INSTITUTIONAL RESEARCH

Angel One

Primed for blitzscale

At a time when individual wallets are actively looking for asset allocation alternatives, we believe that Angel One's willingness to prioritise speed over efficiency is not only bold, but also offers the franchise a potent "first scaler advantage" by seizing the "Glengarry Glen Ross" moment. Angel One's competitive moats are built on a near-perfected digital-native acquisition engine, positive unit economics (the pace of client addition offsets the fall in revenue per customer), and qualitative factors that are especially difficult to replicate. We expect Angel One to deliver revenue/APAT CAGR of 30%/33% over FY21-FY24E and healthy RoEs in the range of 35%-38%. We initiate with a BUY and a target price of INR1,770 (21.5x Sep-23 AEPS) - our target price implies EV/user of USD795, a 37% discount to unlisted peer Groww.

- **High-growth franchise marries profitability:** On the back of its total-tech client acquisition platform, Angel One is poised to grow its client base 4x over FY21-24E, translating into revenue CAGR of 30% and APAT CAGR of 33%. Basis our discussions with market practitioners, we believe Angel One's channel-wise unit economics is superior to its peers on account of the quality of high-intent clients sourced across channels, resulting in a better mix of revenue-generating orders.
- **Broking model more secular; further diversification ahead:** Relative to full-service brokers, we argue that Angel One's broking revenues are more secular, which is a unique characteristic in a highly cyclical industry. We also believe that a superior UI and UX will translate into higher customer stickiness, even when the platform begins to exercise pricing power. The company is also foraying into the annuity AMC business in order to further increase its share of the wallet across the customer lifecycle.
- **Strong starting point on HSIE Right-to-Win (RTW) framework:** Having perfected its mobile app as an acquisition channel, Angel One stands out on our proprietary HSIE-RTW framework with a relatively superior UI and UX, an absolute must for a formidable broking franchise. We believe that the superior UI / UX and a granular customer franchise offer Angel One ample lead time to focus on the other pillars of responsibility and cross-selling.
- **Key risks** include (1) data leakage of clients' confidential data, (2) sustained or recurring IT failure, (3) protracted sharp market correction, and (4) keyman risk for the next 18-24m until the current leadership team settles in.
- **Valuation and recommendation:** We value Angel One at 21.5x Sep-23 EPS on account of its stronger client acquisition funnel and its relatively secular business model. Our valuation suitably discounts the company's investment-phase foray into the AMC business, which can potentially enhance its share of the customer wallet. Our target valuation implies an EV/active user of USD795 (37% discount to Groww's last-round valuations).

Financial summary

(INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Adj. Revenues	4,762	8,978	14,585	17,289	19,638
EBITDA profits	1,414	4,431	6,800	8,635	9,953
EBITDA margin (%)	29.7	49.4	46.6	49.9	50.7
APAT	868	3,073	4,933	6,270	7,219
AEPS (INR)	12.1	37.6	60.3	76.6	88.2
EV/EBITDA (x)	60.3	19.3	9.1	5.3	4.2
P/E (x)	105.2	29.7	18.5	14.6	12.6
RoE (%)	15.5	35.7	38.2	37.9	34.5

Source: Company, HSIE Research

BUY

CMP *(as on 17 Dec 21)*	INR 1,107
Target Price	INR 1,770
NIFTY	16,985

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	-	INR 1,770
EPS %	FY22E	FY23E
	NIL	NIL

KEY STOCK DATA	
Bloomberg code	ANGELONE IN
No. of Shares (mn)	83
MCap (inr bn) / ($ mn)	91/1,200
6m avg traded value (INR mn)	765
52 Week high / low	INR 1,689/282

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(15.0)	33.4	208.4
Relative (%)	(11.6)	24.4	186.9

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	44.3	43.8
FIs & Local MFs	9.1	7.6
FPIs	4.7	4.7
Public & Others	42.0	44.0
Pledged Shares	0.00	0.00

Source : BSE

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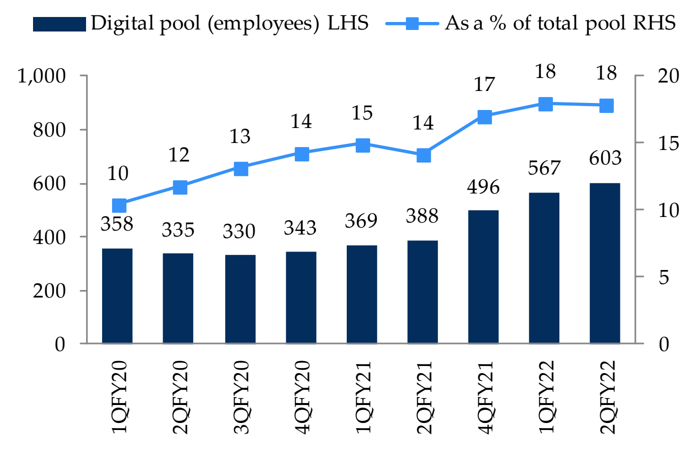
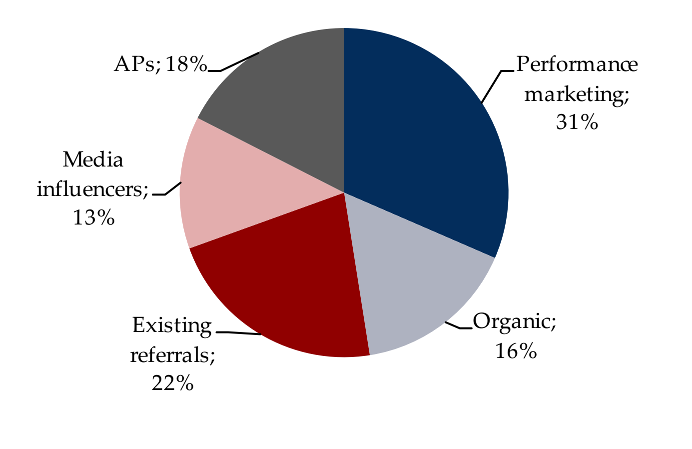
Focus Charts

Exhibit 1: Growing emphasis on going digital



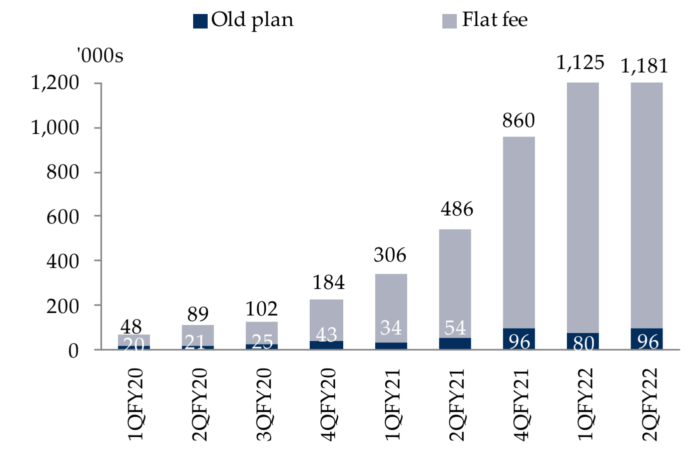
Source: Company, HSIE Research

Exhibit 2: Diversified acquisition funnel (FY21E)



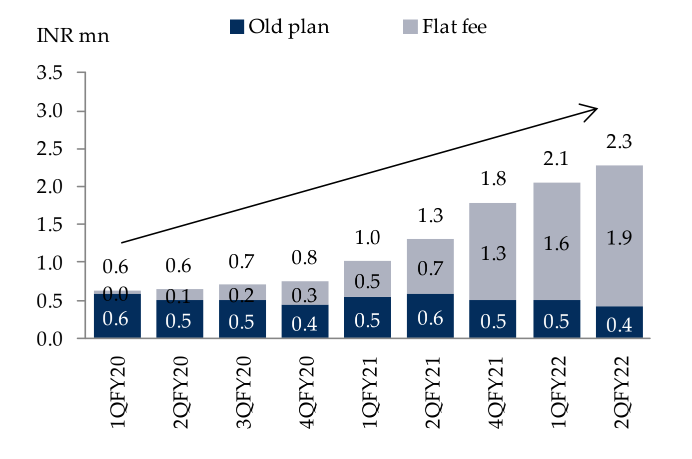
Source: HSIE estimates, HSIE Research

Exhibit 3: Customer acquisition continues unabated



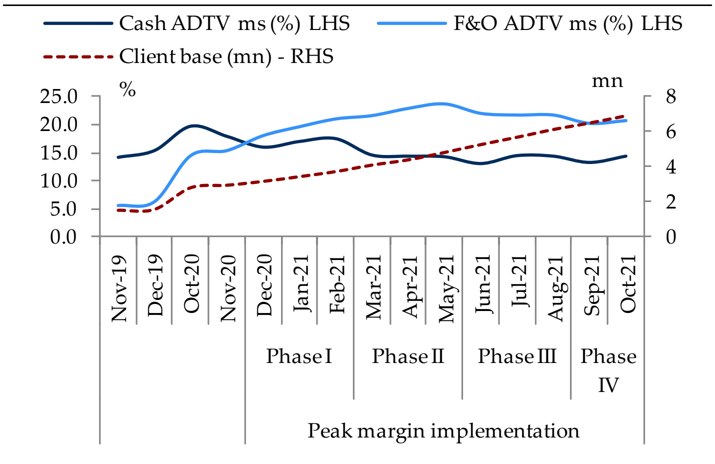
Source: Company, HSIE Research

Exhibit 4: … translating into healthy broking revenues



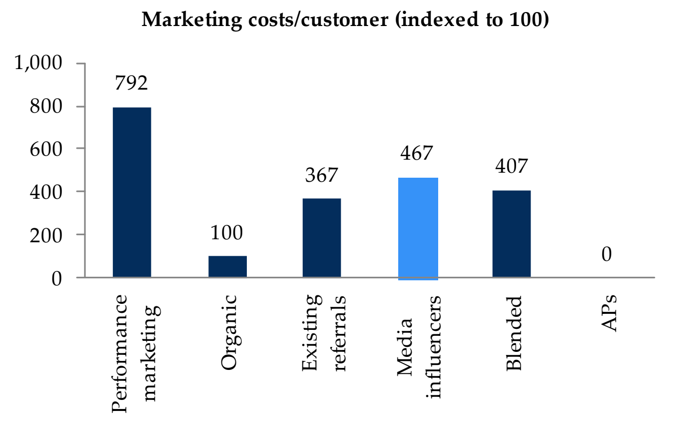
Source: Company, HSIE Research

Exhibit 5: ADTV market-share vs. client additions



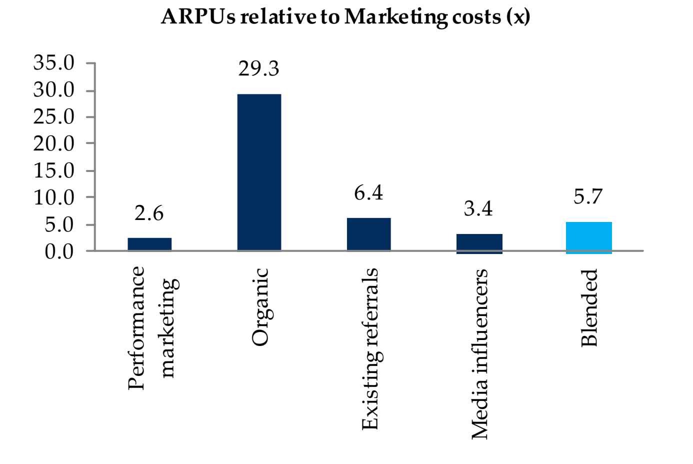
Source: Company, HSIE Research

Exhibit 6: Estimated marketing spends across channels



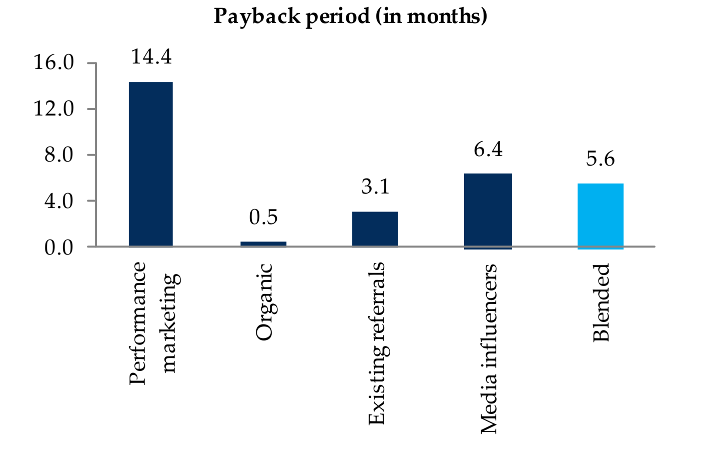
Source: HSIE Research. For a detailed working contact HSIE Research.

Exhibit 7: Organic channel generates highest ARPU



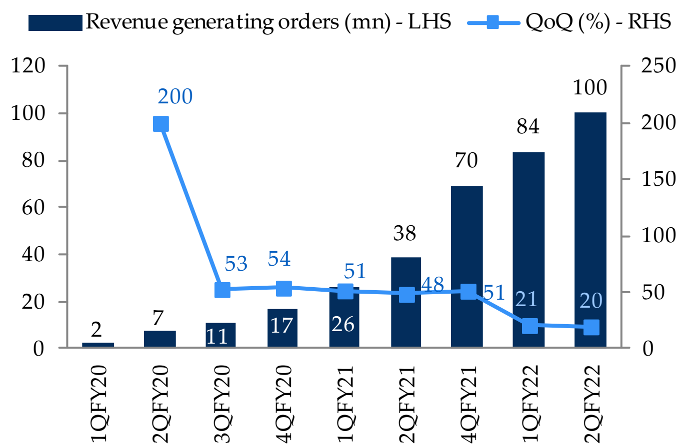
Source: HSIE Research. For a detailed working contact HSIE Research.

Exhibit 8: Estimated payback periods across channels



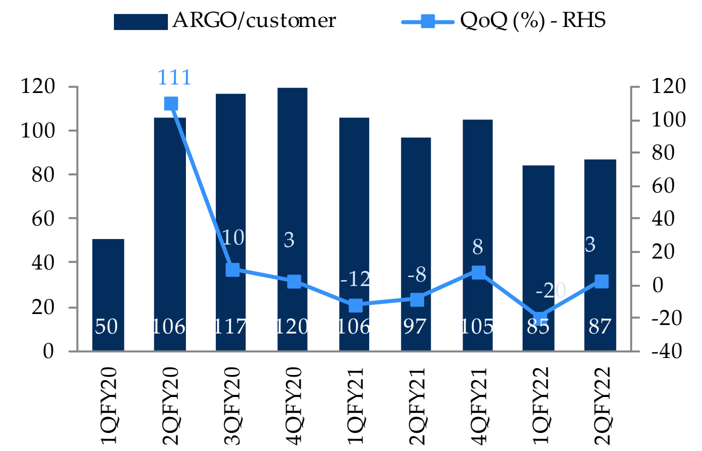
Source: HSIE Research. For a detailed working contact HSIE Research.

Exhibit 9: Total revenue generating orders on a rise



Source: Company, HSIE Research

Exhibit 10: Despite orders per client moderating



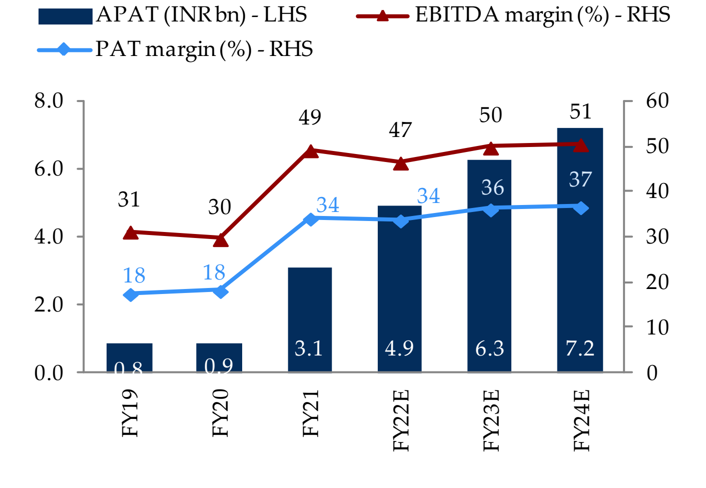
Note: ARGO = Average revenue generating orders
Source: Company, HSIE Research

Exhibit 11: Impact of sharp market correction of different types of brokers

Type of broker	Impact on	
	Delivery trades	**Intraday & F&O trades**
Discount brokers	▪ **No impact** as they charge 'ZERO BROKERAGE' on delivery trades.	▪ **Modest impact** as number of orders or leverage will moderate; however, pricing is still flat. But impact is lower than on full-service brokers, given that these platforms have full-time traders and trade in market down cycle too. ▪ **Intraday and derivative trades form 100% of the broking revenues.**
Full-service brokers	▪ **'Sharp hit' in near-term** since the revenue model is 'ad valorem'; with a sharp market correction, if trade size reduces by 40%, the corresponding broking income will also be 40% lower. ▪ **Revenues from delivery trades constitute 70-80% of broking revenues.**	▪ **Modest impact** as most full-service brokers have implemented flat pricing. ▪ **Intraday trades form 20-25% of broking revenues.**

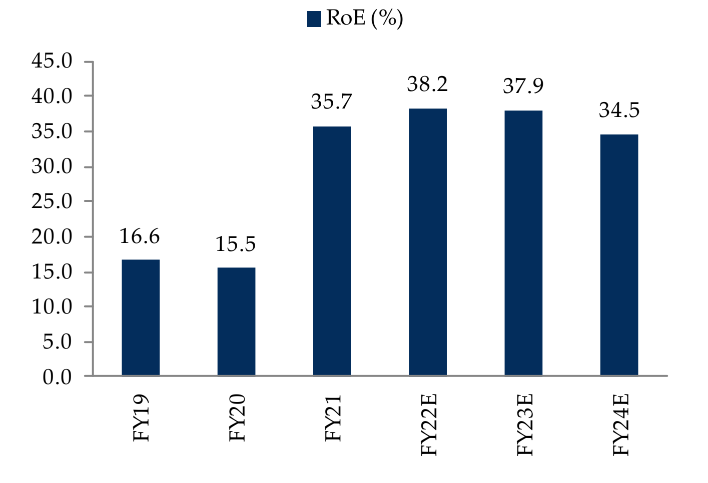
Source: HSIE Research

Exhibit 12: Margins set to improve



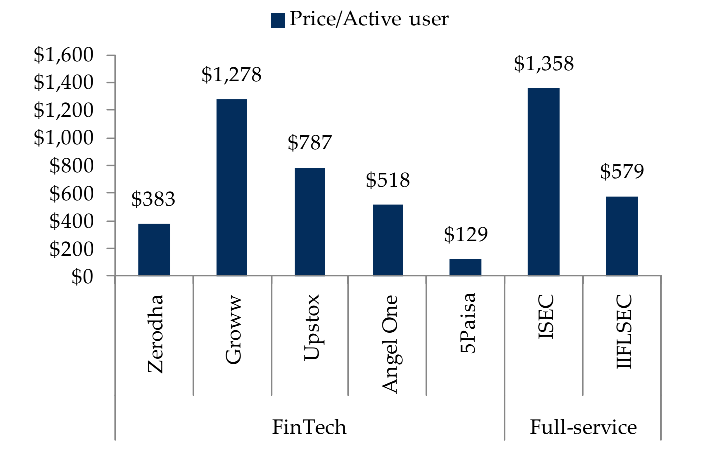
Source: Company, HSIE Research

Exhibit 13: One of the Industry best RoEs



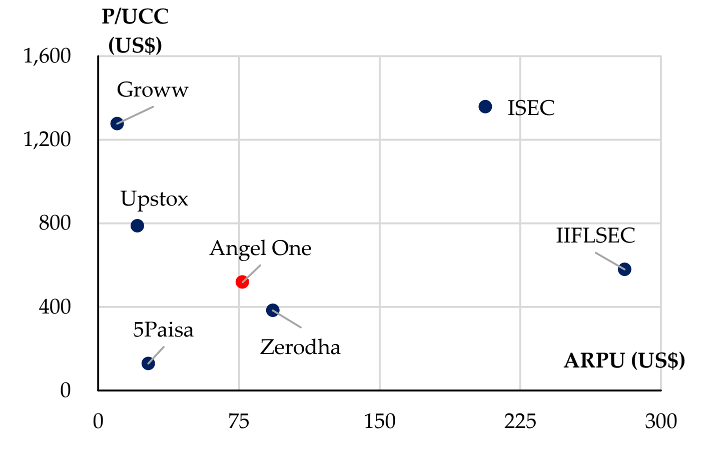
Source: Company, HSIE Research

Exhibit 14: Groww contending rich valuations



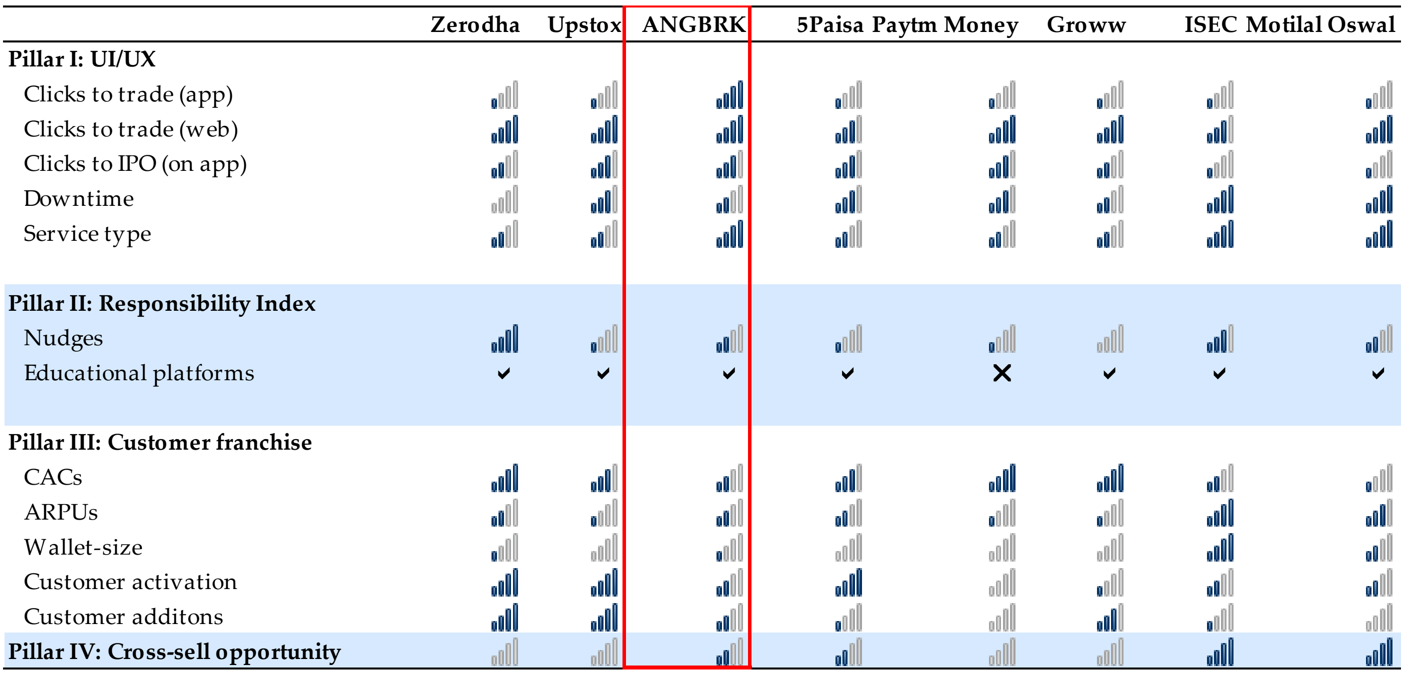
Source: NSE, Media reports, HSIE Research

Exhibit 15: Valuations attractive for Angel One



Note: P/UCC indicates Price per active user; ARPU estimated for Upstox and Groww
Source: Respective companies, media reports, HSIE Research

Exhibit 16: HSIE- RTW framework



Source: Twitter, Companies, HSIE estimates, HSIE Research

Contents

Investment Thesis

Built for BlitzScale | 'Glengarry Glen Ross' moment upon us

The 'Glengarry Glen Ross' moment of broking is here. 1st prize - disproportionate share of the winnings; 2nd prize - an also-ran broker; 3rd prize - oblivion

- With a total-tech client acquisition platform that is simultaneously engineered for speed and scale, Angel One has gradually morphed into an enviable acquisition machine. Having totally transformed itself in its new "FinTech" avatar, Angel One has leveraged technology to imagine, build and perfect its end-to-end digital capabilities to emerge as one of the few blitzscaling franchises in the ecosystem.
- Given the macro inflexion point around rising wealth allocation to direct equities, the broking industry is at the crux of a "winner takes all" moment. At a time when the individual wallet is looking for alternatives and up for non-linear explosive growth, we believe that Angel One's willingness to prioritise speed over efficiency is not only bold, but also offers the franchise a potent "first scaler advantage" by seizing the "Glengarry Glen Ross" moment.
- In light of the high stakes involved (large market up for grabs), the cornerstone of Angel One's strategy begins at the top with tech-native CXOs hired (across leadership roles) from diverse external-to-BFSI domains, especially consumer-tech backgrounds. To our mind, this approach of hiring generalists who are not only familiar but also innately comfortable with high-growth and large numbers has been pivotal to the company's blitzscale strategy.

Exhibit 17: Leadership team dominated by new-age consumer-tech background

Name	Designation	Prior experience
Narayan Gangadhar	CEO	Uber, Google, Microsoft & Amazon
Jyotiswarup Raiturkar	Chief Technology Officer	Walmart Labs, Microsoft, GoIbibo,
Ankit Rastogi	Chief Product Officer	MakeMyTrip, GoIbibo, ClearTrip
Nitesh Jain	Principal Architect	Walmart Global, JP Morgan,
Nishant Chandra	SVP of Engineering	Walmart Global, Microsoft & Yahoo
Prabhakar Tiwari	Chief Growth Officer	PayU, Marico, CEAT and Danone

Source: Company, HSIE Research

Dependence on the B2B (Authorised Persons) network is reducing over time as the share of direct in net broking revenues has contracted from 38% in Q1FY20 to 26% in Q2FY22

- The strategy of hiring generalist leaders also feeds into another primary strength for the Angel One franchise: the fail-fast philosophy. This reflects the franchise's ability to innovate, iterate, dump (what is not working), improve, rinse and repeat a virtuous cycle of continually perfecting go-to-market strategies. This approach reflects a franchise that recognises the cost of inaction is far greater than the cost of making a mistake. According to our conversations with ex-leaders from the Angel One franchise, this also reflects in the company's willingness to stick to the classic "sunk cost" approach and dump unconvincing initiatives mid-way through the development cycle, if needed.The fail-fast strategy is also crucial in Angel One's willingness to cannibalise, self-disrupt, and reimagine its business model, as in the case of authorised persons (APs). Angel One has the industry's largest sub-broker network (15k+), accounting for ~26% (Q2FY22, -476bps YoY) of net broking revenues.
- When pivoting to a discount broking model, the company consciously retained both pricing models for the AP network i.e., **ad valorem pricing** for catering clients requiring full-fledged services along with research and **flat fee pricing** to retain and acquire DIY customers. Offering a flat fee through the AP network will help prevent customers from moving to a no-frills discount broker.

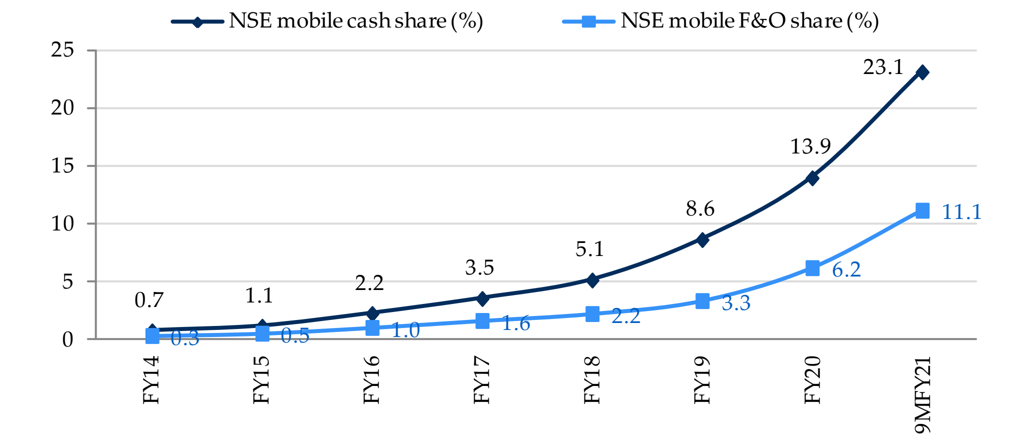
Exhibit 18: Relative significance of the AP network

Broker	Number of APs	Revenue sharing (%)	Revenue contribution (%)
Angel One	15k+	50-70%	~25%

Source: Companies, HSIE Research

- These inherent strengths manifest in Angel One's technology leadership initiatives, which are a country-mile ahead of its peers.
- Given that (1) >75% of the broking orders are being routed through the mobile app and (2) there is rapid expansion of customer base, Angel One's strong digital capabilities present a significant opportunity to scale up operations and generate drive operating leverage. Exhibit 18 reflects the rising macro trend of trading using smartphones, benefitting players like Angel One that have winner apps.

Exhibit 19: Steady increase in app-based trading – an industry-wide phenomenon

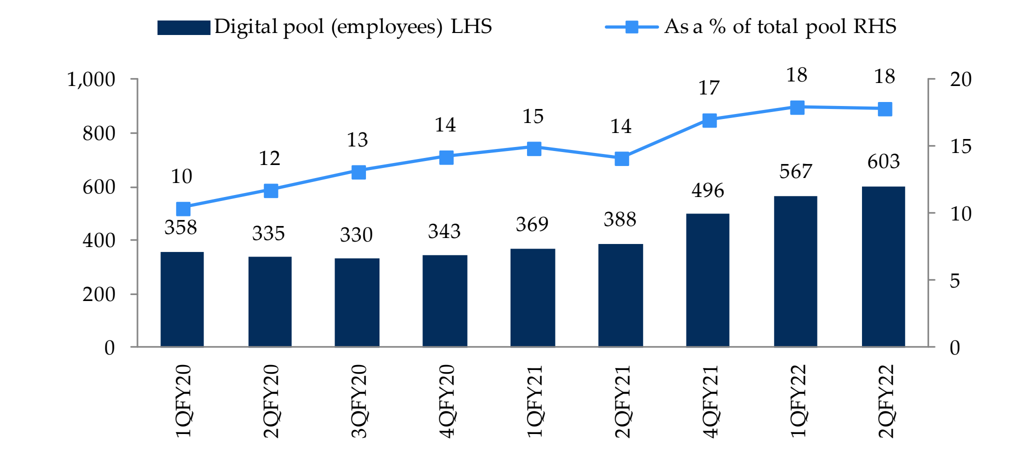


Source: SEBI, HSIE Research

- The company has been developing AI/ML capabilities to automate and enhance customer onboarding as well as increase customer activity levels by nudging them with investment ideas generated by the its proprietary ARQ Prime.
- Automating processes using AI/ML are powerful tools that help cut costs, reduce manual intervention, and improve efficiencies while also allowing to scale up the business, given that the industry has entered a secular high-growth phase.

Hiring employees on the tech side implies rising staff costs in the near term but improving business efficiency and growth in the medium to long term.

Exhibit 20: Angel One's growing emphasis on going digital



Source: Company, HSIE Research

- With a new team focused on improving customers' digital experience, Angel One is currently working on launching a next-gen app to enable personalised financial journey powered by the new tech platform.

Exhibit 21: Multi-app strategy in play

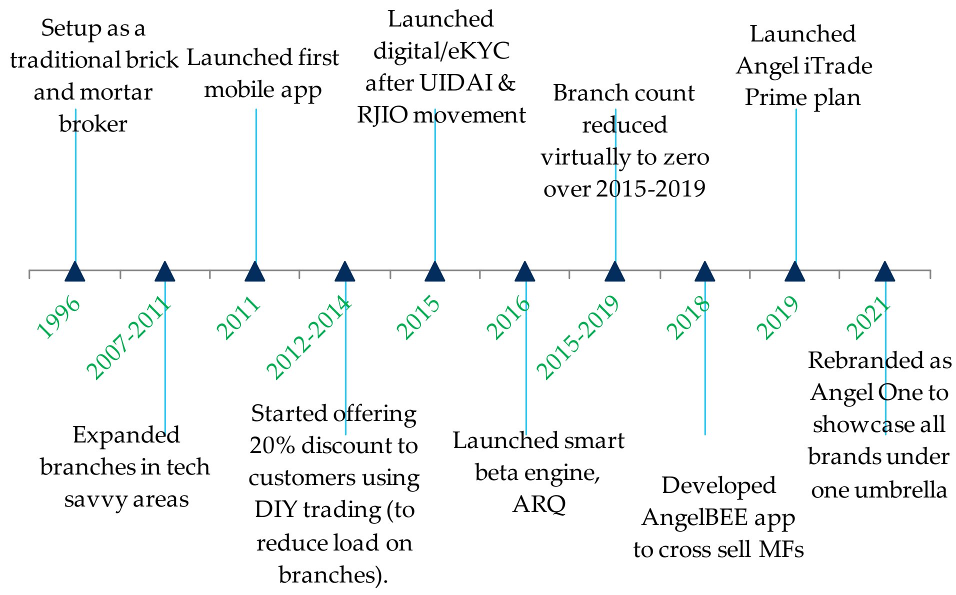
Source: appypie.com, HSIE Research

- Angel One is currently following a multi-app strategy which is generally followed to cater different cohort of customers; however, given the tech-savvy retail customer profile, we believe Angel One will be better positioned with a single-app strategy by offering broking services, insurance products, MFs and savings products, loans etc on a single app.

Near-perfected acquisition machine

- Basis a slew of technology initiatives, Angel One has gradually perfected its mobile app into a formidable acquisition machine through a mix of user-friendly digital-native features for new-to-market (NTM) investors and a combination of generic and targeted marketing across channels.

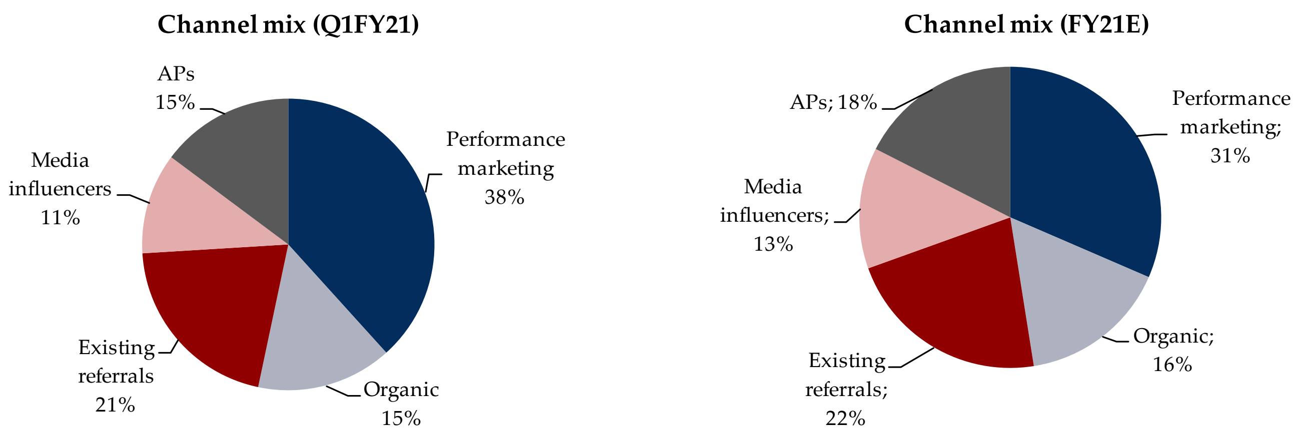
Exhibit 22: Journey from Angel Broking to Angel One



Source: Company, HSIE Research

- The secret sauce to Angel One's strong client traction is its diversified customer acquisition funnel wherein the company adopts a targeted approach across channels 1) new-age social media network platforms; 2) enticing "referral programs" and the major hit 3) "Performance marketing".
- Our discussions with market practitioners suggest that Angel One has mastered the art of generating a considerable number of high-intent leads using performance marketing techniques such as SEO (on Google, YouTube and social media platforms), whereas peers lag far behind.

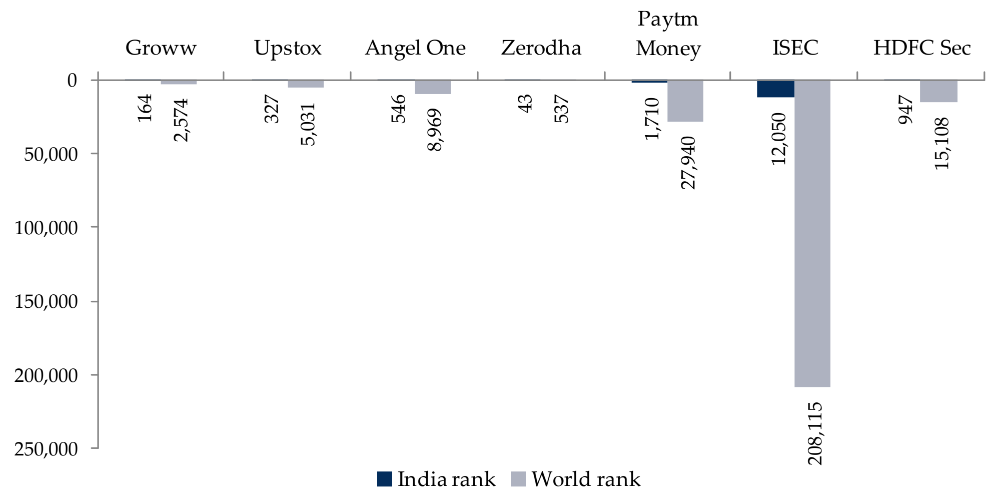
Exhibit 23: Diversified acquisition funnel



Note: FY21 numbers are HSIE estimates   Source: Company RHP, HSIE Research

- While the company has indicated that it does not intend to reduce marketing spends, its consistent focus would be to improve activity levels and consequently ARPUs. Although "lead conversion" to active customers under the performance marketing route is generally low, Angel One has a significant advantage in converting those leads in the medium-term by using AI to trigger nudges at regular intervals. Over the long-term, the company plans to improve the share of organic leads, resulting in operating leverage.
- Angel One has consciously avoided heavily broadcasting through overpriced mediums such as television, instead relying on performance marketing (which can directly track leads, unlike TV broadcasting) and social media influencers (who are considerably more cost-effective) to spread the word. In FY21, this cohort accounted for 13% (HSIE estimates) of customer additions.
- With the launch of i-Trade Prime plan (later referred to as 'flat fee' plan) coupled with (1) company's laser focus approach of increasing digital impression in tier-2/3 and below cities and (2) strong tailwinds in the sector from the onset of pandemic, the client base grew ~5x in the past 10 quarters (vs. 2x for the industry).

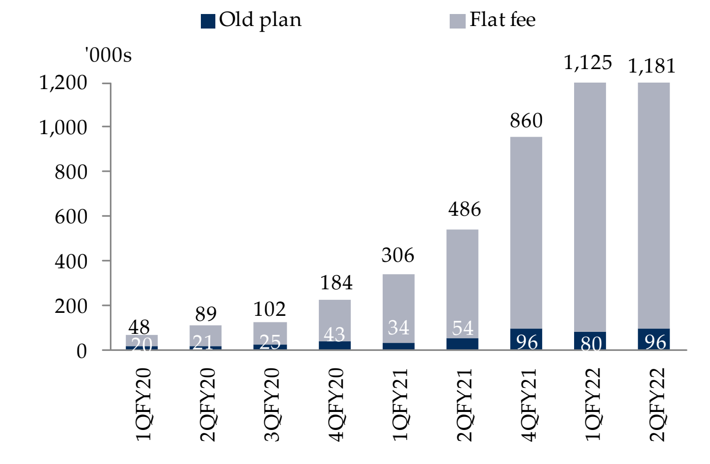
Exhibit 24: Web traffic ranking across players



Source: similarweb, HSIE Research

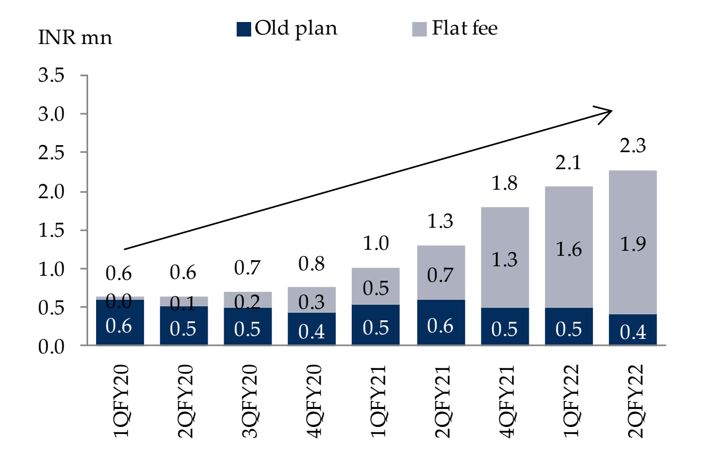
- While the total client base grew 5x in the past 10 quarters, net broking revenues grew ~3.6x at the same time, suggesting that new additions have lower trading activity levels but are not dormant.
- **Good quality customer growth at such a rapid pace becomes a key lever for a discount broker since the topline is a function of the number of orders and price per executed order (~INR20/order). Given that the pricing environment is already extremely competitive, we believe that a fast-paced, high-quality customer acquisition run rate will be the key to Angel One's success.**

Exhibit 25: Client acquisition continues unabated…



Source: Company, HSIE Research

Exhibit 26: … translating into healthy broking revenues

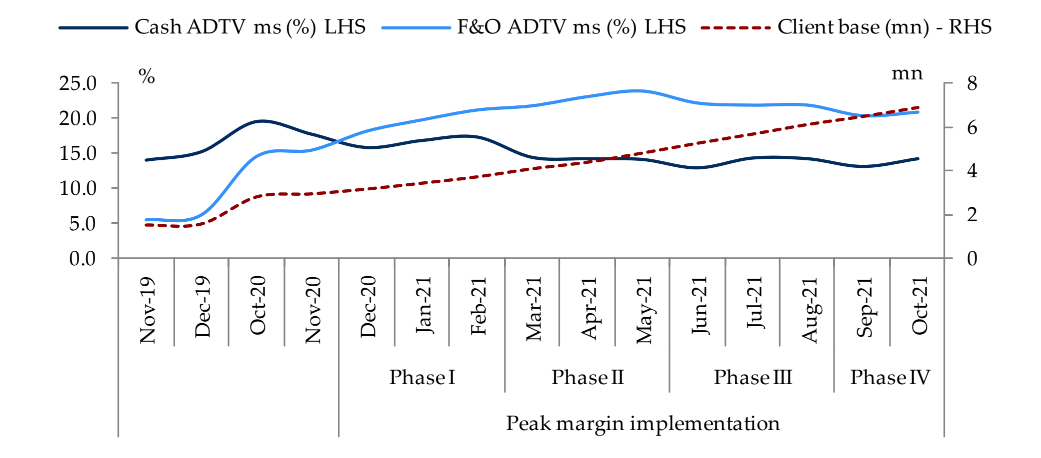


Source: Company, HSIE Research

Angel One's ADTV market share has increased in line with its customer additions demonstrating relatively good quality customer base.

However, peak margin regulations negatively impacted Angel One's ADTV in the short run.

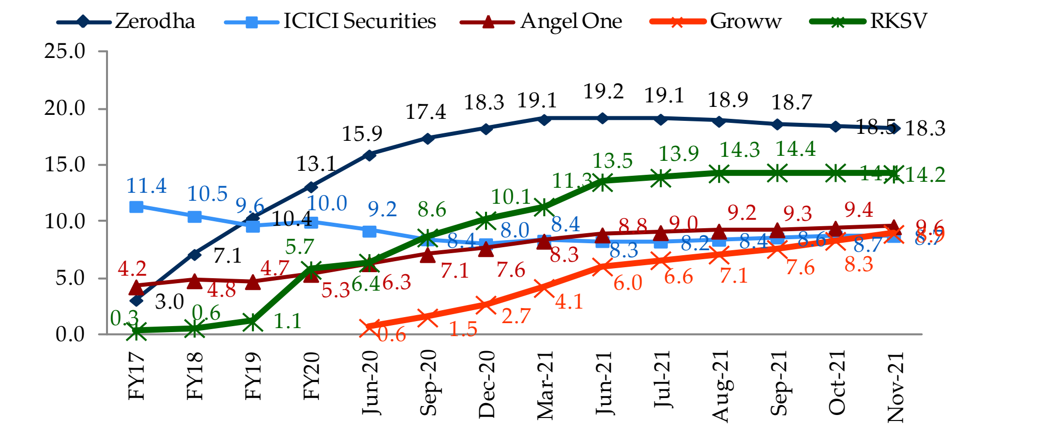
Exhibit 27: Angel One's ADTV market-share vs. client additions



Note: ms represents retail market share
Source: Company, HSIE Research

Zerodha has ceded active client market share in the past 5 months whereas Angel One has been on an upward trajectory.

Exhibit 28: Improving active client market share (%)



Source: NSE, HSIE Research

Positive unit economics despite a steep growth curve

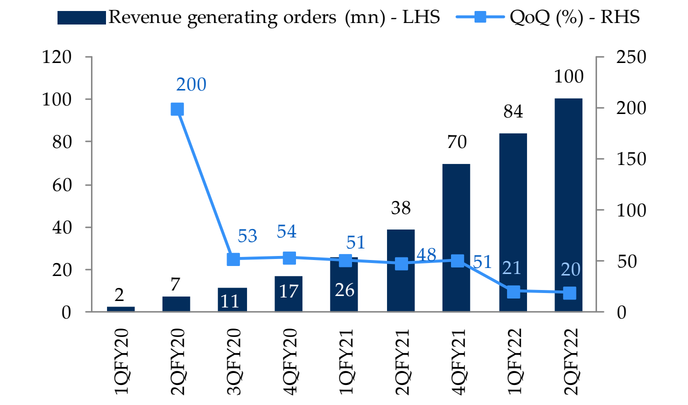
The secret sauce behind Angel One's higher user activity levels relative to peers is its deep AI & ML capabilities such as offering scratch cards to dormant customers, 30-day free brokerage to new to platform customers, scratch cards on adding money to trading account, etc.

- While most discount brokers have been incurring massive cash losses in the race to acquire customers, Angel One has managed to maintain "positive unit economics" in this journey (transforming into a discount broker).
- **This has been a function of (1) better quality customer franchise (higher ARPUs); (2) consistent addition of revenue-generating clients; and (3) controlled cost centres.**

Exhibit 29: Most FinTech brokers are in cash-burn mode

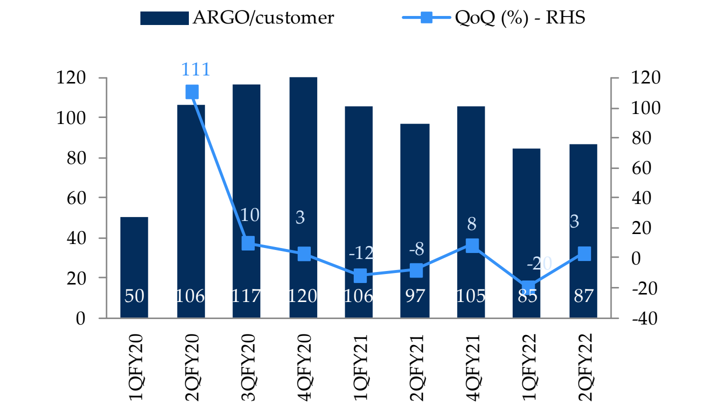
Note: Data pertains to FY20 except for SAMCO (FY19). Revenue less expenses equals EBITDA.
Source: Companies, HSIE Research

Exhibit 30: Aggregate revenue generating orders on a rise…



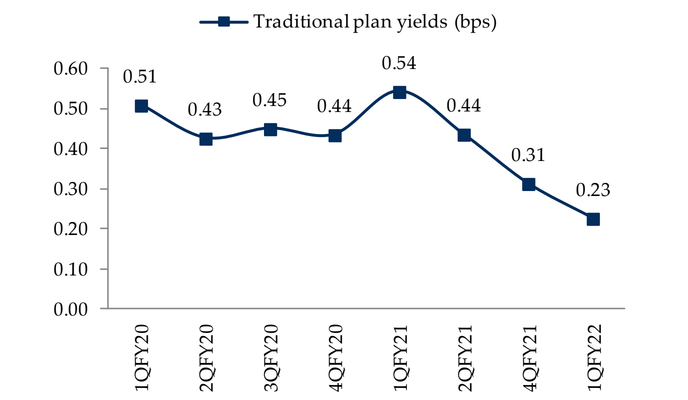
Source: Company, HSIE Research

Exhibit 31: …despite orders per client moderating



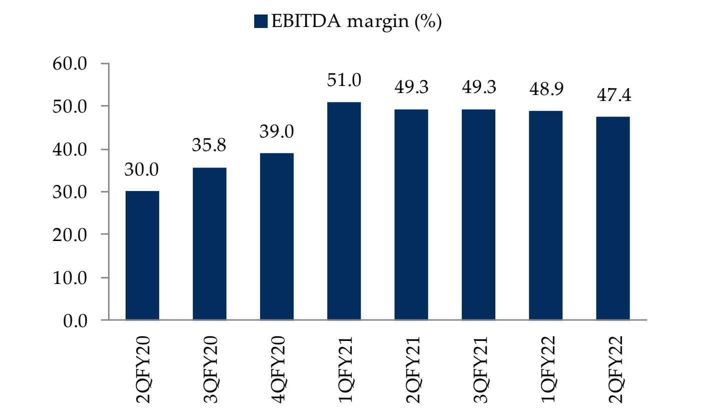
Note: ARGO = Average revenue generating orders
Source: Company, HSIE Research.

Exhibit 32: Yield compression in old plan in line with industry



Note: Calculated basis adjusted revenues
Source: Company, HSIE Research.

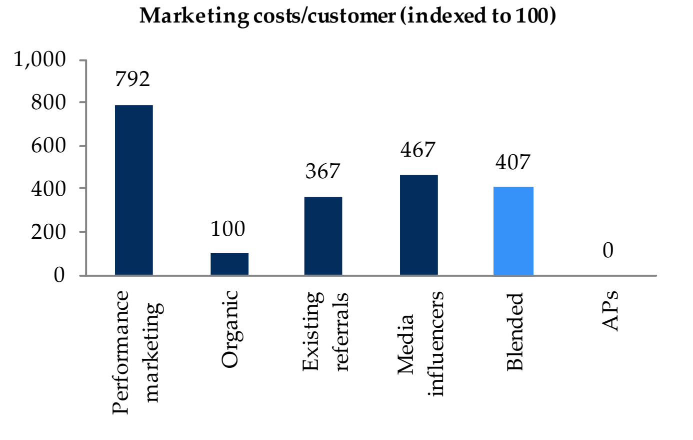
Exhibit 33: Impressive EBITDA margins despite sharp growth



Source: Company, HSIE Research

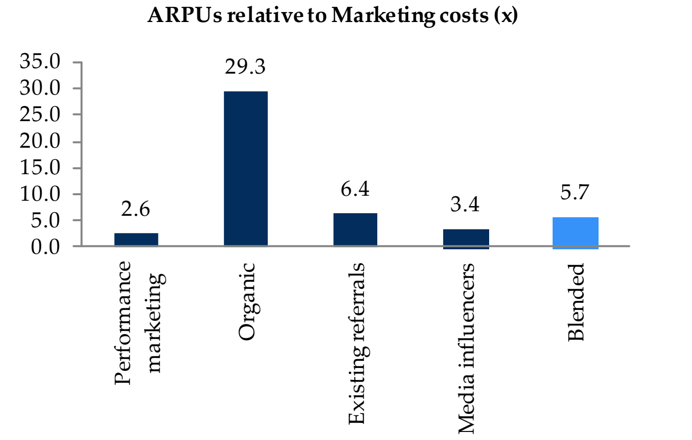
Panoramic view on channel wise economics

Exhibit 34: Marketing spends across channels



Source: HSIE Research. For a detailed working contact HSIE Research.

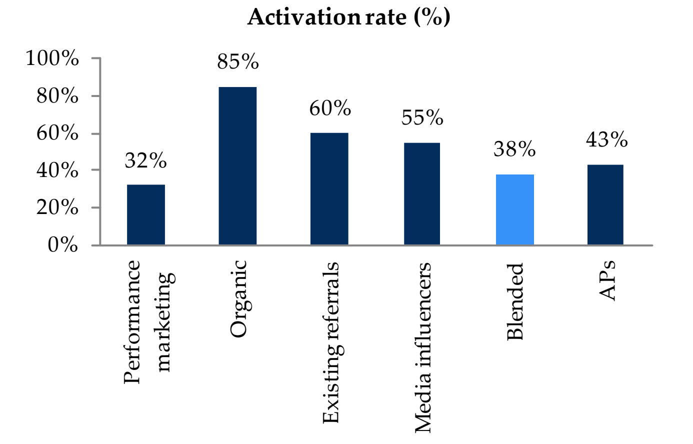
Exhibit 35: Organic channel generates highest ARPU



Source: HSIE Research. For a detailed working contact HSIE Research.

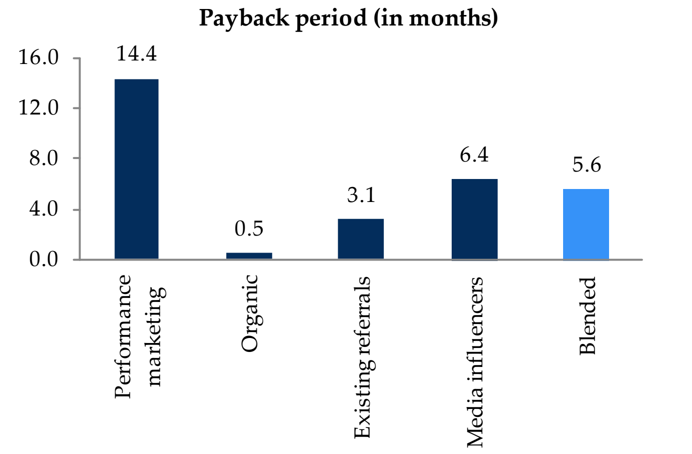
- Despite the fact that performance marketing generates the highest customer additions, marketing spend per customer remains the highest in this channel (lower lead conversion). However, our research and channel checks suggest that, while the company has been generous with its marketing dollars, it has also been mindful of incremental expenses, resulting in a blended ARPU (~5.7x marketing spends) that is higher than the marketing spends. See exhibit 34 and 35.
- We are impressed by the company's ability to recoup its marketing spend per customer in ~5.5months (vs. ~1yr for ISEC), despite the steep client acquisition run rate.

Exhibit 36: Activation rate lowest in performance marketing



Source: HSIE Research. For a detailed working contact HSIE Research.

Exhibit 37: Payback periods across channels



Source: HSIE Research. For a detailed working contact HSIE Research.

- As flat fee plan accounts for ~82% of net broking revenues (in Q2FY22), we believe this source of revenue will be the key driver of future growth. Despite the sharp rise in customer additions, average revenue generating orders (ARGO) per customer from the flat fee plan haven't seen a sharp moderation (which is likely due to buoyant markets) - however, this variable could moderate, going ahead.

Angel One's business model stands out with lower cyclicality compared to full-service brokers

Broking revenues: more secular - less cyclical

- Nearly all pure broking revenues (considered flat fee plan since it contributes >90% of broking revenues) accrue to discount brokers like Angel One from intra-day and derivative trades, whereas delivery trades **earn no brokerage**.
- Interestingly, delivery volumes account for >75-80% of pure broking revenue for full-service brokers like ISEC, KSEC and MOFS, and delivery volumes have a positive correlation with market levels.
- The revenue impact of a sharp market correction is depicted in Exhibit 38. Angel One's revenue model (which is less affected by market fluctuations) is backed up by strong and consistent customer growth, making it a winner with a more secular revenue stream. Furthermore, given the high customer stickiness to these new-age FinTech broker platforms, any increase in the delivery segment broking charges (even a small INR20/order) would result in significant topline growth.

Exhibit 38: Impact of sharp market correction of different types of brokers

Type of broker	Impact on	
	Delivery trades	Intraday & F&O trades
Discount brokers	▪ **No impact** as they charge 'ZERO BROKERAGE' on delivery trades.	▪ **Modest impact** as number of orders or leverage will moderate; however, pricing is still flat. But impact is lower than on full-service brokers, given that these platforms have full-time traders and trade in market down cycle too. ▪ **Intraday and derivative trades form 100% of the broking revenues.**
Full-service brokers	▪ **'Sharp hit' in near-term** since the revenue model is 'ad valorem'; with a sharp market correction, if trade size reduces by 40%, the corresponding broking income will also be 40% lower. ▪ **Revenues from delivery trades constitute 70-80% of broking revenues.**	▪ **Modest impact** as most full-service brokers have implemented flat pricing. ▪ **Intraday trades form 20-25% of broking revenues.**

Source: HSIE Research

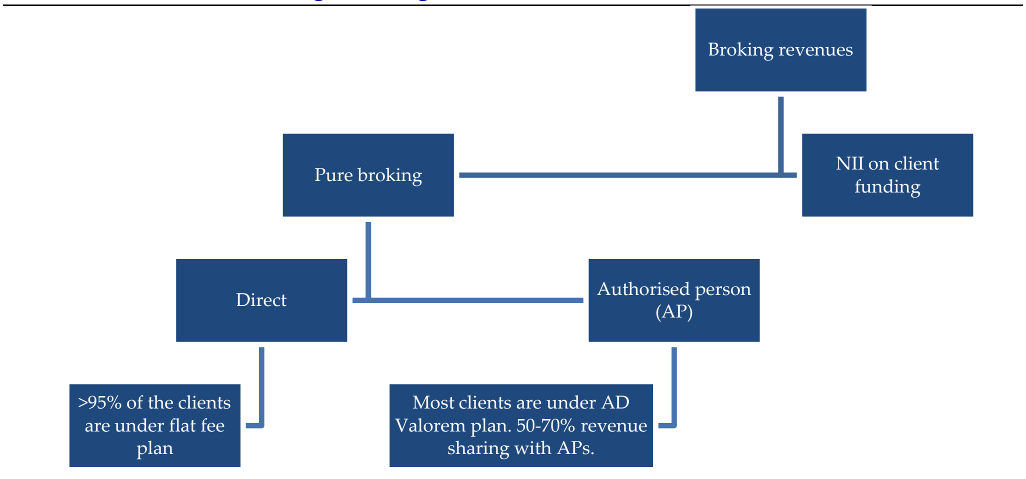
Tapping into other financial solutions

- Given the financialisation of savings and the abysmally low penetration of mutual funds in India, Angel One has sought in-principle approval for an AMC license from the SEBI, and expects to start the AMC business in the next 24 months, i.e., by FY24E.
- It has a corporate agency license and partners with ABSLI, IPRU, and HDFCLIFE on life insurance, as well as HDFC ERGO and Manipal Cigna HI on the health insurance side. It also distributes general insurance products in collaboration with HDFC ERGO GI and BAGIC. In the long term, the company plans to obtain insurance broking license so that it can cross-sell products from a host of insurers.
- This reflects the company's long-term vision of expanding into underpenetrated businesses in order to serve retail clients through the entire investment lifecycle.
- This not only offers additional growth levers for the business, but it also acts as a buffer against the industry's cyclicality.

Decrypting revenue model

- Angel One, being a full-service turned discount broker, derives ~61% of its adjusted revenues from pure broking segment (in FY21). While the new client acquisitions via direct route can only be done under the flat fee plan, additions under AP network are taking place using both the pricing models.
- **Plain vanilla pricing model:** For intraday and derivative trades, pricing under the flat fee plan is INR20/executed order, whereas price under ad valorem model varies from sub-broker to sub-broker (~30% retained by Angel One).

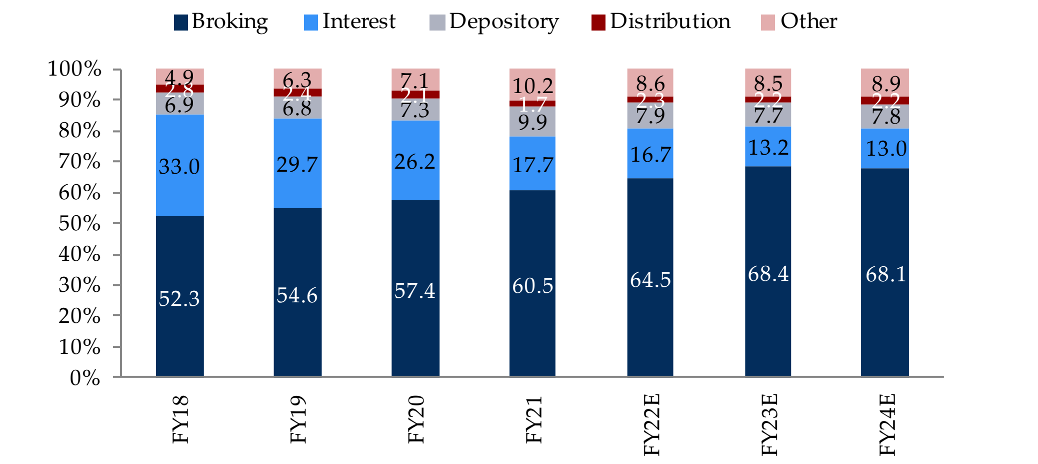
Exhibit 39: Understanding broking revenues



Source: HSIE Research

- Angel One charges 18% p.a. on client funding book, translating into a net yield of ~8-9%, forming ~18% of its adjusted revenue (in FY21).
- Distribution business is in nascent stages of development, with a revenue line at just 2% of the adjusted revenue; however, the company is planning to obtain an insurance broking license that could scale up this segment through cross-selling to its existing customer base.
- **Depositary income:** Angel One doesn't charge broking fees on delivery trades, however it charges INR20 per sell transaction per scrip on delivery trades. This segment generated INR89mn in FY21 and is expected to clock 20% CAGR to INR1.5bn in FY24E, constituting 8% of adjusted revenues.

Exhibit 40: Revenue mix is broking heavy



Note: Finance cost netted off against interest income Source: Company, HSIE Research

Revisiting the HSIE - RTW framework

Superior on UI/UX; enough time to build customer franchise

The Angel One platform has relatively less downtime – a key for a successful tech broker

Angel One's nudge feature needs some re-wiring relative to the bellwether

Angel One has come up with a Smart store to educate its N2M clients

- While Angel One's mobile app appears to be superior to peers, it is still going through multiple iterations to build a financial super app that will integrate all of the company's products under a single umbrella.
- While Angel One has a controlled payback period of ~6 months, it needs to improve its customer franchise in the long term by cross-selling additional financial products.

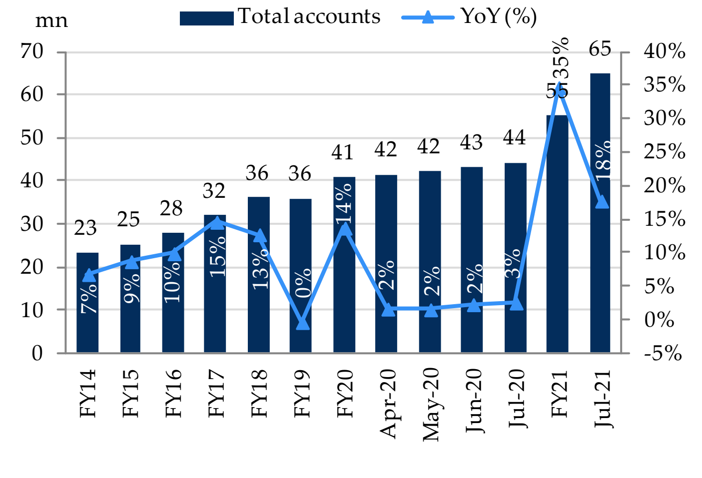
Exhibit 41: HSIE- RTW framework

	Zerodha	Upstox	ANGBRK	5Paisa	Paytm Money	Groww	ISEC	Motilal Oswal
Pillar I: UI/UX								
Clicks to trade (app)								
Clicks to trade (web)								
Clicks to IPO (on app)								
Downtime								
Service type								
Pillar II: Responsibility Index								
Nudges								
Educational platforms	✓	✓	✓	✓	✗	✓	✓	✓
Pillar III: Customer franchise								
CACs								
ARPUs								
Wallet-size								
Customer activation								
Customer additons								
Pillar IV: Cross-sell opportunity								

Source: Twitter, Companies, HSIE estimates, HSIE Research

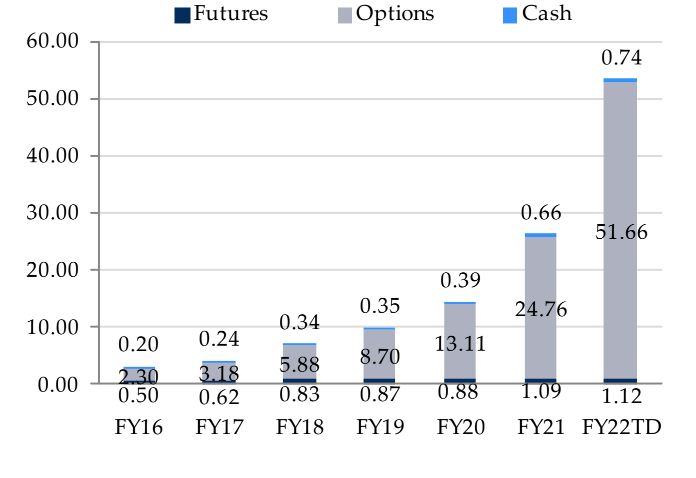
Broking industry overview

Exhibit 42 : Pandemic drives uptick in demat accounts



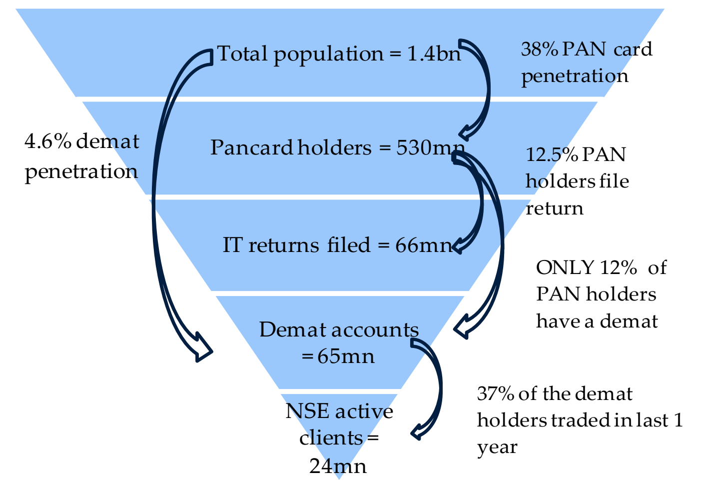
Source: CDSL, NSDL, HSIE Research

Exhibit 43: Sharp rise in industry ADTVs

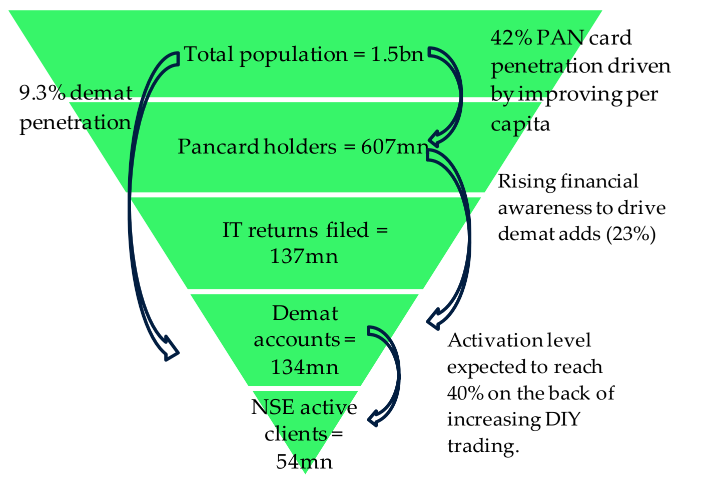


Source: BSE, NSE, HSIE Research

Exhibit 44: TAM: significant growth opportunity; current DEMAT penetration at 4.6% (Jul-2021)

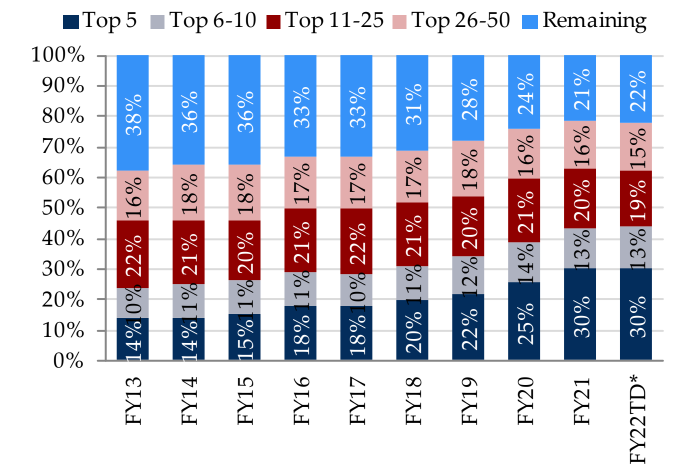


Projected DEMAT penetration at 9.3% (2025)



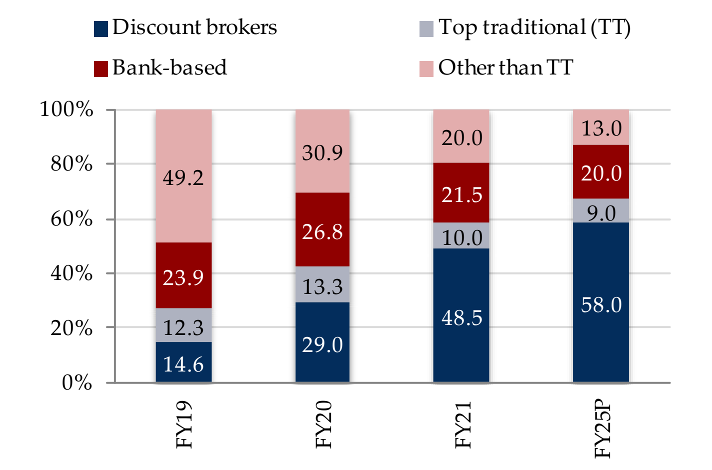
Source: Censusindia.gov.in, NSE, CDSL, NSDL, media reports, HSIE Research

Exhibit 45: ADTO market share: top 10 players gaining market share



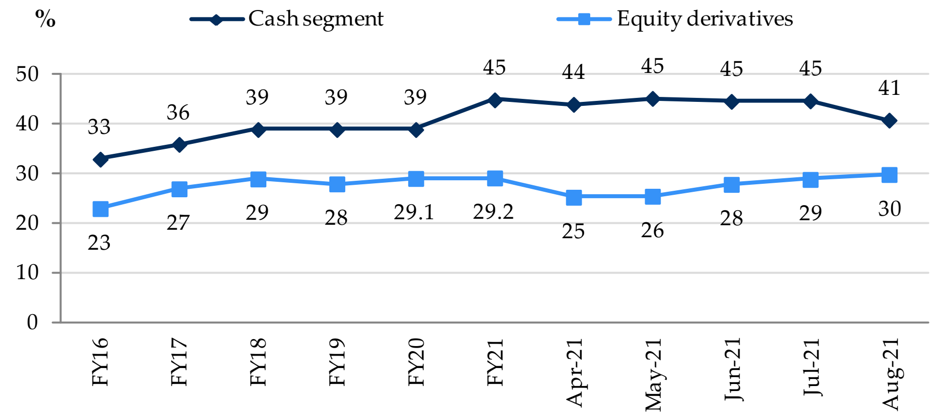
Source: SEBI, HSIE Research

Exhibit 46: ACC market-share: Discounters expected to race ahead of traditional and bank-based brokers



Source: NSE, HSIE Research

Exhibit 47: Improving individual participation in cash and derivative ADTVs

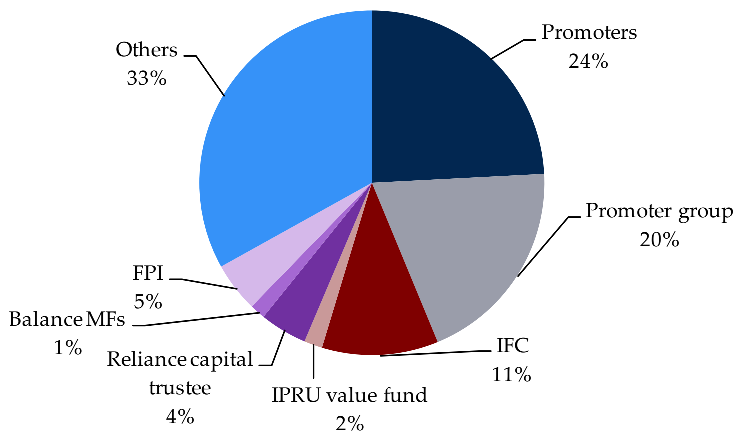


Note: This data pertains to NSE only.
Source: NSE, HSIE Research

Shareholding pattern

- Promoters include Mr. Dinesh Thakkar, Mrs. Sunita Thakkar, and Mr. Ashok Thakkar.
- International Finance Corporation (a World Bank arm) was one of the early-stage investors with 18% shareholding pre-IPO, and now holds 10.9% (offloaded some stake in the IPO). IFC may continue to sell-off it holdings in the future and remains an overhang in the near term.
- Three-year lock-in period for Mr Dinesh Thakkar (promoter) ends in Sep 2023 (next 22 months).

Exhibit 48: Shareholding pattern (Sep-21)



Source: BSE, HSIE Research

Key management personnel

- **Mr. Dinesh Thakkar** is the company's chairman and MD. He cleared HSC examination from the Maharashtra State Board of SHSE. He has over 25 years of experience in the broking industry. He is also one of the promoters of the company. He has been a director on board since 23 Oct 07.
- **Mr. Narayan Gangadhar** was appointed the company's CEO in Apr 2021. He has more than two decades of global experience leading technology businesses at top tier Silicon Valley companies such as Google, Microsoft, Amazon, and Uber. He has lead highly disruptive businesses by driving innovation in product, technology, capability building, and processes automation.
- **Mr. Vineet Agarwal** is the company's CFO and holds a Bachelors degree in Commerce from the University of Calcutta. He is also an associate of the ICAI, the ICSI, and the ICWAI. He has worked with STP Ltd, Kitply Industries Ltd, Reliance Communications Ltd, BhartiAirtel Ltd, Suzlon Energy Ltd, Secure Meters Ltd and Bergwerff Organic (India) Private Ltd.
- **Mr. Raiturkar Jyotiswarup** is the company's CTO. He has 20+ years of experience in building high-scale tech products. His earlier experiences have been with Walmart Labs, Mint, Goibibo, Microsoft, and Samsung.

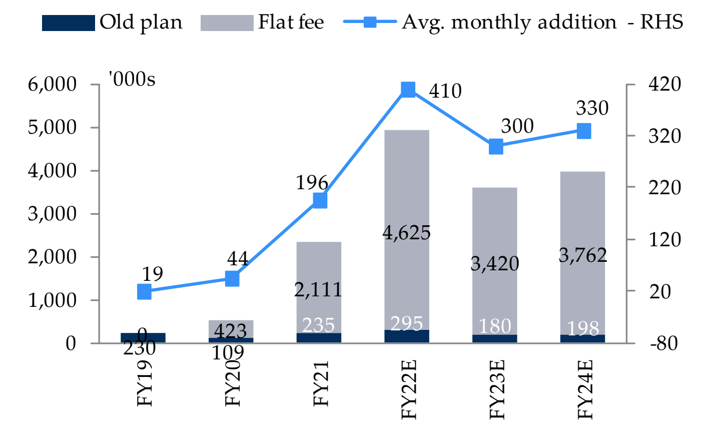
Key risks

- **Data privacy and security:** With a massive and growing client base at >7.3mn and the responsibility of managing customer's critical financial data such as demat holdings, MF holdings, etc., any data leakage or security breach might be costly for the company.
- **IT disruption:** The company's operation relies heavily on IT systems, and it is prominent in this field. Any substantial disruption/failure in the IT systems and/or stringent action from regulatory authorities can lead to customers migrating to a rival platform with less downtime. Negative publicity surrounding the brand may severely impact the company's ability to retain customers.
- **Sustained sharp correction in the capital markets:** Because retail ADTO/activity levels are positively correlated with capital market levels, any sharp and protracted correction in the capital markets could result in near term headwinds for the sector and Angel One. Also, Angel One derives 77% of its adjusted revenue from broking (including MTF book), which could experience headwinds in the near term on the back of any protracted sharp correction in the markets.
- **Keyman risk:** After the unfortunate demise of the erstwhile MD & CEO Mr. Vinay Agarwal, the current senior leadership team of Angel One has spent an average of less than 18 months with the franchise. Hence, we believe the franchise will face a keyman risk over the next 18-24 months until this leadership team settles in and aligns more closely with the Chairman's vision and mindset.

Valuation and financial summary

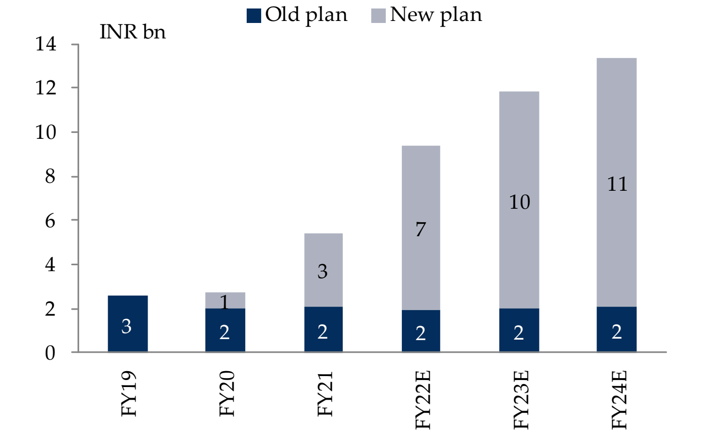
- We expect the total customer base to leapfrog at a 59% CAGR over FY21-24E, with flat fee plan dominating the additions mix at ~95%.

Exhibit 49: Customer additions likely to moderate



Source: Company, HSIE Research

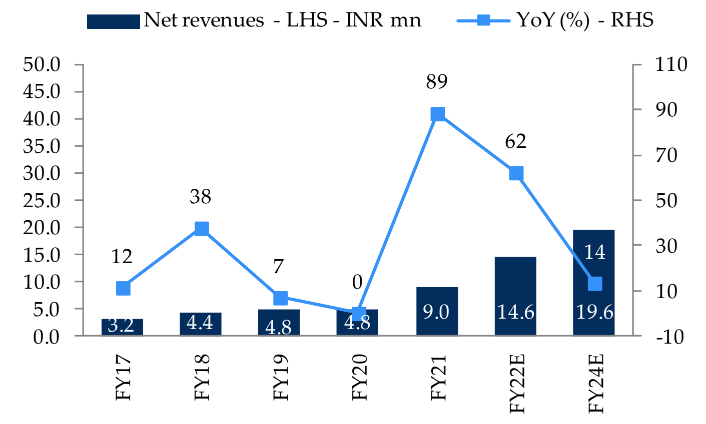
Exhibit 50: New plan to dominate broking revenues



Source: Company, HSIE Research

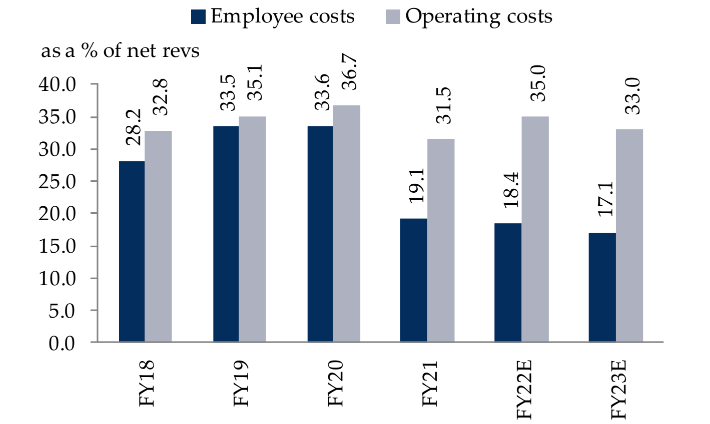
- We expect average orders per customer under flat fee plan to degrow sharply compared to FY21 levels at a 25% CAGR over FY21-24E for the following reasons: (1) a sharp customer acquisition rate in next 3-5 years; (2) FY21 being a positively an exceptional year in terms of volatility and volumes, we expect some moderation in the volumes in near term; (3) new additions are mostly N2M customers, leading to relatively lower activity levels than those for experienced professionals.
- Net revenue is expected grow at CAGR of 30% over FY21-24E, to INR 19.6bn, with pure broking revenue dominating the mix.
- We expect EBITDA margin to remain healthy in the 47-51% range over FY22-24E, as operating leverage derives further gains, partially offset by incremental marketing costs.

Exhibit 51: Healthy revenue growth despite strong base



Source: Company, HSIE Research

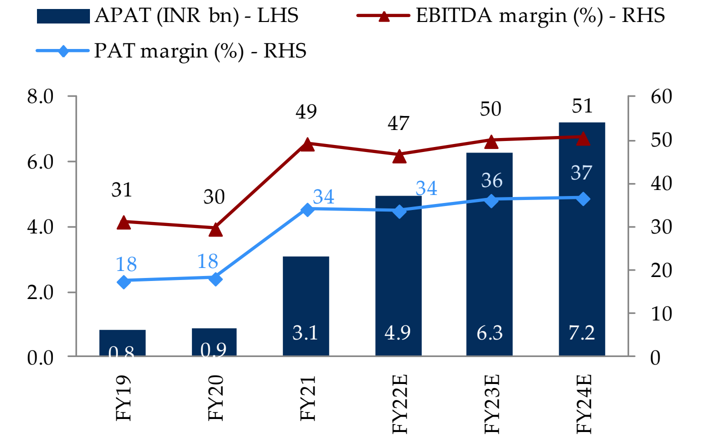
Exhibit 52: Operating leverage playing out



Source: Company, HSIE Research

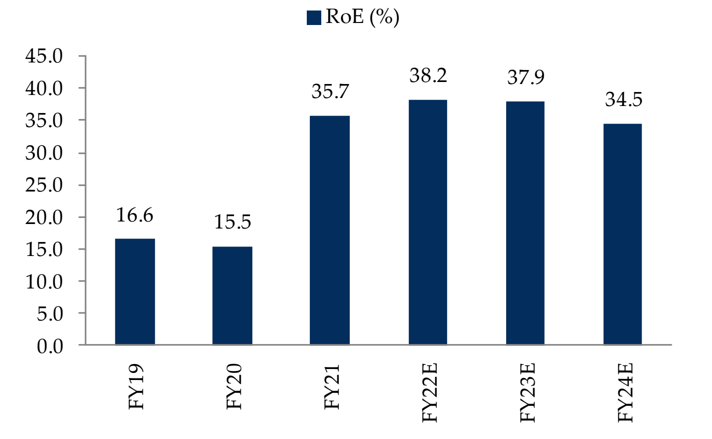
- We expect PAT to record an FY21-24E CAGR of 33% and the business to deliver RoEs in the range of 35-38% over FY22-24E.

Exhibit 53: Margins set to improve



Source: Company, HSIE Research

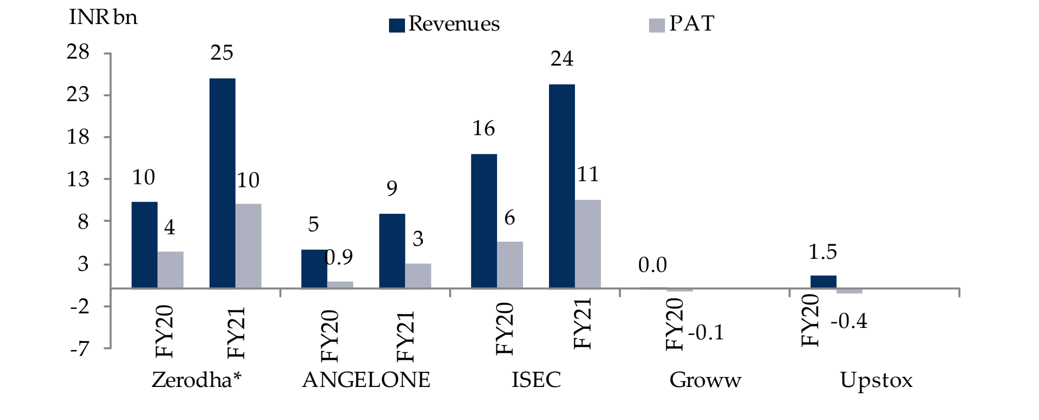
Exhibit 54: One of the industry-best RoEs



Source: Company, HSIE Research

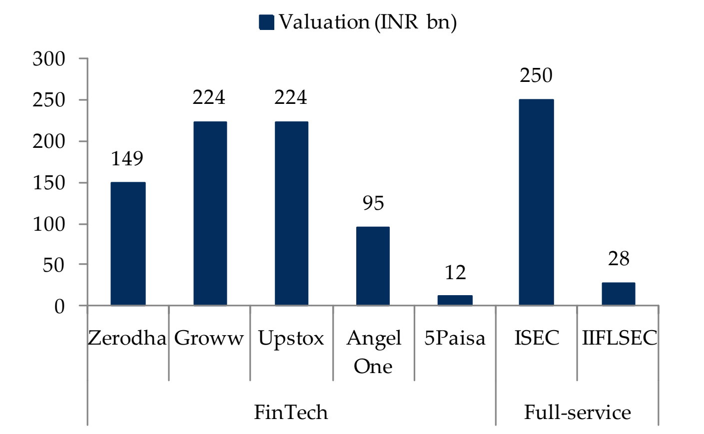
- We ascribe a 21.5x Sep-23E AEPS (i.e., 0.7x PEG ratio; 68% discount to ISEC) on account of its stronger client acquisition funnel and its relatively secular business model to arrive at a target price of INR 1,770 (+60% upside). We initiate with a high conviction BUY rating on the stock.

Exhibit 55: Revenue and profitability



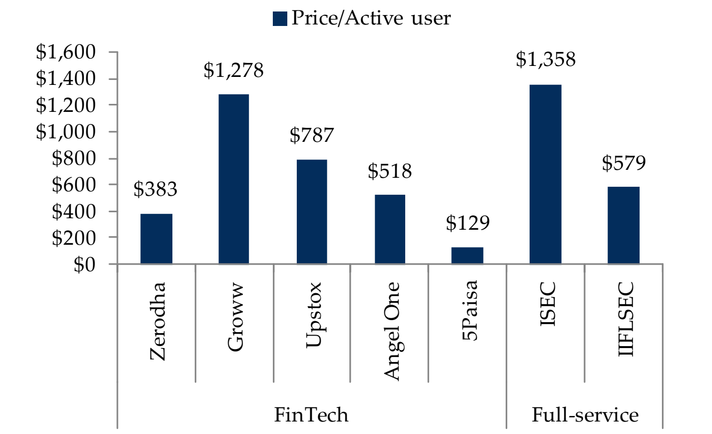
Source: Respective companies, media reports

Exhibit 56: Valuations across brokers



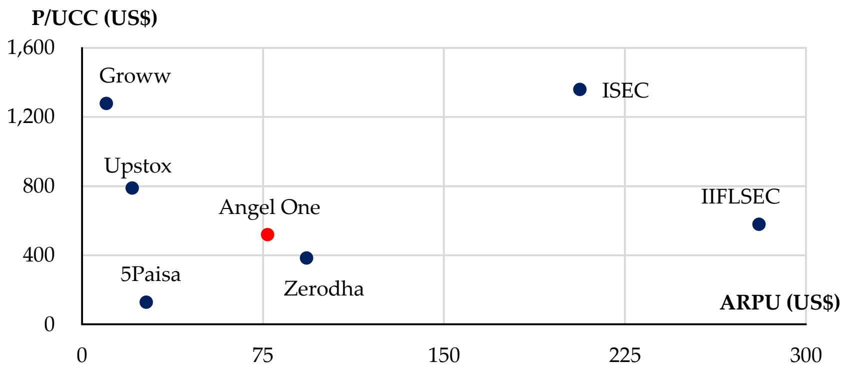
Source: NSE, Media reports, HSIE Research

Exhibit 57: Groww contending rich valuations



Source: NSE, Media reports, HSIE Research

Exhibit 58: Valuations attractive for Angel One



Note: P/UCC indicates Price per active user; ARPU estimated for Upstox and Groww
Source: Respective companies, media reports, HSIE Research

Financials

Consolidated Income Statement

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**3,215**	**4,433**	**4,750**	**4,762**	**8,978**	**14,585**	**17,289**	**19,638**
Growth (%)	*12*	*38*	*7*	*0*	*89*	*62*	*19*	*14*
Employee benefits expenses	1,257	1,250	1,592	1,598	1,718	2,681	2,949	3,303
Operating expenses	1,351	1,456	1,669	1,749	2,829	5,105	5,705	6,382
EBITDA	**606**	**1,727**	**1,490**	**1,414**	**4,431**	**6,800**	**8,635**	**9,953**
EBITDA Margin (%)	*19*	*39*	*31*	*30*	*49*	*47*	*50*	*51*
EBIDTA Growth (%)	*-6*	*185*	*-14*	*-5*	*213*	*53*	*27*	*15*
Depreciation	135	145	189	209	184	192	233	277
EBIT	**471**	**1,582**	**1,301**	**1,205**	**4,247**	**6,608**	**8,401**	**9,676**
Other Income (includes treasury)	0	0	0	0	0	0	0	0
Interest & Financial Charges	0	0	19	18	8	13	20	25
PBT	**471**	**1,582**	**1,282**	**1,187**	**4,240**	**6,595**	**8,382**	**9,651**
Tax	169	508	448	320	1,166	1,662	2,112	2,432
APAT	**302**	**1,075**	**834**	**868**	**3,073**	**4,933**	**6,270**	**7,219**
APAT Growth (%)	*-3*	*256*	*-22*	*4*	*254*	*61*	*27*	*15*
Minority Interest	0	0	0	0	0	0	0	0
RPAT	**302**	**1,075**	**798**	**823**	**2,968**	**4,933**	**6,270**	**7,219**
RPAT Growth (%)	*-3*	*256*	*-26*	*3*	*261*	*66*	*27*	*15*
AEPS (diluted)	**4**	**15**	**12**	**12**	**38**	**60**	**77**	**88**
AEPS Growth (%)	*-3*	*255*	*-22*	*4*	*212*	*61*	*27*	*15*

Source: Company, HSIE Research

Consolidated Balance Sheet

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS								
Share Capital	144	720	720	720	818	818	818	818
Reserves	3,751	4,029	4,594	5,194	10,492	13,698	17,773	22,466
Total Shareholders Funds	**3,894**	**4,749**	**5,314**	**5,914**	**11,310**	**14,516**	**18,592**	**23,284**
Long-term Debt	-	-	213	157	59	113	165	213
Short-term Debt	-	-	-	-	-	-	-	-
Total Debt	**-**	**-**	**213**	**157**	**59**	**113**	**165**	**213**
Other Financial Liabilities & Provisions	47	52	52	67	91	109	136	171
Other Non Current Liabilities								
Net Deferred Tax Liability	5	(29)	(76)	(49)	(47)	(47)	(47)	(47)
TOTAL SOURCES OF FUNDS	**3,947**	**4,772**	**5,504**	**6,089**	**11,413**	**14,692**	**18,846**	**23,620**
APPLICATION OF FUNDS								
PPE (inc. IP and intangible assets)	**1,234**	**1,158**	**1,137**	**1,108**	**1,095**	**1,234**	**1,406**	**1,602**
Right of use assets	**-**	**-**	**208**	**153**	**55**	**118**	**179**	**238**
Other Non Current Assets	151	289	663	2,673	14,287	8,572	9,430	11,127
Total Non-current Assets	**1,386**	**1,447**	**2,008**	**3,935**	**15,438**	**9,925**	**11,015**	**12,966**
Liened FDs (ST + LT)	4,854	8,218	5,390	8,003	12,897	16,766	17,604	18,484
Investments	495	56	149	353	55	61	67	74
Debtors	8,582	1,585	2,146	390	2,277	1,614	3,493	4,047
Cash & Equivalents	1,443	1,207	4,470	6,132	5,878	29,825	45,488	50,086
Loans & Advances	1,129	11,088	7,775	2,957	11,398	14,818	16,300	17,930
Other Current Assets	121	22	69	82	149	54	59	74
Total Current Assets	**16,625**	**22,175**	**19,999**	**17,918**	**32,654**	**63,138**	**83,011**	**90,694**
Creditors	5,314	6,146	6,378	9,395	22,764	38,735	53,269	55,644
Other Current Liabilities	8,750	12,705	10,125	6,368	13,914	19,636	21,911	24,396
Total Current Liabilities	**14,065**	**18,851**	**16,503**	**15,763**	**36,679**	**58,371**	**75,180**	**80,040**
Net Current Assets	**2,561**	**3,324**	**3,496**	**2,155**	**(4,025)**	**4,767**	**7,830**	**10,654**
TOTAL APPLICATION OF FUNDS	**3,947**	**4,772**	**5,504**	**6,089**	**11,413**	**14,692**	**18,846**	**23,620**

Source: Company, HSIE Research

Consolidated Cash Flow

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	**471**	**1,582**	**1,282**	**1,187**	**4,240**	**6,595**	**8,382**	**9,651**
Non-operating & EO Items	(25)	(1)	112	298	117	-	-	-
Interest Expenses	512	908	625	436	355	13	20	25
Depreciation	135	145	200	221	189	192	233	277
Working Capital Change	1,121	(1,673)	2,619	818	(6,431)	20,895	11,775	118
Tax Paid	(190)	(538)	(495)	(293)	(972)	(1,662)	(2,112)	(2,432)
OPERATING CASH FLOW (a)	**2,024**	**424**	**4,344**	**2,669**	**(2,503)**	**26,033**	**18,298**	**7,639**
Net Capex	(120)	(69)	(115)	(125)	(140)	(394)	(467)	(530)
Free Cash Flow (FCF)	*1,905*	*354*	*4,229*	*2,544*	*(2,643)*	*25,639*	*17,831*	*7,108*
Investments	(467)	449	(83)	(179)	386	(6)	(6)	(7)
Non-operating Income	94	92	5	22	2	-	-	-
INVESTING CASH FLOW (b)	**(493)**	**472**	**(194)**	**(281)**	**248**	**(399)**	**(473)**	**(537)**
Debt Issuance/(Repaid)	-	-	(51)	(55)	(80)	55	52	48
Interest Expenses	(514)	(908)	(625)	(436)	(347)	(13)	(20)	(25)
FCFE	*1,391*	*(554)*	*3,552*	*2,053*	*(3,070)*	*25,680*	*17,863*	*7,131*
(Buyback)/Proceeds From Issue of Share Capital	-	11	-	-	2,854	-	-	-
Dividend paid	(118)	(235)	(234)	(234)	(427)	(1,726)	(2,194)	(2,527)
FINANCING CASH FLOW (c)	**(631)**	**(1,132)**	**(911)**	**(725)**	**2,001**	**(1,685)**	**(2,162)**	**(2,504)**
NET CASH FLOW (a+b+c)	**900**	**(237)**	**3,239**	**1,663**	**(255)**	**23,948**	**15,663**	**4,598**
Opening Cash & Equivalents	544	1,443	1,230	4,470	6,132	5,878	29,825	45,488
Closing Cash & Equivalents	**1,443**	**1,207**	**4,470**	**6,132**	**5,878**	**29,825**	**45,488**	**50,086**

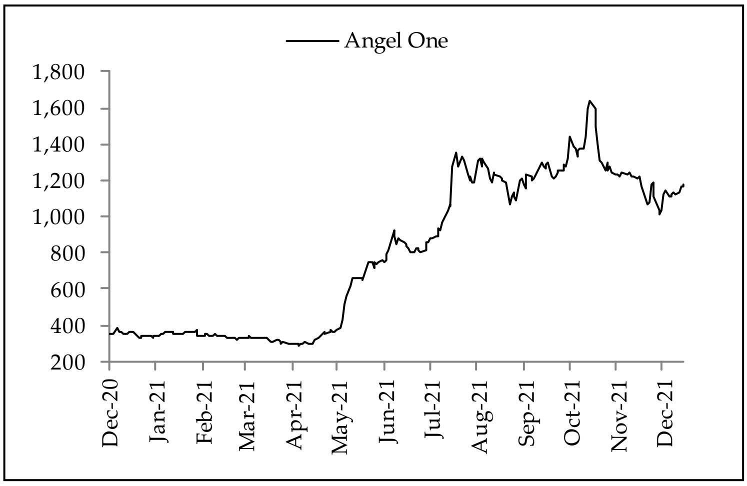
Source: Company, HSIE Research

Key ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)								
EBITDA Margin	18.8	39.0	31.4	29.7	49.4	46.6	49.9	50.7
EBIT Margin	14.6	35.7	27.4	25.3	47.3	45.3	48.6	49.3
APAT Margin	9.4	24.2	17.6	18.2	34.2	33.8	36.3	36.8
RoE	8.0	24.9	16.6	15.5	35.7	38.2	37.9	34.5
Core RoCE								
EFFICIENCY								
Tax Rate (%)	35.9	32.1	34.9	26.9	27.5	25.2	25.2	25.2
Asset Turnover (x)	0.7	0.9	0.8	0.5	0.7	0.9	0.8	0.8
Inventory (days)								
Debtors (days)	*1,028*	*151*	*171*	*30*	*121*	*50*	*80*	*80*
Other Current Assets (days)	*913*	*1,695*	*1,372*	*1,344*	*1,235*	*1,540*	*1,679*	*1,610*
Payables (days)	*603*	*506*	*490*	*720*	*925*	*969*	*1,125*	*1,034*
Other Current Liab & Prov (days)	*994*	*1,046*	*778*	*488*	*566*	*491*	*463*	*453*
Working Capital (days)	344	295	274	165	-135	129	172	203
Debt/EBITDA (x)	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Net D/E	(0.4)	(0.3)	(0.8)	(1.0)	(0.5)	(2.0)	(2.4)	(2.1)
PER SHARE DATA								
AEPS (Rs/sh)	4.2	14.9	11.6	12.1	37.6	60.3	76.6	88.2
DPS (Rs/sh)	1.5	3.3	3.3	3.3	13.1	21.1	26.8	30.9
BV (Rs/sh)	54.2	66.0	73.8	81.5	137.2	176.1	225.5	282.4
VALUATION								
P/E	302.6	84.9	109.4	105.2	29.7	18.5	14.6	12.6
P/BV	20.4	16.8	15.0	13.6	8.1	6.3	4.9	3.9
EV/EBITDA	148.3	52.1	58.4	60.3	19.3	9.1	5.3	4.2

*Represents standalone financials for FY16 and prior years.. Source: Company, HSIE Research

1Yr Price Movement



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:
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