

Pune E-Stock Broking Limited

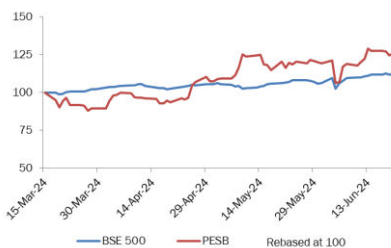
24 June 2024

With focus on tech and innovation, PESB to leverage a robust equity market

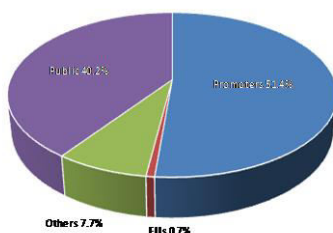
BUY

Sector	: Financial Services
Target Price	: ₹230
Last Closing Price	: ₹162
Market Cap	: ₹254 crore
52-week High/Low	: ₹179/114
Daily Avg Vol (12M)	: 1,15,589
Face Value	: ₹10
Beta	: 0.36
Pledged Shares	: 0.0%
Year End	: March
BSE Scrip Code	: 544141
NSE Scrip Code	: N/A
Bloomberg Code	: PESB IN
Reuters Code	: N/A
Nifty	: 23,538
BSE Sensex	: 77,341
Analyst	: Research Team

Price Performance



Shareholding Pattern



Initiating Coverage

Investment Summary

- Pune E-Stock Broking Limited (PESB) is a corporate broking firm offering equity broking, currency trading, depository participant services, mutual fund distribution, corporate deposit, and margin trading facility.
- With the emergence of internet-based trading (IBT), PESB prioritised technology adoption and innovation which not only matched its clients' evolving needs but also established the company as an industry leader in digital solution adoption.
- The Indian equity market is expanding in terms of listed companies and market capitalisation, creating more opportunities for brokerage firms. With increasing retail penetration, there is an immense potential to benefit from the untapped market.
- The Indian economy has fared better than those of advanced and other developing markets in uncertain and difficult times. Adoption of industry best practices and enhanced market liquidity is boosting and deepening the capital market.
- The Indian stock market is witnessing a surge in participation from individual investors, prompting stricter regulations from SEBI to protect their interests. These new guidelines are acting as a catalyst for increased retail investor participation and benefitting early adopters of technology like PESB which has successfully streamlined its operations to effortlessly adhere to the evolving regulatory environment.
- Tier 2 and 3 cities currently have a staggering 139 million consumers aged 15 to 55, nearly reaching parity with the population of Tier 1 cities. The 52% growth in Tier 2 and 3 cities' retail investor base in 2023 demonstrates the increasing demand for financial planning and wealth creation. This under-penetrated market presents huge opportunities for financial services companies and brokers like PESB.
- The PESB stock is currently trading at an attractive FY26E forward PE of 10.6x. Assigning a target PE multiple of 15x FY26E EPS, we value PESB at Rs 230, informing a BUY rating with a 42% upside potential.

Key Financial Metrics (Consolidated)

₹ crore	FY22A	FY23A	FY24A	FY25E	FY26E
Total income	46.7	41.0	76.3	90.1	103.5
Growth	34.3%	-12.1%	85.8%	18.1%	14.9%
EBITDA	14.4	15.3	19.0	27.3	35.0
EBITDA margin	30.9%	37.2%	25.0%	30.3%	33.8%
PAT (ex-minority interest)	9.2	9.0	12.4	18.3	24.0
PAT margin	19.8%	22.0%	16.3%	20.4%	23.2%
EPS (₹)	12.52	12.25	11.04	11.71	15.31

Source: Company data, Khambatta Research

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Pune E-Stock Broking Limited is a corporate broking house offering broking, DP, mutual funds, corporate deposits, MTF and currency trading

Company Profile

Established in 2007, Pune E-Stock Broking Limited (PESB) is a corporate broking house headquartered in Pune. The company serves clients in stock investing and trading with real time quotes, execution and market news. The company's offerings include broking (cash, options, futures, currency and commodity), depository participant services, mutual fund distribution, corporate deposit, and margin trading facility. PESB's team works with clients to understand their investment needs and advises them with bespoke investment strategies.

PESB is registered as a trading member at BSE Limited and the National Stock Exchange Limited (NSE).

Management Profile

Vrajesh Krishnakumar Shah, Promoter, Chairman and Managing Director: Mr. Vrajesh Krishnakumar Shah has been associated with PESB since its incorporation. He possesses 25 years' experience the stock market industry, specialising in investment strategy and risk management. He has a MCom degree.

Archana Vinayak Gorhe, Whole-time Director: Mrs. Archana Vinayak Gorhe is a seasoned professional with 25 years' experience in diverse roles within the capital market. She has expertise in financial services, accounting, back-office operations, compliance, and online trading. She has a BCom degree.

Saleem Chandsaheb Yalagi, Whole-time Director: Mr. Saleem Chandsaheb Yalagi possesses 25 years' experience in the stock market. His proficiency in both technology and market trends enables the company to deliver cutting-edge solutions to clients by integrating the latest market technologies. Mr. Yalagi is a qualified computer engineer.

Mr. Daidipya Devendra Ghodnadikar, Whole-time Director: Mr. Daidipya Devendra Ghodnadikar has 8 years' experience in the capital market with expertise in Depository Participant operations, and optimisation of online trading platforms. At PESB, he is involved in strategic planning, system implementation, and performance monitoring. Mr. Ghodnadikar has BCom and MA Economics degrees.

Investment Thesis

Technological innovations enable PESB to stay ahead in the game

PESB uses cutting-edge technology to enhance client experience and streamline its internal processes. The emergence of internet-based trading (IBT) transformed how clients interact with the market. It prioritised ease and accessibility, allowing clients to trade from the comfort of their own homes or offices. This strategy not only matched clients' evolving needs but also established PESB as an industry leader in digital solution adoption.

PESB's user-friendly trading app demonstrates its commitment to technical innovation. The app provides clients with an advanced tool for managing

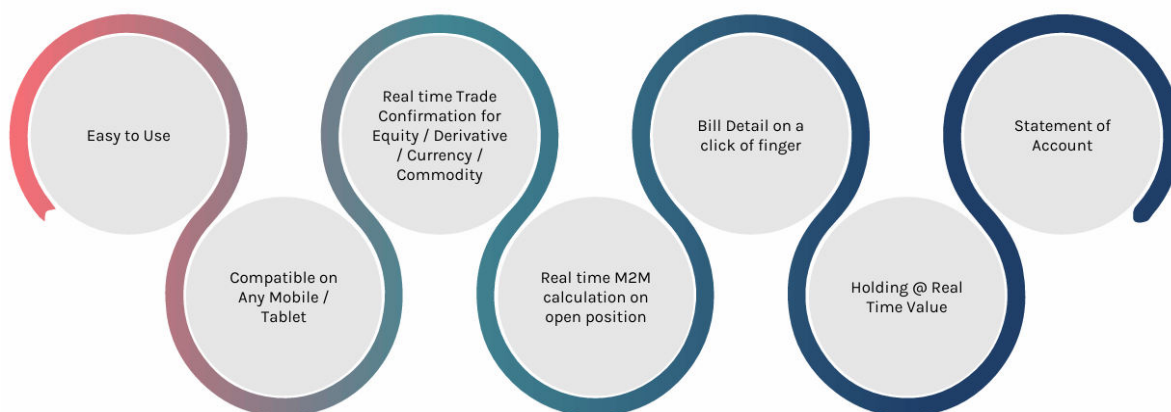
With a strong focus on technology, PESB empowers its clients by offering user-friendly trading and back office apps

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their investments, enabling them to stay up-to-date on market movements and executing trades on the go. The app's easy interface and real-time data availability changed how clients engaged with their investments. PESB introduced the Smart Back Office app, a simple and convenient application which keeps clients up-to-speed with the current market. It allows users to view their ledger balance, portfolio status, open positions, and bill details at any time and from any location with a single touch of their finger.

PESB's tech driven trading application features

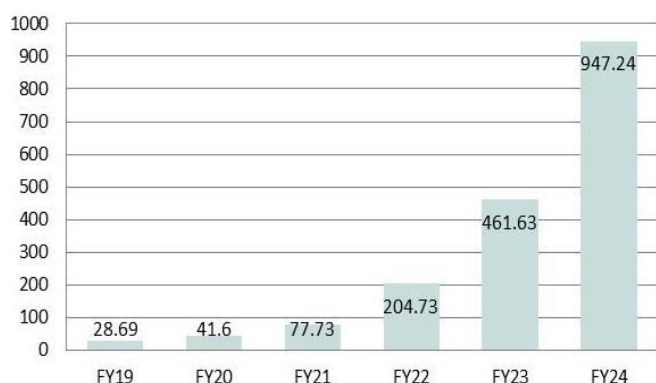


Source: PESB presentation

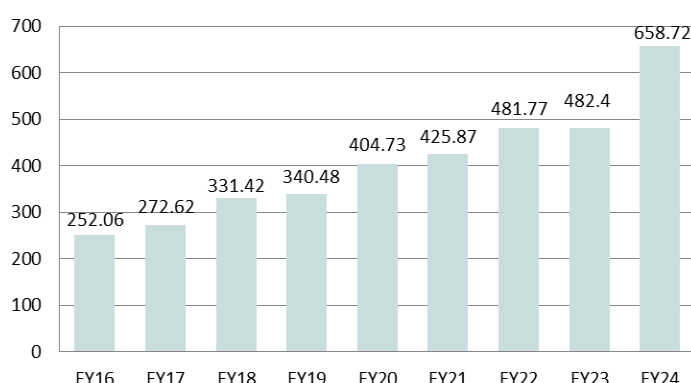
Growing penetration and deepening of the Indian capital market

The Indian equity market is expanding in terms of listed companies and market capitalisation, creating more opportunities for brokerage firms. With increasing retail penetration, there is an immense potential to benefit from the untapped market.

Total turnover in India's derivatives segment (US\$ tn)



Total mutual fund AUM in India (US\$ tn)



Source: IBEF

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Turnover in the derivatives segment reached US\$ 947.24 tn in FY24 from US\$ 461.63 tn in FY23

India's booming equity market, fuelled by retail participation, is attracting high investment volumes and driving growth in financial services.

Demand for financial services is increasing across all income levels. With the rapid expansion of mobile and internet usage, India is poised to become one of the world's largest digital markets with over 2,100 fintech companies presently in operation. The AUM of the Indian mutual funds industry has grown from US\$ 110.63 bn in 2014 to US\$ 658.72 bn in 2024, growing 6x in 10 years. The turnover in the derivatives segment reached US\$ 947.24 tn in FY24 from US\$ 461.63 tn in FY23.

Robust economic growth and other favourable conditions boosting the Indian equity market

In uncertain and difficult times, the Indian economy has fared better than those of advanced and other developing markets. India's real GDP growth rate surged to 8.2% in FY24 after registering 7.0% in FY23. Real gross value added (GVA) growth accelerated to 7.2% in FY4 from 6.7% in FY23. India's equity market, which is ranked fifth globally by market capitalization, has experienced tremendous growth, driven by a robust economy, strong corporate earnings, high liquidity, increasing demand for equity products, technological advances, and favourable policy. Retail participation in India's stock market has notably improved, backed by SEBI's educational efforts and investor protection measures. Initiatives like the T+1 settlement cycle underscore India's progressive stance. The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) are proactively working to enhance liquidity in the market/system via various measures.

Favourable policy and regulations

The Indian stock market is witnessing a surge in participation from individual investors, prompting stricter regulations from SEBI to protect their interests. These new guidelines emphasising transparency are forcing traditional brokers to revamp their practices. The industry is being steered towards technological progress to ensure smooth compliance. These policies and regulations are acting as a catalyst for increased retail investor participation. PESB, by embracing innovation in the digital realm, has successfully streamlined its operations to effortlessly adhere to the evolving regulatory environment. This tech-driven approach will not only enable PESB to become more competitive but also allow it to cater more effectively to the growing pool of retail investors.

Growing penetration in Tier 2 and 3 cities

Tier 2 and 3 cities currently have a staggering 139 million consumers aged 15 to 55, nearly reaching parity with the population of Tier 1 cities. This demographic boom, together with rising incomes and an increasing percentage of graduates and postgraduates, is driving an unprecedented demand for financial services in these areas.

The retail investor base in Tier 2 and 3 cities grew by 52% in 2023

According to a study by the NSE, the Tier 2 and 3 cities' retail investor base grew by 52% in 2023, demonstrating the increasing demand for financial planning and wealth creation. This under-penetrated market presents huge

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The PESB stock is currently trading at an attractive FY26E forward PE of 10.6x

opportunities for financial services companies and brokers like PESB. Enabled by a robust tech-driven platform, PESB is well-placed to cater to the demand from these lower-tier cities.

Valuation

At 15x FY26E EPS, we rate PESB a BUY based on a price target of Rs 230 and an upside potential of 42%

PESB reported robust growth in revenues and profits in FY24, enabled by robust trading volumes and strong brokerage income. Going forward, we are modelling normalised revenue growth over the next couple of years, whilst forecasting PAT CAGR of 39% with increments in profitability. The PESB stock is currently trading at an attractive FY26E forward PE of 10.6x. Assigning a target PE multiple of 15x FY26E EPS, we value the PESB stock at Rs 230, informing a BUY rating with a 42% upside potential.

Profit & Loss Account (Consolidated)

₹ crore	FY22A	FY23A	FY24A	FY25E	FY26E
Total income	46.7	41.0	76.3	90.1	103.5
Growth	34.3%	-12.1%	85.8%	18.1%	14.9%
Operating expenses	32.2	25.8	57.2	62.8	68.5
EBITDA	14.4	15.3	19.0	27.3	35.0
EBITDA margin	30.9%	37.2%	25.0%	30.3%	33.8%
Depreciation & amortisation	0.6	0.6	0.7	0.8	0.8
EBIT	13.8	14.6	18.3	26.5	34.2
Interest Expenses	1.2	2.5	1.6	1.8	1.9
PBT	12.6	12.2	16.7	24.8	32.3
Tax expense	2.5	2.5	4.1	6.2	8.1
PAT	10.1	9.6	12.7	18.6	24.2
Profit attributable to minority interest	0.9	0.6	0.2	0.2	0.3
PAT (attributable to parent company)	9.2	9.0	12.4	18.3	24.0
PAT margin	19.8%	22.0%	16.3%	20.4%	23.2%
EPS (₹)	12.52	12.25	11.04	11.71	15.31

Source: Company data, Khambatta Research

Key Balance Sheet Items (Consolidated)

₹ crore	FY22A	FY23A	FY24A	FY25E	FY26E
Paid-up capital	7.4	7.4	15.7	15.7	15.7
Reserves & surplus	60.2	69.2	111.6	130.0	153.9
Total shareholders' equity	67.5	76.5	127.3	145.6	169.6
Total debt	16.4	18.5	26.4	27.5	28.6
Investments	5.9	17.3	93.1	102.3	110.4
Cash and bank balances	96.9	74.8	98.7	101.8	113.1

Source: Company data, Khambatta Research

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Ratio Analysis

	FY22A	FY23A	FY24A	FY25E	FY26E
ROE	13.6%	11.8%	9.8%	12.6%	14.1%
Total D/E ratio	0.24x	0.24x	0.21x	0.19x	0.17x

Source: Company data, Khambatta Research

Key Risks

- The capital market and especially the equity market are inherently risky as market trends and movements cannot be forecast with much accuracy. Further, Black Swan events can never be predicted until they happen. Any event or development regarded unfavourable by investors will negatively impact the capital market and consequently our forecast for PESB.
- Any regulatory changes affecting demand for security trading or profitability of security brokers will negatively affect our forecast.
- PESB operates in a highly competitive industry where companies have to continuously engage in technological and business innovation to stay ahead in the game. PESB's inability to adopt effectively and remain competitive in the future will lead to its underperformance.

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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