

Angel One Ltd.

19th Apr 2023

Achieving consistent superiority over competitors

Angel One Ltd (AOL) reported strong growth of 16% Q-o-Q and 25% Y-o-Y in the number of trades during the quarter. The all-time high ADTO in F&O contributed to this growth. With consistent growth in client base, the Company's net revenue in the broking segment has jumped by 18% Q-o-Q and 29% Y-o-Y, contributing 70% to its gross income. PAT surged by 17% Q-o-Q and 30% Y-o-Y in Q4FY23. The Company continues to gain market share in NSE's active client base, up from 12.0% in Q3FY23 to 13.1% in Q4FY23.

Growth in trades led to market share gain in F&O and Commodity segment

AOL reported strong growth of 16% Q-o-Q in Q4FY23 compared to a degrowth of 2% in Q3FY23 in the number of trades. The strong growth was driven by a surge in ADTO in F&O and Commodities, which on a Q-o-Q basis grew by 28% and 4%, respectively, and more than doubled Y-o-Y. On a Q-o-Q basis, the Company's market share in the F&O segment increased from 21.6% to 22.8% and from 52.4% to 55.2% in the commodity segment.

Continued market share accretion

AOL reported strong growth of 10% Q-o-Q and 50% Y-o-Y in the client base during the quarter. The Company has a 31% active client ratio in Q4FY23, surpassing the industry average of 28%. AOL has marginally grown its active client base from 4.2 Mn in Q3 to 4.3 Mn in Q4 of FY23, despite the broking industry's NSE active client base declining by 7.4% Q-o-Q. This helped the Company increase its market share from 12.0% in Q3FY23 to 13.1% in Q4FY23 in the NSE active client base.

Strong revenue growth from mature (> 2 years) clients

AOL saw strong growth in net broking revenue by 18% Q-o-Q and 29% Y-o-Y. This growth was driven by mature clients who have spent more than two years with AOL. Net broking revenue from clients older than two years grew by 30% Q-o-Q and 103% Y-o-Y in Q4FY23, indicating the longevity of clients and an increase in their activities as they mature with the Company.

Successful launch of Super-app

The Company launched its first phase of the Super-app on the iOS platform in Q2FY23, followed by an android launch in Q3FY23. The app has successfully migrated all clients from the old app to the new one. AOL has launched MF distribution on the platform from the previous quarter, which saw a 2x growth in SIPs. Going forward, the company aims to expand its online distribution by focusing on other wealth management products, such as unsecured consumer lending and insurance, on the platform. This strategic approach will help the company build a robust online distribution and enhance its customer experience.

View & Valuation

We have revised our estimate and maintained a BUY rating on Angel One with a target price of Rs. 1,482 (13x FY24E earnings). We expect the growth to normalize as gross client addition has started to slow down and factoring a decrease in order volume along with higher costs associated with customer acquisition and borrowing. Despite this, we maintain our belief that AOL will outperform the industry.

BUY

CMP Rs. 1,261

TARGET Rs. 1,482 (+17.5%)

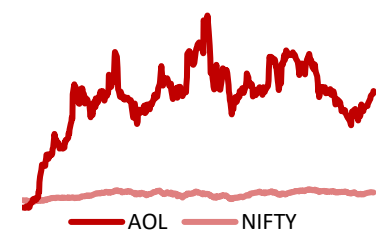
Company Data

MCAP (Rs. Mn)	1,08,308
O/S Shares (Mn)	83
52w High/Low	2,022 / 1,000
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	544

Shareholding Pattern %

	Dec 22	Sep 22	Jun 22
Promoters	43.68	43.71	43.83
FII's	17.25	11.27	10.54
DII's	9.27	9.71	8.92
Non-Institutional	29.81	35.32	36.70

Angel One vs Nifty



Apr, 21 Apr, 22 Apr, 23

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23	FY24E
Revenue	23	30	35
EBITDA	9	13	14
Net Profit	6	9	10
Total Assets	77	75	90
ROCE (%)	27%	34%	32%
ROE (%)	46%	48%	38%

Source: Company, Keynote Capitals Ltd. estimates

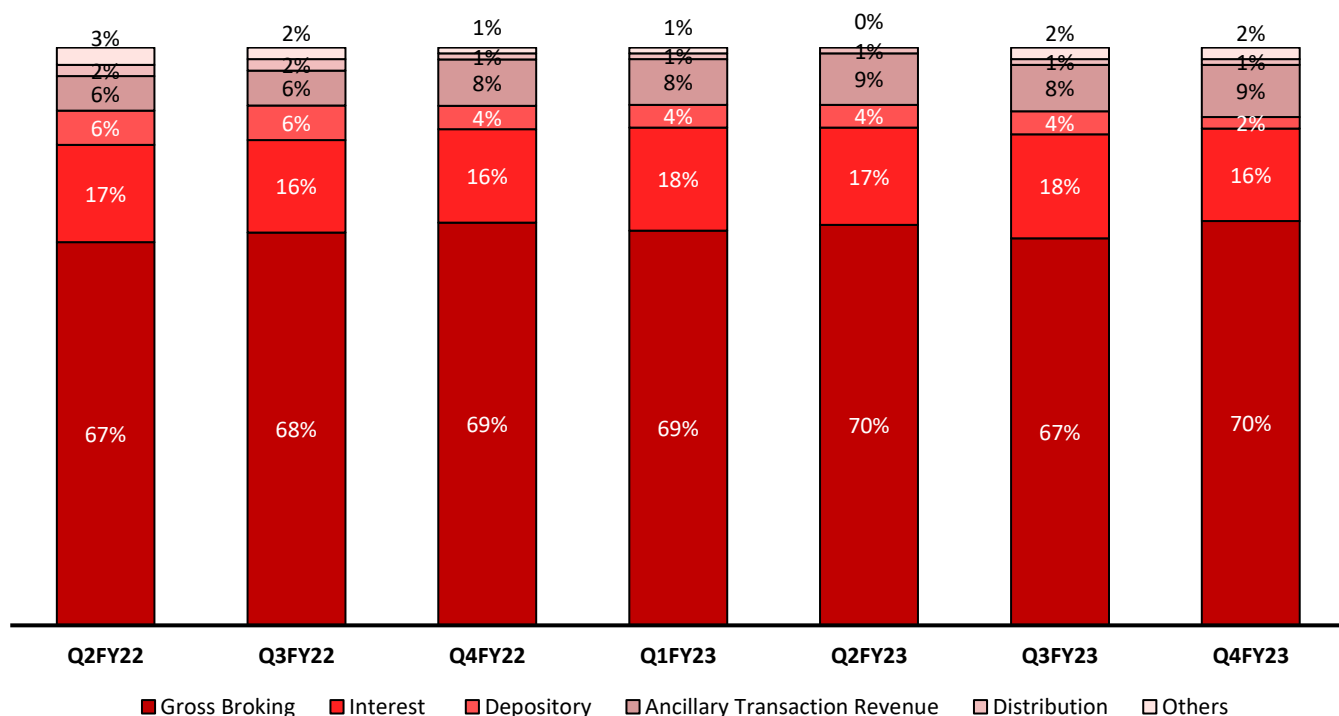
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Result Highlight (Rs. Mn)

Particulars	Q4FY23	Q4FY22	Change % (Y-o-Y)	Q3FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Net Interest Income	1,172	868	35%	1,117	5%	4,300	2,932	47%
Net Fees & Commission Income	5,192	4,175	24%	4,500	15%	18,353	13,459	36%
Total Income	6,364	5,043	26%	5,617	13%	22,653	16,391	38%
Expenses								
Employee benefits	755	749	1%	1,114	-32%	3,979	2,809	42%
Impairment on financial instruments	14	7	100%	4	250%	36	36	0%
Other expenses	1,967	1,526	29%	1,534	28%	6,673	5,350	25%
Total Expense	2,736	2,282	20%	2,652	3%	10,688	8,195	30%
EBITDA	3,628	2,761	31%	2,965	22%	11,965	8,196	46%
EBITDA Margin (%)	57.0%	54.7%		52.8%		52.8%	50.0%	
Depreciation	89	52	71%	80	11%	303	186	63%
Other Income	77	34	126%	134	-43%	256	357	-28%
EBT	3,616	2,743	32%	3,019	20%	11,918	8,367	42%
Tax	946	689	37%	742	27%	3,019	2,110	43%
PAT	2,670	2,054	30%	2,277	17%	8,899	6,257	42%
EPS (Rs.)	32	25		27		107	75	
Cost to Income Ratio (%)	43.0%	45.3%		47.2%		47.2%	50.0%	

Source: Company, Keynote Capitals Ltd.

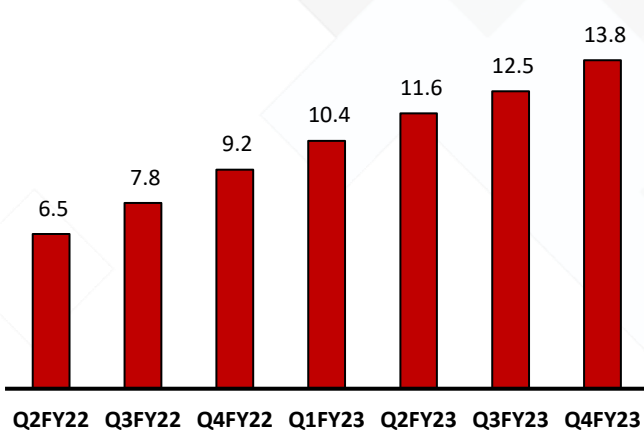
Segmental revenue mix (%)



Source: Company, Keynote Capitals Ltd.

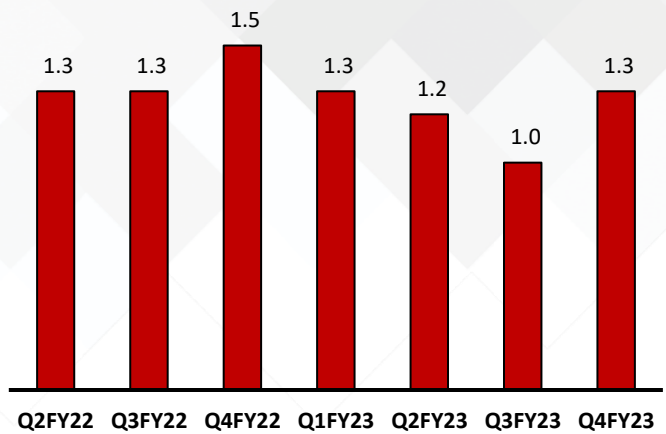
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Total clients base (Mn) continues to rise

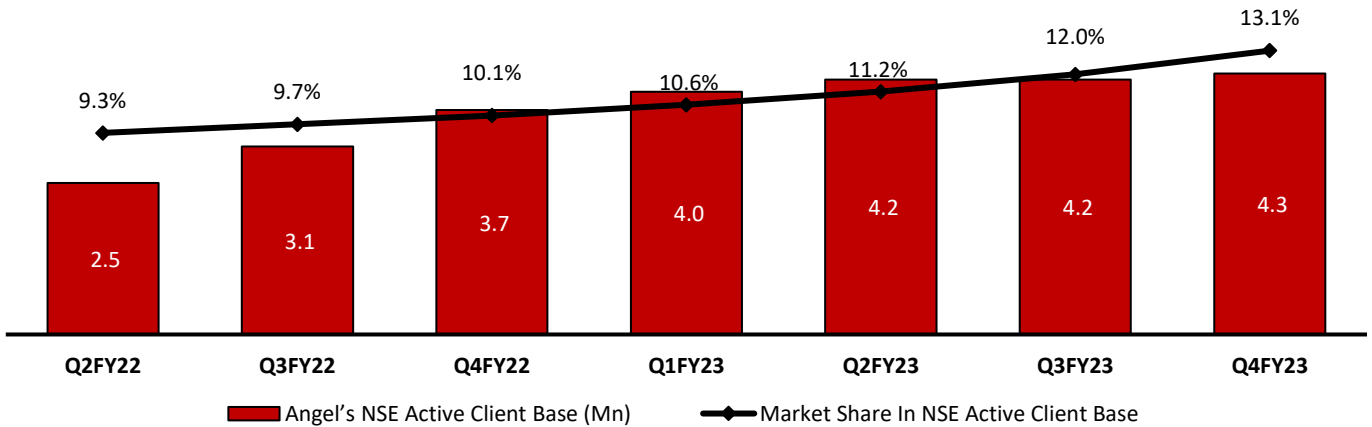


Source: Company, Keynote Capitals Ltd.

Gross client addition (Mn) increased by 31% (Q-o-Q) in Q4FY23

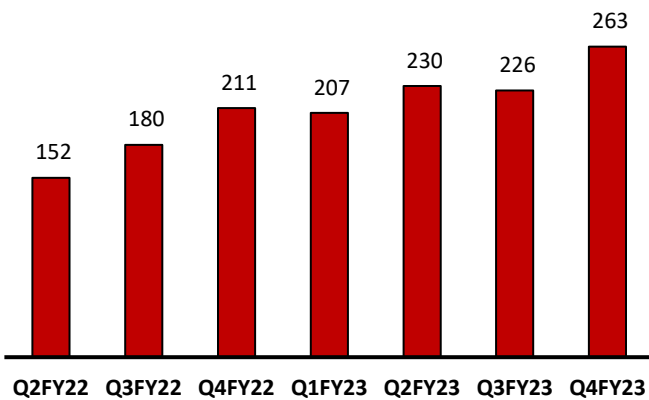


Continuous rise in NSE active client base (Mn) with market share (%) gain



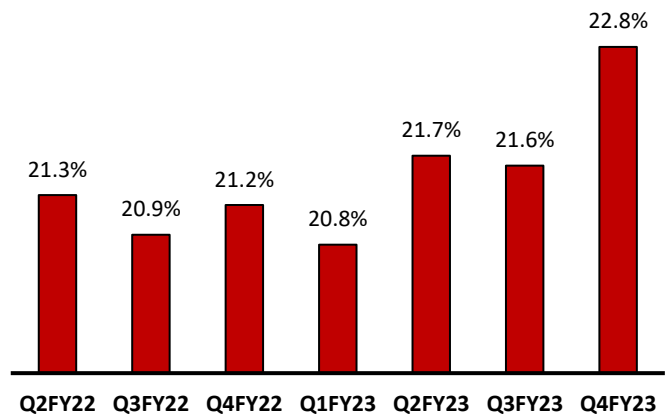
Source: Company, Keynote Capitals Ltd.

Continuous rise in total number of trades (Mn)



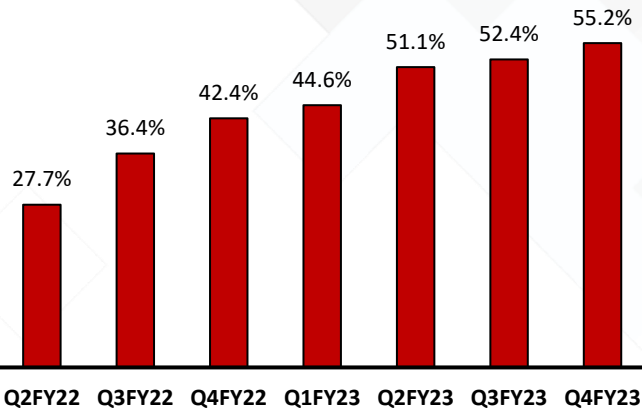
Source: Company, Keynote Capitals Ltd.

Improvement in F&O market share (%)



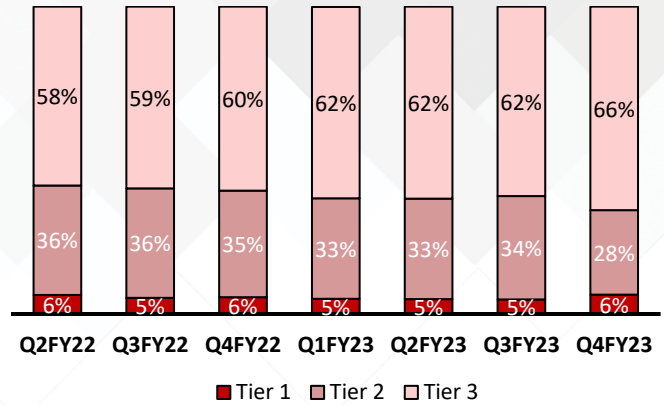
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Continuous improvement in Commodities market share (%)

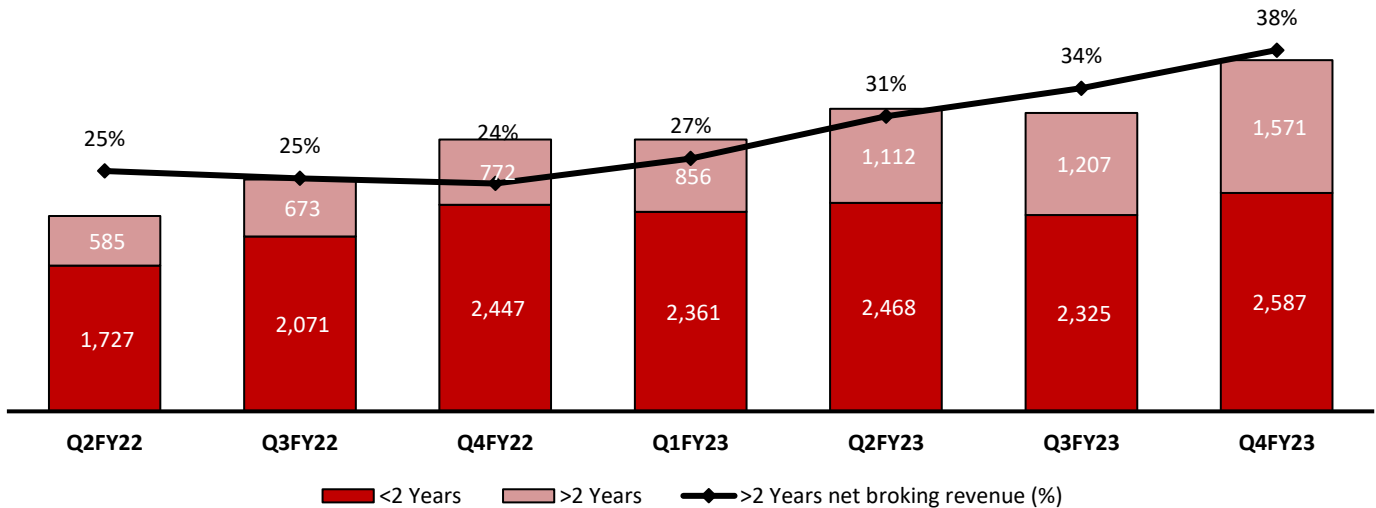


Source: Company, Keynote Capitals Ltd.

Continuous increase in gross client addition from Tier 3 cities



Revenue share of matured clients in net broking revenue (Rs. Mn) is increasing



Source: Company, Keynote Capitals Ltd.

Q4FY23 Conference Call Takeaways

- The company has appointed Amit Majumdar as the Executive Director of Strategic Initiatives, who brings with him a wealth of experience in driving business growth and profitability. In his new role, Amit will be responsible for overseeing the strategic initiatives of the company.
- The Super App was launched in FY23 and witnessed a smooth migration of all clients from the old app to the new one, marking the biggest-ever digital migration in the Company's history.
- The Company's market share in incremental Demat accounts opened has risen from 15% in FY22 to 18% in FY23.
- AOL has successfully shifted from a traditional business model to a digital model, resulting in enhanced revenue visibility for digitally acquired cohorts for multiple years. In the conventional business model, the acquired client showcased a broking revenue of Rs. 100 in the first year, followed by Rs. 47 in the second year and Rs. 32 in the third year. In the digital business model, the same revenue compared to the conventional model has increased to Rs. 86 in the second year and Rs. 77 in the third year.

- As a result of the regulatory change in the upstreaming of client funds, margin requirements may go up as bank guarantees have been kept outside the current framework, which will increase proprietary capital, and hence additional working capital may be required. The company is expected to witness an additional working capital of approximately Rs. 7,000-8,000 Mn. This will increase the company's cost by Rs. 500-550 Mn annually.
- Extension of market timing till 5 pm will not have a big impact on volumes. However, a longer extension can help people take advantage of global market trends, reduce overnight cancellation risk, and aid volumes.
- There has been a change in the classification of income, with interest income and other income being redefined. Interest income will now include MTF, float, and Proprietary income.
- The employee expenses have decreased, primarily due to the reversal of variable pay made throughout the year, which amounts to approximately Rs. 300 Mn. The entire amount was reversed due to the CEO's exit. As a result, the lower employee costs are more of a one-off event.
- 30-35% of employee cost is variable in nature.
- The other expenses have witnessed a Q-o-Q increase, mainly due to the client acquisition cost, which is a variable cost and is expected to continue to grow. Additionally, Cloud expenses are also a major part of the same. Going ahead, given the variable nature, costs will increase with the rise in client base.
- The company has a strong focus on expanding its customer base from Tier 3 and beyond cities, which has led to an increase in customer acquisition costs.
- As per management guidance, the operating margin will be in the range of 45-50%
- The company received in-principle approval as an AMC sponsor. Documents have been submitted for final approval, and it will take around four-six quarters for the launch of mutual funds.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Sales	12,637	22,586	30,016	34,518	39,696
Growth %		79%	33%	15%	15%
Employee Expenses	1,718	2,809	3,979	4,576	4,764
Other Expenses	6,553	10,928	13,116	16,224	18,657
EBITDA	4,365	8,849	12,921	13,719	16,275
Growth %		103%	46%	6%	19%
Margin%	35%	39%	43%	40%	41%
Depreciation	184	186	303	307	378
EBIT	4,182	8,662	12,618	13,412	15,898
Growth %		107%	46%	6%	19%
Margin%	33%	38%	42%	39%	40%
Interest Paid	423	760	895	940	940
Other Income & exceptional	353	465	195	200	210
PBT	4,112	8,367	11,918	12,672	15,168
Tax	1,131	2,117	3,016	3,168	3,792
Net Profit	2,981	6,251	8,902	9,504	11,376
Growth %		110%	42%	7%	20%
Shares (Mn)	81.8	82.9	83.1	83.1	83.1
EPS (Rs.)	36.28	75.41	107	114	137

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	18,774	48,750	54,911	67,362	81,182
Current Investments	55	187	1,095	1,095	1,095
Debtors	2,277	5,653	3,749	5,178	6,351
Short Term Loans & Advances	14,077	18,621	10,052	10,052	10,052
Other Current Assets	164	393	1,747	2,362	2,362
Total Current Assets	35,348	73,603	71,553	86,049	1,01,043
Net Block & CWIP	1,148	1,518	2,219	1,987	2,205
Other Non-current Assets	14,312	1,863	1,004	1,004	1,004
Total Assets	50,809	76,984	74,776	89,040	1,04,252
Creditors	22,764	40,668	40,715	48,326	55,574
Provision	2,831	4,920	0	0	0
Short Term Borrowings	11,703	12,569	7,872	7,872	7,872
Other Current Liabilities	2,138	2,979	3,879	3,879	3,879
Total Current Liabilities	39,436	61,136	52,465	60,076	67,325
Long Term Debt	12	8	0	0	0
Deffered Tax Liabilities	-47	-18	115	115	115
Other Long-Term Liabilities	98	14	580	580	580
Total Non-Current Liabilities	63	4	696	696	696
Paid-up Capital	818	829	834	834	834
Reserves & Surplus	10,492	15,015	20,781	27,434	35,397
Shareholders' Equity	11,310	15,844	21,616	28,268	36,231
Total Equity & Liabilities	50,809	76,984	74,776	89,040	1,04,252

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	4,112	8,367	11,918	12,672	15,168
Adjustments	815	837	1,392	1,047	1,108
Change in Working Capital	-15,915	-1,411	-2,386	6,182	6,075
Total Tax Paid	-988	-2,215	-2,889	-3,168	-3,792
Cash flow from operating Activities	-11,976	5,578	8,032	16,733	18,559
Net Capital Expenditure	-140	-691	-1,004	-690	-595
Change in investments	386	166	-848	0	0
Other investing activities	2	1	0	200	210
Cash flow from investing activities	248	-524	-1,851	-490	-385
Equity raised / (repaid)	3005.84	228.6	114.15	0	0
Debt raised / (repaid)	6,904	903	-4,726	0	0
Dividend (incl. tax)	-427	-2,089	-3,756	-2,851	-3,413
Other financing activities	-543	-694	-704	-940	-940
Cash flow from financing activities	8,941	-1,651	-9,072	-3,791	-4,353
Net Change in cash	-2,787	3,404	-2,891	12,451	13,820

Valuation Ratios

	FY21	FY22	FY23	FY24E	FY25E
Per Share Data					
EPS	36	75	107	114	137
Growth %		108%	42%	7%	20%
Book Value Per Share	138	191	260	340	436
Return Ratios					
Return on Assets (%)	8%	10%	12%	12%	12%
Return on Equity (%)	35%	46%	48%	38%	35%
Return on Capital Employed (%)	21%	27%	34%	32%	31%
Turnover Ratios					
Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4
Sales / Gross Block (x)	8.1	12.4	13.3	12.4	11.6
Liquidity Ratios					
Current Ratio (x)	0.9	1.2	1.4	1.4	1.5
Interest Coverage Ratio (x)	10.7	12.0	14.3	14.5	17.1
Total Debt to Equity	1.0	0.8	0.4	0.3	0.2
Net Debt to Equity	-0.6	-2.3	-2.2	-2.1	-2.0
Valuation					
PE (x)	8.0	20.4	12.1	11.3	9.5
Earnings Yield (%)	12%	5%	8%	9%	11%
Price to Sales (x)	1.9	5.6	3.6	3.1	2.7
Price to Book (x)	2.1	8.0	5.0	3.8	3.0
EV/EBITDA (x)	3.8	10.3	4.7	4.5	3.8
EV/Sales (x)	1.3	4.0	2.0	1.8	1.5

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
7 th Sep 2022	BUY	1,506	+18.3%
17 th Oct 2022	NEUTRAL	1,626	+9.5%
18 th Jan 2023	BUY	1,267	+17.1%
19 th Apr 2023	BUY	1,261	+17.5%

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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