

Transcript

Conference Call of 5 Paisa Capital Limited

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Presentation Session

Moderator: Ladies and gentlemen good day and welcome to 5 Paisa Capital Ltd. 3QFY21 earnings conference call. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phones. Please note this conference is being recorded. I would now like to hand over the conference to the management. Thank you and over to you sir.

Prakarsh Gagdani: Hi dear investors, a very good evening. I am Prakarsh Gagdani, CEO and Director at 5 Paisa Capital. Along with me I have our CFO Mr. Gourav Munjal. On behalf of the company I welcome you all for our first investor call. I am glad that I am getting a platform to interact with all our investors. As you all know 5 Paisa got listed a little over three years in November'17 as an offshoot of IIFL group. We believed then that discount broking has a different segment of customers, needs a different platform, a different organizational culture, a separate technology team and therefore a separate company was formed. I am happy to share that in the last 12 to 13 quarters we have grown almost 19 times in terms of our customers and 11 times in terms of revenues. Discount broking industry suddenly came into limelight since the outbreak of COVID-19. The number of customers being acquired by discount brokers suddenly exploded beyond anybody's expectations. Today almost 70% of the incremental customers are getting acquired by a very handful of discount brokers. This also tempted a lot of traditional brokers to sort of re-look at their business model and offer discount broking. Today practically most of them offer discount broking services in some or the other form. In the last few months therefore internally 5 Paisa management team and Board had several discussions to revalidate our strategy and reorient it for the future.

I would like to share that we are not just a discount broker but more like a digital and information partner for investors and traders. As India is growing and seeing rapid growth in the workforce where people earn and save and they will need handholding for their investment portfolio which requires understanding of the risk profile, long-term goals and allocation of investment to different asset classes. For a growing economy like India, stocks can really offer long-time very high returns as compared to any other asset classes like a fixed income or a real estate. More often than not, small investors get lured in a runaway bull market where they make excessive allocation to equities or they leverage their positions and many of them then face difficulty when the market sharply correct. To take an example, Nifty gained around 4.3%, CAGR returns for 10 years ended March 20. But at the same time if you have a carefully created portfolio, it can give phenomenal returns.

So when we looked at our customers we felt that his need is not just open a broking account or to go with a broker who offers very, very less brokerage charges, but a good digital platform where he can get access to all the financial products typically investment is not a one asset class decision and at the same time they can get research and also self-help therefore, our vision is to make the most powerful, most comprehensive, easy to use platform to access all the resources that a retail investor needs for his investment and trading decisions. Also there are customers who have risk appetites and can go into internet trading, futures, derivatives and we want to make sure that we provide the trading platform.

Most of our customers whom we acquire are the new millennials and predominantly the ones who are coming to the market for the first time. That target segment use internet first on mobile. We have invested significantly on our mobile trading platform where an investor can get access not only live streaming course, instant order trade confirmation, quality research, technical chart but also all the financial products; a real time updated portfolio on one screen. This has helped us to improve our market share consistently in cash segment. Today our mobile app is one of the highest downloaded app with a 4.2 sustained rating.

In the same way we have built out a strategy similarly for derivative traders, intra-day traders and we are in the process of building tools, platforms, like algorithm trading, open ACI, strategy based trading for this segment of customers thereby helping us to improve the market share in derivative segment as well. All these developments will be going live in the next three to four months of time.

I feel that though discount broking has become very crowded and there are lots of brokers who offer discount broking, very few seem to focus on what is unmet need of a target customer. We want to act as that platform which gives best advisory to the customers, provide comprehensive upto date easy to understand information in all asset classes, including mutual funds, insurance, lending solutions, gold, international investing, portfolio services all digitally to the DIY customers and also traders. That's my vision for the company.

Quickly talking about financials; I am sure you already have our investor presentation; but just quickly running through a few numbers. For the quarter ended December, we posted 49.6 crores as our consolidated revenues; 84% higher than the corresponding quarter last year. On the EBITDA level, we posted 9.6 crores as our profit compared to 1.3 crores last year. On a PAT basis, from losses we have come to profits and we are posting around 3.2 crores of profit for the quarter. For the nine-month ended we posted 144.7 crore as our revenue, a 98% jump over last year. On the EBITDA level it is 31.5 crores which is 430% higher. Again from losses of 6.2 crores PAT, we are now a profit of 8.8 crores. That in a nutshell is about our financial performance. I will be more than happy to take now questions from the people interested. Moderator may I request you to please open the floor for questions?

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing * and 1 again. Ladies and gentlemen we will wait for a moment

while the question queue assembles. Ladies and gentlemen if you have a question, please press * and 1 on your telephone keypad.

The first question comes from Mr. Aditya Shah from Arctic Lights Capital. Please go ahead with your question sir.

Aditya Shah: Hi, I have one question regarding our customer acquisition. We have seen like on the NSE website we can see the active clients list and month on month I have been seeing that Upstox and Zerodha names etc, they've been adding about 70,000 to 80,000 active clients month on month for the last three quarters and we have been adding somewhere around 30,000 to 35,000 active clients on an average. So what is our strategy to continue gaining market share because if these guys are growing much faster than us, we will have network effects and more and more people will continue joining that platform? So what's our strategy going forward to get to that pace of adding 70,000-80,000 active clients month on month?

Prakarsh Gagdani: Hello? Am I audible?

Aditya Shah: Yeah now you are audible and I can hear you.

Prakarsh Gagdani: So active clients at the end of the day the question is what are you chasing? Are we in it to acquire customers just for the sake of acquiring customers or are we looking at a quality customer where we are targeting an intended customer. At any point of time we have always been seeing that whenever we acquire a customer that should follow up with the revenues. Unfortunately I don't have access to data so I can't comment whether the increase in the active customer is leading to the increase in revenues but for us it has always been that whenever we acquire customers, it is always important to look at the quality of customers. What is the cost that we are spending to acquire that customer and at the end of the day are we recovering that cost? Is the customer remunerative and is the customer really wanted to trade in the stock market? So going by that, I think just targeting an active client base may not be the right parameter. I think the right parameter should be whether the acquisition of customer is also leading to the revenue growth, the turnover growth, the market growth. If that is in line, I think it does not matter if someone is acquiring a lakh of customers or lesser customers. At the end of the day it should be remunerative.

Aditya Shah: Okay. I just have a follow up on that. I think in the last quarter we have added over a lakh active clients right as I see on the investor presentation but our income from our broking activity has remained flattish. What's the reason for that?

Prakarsh Gagdani: If you look at the revenue, there was one significant regulatory change which came in the month of September where upfront margin reporting was introduced on 1st of September. Now that was a significant change for the entire industry especially for the retail customers that did two things, one it disrupted the routing process for trading where if at all a customer wanted a leverage here to go and pledge shares to avail for margin. We among very few brokers are the ones who provide margin funding facility and that was one of our significant revenue contributors. Now, earlier our margin funding was seamless; the customer buys and carries forward. But now after the regulatory change, a customer has to specifically after purchasing the shares have to go and mark as pledged and only then it was allowed to be taken as a funding. Now that changed the funding book and thereby reduced so there were two impacts that

happened from September and it continued till October and then maybe got stabilized and started coming up. One was the trading activity reduced because of these changes and secondly there was an impact on the margin funding book which directly resulted into revenues. So that I think is a one-time correction in terms of the way customers were trading and customers were coming to margin funding and that's the reason there has been a drop in the revenue if you see sequentially.

Aditya Shah: Okay and what is this allied broking? It says on our investor presentation, the breakdown....

Prakarsh Gagdani: That's margin funding income which is interest income along with DP charges and that's the allied income.

Aditya Shah: Okay, okay thank you.

Prakarsh Gagdani: Can we have the next question?

Moderator: Yes sir. We have the next question from Mr. Anubhav Kaul of Wardferry Management. Please go ahead sir.

Anubhav Kaul: Hi Prakarsh, I have two questions. Can you hear me?

Prakarsh Gagdani: Yeah.

Anubhav Kaul: So Prakarsh the first question is if you think about the three to five years' opportunity for the company, what kind of goals were you setting for yourself in terms of scale of business and this could be in terms of revenue or in terms of number of customers or however you choose to define it. That's my first question. The second question is, that the company obviously has an enabling resolution to raise a significant amount of capital. So please can you share some thoughts on the timing and the user proceeds of that capital?

Prakarsh Gagdani: Sure. So Anubhav your first question regarding three to five year opportunity, I would define it as an opportunity in terms of revenue growth. I think it is phenomenal. If you see our growth, we have been growing....85% was last year's growth. 98% is the 9 months growth. So the growth in terms of top line is phenomenal and I think it is here to stay because both in terms of quality of customers, number of customers, I think as a country we have just scratched the surface and the potential is huge. The potential is not just huge from broking perspective, but I feel that broking along with mutual funds and peer to peer lending and other allied products has got insurance definitely sort of wide market and untapped potential in tier II, tier III, especially that's the segment of customers that we target. I feel it is a huge potential. It will be difficult for me to actually pin point the number because I will be positively surprised but even if I say I might grow at 100% CAGR, I would be surprised that we would cross 100% also. So it is difficult to actually pin point number but I am extremely bullish that the growth rate is here to stay and the revenue growth will multiply from here on.

Your second question is related to fund raising. We got shareholder approval in October and in the due course of time when the Board and the Management feel the right time, we will definitely go for a fund raise and we will look at the modalities in which the fund

has to be raised. Obviously we have shared that the proceeds of the fund will be used obviously for customer acquisition, second would be to invest into technology because we want to create a multi-product platform so that will require a technology investment, new line of businesses so these are the areas and obviously when the turnover increases there are working capital requirements at the exchange as some proceeds will go there as well. So these are the broad areas in which we would be utilizing the funds that would be raised.

Moderator: Shall we take the next question?

Prakarsh Gagdani: Yeah, I think so.

Moderator: Thank you sir. The next question comes from Mr. Rishikesh Oza from RoboCapital. Please go ahead sir.

Rishikesh Oza: Hello? A very good evening sir. I have two, three questions. The first question would be, can you please provide a guidance for FY22 and FY 23 revenues please?

Prakarsh Gagdani: Guidance? I am really sorry but I won't be able to give you any future guidance in terms of revenues.

Rishikesh Oza: Okay, no problem. The next question is that the total employees that you have as per the Annual Report are 907 employees while sir the largest discount broker has around 1100 employees. In this context, can you please provide a break up of employees like account opening, sales support, can you please provide a breakup of employees and also is there any scope of improving the cost structure from here?

Prakarsh Gagdani: I will take the latter question first. Obviously there is a scope of improving in terms of efficiency of people and that we continuously do. If you see our employee base, it was more or less the same when we were less than half the size and even today it is more or less the same. A predominant portion of these 850 to 900 people are in assisting customers to open a demat account though we have been giving a good experience in terms of account opening so that the customers do the account opening themselves and that has helped us improve the productivity also but yes almost 60%, 70% of the employee base is to assist customers to open account and then the other employees are into technology and all other operational function marketing finance and all. So that is the breakup of the employees

Rishikesh Oza: Okay sir and my last question would be can you please give me top three components of your other expenses?

Prakarsh Gagdani: Other expenses include in top would be software and technology costs. Then there are professional services because in account opening there are all the external integration that we do, those are the costs that are incorporated for example, depository cost, regulatory costs....so these are the components plus you have office expenses...offices and allied opex cost with that. These are the broad three top items of expenses.

Rishikesh Oza: Okay so these are the top three right, top most in the other expenses?

Prakarsh Gagdani: Yeah

Rishikesh Oza: Okay. That's all from my side. Thank you sir.

Moderator: Our next question comes from Mr. Deepak Poddar from Sapphire Capital. Please go ahead sir.

Deepak Poddar: Thank you very much for the opportunity. I just wanted to understand if you see last three, four quarters, barring this quarter we have been growing sequentially at 20% quarter on quarter in terms of revenue. You did mention about the regulatory change. So do we see this quarter as an aberration and coming forward from fourth quarter onwards will start growing at the rate at which we had been growing in the last three, four quarters?

Prakarsh Gagdani: I definitely feel that this quarter was an aberration. There were two things that happened. As I was saying, predominantly if you see the income drop was mostly because of the regulatory changes; so that impacted a bit of brokerage revenue but it largely impacted the margin funding revenue. But I think that is an aberration because it coupled with regulatory change and also market being at an all time high which means that most of the people start booking profits and reduce their funding so that they don't end up paying a lot of interest cost so I think that I feel is an aberration. We are already seeing that people are getting accustomed to the new way of applying for margin funding and a slow improvement in the books. I think that is an aberration. Whether we would be going back to the same percentage or we will improve from there, I think that is something I would be able to answer that in the next quarter but I am very optimistic.

Deepak Poddar: Okay so you are optimistic. Sir, I understood that point. I mean in terms of client acquisition, I was just reading an article on Upstox targeting 4X client base this year. So what sort of comment you have on that? What sort of target we have in terms of client base?

Prakarsh Gagdani: Unfortunately I won't be able to comment on what others have as strategy. We are very clear that the Ocean is large, but we have to acquire customers who have the right intent to invest. That is the customer base that we have to go out and acquire. This means acquiring a lakh customer a month a million customers a month or even acquiring 10000 customers a month. It does not matter. What matters is that whether you are able to acquire the right kind of customers and second the most important is, are you able to get the maximum wallet share out of that customer. If that is achieved, I think that is a better way of doing business rather than just going out and acquiring customers for the sake of it

Deepak Poddar: Okay, understood. Sir my third query is regarding your fixed costs. Now, we have got about 30 crores of other expenses including marketing cost of 9 crores...overall 40 crores of quarterly fixed costs. So you had to remove the client acquisition cost, what would be our quarterly fixed cost base for us?

Prakarsh Gagdani: So our gross margin stands at 58%, for these 9 months.

Deepak Poddar: So overall costing is 32 to 33 crores is the variable cost?

Prakarsh Gagdani: No, no. 144 crores to revenue and we have 58 crores approximately related to the client acquisition cost.

Deepak Poddar: Okay sir, I got a little confused. So on a quarterly basis I think we have got about 40 crores cost. So how much of that would be client acquisition cost?

Prakarsh Gagdani: I was mentioning the 9 months number. You can say that approximately 40% cost is our variable cost. So if you go by the quarterly number, quarterly revenue is 50 crores, so you can approximately say 22 to 23 crores.

Deepak Poddar: 22 to 23 crores is your marketing or the client acquisition cost would that be right understanding?

Prakarsh Gagdani: So client acquisition is not just the marketing cost. It includes also the opex cost which is also included in other expenses as well as in employee cost. So whatever expenses we have incurred for the client acquisition. It may fall into the category of employee costs; it may fall under the category of other expenses also. So if you see our presentation, for the December quarter our cost of acquisition is approximately 1150 for a customer basis here and we acquired around 1.9 lakhs and that comes to around 22 crores of the cost. So if you take our total cost for the quarter which was around 40 crores, around 22 of that goes into acquisition and the balance 18 crores is the fixed cost.

Deepak Poddar: Understood. So sir if tomorrow we don't have to acquire for example that 22 crores will reduce? Just for my understanding.

Prakarsh Gagdani: Absolutely.

Deepak Poddar: Understood, fair enough. Okay sure, that's all sir.

Moderator: Thank you sir. Participants are requested to restrict their questions to two questions per person during the initial rounds. Our next question comes from Mr. Madhukar Ladda from HDFC Securities. Please go ahead sir.

Madhukar Ladda: Thank you for taking my question. So on the customer acquisition, slide I see this organic investors. What does that mean? That number is different from the number that you just mentioned that the client acquisition of about 1.9 lakhs. So what is the difference?

Prakarsh Gagdani: So organic customers are the ones who directly come on our platform either on our website or on our mobile app or through reference. These are the customers whom we term as organic customers. Balance are the customers who come to our platform through some paid campaigns. We do digital marketing and other such paid mediums. Out of the 1.9 customers that we acquired, 1.35 lakh was organic. So that is the difference between organic and the total.

Madhukar Ladda: Okay, so this 1148 number includes the paid campaigning expenses etc that we are right? So further not consistent?

Prakarsh Gagdani: No, it includes everything. When you say numbers are not consistent....

Madhukar Ladda: So your investors should also be 1.9 lakhs? That would be the more comparable number. That's all I am trying to get at. Okay. What is the margin funding book as of December end?

Prakarsh Gagdani: Broadly it is around 150 crores.

Madhukar Ladda: One last question, how do you see the business getting impacted beginning 1st March when the peak margin requirement then increases to 50%? So can you give us some sense of what sort of volumes are the high leveraged volumes or the intraday volumes in the futures segment and the option segment.

Prakarsh Gagdani: Sure. Our peak margin segment reporting already started from 1st December and obviously 50% will happen from 1st March. On 1st March I don't see there will be any impact on the turnovers on the derivative segment if it is reduced to 50% when it comes to revenues. Obviously what happens is that earlier brokers were giving leverage and that's the reason customers were trading. But we are seeing that the way it is done, exposure reduces, customers start putting his money either to in terms of cash or also in terms of collateral. So when it comes to 50% and brokers will only be able to give leverage of two times, I don't see that there will be a significant reduction in the turnover or revenues. People were expecting that even in December the turnovers will go down, but if you see our turnover in January segment that has gone up rather. So people adjust to the new way of margining system and I don't see an impact on the turnover as well as the revenues there.

Madhukar Ladda: Alright sir, I will come back in the queue.

Moderator: Thank you sir. Our next question comes from Piran Engineer from Motilal Oswal. Please go ahead sir.

Piran Engineer: Hi my question has already been answered thank you.

Moderator: Thank you sir. Ladies and gentlemen if you have any questions, please press * and 1 on your telephone keypad. The next question is from Mr. Keshav Kumar from Unifi Capital. Please go ahead sir.

Keshav Kumar: Thank you for the opportunity. I was just trying to follow the logic for the decrease in brokerage income on a sequential basis. You were saying that there was an impact from the peak margin regulatory rules that have been changed. But from slide 13 I see that your ADTO has actually increased across cash, commodity and F&O. So even though the regulatory impact would be there, your ADTO hasn't actually shown any impact as such. So why would the brokerage come down inspite of an increase in ADTO?

Prakarsh Gagdani: First of all one thing is that ADTO directly does not get translated into revenues because we charge revenues for order basis and not per lot or on the percentage basis. So ADTO is not directly co relational with the revenue that we show. Second there was definitely an impact on the regulatory changes because of peak margins because of margin reporting which was started in September. So there were lesser client activity. When there is lesser client activity, there is less number of

customers and also orders that they were placing were less and that has an impact on the brokerage revenues and this was predominantly in September and October.

Keshav Kumar: Okay so you are saying that on order basis the numbers have actually come down even though the ADTO has increased, that's what you are saying?

Prakarsh Gagdani: Yeah that was for that time but it has started improving from November onwards.

Keshav Kumar: Okay the second question I had was, recently we had seen even the full service brokerages unveiling their own avatars of discount brokerage and even some of the full service brokerages have slashed down their F&O brokerages to almost nil. So do you think now the game is getting extremely difficult for everyone now?

Prakarsh Gagdani: So I won't say that the game is getting increasingly difficult. One is that everyone offering the services and second is truly being a discount broker or truly being a digital broker. Just to give you an example, when we started four, five years back; at that point of time every broker had a mobile app. There was not a single broker who was not trading on mobile app. Despite that, we were the ones where we got the fastest downloads or users; we were one of the highest in terms of turnover happening on mobile app. So when you say you are a discount broker or digital broker, it should be in the DNA not because there is competition and people are asking for it and so do it. That is the first part of it. So it is difficult and there are very few people who are real digital discount brokers but everyone else is just there to be there. Second is, in the start of my opening speech I said that it is important now what you stand for. Are you a broker who is only providing a broking service or just execution platform? Are you a broker which is providing every other product digitally? We are trying to be and we want to be the second part of it where we are saying entry gate is discount broking but as your age increases, your disposable income increases, you want to avail different financial assets and that is where we will provide it again digitally. So the way it is offered is very different from you know for example the mutual fund, an insurance or lending is a product which everyone offers but still why do you have more digital players gaining market share and not the incumbent large player? It is predominantly because of the DNA that we have in digital. So I think that DNA is difficult to replicate, difficult to express as well. So I think despite competition, we are well placed to cater to the target audience that we want to cater to.

Keshav Kumar: Got it, thank you. That's it from my side sir.

Moderator: Thank you sir. The next question comes from Mr. Deepak Poddar from Sapphire Capital. Please go ahead sir.

Deepak Poddar: Thank you very much sir for the opportunity again. I just wanted to understand what sort of opportunity we have in cross-sell basically for us?

Prakarsh Gagdani: It is difficult to quantify but I see that as a huge opportunity. We have around 1.1 million customers and very few customers, if I compare to the overall peers, are actually buying multiple products and that's the reason we want to build a platform where we can actually sell products. Insurance for example or a product like B2B lending; now these are the two products which very, very clearly synergize in terms of our digital offering. B2B lending is very new and niche and that's the reason it will

take some time to pick up. But it fits in. So you have a lender who has an opportunity to invest and earn 15%-20% kind of return and you have a borrower who already has his borrowing needs. So that's a cross-sell opportunity. Same goes with insurance. Even in insurance we are not out there giving every product. We want to be there for only very simple place anywhere digital product, like health insurance or return insurance. I think opportunity is huge. The same goes with portfolio services which we are planning to launch very soon. So I feel that both in terms of customers and also in terms of revenue, there is great opportunity for cross-sell. So I think there is a great opportunity out there.

Deepak Poddar: Is it too difficult for you to kind of vision like in two, three years or four years this is the kind of sale we can reach in cross-sell kind of opportunity?

Prakarsh Gagdani: I won't say it is difficult, but I don't want to pin point on a number.

Deepak Poddar: Okay understood, fair enough. In terms of revenue, this quarter it was 50 crores....so what is the revenue in December if you can indicate that?

Prakarsh Gagdani: Just a second. It was approximately 19.5 crores.

Deepak Poddar: Fair enough. That's it from my side, thank you very much.

Moderator: Our next question comes from Mr. Karthikeyan VK from Suyash Advisors. Please go ahead sir.

Karthikeyan VK: Hi, thanks. Can you talk a bit more about the B2B product and your involvement in the same?

Prakarsh Gagdani: Sure. So B2B Product is something that we launched last quarter but we started promoting and also what we realized is it is a niche product. There are a few people who are willing to take that kind of a risk but at this point in time what we are right now doing is building our platform and we want to build a platform where the entire process of lending and the process of borrowing is completely automated in a very short possible time. So we are automating and investing into technology where the underwriting in the entire piece becomes automated. So that's the stage in which we are but I think in the long term, especially in the next two to three years this product will catch fire and I am sure there will be a lot of people who will go for this product. Increasingly if you see there are very, very few asset classes which can give you like a 15% to 20% kind of return apart from equities. So if you are an investor which has got a bit of more surplus investable amount, you would definitely go for this. From the initial response that we have got, it's really healthy and there are investors who are making an IRR of almost 18-1/2% to 19-1/2%. So I am pretty optimistic but as I said it is a niche product. If you see in newspapers, there is a lot of negativity around digital lending and all that plus you had COVID times that people were uncertain in terms of what is the quality of the borrower which will come in? I think there is an evolution phase of this product but I strongly feel in the next 12 to 24 months of time, this will be a very good product and a very good asset class to invest into from a lending perspective.

Karthikeyan VK: As things stand today, how many customers would be active and what size would you have reached today? I understand it is very early stage but just for a perspective?

Prakarsh Gagdani: So on a quarterly basis we are just working 3.5 to 4 crore kind of a number with analytical size of around 75000 to a lakh on the borrower side. So that's the broad number that we have.

Karthikeyan VK: Thanks and best wishes. I will get back in the queue.

Moderator: Thank you sir. Our next question comes from Mr. Siddharth Dand from Goodwill. Please go ahead sir.

Siddharth Dand: Hi, most of my questions were answered. I just have one question. In your platinum and titanium plans we don't charge debit charges and all that. So are the depository charges borne by us?

Prakarsh Gagdani: Yes.

Siddharth Dand: Okay so Rs.8/- or something is borne by us for trade right?

Prakarsh Gagdani: Absolutely.

Siddharth Dand: Okay thank you.

Moderator: Thank you sir. Ladies and gentlemen if you have any questions please press * and 1 on your telephone keypad. Sir our next question comes from Mr. Rajan Thakur from Ruchi Oyster Mushroom. Please go ahead sir. Mr. Thakur please go ahead with your question sir. Sir there is no response from the number. We will take the next question from Mr. Madhukar Ladda from HDFC Securities. Please go ahead sir.

Madhukar Ladda: Thank you for taking my question again. I am not very familiar with the B2B lending model. So I just wanted to understand who takes the credit risk? What sort of people are actually lending? How does a potential investor get comfort on whom he is going to lend his money to and getting his money back? So can you explain a little bit around that actually?

Prakarsh Gagdani: Sure. First of all the credit risk is taken by the lender. We are just a platform play. We just marry a lender and a borrower on our platform; but yes our duty is to properly profile a borrower and run through our credit underwriting system and then we provide a list of borrowers with all the possible details to the lender which helps him to take an informed decision. So that's how the process is. As a lender you can download the app, go through the list of borrowers. We have also created portfolio basis the risk appetite of the lender and that's how he decides to invest. So if a lender is investing, he invests basis the profile of the borrower and also the credibility of the platform that is that these are the two. As far as the credit risk is concerned that's not borne by us that is borne entirely by the lender.

Madhukar Ladda: What is your revenue model over here? What sort of niche do you make?

Prakarsh Gagdani: So we charge the platform fees from the lender as well as the borrower. There are processing charges, platform fee and that's our income.

Madhukar Ladda: Are these fixed or are they in the nature of this is the quantum of loan and this is the duration of loan, so you get 1% of it or how does that work?

Prakarsh Gagdani: It is in the form of percentage. So a percentage of the borrowed amount is charged in the fees from the borrower and same from the lender. For a borrower it differs from the value and also the profile of customer. So it is not fixed, it is variable.

Madhukar Ladda: It is not recurring? It is a onetime fee income?

Prakarsh Gagdani: Yes, onetime fee.

Madhukar Ladda: Okay. So what is the amount of money we plan to raise as equity?

Prakarsh Gagdani: 900 crores is the shareholder approval that we have taken and when the time is right, we will look at the modalities and the amount that we want to raise.

Madhukar Ladda: Okay. So looks like you are preparing like a war chest for a long piece of time to acquire customers. So when do you that takes up far from being profitable because we can constantly be spending money on customer acquisition. Is that right or how will you manage profitability in this period?

Prakarsh Gagdani: First of all we are in this for a long game, that's for sure; to answer that question. Second is, it is hypothetical right now and won't be able to answer whether how the profitability will be maintained. If you see our entry and for the last 16, 17, 20 quarters consistently we have been reducing our acquisition cost and we have been growing our customers and that's the reason we turned profitable in the first quarter of this year. So I think we understand the entire metrics in terms of how to acquire customers, where to put our money and where to get the money back. So fairly that is something that we understand but how that will pan out is a hypothetical question. We will definitely take that question when we are finalizing the fund raising plan in terms of the amount that we are raising. Now it is fine.

Madhukar Ladda: A large part of the profitability improvement also in 1Q was because of the huge volumes that have happened. So suddenly we saw a big jump in revenues as well right? Is there some sort of formula like let's say if the revenues don't grow as much or if there is a decline in revenues will also reduce our expenses?

Prakarsh Gagdani: I don't see a formula but definitely, you have to ride your ship looking at the tide you are entering into, that's the part of the business and we have always been cautious and prudent in terms of our expenses and managing the efficiency of the platform. We have done that and I don't see why we won't do that in the future. So we will take it the way it is but I am optimistic about the business, I am optimistic about the revenue growth and overall market per se.

Madhukar Ladda: That's it from my side sir. All the very best.

Moderator: Thank you sir. We have next question from Mr. Rajan Thakur from Ruchi Oyster Mushroom. Please go ahead sir.

Rajan Thakur: Hi, since the larger opportunity lies in tier II and III cities and we view ourselves as information partners, do we provide the content and 5paisa school in Hindi and other regional languages.

Prakarsh Gagdani: Currently on our platform we provide all the information in four languages and we are also adding four more, so there will be eight languages on which our entire platform will be providing information. On 5paisa school, currently we are providing in English but all the eight languages we are in the process of adding. So targeting our tier II, tier III we will be going completely regional language in both our product as well as on 5paisa.

Rajan Thakur: Okay and my second question is what is our target for revenue for client going forward and how will it evolve?

Prakarsh Gagdani: Sorry, target for?

Rajan Thakur: Target revenue for client?

Prakarsh Gagdani: So revenue for customer the target is to increase it not just by the broking services but also doing cross sell and other financial products. If you see our platform even today offers multi products and that is something we are building. So the way in which the R2 of the customer has to go up is definitely by providing broking services. So on the cash segment we have done a bit of theme which has helped us improve our market share. We are working on derivative segment which will help us increase our market share there plus you have the cross-sell products which includes subscription, mutual fund and gold. So that we plan for increasing the revenue per user going forward.

Rajan Thakur: Okay thank you.

Moderator: Thank you sir. As there are no further questions, I would now like to handover the conference for closing comments.

Prakarsh Gagdani: So thank you very much everyone for joining. If I am not able to answer or if someone did not get an opportunity to ask the questions, we would be more than happy to answer you and you can write back to ir@5paisa.com. We would be more than happy to take your questions. Thank you very much for joining. Wish you a very happy new year and a very happy Makar Shankranti. Thank you very much. Have a good day, bye, bye.

Moderator: Thank you sir. On behalf of 5 Paisa Capital Limited that concludes your conference call. Thank you for joining. You may now all disconnect your lines. Thank you and have a good evening everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.