May 04, 2022

The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai 400 001 Tel No.: 22721233 Fax No.: 22723719/22723121/22722037/ BSE Scrip Code: 540776	The Manager, Listing Department, The National Stock Exchange of India Ltd., Exchange Plaza, 5 Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051 Tel No.: 2659 8235 Fax No.: 26598237 NSE Symbol: 5PAISA

Dear Sir/Madam,

Sub: - Transcript of Earnings Conference Call

Please find attached herewith transcript of the earnings call held on Thursday, April 28, 2022. The same is made available on the website of the Company i.e. www.5paisa.com.

Kindly take the same on record and oblige.

Thanking You,

Yours faithfully,

For 5paisa Capital Limited

5paisa Capital Ltd.

Namita Godbole
Company Secretary
Email ID: csteam@5paisa.com

5Paisa Capital Limited
Q4FY22 Earnings Conference Call

Event Date / Time: 28/04/2022, 14:00 Hrs. IST
Event Duration: 37 mins

CORPORATE PARTICIPANTS:

Mr. Prakarsh Gagdani
CEO and Wholetime Director

Mr. Gourav Munjal
Chief Financial Officer

Moderator

Ladies and gentlemen, good day and welcome to 5Paisa Capital Q4FY22 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 * and then 0 on your phone. Please note that this conference is recorded. I would now like to hand over to the management. Thank you and over to you.

Prakarsh Gagdani

Very good afternoon, everyone. Myself Prakarsh Gagdani, CEO and Wholetime Director of 5 Paisa. I welcome you all for this Q4 and the Annual Conference Call for the financial year 2022. Joined by my colleague, CFO Mr. Gourav Munjal. Before we open for questions, I would like to share how the entire last year and last quarter went by for us, as well as for the entire industry. Friends, the last two years have been outstanding for the industry and especially financial year 2022. I feel that every disruption in the industry needs an inflection point, which take the business to a whole new level. Pandemic proved the same for broking. With technology at the forefront of filtering players led this disruption of capital market to every town of the country.

In just two years, overall demat accounts in the country has more than doubled. In FY22 alone, we added 3.5 crores demat accounts, which is 146% more than the last year. It actually means that almost 2.5% of the population entered capital market in just one year and most of them for the first time. The debate about the seriousness of the people or the investment side, the age bracket that the investors are coming into, the longevity of the users with respect to sticking around is there, but one thing is for sure, at the end it is absolutely positive. And, we are on a track to be a nation with a sizable population investing directly or indirectly in market as compared to the traditional ways of investing.

With per capita income growing and awareness about capital markets spreading in the younger generation, it could lead to a stronger capital market in the coming years. Talking about 5 Paisa’s journey during the last 12 months, I'm delighted to share that we acquired 1.38 million customers in last one year, which was 100% more growth than last year and rather base grew by 102% for this year. We continue to be the fifth largest discount with the market share of 4% in the incremental demat account getting added in the industry. Our growth in acquisition complemented with our average daily turnover of 129%.

Despite competitors opening more accounts, our ADTO growth, especially in the equity derivatives segment is in line with our industry growth. It is clearly aligned with our philosophy of opening quality accounts who have genuine intention of trading. Our active clients as a percentage of total clients stand at a healthy 64%, we are not just able to have higher customers, but we are also able to engage them. Our monthly active users, which is typically MAU on our mobile app is now stands at approximately 1.2 to 1.6 million customers. This is 60% higher than March last year. Our overall business numbers indicate a healthy growth, which is 42% growth in the number of orders, 107% growth in our margin funding book which stands at around Rs.300 crores plus today and a 53% growth in our overall top line. As you're aware that we raised around Rs.250 crores from marquee investors in May 2021. With fundraise we began our investment in technology and also branding.

Technology when I say it means both investing in people and also building our infrastructure and product. So this resulted in cost increase. Though this was an investment in our business for future growth and I've shared that in the previous calls also with all of you, but we still managed to maintain our profitability and yet grew our both customers and revenue. Our investments have started giving fruits with this quarter showing a sequential profit growth of 500%. In last quarter we had a PBT of about a crore and this quarter it's around 6 crores. Now, this is all about the quantitative aspects of business. Now, let me talk something about the qualitative aspects of business.

As a mobile-first fintech company, for us customer delight on our platform is paramount. Our focus on improving our onboard experience has led to a growth of 62% in our lead conversion. Not just that, but today 78% of the customers open their account without any assistance and that too straight through without any rejection or objection. Our mobile app with more than 12 million user has a rating of 4.3, which is one of the best in the industry.

We have not just improved customer experience during onboarding and opening an demat account, but also worked on overall customer delight. Our NPS score, which stands as an ultimate test of customer happiness, stands at 81% today. Talking about technology investment, one of the objectives of our fundraise was investing in technology. It was expanding our team, building product, building infrastructure for the next door, hiring and investing in talent across digital vertical.

I would like to appraise all that we have taken a leap jump in the same. Our digital team today stands at around 208 people, whereas we were just 73 last year. We are also in the process of creating a brand-new data center of a bigger capacity than we already have, and this will be an addition to the infrastructure we already have today. On the product front, we are in the process of revamping our mobile app, which is our predominant platform for trading and for all our users.

The objective here is to provide the best-in-class experience to our customers, not just who are coming to market for the first time, but also the seasoned players. Our mobile app will now have not just be powerful and scalable backend, but a sleek, beautiful and a new features loaded frontend too. Our app, we'll be providing information and features which will be unparalleled in the industry as of now.

Before concluding my address, I would like to touch base on our quarterly performance. I'm again delighted to share that yet another strong quarter. Our overall revenues went up by 10% sequentially, but as I said that our profits are up by almost 500%. For previous few quarters, we were investing in tech product and branding, which resulted in subdued profits. With this quarter, we are almost through with our investments in tech and product. From now on, our cost increment will be much lesser as compared to our revenue growth. We will continue our focus on our growth which is customer acquisition and revenue. I'm confident that this will also help us to improve our profitability in coming quarters. With that I conclude my address and I open the floor for question and answer if you have. I will be more than happy to answer those.

Moderator

Our first question from Mr. Sarvesh Gupta from Maximal Capital, please go ahead, sir.

Sarvesh Gupta

Good afternoon, sir. First question is that you have grown 50 odd percent this year, but you know, compared to your competitors, especially the digital brokers, the growth seems to be on the lower side. We know the numbers of at least two which have grown by almost 100% in one case and 70% in another case and the other thing is that now the scale at which they are in terms of revenues, is almost 7 to 10 times of or more of where you are, so in an industry where you know, this is getting more and more concentrated amongst fewer players, what makes you confident that you will still have the right to sort of stay relevant in the top three, four sort of a player or mindset of the potential customers?

Prakarsh Gagdani

Hi, Sarvesh. So, you know, I agree that obviously you have more competition data than I have. See first of all, while talking about growth, we have to look at what exactly we're talking in terms of growth. So, if I talk about revenue, if you see our last year, though the base at which we were last year, we wanted to raise capital and that is the reason in the Q2FY22 and Q3FY22, we had to slow down our growth because we needed capital for further growth. Now that got concluded in the month of May last year and from that which is Q1, if you see, we have again started acquiring more customers and our revenue growth has now going up.

So, I think if you look at the kind of comparison that you're doing for competition vis-à-vis us, which is maybe a listed competition, we have beat the buzz. Secondly, see broking is not something where you say that you whether you will be still relevant or not. At the end of the day, what matters is whether your product is being liked by customer? Is your offering, actually targeting a set of customers, and are you able to retain them, and if your long-term value of a customer is intact? If that is there, then you would always be relevant.

Now, I'll give you some more data point. So in my address also I said that, though, we have not grown in terms of customer base. So, for example, in the industry the demat account has grown by 146%, but we have grown by 102% in customers. But if you see derivative turnover, you know, which is typically the lucrative part of the revenue. Now the derivative mode, we've be grown almost the same as the exchange has grown. What exactly it means? It means that we are able to attract the right kind of audience and the customers that are coming to us are sticking to the platform and trading. I think that is more important. And if you're able to do that consistently, it is a matter of time that your revenues shoot up and your profitability also shoots up.

And I don't believe that today's large players will always continue to be. You know, five years back most of the full-service brokers were 10 times, 20 times, 30 times the size of a discount broker. A lot of people have written off this model at the start, but what is happening today? So, the picture is completely changed. So, we don't know exactly what is going to happen in future. So, I with an entrepreneurial mindset, I don't see that now today if you are not number one, right. So, it is always that if you focus on what your customer wants and if you're able to give that, provide that, you will always be relevant, and you'll always grow. And that again, I'll have this conversation a year later.

Sarvesh Gupta

Sure, sir. That is what my question was basically, you know, full-service brokers got disrupted by the discount brokers and now within that discount brokers, if you count for the revenue market share, you would have lost it this year compared to all the top three, four guys. If you do a revenue market share analysis, you have certainly lost the market share. So, what gives you confidence that you will be able to gain revenue market share amongst the top three, four players in the next two, three years? That was essentially my question, sir.

Prakarsh Gagdani

See, the answer to this is very simple, our trading experience and our products. I'm absolutely confident that this this is going to be an experience changing moment for customers and that is something that will drive our revenues and will grow our revenues from here. I know that the answer may not excite because that doesn't talk in numbers, but if you use the product, you will understand what I'm trying to say.

Sarvesh Gupta

I understood, sir. And, second sir, is on the expenses side. So, this year while you know our revenues have grown by 50%, but the costs would have gone up even more, especially advertisement and all these costs. So at what level do we see this operating leverage to play out for us because till now, you know we are at a very wafer-thin sort of profitability. So when do we see operating leverage coming in, which year and at what total revenue scale?

Prakarsh Gagdani

So, as I said that last two quarters rather three quarters, we were investing in technology. Our tech expenditures increased multifold and same was in advertising marketing, and that's the reason there was a profitability impact. But I see I think that is more or less done and it could be more of a linear cost growth, and I think in next one to two quarter, we will see a linear, rather an exponential growth in profitability in this scale. So, the answer to your question is in next one to two quarters, we should see.

Sarvesh Gupta

So, another 20%, 30%, 40% growth from here would lead to cost not getting grown in the similar proportion? Are we at that level where we are saying that we are at a much higher fixed costs which will enable us to grow from here without any additional costs being incurred?

Prakarsh Gagdani

We are more or less there. I'm not just putting exact number, but yeah, more or less what you're saying is right.

Sarvesh Gupta

Okay, sir. Thank you and congratulations and all the best.

Moderator

Thank you, sir. So, the next question comes from Mr. Rishikesh Oza from Robo Capital. Please go ahead, sir.

Rishikesh Oza

Hi, sir. Sir, some original customers are still paying rupees 10 per trade, so do we plan to increase the broking rates some time in future to 20 rupees per trade?

Prakarsh Gagdani

See, we changed our broking rate from Rs.10 to Rs. 20 from January 2020. It's been two years, but older customers continue to remain at 10 and we don't have any plans to make from Rs.10 to Rs.20. Rather, one of our subscription plans even today offer a Rs.10 Rupee brokerage. You know, if you pay a fixed charge of Rs.500 a month or a Rs.999 a month, we offer a 10 Rupee brokerage. So as of now there is no plans of increasing the brokerage from Rs.10 to Rs.20 and even Rs.20 beyond.

Rishikesh Oza

Okay, no problem. And regarding an earlier question, which earlier participant had just asked, so are we expecting the cost structure to stabilize at these levels?

Prakarsh Gagdani

Yes. As I said that I'm not putting a number at what cost, but yeah, you're right, that the cost will stabilize at these levels and in the cost will not be anywhere close to increment in the revenues. So, that's what I'm expecting in the next few quarters to come.

Rishikesh Oza

Okay great. And sir, can you please provide any breakup on the Rs.36 crores of other expenditure and how do we expect this in FY23?

Gourav Munjal

Yes, mainly it is pertaining to our professional charges which is pertaining to the cost of acquisition of the customer. So, Rs.10 crores is the professional charges, and the second major cost is the IT cost, which is approximately Rs.14 crores in this and the others Rs.8 or Rs.9 crores is the approximate related to the office, admin, exchange statutory charges, etc.

Rishikesh Oza

And how do we expect this in FY23?

Prakarsh Gagdani

So broadly, the tech cost as I said, will be more or less remaining same with 10%-15% kind of an increment over the year, around 15%-20% increment over a year, but rest of the costs you know will be more or less the same.

Rishikesh Oza

Okay, got it. Thank you.

Moderator

Thank you, sir. Next question from Mr. Deepak Poddar from Sapphire Capital. Please go ahead, sir.

Deepak Poddar

Sir, I just wanted to dwell more on the cost side. Now, currently, I think this quarterly, we are currently at about maybe Rs.62 crores kind of a cost level, if I exclude the employee cost, and you did mention that you look to stabilize cost at these 4Q levels, with a marginal increase in our tech cost, so quarter and quarter a marginal 3% to 5% kind of cost growth will that be a kind of a fair range to kind of look at for us?

Gourav Munjal

As I said it is difficult to put a number in terms of 3% to 5% quarter, but yeah, the branding costs will be more or less stabilized, but acquisition costs, which is directly related to the customers will have a small increase there with the number of customers that we acquire. But apart from that most of the costs will remain the same. Employee costs at this quarter will have one-time impact because of the appraisal that we do in April, so that cost will have one-time impact, but then that will stabilize again. So broadly, it would be in the range of what you're seeing with maybe a small increase in acquisition cost with customer's increases.

Deepak Poddar

Understood, fair enough. And what was the tech costs incurred, maybe last year?

Prakarsh Gagdani

So from last quarter as Gourav said it was around Rs.14 crores, but full it is somewhere in the range of Rs.42 to Rs.43 crores.

Deepak Poddar

And there we see 15% to 20% increase right, YoY.

Prakarsh Gagdani

Yeah, YoY.

Deepak Poddar

Rs.40 to 43 crores, understood. And sir, on the revenue side, I think we have been maintaining that our revenue largely will track our client acquisition growth, right. Now, if I have to see last two, three quarters, our client acquisition or clients have grown at about CAGR of maybe 15 to 20%, but our revenue has grown at 10 to 15% with some lag, so is that the run rate one is looking at in terms of the lag between the client growth and the revenue growth?

Prakarsh Gagdani

Yeah. See, our objective is always to have a revenue growth in line with our acquisition growth, but sometimes, you know, when you when you're out there in the market acquiring customers, sometimes the quality of the customer's changes, creates a bit of lag. But, you know, our objective is that if it is a 15% growth in our customer base, our revenue should also be in the line of around 12%-13%, if not less than 10%. So, you know, we keep on tweaking that, but broadly with 2%-3% lag, we should be able to maintain that revenue growth and also customer base growth.

Deepak Poddar

Understood. With the lag of may be one quarter you said.

Prakarsh Gagdani
Sorry. Lag of 3%, I said. Yeah, 2% to 3%.

Deepak Poddar

Yeah, understood. And my final query is on your client acquisition cost. Per client, I think our client acquisition costs currently stand about 720-730 rupees odd. So, do you expect it to reduce going forward as the scale kind of pick up for us?

Prakarsh Gagdani

Yes. See our last quarter acquisition cost was around Rs.767 and I see that maybe a 5% to 10% kind of scope exists further downside, but now it won't happen immediately. It will take time because, you know, if you see the last quarter of last year and this quarter, then anyways a good decrease in the cost. So, from here on, I see a 5%-10%, but it will happen very slowly over three to four quarters.

Prakarsh Gagdani

Thank you very much.

Deepak Poddar

Understood. Fair enough. Yeah, that's about it. Yeah, all the very best, sir. Thank you very much.

Moderator

Thank you, sir. The next question from Mr. Sumit Jankar from Motilal Oswal Financial Services. Please go ahead, sir.

Sumit Jankar

Thank you for providing me the opportunity. My question is in line with the previous question only. So, sir what is the payback period? So you mentioned that client acquisition cost Rs.767. So what is the payback period for that, and my second question is when you mentioned that the derivatives turnover is in line with the market turnover. So, can I know what is current derivatives market share and the cash market share?

Prakarsh Gagdani

Yeah, so talking about your first question, the payback period is we maintain it around eight to nine months, so that is stable, right. On the derivatives side, we do almost close to Rs.1.2 lakh crore turnover and our market share in derivatives is stable at around 3% of the retail market share.

Sumit Jankar

Okay. Sir, and about the cash market share?

Prakarsh Gagdani

Cash market is also in the range of 3% to 3.5% market share.

Sumit Jankar

Okay, thank you sir.

Prakarsh Gagdani

Yeah, thank you.

Moderator

Thank you, sir. We have the next question from Mr. Deepak Sonawane from Haitong Securities. Please go ahead, sir.

Deepak Sonawane

Yeah. Thank you for the opportunity, sir. Sir, I'm just looking at your cost of acquisition over the last three quarters and we could see that it is slightly stagnant, right. And even in Q4, the gross client acquisition was slightly lower compared to previous quarter, but the CAC was still around Rs.77 crores. So can you explain a bit about the stagnancy of the CAC?

Prakarsh Gagdani

So, I think there is some correction. You said Rs.76 crores, but that is actual number. So, our CAC per customer in Q4 is Rs.767.

Deepak Sonawane

Sorry, yeah.

Prakarsh Gagdani

The same was Rs.769 rupees for last quarter. So our CAC reduced, which will have an impact on the overall cost of advertising and marketing, but the CAC has remained flat for the last two quarters from Rs.769 to Rs.767.

Deepak Sonawane

Yeah. That's my question like, why it is being stagnant? And I'll rephrase my question, what is the percentage of your tech costs in the CAC per customer?

Prakarsh Gagdani

Tech cost in CAC?

Deepak Sonawane

Yeah.

Prakarsh Gagdani

Sorry, normally I don't see tech cost as part of CAC because CAC has three components that we normally look at, which is your marketing cost, which is spending for acquiring a lead, which is stands around Rs.572, and the balance Rs.195 is people cost and OPEX related cost related to acquisition. So, there is no dedicated tech towards acquisition. Our tech is basically our product, which is our mobile app, and all the integrations that we have done. So, that remained same for even acquired customer and being acquired customers. So, there's no bifurcation of the tech cost here.

Deepak Sonawane

All right, thank you. And my second question is regarding some other players, let's say some players are coming with plans that are kind of free with the charging onetime fee or else quarterly AMC. Do you see such kind of plans will persist or will disrupt the industry's current per trade rate or else those kinds of metric?

Prakarsh Gagdani

Yeah, these plans which are coming, I think it's more of packaging rather than disruption. I think the kind of costs which are now required to run a broking business with all the regulations and compliance changes has gone up. The capital requirement at the exchange level has gone up, the compliance requirements that have gone up. So, I don't see that there is any room for further disruption in cost, which is brokerage, or the rate of brokerage is concerned.

Yes, there might be players and there might be competition who might come with some packages, which will look attractive, but at the end of the day, broadly, what they are going to take is the same amount of revenue that brokers like us are charging like 20 Rupees flat. I think it is more of packaging rather than disruption and I strongly feel that there is very less room for any reduction of cost from here on.

Deepak Sonawane

Okay. Thank you, sir. Thank you so much.

Moderator

Thank you, sir. So the next question from Mr. Pranav Gala from I Wealth Management. Please go ahead, sir.

Pranav Gala

Hello, thank you for the opportunity. Am I audible?

Prakarsh Gagdani

Yeah.

Pranav Gala

Sir. I was just seeing on our ad and marketing expense. So for the last three to four quarters, if I would see, it had been around 30% - 35% of our sales, right? And now, for the current quarter, it has come down to the 30% mark. So, how do we see this cost going forward?

Prakarsh Gagdani

So as I said that, you know, earlier for the two quarters, i.e. in Q2 and Q3, we were investing in branding expenditures and also increasing our advertising funds, but now it is around that. But yes, so just for example, this quarter, we acquired around 3.5 lakh customers and if that number increases in the coming quarter, then that much proportion of cost will increase, but overall running expenditure will remain more or less the same that we had for last year. So, I don't see a much increment over there.

Pranav Gala

Okay, so it might be around 30% - 32% a mark of the sales, approximately.

Prakarsh Gagdani

Yeah.

Pranav Gala

So actually, on the client acquisition cost, which you had mentioned earlier, doesn’t that include the marketing and ad spend as well because that is how we will be acquiring clients?

Prakarsh Gagdani

So, it includes all the expenditures which is marketing. The only expenditure which is not included here is our branding expenses, which are typically ad hoc, one-time kind of expenditure that is not included, but everything else is included here in CAC.

Pranav Gala

Okay, sir. The Rs.26 crore ad and marketing is the branding expense and not the client acquisition expense?

Gourav Munjal

So, just to add in line out of Rs.26 crores, Rs.20 crores in related to the CAC and Rs.5 crores related to the branding. So, if you multiply our CAC with the number of acquisitions it is Rs.20 crores, which is included in total Rs.26 crores.

Pranav Gala

Okay, got it. Okay sir, that's it. Thank you.

Prakarsh Gagdani

Thank you.

Moderator

The question comes from Sumit Jankar from Motilal Oswal Financial Services. Please go ahead.

Sumit Jankar

Yeah, thank you for providing the opportunity. So, I want to know, what is the cost income ratio for the Q4 and what is the cross-sell-client penetration or the product per client?

Gourav Munjal

So, I can tell overall ratio which is 68% is our gross margin and 5% is that net profit ratio. So overall, our fixed cost ratio is coming for this quarter is 61% approximately.

Sumit Jankar

Okay.

Prakarsh Gagdani

Yeah, cross-sell broad penetration would be around 1.07- 1.1, around that for product per customer.

Sumit Jankar

Okay, thank you.

Prakarsh Gagdani

Thank you.

Moderator

Thank you, sir. The question comes from Ms. Kajal Gandhi from I Sec. Please go ahead, madam.

Kajal Gandhi

Yeah, hi. I wanted to ask any reason for activation rate being on the higher side this time with the active client growing faster.

Prakarsh Gagdani

Okay. So, you know, and that too not just this quarter, but every quarter, what we do is we run activities on older customer to activate them. So, you know, we nudge them through, sending out the portfolio related notifications and communications regarding our products, so these nudges that we run, you know, activate the customer. So, some of these activities have worked well in this quarter and that's the reason you see a bit of good growth in the active client as compared to last quarter.

Kajal Gandhi

Sir, any focus on P2P right now or that is right now is not in any focus?

Prakarsh Gagdani

Right now, we are focusing only on our broking and related business. For P2P, currently no. It's on auto mode. Right now, it's not a part of our strategy to go aggressive on P2P.

Kajal Gandhi

Okay, sir. Thank you very much.

Prakarsh Gagdani

Thank you.

Moderator

Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. As there are no further questions, I would like to hand over the floor to the management for closing comments.

Prakarsh Gagdani

Thank you very much for joining this conference. If you have any questions apart from this, you can reach out to us on ir@5paisa.com and we will be more than happy to answer your question. Thank you very much and have a great day ahead.

Moderator

Thank you, sir. On behalf of 5Paisa Capital, that concludes this conference. Thank you for your participation and for using our Conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.