



5paisa Capital Limited
Q2-FY25 Earnings Conference Call

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CORPORATE PARTICIPANTS:

Mr. Gourav Munjal
Whole-Time Director & CFO

Mr. Ameya Agnihotri
Whole-Time Director & CTO

Mr. Mehul Jain
Product Head

Q&A PARTICIPANTS:

- 1. Dhaval Gada** : DSP
- 2. Shreyans Jain** : Electrum Capital
- 3. Aaliya S** : Motilal Oswal Financial Services

Moderator

Good afternoon, ladies and gentlemen. I'm Pelcia, moderator for the conference call. Welcome to 5Paisa Capital Limited Q2FY25 earnings conference call. We have with us today Mr. Gourav Munjal Whole-Time Director and CFO, Mr. Ameya Agnihotri Whole-Time Director and CTO and Mr. Mehul Jain Product Head from 5Paisa Capital Limited. As a reminder all participants 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 the operator by pressing * and then 0 on your touchstone telephone. Please note this conference is recorded.

I would now like to hand over the floor to the management. Thank you and over to you sir.

Gourav Munjal

Hello everyone, good afternoon and welcome to our Q2-FY25 Earnings call. On this call, I am joined with Mr. Ameya Agnihotri, Full Time director and CTO and Mr. Mehul Jain our Product Head. Q2-FY25 has been an excellent quarter for the investors as well as for the broking industry. During this quarter both indices Nifty and Sensex touched all time high and had given the opportunity for good profit booking to the investors. Also the overall industry saw a significant addition of more than thirteen million Demat accounts. The total Demat accounts of this country stood at INR 17.54 crores as on 30th September.

In Q2-FY25 we have acquired 1.62 lakh customers reflecting 20% growth YoY and our total customer base has reached to 46.28 lakhs. This drop in acquisition is a result of our conscious goal that we took from last quarter to improve the quality of customers which we are acquiring and ultimately improvement in first year revenue, payback period and LTV which is called lifetime value of customers. During the quarter, our ADTO which stands for Average-Daily-Turn-Over, grew to 3.78 trillion, a growth of 4 % YoY. Our client funding book stood at INR 245 crores down by 9% YoY and our mutual fund AUM reaches to INR 1333 crores almost 100% growth YoY.

Coming to financial performance in Q2-FY25 our broking revenue has grown to INR 41 crores a growth of 3% YoY. Allied income is INR 27 crores a bit down by 2% but majorly because of minor drop in client funding book and our total revenue stood at INR 100.1 crore a growth of 4% YoY. In this quarter, as you can see our employee benefit expense are showing increased by 49%, this is because in last quarter this includes a one-time positive impact of INR 8.6 crores with respect to unvested ESOPS and RSU as per Indian Accounting Standard 102. Now it is showing our normal cost which includes increment of employees, RSU cost as well as annual variable performance incentives.

With a focused approach on quality customer acquisition product improvement and cost optimization we are happy to report that we have achieved lifetime highest ever PAT of INR 21.9 crores which is a growth of 15% YoY along with achieving highest PAT margins of 22%. Regarding some regulatory updates, SEBI continues to work towards strengthening the corporate governance practice of stockbrokers and exchanges and protecting the interest of retail investors.

Towards the same step two major changes have been announced, first is with effect from 1st October brokers can't charge transaction charges from customers more than exchange defined charges which are single rate now and not on slab-based system. Second some changes have been announced related to index derivatives effective from 20th November, 2024 like increase in contract size, limiting weekly expiry contracts and collecting additional margins on expiry day. We believe that both these things will give more transparency and safety to investors and further increase the confidence in market.

At last, I want to ensure investors that we will continue to work towards product development, better technology infrastructure, customer experience, compliance first approach and cost optimization and we are confident that these all efforts will accelerate our revenue and profitability in coming quarters. Now Mr. Ameya Agnihotri our CTO will take you through our technology and product key initiatives and after that we will be happy to answer your queries and questions. Ameya over to you.

Ameya Agnihotri

Hi everyone, I am Ameya Agnihotri CTO and Whole-Time Director of 5paisa Capital Limited. Digital innovation and technology first approach has always been our focus area. In our pursuit to provide best in class product experience to our users, we have made significant progress. We have launched new web trading platform with user friendly, intuitive and rich user UIUX. The revamp focuses on reducing latency ensuring smooth performance and unifying 5Paisa experience all across. We migrated our open API gateway to Kong reducing our latency by over 50 milliseconds. Flutter app with new user experience is fully rolled out for all our IOS users.

Additionally, FNO 360 is now available on IOS for all our users. FNO 360 dashboard offers real time market insights, advanced trading tools and easy access to derivative data via streamlined interface in the dashboard or in market section. Advanced order forms on IOS consolidates order tools on a single screen; displays charts, orders, positions and market depth, supports SL, CO, DO search and VTT order types as well. We have added VTT OCO support, this allows placing stop loss and target orders simultaneously valid for up to a year when once triggered the other automatically gets cancelled out for seamless trade management.

The trade on charge platform now includes an option chain offering real time options data, greeks, OI and volume allowing traders to analyze and trade options seamlessly within the same interface. Additionally, the platform provides corporate action information detailing events like dividend stockpiles and bonuses, helping traders assess their impact on the stock prices. Flutter on Android platform including FNO 360 on Android will be rolled out to all our users this month. In Q3, we intend to enhance user experience for key workflows, add exciting new features in FNO 360 and mutual fund sections and optimize latencies on our patented APIs. With summary of our performance as explained by Gourav and me I will open the floor for further discussion. Please feel free to ask questions if you have any. Operator you may proceed.

Questions & Answers

Moderator

Thank you, sir. Ladies and gentleman 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. First question comes from Dhaval Gada from DSP, please go ahead.

Dhaval Gada

Hello. Okay yes thanks. Just a few questions; first is on the product upgrade, so last quarter you mentioned that there will be a big upgrade that will happen at the end of the second quarter so just wanted to get an update so are the changes that you mentioned in the initial remarks are these all been done and the new product is out or is some major part still pending so that's the first question.

Ameya Agnihotri

Yes, so Flutter app with the revamped user experience has been completely rolled out to all our IOS users so that is one big upgrade. Apart from that FNO 360 was initially available on web, it is now available on IOS completely for all our users. In terms of Android rollout of app or revamp app on Flutter platform as well as FNO 360 on Android it will be rolled out by end of this month. Over and above that obviously we have launched and revamped the new web trading platform, which focuses on the rich user UI and UX so even that has been rolled out to all our users. So overall we believe that major changes and user experience and usability improvements as well as performance improvements have been rolled out in last quarter as committed.

Dhaval Gada

And you said that the FNO 360 for IOS. sorry for Android will happen by end of this month and so that should complete all the migration upgrades that you've committed. Post this if you could just talk a little bit around the product upgrade pipeline, anything major or these are going to be incremental changes from here on, just if you could give some thoughts on the pipeline for the next 6-8 months.

Ameya Agnihotri

So, with respect to our product or user experience updates I think the key work that we are going to do is to enhance our user experience workflows, so these are going to be incremental changes in order to make sure that whenever user interacts with our application, it has least cognitive load and the quickest way to achieve certain task and abilities. So, lot of incremental changes will be obviously done on our web as well as on our mobile interfaces. Over and above that, in terms of our back end we have an extensive plan to ensure that our latencies, performance and availability is significantly improved and the overall objective in next few months is to make sure that these optimizations in our backend API contribute towards improvement of performance and overall experience on our app as well as web platform.

Dhaval Gada

Understood. Just the second part on the customer acquisitions, so if I just take a sort of commentary journey of how we thought about at the start of this calendar year, we were trying to use the resources wisely to improve the incremental customer acquisition and some kitty was sort of.. or the aggression was supposed to come after these product launches are through so that the load is taken well care of etc. Given that now last two quarters sequentially we are seeing the run rate decline and from here on how do you see the overall customer acquisition growth to be for let's say the next 3-6 quarters if you could give some perspective that would be useful.

Gourav Munjal

Yes, actually this step is towards in respect to acquire quality customers although there is a INR 17 crore DEMAT account in the country but most of the customers have a balance of less than INR 10,000 only. In this kind of a market, you should play very cautiously that whatever the expenditure which you are doing in terms of advertisement and branding should attract more traders and investors who are relevant to our industry and not just for the sake of numbers. This number is reduced only in respect of that category but I can assure you that overall FYR which is called First Year Revenue has been improved, so with this reduction there will be no impact on revenue. Going forward, yes definitely from now onwards we will accelerate our growth in terms of customer acquisition and we are hopeful and we will try our best to increase our customer acquisition QoQ for the next three or four quarters.

Dhaval Gada

And would it be fair to assume that with these upgrades the investment that you've made the run rate right now we are doing roughly about INR 1.6 lakh per quarter and at the peak in the fourth quarter we did about INR 2.7 lakh in the fourth quarter of 24, we should exceed that in the next two, three, four quarters or the run rate is going to be somewhere between these two numbers. I mean how should one think about your acquisition run rate for the next let's say four quarters.

Gourav Munjal

To be honest, I can't give exact numbers to you as you mentioned but I can tell the direction to the company that yes, we wanted to acquire more customers and we are expecting that our organic growth will also increase due to all these changes and we will continue to spend on our marketing and advertising also, so that we can acquire more and more customers but numbers wise I can't give exact numbers to you.

Dhaval Gada

Okay got it and just final two things in terms of the regulatory changes that are out there, what's the sort of financial impact if you could quantify whatever is in your view of basic assessment at this point of time and specifically on the weekly options expiry related impact how are you sort of looking at navigating that. If you could just talk a little bit around regulatory impact and how the company is looking to navigate.

Gourav Munjal

Yes, so the first change is related to broker can't charge more transaction charges income from customers. So this will impact on the industry level 10% and for 5 paisa it was 8% of total income but internally we do have a lot of levers and we have already took action towards the same. In the industry we were charging less and it was INR 12.5 DP charges now we have increased to INR 20. In industry we had the product of subscription on which we charge INR 10 per order instead of INR 20. We have abolished that product because INR 10 somehow is not feasible for us, so that will compensate our POT income. Second change is coming from 20th November which is weekly expiry and increase in contract size.

Actually we have seen in past that when exchange has started to collect one 100% margin 2-3 years back, there were many expectations at that time that volumes may drop but actually that didn't happen, volume has gone up to 3x in last two years, we need to wait and watch after 20th November and see investor behavior whether it is shifting to NIFTY and SENSEX or whether it will discontinue, we need to review the situation after 20th November although the industry perception is that there can be a slight drop in revenue in this regard.

Dhaval Gada

So you will look at pricing post the initial assessment of the impact to offset whatever loss in volumes if any, I mean how are we thinking about it?

Gourav Munjal

We will review the situation after 20th November. Also, we need to check industry participant actions, competitor actions what they are doing and after that we can strategize. If everyone is increasing the price and there is a major drop in volume then we can also go for the increase in price or take any other action also.

Dhaval Gada

Got it. Just last question, in terms of the OPEX so could you just give a direction around so this is more like a normalized quarter in some sense from here on how should the OPEX sort of move both in terms of your acquisition thought process as well as other investments that you intend to make in people etc. middle and backend infrastructure so just how should one thing about OPEX grow?

Gourav Munjal

Yes so our total cost is INR 71 crores, I must say that most of the cost has been optimized and normalized. I don't see any incremental increase in the same, but yes, I see increase if we are acquiring more customers, so if we see the opportunity for one lakh customer per month and achieved three lakhs quarterly then definitely there will be an increase in advertisement expenditure but apart from that I don't see any material increase in coming quarters.

Dhaval Gada

So this INR 71 crores should grow at what like 15-20% and then the rest is dependent on acquisition run rate and is that the way we should model or?

Gourav Munjal

Yes, absolutely right.

Dhaval Gada

Okay got it thanks. I'll come back thank you.

Gourav Munjal

Sure.

Moderator

Thank you, next question comes from Shreyans Jain, from Electrum Capital, please go ahead.

Shreyans Jain

Hi good afternoon. Most of my questions have been answered already. I just want to know what is your strategy regarding your MTF book because that has declined a lot in the past two quarters so how are you planning to increase it and do you have some internal targets and what is the interest we charge on your MTF book?

Gourav Munjal

Okay so regarding MTF what is happening in the industry, many new players have come and they are charging very reduced rate and paying from their own pocket. Many players who is giving 7-8% when there is a cost of funds is 11% and they are paying from their pocket and yes you are right it has impacted to us and our book has slightly gone down, but we have done many improvements towards the same, First we are doing some changes in our app related to the MTF section so that customer can view and check easily.

Second we have already increased the limit to 4x, earlier it was 2x or 1x we have changed the limit to 4x. Third we are sending digital nudges on the basis of cohort, I mean the customers who can avail and there are more chances he can avail then we are sending a digital nudges and lastly we have also reduced our rate from 1st November. Earlier we used to charge based on net worth and our average return was 19-20 % but now we have standardized to only a single rate which is a 16.42 per annum but usually we charge on a day basis which comes around 0.045%. With all these efforts we are confident that our book size will increase in future.

Shreyans Jain

Do you have some targets for the next let's say 2-6 quarters like FY25 and FY26?

Gourav Munjal

The target is definitely yes, we wanted to grow 2x, 3x and we are doing all the efforts towards the same but again I can't give the numbers but yes target is there.

Moderator

Thank you. Ladies and gentleman If you have a question please press * and 1 on your telephone keypad. Next question comes from Aaliya from Motilal Oswal. Please go ahead.

Aaliya

Hello am I audible.

Moderator

Yes ma'am.

Gourav Munjal

There's lot of noise, what is your question?

Aaliya

I wanted to know what is your current cash and F & O market share?

Gourav Munjal

Our market share is in between 2-2.5% for both cash segment as well as F&O segment.

Aaliya

Okay so like what I was like is compared to your previous quarter the market share percentage is the same so any plans or any strategies you want to apply so that you can increase the market share?

Gourav Munjal

Yes, the main thing is to acquire quality customers who can contribute to our ADTO and acquire more and more customers, this is our strategy and we are working towards the same to increase our market share.

Aaliya

Okay.

Moderator

Thank you. Ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. We have a follow-up question from Dhaval Gada from DSP. Please go ahead.

Dhaval Gada

Yes, just a couple of follow ups. First is on the CAC, what's the run rate right now I mean in terms of per user etc. how the numbers are shaping up and any sort of benefit of the Martech implementation that was talked about a couple of quarters back just if you could talk a little bit around how the CAC has moved in the last two three quarters. Thank you.

Gourav Munjal

CAC, there is an improvement has been made in CAC and there is a 12-13% reduction in CAC. It is in the range of 650-750 as of now and yes, all these efforts helps us to increase our organic acquisition in 1.62 lakhs from which we have acquired the mix of organic is more compare to previous quarters and more organic means more FYR which ultimately gives you proper and healthy payback period of 6-7 months.

Dhaval Gada

And is there any further scope of improvement or this is very well optimized as you see it based on the target segment that you're trying to acquire?

Gourav Munjal

If I go in detail and check proper mix there is a scope but not more than 10-12% as of now.

Dhaval Gada

Understood and the other bit is on the CEO search, any sort of update or any thought process and how is the involvement of Narayan if there is any?

Gourav Munjal

So, Narayan sir is not involved in 5Paisa day to day operations, as we already informed and we will update all investors through our exchange filing and announcement as soon as possible.

Dhaval Gada

Understood and on the market share target so that will be from the post the new CEO being finalized or like is there a plan earlier we used to have that 6% market share target any sort of thoughts on that?

Gourav Munjal

Actually, every CXO is working towards the same target which will have given to us and there is no change in our target strategy, rather we are improving every day and yes with the new CEO there will

be a new major changes will be done but as of now every target is same and we are trying to achieve the same.

Dhaval Gada

Got it, thank you.

Moderator

Thank you. Ladies and gentleman if you any questions, please press * and 1 in your telephone keypad. We have a follow-up question from Shreyans Jain from Electrum Capital, please go ahead.

Shreyans Jain

I think a few quarters ago or sometime back you mentioned that your first-year revenue from customers is around INR 75 or something around that line I can't remember exactly but can you provide an update on how that has changed?

Gourav Munjal

As per strategy I can't disclose the exact number but I can tell you that there is an increase in first year revenue because we have moving towards the quality customer acquisition and it is as per industry. It is not less than that not more than that it is as per industry and for the industry I guess the range for the FYR is 1300-1700 and we are into the same range.

Shreyans Jain

Okay got it, thank you.

Moderator

Thank you. Ladies and gentleman if you have any questions please press * and 1 on your telephone keypad. I repeat ladies and gentlemen if you have any questions please press * and 1 on your telephone keypad. We will wait for the moment while the question que assembles. Thank you there are no further questions. Now I hand over the floor to management for closing comments.

Gourav Munjal

Thank you for joining us on the call today, I hope we have been able to answer all your queries. If you have any further query or need any assistance, please feel free to get in touch and mail us at ir@5paisa.com. Bye and happy Diwali to all of you.

Moderator

Thank you, sir. Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Saba's conference call service. You may disconnect your lines now. Thank you and have a good day.

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