

Company Update; Target
price revision

Financial Services

Target price: Rs1,420

Target price revision
Rs1420 from Rs1980

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	43.8	43.7	43.7
Institutional investors	19.5	21.1	26.5
MFs and others	7.4	8.2	7.7
Insurance	0.8	0.5	0.5
FII	11.3	12.4	18.3
Others	36.7	35.2	29.8

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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BUY

Maintain

Angel One

Rs1,132

We retain our BUY rating on Angel One on the basis of its continuous business momentum and the currently low valuations (stock trading at 10x FY24E P/E). The possible regulatory threat on earnings from proposed blocking of funds, which can impact the float income of brokers, and any impact from the resignation of CEO Narayan Gangadhar, are well captured in our new valuation multiple of 12x compared to the earlier 18x. Our earnings estimates of Rs9.5bn / Rs10.3bn for FY24E / FY25E also factor-in possible margin compression due to higher investments.

► **Maintain BUY with a revised target price of Rs1,420 (earlier: Rs1,980) based on 12x (earlier: 18x) FY25E EPS (earlier: FY24E) of Rs118.** We factor-in the number of orders at 1.1bn and 1.26bn for FY24E and FY25E vs 86mn in Jan'23. We expect MTF book at Rs20.5bn / Rs21.8bn in FY24E / FY25E vs Rs13.9bn in Jan'23. This results in a revenue CAGR of 12% between FY23E-FY25E vs the 67% witnessed in FY20-FY23E. EBITDA margins are likely to decline from 51% in FY23E to 50%/49% in FY24E/FY25E, in line with the company strategy of investing towards building a customer lifecycle value (essentially through cross-sell). This results in PAT estimate of Rs9.5bn / Rs10.3bn respectively in FY24E / FY25E. Based on 9MFY23 reported numbers and Jan'23 trends, our FY23E earnings estimate is Rs8.5bn.

► **Resignation of CEO a negative surprise.** Mr. Narayan Gangadhar resigned from the post of CEO with effect from 16th May'23 due to personal reasons. Day-to-day affairs of the company will be under Mr. Dinesh Thakkar, chairman and managing director. Mr. Gangadhar was among multiple key hires made by the company over last 2 years to further its digital capability and lead to business transformation (refer table 1).

► **Angel One has seen significant business traction over past two years, which could drive earnings growth in the long term,** including: a) expansion in NSE-active client market share from 7.6% in Q3FY21 to 12% in Q3FY23; b) increasing incremental NSE client market share from 11.8% to 18.4% in Q1FY23 (in Q2/Q3FY23 Angel One added 0.2mn/0.1mn clients as against industry dips of 0.7mn/2mn); c) improvement in overall retail ADTV equity market share from 16.5% in Q3FY21 to 21.5% in Q3FY23 and commodity market share from 26.8% to 52.4% in the same period; d) significant increase in overall client base from 3.2mn in Q3FY21 to 12.5mn in Q3FY23; f) increase in app installs from 8.4mn in Q3FY21 to 31.7mn in Q3FY23 (refer key features of the app on page-3); g) strong increase in EPS from Rs9 in Q3FY21 to 27.4mn in Q3FY23; h) 100% roll-out of 'super app' on iOS and limited set of clients on Android as of Dec'22; i) in-principle approval for starting an AMC received on 9th Feb'23.

Market Cap	Rs94.4bn/US\$1.14bn	Year to Mar	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	ANGB.BO/ANGELBRK IN	Revenue (Rs mn)	17,174	22,747	26,123	28,685
Shares Outstanding (mn)	83.4	Net Income (Rs mn)	6,598	8,446	9,516	10,258
52-week Range (Rs)	2022/1066	EPS (Rs)	79.6	100.4	111.4	118.3
Free Float (%)	56.3	% Chg YoY	115%	28%	13%	8%
FII (%)	18.3	CEPS (Rs)	81.9	103.9	115.2	122.4
Daily Volume (US\$'000)	8,584	EBITDA Margin (%)	51.8	50.8	49.8	48.9
Absolute Return 3m (%)	(26.3)	P/E	14.2	11.3	10.2	9.6
Absolute Return 12m (%)	(13.6)	Dividend Yield	2.4	3.1	3.4	4.2
Sensex Return 3m (%)	(0.9)	RoCE (%)	30.9	29.0	27.3	25.5
Sensex Return 12m (%)	7.1	RoE (%)	48.6	44.7	37.5	31.9

Please refer to important disclosures at the end of this report

► **Key risks:** Possible impact on business momentum on account of exit of CEO Mr. Narayan Gangadhar and regulatory headwinds are key risks. Regulatory risks could come from possible impact on float income on account of proposed blocking of funds for trading in secondary markets and any targeted action to curb the rising derivatives volumes on the exchanges (NSE average daily derivative volume CAGR has been 116% over last 3 years).

Table 1: List of new joinees in the recent past

KMP	Joining date	Background
Ankit Rashtogi Chief Product officer	Feb 2021	<ul style="list-style-type: none"> • B.E. (Computer Engineering) – Gold Medalist, NIT Surat • 19+ years experience in Entrepreneurship, Product Management, Scaling Online Adoptions & Digital Growth • Leadership roles at Makemytrip, Cleartrip, Stayzilla & Goibibo
Narayan Gangadhar, CEO	Apr 2021	<ul style="list-style-type: none"> • MS in Computer Science • 20+ years of global exp., worked in tech functions at Google, Microsoft, Amazon, Uber, Ola • Led highly disruptive businesses, driving innovation in product, tech, capability building & process automation
Jyotiswarup Raiturkar Chief technology officer	Aug 2021	<ul style="list-style-type: none"> • MS -Illinois Tech, Tech NIT Nagpur Comp. Science, NTSE AIR 9 • 20+ years experience in building tech products & global teams • Leads tech development and engineering • Worked with Walmart Labs', Intuit, Goibibo, Samsung Research and Microsoft
Dr Pravin Bathe Chief Legal and compliance officer	Mar 2022	<ul style="list-style-type: none"> • Ph.D. (Banking & Fin.), MBA (Fin), MBA (Mktg), MA (Eco.), LLB • 21+ yrs experience in Capital Markets • Heads Compliance and Legal • Strong exposure to Compliance & Risk Management in Capital Market • Worked with SEBI, Edelweiss and Citigroup
Dinesh RadhaKrishnan Chief product and technology officer	July 2022	<ul style="list-style-type: none"> • Master of Computer Applications, CEG Guindy • 25+ years experience in building cutting edge technology products • Leads technology, product and design teams • Worked with Ola Electric, Rakuten India, Bloomberg and Intel
Prateek Mehta Chief business officer	Nov 2022	<ul style="list-style-type: none"> • IIT-B, MBA -IIM-A • ~20 years in building & creating value at Startups & Fortune 50 Companies, with 12+ years in retail & internet businesses like Tata Digital, Scripbox / Upwardly, Myntra, Zovi in Exec. roles • Built & scaled large businesses, Expertise in Growth, Product, Marketing, Brand, Rev
Saurabh Agarwal CXO Business Management	Nov 2022	<ul style="list-style-type: none"> • B.Tech - Comp. Sc., IIT-K, MBA – IIM-L • 13+ yrs of leadership exp. across Lehman Brothers, IIFL Wealth, Housing.com and Incred • Led disruptive business and product teams across successful consumer tech companies to create significant value

Source: Company data, I-Sec research

Note: Sorted on chronological order of joining date

App features and ratings (as mentioned on Playstore)

DEMAT Account

- Free demat account opening
- Easy, **safe** and paperless KYC
- Seamless onboarding for online trading and investing

IPO

- Pre-Application to IPOs
- Apply via WhatsApp
- Apply to IPOs 24x7 along with easy UPI-based IPO applications
- IPO predictor to guide on listing gains
- Updates on upcoming IPO
- Track share price for trading or investing

Stocks

- Trade in 5,000+ stocks across large-caps, mid-caps and small-caps
- Track live price movement
- Zero brokerage on stock investing and flat Rs 20 brokerage on intraday trading
- Free recommendations via ARQ Prime (in-house research)
- Avail zero interest charges on margin trade facility (MTF) for first 30 days of trading in the stock market
- Invest in US stocks & ETFs through the Angel One stock trading app (Vested Finance)
- Build wealth using professional curated Partner Integration Smallcase

Futures & Options trading (F&O)

- Lowest brokerages on F&O trades Rs20 or 0.25% commission whichever is lower
- Access to all market segments of BSE, NSE, MCX, MSE, NCDEX
- Charting tools like Tradingview and ChartIQ to help track share price
- One-click simple and easy options trading using Instatrade
- Commodity trading & currency trading are available in F&O
- Access expert advice and easy option trading strategies through partner integration – Sensibull

Angel One online trading app / investing app benefits

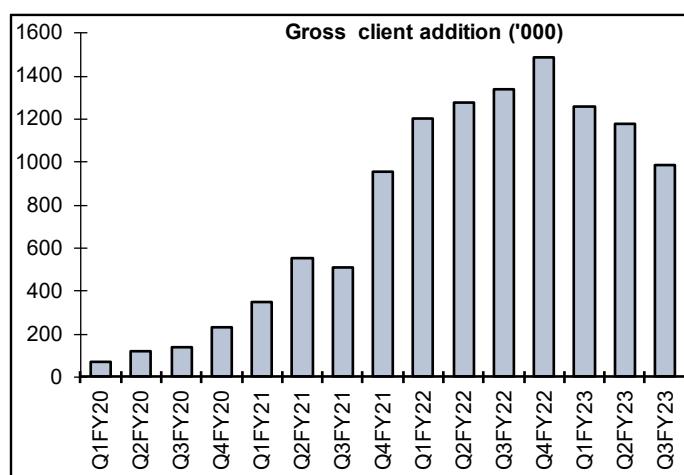
- Improved trader experience in order book, position book
- Smart Order options like Stop Loss, GTT, Cover Order & Robo Order

- Build a personalised trading and investing platform with plug-and-play SmartAPI
- Add funds easily through UPI/Gpay/netbanking to invest in stock market with trading account
- Learn & earn with Smart Money on stocks, mutual funds, option trading, futures trading
- Margin trade funding
- Shares pledging
- Real-time share price for all stocks & easy access to share market analysis reports

Mutual funds investment

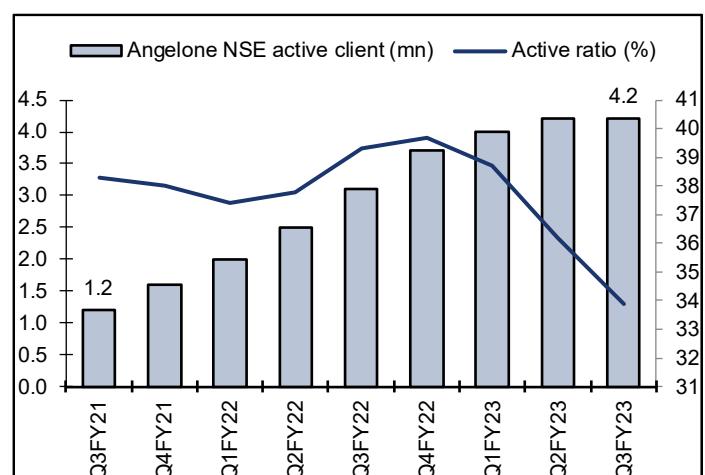
- One can invest in direct mutual funds online through Angel One app
- Invest money in top mutual funds (5,000+ MF schemes) via SIP/lumpsum investments in just a few swipes

Chart 1: Client additions slowed down in Q3FY23

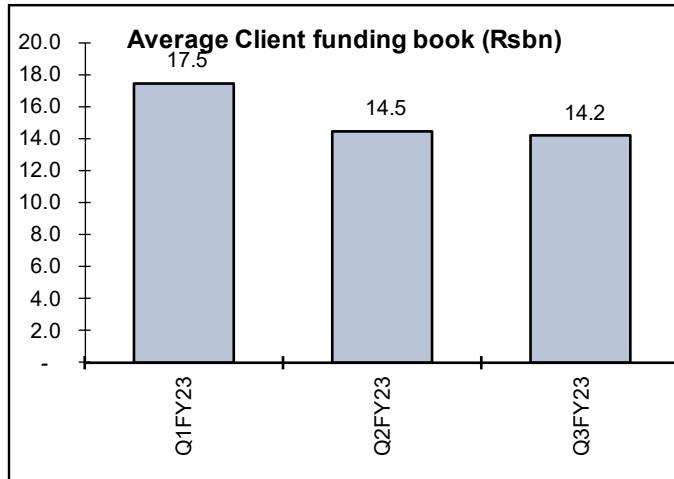


Source: Company data, I-Sec research

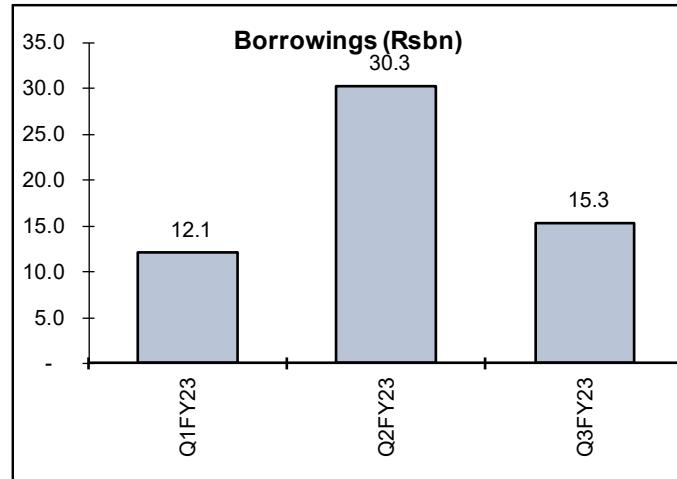
Chart 2: Angel One active client base (on NSE) has been stable while active ratio has continued to decline



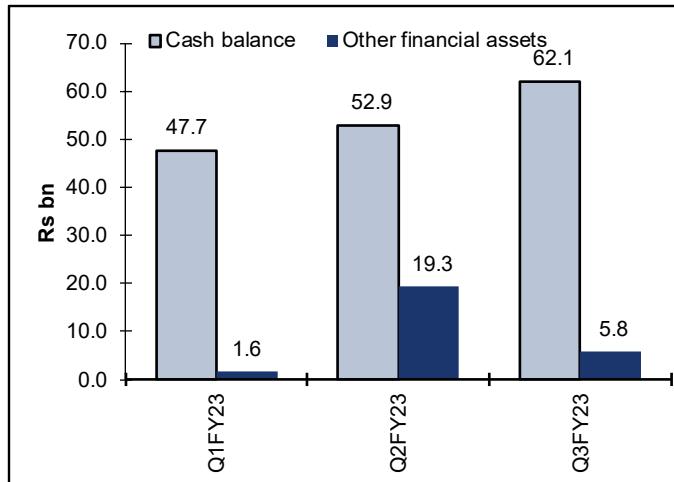
Source: Company data, I-Sec research

Chart 3: MTF book contracted in Q3FY23...

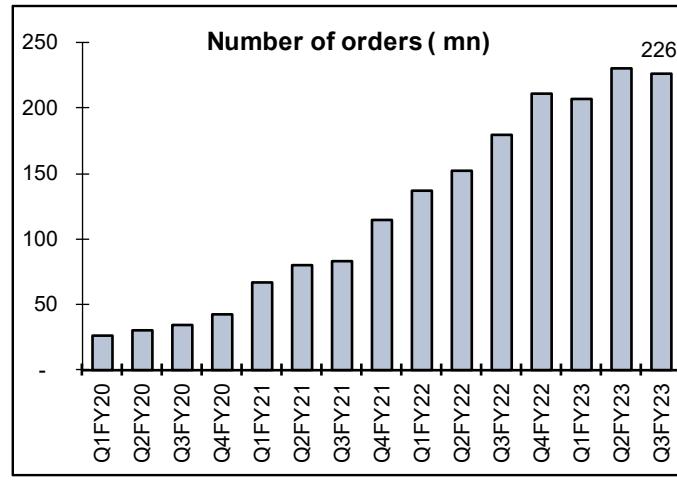
Source: Company data, I-Sec research

Chart 4: ...while borrowing declined sharply

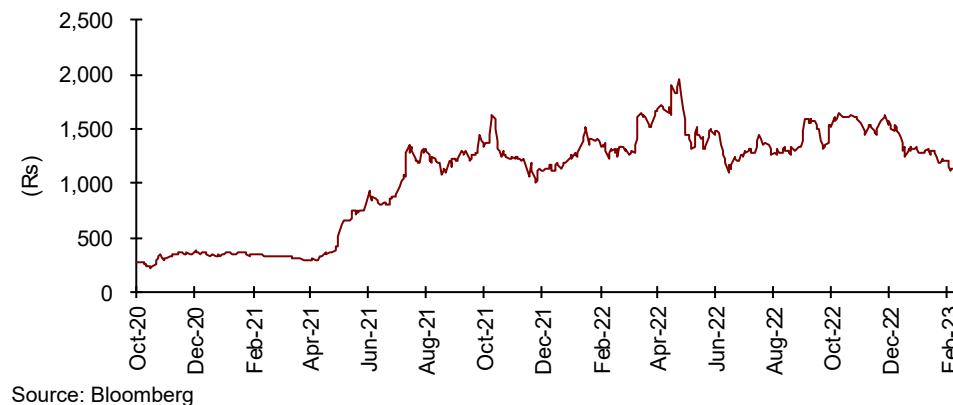
Source: Company data, I-Sec research

Chart 5: Cash balance has seen consistent increase

Source: Company data, I-Sec research

Chart 6: Total number of orders declined in Q3FY23

Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 2: Profit and Loss statement

(Rs mn, year ending Mar 31)

Year to March	FY22	FY23E	FY24E	FY25E
Operating Income (Sales)	17,174	22,747	26,123	28,685
Operating Expenses	8,273	11,198	13,123	14,666
EBITDA	8,901	11,550	13,000	14,018
% margins	51.8	50.8	49.8	48.9
Depreciation & Amortisation	186	296	320	350
Recurring PBT	8,715	11,254	12,680	13,668
Add: Extraordinaries	-	-	-	-
Less: Taxes	2,117	2,808	3,164	3,410
Net Income (Reported)	6,598	8,446	9,516	10,258
Recurring Net Income	6,598	8,446	9,516	10,258

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending Mar 31)

	FY22	FY23E	FY24E	FY25E
Assets				
Cash and cash equivalents	48,750	64,229	68,159	79,991
Trade Receivables	5,653	1,000	10,202	11,732
Loans	13,576	15,758	20,518	21,840
Investments	2,136	8,200	9,950	11,263
Fixed Assets	1,581	2,481	2,981	3,481
Other assets	503	503	503	503
Total Assets	72,199	92,171	1,12,313	1,28,810
Liabilities				
Equity share capital	829	841	854	867
Reserves and surplus	15,015	21,105	27,891	34,646
Networth	15,844	21,947	28,745	35,513
Borrowings	12,332	16,870	17,713	18,067
Other Liabilities	44,023	53,355	65,855	75,230
Total Liabilities	72,199	92,171	1,12,313	1,28,810

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending Mar 31)

	FY22	FY23E	FY24E	FY25E
Operating Cashflow	9,135	11,951	13,390	14,396
Working Capital Changes	25,584	6,752	-3,212	5,210
Taxes paid	-2,117	-2,808	-3,164	-3,410
Capital Commitments	-520	-900	-500	-500
Free Cashflow	32,081	14,996	6,514	15,695
Cashflow from Investing Activities	-652	-1,913	-500	-500
Dividend paid	-2,245	-2,956	-3,331	-4,103
Extraordinary Items				
Chg. in Cash & Bank balance	30,321	15,565	4,027	11,947

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending Mar 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs)				
EPS(Basic Recurring)	79.6	100.4	111.4	118.3
Recurring Cash EPS	81.9	103.9	115.2	122.4
Dividend per share (DPS)	27.1	35.1	39.0	47.3
Book Value per share (BV)	191.2	260.8	336.6	409.7
Growth Ratios (%)				
Operating Income	91.4%	32.5%	14.8%	9.8%
EBITDA	107.2%	29.8%	12.6%	7.8%
Recurring Net Income	115.2%	28.0%	12.7%	7.8%
Recurring CEPS	106.0%	26.9%	10.9%	6.2%
Operating Ratio (%)				
Employee expenses/Sales	16.4%	16.3%	15.4%	15.8%
Opex & Other exps /Sales	31.8%	32.9%	34.8%	35.3%
Effective Tax Rate	24%	25%	25%	25%
D/E Ratio (x)	0.78	0.77	0.62	0.51
Valuation				
P/E	14.2	11.3	10.2	9.6
P/B	5.9	4.3	3.4	2.8
Dividend Yield	2.39	3.10	3.44	4.18
Return/Profitability Ratios (%)				
Recurring Net Income Margins	38.4%	37.1%	36.4%	35.8%
RoCE	30.9%	29.0%	27.3%	25.5%
RoNW	48.6%	44.7%	37.5%	31.9%
Dividend Payout Ratio	34.0%	35.0%	35.0%	40.0%
EBITDA Margins	51.8%	50.8%	49.8%	48.9%

Source: Company data, I-Sec research

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