



October 26, 2021

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Dear Sir/Madam,

Sub: - Earnings Conference Call

Please find attached herewith transcript of the earnings call held on Wednesday, October 20, 2021. The same is made available on the website of the Company i.e. www.5paise.com.

Kindly take the same on record and oblige.

Thanking You,

Yours faithfully,

For **5paise Capital Limited**

**Namita Godbole
Company Secretary**

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Transcript

5 Paisa Capital Q2FY22 Earnings Conference call

Event Date / Time : 20th October 2021, 14:00 Hrs IST

Event Duration : 00 hr 28 min 49 sec

Presentation Session

Moderator: Ladies and gentlemen, good day and welcome to 5 Paisa Capital Q2FY22 earnings conference call. As a reminder, all participant 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 star and then 0 on your touchtone phone. Please note this conference is being recorded. I would now like to handover to the management. Thank you and over to you.

Mr. Prakarsh Gagdani: Very good afternoon, everyone. On behalf of 5 Paisa Capital management team, I and my colleague Gaurav Munjal, our CFO welcome you all for the Q2 conference call. As you all know that stock markets are witnessing an unprecedented rally. NIFTY is up by almost 12% in just three months and almost 56% in last one year. The rally of last one year was not fueled only by institutional investment from domestic or foreign, but mostly because of the high retail participation. In cash segment alone, the retail contributed anywhere between 55 to 60% of the overall exchange turnover at one point of time, but this has taken a bit of hit in the quarter 2, especially from September. This is mainly because the peak margin reporting got implemented 100%. There was an impact of this on the, especially on the cash segment on the exchange side. We saw a reduction, not only in the volumes which was ranging around Rs 40,000 crores in the cash segment on retail side came down to Rs 33,000 crores in September, but even the retail participation reduced from almost 58% of exchange turnover to 49% in September. Amidst this positives and negatives, one thing which continued to improve and to rise and to grow were the DEMAT accounts in the industry. The active client base in MNC group are almost 18% in Q2FY22 compared to the previous quarter. 5 Paisa too have added the highest number of customers ever in a quarter. We added 3.42 lakh customers as compared to 2.7 lakh, a growth of 23% in this quarter. We also saw 13% increase in our topline from Rs 60.9 crore to Rs 68.5 crore. This quarter also saw an increase in the expenditure from Rs 51 crore to Rs 67 crore. This basically had an impact on our profitability, so our PBT came down from almost Rs 9.9 crore in the previous quarter to Rs 1.7 crore. Now, let me explain you why this happened. Way back in May 2021 we concluded our fund raise of around Rs 250 crores. Our main objective of raising fund was to accelerate our customer acquisition and grow our revenues. This required investments, not just in tech and people, but also in marketing and branding. We started our branding exercise somewhere in Q2 and that is a reason of major impact on our profitability, but I personally don't see as an increase in the expenditure, but I see that as an investment into building our brand for a longer-term horizon. You all would agree that broking is a very highly competitive space. You have top four or five broking companies trying to capture the market share and there are also full-service broking companies jumping in the wagon to take the market share. In broking right now there are

two things, which are happening simultaneously. There is growth and there is also a consolidation. And it is important for us as a sixth largest broking company to be in top three and be a part of consolidation as well as a part of growth. This requires investment into product, technology, branding and people. We have started investing in all these areas and we will continue to invest in next two or three quarters. The impact of that would be on accelerating customer acquisition and accelerating revenues. I feel this may impact our profitability temporarily, but it would give us a very strong hold in the near future. With this I conclude my opening remarks and we are open for any questions that you have.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and one again. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Ladies and gentlemen, if you have any questions, please press star and one on your telephone keypad. Ladies and gentlemen, if you have any questions, please press star and one on your telephone keypad. So, our first question from Mr Deepak Poddar from Sapphire Capital. Please go-ahead sir.

Mr Deepak Poddar: Yeah, thank you very much sir for the opportunity. Sir, I just wanted to understand, now if you see on a quarter-on-quarter basis, our revenue is high by about 13%, that is also mainly driven by increase in interest income rather than any increase in flattish brokerage or fee income that we have seen. So, I just wanted to understand that we have been talking about 20% sequential growth in the coming quarters, so how do we see that now on this background?

Mr. Prakarsh Gagdani: So, I agree that the brokerage income has not gone up significantly as compared to the interest income and also the other operative income. See the broad reason that I see is the temporary blip which happened in September. If you see the overall retail trading customers, almost 70 to 75% of the customers trade only in cash segment. And then there are 20-30% customers who trade in derivative as well as cash, but a large chunk of customers who are trading in cash segment, there is a reduction in that number because of the peak margin reporting. So, on the exchange side itself there is a drop of almost 15-18% of the turnover. Now, how that impacts, the brokerage revenue? It is that if the leverage is less, the number of transactions and the orders that customer input is less, but I think it's a temporary phenomena and we have already seen some improvement in October and I think, retail customers will realize and understand the margining system and the requirement of margin will increase where customers will get more money and then will trade. So, it has to do with, you know, how to market plays but broadly the brokerage, the reduction in the increase of brokerage is purely because of less cash segment participation and it has mainly happened somewhere in September, so I think a month or two, but this will come back and it will improve and it will be in the line of the acquisition growth that we are doing.

Mr Deepak Poddar: Okay, So, now since we are through it and even the volume is increasing, so going forward at 20%, what we have been talking about, should one factor in sequential 20% kind of a growth?

Mr. Prakarsh Gagdani: It would be difficult for me to put a number, but I would say that our acquisition and revenue growth, you know, will be in line.

Mr. Deepak Poddar: And how do we see the acquisition growth in terms of customers?

Mr. Prakarsh Gagdani: Again see, every month we are growing our number as compared to previous month, that has been for the last five months that is the number, so again it's difficult to pinpoint that what will be the growth in this quarter, but looking at the way we are investing and the way we are getting responses I am sure it will be better than the quarter.

Mr. Deepak Poddar: okay, understood. And in terms of client addition, you mentioned about 3.5 lakh is the gross addition this quarter?

Mr. Prakarsh Gagdani: Yeah.

Mr. Deepak Poddar: So, what is the net addition?

Mr. Prakarsh Gagdani: When you say net addition in terms of the NSE active, is this what you are asking?

Mr. Deepak Poddar: Yes

Mr. Prakarsh Gagdani: So, from, if you see the presentation, NSE active is from 10.06 lakhs to around 11 lakhs, so you know, 1.6 lakhs, so around 16% improvement.

Mr. Deepak Poddar: Okay. 1.6 lakh is the net addition in our customer base, right?

Mr. Prakarsh Gagdani: Yeah.

Mr. Deepak Poddar: Okay, , understood and how do you see basically the competitive pressure now? Like, is this something that can impact our growth or the customer acquisition or do you see enough opportunity out there?

Mr. Prakarsh Gagdani: So, there is absolutely no doubt that there is fierce competition and you know, the top five players are really taking every effort that they can and including us to get more market share, but I think there is room for everyone. Otherwise, we wouldn't have grown our customer acquisition numbers month on month, but I think there is a large population out there who will come to capital markets and who are coming to capital market and there is enough room for us as a player, so I don't see that it is going to be impact rather I see as an opportunity that one to attract new customers who are new to capital market. Second is that by focusing more on product and also the features we will also be giving a better platform to the existing customers of other broking companies, so we will not just look at a new client acquisition to the capital market, but also some spillover from the existing one. So, I see this as an opportunity and not as a threat in terms of impacting, both in terms of revenues and in terms of acquisition.

Mr. Deepak Poddar: Understood. That's it from my side. Thank you very much.

Mr. Prakarsh Gagdani: Thank you.

Moderator: Thank you. The next question from Jehan Mada from Nirmal Bang. Please go ahead.

Mr Jehan Mada: Sir, my first question is on the market sharing F&O, I think we have not been giving since last couple of quarter, I can see that cash segment market share is there, but F&O what the market share for this quarter?

Mr. Prakarsh Gagdani: So, our over, the F&O market share is approximately 3.04% and it is, see from last quarter our overall market share has been stable, improved a bit.

Mr Jehan Mada: And sir, will it be like proper to keep a track of market share because I think, number of trades would be a more appropriate way to forecast it.

Mr. Prakarsh Gagdani: Absolutely. In case of a discount broking, it is important to note the number of trade rather than turnover, but yes, number of trades is something which is publicly available data, we also don't share it, so a turnover and a market share would be a broad parameter to check the performance of the company.

Mr. Jehan Mada: Right. And sir, any sort of differentiating factor that, you know, 5 Paisa offers differently from others or the industry broadly?

Mr. Prakarsh Gagdani: I think, broadly in a digital platform, the differentiating factors is your product. It is your experience. It's the ease with which you provide the platform to customer and also small small features which retail investors like, so, I think that is more differentiator. It is not that important that how many products you are offering, though even today we offer the maximum number of products on our mobile app as compared to competition, but what is important is I, even if it is one product, what all things you are giving which is a differentiating factor for a customer. So, be it the speed of your app, the ease of account opening, the speed at which customer's account gets opened or you know, the advisory that we offer, the features like stock SIP or VTT ordered, basket orders, these are features that customer want and if you are able to give that and better than competition, I think that itself is a differentiator.

Mr Jehan Mada: Right, got it. Okay, thank you sir.

Mr. Prakarsh Gagdani: Thank you.

Moderator: Thank you, our next question is from Mr Yash Mehta from Steinberg Asset Management. Please go-ahead sir.

Mr Yash Mehta: Thank you for the opportunity. I have one question. We see a very strong growth in the margin trading book, now I would just like to understand that despite the tightening of the margins norms by SEBI and exchanges, why is our MTF book growing so significantly and at such a rapid pace?

Mr. Prakarsh Gagdani: See, the margining norms introduced by SEBI is broadly into intraday trading, so earlier the intraday trading, the leverage on intraday was decided by broker and it ranged from, you know, 4x, 5x to 15x, 20x that is regularized, especially in the cash segment and also in the derivative, but margin funding rules have not changed

and margin funding typically works, you know, when there is a higher retail participation and either there is a one-sided rally or one-sided bear run. So, that is when and basically a high volatility increases the customer participation and take more leverage in terms of carry forward position. So, there is no rule change in that space, so the way our customer base is growing that's the way our margin funding book is also growing. And I think that will continue to grow.

Mr Yash Mehta: So, basically you are saying that the margin allowed for each customer wouldn't have changed a lot, it's just capped, so the, now it's just a volume linked growth that you are seeing from your run out.

Mr. Prakarsh Gagdani: No, no, I didn't get your question. Can you repeat it?

Mr Yash Mehta: No, your point was that margin trading books has drawn in line with the customer acquisition which we have seen over the last couple of quarters.

Mr. Prakarsh Gagdani: Yeah.

Mr Yash Mehta: My question was that, the let's say the utilization of that facility has not in a major difference, so if there was let's say 30% of your customers using that facility and the extent to which they were using that facility has remained the same.

Mr. Prakarsh Gagdani: Absolutely, yeah. So, it is more customers getting added hence book, but if you look at the unit economics that remains the same.

Mr Yash Mehta: Understood, fair enough. Thank you very much.

Moderator: Thank you sir. The next question from Resham Jain from DSP Mutual Fund. Please go ahead.

Mr Resham Jain: Yeah, hi. So, I just have one question. What is the total marketing spending which you have done during this quarter and what is the typical acquisition cost for customer? And what is the payback for such new acquisition?

Mr. Prakarsh Gagdani: Yeah, so in will, so broadly I will divide the marketing expenditure in terms of the branding expenditure and the customer acquisition because branding is something that I would not like to relate with the customer acquisition. So, broadly we have spent around Rs 23.5 crores this quarter on a branding and marketing, of that approximately Rs 5.5 to 6 crore is on the branding and the balance has gone on customer acquisition. If you look at our customer acquisition cost, it's approximately 780 rupees and last quarter it was around 813 rupees, so that is, there is a drop in the customer acquisition cost as well. Now, the payback is approximately in the range of 8 to 9 months and that has been stable.

Mr Resham Jain: Okay and sir, when you say 780 rupees per customer acquisition cost, does this include the dropouts as well in the sense because let's say if you acquire 100 customers what remains at the end of the year will be just 10 or 15. Remaining 90% customer or 85% customer remains inactive in a way or they don't trade much. So, when you say Rs.780 it includes the total customers or customers which remain active?

Mr. Prakarsh Gagdani: No, when we say the customer acquisition cost it's on the gross level, so the total cost that we have incurred to acquire all 3.42 lakh customers in this quarter, so it is at a gross level and not net level. Secondly, in activities not in the range of 90%, otherwise no business will survive, only 10% customers are remaining after a year. So, our current ratio is approximately 55 to 60% of our customers are active. So, that's a healthy, you know, sustenance on the platform.

Mr. Resham Jain: Okay. So, whatever customers you acquire 342 out of that 55 to 60% customer remain active during the year. Is that correct understanding?

Mr. Prakarsh Gagdani:: Yes.

Mr Resham Jain: Okay, okay. Got it sir. Okay, thank you.

Mr. Prakarsh Gagdani: Okay.

Moderator: Thank you, sir. Our next question from Mr Pushkar Jain from Joindre Capital. Please go-ahead sir.

Mr Pushkar Jain: Hi, sorry I logged in a bit late, so I might have missed that. Why there is a sharp increase in our other expenses?

Mr. Prakarsh Gagdani: Yeah, so in other expenses there are two parts with there is an increase. So, there are some expenditures which is in relation to the customer acquisition. So, there are the charges that you pay to NSDL UIDAI for e-sign and then there are other costs which are associated with increase of customer, so that is one part and second is also investment in technology. So, approximately of 7 crores increase broadly it is 50-50, so 50% of the incremental cost has gone into tech and the 50% would be, most of that would be assigned, associated with the increase in the customer acquisition.

Mr Pushkar Jain: So, that could, that means it's a one-time cost?

Mr. Prakarsh Gagdani: Technology would not be one-time, but yeah, one or two quarters.

Mr Pushkar Jain: Right, okay. Okay, thank you.

Moderator: Thank you, our next question from Mr. Prayesh Jain from Motilal Oswal. Please go-ahead sir.

Mr Prayesh Jain: Hello, so, just wanted to understand one thing with regards to your EBITDA margin, now that, you know, you have mentioned that the customer acquisition cost has come down, but overall if I look at the EBITDA margin has been sharply down at 20%. Do you think that this trend will reverse in the future because you just mentioned that the technology spends are likely to be higher in the future, so, how do you look at margin going ahead from hereon?

Mr. Prakarsh Gagdani: See, technology spend will be there for one or two quarters and then it will stabilize, so that there won't be any increase after one quarter, but there

would be obviously spending on advertising and marketing to acquire customers and also in a manpower, so that will result into a bit of a pressure on the EBITDA margin. For next two or three quarters it will remain because that is required for us to invest for now in all these, so that we grow our revenues and also our customer, new client acquisition, but I won't be able to give you the exact number in terms of how the EBITDA margin will be, but yeah, it would be a bit depressed there some time.

Mr. Prayesh Jain: Okay, okay. And with regards to, revenue traction and your client acquisition traction, do you see that these would be in line going ahead or how do you see it because i the revenue growth and the customer acquisition growth has been lagging?

Mr. Prakarsh Gagdani: So, I definitely feel that our customer acquisition and revenue will be broadly in line and both will improve significantly.

Mr Prayesh Jain: Okay, okay. Yeah, alright. Thank you so much.

Mr. Prakarsh Gagdani: Thank you.

Moderator: Thank you, sir. we have a question from Mr Prayesh Jain from Motilal Oswal. Please go-ahead sir.

Mr Prayesh Jain: Yeah, I can see in presentation a fall in DIY acquisition, possibly out of total customer acquisition, how would you explain that and how does it impact your cost and anything of that sir?

Mr. Prakarsh Gagdani: There is, it doesn't have a significant impact of that. It's around 51% if you see, but typically what happens is that, you know, broadly if you acquire a referral, some part of it also gets associated with our, with our customer support team, which, you know, talks to clients and hence we don't classify that as DIY. So, but broadly this number is stable and has very less impact on our cost.

Mr Prayesh Jain: Okay. So, if they are doing it themselves or most of the clients are on boarded organically, right, so why should it drop?

Mr. Prakarsh Gagdani: So, there are, see what happens is that it is not something that you just look at comparatively because typically most people do it themselves, but at some point there are people who require assistance, you know, broadly we acquire customers from tier 2, tier 3, so with respect to some documentation or with respect to something, there is some help required and that's where our customer support team kicks in and wherever there is an assistance we categorize that as DIY and that's the reason there is a small dip that you see.

Mr Prayesh Jain: Okay, okay. With regards to client acquisition, you know, you have mentioned about tie ups with BHIM, Google Pay and other such platforms. so how are those keeping up and what is the traction coming from these tie ups?

Mr. Prakarsh Gagdani: So, Google Pay is absolutely stable, so we acquire, you know, good number of customers from that platform. There are smaller associations which are gaining traction, but we are also looking at larger associations which will start showing the impact in the coming quarter, in the running quarter and also in the next

quarter, but yeah, that will be a considerable, you know, channel through which we will acquire customers.

Mr Prayesh Jain: Which would be the large tie ups?

Mr. Prakarsh Gagdani: I am sorry, I won't be able to give you the names right now.

Mr Prayesh Jain: Okay, okay. Alright, thank you.

Mr. Prakarsh Gagdani: Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, if you have any questions, please press star and one on your telephone keypad. Ladies and gentlemen, if you have any questions, please press star and one on your telephone keypad. Ladies and gentlemen, if you have any questions, please press star and one on your telephone keypad. Ladies and gentlemen, if you have any questions, please press star and one on your telephone keypad. So, as there are no further questions, I would now like to handover the conference to the management for closing comments.

Mr. Prakarsh Gagdani: So, thank you very much for joining. If there are any questions that anyone has, you are free to write to ir@5paisa.com and we will be more than happy to respond to your queries. Thank you very much for joining and have a good day.

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

Note:

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