

CMP: ₹ 362

Target: ₹ 450 (24%)

Target Period: 12 months

BUY

May 1, 2022

Healthy client accretion; steady opex to aid earnings...

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

- Aggressive client accretion with ~84% of incremental client from Tier II & below cities and ~78% of customers below 35 years of age
- The company has retail cash market share ~of 3.5% as on March 2022

Q4FY22 Results: 5paisa reported a good performance on an overall basis.

- ADTO was up 23% QoQ amid robust client accretion at 3.59 lakh
- Active clients jumped sharply 27% QoQ to 18 lakh
- Revenue was up 10% QoQ and 78% YoY to ₹ 88 crore, primarily led by 56% YoY uptick in brokerage revenue
- Sequentially opex remained flattish at 2%. Thus, PAT was up ~3.5x QoQ to ₹ 4.7 crore

What should investors do? 5 Paise's share price has grown by ~2x over the past two years from ~₹178 to ₹ 360 per share. Fintech offering in large opportunity market makes us positive on the future growth prospects

- We retain our BUY rating on the stock.

Target Price and Valuation: We value 5 Paise at ~36x FY24E EPS and 3x FY24E revenue on FY24E estimates to arrive at revised target price of ₹ 450 per share.

Key triggers for future price performance:

- Focus on aggressive client accretion to aid ADTO and thereby topline
- Opex getting steadier to aid earnings trajectory ahead
- Strong focus on client activation to support ARPU and thereby revenue
- Gain in market share ahead could command better multiple

Alternate Stock Idea: Apart from 5 Paise, 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 as on FY21
- BUY with a target price of ₹ 2,000



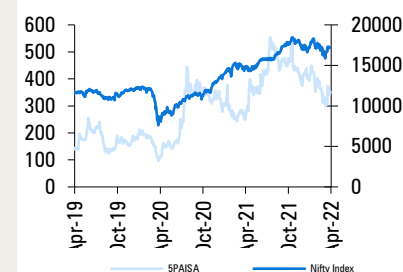
Particulars

| | Amount |
|-----------------------|--------------|
| Market Capitalisation | ₹ 1062 crore |
| Networth | ₹ 377 crore |
| 52 week H/L | 577 /293 |
| Face Value | ₹ 10 |

Shareholding pattern

| (in %) | Mar-21 | Mar-22 |
|----------|--------|--------|
| Promoter | 34.5 | 30.0 |
| FII | 17.5 | 24.9 |
| DII | - | - |
| Others | 48.0 | 45.2 |

Price Chart



Recent Event & Key risks

- Robust client addition & healthy traction in ADTO
- **Key Risk:** (i) Decline in client activation rate, (ii) elevated marketing & other expenses

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Namolia
vishal.namolia@icicisecurities.com

Sameer Sawant
sameer.sawant@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 | 192.4 | 296.7 | 67.9% | 358.5 | 443.2 | 22.2% |
| Net Profit (₹ crore) | -16.6 | -7.9 | 17.3 | 14.8 | | 23.0 | 37.1 | |
| EPS (₹) | -13.0 | -3.4 | 6.8 | 5.0 | | 7.8 | 12.6 | |
| P/E (x) | -27.8 | -106.8 | 53.3 | 71.8 | | 46.3 | 28.7 | |
| RoE (%) | -30.3 | -8.6 | 11.7 | 5.5 | | 5.9 | 8.9 | |

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Healthy client addition and activation

- Quarterly client addition at 3.6 lakh vs. 4.0 lakh QoQ but still remains healthy
- Active clients as percentage of total customers up 600 bps QoQ to 64%
- Average daily turnover (ADTO) increased 23% QoQ and 128% YoY to ₹ 120598 crore with market share steady at ~1.6%
- Total income has grown 78% YoY while operating expenses increased 96% YoY, resulting in PAT of ₹ 4.7 crore
- Broking income was up 56% YoY to ₹ 36 crore while allied income was up 163% YoY to ₹ 32.6 crore
- Cost of client acquisition has remained steady QoQ at ₹ 768 per customer
- Average client funding book increased 107% YoY to ₹ 323 crore

Q4FY22 earnings conference call highlights

- The company continues to be the fifth largest discount broker with a market share of 4% in incremental demat account
- The company had raised ₹ 250 crore in May 2021, predominantly for investment in technology and branding. It has started showing results
- ADTO growth in equity and derivative segment is in line with exchange growth
- Monthly active users on mobile app have grown 60% YoY. There was 107% YoY growth in margin funding book
- In previous quarters, investment in technology, branding, marketing, etc, led to subdued profitability, but, going forward, incremental cost is expected to be less than incremental revenue. Expect cost structure to stabilise at current levels
- Derivative retail market share is 3% while cash market share is 3-3.5%. The management aims for overall market share gain ahead
- Customer acquisition cost was ₹ 770. Customer activation rates were on the higher side led by follow up activities during the quarter
- The management will continue to focus only on broking and related businesses

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 | FY22E | FY23E | FY24E |
| IIFL Sec | 89 | 98 | Hold | 2718 | 7.3 | 10.1 | 10.3 | 10.4 | 12.3 | 8.9 | 8.7 | 8.6 | 2.8 | 2.3 | 1.8 | 1.5 | 23.9 | 28.5 | 23.4 | 19.2 |
| 5 paisa | 362 | 450 | Buy | 1062 | 6.8 | 5.0 | 7.8 | 12.6 | 53.3 | 71.8 | 46.3 | 28.7 | 5.8 | 2.8 | 2.7 | 2.4 | 11.7 | 5.5 | 5.9 | 8.9 |
| MCX | 1430 | 2000 | Buy | 7291 | 44.2 | 30.3 | 44.4 | 52.6 | 32.4 | 47.1 | 32.2 | 27.2 | 5.1 | 5.0 | 4.7 | 4.0 | 15.9 | 10.5 | 14.6 | 14.7 |

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

| ₹ crore | Q4FY22 | Q4FY21 | YoY (%) | Q3FY22 | QoQ (%) | Comments |
|------------------------|--------|--------|---------|--------|---------|--|
| Revenue for operation: | 88.2 | 49.5 | 78.3 | 80.0 | 10.3 | Healthy revenue growth driven by strong ADTO rise |
| Other Income | 0.0 | 0.3 | - | 0.1 | - | |
| Total Income | 88.2 | 49.8 | 77.2 | 80.1 | 10.1 | |
| Finance Cost | 5.7 | 4.1 | 40.3 | 6.5 | -12.9 | |
| Employee Expenses | 12.7 | 7.8 | 63.0 | 10.3 | 23.2 | |
| Other Expenses | 62.1 | 16.4 | 278.9 | 60.9 | 2.0 | Expenses rise YoY on account of tech spends but to moderate going ahead as seen sequentially |
| Depreciation | 1.3 | 0.9 | 41.7 | 1.0 | 32.1 | |
| Total Expenses | 81.9 | 41.7 | 96.3 | 78.8 | 3.9 | |
| Profit Before Tax | 6.4 | 8.1 | -21.6 | 1.3 | 377.0 | |
| Tax | 1.7 | 2.0 | -17.1 | 0.3 | 409.2 | |
| PAT | 4.7 | 6.1 | -23.1 | 1.0 | 366.2 | Sequentially profit improves |

Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 10: Profit & Loss | | | | | | |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (₹ crore) | | | | | | |
| Particulars | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
| Total Income | 62.6 | 108.1 | 193.9 | 297.6 | 359.5 | 444.1 |
| Employee expense | 25.8 | 29.1 | 34.9 | 41.4 | 51.8 | 62.1 |
| Finance cost | 6.8 | 15.2 | 19.9 | 21.9 | 30.1 | 36.2 |
| Depreciation | 1.4 | 3.8 | 3.9 | 4.3 | 5.1 | 6.2 |
| Other expenses | 51.0 | 69.6 | 111.7 | 210.0 | 241.6 | 289.9 |
| Total Expense | 85.1 | 117.8 | 170.5 | 277.6 | 328.6 | 394.3 |
| Profit Before Tax | -22.5 | -9.6 | 23.4 | 20.0 | 30.9 | 49.8 |
| Tax | -5.9 | -1.7 | 6.1 | 5.1 | 7.9 | 12.7 |
| Profit After Tax | -16.6 | -7.9 | 17.3 | 14.8 | 23.0 | 37.1 |
| EPS | (-13.0) | (-3.4) | 6.8 | 5.0 | 7.8 | 12.6 |

Source: Company, ICICI Direct Research

| Exhibit 11: Balance Sheet | | | | | | |
|---------------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| (₹ crore) | | | | | | |
| Particulars | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
| Source of Funds | | | | | | |
| Equity Capital | 12.7 | 25.5 | 25.5 | 29.4 | 29.4 | 29.4 |
| Reserve & Surplus | 33.6 | 112.8 | 133.2 | 348.3 | 371.3 | 408.5 |
| Networth | 46.4 | 138.3 | 158.7 | 377.8 | 400.8 | 437.9 |
| Borrowings | 92.0 | 219.2 | 233.9 | 279.0 | 334.8 | 401.7 |
| Other Liability | 143.2 | 265.9 | 473.3 | 953.3 | 1058.1 | 1174.5 |
| Total | 281.5 | 623.4 | 866.0 | 1610.0 | 1793.7 | 2014.1 |

Application of Funds

| | | | | | | |
|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| 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 | 1200.0 | 1080.0 | 972.0 |
| Other Asset | 127.3 | 273.2 | 188.9 | 131.8 | 331.4 | 515.1 |
| Total | 281.5 | 623.4 | 866.0 | 1610.0 | 1793.7 | 2014.1 |

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 | 1422 | 1083 | 873 | 719 |
| ROE (%) | -30.3 | -8.6 | 11.7 | 5.5 | 5.9 | 8.9 |
| No of Shares (crore) | 1.3 | 2.5 | 2.6 | 2.9 | 2.9 | 2.9 |
| EPS (₹) | -13.0 | -3.4 | 6.8 | 5.0 | 7.8 | 12.6 |
| PE (x) | NA | NA | 53.3 | 71.8 | 46.3 | 28.7 |
| Book Value (₹) | 36.4 | 54.3 | 62.2 | 128.4 | 136.2 | 148.8 |
| P/BV (x) | 9.9 | 6.7 | 5.8 | 2.8 | 2.7 | 2.4 |
| CI Ratio (%) | 135.9 | 108.9 | 87.9 | 93.3 | 91.4 | 88.8 |
| Mcap/Sales (x) | 17.0 | 9.8 | 5.5 | 3.6 | 3.0 | 2.4 |

Source: Company, ICICI Direct Research

| Exhibit 13: Growth | | | | | | |
|--------------------|------|------|------|-------|-------|-------|
| Growth (%) | | | | | | |
| Particulars | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| Total Asset | 115 | 121 | 39 | 86 | 11 | 12 |
| Advances | 1 | 82 | 107 | 81 | 40 | 40 |
| Borrowing | 470 | 138 | 7 | 19 | 20 | 20 |
| Total Income | 219 | 73 | 79 | 53 | 21 | 24 |
| Operating expense | 61 | 38 | 45 | 63 | 18 | 20 |
| Net profit | NA | NA | NA | -14 | 55 | 61 |
| Book Value | -26 | 49 | 15 | 106 | 6 | 9 |
| EPS | NA | NA | NA | -26 | 55 | 61 |

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

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 Namolia, 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 INZ00183631 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 icicidirect.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.