5paisa

May 08, 2023

To,	To,
The Manager,	The Manager,
Listing Department,	Listing Department,
BSE Limited,	The National Stock Exchange of India Ltd.,
Phiroze Jeejeebhoy Tower, Dalal Street,	Exchange Plaza, 5th Floor, Plot C/1, G Block,
Mumbai – 400001.	Bandra - Kurla Complex, Bandra (E),
Tel No.: 22721233	Mumbai – 400051.
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BSE Scrip Code: 540776	NSE Symbol: 5PAISA

Dear Sir/Madam,

Sub:- Transcript of Earnings Conference Call on Audited Financial Results (Standalone and Consolidated) for the quarter and year ended March 31, 2023:

In continuation of our letter dated April 28, 2023 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of Earnings Call held on Tuesday, May 02, 2023 for discussing financial and operational performance of the Company for the quarter and year ended March 31, 2023 has been made available on the website of the Company at;

https://storage.googleapis.com/5paisa-prod-storage/files/investor_relations/2023-05/Transcript%20-%20Final%20-%205paisa%20Capital%20-%20Q4FY23%20Earnings%20Conference%20Call.pdf

Kindly take the same on record and oblige.

Thanking You,
Yours faithfully,
For 5paisa Capital Limited

Namita Amod Godbole
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5paisa Capital Limited
Q4 FY23 Earnings Conference Call

Event Date / Time : 02/05/2023, 1400 hours.
Event Duration : 34 mins 04 secs

CORPORATE PARTICIPANTS:

Mr. Prakarsh Gagdani
CEO and Whole-Time Director

Mr. Gourav Munjal
Chief Financial Officer

Q&A PARTICIPANTS:

1. **Rishikesh Oza**	:	Robo Capital
2. **Kajal G**	:	ICICI Securities
3. **Deepak Sonawane**	:	Haitong Securities
4. **Prayesh Jain**	:	Motilal Oswal

Moderator

Good afternoon, ladies, and gentlemen. I'm Pelsia, moderator for the conference call. Welcome to 5paisa Capital Limited Q4FY23 Earnings Conference Call. We have with us today Mr. Prakarsh Gagdani, Whole-Time Director and CEO, 5paisa Capital Limited; and Mr. Gourav Munjal, CFO, 5paisa Capital Limited. 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 any 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 floor to the management. Thank you and over to you, sir.

Prakarsh Gagdani

Very good afternoon, everyone. Myself Prakarsh Gagdani, Director and CEO of 5paisa Capital, me along with my colleague Gourav Munjal, who is our CFO, welcome you all for the fourth quarter and the annual conference call FY23. Since FY23, has been a year of consolidation for capital markets, broad market remained range bound throughout the year with NIFTY practically giving no returns. We've seen the result of the same was very clearly demonstrated in the retail participation. ADTO on the cash segment, which is the main indicator of the retail participation reduced by almost 26%, if you compare March 22 versus March 23, even the new Demat Accounts growth in the industry slowed down.

Previous year, which is in FY22, the industry grew by 81% and added almost 45 million Demat Accounts in a year. But last year, which is FY23, the industry just grew by 22% and added approximately 25 million Demat Accounts, which is less than half of what we acquired previous year. But despite these tough conditions, we've managed to successfully transform our organization with a vision of providing one of the best trading platforms to our customers. We change our strategy in Q3 FY21-22 of not just acquiring customers in terms of numbers and be in rat race, but to acquire a high intent trading customer. In last one year, this has helped us to reduce not just our CAC, but also our payback time from 8 to 10 months to 6 to 7 months now.

We kept technology and product on the forefront. We invested in building our digital team. We increased our manpower in our digital team from almost 208 people to 255 people. This very team helped us revamp our Android application. Today our Android app has more than 15 million downloads, 4.81 lakh reviews, with an improved rating of 4.31+. We launched our dedicated terminal, we call it FnO 360 for traders. Today, that has become a go-to platform for high frequency derivative traders who are looking for tools, data and strategies for derivatives trading. Our efforts on product strengthening helped us to improve our ADTO by 146%, if we compare last year March to this year March. Not just that, we've also improved our market share a bit from 3% to 3.1% despite 45% less customer acquisition.

Talking about our financial performance. Despite the challenges we faced in the year, with respect to subdued market participation, particularly no returns in equity investment et cetera, but we've managed to increase our revenue, despite all the problems, we've managed to increase our revenues by 14% from INR 298 crores to INR 339 crores. Despite our investment in infrastructure scale up, manpower increase in digital team, our costs have more or less remained the same with just 1% increase. It has helped us to improve our profitability by 216%. I'm delighted to report highest ever PAT of INR 43.6 crore for 5paisa Capital.

We've not just increased our profits, but also expanded our PAT margins from 5% to 13%. It is also important to note that we have started to get the operating leverage because of scale of our business. We have explained in our presentation that we are broadly able to recover the cost which is both the marketing costs and servicing costs in the first year with some marginal profit, but a substantial increase in the profit margin comes from second year onwards in the same customer cohort. It is also clear that we are enjoying 50-percent-plus EBITDA margin from customers who complete three years in our system.

Lastly, talking about our online retail trading acquisition of IIFL Securities, which we announced in Q3 of FY23. The appointment date of acquisition is 1st April 2023. We are currently in the process of seeking regulatory approvals and I'm hopeful to complete this acquisition, subject to the approvals, in this financial year. With that, I end my opening remarks, and I open the floor for question-and-answer. If any one of you have any questions, please go ahead and ask. Operator, over to you.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. The first question comes from Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain

Yes. Hi. Congrats on a good set of numbers. A few questions from my side. Firstly, a clarification. You mentioned the EBITDA margin is 65% in the third year or over a period of 3 years?

Prakarsh Gagdani

Overall. So, if you look at the chart, we are seeing that broadly someone who has completed three years, if you look at calendar year 20 is approximately 48% overall with second year onwards is 68-percent-plus, 60-68%.

Prayesh Jain

Okay, got that. Could you break down the INR 111 crores of allied broking income for me into various major heads?

Gourav Munjal

Okay. So, in allied broking, major part is our MTF income; our MTF income stands at approximately INR 60 crore, INR 10 crore to INR 11 crore is from DP charges and INR 10 crore to INR 11 crore is from AMC and rest is transaction charges. So, this is a bifurcation of INR 110 crores.

Prayesh Jain

Okay, that's helpful. So, how would you rate the impact of, in case there is a complete transition to ASBA and also the upstreaming of funds, how do you see the impact of both these measures to your business?

Prakarsh Gagdani

So, the first is, ASBA is yet to get implemented, but yes, the ticket size, I think, because it's a UPI based ASBA platform, is around 5 lakhs. So, it will impact the pay-ins of the smaller ticket size customers. Even today, normally pay-ins are done when customers are taking positions or buying delivery. So, in most of the case the money anyways goes to exchange as a part of our pay-ins. The float that brokers enjoy is basically when the customers sell their stock or clear their positions and keep a credit balance.

Normally we have not seen people transferring funds and keeping it idle. So, ASBA will not have much impact on the contrary it will become very easy for customers to transact because the success ratio now on the UPI platform is very high. Talking about upstreaming. Yes, so right now, with the regulatory changes, it will increase our working capital requirements because with the very recent circular, the bank guarantees on the customer funds are not allowed. So, that will increase our requirement of working capital by approximately INR 100-125 crore. But right now, for our current requirement we are internally well-capitalized to handle that requirement. So, for now, that will not have much impact.

Prayesh Jain

Okay. So, when you mentioned about the ASBA, that the money is generally lying when the individual sells the stock and money lies with you. But that will now have to be upstream, right?

Prakarsh Gagdani

Yes, but upstreaming to clearing corporations are also allowed in the form of fixed deposits. So then, brokers will still continue to enjoy the interest on the fixed deposits. See anyways, a significant portion of the customer funds are parked with the exchange, almost to the tune of 85% to 90%, in the form of deposits. But that will continue, that 90%

will practically become 100%, but it's not that the income is going away because exchange has even now allowed brokers to upstream the money in form of cash collateral and also in the form of fixed deposits.

Prayesh Jain

And when you say working capital requirement will go up possibly, what is the cost for that approximate?

Prakarsh Gagdani

So, right now, as I said that there will be a marginal cost increase. Gourav will take this question.

Gourav Munjal

There is a INR 125-130 crore additional requirement. So, there could be an increase in net costing, but that will not be much. It can be INR 4 crore to INR 5 crore.

Prayesh Jain

Okay. I think, working capital increase will be of INR 125 crores to INR 130 crores.

Gourav Munjal

Yes.

Prakarsh Gagdani

Yes.

Prayesh Jain

Okay, got that. And with regards to this IIFL customer transition, obviously you would have looked at the kind of ticket sizes and what is the kind of nature of these customers, so in that sense, are they kind of relatively better than what customers or what experience you have with the existing customers base or would they be similar, how would you look at them more qualitative and quantitatively?

Prakarsh Gagdani

See, broadly, with this transaction, we are getting approximately 15-lakh-plus customers as a part of the acquisition. Now, these are not like selectively chosen customers, they are a part of an online retail trading vertical of IIFL Securities. So, the nature of the customers, the behavior of the customers, the customer cohorts in terms of geography, age bracket, gender, more or less are same of what our customers are. But then the classification at their end is someone who has 10 lakhs and less margins. So, because there was a cap in this particular vertical, the behavior in terms of ARPU of the customers may not be same as of 5paisa, it will be a bit less. But, overall, the behavior pattern in terms of all the other parameters is more or less the same.

Prayesh Jain

Got that. And so, from an outlook perspective, this is a last question from my side. There is so much talk about F&O activity of retail participants being on the higher side. So firstly, can you provide the breakup of revenue in the brokerage side, so how is from Future and Options and cash every time? That is one. And secondly, what are the measures that the Regulator can really implement if they want to kind of constrain this increase in activity?

Prakarsh Gagdani

Sure. So, broadly, if you look at our breakup in terms of brokerage in derivatives, close to 75%, 80% is the revenue that, in today's market condition that we are getting from derivatives. So, it’s broadly skewed towards derivatives as of now. One of the reasons is, obviously, higher participation of retail in derivatives, but is also a very-very low participation in the cash segment. But yes, currently, it is in that range. Secondly, there have been talks in terms of the higher retail participation. But if you look at a number and this is my analysis of this entire thing.

If you look at the real turnover, which is typically the premium into quantity, on the retail side of it is not more than -- the overall derivative turnover is not more than INR 50,000 crores which is typically the same turnover that cash market segment is generating. So, the actual turnover in the retail which is Option trading turnover is equal to the cash market turnover. Having said that, yes, there has been an increase in the customers who are trading in Derivatives segment, but that is also because of the changes in the regulatory environment in last two-three years, a lot of people used to trade in the cash segment before 2021.

That entire customer base which was trading in cash segment also shifted to derivatives because cash segment leverage went away. So, in cash segment, earlier the broker used to provide at least 10 times 12 times leverage, now that has gone. So, where do you get 10 times, it's typically NIFTY because NIFTY margin is in the range of around 8% to 9%, so that's where you get leverage. So, those customers shifted to derivatives. Second, the overall Demat account number, actually from 3-3.5 crore, we're at 11 crore Demat accounts.

So, when you have more retail participation coming in overall capital market, the numbers will go up. Though, yes, there has been advisory, there have been reports and SEBI has also published a report in terms of how many people are making losses. But I think it's a general behavior. Today, the leverage has gone out of system. Brokers can't give leverage, customers have to come with complete cash, there is absolute transparency. So, I think a lot of measures are already taken. What more will be done, it's something that we all now have to see. But I don't see that this as such a dangerous trend as it is being perceived otherwise.

Prayesh Jain

Thank you so much all. I will come back in the queue.

Prakarsh Gagdani

Okay. Thank you very much.

Moderator

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

Deepak Sonawane

Congrats for the good set of numbers.

Prakarsh Gagdani

Thank you very much.

Deepak Sonawane

Sir, my first question is on cost of acquisition. So, we have seen, I mean, QoQ and again for industry as well, quarterly average acquisition, I mean, client acquisition run rate is slowing down, right. But for us, if you see that, cost of acquisition has gone up, right, QoQ as well. I mean, that is mainly because of using other OpEx, right? So, what is the major item that is classified as other OpEx? I mean, we have reported around INR 296 per client as other OpEx for Q4 FY23.

Prakarsh Gagdani

The OpEx means cost of the call center team, our sales team including their salaries and overheads , who assists customers in opening accounts. Now, that is a fixed cost of people, and that we cannot change immediately in a quarter. So, if there is some drop in the acquisition for a quarter, obviously, the fixed cost of employees, if you divide by the number of customers that increases. So, I think that's the impact on the acquisition, which I feel is just a temporary thing.

Broadly in my previous calls also I have said that, we've been working on reducing our CAC and more or less that activity is over and then I somewhere see that our CAC will range between INR 500-600 depending on sometimes the market scenario in terms of acquisition, sometimes the composition of acquisitions that we're doing in terms of paid performance and also the organic growth and the referral. So, broadly, this will be the range, a little here and there, is only because of the fixed cost of employees and the other office expenses that we have.

Deepak Sonawane

Okay. But on marketing side as well, we have seen some kind of uptick right on QoQ basis.

Prakarsh Gagdani

Yes. So, there will be a small INR 50-70 movement that will keep happening here. But broadly that trend will be in the same range. So, if you look at last six quarters' performance, we were in the range of around INR 750-800, from that range we will be in the range of around INR 500-600. So, you should consider that as a broad range.

Deepak Sonawane

Okay. And my second question is on cash position on the balance sheet, has reduced drastically, right, YoY, I mean, from INR 89 crore to almost around INR 21 crore. And that against our borrowings, even, I mean, at the same pace they have gone down, right. So, any particular reason major reason for this?

Gourav Munjal

Okay. So, the cash and cash equivalents, you should always see with the bank balances, because one is in the FD format, one is the liquid cash. So, if you combine together it has gone up, and cash and cash equivalent is just balance sheet figure that indicates how much cash we are keeping with the exchanges. Okay. Second question is related to the borrowing. Actually, the borrowing is majorly related to the MTF book. So, you can see our loans book, which is coming down from INR 250 crores to INR 172 crores, major impact we have seen in the month of March and hence the borrowing has been reduced.

Deepak Sonawane

Okay, thanks a lot.

Prakarsh Gagdani

Thank you.

Moderator

Thank you. Next question comes from Kajal G from ISec. Please go ahead.

Kajal G

Hello. Congratulations on a good set of numbers, sir.

Prakarsh Gagdani

Thank you very much.

Kajal G

Sir, one was, can you just explain more on the slide number 12 where they have shared this first year, second year, third year? And second was on the increase in turnover, which we have seen sequentially, so is it led by increase in number of orders or ticket size per order, what will be the color on that? Yes, those were the two questions.

Prakarsh Gagdani

Kajal, I'm sorry, but I could not get your question very clearly. If you can repeat both your questions, I think, we can answer one by one. What was your first question?

Kajal G

First was I wanted to ask about the slide 12. So, I wanted to understand more on the slide 12, what we are explaining out here. And second was whether the increase in turnover, essentially what we have seen, is led by rise in orders or rise in ticket size.

Prakarsh Gagdani

So, I think the first question was related to the customer cohort that we have shown and the high LTV, right? That's the question?

Kajal G

Right.

Prakarsh Gagdani

Yes. So, what we're trying to show here is, that whenever we acquire customers, there's an acquisition cost and then there is a servicing cost, basis that what is the revenue that we or what is the profitability that we achieve in every year. So, if you look at calendar year 18, then that customer set has completed six years with us. Sorry, five years with us and this is the CY23 will be the sixth year. So, in 5 years, what is the margin that we are getting in subsequent years and how much are we earning from that customer on an overall basis in five years.

So, if you look at the idea of sharing this was that broadly in the first year, barring last two years, because we were investing heavily in technology and infrastructure, you will see a first-year negative returns, in terms of losses. But broadly, we are seeing that in the first year, we recover the cost both in terms of acquisition and also servicing. And post that there is a high profit margin gain, and we are clear that if at the customers are there with us for three years, the margins will increase.

Now, this also means that going ahead, because of the steady state of business, our overall margins of the business, which is PAT margin, stands at around 13% today, will continue to increase over a period of time. So, the whole idea of getting the operating leverage in a model where at some point your cost gets fixed, and then it's only incremental revenues which increases your profitability. The idea of this was to show that. Second point about the ADTO. The rise in ADTO is a combination of three things. One, it is increasing number of customers, which also translate to increasing number of orders and also the ticket size. So, it's a combination of both, that we are seeing an increase in the overall ADTO sequentially.

Kajal G

Thank you, sir.

Prakarsh Gagdani

Thank you.

Moderator

Thank you. Next question comes from Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza

Hi, sir. Thank you for the opportunity. Sir, my first question is regarding the broking rates. So, how do you see the broking rates to evolve going ahead, given that the compliance costs will be increasing and the float income would be reducing?

Prakarsh Gagdani

See, I've said this in the past also that the kind of regulatory changes which are coming, it is increasingly getting difficult to maintain margins in the business. As of now, till-date the changes which have been proposed is not having a significant impact on the cost and that's why brokers are able to provide a INR 20 per order. But, incrementally if there will be an impact on the incomes that we generate, for example, the Treasury income that we generate on a deposit, if there is an impact on that or if there is any other impact which leads to a reduction in the derivatives turnover or any other change brought in by a Regulator, then obviously with the cost of running business, as it is fixed, we will not be left with any choice but to increase brokerage rate. So, I think that, may not be next couple of quarters, but post that there may be a probability and there's a higher probability that the rates may go up.

Rishikesh Oza

Okay. And also, sir, what is your customer acquisition for FY24?

Prakarsh Gagdani

We acquired close to 7.5 lakh customers in FY23.

Rishikesh Oza

And for FY24?

Prakarsh Gagdani

You are asking for the projection this year?

Rishikesh Oza

Yes.

Prakarsh Gagdani

So, I won't be able to give you an exact number, but we will be in the same range of 7.5 lakhs to 10 lakhs.

Rishikesh Oza

Okay. And also, one more question, sir. What is the other operating income of INR 18 crores?

Gourav Munjal

So, this is again, the float income - treasury income.

Prakarsh Gagdani

Treasury income.

Gourav Munjal

Yes.

Rishikesh Oza

Okay. And also, if you could provide any metrics on daily active users and monthly active users?

Prakarsh Gagdani

I'm sorry we don't share that data.

Rishikesh Oza

Okay, no problem. Thank you very much, sir.

Prakarsh Gagdani

Thank you, Rishikesh.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 your telephone keypad. I repeat. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. We have a follow up question from Deepak Sonawane from Haitong Securities. Please go ahead.

Deepak Sonawane

Hi, sir. Thank you for the follow up. So, I have only one question, especially on our LTV, I mean, the calculation that we have shown in slide number 12. So, instead of if you look at, I mean, let's say if you can give us on any color on let's say for in CY18 on first year, this generated on INR 100 revenue. So, for subsequent years what would be that revenue? I mean, because 14% EBITDA margin will be mainly impacted by CAC, right? But if we just look at our revenue and gross revenue, gross broking revenue. So, what would be that trend?

Prakarsh Gagdani

See, it will be difficult to give the exact number for each year because our acquisition numbers and the quality of acquisition for each year was different. So, the purpose of showing this was that if at all a customer is generating INR 100 in overall tenure of his lifecycle, if I look at the cohort of CY18 customers, then we are talking about that all put together we have only spent INR 34 in acquiring plus servicing and we have got INR 66 as the income.

Now, it also means that, because with every incremental year, the lifecycle of customer is also increasing, the overall impact of that on our overall business will be high going forward. So, one is that the inference from this data should be one that post three years the margins of a customer is 50-percent-plus. Second, with every incremental year because customers are retained and they trade, the overall impact on the revenues and profitability will be higher and the margins will improve.

Deepak Sonawane

Okay. So, just one question. So, let's take an example of CY22. So, for CY22 first year, I mean, particularly customer has generated almost INR 100. So, for CY22 the second year would be, I mean, the revenue generated by that similar customer would be approx. of 80%. Will that be a fair assumption?

Gourav Munjal

Yes. In the span of, if you check the span of six years, yes, you're right, it is coming 70.

Prakarsh Gagdani

But for calendar year 22, we are getting a 69% margin in the second year. So, in the second year we only have the servicing cost, because acquisition cost has already gone in the first year.

Deepak Sonawane

Right. Okay. Thanks a lot.

Moderator

Thank you. We have a follow up question from Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain

Yes. Hi, sir. Just a question on the cross-sell income that has grown by just 5% in the current year in FY23. How do you see this kind of going ahead and what was the reason for slow growth?

Prakarsh Gagdani

See right now, our focus has been more into our broking business, because as I said that our product revamp, our investment in technology, all was for targeting the broking revenue. So, as an organization, the focus was on broking and that's the reason, cross-sell is more of a small enabler of the product, but it's not a major focus area for us now. Having said that, yes, we are planning to introduce lending products and bonds and other some fixed income products on our platform. But the other cross-sell income products do not contribute substantially to the overall income. But broadly the reason why there is just a 5% growth is because the focus was more on building our product on the broking side of it.

Prayesh Jain

And how good is your margin funding book growing?

Prakarsh Gagdani

See margin funding book growing typically is directly correlational to the cash market turnover. So, as of now, we have close to around average of INR 270 crores for last quarter and because the market scenario is very subdued, the growth is not there, but I think it will increase as and when the market increases.

Prayesh Jain

Okay. And just coming back on this chart on the 12th page, okay. For example, if I look at the third-year margin, which is the light blue box, okay. All for that matter and even the yellow box is the second year margin, right, that margin has been fine except for the second year number which kind of jumps up for CY22, but if I look at a blue box or if I look at the pink box, they have been declining in each of the years while there is no customer acquisition costs out there, that is primarily servicing costs there. Then why is the margin kind of sloping downwards for all these periods?

Prakarsh Gagdani

See, one factor and interesting observation. See, one factor where the margin is a bit reduced as compared to the customers that we acquired in calendar year 18, 19 to 20. See, the reason is scale. Because in the first two years when we acquired, we were only at around 3.5 lakh as a customer base. But in just last 2.5 years from 3.5 lakh our customer base increased to from 3.5 to 35 lakhs. So, that's a massive increase in our customer base. So, what happens is that when you acquire a large number of customers, the quality of the customers is not the same as you were acquiring earlier. And that's why it will have an impact on the margin because typically the cost of servicing is the same, but the revenue that customer brings in varies and that's why you see a drop in that.

Prayesh Jain

Okay. And sir, in a way, we're seeing from next year onwards, with your focused approach on acquiring more quality customers now, these margins should improve, right?

Prakarsh Gagdani

Absolutely.

Prayesh Jain

Okay, got that. Thank you so much.

Prakarsh Gagdani

Thank you.

Moderator

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

Prakarsh Gagdani

Thank you very much everyone for joining our conference call. If you have any questions, you can write to us at ir@5paisa.com. We'll be more than happy to answer your queries. Thank you very much and have a wonderful day ahead.

Moderator

Thank you, sir. Ladies and gentlemen, this concludes the 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 good day.

Note:

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