

CMP: ₹ 505

Target: ₹ 600 (19%)

Target Period: 12 months

July 16, 2021

BUY

Capital raising to aid business growth ahead...

About the stock: 5 Paisa 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 cash market share of 4.43% as of June 2021

Q1FY22 Results: 5 Paisa reported healthy Q1FY22 results.

- ADTO was up 9% QoQ amid robust client accretion at 2.78 lakh
- Revenue was up 21% QoQ to ₹ 60 crore, led by rise in ADTO and MTF book
- Consequent PAT was at ₹ 7.2 crore (up 23% QoQ)

What should investors do? 5 Paisa share price has grown by ~2.3x over the past four years (from ~₹ 220 in November 2017 to ~₹ 525 levels in July 2021).

- Being a new age fintech broker, we retain our BUY rating on the stock.

Target Price and Valuation: We value 5 Paisa at ~29x P/E on FY23E EPS to arrive at revised TP of ₹600 per share.

Key triggers for future price performance:

- Focus on aggressive client accretion to aid ADTO and thereby topline
- Revamp existing product suite and new product launch
- Improvement in technology & branding to support incremental accretion
- Operating leverage with revenue growth outpacing cost of acquisition
- Operating leverage & tight cost control seen aiding profitability
- MTF surge, clients surge to aid earnings growth and return ratios

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

- MCX is a leader in commodity derivative exchanges in India with over 96% market share in commodities future space as on FY21
- BUY with target price of ₹ 2,000



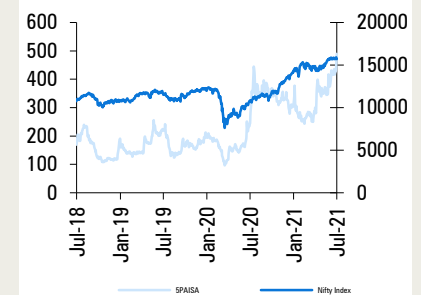
Particulars

	Amount
Market Capitalisation	₹ 1488 crore
Networth	₹ 159 crore
52 week H/L	467 /140
Face Value	₹ 10

Shareholding pattern

	Mar-21
DII Holding (%)	0
FII Holding (%)	17.5
Promoter Holding (%)	34.5
Others (%)	47.9

Price Chart



Recent Event & Key risks

- Robust client addition & healthy traction in ADTO

Key Risk: (i) Additional margin requirement, (ii) rising competitive intensity

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Key Financial Summary

	FY18	FY19	FY20	FY21	3 year CAGR (FY18-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
ADTO (₹ crore)	7040	14025	30150	39972	78.4%	62978	84043	45.0%
Market Share (%)	1.0	1.4	2.1	1.4		1.9	2.2	
Revenue from operation (₹ crore)	19.7	62.6	108.1	192.4	113.9%	306.3	401.7	44.5%
Net Profit (₹ crore)	-25.3	-16.6	-7.9	17.3		38.5	63.0	90.7%
EPS (₹)	-19.9	-13.0	-3.4	6.8		12.6	20.6	74.4%
P/E (x)	-25.4	-38.8	-149.0	74.4		40.1	24.5	
RoE (%)	-33.5	-30.3	-8.6	11.7		12.7	13.2	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Continued healthy client accretion supports performance

- Highest quarterly client addition at 2.78 lakh taking client base to 16.3 lakh
- Average daily turnover (ADTO) increased 9% QoQ to ₹ 57730 crore with market share steady at ~1.2%
- Surge seen in average client funding book (MTF) to ₹ 224 crore in Q1FY22 vs ₹ 154 crore in Q4FY21
- Focus on client acquisition, upgradation of technology and new product addition to continue ahead

Q1FY22 earnings conference call highlights

- Market share of derivative segment has dipped YoY at ~3%
- Undertaken revamping of web portal, launching of desktop site as part of technology development. Steps in the direction of technology improvement - skilling infrastructure, creating new data centre and server
- New products to be launched - NPS, PPF and Gold bonds
- Aggressive customer acquisition ahead; plan to plough recent capital raised for the same
- Focus on low ticket size customers; not much competition anticipated from banks due to low ticket size
- Customer acquisition cost (CaC) recovered in eight to nine months i.e. payback period (excluding any cross sell income)

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	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Motilal	1050	800	Buy	15411	75.5	89.0	98.4	13.9	11.8	10.7	3.7	2.8	2.3	9.1	7.5	21.6
IIFL Sec	116	65	Buy	3499	6.1	7.5	8.4	19.0	15.5	13.8	3.5	2.8	2.3	19.9	20.1	18.6
5 paisa	505	600	Buy	1475	6.8	12.6	20.6	74.3	40.1	24.5	8.1	3.5	3.0	11.7	12.7	13.2
Geojit	91	62	Hold	2164	5.0	5.5	6.2	18.2	16.5	14.7	3.2	2.7	2.2	18.9	17.5	16.6

Source: Company, ICICI Direct Research

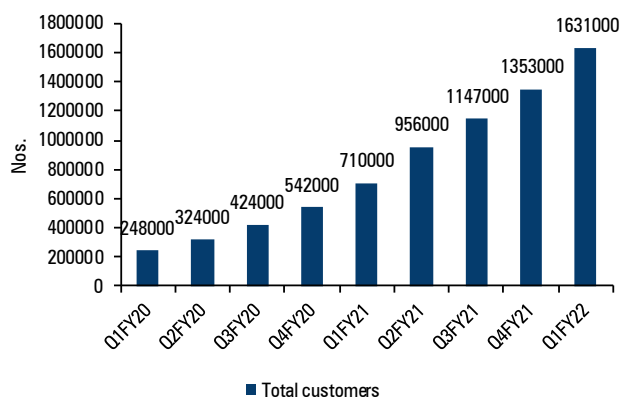
Aggressive client accretion and new product launches supporting earnings trajectory prompt us to value the company in the range of 25-30x forward EPS.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ	Comments
Revenue for operations	60.0	42.3	41.8	49.5	21.3	Healthy client addition, QoQ increase in ADTO and increase in MTF book led to revenue traction
Other Income	0.8	0.0	-	0.3	-	
Total Income	60.8	42.4	43.5	49.8	22.1	
Finance Cost	4.6	5.2	-11.1	4.1	13.0	
Employee Expenses	8.9	8.5	5.8	7.8	14.5	
Other Expenses	17.7	13.9	27.3	16.4	7.9	Cost of client acquisition on declining trend
Depreciation	0.9	1.0	-9.5	0.9	-6.6	
Total Expenses	50.7	38.4	32.1	41.7	21.6	
Profit Before Tax	10.1	4.0	NA	8.1	24.7	
Tax	2.8	1.0	NA	2.0	34.6	
PAT	7.3	3.0	NA	6.1	21.4	Topline growth and cost control lead to jump in profit

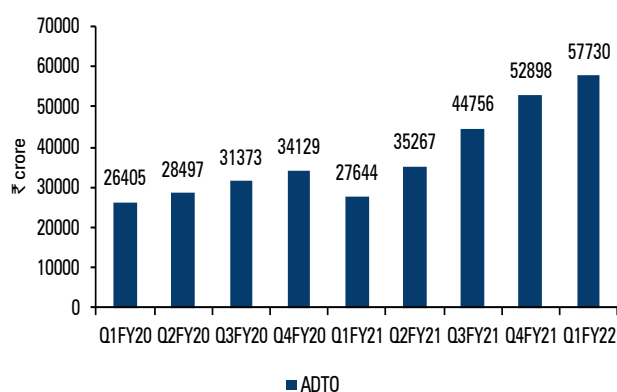
Source: Company, ICICI Direct Research

Exhibit 3: Client accretion continues to remain healthy....



Source: Company, ICICI Direct Research

Exhibit 4: thereby keeping ADTO growth strong



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	307.8	403.2
Employee expense	25.8	29.1	34.9	41.9	52.4
Finance cost	6.8	15.2	19.9	25.3	30.3
Depreciation	1.4	3.8	3.9	4.7	5.6
Other expenses	51.0	69.6	111.7	184.3	230.4
Total Expense	85.1	117.8	170.5	256.1	318.7
Profit Before Tax	-22.5	-9.6	23.4	51.6	84.6
Tax	-5.9	-1.7	6.1	13.2	21.6
Profit After Tax	-16.6	-7.9	17.3	38.5	63.0
EPS	(-13.0)	(-3.4)	6.8	12.6	20.6

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	416.7	479.7
Networth	46.4	138.3	158.7	447.2	510.2
Borrowings	92.0	219.2	233.9	280.7	336.9
Other Liability	143.2	265.9	473.3	568.0	681.6
Total	281.5	623.4	866.0	1295.9	1528.6
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	333.8	467.3
Cash	113.0	270.5	523.9	471.5	424.4
Other Asset	127.3	273.2	188.9	474.9	619.5
Total	281.5	623.4	866.0	1295.9	1528.6

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios					
(₹ crore)					
Particulars	FY19	FY20	FY21	FY22E	FY23E
ADTO (₹ crore)	14025	30150	39972	62978	84043
Market Share (%)	1.4	2.1	1.4	1.9	2.2
Yield (%)	0.002	0.001	0.001	0.001	0.001
ARPU (₹)	3280	1994	1422	1259	1144
ROE (%)	-30.3	-8.6	11.7	12.7	13.2
No of Shares (crore)	1.3	2.5	2.6	3.1	3.1
EPS (₹)	-13.0	-3.4	6.8	12.6	20.6
PE (x)	NA	NA	74.4	40.1	24.5
Book Value (₹)	36.4	54.3	62.2	146.6	167.2
P/BV (x)	13.9	9.3	8.1	3.4	3.0
CI Ratio (%)	135.9	108.9	87.9	83.2	79.0
Mcap/Sales (x)	26.1	15.1	8.4	5.3	4.1

Source: Company, ICICI Direct Research

Exhibit 13: Growth					
(%)					
Growth (%)	FY19	FY20	FY21	FY22E	FY23E
Total Asset	115	121	39	50	18
Advances	1	82	107	140	40
Borrowing	470	138	7	20	20
Total Income	219	73	79	59	31
Operating expense	61	38	45	50	24
Net profit	NA	NA	NA	122	64
Book Value	-26	49	15	136	14
EPS	NA	NA	NA	86	64

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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