Transcript

Conference Call of 5paisa Capital Limited

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Presentation Session

Moderator: Ladies and gentlemen, good day and welcome to the 5paisa Capital Limited Q4 FY21 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 this conference call, please signal an operator by pressing * and then 0 on your touchstone phone. Please note that this call is being recorded. I now hand the conference over to the management. Thank you and over to you.

Prakarsh Gagdani: Very good afternoon everyone. This is Prakarsh Gagdani. I am the CEO of 5paisa Capital Limited. On behalf of myself and my colleague Gourav Munjal, I welcome all of you for this conference call. I hope and wish that everyone in your family is safe and healthy in these difficult times. I am delighted to report that in our fifth year of operations, we have reported a full year of profit. This year we ended with a profit after tax of 14.67 crores, as against the loss of 8.05 crores, the previous year. This was on the back of a strong revenue growth of 80%, from 108 crores to 194.57 crores. Our consistent efforts on reducing cost of acquisition, improving our efficiency and providing a seamless trading experience to our customers helped us achieve this feat.

In FY20, we increased our client base to 1.3 million from just 5.4 lakhs, a growth of 150%, with just 36% increase in our marketing and advertising expenses. We thereby reduced our customer acquisition cost from 1483 as on March 2020 to 897 as on March 2021. We are entering this new financial year with a great optimism. With the proposed conclusion of 250 crores capital infusion, our strategy of transitioning ourselves from a mere discount broking company to a digital financial platform will get a big impetus.

Our next phase of growth will be on the back of strong focus on product investment and customer facing technology, cross sales of multiple products and new customer acquisition and all of this leading to a profitable growth.

I now would like to take any questions that you have regarding our financial performance and overall business. Thank you very much.

Question and Answer Session

Moderator: Thank you very much 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. Participants are requested to use handsets while asking a question.

Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

The first question comes from Ms. Sureksha Jain from ANS Wealth. Please go ahead.

Sureksha Jain: Hi sir. Thank you for giving this opportunity. I have couple of questions. Actually, I just recently started tracking the company, so few questions may be really naïve, but it would be really helpful if you can just help me understand these queries.

Prakarsh Gagdani: Absolutely.

Sureksha Jain: Thank you sir. The first question is cash and bank balances, can you give a split of how much is our own money and how much is the client's money in it, sir?

Gourav Munjal: So, in the cash and cash equivalent, it is all money is related to client. So, we have cash and cash equivalent of 16 crores and bank balance is 507 crores. This money is pertaining to own money as well as client money. The substantial part of this is the client money.

Sureksha Jain: Okay. And sir, do we earn interest on the client money, are we eligible to earn interest on it?

Gourav Munjal: Yes, we do earn. We do have to pay some charges related to that, as per new rules SEBI has changed many norms. So, we have to pay charges for that also.

Sureksha Jain: So, would you be able to share what is the interest and then what is the charges that we typically have to bear?

Gourav Munjal: So, approximately now the interest rates have been reduced; so, we are typically getting approximately 3% to 3.5% as interest and we have to bear charges of approximately 1.5%.

Sureksha Jain: 1.5%, okay perfect. Thank you, sir. Sir, my other question is, if I look at the loan receivables, the receivables we had separately given loan and we have given financial assets. So, could you be able to give me the break up of what accounts for receivables in terms of loans and receivables in terms of financial assets sir?

Gourav Munjal: We have put in client loans and client funding book. So, our balance sheet as on 31st March 2021, our client funding book is 180 crores approximately. And other financial asset, major portion is the deposit with exchange. We have to give margins and deposit to the exchange. So, that has been covered in other financial assets.

Sureksha Jain: Okay. Sir, as well as margin funding that we have 180 crores, what typically is the interest that we charge to client for margin funding sir?

Prakarsh Gagdani: So, we charge 0.06% per day as the interest. Annually it comes to around 21.9, but typically customer use it for a very short period of time; that is the reason it is 0.06% per day.

Sureksha Jain: Right. Sir, basically margin funding works as what, it is kind of a working capital limit, how much ever you draw, so per day basis we charge the interest similar to that, right sir, if my understanding is correct sir?

Prakarsh Gagdani: There are margin funding rules which are laid down by exchange in terms of what kind of exposure can be given to customers and on what category of scripts. We follow that. Yes, customers have an option of carry forwarding till the time they are in the confined limits of the regulation they can carry forward and for the amount of time that they will carry forward and also the amount of debit they will carry forward, they are charged interest on a per day basis.

Sureksha Jain: Okay. Sir, just a last question and I will join back in the queue. So, can I ask you one more question sir before I join the queue?

Prakarsh Gagdani: Yeah, sure.

Sureksha Jain: Okay. Sir, in FY21, how much have we spent on technology sir, entire tech expenditure if you can let me know what is it for FY20?

Gourav Munjal:: So, for the entire year technology, if I only talk in terms of non-HR technology expenses is out of the total other expenses 67 crores, approximately 25 crores is our technology expenses for the year.

Sureksha Jain: And that would be non-HR, 25 crores?

Gourav Munjal: Obviously. Obviously yeah.

Sureksha Jain: Okay. And what was this number in FY20 sir?

Gourav Munjal: This was somewhere in the range of 15 crores to 16 crores.

Sureksha Jain: Okay. Thank you sir. I will just join back the queue sir. Thank you.

Moderator: Thank you ma'am. Next question comes from Mr. Aditya Shah from Artic Lights Capital. Please go ahead.

Aditya Shah: Hi. Am I audible?

Prakarsh Gagdani: Yeah, hi. You are audible.

Aditya Shah: Okay. I have a couple of questions. So, we have, according to the NSE data that I was looking at, in the previous quarter we added 96,000 active clients and in this quarter we have added 76,000 active clients, according to the NSE data. (a) What was the reason for this slowdown in acquisition?

Prakarsh Gagdani: Sorry, can you repeat the question? What is the reason for?

Aditya Shah: According to the NSE data, we have added 96,000 active clients on the NSE website and 76,000 in the current quarter compared to the previous quarter, which was higher. So, what is the reason for this?

Prakarsh Gagdani: So, if you see our absolute number of acquisitions, we have grown from 1.9 lakhs customers acquired last quarter to 2.06 lakhs customer acquired in this quarter. But, exchange if you see, the updated data for the for one year traded customer, so it also factors in some customers who have stopped traded, which we have acquired in 2019 and early part of 2020. If you see, March was the month last quarter when there was a sudden spurt in customer acquisition because of pandemic. Some inactivity is around that. But, predominantly NSE gives last twelve months active data. So, though these two numbers are not exactly comparable, because that is for only last twelve months traded and what we give in terms of number is total new customers activated this quarter.

Aditya Shah: Sorry, I think there is a miscommunication, because what I am asking is the 96,000 is this quarter. I have added up each month. I have been tracking each month on the NSE website, that is why I asked. So, that was my question. My second question is related to, you have shown a profit of around 5 crores this quarter PAT. And we have reduced our other expenses and employee cost, which adds up to around 3½ crores, correct? So, can you tell me what this exact reduction in expenses is?

Prakarsh Gagdani: Employee cost is predominant reduction in the sales side of it. We have been working on improving the efficiency of our sales team, which is directly related to the new customer acquisition. We have improved there and that is the reason there is a cost of reduction. What has improved is the efficiency. Because, if you see the customer, the total number of customers acquired have gone up, but the overall number of people servicing that has gone a bit down. So, that is purely the part of our efficiency improvement and nothing else.

Aditya Shah: Okay. And our other expenses have reduced by 2.1 crores this quarter. So, that would be what exactly?

Prakarsh Gagdani: So, there is a small item. There is no one significant head where the expenses have gone down. There are some expenses which are related. What happens is, there are some expenses which are related to acquisition, some expenses related to our normal working capital requirements and other office expenses. There is no one head which I can attribute the 12% drop to.

Aditya Shah: Okay, my question for this was because our profit is around 5 crores and our expenses in total have reduced by 3.5 crores. So, I was thinking the major part of our profits probably comes from this expense reduction. Just one last question regarding the fund raised. Are we planning to become more aggressive with our advertising and all?

Prakarsh Gagdani: We are very clear, as a part of our entire strategy that we will be acquiring customers, more organically, referral and obviously through building our brand. So yes, there will be branding expenses. It will be very difficult for me to say right now that how aggressive we will be. If you are asking in a comparison to how competition does, so I think it will be difficult. Yes, the fund raise that we are doing is basically to grow our business. We would be investing that money for acquiring customer, but a good section, a good part of the investment will also go into building product and also investing into technology; so, branding will be there.

Aditya Shah: Okay. I will join in the queue again.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Participants are kindly requested to restrict with two questions in the initial round and may join the queue for further questions.

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

Rishikesh Oza: Hello. Sir, very good afternoon. Just have two questions from my side. We have gross sales income of 23 crores in FY21. So, when do you expect to earn around 100 crores from this gross sales income? And will you be able to achieve within this year? And the second question is can you provide me the break up of this 16 crores other expenses of this quarter?

Prakarsh Gagdani: Yeah. So, first question is really very difficult to answer that when we will reach 100 crores. But, as a part of our strategy, we are very clear that we will be focusing on **cross** sales as a major source of income. And that is the reason if you see that overall in last year, the multiple products that we have added right from peer to peer lending to international stocks, gold, we have few more products lined up, including insurance and other investment products. The idea is to make our platform and our company as a multi-product and a digital financial platform. How much of that translates into revenue and reach that milestone of 100 crores as you are asking is difficult to actually pinpoint the date and time. But, the focus is to increase the revenue share from **cross** sale in our overall income, which will be more sustainable and a recurring income.

Gourav Munjal: And your second question was regarding the break up of, I guess you asked for this quarter. So, as sir told that major of the cost goes to the professional charges which is related to the acquisition and the second most cost is related to the software and technology cost.

Rishikesh Oza: Okay. These two are the major ones you are saying?

Gourav Munjal: Yes, yes.

Rishikesh Oza: Thank you.

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

Deepak Poddar: Thank you very much for the opportunity. Sir, as I can see in the last two-three quarters if you see, our client addition has been quite good and growing at about 18% to 20% CAGR. That is not kind of translating into the revenue growth. Revenue has been quite flattish if you see the last two-three quarters. So, how do you see that going forward? And why basically client addition is not getting translated into the sequential revenue growth?

Prakarsh Gagdani: If you see our broking income, if I talk about the income increase as corresponding to the customer acquisition, the brokerage income has been growing for all the quarter. Even this quarter, the brokerage income went up by 18% as compared to the previous quarter but overall income has been stable. There are couple of reasons which are not attributed to the customer acquisition. The first is that last quarter, the allied broking income which is predominantly margin funding revenue, so margin funding revenues took a hit, because our funding book went down. It was related to two reasons. One was, it was related to reason where there were regulatory changes both in September as well as in December which had an impact on the overall, the way margin funding was conducted. That was the reason last quarter our income from margin funding went down and because of that it had an impact on the overall revenues. If you see this quarter, again there has been a drop in our allied broking income, but this is predominantly for two reasons. One is that, this was basically in the interest of customer that we changed DP AMC income. So, DP AMC we were charging Rs.45 for every traded customer, which we reduced it to zero for all customers up to 2 lakhs holding value. And above 2 lakhs, we only made it Rs.25. So, this had an impact. Though it was an impact on the revenue, but in the customer interest and in the longer run I am sure it will help us. The second was for a brief period of that last quarter we were charging account opening fees, but basis the customer feedback we removed that, so that also had an impact. These are one off activities, because of which there was an impact on the allied broking revenue and hence the overall revenue looks to be stable, around the same way and there is no much growth on the face of it if you look. If you see our broking revenues, there is definitely an increase for every quarter.

Deepak Poddar: Understood. And this waiving off of account opening fees, so it is temporary or going forward are you not going to charge any account opening fee?

Prakarsh Gagdani: No, it is permanent. From April 2019, we had anyways removed our account opening fees. For a brief period of last quarter we had introduced it; but on the customer feedback we again removed it and we don't plan to add that account opening fee at least for the foreseeable future.

Deepak Poddar: Okay. And basically, this quarter our revenue takes the impact of all the allied broking and the margin funding and the waiving off of account opening fees. So, at this low base going forward, the client growth will track kind of an overall revenue growth in terms of 18%-20% we have been doing?

Prakarsh Gagdani: Yes, it should. Obviously broking revenues are subject to markets and volatility in the market, but yes. And if you see our SER account, acquisition has always been in tandem with the revenue growth. And that has been our philosophy that we acquire customers not for the sake of acquiring customers. But yes, they should translate into revenues. So, it has always been in tandem. And I don't think why it will not be in future, because I am sure it will be….

Deepak Poddar: Okay, understood that point. And my second question is regarding your operating leverage advantage. Now, how does the mechanism of your flow to EBITDA happen, once maybe your revenue goes past your 50 crores mark, so some kind of comment on that might be quite helpful?

Prakarsh Gagdani: Can you repeat that question?

Deepak Poddar: So, I just wanted to understand your operating leverage advantage that we can enjoy, because I am sure the revenue over 50 crores if it grows, your cost will not grow proportionately, right? So, that will have some positive impact. So, how does that mechanism happen in terms of your operating leverage advantage. So, what sort of we can basically envisage?

Prakarsh Gagdani: So, if you see for this full year, there is bit of advantage, because of the cost and we are already bearing the fruit of operating leverage. But, as of now a good amount of our expenditure goes in customer acquisition. And with the funds coming in and with the new financial year that we look forward, we look at a healthy growth in our customer acquisition. So, till the time the acquisition is growing more than 100%-150% year on year, it will have some impact on the cost. But overall, apart from if you remove the acquisition cost, rest of the cost is more or less stable and there is very less increase in the cost, thereby resulting into a good profit at the EBITDA level. So, I think it will continue.

Deepak Poddar: Basically your client addition cost which was about 12½ crores this quarter, so that will grow in tandem with your client addition. The other cost in terms of 16½ crores-17 crores per quarter, that kind of will be stabilized or will remain stable, right?

Prakarsh Gagdani: Yes, to a larger extent.

Deepak Poddar: Okay, understood. These are my two questions. Thank you very much.

Moderator: Thank you sir. The next question comes from Mr. Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Thank you sir for taking my question. Sir, this year has been excellent for us overall if you look at the revenue profile. If one were to break this up, there is one factor which is the structural growth into discount broking by the younger generation people. Then there is a play of market share between all these companies. Third is this pandemic sir, where it is suspected that because people had a lot of time sitting at home, they sort of increased trading and all that. And fourth factor is of course, this FY21 has also been an exceptional year for equity gains, people have just seen one way up. So, my question is that, if one were to break up your revenue growth into these four factors, going forward what sort of trajectory you are sitting, you are looking at and what is the sort of break up of this 70%-80% growth into these three-four main factors which has contributed to that? So, that is my first question sir. Second is on the competition. Now we are seeing so many private companies also raising money at exorbitant valuations and there is a lot of gun powder available with all of them. And their strategy is similar where everyone is trying to be a one-stop solution to doing various things, like selling insurance etc. Our strategy is also being followed by many other private competitors as well and many of them are now worth billions of dollars and have a lot of money to spend on that. And we are also trying to maybe spend maybe

250 crores on that. So, given this sort of a competitive intensity, how do you think things are going to play out for you, because many other competitors have so much more money to burn compared to what you have. And they have so much of more visibility through ads and this and that. So, how will we win this sort of a war which is being waged between private companies, listed companies and many other sorts of peers who are trying to all gain the customers at the end of the day in terms of their app usage and all?

Prakarsh Gagdani: Sure, sure. So, answering your first question, with the start of pandemic it was surprising factor for everyone that there was a huge inflow of this millennial customers, who came in millions and wanted to invest into markets. It maybe in retrospect, we can say that it was because people are sitting home and doing nothing and that is the reason they had idle money and started investing. These are structural changes. And you always need an event which becomes like an inflex point for a sector to grow. The same we have seen in many such examples. You saw demonetization becoming a structural change for wallets or maybe this becoming a structural change for digital companies, for every kind of fintech or non-fintech companies. These are structural changes. I don't see that that structural change will just go off just within twelve months, because people will go back to work doing their own routine. Yes, whether the euphoria will stay, it is something that I don't know. It may or may not be and it is not something that I will speculate on. I think the focus of millennials towards capital market investing, at the same time other options of investing not giving that kind of returns is here to stay. And that is the reason people will continue to come to capital markets and invest. But broking is a cyclical business as you all know, so there are ups and downs but that's okay as till the time people are focused to do long term investment I don't see the flow of customers coming to the capital market especially the younger generation will stop. Secondly as you rightly said there is competition and broking as a space was always competitive with more than 100 brokers. It is good now that the industry is getting consolidated and you have a handful of four five people who are cornering a 75% to 80% of the incremental market. Broking and investing as a space has a huge potential. Though this is the first time after so many years that we have seen the kind of demat account grow hence we see that it might be short-lived or some competition will take away all. I see that there is a room for four to five players to grow exponentially at least for some time and corner a market share and that will continue. As far as burning money is concerned, I think there are tons of example that burning money doesn't lead to revenue. At the end of the day what matters is whether your product is good, whether people are happy with the entire experience on your product, are they investing properly to your company and whether that is resulting into revenue and profits. If that is in place. I think the model is strong. Till that time I won't be worrying about someone spending crores of rupees on large sponsorships or spends on advertisements or giving freebees right left and center. I think at the end of the day people are smart and no one will invest money just because someone is giving a freebee or someone is playing an add on the television. People invest wisely, they look at platforms, they look at credibility of the player and then they invest their money. So I think that's something which I should not be getting blind sighted with, we are very focused on our strategy and will continue and I think there is good amount of room for us to be in that group of brokers who corner the larger market share and grow revenue.

Sarvesh Gupta: Yes sir. Just a follow up on the second question sir if you can give some color on competition.

Prakarsh Gagdani: I am sorry if you can just come back in the queue I think there are others waiting.

Sarvesh Gupta: I will do that sir, thank you.

Moderator: Thank you sir. The next question comes from Jeetu Punjabi from Capital Investors, please go ahead.

Jeetu Punjabi: See there are two questions. One, this whole competitive intensity scaling up significantly, how did that translate in terms of CAC for your customers in the last quarter…customer acquisition cost? That's question one. Question two is in your opening comments you said that you have now raised 250 crores and a whole game plan around it in terms of being a more bigger wider digital player. Can you just articulate what that new game plan looks like and what are the implications going to be on the business?

Prakarsh Gagdani: I just want a clarification on your first question, you said the CAC impact because of what?

Jeetu Punjabi: Because of the competitive pressure so the point is that there is so much competition out there so obviously it would translate into higher CAC is my guess. So just trying to calibrate that how has CAC moved last quarter relative to the previous quarter?

Prakarsh Gagdani: See if you see month on month CAC is coming down. If you see for the entire year the competition was definitely intense for almost the entire year but from 1483 of CAC we have gone down to 897….by end of March we were at around 875. So our CAC is consistently reducing. Our strategy of getting more acquisitions through referral channels organic has actually helped us reduce our CAC and at the same time increase the customer acquisition. I think there is not much of an impact of competition on the CAC. On the second question of fund raise; as I said that the entire fund raise will be utilized towards making our product and our infrastructure stronger and we will invest into technology data analytics and AI is a vast field that requires capital and that is something that we will invest into. Customer acquisition definitely is at the core of our expansion strategy that we want to acquire more customers than what we acquired this year and so there the money will go and with the regulatory changes there is a lot of money which is required as a working capital for the business so it will also be invested there. So broadly these are the places where the money will be invested.

Jeetu Punjabi: In that entire plan is there a new aspect to business that you brought in, new business segments within the broader segments coming in and new things you'd be doing?

Prakarsh Gagdani: Definitely one of our subsidiary companies where we launched the business was in peer to peer lending so that is something that we will focus this year for scale up. We have launched a few products. I think more than the new lines of businesses adding, we will focus on the product that we have already launched and these are the products that we would focus on growing. There would be some smaller products here and there but I am not looking at a completely new line of businesses I think it is important that whatever product that we have built, we use wisely to grow the business in the coming year.

Jeetu Punjabi: Okay, thank you so much and all the best.

Prakarsh Gagdani: Thank you.

Moderator: Thank you sir. The next question comes from Saurabh Gokhale from Trivantage Capital. Please go ahead.

Saurabh Gokhale: Sir good afternoon this is Saurabh Gokhale, I have a couple of questions. The first one is, if you can talk a little bit about how flexible is the cost structure in the business because as you know that this business volumes can decline 50%, 60% on a YOY basis in no time. So to combat such kind of volatility, what kind of cost lever can you pull and at what level will you kind of stop breaking even?

Prakarsh Gagdani: See if you see out of our 37 crores of cost, practically 40% of the cost goes into acquiring customers. That's a flexible cost but domestic side of it, apart from that there is investment in technology which is more or less stable cost which is not dependent on revenues or customer acquisition. That's just the beauty of digital business that your fixed cost is lesser to run the business once you have your tech infra structure and your product is stable. What is floating is predominantly the cost attached to the customer acquisition. In the event of markets going substantially down which I don't foresee or I keep my fingers crossed; in that case the only cost which will be impacted is the balance 50% of the cost which is fixed.

Saurabh Gokhale: Right, right. And sir my second question was with respect to the P to P loans, could you just talk a little bit about for what purposes are these given and who are our partners here because this is different from the allied broking income which includes margin funding right?

Prakarsh Gagdani: Yeah absolutely. Our Peer to Peer lending business is completely different business and has no correlation with our existing broking and definitely not margin funding. So at this point in time it is at a very nascent stage but these are pure unsecured lending which is nothing but a personal loan right now or a working capital loan to MSME and SME. So that is a section of borrowers that we target and these are low ticket loans from around as low as 50,000 to 100,000 to 150,000. It is normally an unsecured personal loan which people take.

Saurabh Gokhale: And our partners here would be NBFCs right?

Prakarsh Gagdani: No we are an NBFC, we don't have partners, we are an NBFC. So the way Peer to Peer lending works is that we are a platform and we provide the platform for borrowers and lenders to come. So lenders are individual customers who want to lend money and earn interest and at the same time you have borrowers who have need for the money and we just become a platform which marry them.

Saurabh Gokhale: Oh okay just one last question. If you would talk a little bit about the activity levels of the client. You have already mentioned that you have about 8, 9 lakhs of active clients. But in a rapidly growing business like yours, I don't know how reflective that is of what kind of customers you are bringing and whether the acquisition cost that you spent over the quarter, is it that paying off? Any other metric that you probably track in order to ensure or in order to have an evaluation of whether you are doing a good job or not? Any comments there?

Prakarsh Gagdani: We've added 8 lakh customers last year. 60-65% of our customer base is acquired in the last 12 months. It is difficult to predict in terms of how the activity percentage will be. The best way to track is that how many times am I recovering the entire cost that we are incurring to acquire a customer. So that is ranging between anywhere from nine to 10 months. If that continues then internally that's the way we track, okay fine, things are fine if it is 8 to 10 months of recovery of our allocation cost and that is what we are right now looking at.

Saurabh Gokhale: Right sir. Sir I have a few more questions but I will join back the queue.

Moderator: Thank you sir. Ladies and gentlemen if you have a question please press * and 1 on the telephone keypad. Ladies and gentlemen if you have a question please press * and 1 on the telephone keypad. The next question comes from Vaibhav Kacholia from VK Capital, please go ahead.

Vaibhav Kacholia: Sir I wanted to enquire what is the kind of revenue which we generate per customer per year kind of thing?

Prakarsh Gagdani: Revenue per customer, per year?

Vaibhav Kacholia: Yeah and how does that compare with other industry competitors? I think some of the leading players have close to 10,000 rupees per year per customer.

Prakarsh Gagdani: So unfortunately as far as competition is concerned, there is hardly any data in the competition which is listed are all full service brokers. It is difficult to compare full service broker to a discount broker purely because of the difference in the brokerage that we charge. So definitely 10,000 is not the number that discount broking has but I don't have the other competition data. In our case it is anywhere in the range of around 1500 to 2000 rupees is what we get by a customer in a year, around 2000 rupees.

Vaibhav Kacholia: Okay got that and my second question was, you said usually four or five players being able to do very well and capture large part of the market. So are you treating us as some of these players and like how are you segmenting the market when you are treating us as one of the top 5 players?

Prakarsh Gagdani: So one of the six player this is the NSE active client data, that is the one that we have to do. But the large segmentation is basically a full service on a discount broker. Brokers who are charging percentage are full service brokers, as ICICI Direct, Motilal Oswal, Share Khans of the world….but other people who are charging fixed brokerage, flat fee per order are discount brokers; so that's broad bifurcation of brokers.

Vaibhav Kacholia: So you are taking us as one of the leading players in the discount space?

Prakarsh Gagdani: Yes.

Vaibhav Kacholia: Okay got that, thank you.

Moderator: Welcome back sir. Ladies and gentlemen if you have a question please press * and 1 on the telephone keypad. Ladies and gentlemen if you have a question please press * and 1 on the telephone keypad. So we have a followup question from Mr. Aditya Shah from Artic Lights Capital please go ahead.

Aditya Shah: Am I audible?

Prakarsh Gagdani: Yes you are.

Aditya Shah: I have a follow up question. You spoke about some of our competitors and even our advertising and all. Can you tell me a little bit more specifically what we are planning to do to improve our visibility?

Prakarsh Gagdani: You will have to wait for that answer. It will take some time but frankly speaking, the way we are acquiring customers is predominantly through organic, through referral and our partnership and strategic alliances. So that is the way we will continue but yes, there will be a part of building our brand and that will require some branding expenditure, that we will do but it is too premature for me right now to speak about that. You will have to wait for some time to get that answer.

Aditya Shah: Okay thank you so much that was my last question.

Moderator: Thank you sir. The next question comes from Deepak Salonae from Haitong Securities, please go ahead.

Deepak Salonae: Hello sir, this is Deepak here. Thank you for the opportunity. Sir I just wanted to have an understanding about how our company charges interest rate for our MTS clients?

Prakarsh Gagdani: So we charge 0.06% per day as an interest to the customer. So for whatever number of days a customer keeps the debit, it is charged by per day basis.

Deepak Salonae: Okay and sir my second question is any views from further regarding the yield for our equity broking and derivatives within equity? Can you just elaborate on ease of intraday or delivery trade?

Prakarsh Gagdani: We charge flat 20 rupees on every charge be it intraday or delivery or derivatives or cash segments. That's flat for us. That's 20 rupees per order.

Deepak Salonae: Alright, thank you sir.

Moderator: Thank you sir. The next question comes from Swed Shah from AMS Wealth. Please go ahead.

Swed Shah: Hi sir, I have a couple of follow up questions. One was who is looking at the results and the investor presentations? If you can just help me figure out how the revenue is bifurcated. If I look at the results which has been uploaded, we have broken up into two parts the revenue from operations. One is interest income and the other is fees and commission. But in the presentation we have broken it out segment wise like broking, allied broking, cost, sales, B2B and other operating. So if you can just help me match these numbers like what actually contributes as interest income and what goes as fees and commissions sir.

Gourav Munjal: So we have to follow Schedule 6 as per Company's Act in which we have to segregate our income into two parts on the face of it which is the interest income as well as the fees and commission. However here it is an investor presentation and we have bifurcated it into different sections. So interest on MTF which we get from the customer that is a part of our allied working income that plus our other operating income. That will become an interest in the result table.

Swed Shah: Okay that is the interest income?

Gourav Munjal: Yes.

Swed Shah: Everything else is obviously the part of the fees and commission.

Gourav Munjal: Yes.

Swed Shah: Sir will you be able to give me a break up as to as we have 8.7 lakhs active customers right sir?

Prakarsh Gagdani: Yeah.

Swed Shah: So two things I wanted to know sir. How do we define a customer as active and second if you could give me a break up out of the active customers how much of them….like percentage of these customers we only do cash equity, cash segment and how many of these do trading only in FnO segment sir?

Prakarsh Gagdani: Active customer is defined as someone who trades at least one trade in a year, that's how NSE defines active customer which everyone tracks. Second is of that active customers I wouldn't have the exact percentage break up but predominantly close to 70% to 80% of the customers trade in cash segment and the balance trade in derivatives and they also would be trading in cash; but a large section of customers are trading in cash segments only.

Swed Shah: Okay and sir cash would be typically intraday or would it be delivery days?

Prakarsh Gagdani: It would be intraday and delivery; both.

Swed Shah: But higher would be intraday I am assuming…am I right?

Prakarsh Gagdani: Yes.

Swed Shah: Okay, thank you sir. Just one more question sir. Our cost of acquisition if I look at the investor presentation would be quoted as the cost of acquisition 3,300 in FY19 and sir also mentioned in the opening comment as 1,483 rupees sometimes. So if I look from FY18, from 3,300 we have come down to 897 rupees right? Sir if you could help us understand how we were able to bring down the cost of acquisition to 897 rupees and what are the key two or three things that you really did in the past three, four years to get to this number sir?

Prakarsh Gagdani: There are multiple factors which has resulted into this lower cost of acquisition. The first and foremost is that how are we acquiring customers? Basically our spends on marketing, advertising…the way our customer base was growing, it helped us to increase our organic footprint. It also helped us to increase more referral which was far better and a cheaper source of acquisition. We also had partner channel and alliances where we started acquiring customers where the cost was lower as compared to what we were spending earlier. So earlier in December I think predominantly we were using Google searches or some social media to acquire customers. Over a period of time our acquisition through our organic channels improved and that is one of the reasons. Second is obviously our internal call center efficiency the way we process the accounts of customers, the time it has taken to open accounts. All that are a part of the improvements that we did over a period of time which has helped us improve in terms of efficiency and at the same time also source customers through the channels which are scalable at the same time cost effective. This is broadly the reason how we have reduced their cost.

Swed Shah: Okay. Sir one last question. Any guidance you can give what we are planning to spend on advertisement and technology in the next one or two years….like a broad number or percentage in terms of the revenue that we would be looking to spend in the next one, two years on these two platform sir?

Prakarsh Gagdani: Sorry it would be difficult for me to give any guidance but we continue to work on our cost of acquisition and we always look forward to reducing that. At the same time it should not lead to reduction in numbers. As far as we are increasing our acquisition and reducing our cost of acquisition I think we are good to go. It was difficult for me to put a number of what spends we will be doing.

Swed Shah: Okay no worries sir, thank you so much.

Prakarsh Gagdani: Thank you very much.

Moderator: Thank you ma'am. Next question comes from Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: Congratulations for these set of numbers. Most of my questions are answered. There is just one thing. What are we doing on steps to increase the SNO market share because that has been going down and volumes are rising…?

Prakarsh Gagdani: Yes the derivative market share has been going down. So there are a few changes we are doing. One is we are revamping our platform which is EXE and the web platform which is largely used by the trading community. So we are re-vamping and we are launching which should be going out anywhere between the next 15 days to two to three weeks. That is one. We are working on also improvisation on our open ETI channel which is again largely used by algo trading customers and tech based traders. These are the two and the third is that we will also be working on our algo trading. These three things we are doing but I think largely there was a requirement by traders to enhance our platform and make it more robust. That is what we are working on. We are just almost there to launch and I am sure with these products and features going live, our market share will also improve. Though our turnover is increasing, but our market share will also increase along with that.

Kajal Gandhi: Any key things that we observe that FnO traders look for….?

Prakarsh Gagdani: Sorry I didn't get it?

Kajal Gandhi: Any key things that they want in the site, as you are saying revamp is….

Prakarsh Gagdani: It is not just one thing, it is overall the user experience of the trading platform. Basket trading is what people are asking for…a couple of more…there are some derivative strategies that people are asking for, there are a few small, small features nothing which is large but it is a part of the overall user experience on the EXE and the web platform which we are working on.

Moderator: Thank you ma'am. That would be the last question for the day. I would now like to hand over the conference to the management for closing comments.

Prakarsh Gagdani: Thank you everyone for joining this conference. I hope that we were able to answer your questions. If you have any other questions, you can write it to ir@5paise.com I hope all of you stay safe, healthy and at home. Thank you very much.

Moderator: Thank you sir. On behalf of 5 Paisa Capital Limited that concludes this conference. Thank you for joining us. You may now all disconnect your lines now. Thank you and have a pleasant evening.

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