

CMP: ₹ 448

Target: ₹ 530 (18%)

Target Period: 12 months

BUY

October 20, 2021

## Healthy client accretion; gradual uptick in PAT...

**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 retail cash market share of 3.6% as of September 2021

**Q2FY22 Results:** 5 Paisa reported mixed Q2FY22 results.

- ADTO was up 40% QoQ amid robust client accretion at 3.42 lakh
- Revenue was up 13% QoQ to ₹ 68 crore, primarily led by 43% QoQ rise in the MTF book
- Elevated marketing & other expense impacted earnings momentum with PAT at ₹ 1.7 crore (down 77% QoQ)

**What should investors do?** 5 Paisa's share price has grown by ~2.4x over the past four years (from ~₹ 220 in November 2017 to ~₹ 537 levels in October 2021).

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

**Target Price and Valuation:** We value 5 Paisa at ~38x P/E on FY23E EPS to arrive at revised target price of ₹ 530 per share.

### Key triggers for future price performance:

- Focus on aggressive client accretion to aid ADTO and thereby topline
- Revamp existing product suite, new product launch, improvement in technology & branding to support incremental accretion
- MTF surge, client addition to aid earnings growth and return ratios
- Elevated marketing & tech spends may lead to gradual uptick in earnings
- Higher client engagement to improve activation is the key ahead

**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 ~94% market share in commodities future space as on FY21
- BUY with target price of ₹ 2,000



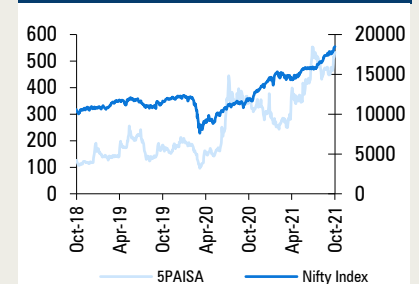
### Particulars

	Amount
Market Capitalisation	₹ 1309 crore
Networth	₹ 368 crore
52 week H/L	577 /238
Face Value	₹ 10

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	34.6	34.6	34.5	30.0
FII	17.3	17.5	17.5	25.1
DII	-	-	-	-
Others	48.2	47.9	48.0	45.0

### 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 Narnolia  
vishal.narnolia@icicisecurities.com

Sameer Sawant  
sameer.sawant@icicisecurities.com

### Key Financial Summary

	FY19	FY20	FY21	3 year CAGR (FY18-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
ADTO (₹ crore)	14025	30150	39972	78.4%	51924	75038	37.0%
Market Share (%)	1.4	2.1	1.4		1.6	2.0	
Revenue from operation (₹ crore)	62.6	108.1	192.4	113.9%	291.1	393.0	42.9%
Net Profit (₹ crore)	-16.6	-7.9	17.3		21.5	42.1	55.9%
EPS (₹)	-13.0	-3.4	6.8		7.0	13.8	42.5%
P/E (x)	-34.4	-132.2	66.0		63.7	32.5	
RoE (%)	-30.3	-8.6	11.7		7.3	9.3	

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Client accretion healthy; elevated expense impact earnings

- Highest quarterly client addition at 3.43 lakh taking client base to 19.7 lakh
- Average daily turnover (ADTO) increased 40% QoQ to ₹ 80878 crore with market share steady at ~1.3%
- Consolidated total income has grown by 30% YoY while operating expenses increased 49% YoY, resulting in consolidated PAT of ₹ 1.4 crore
- Surge seen in average client funding book (MTF) to ₹ 293 crore in Q2FY22 vs. ₹ 224 crore in Q1FY22 led to 43% YoY, 42.6% QoQ increase in interest income to ₹ 21.4 crore

### Q2FY22 earnings conference call highlights

- Other expenses were higher due to marketing & branding expense. These spends will continue in the next two to three quarters, which will boost customer acquisition and revenues momentum
- Branding & customer acquisition expenses for the quarter was at ₹ 23.5 crores, of which branding related advertising cost was at ₹ 5-6 crore
- Total ~70-75% customers trade in the cash segment while 25-30% customers trade in cash and derivative segment
- The cash segment witnessed a reduction in volume due to peak margin requirement. From October onwards, an improvement was witnessed in the cash segment
- Customer acquisition cost (CaC) was at ₹ 780 compared to ₹ 813 in the previous quarter. Payback period for CaC is stable at about eight to nine months
- The company is able to acquire customers from Google Pay and is further looking forward to tie-up with large associations to boost customer on-boarding

## 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
IIFL Sec	107	115	Hold	3230	7.3	9.0	9.4	14.7	11.8	11.3	3.3	2.6	2.1	23.9	24.8	20.6
5 paisa	448	530	Buy	1309	6.8	7.0	13.8	66.0	63.7	32.5	7.2	3.2	2.9	11.7	7.3	9.3
Geojit	81	110	Buy	1942	5.2	6.1	6.5	15.7	13.3	12.5	2.9	2.4	2.0	20.1	19.9	17.6
MCX	1934	2000	Buy	9865	44.2	36.8	41.0	43.8	52.6	47.2	7.0	6.6	6.3	15.9	12.6	13.4

Source: Company, ICICI Direct Research

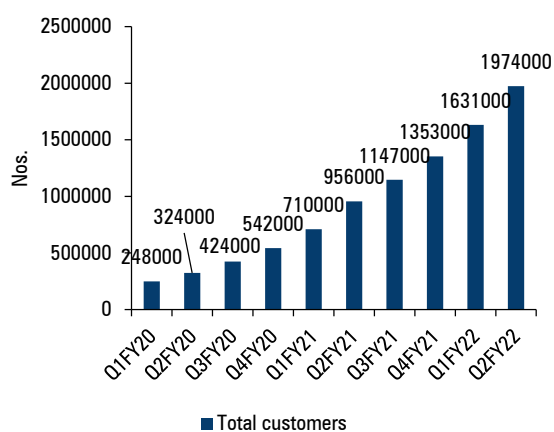
Aggressive client accretion and new product launches supporting earnings trajectory prompt us to value the company in the range of 35-40x forward EPS.

**Exhibit 2: Variance Analysis**

₹ crore	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue for operation:	67.8	52.1	30.2	60.0	13.0	Healthy client addition, QoQ increase in ADTO and increase in MTF book led to revenue traction
Other Income	0.6	0.2	-	0.8	-	
Total Income	68.4	52.3	30.8	60.8	12.5	
Finance Cost	5.1	6.7	-24.6	4.6	10.6	
Employee Expenses	9.4	9.5	-1.3	8.9	5.2	
Other Expenses	50.8	29.0	75.5	36.2	40.5	
Depreciation	1.1	1.1	-3.1	0.9	21.8	
Total Expnses	66.4	46.3	43.3	50.6	31.3	Surge in total expenses driven by increase in advertising & marketing expenses and other expenses
Profit Before Tax	2.0	6.0	-66.0	10.2	-80.0	
Tax	0.4	1.5	-76.5	2.8	-87.2	
PAT	1.7	4.5	-62.5	7.5	-77.4	Higher expense kept earnings lower

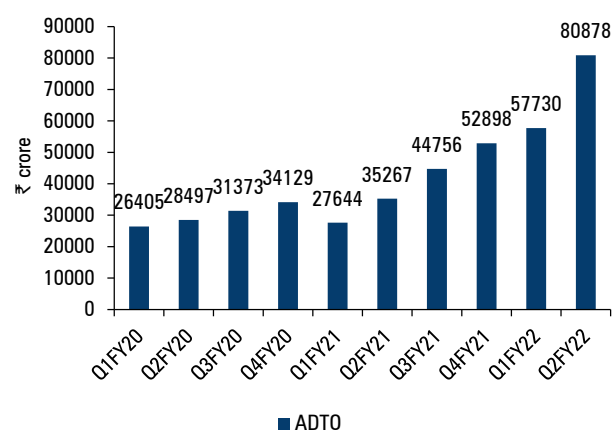
Source: Company, ICICI Direct Research

**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	
<b>Total Income</b>	<b>62.6</b>	<b>108.1</b>	<b>193.9</b>	<b>292.6</b>	<b>394.5</b>	
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	192.1	249.8	
<b>Total Expense</b>	<b>85.1</b>	<b>117.8</b>	<b>170.5</b>	<b>264.0</b>	<b>338.1</b>	
<b>Profit Before Tax</b>	<b>-22.5</b>	<b>-9.6</b>	<b>23.4</b>	<b>28.6</b>	<b>56.5</b>	
Tax	-5.9	-1.7	6.1	7.2	14.4	
<b>Profit After Tax</b>	<b>-16.6</b>	<b>-7.9</b>	<b>17.3</b>	<b>21.5</b>	<b>42.1</b>	
EPS	(-13.0)	(-3.4)	6.8	7.0	13.8	

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet		(` crore)				
Particulars	FY19	FY20	FY21	FY22E	FY23E	
<b>Source of Funds</b>						
Equity Capital	12.7	25.5	25.5	30.5	30.5	
Reserve& Surplus	33.6	112.8	133.2	399.7	441.8	
<b>Networth</b>	<b>46.4</b>	<b>138.3</b>	<b>158.7</b>	<b>430.2</b>	<b>472.3</b>	
Borrowings	92.0	219.2	233.9	280.7	336.9	
Other Liability	143.2	265.9	473.3	568.0	681.6	
<b>Total</b>	<b>281.5</b>	<b>623.4</b>	<b>866.0</b>	<b>1278.9</b>	<b>1490.7</b>	
<b>Application of Funds</b>						
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	361.6	506.2	
Cash	113.0	270.5	523.9	576.3	518.7	
Other Asset	127.3	273.2	188.9	325.3	448.3	
<b>Total</b>	<b>281.5</b>	<b>623.4</b>	<b>866.0</b>	<b>1278.9</b>	<b>1490.7</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key Ratios		(` crore)				
Particulars	FY19	FY20	FY21	FY22E	FY23E	
ADTO (` crore)	14025	30150	39972	51924	75038	
Market Share (%)	1.4	2.1	1.4	1.6	2.0	
Yield (%)	0.002	0.001	0.001	0.001	0.001	
ARPU (`)	3280	1994	1422	1076	968	
ROE (%)	-30.3	-8.6	11.7	7.3	9.3	
No of Shares (crore)	1.3	2.5	2.6	3.1	3.1	
EPS (`)	-13.0	-3.4	6.8	7.0	13.8	
PE (x)	NA	NA	66.0	63.7	32.5	
Book Value (`)	36.4	54.3	62.2	141.0	154.8	
P/BV (x)	12.3	8.3	7.2	3.2	2.9	
CI Ratio (%)	135.9	108.9	87.9	90.2	85.7	
Mcap/Sales (x)	21.0	12.2	6.8	4.5	3.3	

Source: Company, ICICI Direct Research

Exhibit 13: Growth		(%)				
Growth (%)	FY19	FY20	FY21	FY22E	FY23E	
Total Asset	115	121	39	48	17	
Advances	1	82	107	160	40	
Borrowing	470	138	7	20	20	
Total Income	219	73	79	51	35	
Operating expense	61	38	45	55	28	
Net profit	NA	NA	NA	24	96	
Book Value	-26	49	15	127	10	
EPS	NA	NA	NA	4	96	

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 Narnolia, 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](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 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 beneficial ownership in 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.