



**5paise Capital Limited  
Q3 FY23 Earnings Conference Call**

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**CORPORATE PARTICIPANTS:**

**Mr. Prakarsh Gagdani**  
CEO and Whole-Time Director

**Mr. Gourav Munjal**  
Chief Financial Officer

## **Moderator**

Good afternoon, ladies and gentlemen. I'm Pelsia, moderator for the conference call. Welcome to 5paisa Capital Q3 FY23 Earnings Conference Call. We have with us today the management of the company. As a reminder, all participants will be in 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 touch tone telephone. Please note this conference is recorded. I would now like to hand over the call to the management. Thank you and over to you.

## **Prakarsh Gagdani**

A very good afternoon, everyone. I am Prakarsh Gagdani CEO and Whole-Time Director of 5paisa Capital along with my colleague, Mr. Gourav Munjal who is CFO of 5paisa Capital. We welcome you all for our Q3FY23 conference call. At the outset, I would like to wish you all a very happy new year. I wish that 2023 may be much better than 2022. Friends, the Q3FY23 was more of a mixed bag, if you look at the overall market. On one hand, NIFTY touched an all-time high of 18,847 on 1st of December 2022, but on the other hand, the new demat account growth slowed down and we are seeing some fatigue in last 2-3 quarters. As an industry, we opened almost 55 lakhs demat accounts, which is 10% less than what we opened previous quarter.

On one hand derivatives turnover improved by almost 21% QoQ, but cash market turnover at an industry level was down by around 1.5%. We also saw some regulatory implementations this quarter, like the running account settlement of clients that started in the first week of every quarter now. We did our first pay off on 7th of October and the second will happen in January. But as a company we have fared well in Q3. Our revenues for the 9 months ended December 22, stood at around Rs.248 crores with a growth of 18% YoY, with a PAT of Rs.29.1 crore a growth of 213% YoY.

In Q3FY23 our revenue grew sequentially by 4% QoQ to Rs.83.8 crores and PAT grew by 3% QoQ to Rs.11 crores. In our expenses for this quarter, we also had a onetime expense of Rs.7.09 crores towards margin penalty reversal, a regulatory requirement, but that was a onetime expense and we did that in this quarter. Despite all this, we've maintained a profit margin of 13%. Our growth in profits is on the back of improvement in our acquisition quality, superior trading experience and a further reduction in CAC of around 9%. We've not just improved our ADTO by around 21% QoQ from Rs.1.69 lakh crore to Rs.2.05 lakh crore, but we've also improved our market share.

Our strategy of focusing on revenue and profitability by acquiring good quality customers, has started to pay dividends. Talking about our product, in my last investor call I had mentioned that we were launching a dedicated trading terminal for derivative traders, we call it FnO 360. This

product is still in beta phase but I'm happy to report that it is receiving good traction and reviews from our customers are good. This terminal along with our other initiatives, have helped us to improve our derivative market share. Apart from our regular business, our Boards of both 5paisa Capital Limited and IIFL Securities Limited approved acquisition of the online retail business of IIFL Securities by 5paisa Capital.

With this, we will acquire close to 1.5 million customers who were part of our online retail business of IIFL Securities. This customer base will boost our overall client base by around 40%. We expect a good revenue growth and also profitability with this acquisition. The acquisition will be effective from 1st April 2023 and right now, we are undergoing the procedural and regulatory process, which we hope to complete in 8 to 12 months of time, from the time we have filed to the exchanges and the other regulatory authorities. I request everyone if you have any questions, you can go ahead and ask. I'll be more than happy to address them.

### **Moderator**

Thank you Sir. The first question comes from Rishikesh Oza from Robo Capital, please go ahead.

### **Rishikesh Oza**

Hello Sir, thank you for the opportunity. My first question is the average daily turnover, if you see it has actually doubled YoY, but our revenue is flat YoY, so if you could please explain this?

### **Prakarsh Gagdani**

Sure, so ADTO not necessarily translates into the number of orders. As a discount broker we charge on per order basis. Now, when you attract a good quality customer, they also come with a high-ticket size and the per order value is also more. In addition to that because we charge only on a per order basis, you may not see the same amount of revenue increase as the ADTO increase, so broadly, that's the reason. Typically, if you see the reason why large traders are attracted towards discount broker is because of the cost benefit. So, that's why you see a difference between the revenue growth and the ADTO growth.

### **Rishikesh Oza**

Okay and Sir, my second question is about ARPU. If you could please provide ARPU for the total customers and for active customers?

**Prakarsh Gagdani**

Currently our revenue is around Rs.83.8 crore and our customer base is approximately 33 lakhs, so you can do your math and get the ARPU. On the NSE, we have approximately 10.75 -11 lakh active customers. So, you can look at the ARPU for the quarter and analyze it.

**Rishikesh Oza**

Okay, that is noted and okay Sir. And so, what is the total employee count?

**Prakarsh Gagdani**

We are in the range of around 700 to 725 employees as of now.

**Rishikesh Oza**

Okay. and what is our marketing costs for this quarter versus previous quarter?

**Gourav Munjal**

For the last quarter it was Rs.12.2 crores and in this quarter, it is coming Rs.11.6 crores.

**Rishikesh Oza**

Okay, thank you very much, Sir.

**Moderator**

Thank you. Next question comes from Manish Ostwal, from Nirmal Bang, please go ahead.

**Manish Ostwal**

Yes, Sir. Thank you for the opportunity. I have a question on our cost of acquisition of customers. From Q1 to Q3 it has declined very sharply. So, how much sustainable the current cost levels are and do you see this will pick up again? The second question is, in relation to our total operating cost structure, what proportion of the cost is variable?

**Prakarsh Gagdani**

In last quarter CAC was approximately Rs.574 and this quarter we are at Rs.525, I have said in my previous call that we were optimizing on the acquisition cost and more or less that exercise is over. I see the cost hovering between Rs.500-Rs. 600 and on a higher side it would be approximately Rs.600, but we see this range to be maintained in the coming quarters and I don't see a significant downside or upside beyond this.

### **Gourav Munjal**

Answer to your second question, if I get INR 100 as a revenue, our cost of acquisition is 10%, approx 15% is our PBT and rest 75% is our other expenditure.

### **Manish Ostwal**

Okay. Secondly, you said in your commentary, the industry level demat account acquisition slowed down in this quarter and the cash volume has also gone down QoQ. But what I read in the media reports is that the discount brokerage has gained in the space, more in the cash market and derivative market, so what is your comment on that piece?

### **Prakarsh Gagdani**

If you look at last 2.5 years, there has been a phenomenal rally in terms of the opening of demat accounts. Now, as a country we are almost at 11 crore demat accounts. So, a bit of fatigue was bound to happen. It is not just in this entire year, if you see from Q3 last year, there has been a drop in terms of new demat accounts. So, at one point of time, we had opened around 4 million demat accounts in a month. And now, we are in the range of around 1.5-2 million demat accounts in a month as an industry.

So, I think that fatigue was bound to come and that is the reason you see a bit of a demat account slowdown. Secondly, cash market turnover broadly is an indicative of how these overall markets are performing in terms of returns. Now, if you look at the entire year of 2022, the index has gone up just by 4%. Even in the current quarter, though we have touched an all-time high, but if you look at overall indices, they've gone up by 5-5.8%, which was lesser than what it was last quarter. If you look at overall year, it is more or less 4% kind of a growth. So, when you have market stagnating in terms of return, the retail participation slows down and that automatically has an effect on the cash market turnover. So, that is the reason why it is down.

### **Manish Ostwal**

Yes, and secondly in terms of customer acquisition run rate. So, currently the run rate is 1,62,000, so where this trend is stabilizing in your assessment?

**Prakarsh Gagdani**

As we are focusing on quality of acquisition we are not acquiring as many accounts as the industry. I see that our acquisition run rate will be in this range of around 1.5 - 2.5 lakh accounts on a quarterly basis. But it is difficult to actually say whether there would be a significant upside or a narrow range of acquisition because it also depends on the market.

Secondly, we have initiated our branding exercise to cater to a quality audience and quality customers across the country. So, I'm sure our branding exercise, our partnerships and also our acquisition channel will help us to acquire more customers, so though I feel it would be broadened, but you'd be happily surprised if we surpass our last 2-3 quarter number also.

**Manish Ostwal**

Just last bit on this, when you say the quality customer, what are the 2-3 core metrics you look at it to qualify that customer as quality in your opinion?

**Prakarsh Gagdani**

Yes, though there are various parameters, but typically what we look at are following three parameters. One is what percentage of my acquisition customers are trading. Second is approximate what is the margin with which they come? And third is the payback period which is the acquisition cost that I'm incurring, how soon we are able to recover that acquisition cost.

**Manish Ostwal**

Thank you, Sir, in answering all the question patiently.

**Prakarsh Gagdani**

Thank you.

**Moderator**

Thank you. Next question comes from Kajal Gandhi from I-Sec, please go ahead.

## **Kajal Gandhi**

Good afternoon. One question was on the decline in the active clients, which is right now the industry trend also, how do we see tackling that because the decline has been quite sharp in last 6 months or so. So how do we tackle that or are you okay with whatever you have shared at this point in time and any reasons?

## **Prakarsh Gagdani**

Kajal, I feel that the active client was anyways not a great matrix to see, because that's the only industry data which is publicly available, it's obvious that we draw reference to that, but I think it is not a right number to look at. What we should look at is the income growth, the turnover growth and the profitability growth. One of the biggest factor for active client is the market and at an industry level there has been a negative trend overall. The active customer base is de-growing for last 2-3 quarters, but it is not translating into a de-growth of revenue.

Significant portion of the revenue even for most of the brokers, including us comes from derivative segment. Now, in derivative segment, if you look at the turnover at the exchange level, it is going up. So, that means even in volatility, even in a bad market or a good market, derivative traders are active, they are able to trade, find opportunity, so that is translating into revenue. So, I think a good way to look at it is if there is a revenue growth and a profitability growth.

## **Kajal Gandhi**

So, FnO client which you had and who was trading continued to stay, and whoever was not, he's getting out of the system.

## **Prakarsh Gagdani**

Yes, that's the normal cycle of people who come to derivatives and people who end up making losses and they go out. The good trend is that we are seeing an increment in the number of customers who are trading on derivative, and this number is increasing QoQ. So, despite in the entire year, the indices being flat, the ADTO in the derivative segment at the exchange has more or less grown, barring maybe a month or two, when it was stable and not de-grown, So, we've seen both increment in the ADTO and increment in the number of customers trading in derivative.

## **Kajal Gandhi**

Yes, incrementally, even if the active clients have not grown, you have been able to be there on the same brokerage revenue and other income. So, what we'll be interest income component for you in this quarter?

**Gourav Munjal**

In our Presentation, the margin funding income is a part of allied broking income. Our allied broking income total is Rs.27 crores out of this MTF income is Rs.15.3 crores.

**Kajal Gandhi**

What will be that number in the previous quarter?

**Gourav Munjal**

That was Rs.13.3 crores. So, it has been gone up mainly because the client funding book has gone up by average Rs.246 crores to Rs.280 crores, hence you can see the growth in MTF income.

**Kajal Gandhi**

Do you see the pressure of rising cost of funds for you, because I think you may not have changed your lending in MTF rates?

**Gourav Munjal**

There is a slight increase that has been made by the banker. Out of Rs.300 crores, we are well versed with the Rs.200 or Rs.250 crores with our internal network and so it will not impact our cost of funds, but going forward if book goes up from this level the it may impact our finance cost.

**Kajal Gandhi**

Okay, Your cash turnover has a 5% decline QoQ or 3% decline?

**Prakarsh Gagdani**

Broadly around 3 to 4%.

**Kajal Gandhi**

Okay. Thank you very much.

**Moderator**

Thank you. Next question comes from Deepak Sonawane from Haitong Securities, please go ahead.

**Deepak Sonawane**

Yes, thank you for the opportunity, sir. My first question is regarding cost of acquisition. As you have reported, Ad spend and marketing spend declined by 5% QoQ. But as against our cost of acquisition only for marketing, we have seen a very sharp decline of around 25-20%. So, am I missing something?

**Prakarsh Gagdani**

Our customer acquisition cost does not include the branding expenditure. So, if you look at our overall advertising and marketing cost in our P&L table, it includes branding, but our CAC doesn't and that's why there is a difference.

**Deepak Sonawane**

Yes, and within our marketing cost that we have reported for the quarter, how much percent will be branding, of 11.6 crores?

**Gourav Munjal**

For the last quarter branding was Rs.4.3 crores and for this quarter it is Rs.7.5 crores.

**Deepak Sonawane**

This branding is mainly digital, right?

**Prakarsh Gagdani**

Broadly yes.

**Deepak Sonawane**

Okay. Sir, within our allied broking income, majority is interest income on MTF. Do we include interest income on float in the same allied broking income or in other operating income?

**Prakarsh Gagdani**

That's a part of other operating income.

**Deepak Sonawane**

And what will be the quantum for that?

**Gourav Munjal**

So, approximately 90% income in other operating income is pertaining to interest income.

**Prakarsh Gagdani**

And we've mentioned it is Rs.15.8 crore for this quarter.

**Deepak Sonawane**

Yes, got it. You reported Rs.70.9 million as the reversal of margin for the quarter. So, do we see similar impact in coming quarters as well?

**Prakarsh Gagdani**

No. These were the penalties which were required to be refunded from October '21 to September '22, so it was a one-time effect, post that these numbers will not come back.

**Deepak Sonawane**

Okay. Our other OpEx has gone up, Rs.220 to Rs.269 per new client acquired and that should mainly include your onboarding team salary that you mentioned in the PPT as well. But if I see our employee cost, it is very flat at 146 million to 149 million. So, is there any other parameter that is driving this OpEx, cost of acquisition other than marketing?

**Prakarsh Gagdani**

No. What happens is that marketing CAC always comes down first and that is followed by the OpEx cost, because OpEx is more or less people. Sometimes if the acquisition is down, we can't remove the people and if the acquisition is good, we can't again hire the people, so that is a small difference you're always find in the OpEx which is a non-marketing. Secondly, a significant part of our employee cost is towards the product and technology team, that's a bigger chunk and that's

why you might see a small increase here and there because of the hiring in the technology and the product space.

**Deepak Sonawane**

Okay.

**Prakarsh Gagdani**

The answer to your question of why it has increased is because obviously people were there in Q2 and Q3, it's just that the number has gone down, so that has an impact on the CAC.

**Deepak Sonawane**

Okay. That is highly linked to your new client acquisition, right?

**Prakarsh Gagdani**

Absolutely.

**Deepak Sonawane**

Yes. So, my last question on CAC is, earlier, we reported that our payback period is around 12-13 months, so are we holding this payback period metric even in Q3 as well?

**Prakarsh Gagdani**

Our payback period was not never 12-13 months; it has always been in the range of around 8-9 months. Now, it has improved a bit. Now it is in the range of around 7-7.5 months.

**Deepak Sonawane**

So, that improvement is for the 9 month or in for the quarter.

**Prakarsh Gagdani**

It is for the quarter, I am taking about, yes.

**Deepak Sonawane**

Okay and you see that with CAC hovering around Rs.500-600 per new client acquired and the market on the side line that means our broking income could be remain flat, right? So, do you see that the payback period holding up in the next 3 months as well?

**Prakarsh Gagdani**

Our internal expectation is that the payback period should reduce further.

**Deepak Sonawane**

Okay.

**Prakarsh Gagdani**

So, target is that we should be in the range of around 5-6 months as a payback period. So, we are working towards that from 8-9, we've come to 7-7 1/2 months, it will come down further. But that will be by improving the quality of customer in terms of revenue and not by reducing the acquisition cost further.

**Moderator**

Thank you. Next question comes from Aalokek Kumar from UTI, please go ahead.

**Aalokek Kumar**

Good afternoon, Sir. Congratulation Sir, for the result. I just wanted to know, your market shares in the derivative market.

**Prakarsh Gagdani**

We're in the range of around 3.2%.

**Aalokek Kumar**

Okay, and what was it last quarter?

**Prakarsh Gagdani**

We were somewhere around 3.1 to 3.14%.

**Aalokek Kumar**

Okay. Is there a possibility of increasing the broking rates in the coming quarter, probably in the coming financial year?

**Prakarsh Gagdani**

That's a good question. See, the kind of regulatory changes that we are seeing is pushing cost of operating business higher with every quarter. Now with the changes, I see that the rates for the discount brokers, at some point will definitely increase. Whether it will happen in the next 2 quarters or maybe by the end of next year, that's something that we need to see. Compliance cost, regulatory costs, other costs have significantly gone up and with the acquisition growth stagnating and now as markets are also not in very high growth trajectory, I think that we put more pressure on the cost. Because of all this I see a very high chance of brokerage rates going upward in near future.

**Aalokek Kumar**

How much is it expected to increase? From 20 to what figure are you expecting?

**Prakarsh Gagdani**

It is really difficult to comment whether it will be a 10% increase or a 20% increase, it all depends at that what kind of regulatory changes will come in and what part of the income will get impacted. I mean, we've seen that when the markets turn bad, normal level impact on revenue is 20-30%, because we are a cyclical business. If there are other changes, which may tomorrow impact our treasury income, so we'll have to see what is the impact and accordingly, it has to be factored in the brokerage rate.

**Aalokek Kumar**

Sure Sir. My last question is, what is the growth trajectory in terms of the customer acquisition for the coming year or coming quarter? Is it expected to go down or is it expected to increase or remain constant?

**Prakarsh Gagdani**

So, as I said that, we are expecting our acquisition number to be in the same range. We are acquiring close to 1.5 lakh, 2.25 lakhs customers, that's a broad number. So, all give and take close to maybe 7.5-8 lakh customers to a million customers so that is the range of acquisition that

we are looking at and I see that we will continue to acquire in this range. Now, 1.5 million customers that we will acquire from the acquisition, that's separate. This I'm talking about our normal acquisition.

**Aalokek Kumar**

Okay. Thank you for your time.

**Moderator**

Thank you. Next question comes from Deepak Poddar from Sapphire Capital, please go ahead.

**Deepak Poddar**

Thank you very much for the opportunity. So, I just wanted to understand you mentioned that because of the margin penalty, about 7 crores odd was the onetime expense in Q3. So, if we adjust that, our EBITDA stands at about 35%.

**Gourav Munjal**

EBITDA is not the right measure to calculate in our business because we are using interest costs for the funding book. The best way to look at is our PAT margins.

**Prakarsh Gagdani**

So, if you remove the onetime expenditure of Rs.7.09 crores towards the margin penalty, then our PBT margin would be around 26%.

**Deepak Poddar**

I understood but that's a very sharp jump from what we have been seeing last 3-4 quarters. Our PBT margin went up from 7% to 12% and then 18%-26%, so how do we see that? is this a sustainable PBT margins that one should look at going forward?

**Prakarsh Gagdani**

Digital businesses across always command a high PBT margin in a steady state, right now we are not into an early startup kind of phase where we would be into losses or we've just come out of a loss. So, in a steady state, my target for the foreseeable future is to be in the range of around 35% to 40% PBT margin. So, that is what our aim is and if you look at our quarter, we are in the right direction to achieve that number.

**Deepak Poddar**

Okay, fair enough. So, in steady state we are looking at 35-40%. This quarter was about 26% on an adjusted basis.

**Prakarsh Gagdani**

Yes.

**Deepak Poddar**

Okay, great. In the steady state, how many quarters we are looking at to achieve that kind of steady state margins?

**Prakarsh Gagdani**

To achieve this PBT margin of 35-40%, we are working on improving the quality of customers which will increase our ARPU. We are working on reducing the CAC which we have already seen. Now what happens is that your technology costs and other fixed costs do not go up in tandem with the revenue growth. So, that is how it will take at least 3-4 quarters or 5 quarters to reach to that number and in last quarter we have completed the investments that we wanted to make in technology.

So, as far as cost is concerned, we are more or less there and in terms of fixed costs, I don't see much increment in the costs and so now it is only on revenue growth. So, the moment revenue growth happens as the ARPU grows, our PBT margins will grow. So, I look at around 4-5 quarters to achieve that number.

**Deepak Poddar**

Okay, fair enough. But you spoke about the revenue growth part as well, but I think last 4-5 quarters, our revenue has been quite stagnant in the range of Rs.80 crores. Now, when we say 4-5 quarters to achieve that kind of PBT margin, what is the revenue assumption you're taking there?

## **Prakarsh Gagdani**

I agree that the last 4 quarters, our revenue has been stable, but there was a reason to it. One is, if you look at our acquisition trajectory in 2021, that was at a very high number. But we realized that acquisition, just for the sake of acquisition is not enough because a lot of customers are not trading, so we changed gears. Now whenever you change your gear from a very high acquisition trajectory to a low acquisition trajectory, it has an impact on your revenue, because it's the run rate at which you're growing.

Secondly, that coupled with the market scenario, so this put together is the impact that you see on the revenue. But now, with the kind of acquisition that we are doing, with focus more on the quality of customers and derivatives business as a whole, I see that the number will increase. But right now, giving you an exact number in terms of what will be my revenue 4 quarters downline, won't be the right way to look at it.

## **Deepak Poddar**

Okay, understood. My last question is on our active to gross client ratio. I mean, it had been stable at around 60% plus-minus. But lately, for last couple of quarters, we have seen it declining from 60% to maybe what 33% right now.

## **Prakarsh Gagdani**

Yes, absolutely.

## **Deepak Poddar**

Is there any effort we're doing there to kind of improve that particular ratio? I mean, do we see that as an important parameter for us to track? I mean, higher ratio means more business and more orders, right?

## **Prakarsh Gagdani**

Absolutely, we run our analytics and we do a lot of effort in terms of reaching out to customers and activating them, but when you see this de-growth in the active client, that's a factor of acquisition that you do, because this number is basically clients of trading 12 months. So, if I have acquired for 2020 and 2021, that the acquisition number and suddenly from 2021, last Q3 calendar to Q4 of 2022, we saw a net reduction in our acquisition.

Now, that also on a rolling basis has an impact on the active clients, so that is why I was telling to one of the analyst that we should right now not look at active client as the right metrics, though, obviously, on an overall basis, it is important that how many clients are trading, but markets

acquisition change has also impacted the active clients. So, maybe for a quarter more, that won't be right, but then it will then stabilize and you'll see an increase after 2-3 months. That's pure statistics, statistical exercise that you can do.

**Deepak Poddar**

Okay, fair enough. I understood. That's it from my side. All the very best.

**Moderator**

Thank you. Next question comes from Sumit Jankar from Motilal Oswal, please go ahead.

**Sumit Jankar**

Oh, thank you for providing me the opportunity. My question is, what is current cash market share and what is the proportion of cash and derivatives in terms of revenue?

**Prakarsh Gagdani**

Our cash market share is approximately in the range of around 2.7-2.8% and our derivative share is around 3.2%. But in terms of our revenue breakup, broadly 65-70% of our revenue comes from derivative and the balance from cash.

**Sumit Jankar**

Okay. So, you mentioned that you are launching at FnO 360 app which is a very good initiative as maximum proportion of revenue is coming from derivatives. So, how does this FnO 360 app differentiate from current trading experience for clients?

**Prakarsh Gagdani**

The reason why we created this entire terminal is because we have seen that people who trade in derivatives are broadly trading only in that segment. They come in the normal terminal very rarely. So, we wanted to give a different experience to them. So as far as customer is concerned, there is no difference between the customer trading on our normal platform and FnO 360. But the experience on that terminal is much better than a normal because a lot of data points that we provide, a lot of predefined strategies, many more types of orders, which typically are used by derivative traders, so it is basically to improve the experience.

**Sumit Jankar**

Okay. Got it. Thank you, Sir, for giving me the opportunity.

**Prakarsh Gagdani**

Thank you very much.

**Moderator**

Thank you. Next question comes from Tushar Sarda from Athena Investments, please go ahead.

**Tushar Sarda**

Thank you for the opportunity. This is the first time I'm attending the call, so I'm just trying to understand the business. You talked of quality of clients and when I divide your broking revenue by the total customer, it comes to Rs. 100 per quarter, per client. So, I'm just trying to understand what kind of clients are this? And if a client is paying only Rs. 100, why do you have to spend so much money to acquire a client?

**Prakarsh Gagdani**

That is an absolutely right question and that is exactly the reason why we moved away last year from acquiring broad customers to acquiring quality customers. As I said, we started that journey from Jan-Feb 2022 and then it takes some time to change your course, but if you divide purely revenue by the number of customers, it has many factors associated with that. One is that you're looking at just one quarter revenue or rather last two, three quarters, which has a market impact. Secondly, it also is a factor of a lot of large customer acquisition that we have done in 2020 and 2021. Most of these customers were millennials and young people in the range of 18 to 25. Now, when the markets become choppy or they turn sideways, typically the kind of money that these people have to invest is very less and they shy away from coming to market. That's the reason when you divide it by the customer base, you will see a very small number, but that may not be right, because if you take the active customers only, then the number will be significantly better.

**Tushar Sarda**

In the presentation you reported a total number. Maybe you should include number of active customers in your presentation and other parameters that one should look at.

**Prakarsh Gagdani**

Sure.

**Tushar Sarda**

Okay. Thank you.

**Moderator**

Thank you. Next question comes from Krishnendu Saha from Quantum AMC, please go ahead.

**Krishnendu Saha**

Thank you for the opportunity. This is the first time for me also, just trying to understand the IIFL Securities, the rationale behind that we first demerged from IIFL holdings and then IIFL Securities. So, just explain why are we doing this merger? What is it for?

**Prakarsh Gagdani**

5paisa Capital was demerged from IIFL holdings, because then in the group 5paisa Capital was created to cater to the digital side or the discount broking business. That's how 5paisa Capital started journey in 2015-16. But over the years, we realised that a lot of things changed and both the companies ended up targeting the same set of customers digitally. We were 100% predominantly digital, but IIFL Securities had one vertical, which was for digital trading customer and they also had other customers, which are typically relationship based and all.

So, that's the reason we decided that there should be a dedicated focus for one business area or one target segment and that's how it made sense for us to acquire the online retail trading business of IIFL Securities. That is a customer set which suits our business also, because most of them are millennials and all of them are trading digitally on app, so that is the rationale behind acquiring that set of business.

**Krishnendu Saha**

On the business point do you see anything which will enable us to affect our revenue. Can you talk about that, please?

**Prakarsh Gagdani**

Sure. We are acquiring close to 1.5 million customers, which will boost our base by around 40%. In terms of revenue, we're looking at close to around maybe 18 to 20% growth

**Krishnendu Saha**

So, is there a chance that you will be able to sell more products and diversify accordingly?

**Prakarsh Gagdani**

Absolutely. What we are acquiring is customer and the broking revenue, but it also opens up an opportunity to sell multiple products to these customers.

**Krishnendu Saha**

What would be the promoter shareholding percentage be?

**Gourav Munjal**

So, it will not impact that much. It was 32.69% of the holding and after this it will be 32.45%. So, slightly 0.24% decline.

**Krishnendu Saha**

Thank you for your time.

**Moderator**

Thank you. Next question comes from Sarvesh Gupta from Maximal Capital, please go ahead.

**Sarvesh Gupta**

Sir, one question I wanted to understand is from an industry perspective, we are seeing a variety of changes. Number one, as you mentioned that the industry itself is acquiring 10% less clients in this quarter and I think in our case, we are focusing on higher value, so we have probably de-grown our acquisition rate at a much higher number. So, in terms of the competition how is it shaping up, because we have also seen some of the other discount brokers are sort of unable to acquire in the same pace as earlier. So, if you can throw some light on within the discount brokerage space, how are things shaping up.

Second question is on, this regulatory possibility that we hear about wherein the transactions can be carried out from the bank account, which can have an impact on the margin book that you have. So, if you can throw some light on that and how it will affect your business if it is implemented. Third question is on this IIFL acquisition. So, you mentioned that it will increase your customer base by 40%, but can you please give some light on, how much you're paying and what's the sort of revenue and EBITDA or PAT increase that it can cause to your consolidated financials after a year.

### **Prakarsh Gagdani**

Talking about your first question, if you look at the competitive landscape, the consolidation in the acquisition has already taken place. Because of the prolonged great acquisition numbers, obviously, at some point of time, the fatigue was expected in terms of acquisition. The same is happening right now. But if you see that overall, the acquisition is consolidated, and almost 80-90% of the acquisition, which is happening in the discount broking space is happening between the top four or five players.

But over a period of time it is important that, are you looking at only acquisition as a matrix in terms of competition, or you're looking at deriving more revenue and value out of this. So, positioning is extremely important and that's how we differentiate ourselves. We position not just as a broker who's acquiring any and every customer, we want to acquire a high intent driven customer. So, though there is competition, but there is a consolidation as well, which helps us to actually grow further in terms of growing our customer base in revenue.

As far as regulatory is concerned, definitely there are a lot of changes which are happening and there are obviously consultation happening in terms of how the client funds can move directly from customer bank account to the clearing corporation. That won't impact our margin funding book or the brokerage, but that will have an impact on our treasury income. So when cost goes up, it has to be factored in the brokerage rates.

So, we will see an increase in the brokerage from the flat 20 rupees that most of us are charging. Every quarter our compliance and operations and other costs are going up and so brokerage has to go upwards if we want to run our business and. So, it will definitely have an impact. Lastly, on your question of the acquisition, as I said, we are acquiring close to 1.5 million customers, we are expecting a positive impact of close to 18 to 20% in terms of income growth because of this acquisition.

As far as cost is concerned, we have already created an infrastructure which can take care of more than two to two and a half times of the customer traded and the people logging in and all

the other parameters for a tech-infrastructure. As I mentioned earlier also that I don't see a cost increment from here, even if we acquire. Once this entire scheme comes into play, with an 18 to 20% income growth, we see a good translation of that income directly into profitability.

**Sarvesh Gupta**

How much are you paying for this acquisition?

**Prakarsh Gagdani**

It's an all-equity deal and the ratio that we are paying to shareholders is in the range of 50:1. So, for every 50 shares of IIFL Securities, the shareholders get one share of 5paise and if you just convert that broadly on our total equity base, around 60 lakh shares will be issued.

**Sarvesh Gupta**

Understood, thank you.

**Prakarsh Gagdani**

Thank you very much.

**Moderator**

Thank you. Next question comes from Dev Shah from Haitong Securities, please go ahead.

**Dev Shah**

My question to you was regarding the total number of orders that you all have received during this quarter. If possible, could you give me the equity segment orders also for this quarter and the previous quarter?

**Prakarsh Gagdani**

I'm sorry, but we don't share the number of order information for any of our segments.

**Dev Shah**

Okay. So, had one more question relating to the time. Do you have any metric that shows the time it takes for a newly acquired customer to be an active client?

**Prakarsh Gagdani**

What we have seen from our past experiences is that it takes not more than 30 to 45 days for a customer to get active, so if you are acquiring customers, almost 95% of people who want to trade will ended up trading between the first 30 to 45 days. If people do not trade in first 45 days, it is very unlikely that they will trade ever or will come by. Only half a percent, 1% people will come after 45 days, but for maximum, this is the time.

**Dev Shah**

Okay. Got it. And last question out of these 1.5 million new customers that are going to be coming in through the acquisition, could you give me a sense on how many of them will be currently active customers?

**Prakarsh Gagdani**

Right now, it will be difficult for me to share the information because as I said that we have just filed it to the exchanges, we are expecting approvals. So, once the we get the approvals the shareholder, the exchange and also NCLT then we will be able to share that information, but for now, we won't be.

**Dev Shah**

Okay, got it. No issue. Thank you so much.

**Prakarsh Gagdani**

Thank you very much.

**Moderator**

Next question comes from Anurag Mantry from East Bridge Advisors Pvt Ltd, please go ahead.

## **Anurag Mantry**

Thanks for the opportunity. I have two questions. One, on the FnO side, basically, you mentioned that your market share is about 3.2%. Any sort of indication as to what you're targeting this number to maybe go up to, and what are the sort of initiatives that you're taking, as I heard about your FnO 360, but is there anything else that you are focusing on to get higher market share? Like is there a cohort of customers sitting in the overall broking industry, which you can sort of target with your pricing and your offering etc?

The other part is that if you can help us understand qualitatively, what percent of your clients may be doing FnO, or within the FnO brokering ADTO or the revenue, what percent come from these good qualities or what percent is kind of HNI vs. retail or how many customers need money, any qualitative assessment will be useful.

## **Prakarsh Gagdani**

To your first question, obviously, there is no number in terms of what kind of growth I'm looking for in derivative market share because we put our effort and once you are into acquiring high end derivative traders or the good quality customers sometimes you immediately get a market share rate. But having said that, we've done a lot of things for attracting good quality customers and derivative traders.

One is FnO 360 terminal, we introduced a product called margin plus and in that product, we provide 100% collateral benefit for customers who wants to trade in derivatives. The 50% component of cash is something which is funded by us, on which we charge a small interest rate of 0.03% per day on overnight and intraday is absolutely free. Then we have introduced a many order types, which the traders like. We have tied up with the fintechs, which provide a lot of tools, a lot of data. We have an open API architecture, where the Algo traders or the derivative traders can use our API to trade.

We also have a subscription product and there we charge the lowest brokerage in the industry, where we charge only Rs. 10 as a part of our add on pack, which is our ultra-trader pack, where you just pay Rs. 1,100 on a monthly basis or around Rs. 10,000 on an annualized basis and you get a brokerage rate of Rs. 10 and you also get 100 orders free. So, from charges to platform to product to experience, we've done a lot of things to attract these kind of customers and that's how you see a steady growth in terms of market share over last three to four quarters.

In terms of the qualitative aspects, I won't be able to share how many people make losses, or how many people trade, but broadly, in last four quarters, what I've seen is that there is a consistent increase of number of customers trading into derivative segments. Though the percentage of

customers who are trading in derivative as compared to my overall is in the range of around 10-15%, but overall absolute number is increasing QoQ. So, overall the turnover is also increasing and number of customers traded is also increasing.

**Anurag Mantry**

Sure, thanks.

**Prakarsh Gagdani**

Thank you very much.

**Moderator**

Thank you. We have a follow up question from Tushar Sarda from Athena Investments, please go ahead.

**Tushar Sarda**

Thank you for the opportunity again. Couple of times you mentioned that you expect the brokerage rates to go up. But if we look at the big players like Zerodha or Angel, they are minting money. So, would they not actually reduce the rates to drive out other players from the market because the competitive intensity is increasing in this space?

**Prakarsh Gagdani**

No, I don't see that brokerage rates are headed south at all. There are profitable players in the business, but we all have to understand a couple of facts. One is, broking is a cyclical business, so last 2-2.5 years have been good for markets. I'm in broking business for last two decades, I have seen that, overnight with any change in the market, you can lose almost 30-35% of your revenues. So, if you're profitable now doesn't mean that just by reducing the rate you will be profitable ever.

Secondly, there are regulatory changes. Now, treasury income definitely forms a significant portion of bottom line. Now, if there is any change, which leads to erosion of the treasury income, automatically that will have an impact on the profitability. So overall, the large brokers understand the gravity of the business and the cyclical nature of the business. So, despite so many players coming into it I don't see that the rates will go down. There might be marketing ways through which you bundle a product and you tried to position as the cheapest by giving a lifetime

something or maybe you reduce the rate and then you pass, but it's more of a marketing thing, but all put together, I don't see the rates going down.

**Tushar Sarda**

But they won't go up also, right? These players are hugely profitable, and everybody's fighting for market share. It's like a telecom battle, which happened between the biggies and smaller players just couldn't survive the price war, right. I mean, you're mentioning that the rates could go up, but I seriously doubt if, Zerodha and Angel make so much money they will increase the rate.

**Prakarsh Gagdani**

Right now it's more of a hypothetical situation. I may be wrong, I'll be happy to be proved wrong that if we're able to maintain or rather increase our margins on an ARPU, by keeping the rate same, I'll be more than happy. But we are in a very dynamic business, so anything can change. My response was to the answer in terms of what if there are changes, but in a steady state I don't see a change in last two years and even now.

**Tushar Sarda**

Okay. Thank you very much. Thank you for answering your question.

**Moderator**

Thank you. There are no further questions. Now I hand over the floor to the management for closing comments.

**Prakarsh Gagdani**

Thank you very much all for attending our conference call. If there are any questions, you can write it to us at [ir@5paisa.com](mailto:ir@5paisa.com). I again wish you a very, very happy new year and may you have a great year ahead. Thank you very much. Have a good day.

## **Moderator**

Thank you. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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