

Angel One Ltd.

7th Sept 2022

Dominance to continue amid industry consolidation.

Angel one Ltd. (AOL) is a technology-led Brokerage & Distribution company that operates in three segments, i.e., broking & advisory, client funding, and distribution. AOL offers these services through its digital platforms and network of over 18,000 authorized persons. Over the last few years, the company has transformed itself from a physical branch-led model to a tech-savvy digital player. At the same time, the company continuously outpaces the industry by expanding its market share from 3.3% in FY18 to 10.3% in FY22 and increasing the client base from 1.1Mn in FY18 to 10.8Mn in July'22. We initiate coverage on Angel One Ltd. with a BUY rating and a target price of Rs. 1,781.

Significant improvement in market share

AOL has shown a strong capability to acquire customers since it transformed its business model from a traditional plan to a flat-fee model. Following the change, the Company's run rate in client addition saw a massive surge from a ~1,00,000 per month addition in April'20 to ~3,40,000 per month addition in July'22.

During this phase, the Company has been at the forefront of client acquisition with a 12.3% incremental market share in FY22 compared to 6.1% in FY18. Over the years, the company has continuously improved its NSE active clients market share, which currently stands at ~11% in June'22. This has been possible due to its focus on building a state-of-the-art technology backbone.

Focus on acquiring clients from tier II and beyond cities

Since the rise of a discount broker, the share of lower-tier cities in client addition and trading volume has been rising steadily. AOL has been at the forefront of acquiring most of its clients from Tier II and beyond cities. The Company believes that lower-tier cities are underpenetrated and expects higher participation from these cities. The Company's approach to reaching out to millennials residing in lower-tier cities was reflected in the gross client additions from 78% in FY17 to 94% in FY22.

Top-grade senior management in-charge

In the last couple of years, AOL has onboarded high-caliber tech talent to strengthen its tech team, which will help them to cater to the evolving customer needs and digital transformation. The Company hired CXOs (Chief Officers) from a diverse domain, especially consumer tech backgrounds.

During FY22, the company expanded the tech talent pool by 86 headcounts, and the Company will continue to do so in FY23. These efforts are expected to transition from a traditional broking house to a Fintech player offering a one-stop solution platform for every financial need by developing the Super App.

View & Valuation

We initiate coverage on Angel One with a BUY rating and a target price of Rs. 1,781 (18x FY24 earnings). The industry, on average, has seen a Month On Month (MoM growth) of 3.3% from Mar'20 to Mar'22. In the future, we expect the growth to normalize. With the rise of digital brokers, consolidation in the industry, and an increase in Demat account penetration in India, we expect AOL to grow faster than the industry.

BUY

CMP Rs. 1,506

TARGET Rs. 1,781 (+18.3%)

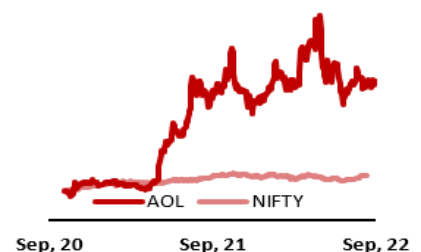
Company Data

MCAP (Rs. Mn)	1,09,930
O/S Shares (Mn)	833
52w High/Low	2022 / 990
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	767

Shareholding Pattern %

	Dec 21	Mar 22	Jun 22
Promoters	43.68	44.00	43.83
FIIIs	5.44	8.96	10.54
DIIIs	8.57	10.33	8.92
Non-Institutional	42.31	36.72	36.70

Angel One vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	22,586	25,974	29,870
EBITDA	8,849	9,757	11,220
Net Profit	6,251	7,117	8,219
Total Assets	76,984	88,051	1,00,817
ROCE (%)	27%	25%	25%
ROE (%)	46%	39%	35%

Source: Company, Keynote Capitals Ltd.

Chirag Maroo, Research Analyst

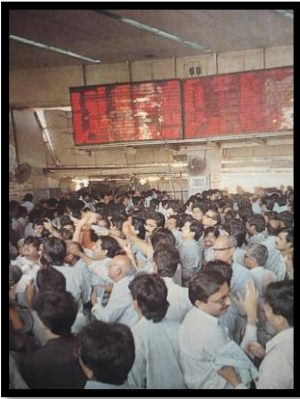
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History of the Brokerage Industry

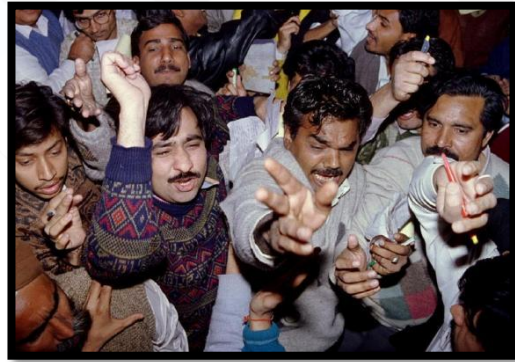
The BSE Sensex came into existence in 1986; from equity trading, the exchange moved on to derivatives and futures trading in the following years. During that time, trading took place via physical share certificates, and to execute buying and selling securities, brokers, and traders had to be physically present at the exchange.

The old Ring at Bombay Stock Exchange



Source: Twitter, Keynote Capitals Ltd.

How stocks were traded in the '90s



Source: Rediff, Keynote Capitals Ltd.

In 1993-94, the National stock exchange (NSE) commenced electronic or screen trading systems. While in 1995, BSE transitioned from a floor trading system to a sophisticated electronic-based trading platform called BSE online trading or BOLT.

With the advent of smartphones and their increasing usage, online trading has attracted many investors. Buying and selling stocks through mobile apps has become popular, leading to every stockbroker launching their mobile apps. This has changed the face of the domestic broking industry as it increases convenience and facilitates trading very quickly. The sector has also drastically reduced the time for account opening and verification.

Over the last few years, there has been a radical shift in the broking industry due to technological and artificial intelligence (AI) evolution. Trades can occur through a machine based on algorithms and within a few microseconds.

Open outcry systems

Screen-based (online) trading

Mobile trading

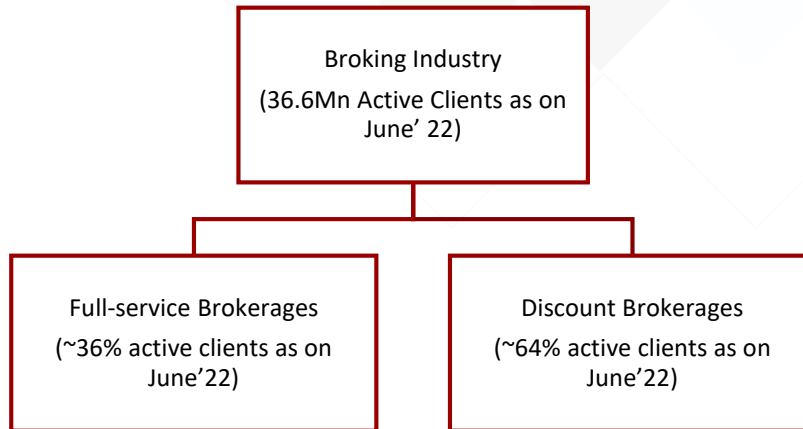
Shift towards artificial intelligence

Source: Angel DRHP, Keynote Capitals Ltd.

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Broking Industry Overview

Two types of brokerage player are found in the industry– 1) Full-service brokerage player who provides additional facilities such as research reports, investment advisory, customized support, financial planning, and other services, and 2) Discount brokerage players (technology-driven brokers) who offers the cheapest brokerage and typically do not provide any other services.



Source: Company, NSE, Keynote Capitals Ltd.

Comparison of Full-service Vs Discount Brokerages

Elements	Full-service Brokerage	Discount Brokerage
Brokerage	Percentage fee based model	Flat fee based model
Presence	Operate through a number of branches and also provide online services	Usually they provide only online services
Service	Services such as advisory, research, financial planning, customized support, etc	They only provide trading platform and no advisory services
Charges	Commission charged is higher compared to discount brokers	Fee charged are 60% lower in comparison to full-services brokers
Customer support	Branch led businesses where face to face customer services are available	Online customer support
Investment ideas	Usually company have their own research department	No such services are provided
Suitability	Suitable for those who want advisory services for their investments	Suitable for those who research on their own or have a financial advisor
Sub-broker & Institutions	A full-service broker will have higher sub-brokers and institutional clients due to their wide variety of services and support from the assigned manager.	Discount broker mainly run as a do-it-yourself model

Source: Company, Keynote Capitals Ltd.

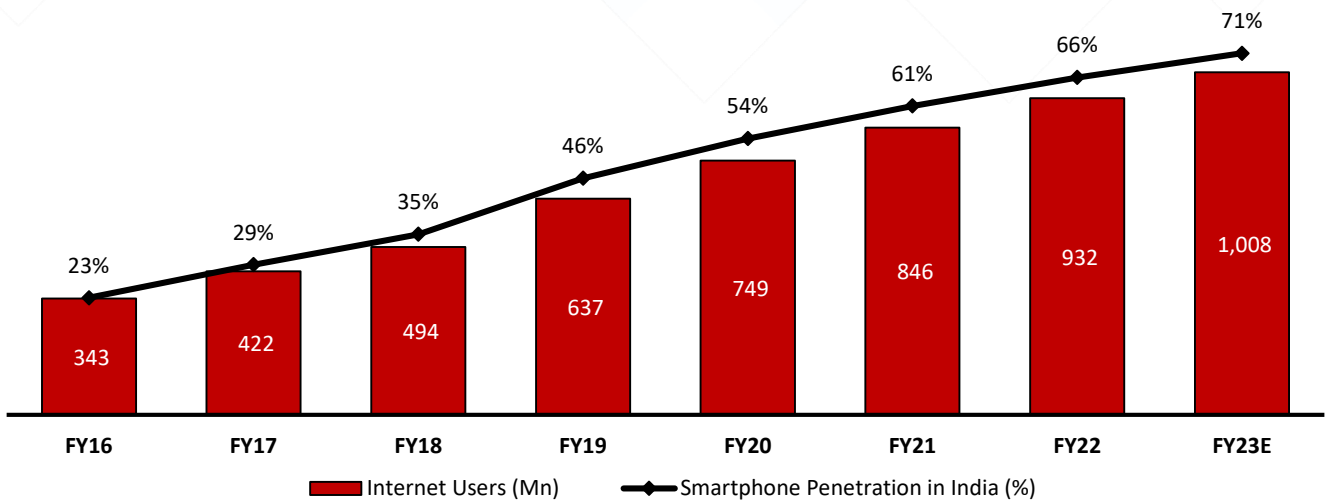
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Industry Trends

Rise of digital brokers

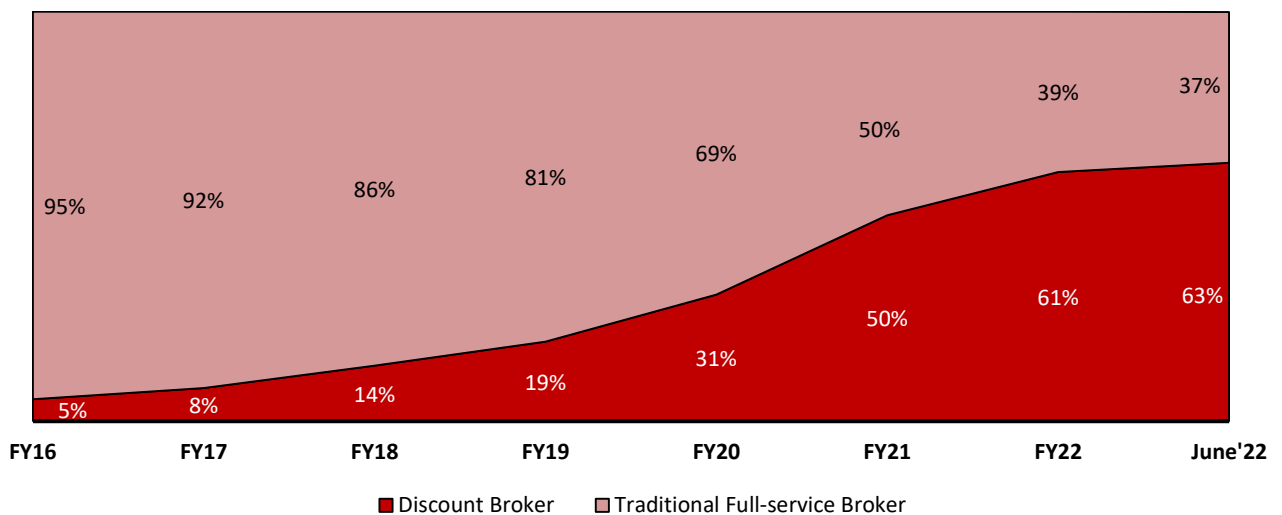
Primarily, the broking industry was dominated by traditional full service brokers who followed a percentage-based fee model. Over the last few years, customer behavior has rapidly shifted towards digitally consuming services. The improvement in technology and ever-growing smartphone penetration has changed the game due to a significant surge of discount brokers in the past 5-6 years.

Increasing smartphone penetration led to rise in digital services



Source: Statista, Keynote Capitals Ltd.

Discount broker have gained market share in terms of NSE active client



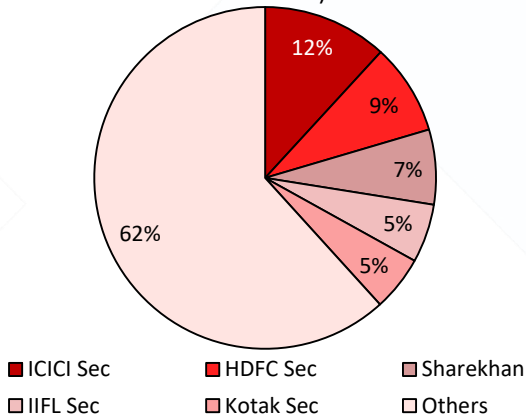
Source: NSE, Keynote Capitals Ltd.

Discount brokers have been at the forefront of this remarkable growth journey for the past 5-6 years. With the rise in internet penetration and the increase in the adoption of smartphones, trading applications have become a primary need for customers. Low brokerage and ease of transaction are essential factors for the soaring market share of discount brokers.

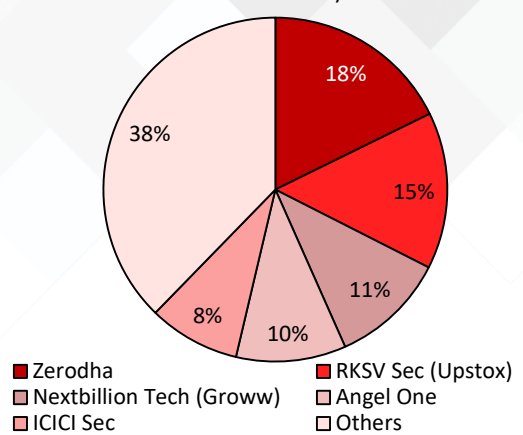
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The rise in market share of the discount broker in the last 5-6 years based on NSE active client

Brokers Market Share in 2016 (in terms of NSE active client)



Brokers Market Share in 2022 (in terms of NSE active client)



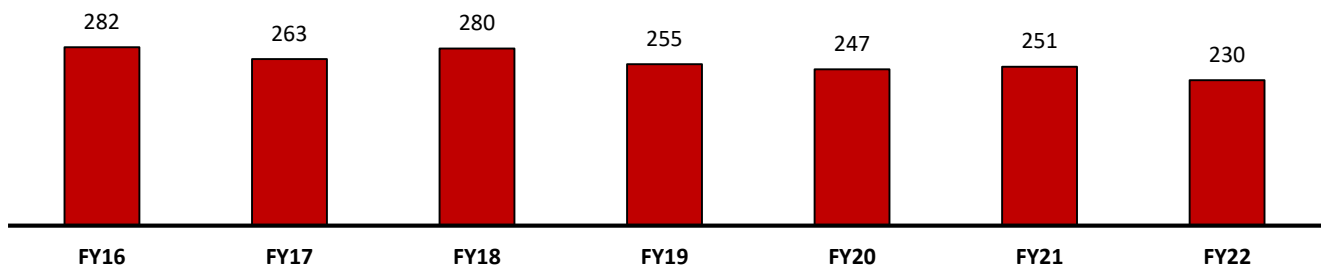
Source: NSE, Keynote Capitals Ltd.

Over the years, the top 5 players are dominating the industry. The domination has increased over time, but the interesting point is that there has been a heavy churn in the top 5 due to the rise of technology-led discount brokers.

Consolidation in the industry – Top brokers gaining market share

The Indian broking industry is very fragmented. Over the years, due to changes in regulations, inefficient brokers in the industry could not scale up and eventually shut down their businesses.

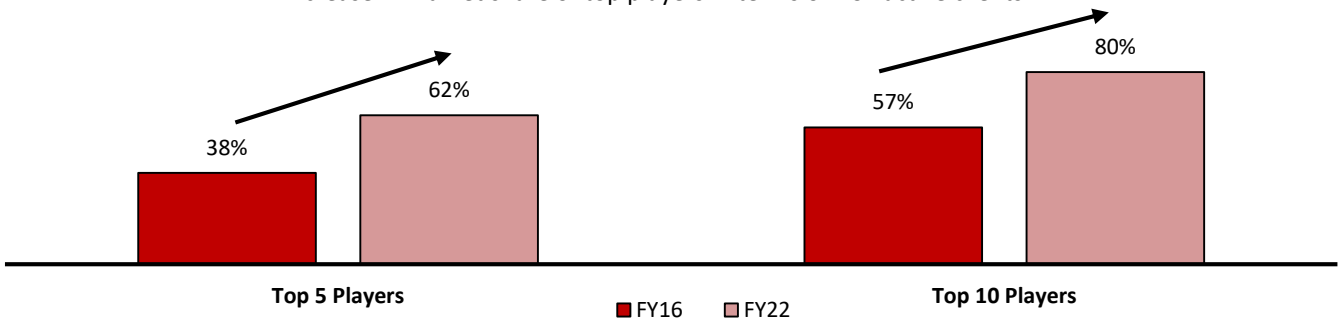
Consolidation in number of brokers



Source: NSE, Keynote Capitals Ltd.

Over the years, the Indian broking industry has become more concentrated. Top players in the industry have constantly gained market share, the top 5 players used to command 38% market share in 2016, which has increased to 62% market share in 2022, and the top 10 players command 80% market share in 2022 compared to 57% in 2016.

Increase in market share of top players in terms of NSE active clients



Source: NSE, Keynote Capitals Ltd.

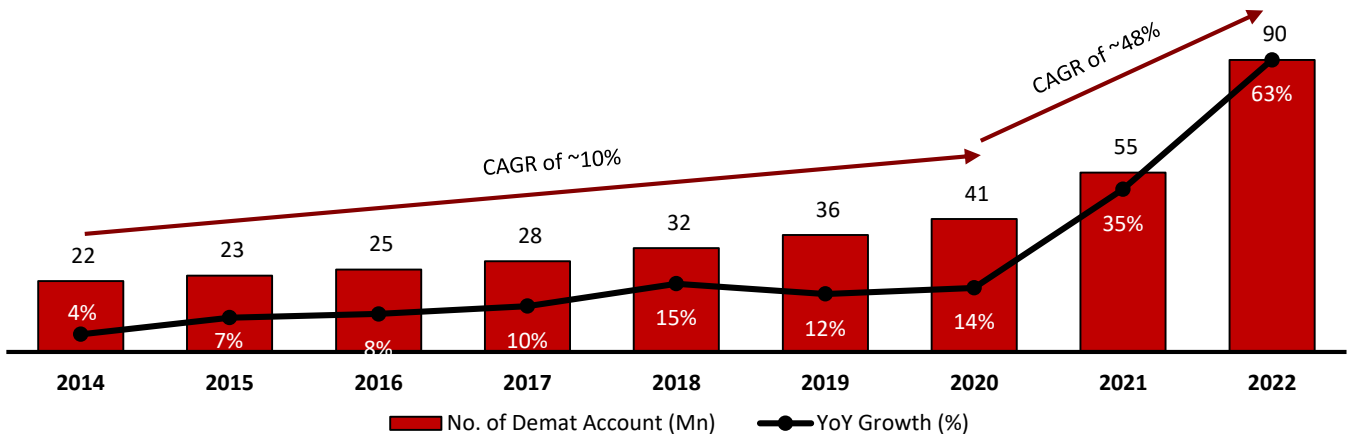
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The industry is expected to consolidate further. The recent change in norms by SEBI regarding the upfront margin requirements impacted the smaller and inefficient players in the industry. On 2nd May 2022, SEBI introduced a new regulation regarding the segregation of client collateral, where brokers have to segregate collateral at the client level so that one client's fund cannot be used to fund another client's shortfall. These regulations attempted to tighten the system, which will help the efficient players to gain market share.

Robust client addition

In the last few years, client addition has been very robust. COVID-19 was a pivot point for the broking industry. With the rapid shift in clients' behaviour towards consuming services digitally, there has been a surge in the digital mode of services, and the pandemic accelerated this trend further. The rapid adoption of technology and the ability to onboard clients and complete their know your customers (KYC) journey digitally have boosted the growth in the industry. The sector has witnessed consistent growth in Demat accounts with a CAGR of 10% for seven years till 2020. In the last couple of years, this trend was accentuated & the Demat accounts grew at a CAGR of 48%.

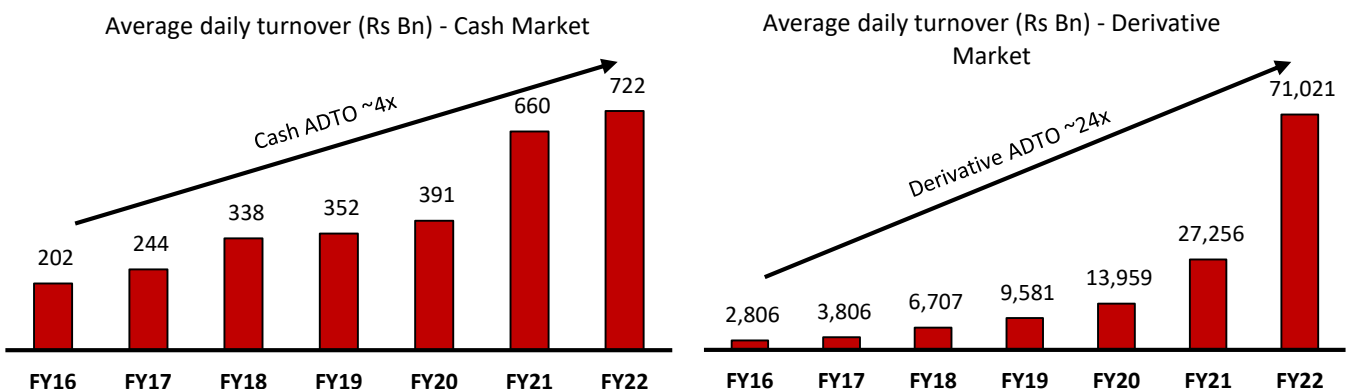
Total Demat accounts has seen accelerated growth in last two years



Source: NSDL & CDSL, Keynote Capitals Ltd.

The surge in Average Daily Turnover (ADTO)

Over the last few years, ADTO has witnessed an increasing trend. The broking industry's performance is driven by a steady increase in trading volumes, resulting from a growing share of retail participants. The cash market ADTO is soaring, while derivative market turnover has skyrocketed.

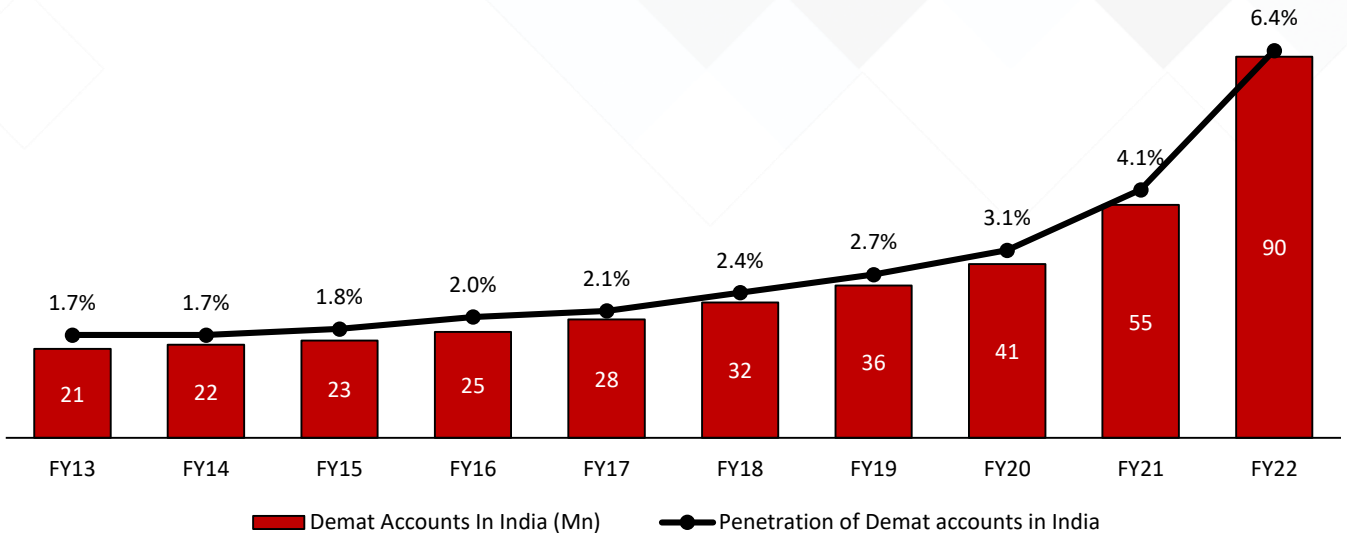


Source: SEBI, Keynote Capitals Ltd.

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Increase in total Demat accounts penetration in India

Over the years, Demat account penetration as a proportion of the total population has surged consistently. There are multiple reasons for this trend, like an increased share of equities in the household savings, better-expected returns from equities compared to other asset classes, rising Tier II & III participants, ease of onboarding new customers, etc.



Source: NSDL & CDSL, Industry, Keynote Capitals Ltd.

Companies are diversifying their core broking business into other lines of revenue streams

Most significant players in the industry are diversifying themselves into adjacent services such as mutual fund distribution, capital market lending, insurance distribution, and selling other third-party products. Recently various broking companies are launching their asset management (AMC) business.

Due to strong brand recall, the prominent player can diversify their broking business, which becomes a challenge for players operating at a modest scale. Broking is a volatile revenue source, making it difficult for undersized players to navigate through market volatility, inherently making the business more vulnerable.

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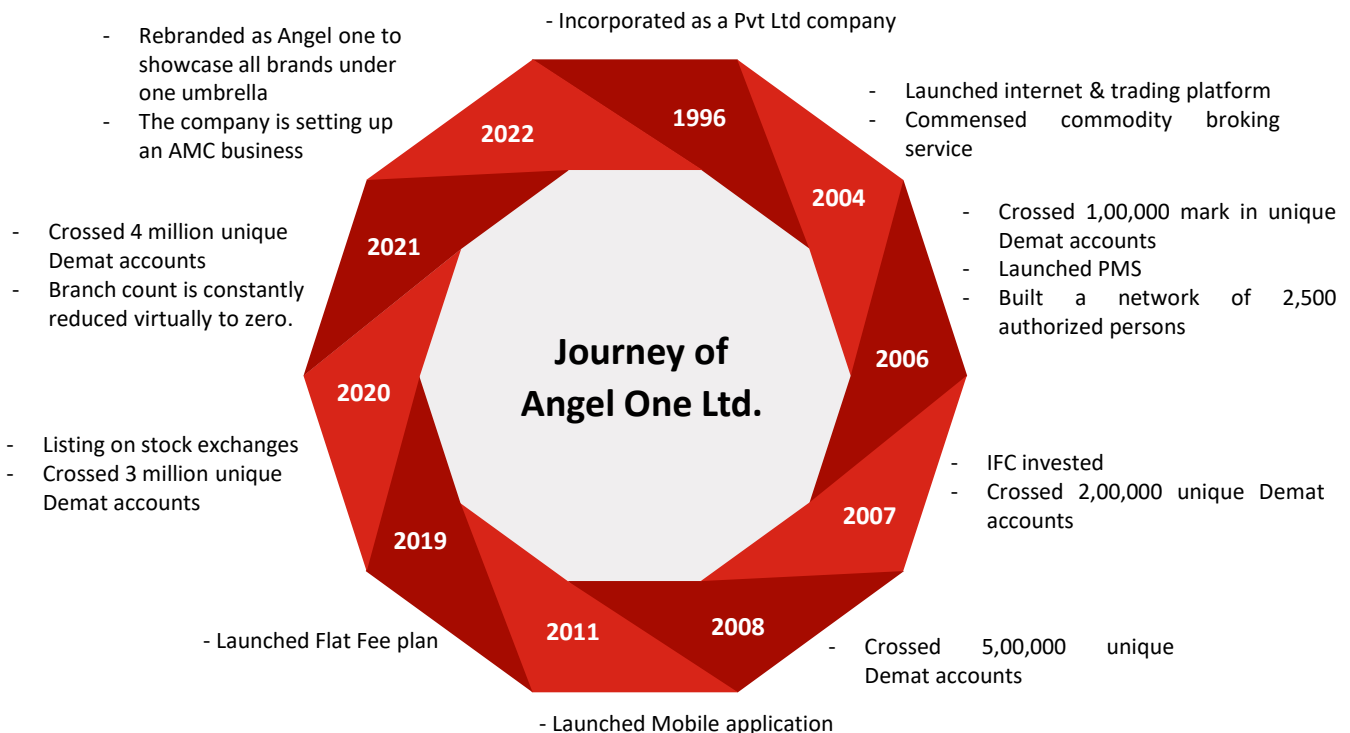
About Angel One Ltd.

Angel one Ltd. (AOL), formerly known as Angel Broking Ltd., is an Indian broking firm established in 1996. The company provides services through its digital platforms and network of over 18,000 authorized persons in FY22. Over the last couple of years, AOL has transformed itself from a physical branch-led model to a tech-savvy digital player.

AOL is a full-service technology-led financial company that operates in three segments, i.e., broking & advisory, client funding, and distribution. To complement its broking and advisory services, the company provides additional services such as research and investment advisory, where it publishes research reports and investment recommendations.

Segment	Description	FY22 Revenue (%)
Broking Business, Depository, and Other Ancillary	Broking services business include equity (cash - delivery, intra-day, futures, and options), commodity and currency segments, and depository operations.	80.0%
Client Funding/ Interest	Margin trading facility to the client for the cash delivery segments of equities, loans against shares, and interest earned from deposit with exchanges.	16.0%
Distribution	The company distributes third-party Mutual funds, IPOs, Bonds, and Insurance.	1.4%
Others		2.6%

Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

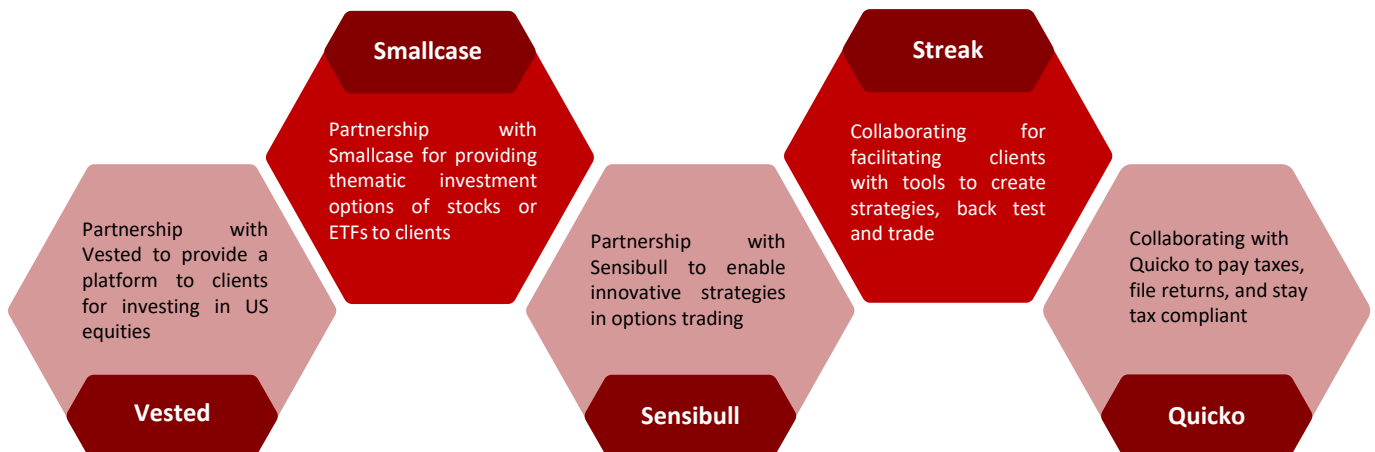
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In 2016, AOL started to leverage its technology through mobile applications and digital trading platforms. Over the years, the company has developed various in-house digital platforms.



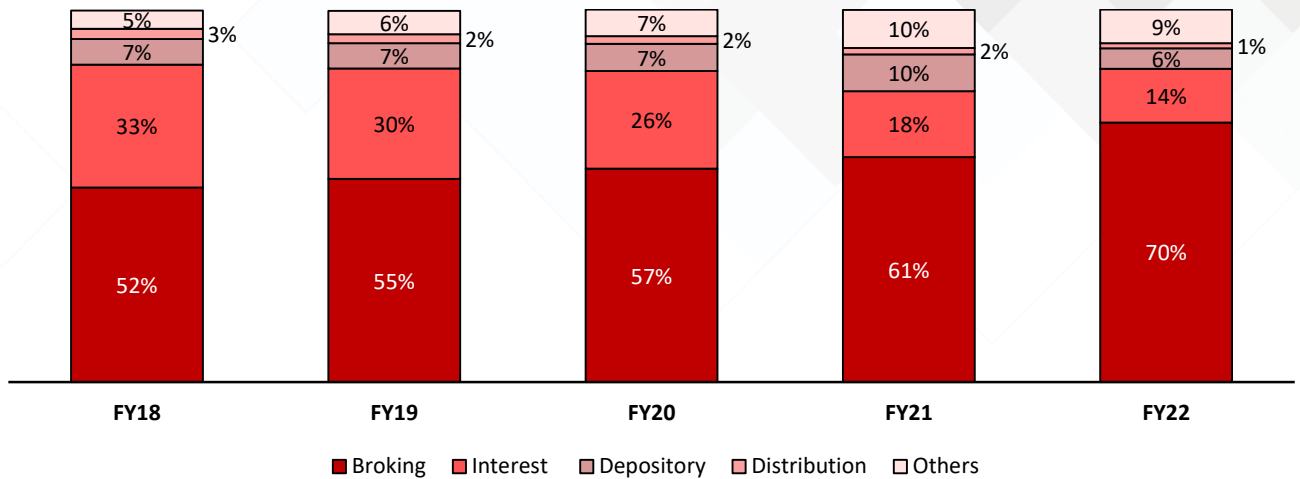
Source: Company, Keynote Capitals Ltd.

Partnership with digital player to expand product bouquet



Source: Company, Keynote Capitals Ltd.

Revenue mix – Broking and ancillary business dominate



Source: Company, Keynote Capitals Ltd.

Transformational Journey

AOL was founded in 1996 as a broking firm that offered service through physical presence like a branch-led model, a large team of feet on the street, and the physical process of client acquisition and onboarding. In 2016, the company undertook its digital transformation, focusing on the physical + digital model, reducing the number of branches, and developing various in-house digital platforms. By 2019, AOL completely shifted to the digital platform and shut down all its branches.



Single product:

Stock broking as a predominant line of business

Formal:

For seasoned investor and traders

Brick and mortar:

Branch led, passive growth model

Traditional:

Assisted model



One solution:

One stop solution for all investing needs

Youth-focused:

Gen Z, millennials and youth

Digital model:

Zero branching + Flat pricing = Scalable model

Ease of doing:

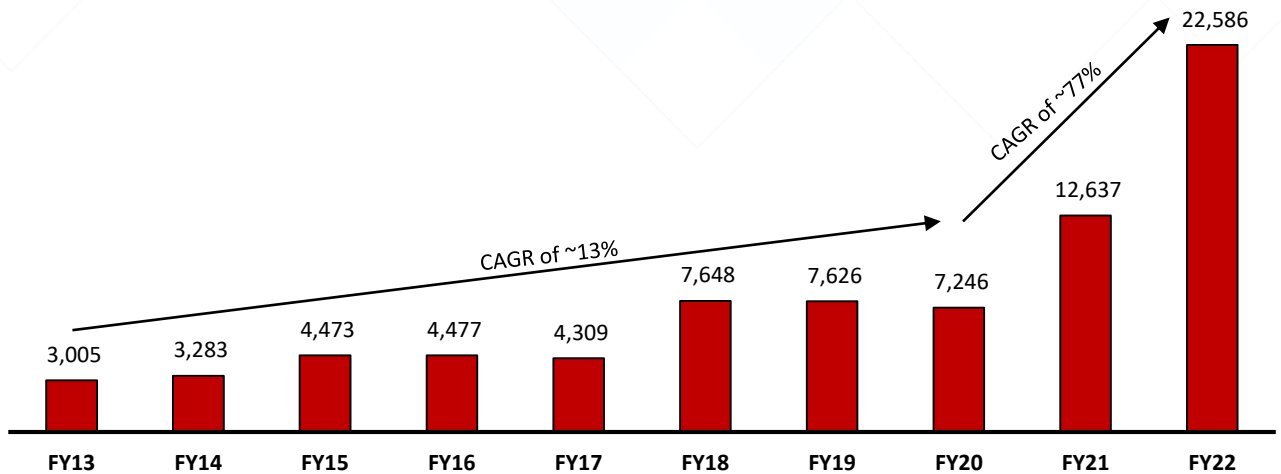
Do it yourself + Fintech player

Source: Company, Keynote Capitals Ltd.

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The industry remains in a sweet spot due to lower penetration, improvement in the financial saving of Indian households, younger population, etc., and AOL being in the industry for the last 25 years, has been through peaks & troughs, which led to ~25% revenue CAGR throughout 2013-22. At the same time, the primary catalyst for this growth in the industry is COVID. Pre-COVID, from 2013-20 the company clocked a topline growth of ~13% CAGR, but if one looks at sales growth since FY20, the company has grown at a CAGR of ~77%.

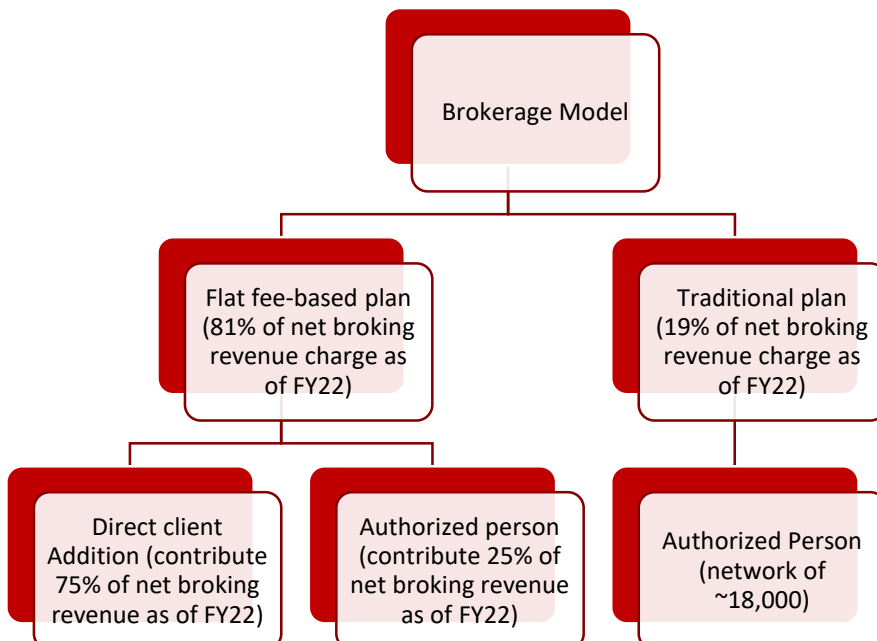
Revenue (Rs Mn) was growing steadily while pandemic acted as a catalyst



Source: Company, Keynote Capitals Ltd.

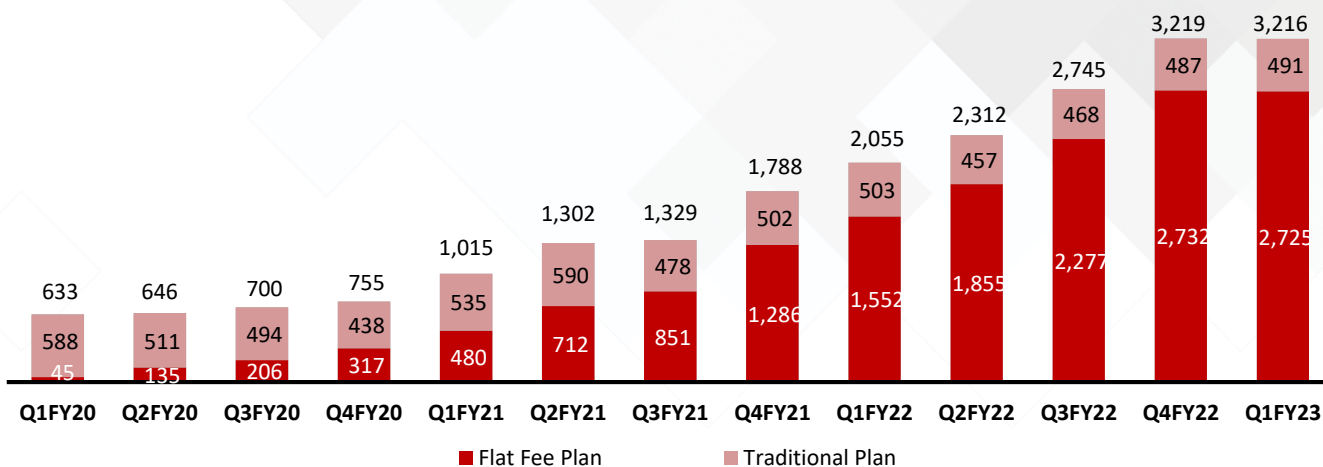
AOL – Broking business model

AOL has transformed itself from a yield-based broking revenue model to a flat fee-based broking revenue model. During the transition phase, the company anticipated broking revenue to get impacted by 65%. When the transition was completed in 2019, the reality turned out to be much different than expected. Instead of revenue getting impacted, AOL saw a strong surge in revenue and profitability. The Company attributes this positive outcome to its size and scale of operations.



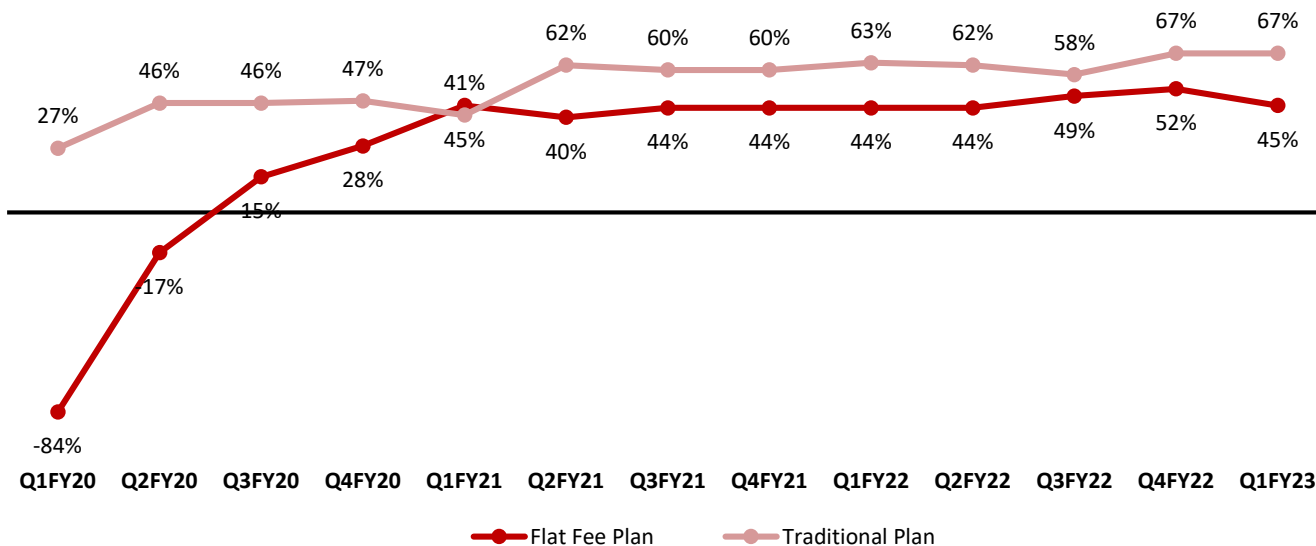
Source: Company, Keynote Capitals Ltd.

Overall broking revenue (Rs Mn) rallied by ~5x while Flat Fee plan sky rocketed by ~60x



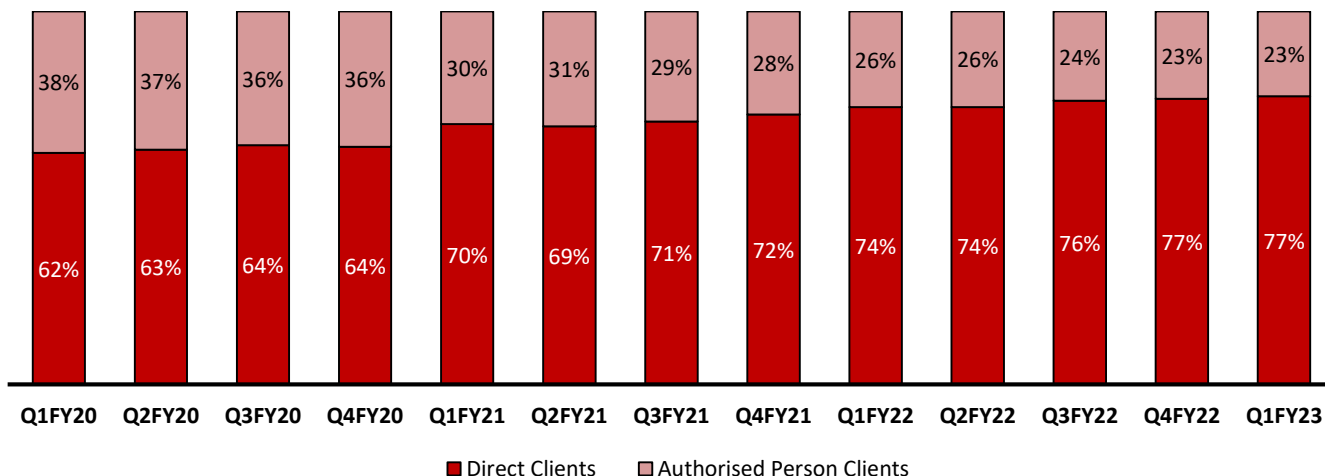
Source: Company, Keynote Capitals Ltd.

EBITDA margin – Significant improvement in Flat Fee plan customers



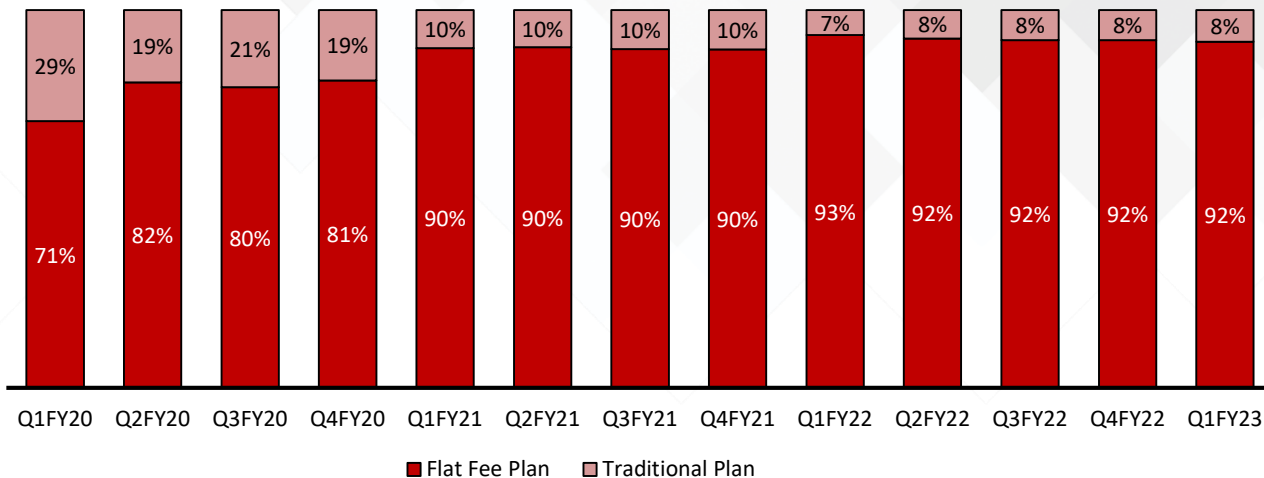
Source: Company, Keynote Capitals Ltd.

Direct clients gaining share over Authorised Person Clients



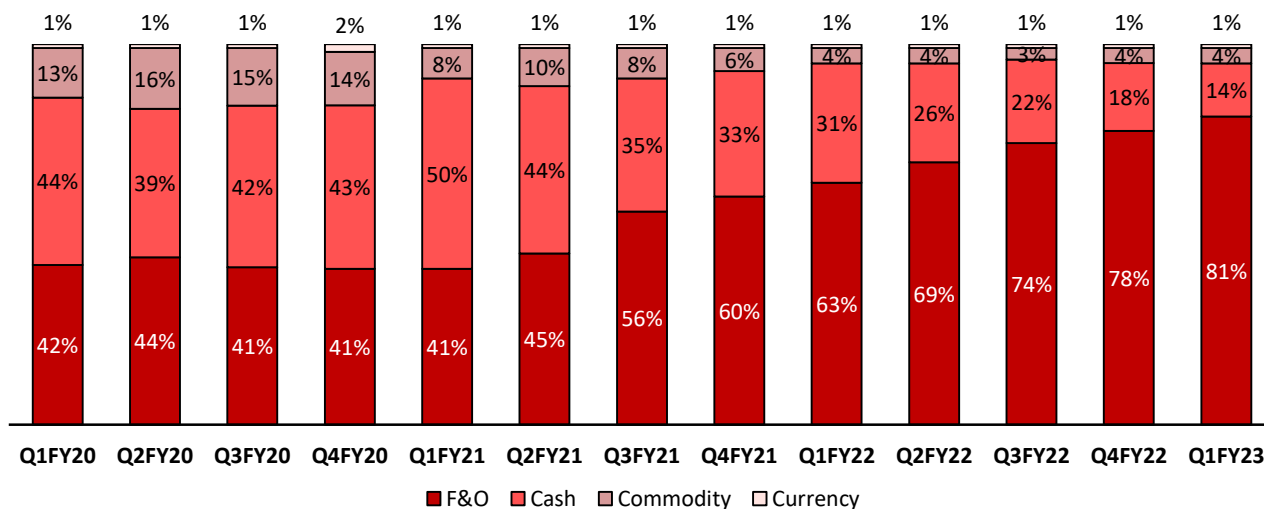
Source: Company, Keynote Capitals Ltd.

Gross client addition from Flat Fee plan



Source: Company, Keynote Capitals Ltd.

Gross broking revenue split (%)

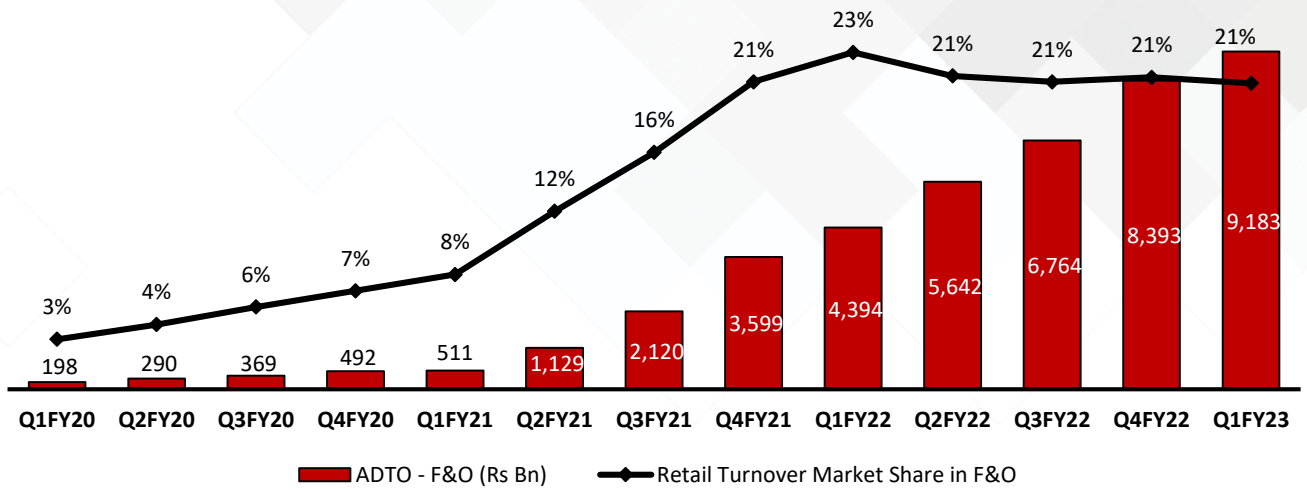


Source: Company, Keynote Capitals Ltd.

F&O segment is expanding continuously

Post the transformation of its business model, the F&O segment is growing rapidly and has jumped ~46x in the last three years. It is introducing its flat-fee product, where the company charges Rs. 20 for every trade, leading to further client addition. Another factor that helped AOL to gain market share is the change in the regulatory landscape, i.e., an upfront margin that helped companies like AOL. Due to a shift in flat fees and regulatory changes, market share in the F&O segment surged from 3% in Q1FY20 to 21% in Q1FY23.

F&O segment jump ~46x with improvement in market share

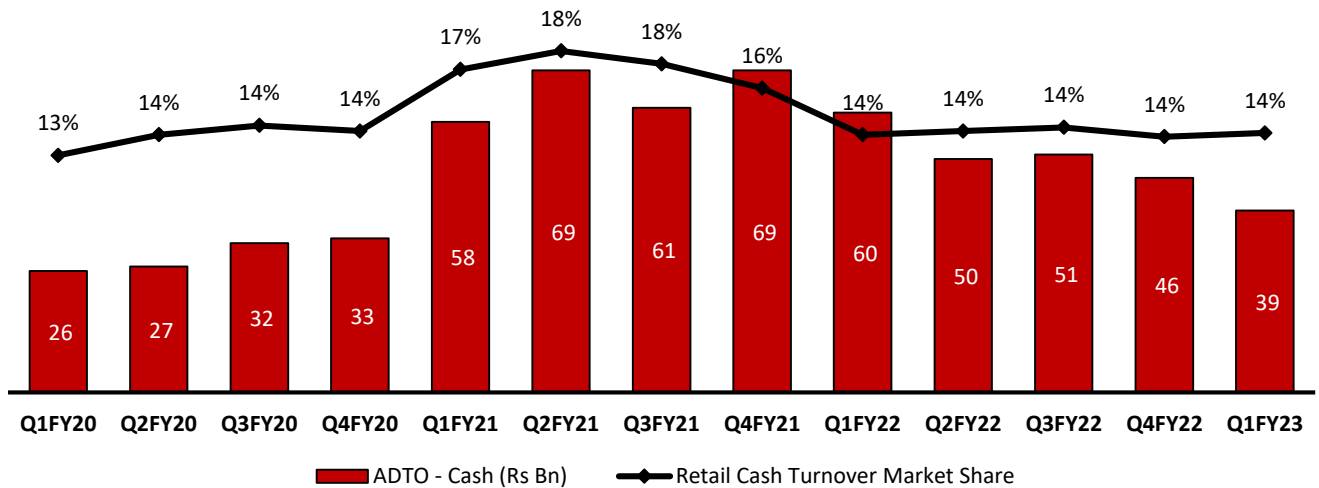


Source: Company, Keynote Capitals Ltd.

The Cash segment was adversely impacted due to changes in regulation

In the Cash segment, ADTO was growing steadily until Q4FY21. The introduction of new upfront margin norms requires the trader/investor to put 100% margin upfront, unlike before. This was a massive blow to the Cash segment, leading customers to shift toward the F&O segment. Even after the change in regulations, AOL maintained market share in the Cash segment.

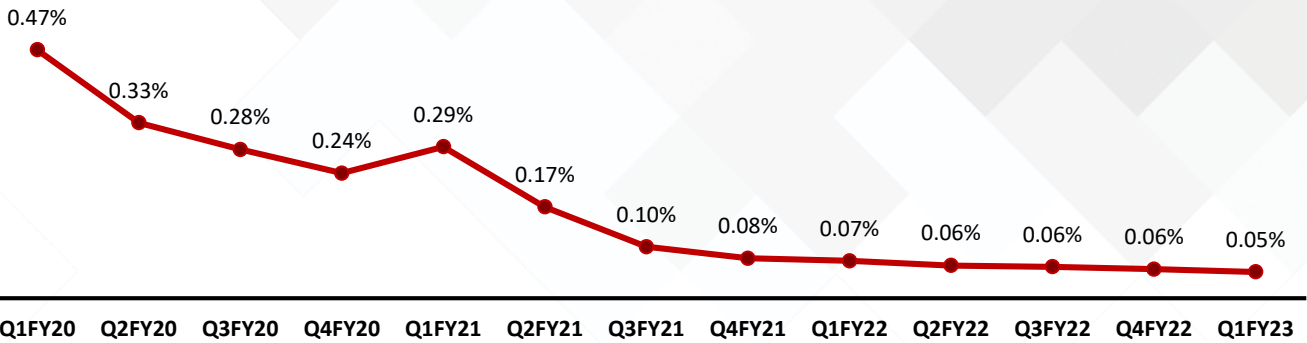
Cash segment maintained market share over years



Source: Company, Keynote Capitals Ltd.

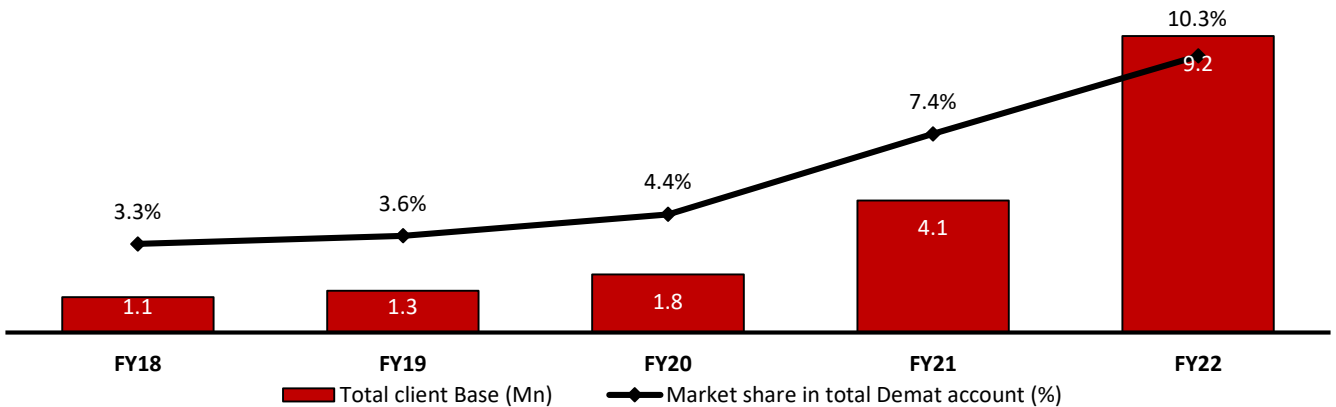
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Average yield of broking business continuously falling down



Source: Company, Keynote Capitals Ltd.

Significant increase in client base lead to improvement in market share



Source: Company, Keynote Capitals Ltd.

Over the past few years, AOL has brought two fundamental changes to its business. First, the Company transformed from a physical to a digital-first model, and second, it introduced a flat fee structure for its clients. These changes helped the Company significantly improve its client base, adding 2.2 times more clients in FY22 than in FY21 and 1.3 times more clients than AOL has added over the last 24 years.

Recently, the Company has changed its name from Angel broking Ltd. to Angel One Ltd. This change brings a strong connection with the new age of Indian investors. The transformation is an ambition for the Company from a broking house to a 'One-Stop Solution' platform for every financial need – like mutual funds, insurance, and other products.

Due to changes in business models and a rise in competition, the average yield on broking business tanked and is expected to remain closer to the current level.

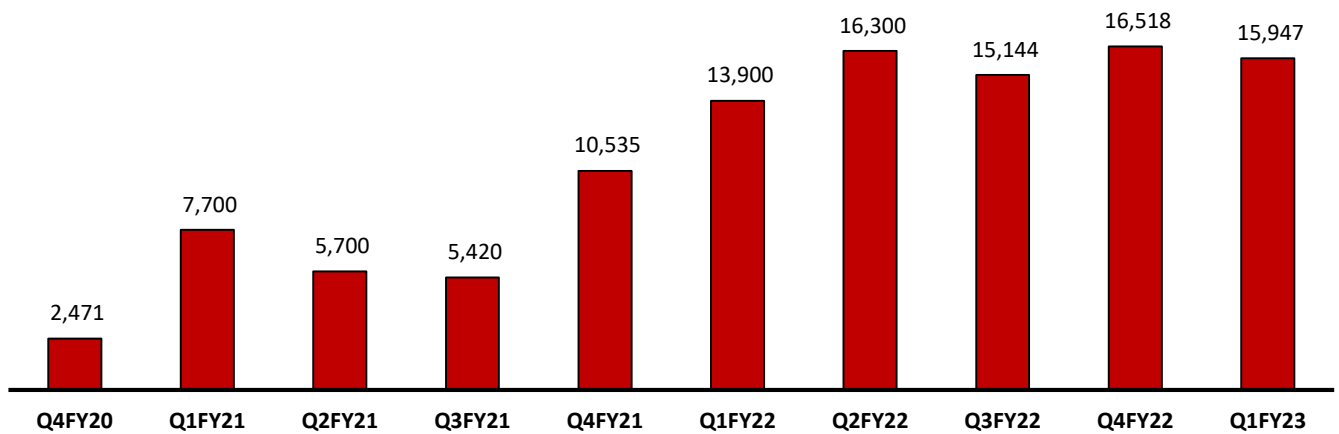
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Margin Trading Facility (MTF)

MTF is a service offered by the broker where an investor can buy stocks by paying only a fraction of the investable amount. AOL provides an MTF that enables clients to leverage their collaterals and fund their requirements.

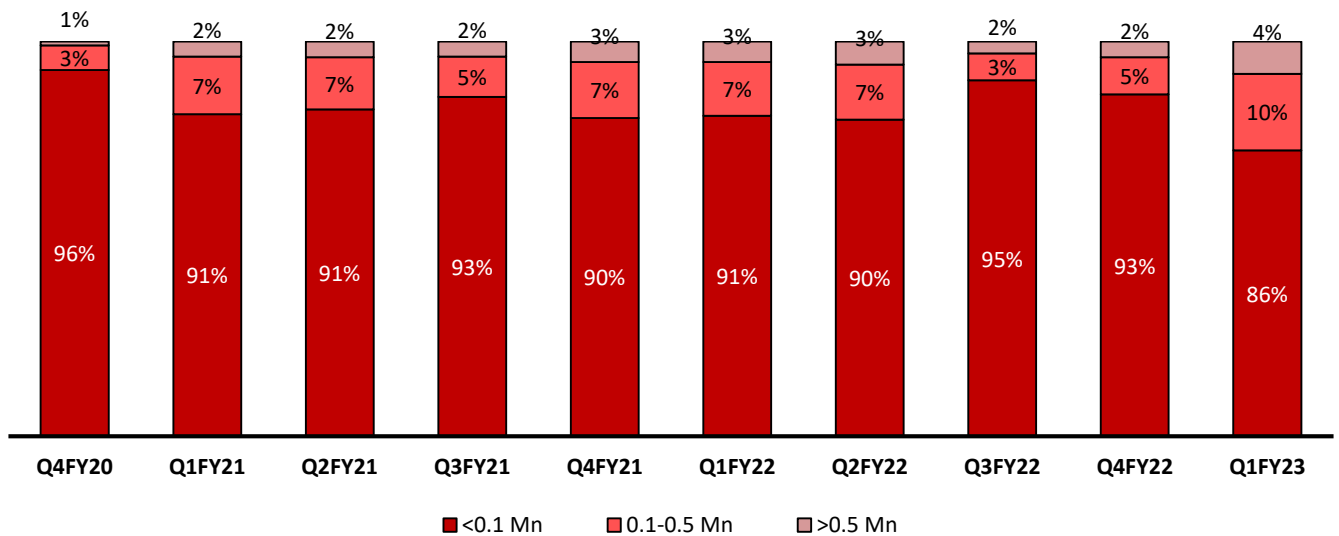
The Company's interest segment (~14% of revenue in FY22) comprises two components a) interest earned on client funding book & loan against shares and b) interest earned on financial assets. AOL, MTF book size is Rs. ~16,000 Mn in Q1FY23, for which the Company charges clients ~18% p.a. interest on the funds they utilize, and the cost of borrowing for the company is close to 9%, which means net interest margin for the company is about 9%.

Gradual increase in size of MTF book (Rs Mn)



Source: Company, Keynote Capitals Ltd.

MTF book segmentation



Source: Company, Keynote Capitals Ltd.

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Other products

Distribution (1% of revenue in FY22) – AOL distributes mutual funds, IPOs, bonds, and life and health insurance through its wholly owned subsidiaries. The company earns commissions from third parties for the distribution of these products in the form of recurring commissions. The AUM of mutual funds distributed by the company as of FY22 stands at Rs. 17,500 Mn and a premium of Rs. 268 Mn in the life and non-life insurance business. AOL sees this business as a critical area for achieving diversification over the medium to long term. However, the current contribution from this business segment is very minimal to impact the company's performance.

Depository Services (6% of revenue in FY22) – Revenue from depository services on account of annual maintenance charges.

Future Product offering

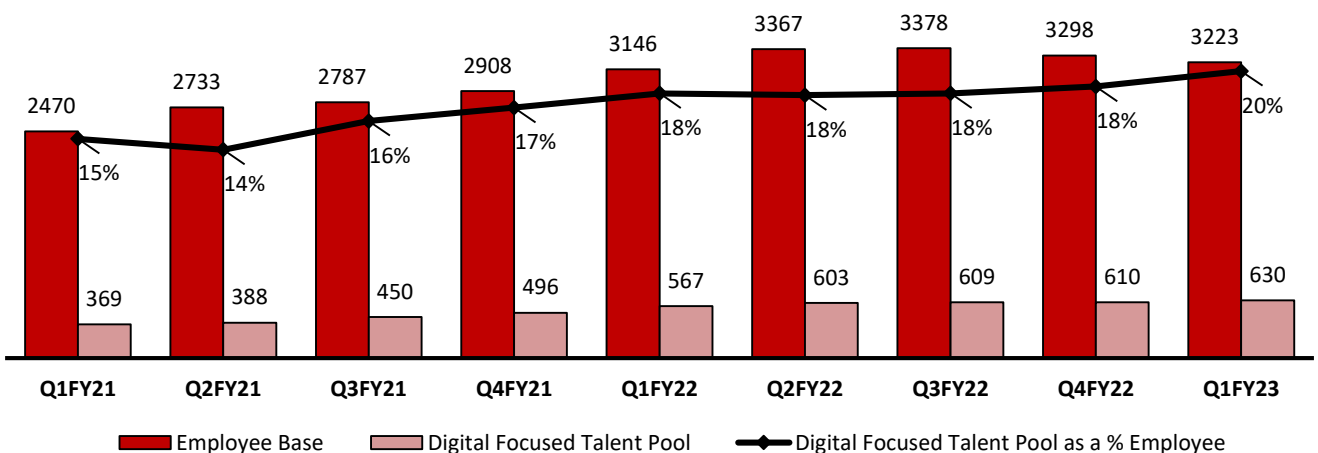
Super App – AOL will launch 'Super App,' a one-stop solution for all investing needs, including third-party mutual funds, insurance, loans, and fixed income products. The Company has rolled out the first phase of this app to limited clients on the iOS and web platforms. On the iOS Super App version, AOL has reached approximately 30% of active users by June end, comprising both migrated and new users. The Company plans to migrate all its customers to this super app, where it has focused on a seamless KYC journey, easy-to-use product, and simplifying the trading experience.

Foraying into Asset Management Business – The Company had already applied with SEBI to set up an asset management business. According to the management, the key rationale behind entering into the asset management business is that they see an enormous scope in passive investment and ETF business in mutual funds. The Company plans to introduce mutual fund backed by passive investment ideology, where they can reduce the cost of distribution and the cost of managing funds.

AOL key additions to the digital team over the last couple of years

Over the last couple of years, the Company has consistently hired a technology talent pool to strengthen its capability.

Digital focused talent pool has doubled



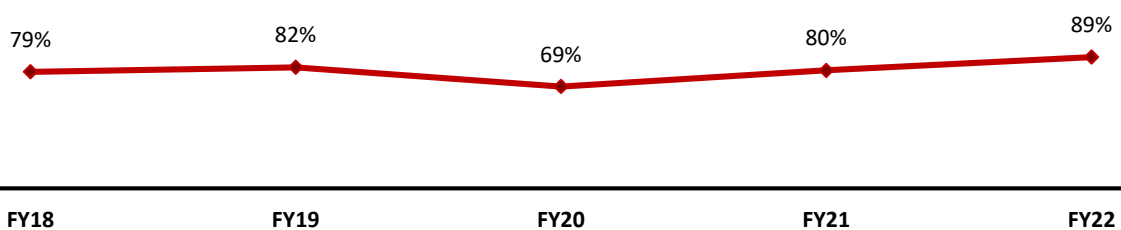
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The digital talent pool hired by AOL in the last couple of years, everyone has an experience of more than ten years with global players.

Name	Position	Experience
Mr. Narayan Gangadhar	Chief Executive Officer	More than 20 years of experience Worked with Uber, Google, Microsoft and Amazon
Mr. Ankit Rastogi	Chief Product Officer	More than 17 years of experience Worked with MakeMyTrip, Goibibo and Cleartrip. He is Co-founder of Indiahotelreview.com
Dr. Pravin Bathe	Chief Legal & Compliance officer	More than 21 years of experience Worked with Citigroup, Edelweiss and SEBI
Mr. Jyotiswarup Raiturkar	Chief Technology Officer	More than 21 years of experience Worked with Walmart, Goibibo and Microsoft
Mr. Dinesh Radhakrishnan	Chief Product & Technology Officer	More than 25 years of experience Worked with Intel, Bloomberg, Rakuten and Ola
Mr. Nishant Chandra	SVP Engineering	More than 17 years of experience Worked with Rupeek and Amazon. He is Co-founder of Yelo
Mr. Nitesh Jain	Lead Architect	More than 16 years of experience Worked with Walmart, JP Morgan and Bank of America
Mr. Abhishek Tomar	Principal Software Engineer	More than 10 years of experience Worked with Amazon, Walmart, SAP and Goldman Sachs

Source: Company, Keynote Capitals Ltd.

Employee retention rate over the years is increasing



Source: Company, Keynote Capitals Ltd.

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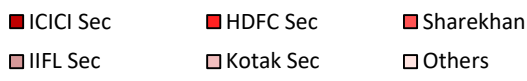
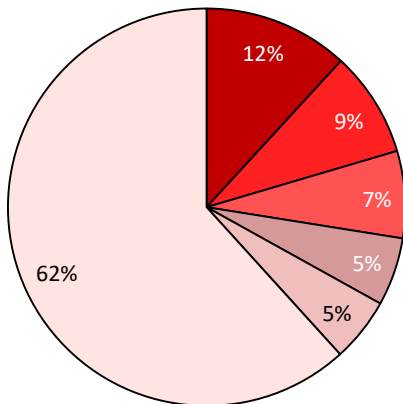
Peer Comparison

In the last 6-7 years, the broking industry has seen two significant changes. 1) A change in the traditional business model to a flat fee-based model and 2) a shift in market share from larger bank-led traditional brokers to discount brokers.

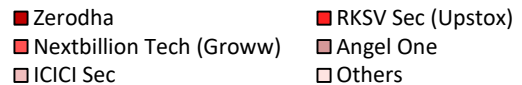
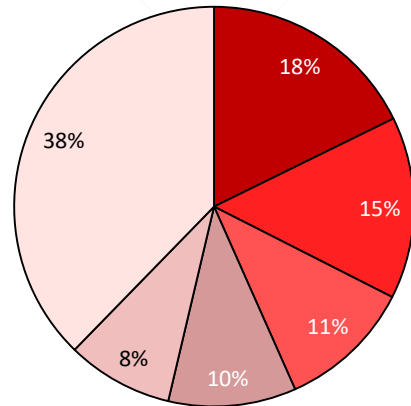
The rise of a digital-led economy and internet penetration was continuously increasing till 2020, and the pandemic accelerated this trend.

Rise in market share of the discount broker in the last 5-6 years according to NSE active client base

2016 market share in terms of NSE active client

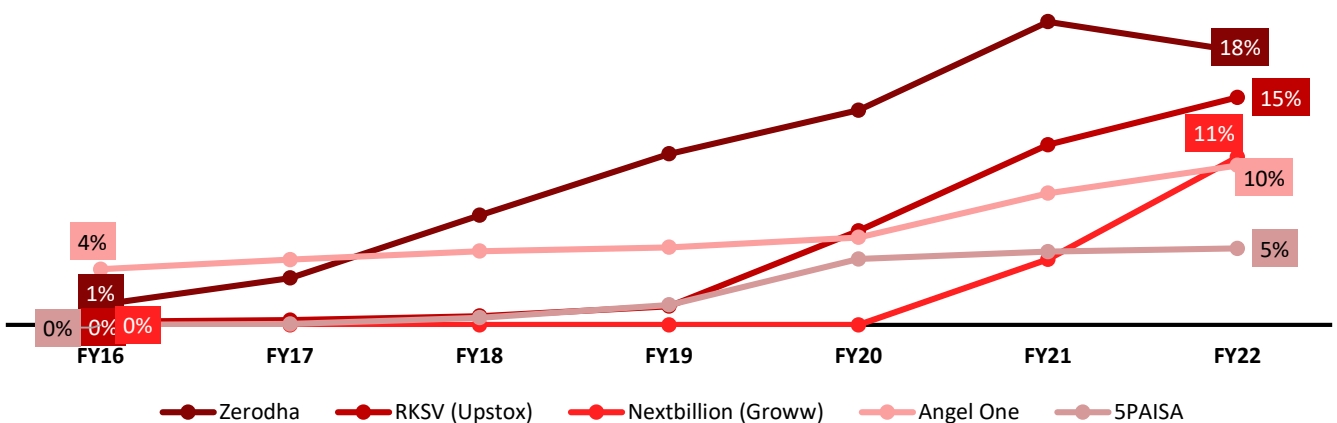


2022 market share in terms of NSE active client



Source: NSE, Keynote Capitals Ltd.

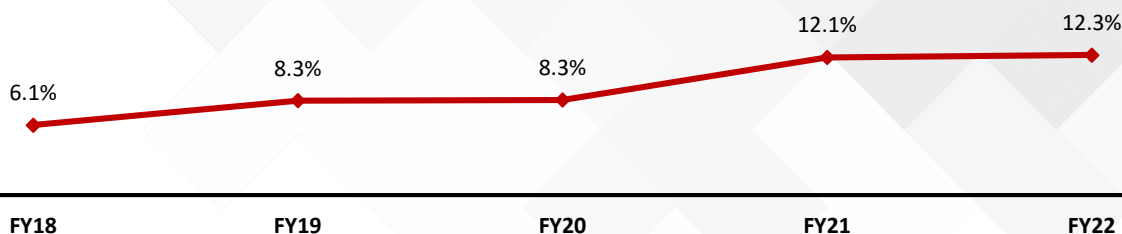
Discount brokers leading the race in terms of NSE active client base



Source: NSE, Keynote Capitals Ltd.

In 2016, discount brokers held ~5% market share. This has increased to a whopping ~59% market share in 2022.

Rise in AOL incremental clients addition market share of NSE active clients



Source: NSE, Company, Keynote Capitals Ltd.

AOL has seen a surge in gross client addition. This increased the total client base at a CAGR of ~95% over the last three years. The active client base of the company traded in the previous 12 months shows an improving trend. AOL activation rate (NSE active client/Client base) is improving Q-o-Q.

The company has seen a CAGR of ~106% in-app download over the last three years. Of the clients who download the app, on average, 43% of people convert into the total client base for the company.

(In Mn.)	Quarterly gross client addition	Quarterly NSE active client addition	Total Client base	Total NSE active clients	Number of App Download Cumulative	Incremental NSE active clients/ Gross client	NSE active client/ Client base	Client base/ No. of App downloads
Q1FY20	68	14	1,400	400	2,900	21%	29%	48%
Q1FY21	347	191	2,200	800	4,600	55%	36%	48%
Q1FY22	1,204	400	5,300	2,000	12,600	33%	38%	42%
Q1FY23	1,257	300	10,400	4,000	25,400	24%	38%	41%

Source: Company, Keynote Capitals Ltd.

Revenue mix

Over the years, broking companies have been diversifying themselves into other services related to the capital market. While the major revenue contributor continues to be broking & related services.

FY22 (Rs. Mn)	ICICI Sec	Angel One	5paisa	IIFL Sec
Broking & Allied Services	20,128	15,736	1,956	8,865
Distribution Income	5,996	324	201	2,119
Other	8,226	6,526	813	1,552
Total Revenue	34,350	22,586	2,970	12,536
Broking & Allied Services (%)	59%	70%	66%	71%
Distribution Income (%)	17%	1%	7%	17%

Source: Company, Keynote Capitals Ltd.

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AOL is trying to diversify and scale the distribution-led income, while the success in this segment is far-fetched. The company has successfully transformed itself and has gained a leadership position in the broking business. AOL is in the process of setting its own asset management business, focusing on the backward integration of the distribution business of the mutual fund.

The company's ambition is to transform itself from a broking house to a one-stop solution for every financial need and become a platform company.

Cost dynamic of the business

The primary cost line item in the business is employee cost and advertisement & sales commission, which forms more than 70% of the total sales. Over the years, these two major cost items have been trending downward, leading to margin improvement.

Major cost items as a % of Sales						
	FY17	FY18	FY19	FY20	FY21	FY22
Angel One						
Employee Cost	31%	16%	21%	22%	14%	12%
Depository Charges	1%	1%	0%	0%	2%	2%
Software & Technical Charges	4%	2%	3%	3%	3%	3%
Professional & Legal Fees	3%	2%	2%	2%	2%	2%
Advertisement & Sales Commission	48%	38%	40%	38%	39%	38%
Total Expenditure	101%	68%	75%	78%	65%	61%
ICICI Sec						
Employee Cost	35%	30%	33%	31%	23%	19%
Depository Charges	4%	4%	3%	2%	1%	2%
Professional & Legal Fees	2%	2%	2%	2%	1%	1%
Advertisement & Sales Commission	5%	5%	3%	4%	7%	8%
Total Expenditure	60%	51%	54%	49%	39%	37%
5Paisa						
Employee Cost	110%	99%	44%	27%	19%	14%
Depository Charges	1%	1%	2%	2%	3%	2%
Software & Technical Charges	23%	14%	5%	5%	5%	14%
Professional & Legal Fees	23%	15%	6%	11%	14%	12%
Advertisement & Sales Commission	94%	93%	47%	31%	24%	32%
Total Expenditure	299%	261%	128%	91%	77%	85%
IIFL Sec						
Employee Cost	29%	25%	31%	28%	26%	26%
Depository Charges	0%	0%	0%	0%	0%	1%
Software & Technical Charges	3%	2%	1%	3%	4%	4%
Professional & Legal Fees	1%	2%	2%	2%	3%	3%
Advertisement & Sales Commission	27%	15%	6%	15%	18%	21%
Total Expenditure	74%	57%	54%	58%	60%	60%

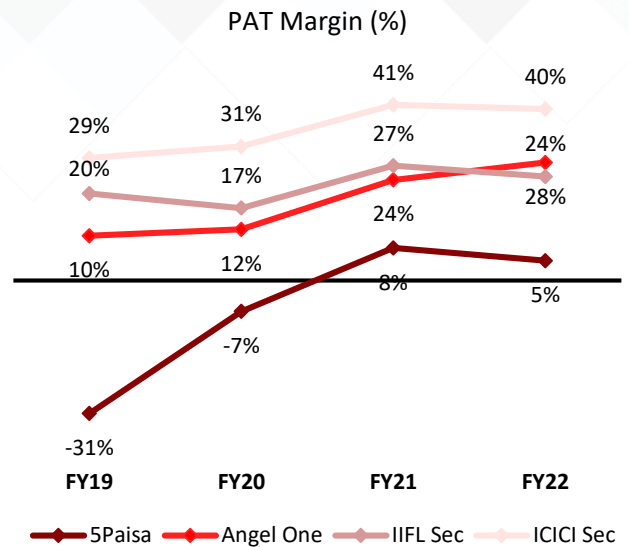
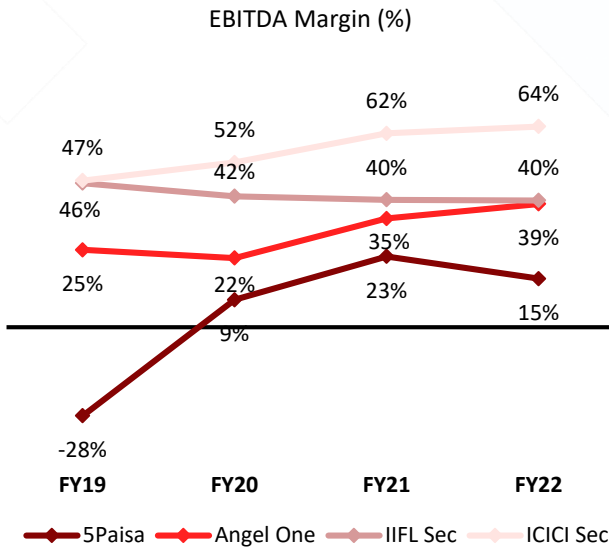
Source: Company, Keynote Capitals Ltd.

Over the years, employee cost as a % of Sales is coming down, and the digital theme is playing out well. This trend is visible across the industry; the employee mix is shifting towards the Tech side.

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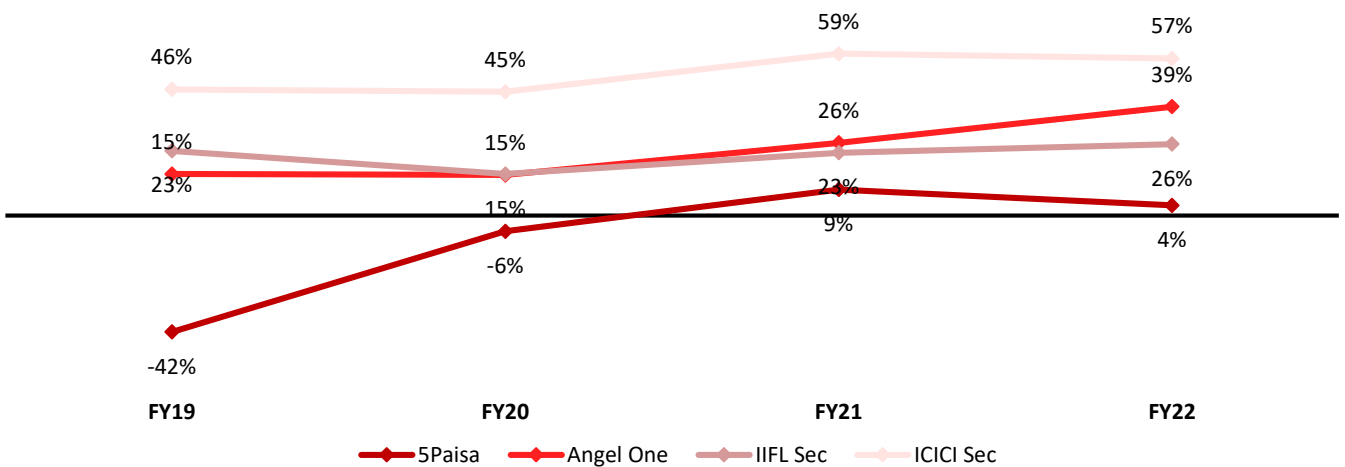
Over the years, AOL has seen a significant drop in employee costs and advertisements cost as a % of sales as these costs are fixed in nature. The Company has a lever to reduce the ad & sales commission cost further as previously it spent more on acquiring new customers while AOL's brand image has been improved; this will increase the margin further in the future.

Improvement in margin profile



Source: Company, Keynote Capitals Ltd.

Return on Equity (%)



Source: Company, Keynote Capitals Ltd.

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Compensation & Skin in the game

Particulars	Mar-21	Mar-22	Jun-22
% Promoter Holding	44.6%	44.0%	43.8%
Promoter Salary (Rs. Mn)	37	43	-
% of PAT	1.2%	0.7%	-

Source: Company, Keynote Capitals Ltd.

Promoter shareholding in the company has stayed close to ~45% for the past two years. Also, their salary has been in the range of 1%-2% of PAT, which is a comfortable compensation range.

Top Shareholders %

Particulars	Mar-21	Mar-22	Jun-22
International Finance Corporation	11.0%	5.4%	5.4%
Nippon Life MF	5.2%	5.7%	5.0%
ICICI MF	5.4%	1.8%	1.0%
Hornbill Orchid India Fund	1.4%	1.7%	1.2%
Goldman Sachs India Ltd.	1.6%	1.1%	1.1%
Smallcap World Fund, Inc	-	-	1.1%

Source: Company, Keynote Capitals Ltd.

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Opportunities

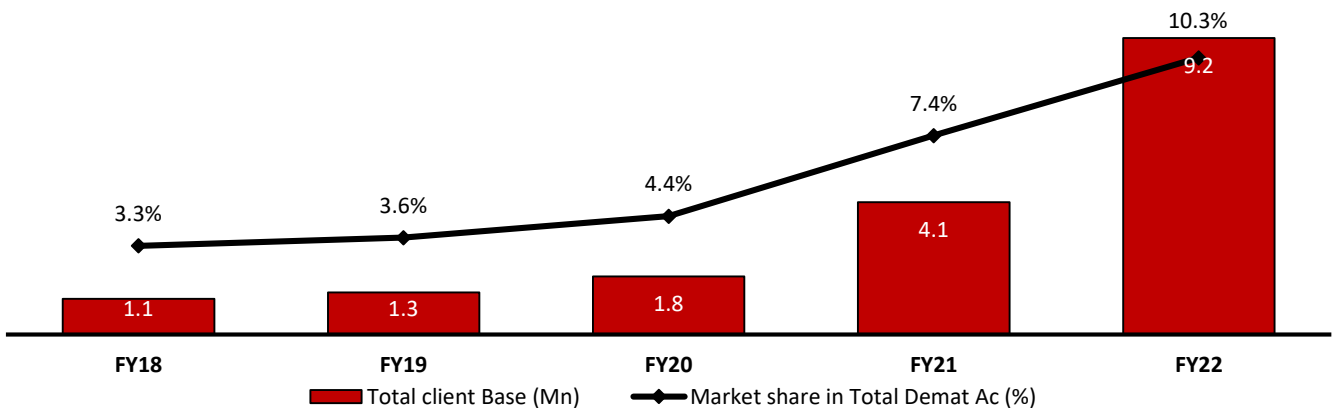
Significant improvement in market share

AOL has shown a strong capability to acquire customers since it transformed its business model and migrated to flat fees. Following the change, the Company's run rate in client acquisition saw a massive surge from a ~1,00,000 per month addition in April'20 to ~3,40,000 per month addition in July'22.

During this phase, AOL has been at the forefront of client acquisition with a 12.3% incremental market share in FY22 compared to 6.1% in FY18. Over the years, the company has continuously improved its NSE active clients market share which currently stands at ~11% as of June'22.

Going forward, we expect the Company to capture market share due to changes in regulation that hinder the growth of smaller and inefficient players. The consolidation in the industry is expected to continue, which will benefit companies like AOL.

Significant increase in client base led to improvement in market share



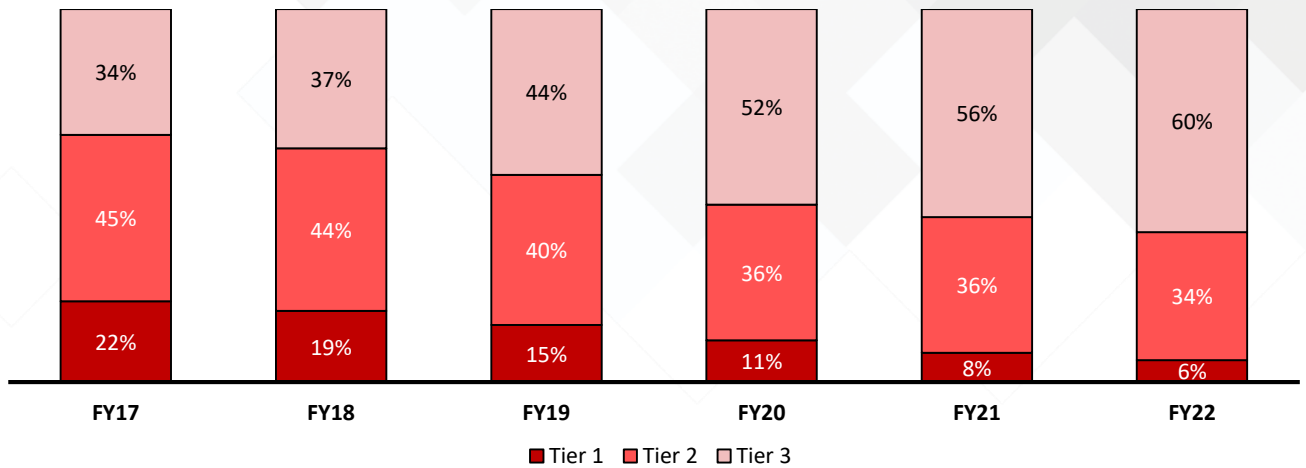
Source: Company, Keynote Capitals Ltd.

Strategy to acquire clients from Tier II and beyond cities

The broking industry has seen enormous growth with negligible penetration in tier II, III, and beyond geography, where approximately 65% of the Indian population resides. Many first-time investors from lower-tier cities are now participating due to increasing financial literacy, awareness and financialization of savings, ease of trading platform, and flat pricing plan by brokers.

Since the rise of discount brokers, the share of lower-tier cities in client addition and trading volume has been rising steadily. AOL has been at the forefront of acquiring the majority of its client from Tier II and beyond cities. The company believes that lower cities are underpenetrated, and they see higher participation from these cities. The Company's approach to reach out to millennials residing in lower-tier towns was reflected in the increase in the share of tier II and beyond cities in the gross client additions from 78% in FY17 to 94% in FY22.

Increasing share of Tier II & III cities in incremental clients



Source: Company, Keynote Capitals Ltd.

AOL has chosen social media platforms to acquire customers in line with rising internet penetration. Through this strategy, the company can break even from the new customers in 3-4 months.

AOL will continue to focus on non-urban areas and try to acquire the young generation to partner with them during their lifetime as they are future wealth creators. The median age of clients acquired in FY22 stood at ~29 years against ~35 years in FY19.

Top-grade senior management in-charge

In the last couple of years, AOL has onboarded high-caliber tech talent to strengthen its tech team, which will help them to cater to the evolving customer needs and digital transformation. The company hired CXOs from diverse domains, especially consumer tech backgrounds.

To build the best-in-class technology platform, the company appointed Mr. Narayan Gangadhar as the CEO in April'21, who has over two decades of global experience in executive leadership roles with tech-edge companies such as Google, Amazon, Microsoft, and Uber. Mr. Narayan is in-charge of driving innovation in product technology and process automation.

To continue the digital offering and strengthen its core competence, AOL is aggressively adding tech talent. Recently, the company onboarded Chief Technology officer Mr. Jyotishwarup Raiturkar, who has more than two decades of experience building scalable tech products and global teams in executive roles with tech behemoths such as Walmart, Microsoft, Goibibo, Samsung, and Intuit.

During FY22, the company expanded the tech talent pool by 86 headcounts, and the company will continue to do so in FY23. These efforts are expected to transition from a broking house to a Fintech player offering a one-stop solution for every financial need and make it Super App.

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Optionality

The Company is tapping into other financial solutions such as mutual funds, insurance, and bond distribution business to diversify its revenue stream. At the same time, the contribution from this segment is ~1%. The company is focusing on this segment to scale it up further, as this segment can be a future growth driver for the company.

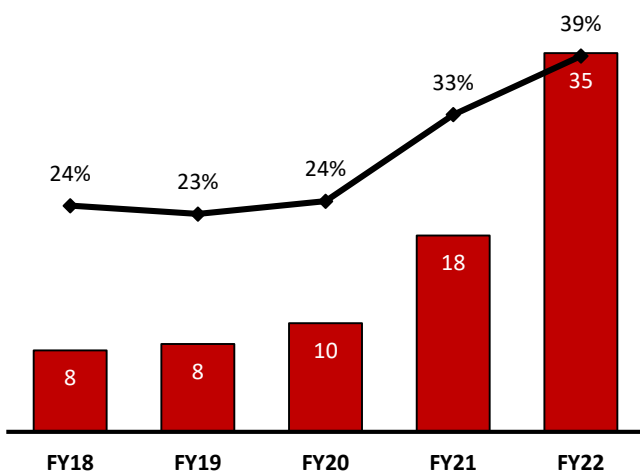
To further augment the mutual fund industry, AOL is taking a step back and plans to start its own asset management business. The company had already applied with SEBI to set up an asset management business. According to the management, the key rationale behind entering into the asset management business is that they see an immense scope in passive investment and ETF business in a mutual fund. The company plans to introduce mutual funds backed by passive investment ideology and rule-based strategies, where they can reduce the cost of distribution and the cost of managing funds.

Industry Tailwind

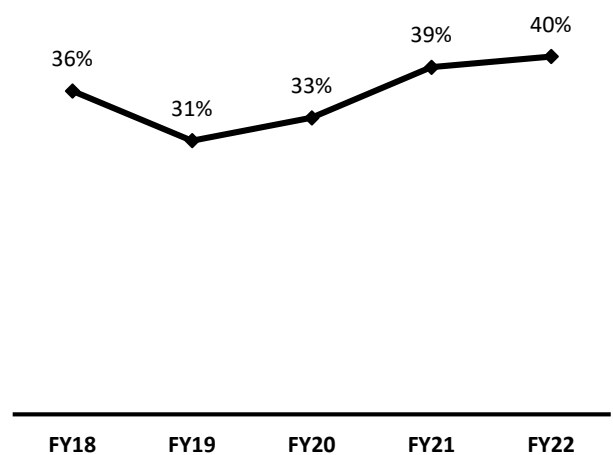
Over the years, Demat account penetration as a proportion of the total population has surged continuously. There are multiple reasons for this trend, such as internet penetration, an increase in the share of equities in household savings, better than expected returns from equities compared to other asset classes, rising Tier II and III participants, and an increase in discount brokers eased onboarding new customers, etc.

The rise of digital brokers has resulted in strong client activation rates and a growing active client base on NSE. The same trend is visible in AOL, where the activation rate stands at 40%, slightly higher than the industry.

NSE active clients (Mn) & activation rate (%)



AOL activation rate better than the industry



Source: NSE, CDSL, NSDL, Company, Keynote Capitals Ltd.

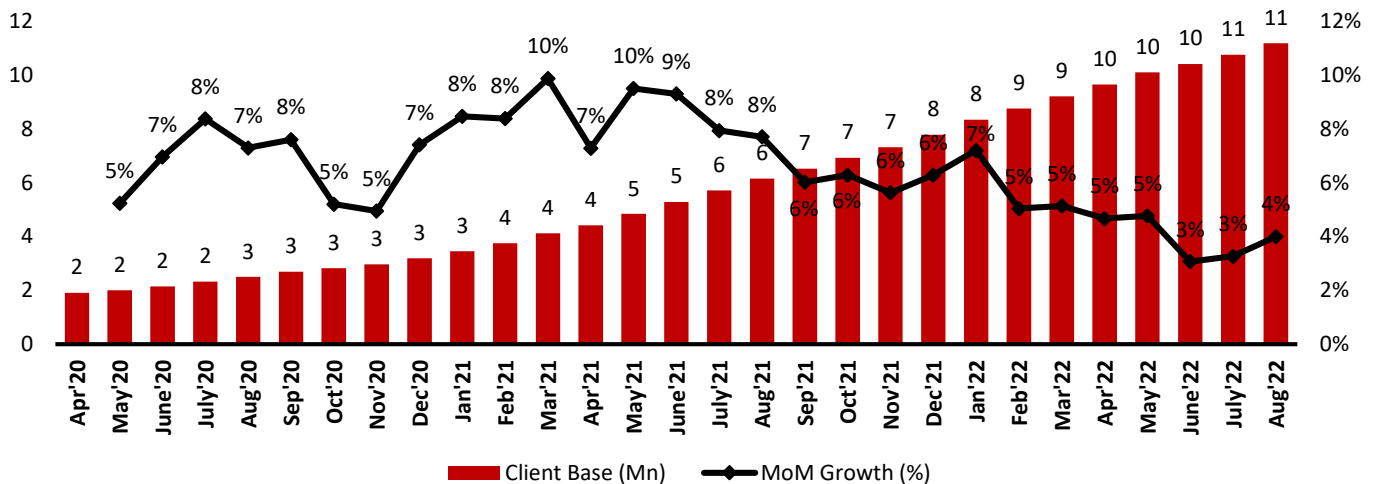
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Challenges

Growth in client addition is normalizing – Difficult to sustain the development of client addition during the time of the pandemic

The broking industry has shown a stellar performance due to a rise in penetration of Demat accounts in India. There are multiple levers for this growth, but the one which accelerated this trend in the last couple of years is the COVID-induced lockdown. On average, the industry has seen an MoM growth of 3.3% from Mar'20 to Mar'22, which earlier has grown on an average of 0.9% from Apr'15 to Feb'20. While AOL, on average, during the Covid time, has increased 7.1% MoM. A similar kind of growth may not be expected going forward, and based on the last 3-4 months, the change in MoM client addition is moderating around 3.3% as of July'22, which is lower than the previous 27 months average.

AOL growth in client addition moderating



Source: Company, Keynote Capitals Ltd.

Super App - Much at stake

The company has already launched the first phase of the super app for iOS, where the company has only been able to switch 30% of clients that include new customer addition as well. In the future, AOL will launch for Android users as well. At the same time, the concern is the smooth switching of clients from one app to another. According to the management, this migration is one of the largest in the world, i.e., the move of more than 10 million clients to the new app. Therefore the cost associated with migration and building this app would be substantial. And the success is dependent on frequent client migration to the super app. Another cause of concern is that if the customers find difficulty using the UI/UX of the Super App, it may result in negative publicity for the company and could lose momentum.

Scaling of distribution segment remains a challenge

For the last few years, the distribution segment for the company has remained a laggard contributing ~1% of the revenue. Traditionally, the bank-led distributor has scaled this business; hence ICICI sec revenue contributes more than 20% from this segment. In comparison, this business requires a strong agent network. On the contrary, AOL will focus on the digital-led strategy; hence, the success looks far-fetched.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	12,637	22,586	25,974	29,870	34,351
Growth %		79%	15%	15%	15%
Employee Expenses	1,718	2,809	3,230	3,715	4,272
Other Expenses	6,553	10,928	12,987	14,935	17,175
EBITDA	4,365	8,849	9,757	11,220	12,903
Growth %		103%	10%	15%	15%
Margin%	35%	39%	38%	38%	38%
Depreciation	184	186	212	226	242
EBIT	4,182	8,662	9,545	10,994	12,661
Growth %		107%	10%	15%	15%
Margin%	33%	38%	37%	37%	37%
Interest Paid	423	760	755	755	755
Other Income & exceptional	353	465	700	720	740
PBT	4,112	8,367	9,489	10,959	12,646
Tax	1,131	2,117	2,372	2,740	3,161
PAT	2,981	6,251	7,117	8,219	9,484
Net Profit	2,981	6,251	7,117	8,219	9,484
Growth %		110%	14%	15%	15%
Margin%	24%	28%	27%	28%	28%
Shares (Mn)	81.8	82.9	83.1	83.1	83.1
EPS	36.28	75.41	85.67	98.94	114.17

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	18,774	48,750	59,578	71,525	85,269
Current Investments	55	187	187	187	187
Debtors	2,277	5,653	5,974	6,870	7,901
Short Term Loans & Advances	14,077	18,621	18,621	18,621	18,621
Other Current Assets	164	393	393	393	393
Total Current Assets	35,348	73,603	84,752	97,595	1,12,369
Net Block & CWIP	1,148	1,518	1,436	1,359	1,289
Other Non-current Assets	14,312	1,863	1,863	1,863	1,863
Total Assets	50,809	76,984	88,051	1,00,817	1,15,521
Creditors	22,764	40,668	46,753	53,766	61,831
Provision	2,831	4,920	4,920	4,920	4,920
Short Term Borrowings	11,703	12,569	12,569	12,569	12,569
Other Current Liabilities	2,138	2,979	2,979	2,979	2,979
Total Current Liabilities	39,436	61,136	67,221	74,234	82,299
Long Term Debt	12	8	8	8	8
Deffered Tax Liabilities	-47	-18	-18	-18	-18
Other Long Term Liabilities	98	14	14	14	14
Total Non Current Liabilities	63	4	4	4	4
Paid-up Capital	818	829	829	829	829
Reserves & Surplus	10,492	15,015	19,997	25,750	32,389
Shareholders' Equity	11,310	15,844	20,826	26,579	33,218
Total Equity & Liabilities	50,809	76,984	88,051	1,00,817	1,15,521

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	4,112	8,367	9,489	10,959	12,646
Adjustments	815	837	267	261	257
Change in Working Capital	-15,915	-1,411	5,764	6,117	7,034
Total Tax Paid	-988	-2,215	-2,372	-2,740	-3,161
Cash flow from operating Activities	-11,976	5,578	13,149	14,597	16,776
Net Capital Expenditure	-140	-691	-130	-149	-172
Change in investments	386	166	0	0	0
Other investing activities	2	1	700	720	740
Cash flow from investing activities	248	-524	570	571	568
Equity raised / (repaid)	3005.84	228.6	0	0	0
Debt raised / (repaid)	6,904	903	0	0	0
Dividend (incl. tax)	-427	-2,089	-2,135	-2,466	-2,845
Other financing activities	-543	-694	-755	-755	-755
Cash flow from financing activities	8,941	-1,651	-2,890	-3,221	-3,601
Net Change in cash	-2,787	3,404	10,828	11,947	13,744

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	36	75	86	99	114
Growth %		108%	14%	15%	15%
Book Value Per Share	138	191	251	320	400
Return Ratios					
Return on Assets (%)	8%	10%	9%	9%	9%
Return on Equity (%)	35%	46%	39%	35%	32%
Return on Capital Employed (%)	21%	27%	25%	25%	24%
Turnover Ratios					
Asset Turnover (x)	0.3	0.4	0.3	0.3	0.3
Sales / Gross Block (x)	8.1	12.4	12.2	13.2	14.2
Liquidity Ratios					
Current Ratio (x)	0.9	1.2	1.3	1.3	1.4
Interest Coverage Ratio (x)	10.7	12.0	13.6	15.5	17.7
Total Debt to Equity	1.0	0.8	0.6	0.5	0.4
Net Debt to Equity	-0.6	-2.3	-2.3	-2.2	-2.2
Valuation					
PE (x)	8.0	20.4	15.4	13.3	11.5
Earnings Yield (%)	12%	5%	7%	8%	9%
Price to Sales (x)	1.9	5.6	4.2	3.7	3.2
Price to Book (x)	2.1	8.0	5.3	4.1	3.3
EV/EBITDA (x)	3.8	10.3	7.5	6.6	5.7
EV/Sales (x)	1.3	4.0	2.8	2.5	2.1

Valuation based on Sensitivity of P/E

Valuation	FY22	FY24E		
		Bear	Base	Bull
Scenario	Current			
Revenue (Rs. Mn)	22,586	28,840	29,870	35,291
PAT %	27.7%	27%	28%	28.5%
PAT (Rs. Mn)	6251	7,929	8,219	10,058
EPS (Rs.)	74.47	95.45	98.94	121.08
PE	-	15	18	22
Target Price (Rs.)	-	1,432	1,781	2,664
CMP (Rs.)	-	1,506	1,506	1,506
% Upside/Downside	-	(4.9%)	18.3%	76.9%

Source: Company, Keynote Capitals Ltd.

The broking industry has shown a stellar performance due to a rise in penetration of Demat accounts in India. There are multiple levers for this growth, but the one which accelerated this trend in the last couple of years is COVID. The industry, on average, has seen an MoM growth of 3.3% from Mar'20 to Mar'22. In the future, we expect the growth to normalize. With the rise of digital brokers, consolidation in the industry, and an increase in Demat account penetration in India, we expect AOL to grow faster than the industry.

Base Case – We have built a 15% revenue growth for FY24 on the assumption that COVID-led supernormal growth will normalize, but AOL will manage to gain market share amid industry consolidation. We arrive at a target price of Rs. 1,781, which is ~18.3% higher than CMP.

Bull Case – We have assumed the compounded growth of ~25% over the last nine years to continue along with margin improvement. AOL can generate a substantial ~76.9% upside, given that things remain as it is. This, coupled with multiple re-rating, can result in a price of Rs. 2,664 a share.

Bear Case – We have assumed that the revenue will grow at the pre-COVID level of 13% CAGR from 2013-20, given the cyclical nature of growth in the industry. This scenario will result in a ~5% downside from current levels bringing the price to Rs. 1,432 at a PE of 15x.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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