

Angel Broking Ltd.



Angel Broking Ltd

Issue Opens On
Tuesday, 22nd September 2020
Issue Closes On
Thursday, 24th September 2020
Price Band (INR)
305 – 306
Issue Size (INR cr.)
600
Rating
SUBSCRIBE

Angel Broking Limited incorporated in 1996 and one of the oldest stock broking houses in India. It offers broking, margin funding, advisory and financial services under the brand names of "Angel Broking" and "Angel Bee" powered by "ARQ". It has a strong market presence with active clientele on the National Stock Exchange (NSE) with a market share of around 6.3% and 2.15 million operational accounts as of June 2020.

Digital transformation has helped it being the 4th Largest company in terms of active NSE clients and 2nd largest in terms of incremental NSE clients in Q1FY21. Angel Broking being a pioneer in new client activation has access to approximately 79.55 million subscribers through partnered Digital Referral Associates (DRAs) as of June 30, 2020. From Q1 FY20 to Q1 FY21, its average daily turnover has been increased from INR 253 bn to INR 619 bn. Company has strong capabilities to acquire customers through diversified digital platforms. In Q1 FY21, 85.21% of clients have been acquired digitally and remaining 14.79% are acquired through network of Authorized Persons.

OFFER STRUCTURE

Particulars	IPO Details
No. of Units (crores)	1.961 - 1.967
Price band (INR/share)	305 – 306
Face Value (INR/share)	10

Source: IPO Prospectus, KRChoksey Research

Indicative Timetable

Bid/Offer Opens Date	22 nd September 2020
Bid/Offer Closes Date	24 th September 2020
Finalisation of Basis of Allotment with Stock Exchange	29 th September 2020
Initiation of Refunds	30 th September 2020
Credit of Equity Shares to Demat accounts	1 th October 2020
Commencement of trading of the Equity Shares on the stock Exchanges	5 th October 2020

Source: IPO Prospectus, KRChoksey Research

Issue break-up

Fresh Issue:	INR 300 cr
Offer for sale:	INR 300 cr
Total Issue Size:	INR 600 cr

Source: IPO Prospectus, KRChoksey Research

Objects of the issue

To meet working capital requirements (estimated utilization for the financial year FY21 of INR 2.3 bn)

General corporate purposes

Source: IPO Prospectus, KRChoksey Research

KEY FINANCIALS:

Particulars (INR mn)	FY18	FY19	FY20	Q1FY21
Revenue from operations	7,643	7,580	7,246	2,384
EBITDA	2,579	1,894	1,585	696
PAT	1,098	834	868	483
EBITDA Margin	33.7%	25.0%	21.9%	29.2%
NPM	14.4%	11.0%	12.0%	20.2%

Source: Company Research

Research Associate

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KRChoksey Research

is also available on Bloomberg KRCS<GO>
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Angel Broking Ltd

COMPANY OVERVIEW

Angel Broking Ltd is a technology led financial services company providing broking and advisory services, margin funding, loan against shares (through AFPL, one of its subsidiaries) and financial products distribution to its clients. It has developed its Pan-India presence of 18,649 pincodes (96.9% existence across India) as of Jun'20 with healthy network of 11,000 Authorised Persons and online/digital platforms. Digital marketing could gather 398 mn digital impressions in Jun'20 on its various online and digital platforms. As on Jun'20, there were 4.39 mn and 1 mn downloads of mobile app and Angel BEE, respectively.

The company provides wide range of financial services-

1) Broking & Advisory:

▪ Broking:

- Provides broking services for equity (Cash, Intra-day, F&O), commodity, currency & debt products
- Facilitate opening of demat accounts for their clients; a member of BSE, NSE, MSEI, MCX & NCDEX
- Facilitate participation of clients in IPOs undertaken by various companies

INR bn	Segment wise retail ADTO for Angel Broking & NSE								
	Cash			Derivatives			Total		
	NSE	Angel Broking	Market Share	NSE	Angel Broking	Market Share	NSE	Angel Broking	Market Share
FY18	171	17	9.8%	3085	89	2.87%	3256	123	3.8%
FY19	179	21	11.9%	4599	124	2.70%	4778	168	3.5%
FY20	200	29	14.6%	6556	340	5.18%	6756	413	6.1%
Apr-20	292	49	16.8%	5745	365	6.35%	6037	444	7.4%

Source: RHP, KRChoksey Research

▪ Research Advisory and Education:

- It has a **research team of 54 members** which provides quantitative and qualitative research requirements relating to the stock market (**equity fundamentals, technical, derivatives, commodities, currencies and Mutual Funds**) through mobile app, websites and Angel BEE
- Additionally, technologically advanced **digital platforms** play a key role in **advisory and education**

Digital Platforms: integrated, end to end and advances digital experience

Angel Broking – Mobile Application and Website

- **Mobile Application:** it is powered by ARQ, a rule based investment engine for clients' trading and investment requirements and to maintain a comprehensive portfolio management for individual and family members.
- **trade.angelbroking.com:** a web-based trading platform with a simplified interface
- **www.angelbroking.com:** is also a knowledge center which empowers investors/clients with an understanding of trading and investment products

Angel BEE: a digital platform, developed with an aim to fulfil the financial requirements of its clients for independent financial management. It offers instant, "on-the-go", paperless and personalized solutions through which clients can manage their financial portfolio.

SpeedPro: an application trading platform which provides faster execution of trades and monitoring of positions across various exchanges (NSE, BSE & MCX) and investing in multiple asset classes.

NXT, the Next Gen Platform for Authorised Persons: a technology for Authorised Persons for effective utilisation of the business opportunities that are generated through its various marketing initiatives. It also offers "Customised ARQ" and "Integrated Platform for Equity and Mutual Funds".

Source: RHP, KRChoksey Research

Angel Broking Ltd

2) Other Financial services

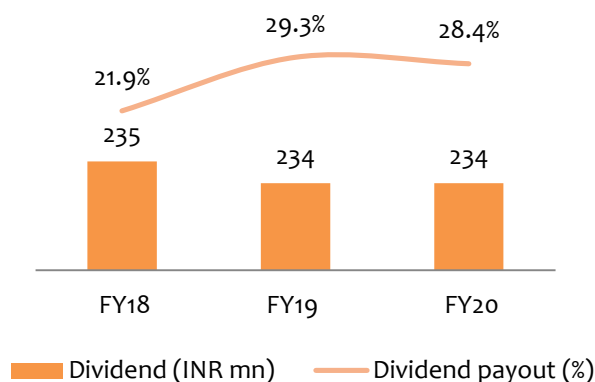
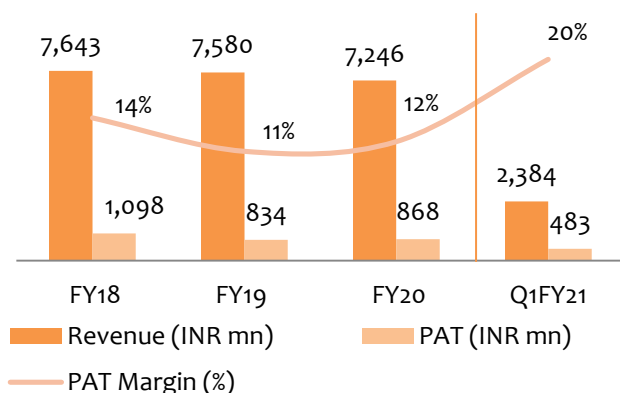
- Margin Trading Facility and Non-Margin Trading Facility Designated Client Lending:
 - Margin trading facility is provided based on clients' eligible collaterals for funding requirements on the cash delivery segment of equities. Such funding is subject to exposure against margins that are mandated by the stock exchanges, with the securities forming a part of the collateral for such funding
 - Provides margin funding for up to 79.55% of the purchase value by the client
 - As on Jun'20, margin trading facility book was stood at INR 7.7 bn for 143,287 number of clients, with the average exposure of 0.05 mn per client
- Distribution:
 - It undertakes distribution of third party financial products (Mutual Funds, health & Life Insurance products)
 - It believes such products enable fulfilling clients' financial and risk mitigation objectives by offering them personal wealth management services
 - Income from distribution was reported at INR 20.7 mn, as on Jun'20. It was reported at INR 125.1 mn, INR 116.3 mn & INR 99.8 mn for FY18, FY19 and FY20, respectively
 - AUM of Mutual Funds distributed was at INR 72.1 mn and 85.7 mn as on Mar'20 and Jun'20, respectively
 - Revenue from distribution of insurance products was reported at INR 8.7 mn as on Jun'20 and INR 79 mn, INR 71.6 mn & INR 51.9 mn in FY18, FY19 and FY20, respectively
- Loan Against Shares (LAS):
 - It provides loans against shares to retail clients through one of its Subsidiary, AFPL, which is registered as an NBFC.
 - The interest income from lending activities was reported at INR 13.2 mn as on Jun'20 and the same was reported at INR 171.9 mn, INR 137.0 mn and INR 86.4 mn in FY18, FY19 & FY20, respectively.

FINANCIAL PERFORMANCE

- Revenue has reported at INR 7.2 bn (-4% YoY) in FY20 and INR 2.4 bn in Q1FY21. PAT has reported at INR 867.5 mn (+4% YoY) in FY20 and INR 482.59 mn in Q1FY21.
- It has shown a good performance in Q1FY21 where it has brought back stability in its financial performance which was impacted due to company's product pricing strategy.
- Company's ROE has also impacted and reported at 14.7% in FY20 from 23.2% in FY18. In Q1FY21, non-annualised ROE reported at 7.4%. In FY20, company has paid dividend worth INR 234 mn (28.4% of dividend payout).

Revenue & PAT Performance

Dividend paid and dividend payout (%)



Angel Broking Ltd

INVESTMENT RATIONALE

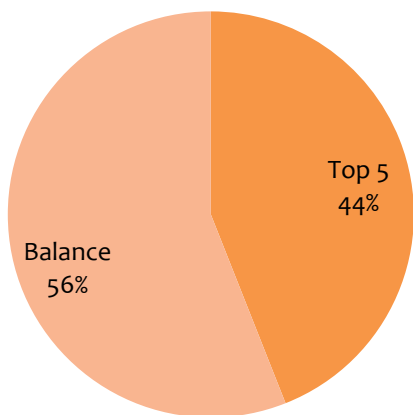
One of the leading brand in the broking industry in terms of market share

Angel Broking manages INR 132.5 bn of AUM for overall client base of 2.15 mn as on Jun'20. It was placed at 4th rank in market share amongst leading players in the industry with the consistent growth in number of NSE active clients which were at 0.77 mn as on Jun'20.

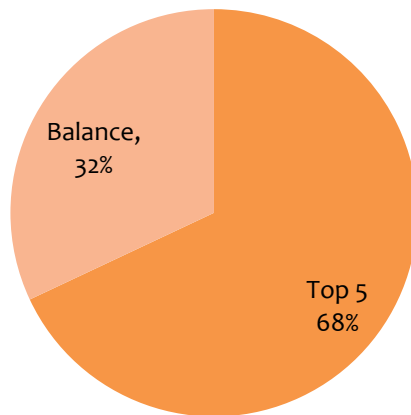
According to CRISIL Research, equity broking revenue has witnessed 10.5% growth during FY15-20. We expect more participation in the equity markets given the excess liquidity in the market and lower interest rates on bank's term deposits.

Major focus on technological development, various digital platforms and in-house research has enabled ease in clients' trading and investment requirements which has resulted in improved market share across segments.

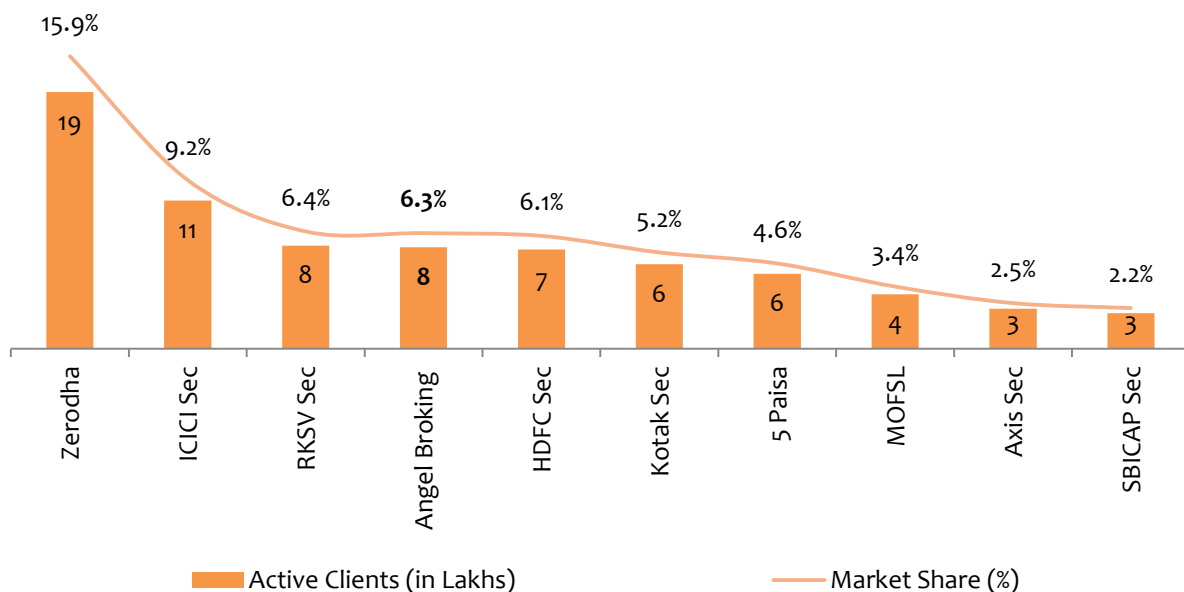
Top 5 players lead market share in NSE active clients as of June 2020



Top 5 players in NSE - incremental clients as of June 2020



Active clients on NSE for top 10 brokerages as of June,2020



Note: Active clients are those that executed at least one trade in the past one year

Source: RHP, KRChoksey Research

Angel Broking Ltd

Widespread network of Authorised Persons and online/digital platforms enabled reachability

Angel Broking has developed its Pan-India presence of 18,649 pincodes (96.9% existence across India) as of Jun'20 with healthy network of 11,000 Authorised Persons; however, its online and digital platform has enabled largest client sourcing in the recent times. Average client acquisition has improved to 115,565 clients per month in Q1FY21 from 46,676 clients per month during FY20 backed by enhanced participation observed from retail equity investors.

Investment in technology and research has engaged young generation who are the end users of company's integrated digital platforms (mobile app, Angel Broking web, Angel BEE app, 'ARQ' advisory & NXT platform). Also, enhanced mobile network reachability in country's remote areas has delivered strong client acquisition from tier 2/3 cities. Further, management believes under penetration in Indian financial markets provides huge opportunity for growth in future.

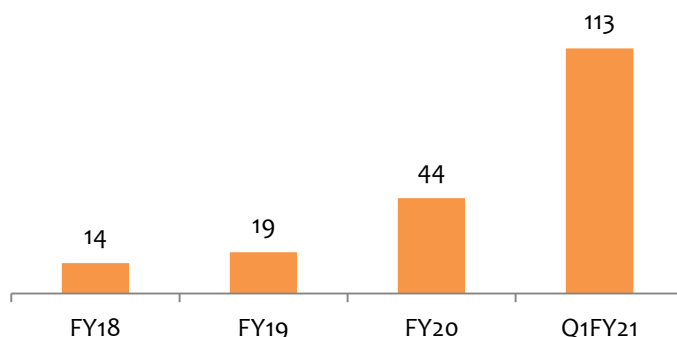
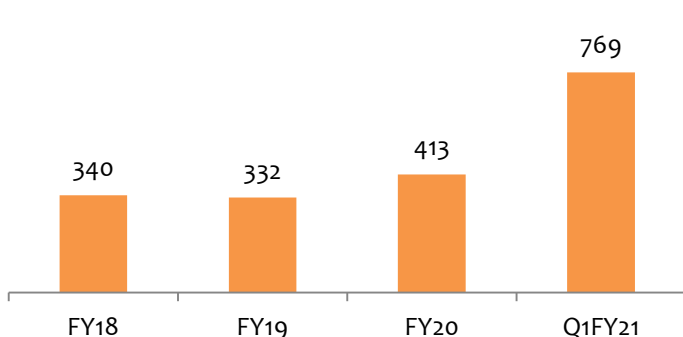
Client Acquisition through diversified digital platforms

Established digital model over the last 3 years has enabled 85.2% of client acquisition primarily through digital platforms of which 53.3% of acquisition were through performance marketing, 20.7% through referrals from its existing clients and 11.18% through digital influencers. AI and Machine learning has driven user based digital experience which led to better client engagement and service.

Under performance marketing, "Accelerated Lead Conversion Program", Data-led Inactive Conversion Program" and certain other programs with video sharing platforms, enabled new client acquisition.

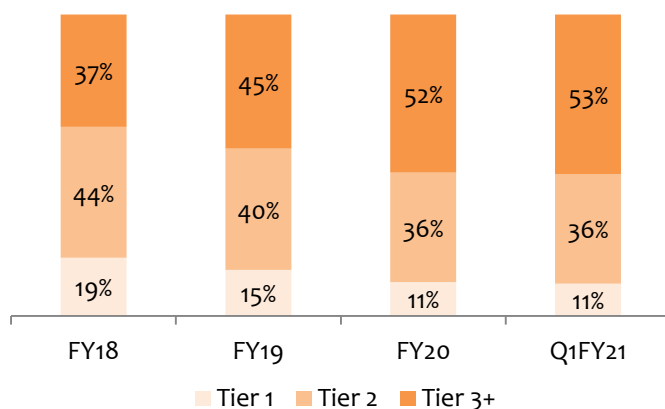
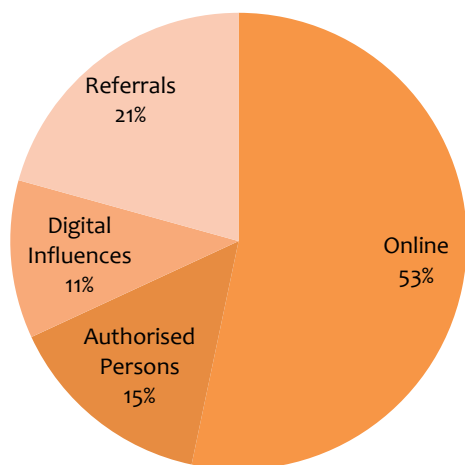
Industry Avg Monthly Net Client Addition ('000)

Angel Broking's Avg Monthly Net Client Addition ('000)



85.2% clients sourced digitally in Q1FY21

City-wise client acquisition



Source: RHP, KRChoksey Research

Angel Broking Ltd

Attractive pricing strategy in retail broking and complementary in-house research

Angel Broking is now one of the leading player among the low cost brokerages. It has changed its marketing strategy in FY18-19 where **iTrade Prime Plan** was launched with zero cost brokerage service for cash delivery and INR 20 per order for other segments. According to management, decision to launch competitive pricing for its products has resulted in flat revenue growth backed by net additions in its clientele and decline in profitability during FY19 and FY20. **However, management expects topline as well as bottom-line growth followed by incremental net addition in the clientele which will restore stability in company's fundamental performance.**

Experienced management led company; witnessed complete digital transformation

It has a strong management team with more than two decades of experience in Indian financial markets and broking industry. The team has witnessed successful journey from a largely physical to a completely digital model over the last 3 years driven by its agile mindset and good decision making. Further, the management is vigilant in its marketing strategies to be competitive in the industry. **Management believes that it is well placed to grab the opportunity generated through India's leading milestones of digitisation and shift of retail savings to equity markets.**

Valuation

Low penetration, government support and growing mobile usage in India to bring more participation in capital markets from retail investors. Ease in account opening, trading facilitated by real time data, handy tools, free research/advisory and low brokerage fees is expected to contribute more towards growth of broking industry. There was an increased participation from India's retail investors followed by sharp decline in equity markets towards end of Mar'20 due to global lockdown.

Angel Broking has seen incremental growth in market share backed by digital and technology led initiatives which are expected to support company's overall growth in the industry. Major sourcing of accounts through online platform along with available research and ARQ based advisory on digital platforms has created interests amongst its existing customers. Major client sourcing from tier 3 cities also indicates potential opportunity in Indian markets.

We believe the company will continue to update products and services as per industry requirements to be competitive in the industry while pursuing to deliver high ROEs for the company (>14% since FY18). Additionally, it has paid dividends to its shareholders for last 3 years sustaining more than 20% of dividend payout ratio. Thus, IPO valuation of ~25x FY20 annualised EPS, we recommend **SUBSCRIBE** to the issue with **long term positive view**.

Angel Broking Ltd

KEY RISKS & CONCERNS

- COVID-19 outbreak could have a potential impact on company's business, particularly if it is inadequately controlled
- Global and domestic economic and market conditions may have a material impact on company's business, financial condition, etc.
- The company/directors/promoters/subsidiaries and certain group companies are involved in legal and other proceedings. Adverse decisions in any of these proceedings may effect company's business, future financial position and operations
- The operation of business is highly dependent on IT infrastructure, any failure or inadequacy in IT systems is subject to risks

Peer Comparison

Particulars INR in millions except per share	CMP	Market Cap	P/E	NAV	FY20 Total revenue	3 year CAGR (FY17- 20)	FY20 Broking income/ revenue (%)	FY20 PAT	3 year CAGR (FY17-20)	FY20 PAT Margin	FY20 EPS	FY20 ROE (%)
Angel Broking	-	-	-	82.15	7,599	11%	75%	823	38%	11%	12.1	15
ICICI Securities	479	154228	25	37.5	17221	7%	55%	5367	17%	31%	16.8	48
Aditya Birla Money	43	2443	20	5.6	1737	12%	54%	120	25%	7%	2.1	45
India Infoline	39	12577	8	45.2	6437	8%	67%	1,426	23%	22%	7.3	29
5Paisa Capital	380	9684	-	66.0	1081	144%	67%	-79	NM	-7%	-3.4	-9
Geojit Financial	41	9758	14	21.2	3326	0%	79%	470	-6%	14%	2.0	9
Emkay Global	58	1430	-	62.1	1357	6%	83%	-13	0%	-1%	-5.1	-8
Motilal Oswal	649	96103	43	211.9	26127	1%	47%	1833.7	-20%	7%	12.5	6
Dolat Investments	52	9205	12	12.5	1577.5	24%	-	710.5	314%	45%	4.1	38
HDFC Securities	-	-	-	-	8623	16%	80%	3,842	21%	45%	245.9	31
Kotak Securities	-	-	-	-	16900	11%	NA	5550	15%	33%	#N/A	#N/A

Source: RHP, KRChoksey Research

Monthly incremental active clients (in Thousands)

Company	Apr-18 to Mar-19	Apr-19 to Jan-20	Feb-20 to Mar-20	Apr-20 to June-20
Zerodha Broking Ltd.	30.7	24.8	103.7	175.6
Angel Broking Ltd.	4.1	6.5	42.7	63.5
RKSV Securities Pvt. Ltd.	4.6	33.4	59.2	52.8
5 Paisa Capital Ltd.	5.9	20.4	41.5	43.9
Kotak Securities Ltd.	5.8	7.0	24.9	22.3
ICICI Securities Ltd.	3.8	12.0	44.0	14.3
Motilal Oswal Financial Services Ltd.	1.0	2.2	15.6	11.7
Axis Securities Ltd.	1.2	-11.4	-5.8	10.6
HDFC Securities Ltd.	5.8	-0.8	28.6	9.5
SBICAP Securities Ltd.	-0.4	1.0	14.0	6.5

Source: RHP, KRChoksey Research

Angel Broking Ltd

Brokerage rates of various major brokerages across products

Brokers	Delivery	Intraday	Futures	Options	Commodity
Angel Broking	0	INR 20	INR 20	INR 20	INR 20
Zerodha	0	INR 20	INR 20	INR 20	INR 20
RKSV Securities	0	INR 20	INR 20	INR 20	INR 20
5 Paisa	INR 20	INR 20	INR 20	INR 20	INR 20
Axis Securities	0.50%	0.05%	0.05%	INR 100 per lot	INR 100 per lot
Axis securities (tiered plan)	0.25%	0.03%	0.03%	INR 50 per lot	INR 50 per lot
Kotak Securities	0.49%	0.05%	0.05%	INR 300 per lot	INR 300 per lot
HDFC Securities	0.50%	0.05%	0.05%	INR 100 per lot	INR 100 per lot
Motilal Oswal	0.50%	0.05%	0.05%	Rs. 70 per lot	0.05%
IIFL Securities	0.50%	0.05%	0.05%	INR 100 per lot	INR 100 per lot
ICICI Securities	0.55%	0.28%	0.05%	INR 95 per lot	INR 95 per lot
ICICI securities (tiered plan - 1)	0.25%	0.03%	0.03%	INR 35 per lot	INR 35 per lot
ICICI securities (tiered plan - 2)	0.25%	0.03%	0.03%	INR 20 per order + INR 5 per lot	INR 20 per order + INR 5 per lot

Services offered by different brokers

Parameters	Angel Broking Ltd	Zerodha	RKSV	5 Paisa	ICICI Securities	HDFC Securities	Kotak Securities	Axis Securities	Sharekhan	Motilal Oswal
Zero Account opening fee	✓	✗	✗	✓	✗	✓	✗	✗	✗	✗
Complementary In-house Research Advisory	✓	✗	✗	✓	✓	✓	✓	✓	✓	✓
Margin trading facility	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓
Securities as collateral	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓
Paid services (Smallcase/ Sensibull/ Streak etc.)	✗	✓	✗	✓	✗	✓	✓	✓	✗	✗
Knowledge center/ Education	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓
Zero fund transfer charges	✓	✗	✗	✗	✓	✓	✓	✓	✓	✓
Instant fund payout	✓	✗	✗	✗	✓	✓	✓	✓	✗	✗

Source: RHP, KRChoksey Research

Angel Broking Ltd

Profit and Loss statement:

Particulars (INR mn)	FY18	FY19	FY20	Q1FY21
Revenue from operations	7,643	7,580	7,246	2,384
Expenses	5,064	5,686	5,661	1,688
EBITDA	2,579	1,894	1,585	696
Depreciation	191	189	209	50
EBIT	2,389	1,705	1,375	646
Interest cost	946	684	489	82
Other income	157	261	301	82
PBT	1,600	1,282	1,188	646
Tax expenses	502	448	320	164
PAT	1,098	834	868	483
Diluted EPS	15.29	11.58	12.05	6.70

Source: RHP, KRChoksey Research

Balance sheet:

Particulars (INR mn)	FY18	FY19	FY20	Q1FY21
EQUITY AND LIABILITIES				
Shareholders' funds	4,736	5,314	5,914	6,391
Borrowings	11,374	8,718	4,909	6,580
Total Financial liabilities	7,389	7,736	10,700	16,378
Total Non-Financial liabilities	288	317	379	608
Total equity and liabilities	23,787	22,085	21,902	29,957
ASSETS				
Property, plant and equipment	1,065	1,063	1,039	1,025
Right-of-use assets	121	208	153	94
Other non-financial assets	306	360	320	358
Trade Receivables	1,568	2,146	390	563
Cash and other bank balance	1,230	4,470	6,132	5,156
Other financial assets	19,496	13,838	13,867	22,762
TOTAL	23,787	22,085	21,902	29,957

Source: RHP, KRChoksey Research

Ratio Analysis:

Key Ratio	FY18	FY19	FY20	Q1FY21
EBITDA Margin (%)	33.7%	25.0%	21.9%	29.2%
EBIT Margin (%)	31.3%	22.5%	19.0%	27.1%
Net Profit Margin (%)	14.4%	11.0%	12.0%	20.2%
RoE (%)	23.2%	15.7%	14.7%	NA
RoCE (%)	14.8%	12.2%	12.7%	NA
Current Ratio (x)	1.2	1.2	1.3	1.2

Source: RHP, KRChoksey Research

Angel Broking Ltd

Board of Directors & Management:

Board of Directors	Designation	Experience
Dinesh D Thakkar	Promoter, Chairman & MD	25+ years: Broking industry
Uday Sankar Roy	Independent Director	37+ years: Banking industry
Vinay Agrawal	Director & Chief Executive Officer	18+ years: Broking industry
Kamalji Sahay	Independent Director	39+ years: Insurance industry
Ketan Shah	Non-Executive Director & Chief Revenue Officer	25+ years: Broking and financial services
Anisha Motwani	Independent Director	Years experience in management consultancy
Management Team		
Vineet Agrawal	Chief Financial Officer	Years of experience in manufacturing, financial and telecommunication sectors
Naheed Patel	Company Secretary & Compliance Officer	+11 years: Secretarial, accounts and finance
Nilesh Gokral	Chief Operating Officer	-
Rohit Ambosta	Chief Information Officer	-
Sandeep Bhardwaj	Chief Sales Officer	-
Subhash Menon	Chief People Officer	-
Prabhakar Tiwari	Chief Marketing Officer	-

Source: RHP, KRChoksey Research

Awards and Recognition	Year
Silver Honour in the 'Digital Marketing Excellence in Social Media (BFSI)' and 'Digital Marketing Excellence in Video (Financial Services)' at the DIGIXX 2020S Summit Awards for #ShagunKeShares campaign, organised by Adgully	2020
'Best performing Retail Member' at Market Achievers Awards by NSE 'Trendsetter' award at the NetApp - Innovation Awards 'Best Marketing Campaign in India' and 'Digital First Organisation in India', organised by Tefla's 'Franchise 100 India's Top Franchises, 2019' certified by Franchise India	2019

Source: RHP, KRChoksey Research

Angel Broking Ltd

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Priyanka Baliga [M.Com, BMS (Finance)], research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I 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.

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