

Angel One

Steady quarter offset by higher drop-off rates

ANGELONE printed flat sequential growth in its top line due to slower retail derivatives ADTVs and weak ancillary transaction revenues. Given the sharp jump in derivative volumes in Dec-22, followed by similar trends in Jan-23TD, we upgrade our earnings estimates by 8/3% for FY23E/FY24E. Although ANGELONE is capitalising on industry tailwinds around all-time high options volumes, our analysis suggests that the company's 12m-rolling activation rate has dropped to 24% (-813bps QoQ), suggesting elevated drop-off rates, calling for a cut in our target multiple to 15x (from 17.5x). Given the flat-fee model, a lean cost structure and its market leadership in retail derivatives, ANGELONE remains a convincing play on the Indian capital markets; maintain BUY rating with a revised target price of INR1,800 (15x Sep-24E EPS).

- **Negative surprise on marketing spends:** Net broking revenue at INR3.51bn dipped 1.4% sequentially, owing to a slowdown in industry derivative volumes. The activation ratio at 33% (-532/-237bps YoY/QoQ) remains under pressure on account of the highly volatile market conditions. While the customer addition run rate remains healthy, the poor activation ratio is reflected in a 10% QoQ dip in average revenue-generating orders per customer. Despite a weak MTF book (-2% QoQ), NII was up 15% QoQ, aided by a sharp jump in idle customer funds (+12% QoQ) being used for derivative trading and higher FD rates. Opex (-2% QoQ) was patchy, with the sequential slowdown in customer adds (-15% QoQ) not translating into correspondingly lower marketing spends, driving EBITDA margin to 53.2% and APAT to INR2.21bn (+4% QoQ).
- **Growth outlook:** Management stated that the company is actively looking to leverage machine learning models to reactivate dormant customers. Also, the management is increasingly focused on introducing other financial products (insurance, lending, etc.) to cover a customer's entire investment journey. Despite volatile and uncertain markets, consistently strong retail derivatives volumes suggest an increasing trend towards options trading, which is likely to disproportionately benefit FinTech discount brokers.

Quarterly financial summary

(INR mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Adj. revenues	5,665	4,450	27.3	5,593	1.3	8,979	16,830	22,110	24,730	27,751
EBITDA	3,014	2,259	33.4	2,931	2.8	4,431	8,557	11,474	12,729	14,477
EBITDA Margin (%)	53.2	50.8	244bps	52.4	80bps	49.4	50.8	51.9	51.5	52.2
APAT	2,213	1,646	34.4	2,136	3.6	3,073	6,251	8,358	9,258	10,514
AEPS	27	20	36.8	25	6.6	37.6	75.4	100.9	111.7	126.9
EV/EBITDA (x)						22.7	12.0	8.1	6.8	5.6
P/E (x)						34.7	17.0	12.7	11.5	10.1
ROE (%)						35.7	46.0	45.0	38.5	35.1

Source: Company, HSIE Research

Estimate change

INR mn	FY23E			FY24E			FY25E		
	Revised	Old	Change (% / bps)	Revised	Old	Change (% / bps)	Revised	Old	Change (% / bps)
Net revs	22,110	21,209	4%	24,730	24,295	2%	27,751	27,701	0%
EBITDA	11,474	10,632	8%	12,729	12,389	3%	14,477	14,440	0%
EBITDA margin(%)	51.9	50.1	176bps	51.5	51.0	48bps	52.2	52.1	4bps
PAT	8,358	7,747	8%	9,258	9,021	3%	10,514	10,501	0%
ROE (%)	37.8	36.5	127bps	37.4	37.1	31bps	37.9	37.9	-2bps

Source: Company, HSIE Research

BUY

CMP (as on 17 Jan 2023) INR 1,292

Target Price INR 1,800

NIFTY 18,053

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,020	INR 1,800
EPS%	FY23E +8%	FY24E +3%

KEY STOCK DATA

Bloomberg code	ANGELONE IN
No. of Shares (mn)	83
MCap (INR bn) / (\$ mn)	108/1,318
6m avg traded value (INR mn)	778
52 Week high / low	INR 2,022/1,066

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(20.5)	0.8	(4.8)
Relative (%)	(24.3)	(12.1)	(3.8)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	43.8	46.7
FIs & Local MFs	8.9	9.6
FPIs	10.5	14.0
Public & Others	36.7	29.8
Pledged Shares	Nil	Nil

Source : BSE

Sahej Mittal
 sahej.mittal@hdfcsec.com
 +91-22-6171-7325

Krishnan ASV
 venkata.krishnan@hdfcsec.com
 +91-22-6171-7314

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com