July 20, 2021

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Dear Sir/Madam,

Sub: - Earnings Conference Call

Please find attached herewith transcript of the earnings call held on Thursday, July 15, 2021. 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

Transcript

Conference Call of 5paisa Capital Limited

Event Date / Time : 15th July 2021, 02:00 PM IST

Event Duration : 33 min 40 sec

Presentation Session

Moderator: Ladies and gentlemen, good day and welcome to the 5paisa Capital Limited Q1 FY2022 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 touchstone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you and over to you.

Prakarsh Gagdani: A very good afternoon everyone. Myself Prakarsh Gagdani, CEO and Director of 5paisa Capital, I welcome you all for the Q1 FY2022 earnings conference call. I am joined by my colleague Mr. Gourav Munjal, who is the CFO of our company.

Friends, we started this financial year on a strong note. This quarter we acquired 2,78,000 customers, which is the highest ever acquisition for us. The number increased by almost 35% as compared to last quarter. In the month of June, we crossed 1 lakh acquisition mark, which was the highest for us. Though we increased our acquisition by 35%, yet our customer acquisition cost dipped by 9%. Our focus on improving digital journey resulted in almost 60% of our accounts getting opened DIY, which is without any help. It not just improved our manpower efficiency, but also reduced our Opex CAC, (customer acquisition cost) by almost 37%. We will continue our efforts to improve this, until we achieve 100% onboarding digitally, without any human intervention.

On the revenue front we have witnessed 22% sequential growth. This growth was on the back of customer acquisition, more customer acquisition and improved client activity in markets. We also concluded our fund raise. In our last conference call, we had said that we had got approval, but we received funds somewhere in May end. As I said earlier also that the funds that we have received will be invested in technology and customer acquisition predominantly. We have already embarked on that journey. In coming quarters, we will be strengthening our technology backbone, both in terms of people, product and infrastructure. We will also invest in data science and our core focus will be to be a multiproduct digital financial platform.

With this, I conclude my opening remarks. We would be open to questions, if any. Thank you.

Question and Answer Session

Moderator: Thank you sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchstone telephone. If you wish to remove yourself from the question queue, you may press * and 1 again. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Sir, our first question is from Mr. Rishikesh Oza from RoboCapital. Please go ahead sir.

Rishikesh Oza: Hi. Sir, my first question is, could you please share the market share in cash and F&O?

Prakarsh Gagdani: So, our market share in F&O is around, we are talking about retail market share, so retail market share in derivative segment is around 3%.

Rishikesh Oza: Okay. So sir, if I look at the last year, somewhere you were around 3.96% in F&O, you had the market share. And so, I see we are trending down. So, is it fair to say we need to improve product offering for the traders?

Prakarsh Gagdani: So, our market share from last year it had dipped. So, in my earlier presentation also I had shared that we are working on adding products for traders. We enhanced our product offering and we launched our new desktop application last month. We are also revamping our web portal. We enhanced our developer APIs and also added lot of features for traders. We are seeing the result of that. In the month of June our derivative market share improved as compared to May. So, I think the dip that we saw has been arrested. And now, over a period of time this number, our market share will improve. And with more acquisitions, it will also have an impact on the market share. So, I am positive that it will have an improvement in the coming quarter.

Rishikesh Oza: Okay sir. And last question sir, are we giving free ETF to every client?

Prakarsh Gagdani: Yes, we do.

Rishikesh Oza: Okay sir. Thank you.

Prakarsh Gagdani: Thank you.

Moderator: Thank you sir. The next question comes from Ms. Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: Hello. Congratulations on the good set of numbers. Sir, I wanted to know what are the reasons for our other expenses rising? First question. And second question is on the funds that have been raised. So, we have talked about that being used for acquisition and technology. So, what is the technology cost that we currently incur and the plans ahead?

Prakarsh Gagdani: Hi Kajal, good afternoon. So, our other expenses, the reasons for increase in the other expense is purely technology. So, as we had said earlier also that our fund raise, we will be investing both in terms of people and also in terms of infrastructure. So, that has begun. So, in terms of scaling our infrastructure, setting up more, creating a new data center, putting up new servers, so all that infrastructure cost has already started to coming in. And hence when you see 1 crore-1.2 crores of increased cost is purely because of investment and technology.

Kajal Gandhi: From 28 to 36, out of that 1.5 will be around technology increase?

Gourav Munjal: Are you referring to quarterly number or annual number?

Kajal Gandhi: Quarterly, Q4 to Q1 I am saying quarter on quarter, your rise in other expense

Gourav Munjal: In the quarter one, our expenses, other expenses are 17.7 crores and in Q4 it is 16.4 crores, as per PPT. So, the reason, that 1 crore is purely related to technology cost as explained by sir.

Kajal Gandhi: Okay. And what is the total technology expense in FY2021 that we may have incurred and we are looking forward to raise to how much?

Prakarsh Gagdani: So, this quarter out of this 17.7 crores, approximately 7 crores are our technology spend and this does not include manpower cost.

Kajal Gandhi: Okay. But, annual maybe FY2021 what can be the sense, what this number would have been?

Gourav Munjal: In FY2021 other expenses was 67 crores and out of that, 25 crores approximately were related to technology cost.

Kajal Gandhi: And do you, when you say this is purely I think servers and IT, all, employees are also being counted as technology spend to some extent, not in this number, but do you count that way?

Prakarsh Gagdani: So, as far as obviously the financial reporting is concerned, they will come as part of the employee cost. But yeah, broadly when I say that we will invest in technology, it includes both on the infra product side and also people side. So, even in the people side, we have started investing in technology and the increment in the employee cost that you see is also largely because of that.

Kajal Gandhi: Okay sir. And sir, question on CAC, what will be your average cost of acquisition right now?

Prakarsh Gagdani: So, currently it is around Rs.800 to 813.

Kajal Gandhi: And this has come down from the past?

Prakarsh Gagdani: Yes. So, last quarter it was Rs. 897. From there it has reduced by 9%. So, right now it is at Rs.813. There has been a significant improvement on the other Opex cost, which is your manpower and Opex. So marketing, there is a bit of increase, but we have seen almost 37% drop in the cost of manpower and Opex.

Kajal Gandhi: Okay. Sir, just to understand, how you calculate your CAC?

Prakarsh Gagdani: So, we have given the formula in the presentation. So basically, every cost which is associated with acquiring a customer, be it lead cost, which is the marketing cost, then you have call center, where you have the support agents, onboarding team, which is the backend onboarding team and all the other Opex related to that, so all put together is calculated as CAC.

Kajal Gandhi: Divided by the total number of customers that you have or customer acquired in that period?

Prakarsh Gagdani: Correct.

Kajal Gandhi: Customers acquired in that period?

Prakarsh Gagdani: Customer acquired in that period, yes. So, cost is also of that period and number is also of that period.

Kajal Gandhi: And lastly, what will be the margin funding book that we have currently and what level you want to raise it?

Prakarsh Gagdani: So, margin funding currently stands at around Rs.220 crores for last quarter as an average. By end of the quarter, we have reached around Rs.290 crores-295 crores. And so, we have not made any changes in our margin funding policy. So, as and when the customers trade and our acquisition numbers grow, it will have an impact on the margin funding. But typically, it is market and customer activity.

Kajal Gandhi: Thank you. Thank you very much.

Prakarsh Gagdani: Thank you.

Moderator: Thank you. The next question comes from Mr. Nishant Shah from Macquarie India. Please go ahead sir.

Nishant Shah: Hi, this is Nishant, but in my individual capacity. So, I am very new to this stock. So, couple of very macro questions. So, looking at your PPT, I see that the focus clearly seems to be in the younger kind of population base you have. 35% under twenty-five years of age and larger amount in the next ten years kind of bucket. Could you probably just talk about the opportunity size over here, because usually it will be the older generations which have more wealth, more trading mindset. So, what do you see in terms of the size or the price or the opportunity set over here? And within that the same question is, three-fourths of your customers are from tier-III towns, so again very similar kind of question, maybe a little bit naïve, but is there enough wealth in those geographies and age buckets to create a very meaningful kind of a niche? That is my first question.

Prakarsh Gagdani: So, you are right. Maximum population that we have, not just as per industry, overall is younger population. Now, it is obvious that the number of people coming in the capital market will always be higher from this bucket, purely because of the overall geographical mix of the country. Having said that, so the bucket which is thirty plus is the bucket where the potential in terms of revenue increases. But typically, what we have seen is that, if an entry point is somewhere around twenty, twenty-five, the per capita income also grows with every five years' bucket. And the investing amount also grows. So, if we are acquiring younger population now, they may be less remunerative, but with time, obviously with time and retention, the revenue increases multifold. So, I see a huge opportunity there. Having said that, a sizable income today for us also comes from people who are into higher age bucket, purely because of the investable amount will be more and their inclination towards even derivative segment is also a bit high and awareness also. So, from a revenue mix, yes, thirty, thirty-five plus will contribute around 40%-45% or 50% kind of a business. But, incrementally if you see, a younger population as and when matures and gets old, contributes to your revenue. And same is the case with tier-III. Tier-III, we have seen, we have been acquiring customers from States like UP and Bihar for quite some time. We were one of the second largest State today and for last three years have been UP. What we have seen is that the per capita income of tier-III in the States are also increasing. So, the gap at one point of time between a metro and a smaller town, for example, it would almost be like a double kind of thing or more than double. But, that gap is narrowing down.

Nishant Shah: Fair. Just one follow up question, separate one. In terms of revenue drivers, the broking and the allied income and the cross-sell pool, so how material can this cross-sell pool be or over time as you acquire a lot, many more customers, what kind of future revenue line items could you think of that can be built out, because pure broking itself, anyway it is a very competitive industry. Any big picture plans about other diversification? I am sorry if this is not an appropriate kind of forum for those macro questions, more quarterly, but it would be very helpful if you can explain.

Prakarsh Gagdani: Sure, sure. So, our objective is clear that we just don't want to become like a discount broker, but we are a complete digital financial platform, where we offer every product which is digitally served end to end. So, we have already products on our platform, be it from broking mutual funds, Digital Gold, Loans, which is our peer-to-peer lending platform and we introduced US Stocks last year. So, these are the products we already have. Insurance is one thing. And incrementally our focus will be to provide equal mind share and also equal space on our business for these products. There will be few products that will get added like, NPS and PPF and Sovereign Gold Bond. Bonds are something that we are just adding very soon. So, the idea is definitely to have a multiproduct. Obviously, broking is a hyper activity. So, when you see the revenue pie, our revenue pie is lesser as compared to broking. But, some of these businesses like gold or an insurance or mutual fund, these are annuity business. So, it takes time to build. But, once it becomes sizable, it contributes to revenue. Then our focus will be, this year will be a lot on building up our cross-sell business.

Nishant Shah: Fair enough. I will come back in the queue for more questions. Thank you.

Prakarsh Gagdani: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Deepak Poddar from Sapphire Capital. Please go ahead, sir.

Deepak Poddar: Thank you very much sir for the opportunity. Sir, just wanted to understand first, over the medium term let's say next three to four years, how do we see the accretion in our customer, active customer base and which in turn will translate into CAGR? So, any thought process on those fronts would be quite helpful.

Prakarsh Gagdani: Overall if you see and it is difficult to actually pinpoint on a three to four years' period, because stock market is a cyclical business. But, broadly I see, I am optimistic about the capital market penetration, which is happening. So, what we have seen in the last one year and a few months is a structural change and not a momentum. So, earlier it was, people were talking about there is momentum, because it is lockdown and people are free and nothing to do and are hence getting to capital market. But, I denied then and I also strongly deny right now that it is a structural change. So, you see that at least ten to twelve million plus customers are coming to capital market. This number will increase over a period of time. So, it is difficult to put down a number. But, over three to four years' perspective, in terms of active client, there will be a multifold growth and not just few percentages linear growth.

Deepak Poddar: Understood that point sir. Sir, just for example sequentially we have been growing our active client base at the rate of about 20% quarter on quarter sequentially. So, is that what one can kind of take, extrapolate and take into maybe next eight to twelve quarters? So, will that be the right thing?

Prakarsh Gagdani: I would put it at bit of a pessimistic. So, though we have been growing at around 20% sequentially, but yes, I think 20% plus is doable for at least few quarters from here on.

Deepak Poddar: 20% plus sequentially is quite doable, understood. And my second question is on your net client additions. So, what would be our net client addition as of now?

Prakarsh Gagdani: Can you elaborate in terms of what you mean in net client addition?

Deepak Poddar: Net client addition per month, like net of any kind of client who goes away, instead of gross number, I am just looking at the net number.

Prakarsh Gagdani: So, goes away in terms of closing the account or is not active?

Deepak Poddar: Or, maybe closes the account or maybe not active, both.

Prakarsh Gagdani: So, typically 80%-85% of our new client acquisition is active and trading. There would be dormancy in older customers. But, if you consider closure that is very less, hardly 1% or 2% people would be closing. So, net, it would be almost like 95% net increase.

Deepak Poddar: So, currently our net addition would be close to 60,000-70,000, is that the right number?

Prakarsh Gagdani: Yes.

Deepak Poddar: Okay. And any kind of vision that we have that we want to take it to maybe 2 lakhs net addition maybe by when or any kind of strategy over next maybe one-two years?

Prakarsh Gagdani: Absolutely. The reason, one of the fundamental reasons why we raised our capital was to be more aggressive in terms of acquisition. If you see our quarter-on-quarter acquisition growth, you will see that every quarter now we are increasing and you will also further see that. So, the net addition in terms of client will improve from here on.

Deepak Poddar: Right, okay. Sure, that is it from my side.

Prakarsh Gagdani: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, we have a question from Mr. Nishant Shah.

Nishant Shah: Thank you for the follow up. So, one question, again fairly macro, so sorry about these. So, the entire kind of strategy hinges around getting to those under tapped kind of markets right now, the younger guys, the tier-III kind of guys. And then just hoping that you grow with them across the lifestyle, across their whole lifecycle. So, how should we think about ability to kind of retain customers, because as and when these guys will start becoming wealthier, they are going to keep getting targeted by other banks or by other competitors of ours or like other fintech and tech platforms, who are trying to offer a better UI, UX experience. So, does that mean for a few years the investment that we have to put in, in terms of tech or the customer friendliness of the UI, UX experience, all of that has to remain high, so that sufficient stickiness is built? So, how do you think about this, any qualitative color if you can give it would be great.

Prakarsh Gagdani: Sure. So, are you rightly pointed, digital business is all about giving a very good and a strong experience to a customer, a very delightful experience on our product. So, when I said that we will be investing in technology, it meant obviously apart from the infrastructure, to have people and a product where you invest, you create a better UI, UX, not just a UI, UX, but also the entire transacting journey. And that is a never-ending process. It is not that today you acquire a younger customer and then you give. Today's new design becomes stale in a period of six to nine months. So, it is a continuous process, where you keep working on, you keep interacting with customers, understand what is their need and keep providing that. Having said that, I agree that it is a competitive business and what I am saying is, every CEO of the other broking companies would also be doing the same. But, as they say that beauty lies in the eyes of the beholder, so at the end of the day, if our product is better suited to a customer, he will stick around with you. But, that doesn't mean that the focus is only on the cosmetic part of it. It is also in terms of how you are giving a holistic experience of investment. So, how you are plugging advisory into investment, how you are looking at the overall portfolio of the customer. And hence the multiproduct comes into it. So, broking or attracting a Demat account is just an entry or a gateway. Then once the customer comes, obviously it is the experience and the overall bouquet that you offer is important. Secondly, you said that obviously when the income grows or people look out for options that are banks, but there is a large pool of customers, where banks in terms of relationship managers or even large wealth managers do not look at, because the portfolio itself is immaterial for them to look at in terms of cost versus revenue benefit. So, that is the section which we target. So, even if you have Rs.2 lakhs or 5 lakhs in investable amount, I don't think a relationship manager or bank will look at you, unless you are buying an insurance policy, which is worth Rs.5 lakhs of annual premium. Otherwise, they will not look. But, those are the sections of customers which are targeted by us and they are the ones who will stick around and give us business and hence it is a mass business.

Nishant Shah: Fair enough. And is Robinhood like a fair kind of a global comparison or would there be any other kind of peers that we can benchmark you to and see how they have scaled over time, in terms of comparability with your kind of approach to the business?

Prakarsh Gagdani: So, I think discount brokers definitely in India are comparable obviously and internationally Robinhood would be a comparative. Robinhood, ePool, these are the comparative brokers whom we can look at.

Nishant Shah: Okay, fair enough. Thank you so much.

Prakarsh Gagdani: Thank you.

Moderator: Thank you. Sir, the next question comes from Ms. Kajal Gandhi from ICICI Direct. Please go ahead ma'am.

Kajal Gandhi: Hello, thank you. Sir, is there any merit in this sub broker model in this discount broking thing, because some of the large competitors have been using it quite well?

Prakarsh Gagdani: So, when it started off, the sub broking has changed to more of an influencer kind of ecosystem. So, definitely there is merit. But, again it has become a very hyper competitive market, just like the erstwhile sub broking, where the sub brokers were asking for a very high share in terms of revenue. So, though it is lucrative, but over a period of time, that will become hyper competitive and then at some point will become a non-viable business for brokers. Having said that, yes, we do have these influencers on our platform. Even as part of our referral policy we give not just on onboarding, but we share 12.5% of our brokerage revenues with these partners. But, there is a business, in our case it is not a significant portion of that.

Kajal Gandhi: Okay. Sir, does this sharing which we do, it is there in brokerage and shown as an expense subsequently, or how do we do that?

Prakarsh Gagdani: No, it is a part of income only. So, brokerage is net of that.

Kajal Gandhi: The brokerage that we see is net of this payout?

Prakarsh Gagdani: Correct.

Kajal Gandhi: Okay. And secondly, when do we see the breakeven of a new customer, what is an ideal period that we see? And when we say breakeven, is it the CAC being achieved or anything more than that?

Prakarsh Gagdani: So, typically we see a payback time of around eight to nine months and that is the entire CAC is what we are talking about.

Kajal Gandhi: The entire Rs.800 number which we are talking, that recovery?

Prakarsh Gagdani: Yes, yes.

Kajal Gandhi: And for this also what will be the calculation when you are breakeven?

Prakarsh Gagdani: The overall revenue that we get from a customer.

Kajal Gandhi: So, the nine months period whatever revenue and divided by the cost

Prakarsh Gagdani: But, obviously the other income is not included in that. It is only the revenues

Kajal Gandhi: It will be mostly the brokerage, MTF

Prakarsh Gagdani: Yes, yes.

Kajal Gandhi: And not the third-party sales you are saying.

Prakarsh Gagdani: No, not that, not that.

Kajal Gandhi: And lastly, this license which both Zerodha and Angel have applied for AMCs and all, so do you see how will this pan out for you as a competition?

Prakarsh Gagdani: This you are talking about AMC license?

Kajal Gandhi: Correct, correct. So, they will be able to sell their own passive funds when they have their licenses, so that will attract customers more largely there? Do you think something like that?

Prakarsh Gagdani: It will be difficult for me to comment. AMC, I still feel that it is again a competitive business and a business which takes time to scale up and generate revenues. So, I won't be the right person to comment on the strategy. But, I don't see that , you know these two businesses are different. Distribution still remains and despite becoming an AMC, I think distribution business will not get affected. That will grow rather.

Kajal Gandhi: And would you like to share the R2 number?

Prakarsh Gagdani: R2 numbers in terms of, on overall basis or a new client basis.

Kajal Gandhi: Overall basis also.

Prakarsh Gagdani: So overall, on annualized basis it hovers at around Rs.2000.

Kajal Gandhi: And incrementally?

Prakarsh Gagdani: And incrementally also it is in the range of around Rs.1500 for now.

Kajal Gandhi: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad.

Sir, the next question is from Mr. Deepak Poddar from Sapphire Capital. Please go ahead sir.

Deepak Poddar: Sir, just wanted to understand more from the perspective of your operating leverage advantage that you might be getting, because the fixed portion of your other expense will not increase to that extent and as you keep on adding clients. So, ideally your EBITDA margin should see a very, quite a big jump as we kind of keep on adding the clients and as our scale goes up. So, is there any kind of raise that you are looking at in terms of margins, maybe four to six quarters down the line from currently maybe 24% that you are doing?

Prakarsh Gagdani: So, currently our EBITDA is at around 24%-25%, 25%. But, because right now with this fund raise, we will be expanding and we will get more aggressive in terms of customer acquisition. The EBITDA will be subdued for some time. But yeah, I see that there will be an operating leverage coming into play, at least in next three to four quarters. The advantage will be seen.

Deepak Poddar: So, when you say your EBITDA margin will be subdued, maybe in the shorter term, so you expect it to dip, right?

Prakarsh Gagdani: Yes, yes.

Deepak Poddar: Okay. That's it from my side.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Prakarsh Gagdani: Thank you. Thank you very much for attending the conference call. And I wish you everyone is healthy and safe at home. Thank you very much for attending. Have a good day.

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

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