 322 crore QoQ while per client exposure has declined to ₹ 26406 indicating increasing granularity

### Q1FY23 earnings conference call highlights

- Retail participation was weak in Q1FY23. For overall industry, cash market turnover was down 14% QoQ
- Moderation in client acquisition was conscious strategy of management to focus on quality of customer (payback period remains important determinant which is currently steady at eight to 10 months)
- CAC increased mainly due to fixed opex and slower acquisition. Higher proportion of customer sourced from partnerships also led to higher CAC. Reduction in cost of acquisition (CAC) continue to remain in focus
- Cash market share steady at ~3% same as QoQ. Derivative market-share improved from 3% to 3.14% sequentially
- Lower customer addition & decline in IT cost led to decline in other expense. Decline in tech spends sustainable as investment in product & tech is completed
- The management is targeting fixed cost at 50% and variable cost at 25% of revenue, thus implying a PBT margin of 25% ahead
- Staff cost is expected to rise in the range of 5 to 10% on a yearly basis
- Of new acquisition, ~20-25% are traders while rest are investors
- Total 60% of brokerage revenue come from derivative and rest from cash segment




## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22	FY23E	FY24E
IIFL Sec	71	98	Hold	2166	7.3	10.1	10.3	10.2	9.8	7.1	6.9	7.0	2.2	1.8	1.4	1.2	23.9	28.5	23.3	18.8
5 paisa	294	375	Buy	866	5.8	4.7	10.8	15.5	50.7	62.6	27.2	19.0	4.7	2.3	2.1	1.9	10.0	5.2	8.2	10.6
MCX	1334	1600	Buy	6804	44.2	28.2	34.3	47.2	30.2	47.3	38.9	28.3	4.8	4.8	4.6	4.0	15.9	10.1	11.8	14.0

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

₹ crore	Q1FY23	Q1FY21	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue for operations	84.0	60.0	40.0	88.2	-4.7	Sequential decline due to fall in broking and allied income as client addition and ARPU declines
Other Income	0.0	0.8	-	0.0	-	
Total Income	84.0	60.8	 38.2	88.2	-4.8	
Finance Cost	5.5	4.6	19.5	5.7	-3.7	
Employee Expenses	14.2	8.9	58.4	12.7	11.2	
Other Expenses	52.2	36.2	44.4	62.1	-16.0	Lower customer acquisition cost and decline in IT expense led to decline in other cost
Depreciation	1.9	0.9	114.6	1.3	41.4	
Total Expnses	73.7	50.6	45.8	81.9	-10.0	
Profit Before Tax	10.3	10.2	 0.5	6.4	62.1	
Tax	2.8	2.8	0.6	1.7	63.3	
PAT	7.5	7.5	 0.5	4.7	61.7	PAT sequentially driven by control over costs

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit & Loss						
(₹ crore)						
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue from operation	62.6	108.1	193.1	297.1	372.6	457.1
Other Income	-	0.05	1.50	0.91	0.91	0.91
<b>Total Income</b>	<b>62.6</b>	<b>108.1</b>	<b>194.6</b>	<b>298.0</b>	<b>373.5</b>	<b>458.0</b>
Employee expense	25.8	29.1	36.1	42.2	52.8	63.3
Finance cost	6.8	15.2	19.9	21.9	30.1	36.2
Depreciation	1.4	3.8	4.6	5.0	6.0	7.2
Other expenses	51.0	69.6	114.0	210.4	242.0	290.4
<b>Total Expense</b>	<b>85.1</b>	<b>117.8</b>	<b>174.6</b>	<b>279.5</b>	<b>330.8</b>	<b>397.0</b>
<b>Profit Before Tax</b>	<b>-22.5</b>	<b>-9.6</b>	<b>20.0</b>	<b>18.5</b>	<b>42.7</b>	<b>61.0</b>
Tax	-5.9	-1.7	5.2	4.7	10.9	15.6
<b>Profit After Tax</b>	<b>-16.6</b>	<b>-7.9</b>	<b>14.8</b>	<b>13.8</b>	<b>31.8</b>	<b>45.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet						
(₹ crore)						
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>						
Equity Capital	12.7	25.5	25.5	29.4	29.4	29.4
Reserve & Surplus	33.6	112.8	133.2	344.6	376.4	421.9
<b>Networth</b>	<b>46.4</b>	<b>138.3</b>	<b>158.7</b>	<b>374.0</b>	<b>405.8</b>	<b>451.3</b>
Borrowings	92.0	219.2	233.9	279.0	334.8	401.8
Other Liability	143.2	265.9	473.3	955.6	1060.7	1177.4
<b>Total</b>	<b>281.5</b>	<b>623.4</b>	<b>866.0</b>	<b>1608.6</b>	<b>1801.3</b>	<b>2030.4</b>
<b>Application of Funds</b>						
Fixed Asset	2.3	1.7	1.6	7.0	8.4	10.1
Investment	2.1	10.9	12.5	19.6	21.5	23.7
Advances	36.8	67.1	139.1	251.7	352.3	493.2
Cash	113.0	270.5	523.9	1200.5	1080.5	972.4
Other Asset	127.3	273.2	188.9	129.9	338.6	531.0
<b>Total</b>	<b>281.5</b>	<b>623.4</b>	<b>866.0</b>	<b>1608.6</b>	<b>1801.3</b>	<b>2030.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios						
(₹ crore)						
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
ADTO (₹ crore)	14025	30150	54214	120993	157829	190579
Market Share (%)	1.4	2.1	1.9	1.7	2.0	2.3
Yield (%)	0.002	0.001	0.001	0.000	0.000	0.000
ARPU (₹)	3280	1994	1427	1085	907	742
ROE (%)	-30.3	-8.6	10.0	5.2	8.2	10.6
No of Shares (crore)	1.3	2.5	2.6	2.9	2.9	2.9
EPS (₹)	-13.0	-3.4	5.8	4.7	10.8	15.5
PE (x)	NA	NA	50.7	62.6	27.2	19.0
Book Value (₹)	36.4	54.3	62.2	127.2	138.0	153.5
P/BV (x)	8.1	5.4	4.7	2.3	2.1	1.9
CI Ratio (%)	135.9	108.9	89.7	93.8	88.6	86.7
Mcap/Sales (x)	13.6	7.9	4.4	2.9	2.3	1.9

Source: Company, ICICI Direct Research

Exhibit 13: Growth						
Growth (%)						
Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Asset	115	121	39	86	12	13
Advances	1	82	107	81	40	40
Borrowing	470	138	7	19	20	20
Total Income	219	73	80	53	25	23
Operating expense	61	38	48	60	18	20
Net profit	NA	NA	NA	-7	131	43
Book Value	-26	49	15	104	9	11
EPS	NA	NA	NA	-19	131	43

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours 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](mailto: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](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Sameer Sawant, MBA, Pravin Mule, 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](http://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](http://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 or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

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 actual/beneficial ownership of one percent or more or other material conflict of interest 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.