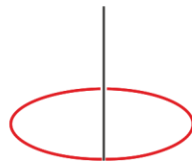


Equity Research

January 11, 2021

Initiating Coverage Report | Financial Services

Angel Broking Ltd.



DALAL & BROACHA
STOCK BROKING PVT. LTD.



Evolution Into a Fintech Brokerage.....

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Angel Broking Ltd (ANGELBRKG) has shown strong customer acquisition and is the 4th largest retail broking houses in NSE Active Clients and the third largest in incremental NSE active clients in H1'21. It has taken maximum advantage of increased interest in capital markets during the pandemic and shown strong growth.

Going forward, we expect the company to grow its operational client base at CAGR 32% in FY 21-23E. At CMP the stock trades at 11.5x its FY21E EPS and 8.9x its FY22E EPS (Peak valuation 12.9x its FY21E EPS and 10.02x its FY22E EPS). **We initiate coverage on Angel Broking Ltd with a BUY rating giving a P/E multiple of 13x on FY22E EPS to arrive at target price of Rs 528 i.e. upside of 48%.**

Robust and Efficient Client addition:

- Angel's monthly net client addition run rate has jumped from 19,698 incremental demat accounts in Q1 FY20 to 113,191 incremental demat accounts in Q1 FY21 and further to 1,83,627 accounts in Q2 FY21 an astounding 9.32x rise.
- **100% digital on boarding of clients:** The company has moved from a traditional brokerage with branches to a very efficient digital on boarding mechanism, saving them cost and giving them access to wide range of customers. **From 6.9% market share in incremental demat accounts in Q1'20 their market share has gone up 2.3x to 15.8% in Q2'21 a testament to their digital strategy.**
- **Based on average client additions in Q1 FY21, 85.21% of clients have been acquired digitally, of which, 53.31% are acquired through performance marketing, either by way of organic or paid leads, 20.72% through referrals from existing clients and approximately 11.18% through digital influencers. The remaining 14.79% of clients, are acquired through network of authorized Persons.**
- **"Angel Broking Mobile App, "trade.angelbroking.com", "Angel SpeedPro", "Angel BEE", which are powered by "ARQ", a rule-based investment engine and NXT Platform are some of the products that have helped Angel grow at a rapid rate.**
- **Angel Broking Mobile App and Angel BEE recorded a total of 6.7mn downloads upto Sep 30, '20.** Easy to use app has helped Angel acquire customers from Tier 3 cities and beyond as almost everyone has access to a mobile and low cost internet.
- Its online and digital platforms, along with its vast network of Authorised Persons has enabled it to reach a large population of retail clients spread across approximately 96.8% or 18,635 pin codes in India.

Y/E Mar(Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income	7800	7841	7547	11549	13407	17755
Operating Profit	1697	1433	1565	4009	5036	7743
Net Profit	1071	798	824	2577	3328	5323
EPS(Rs)	15.2	11.6	12.1	31.6	40.7	65.1
P/E(X)	23.9	31.4	30.2	11.5	8.9	5.6
BVPS(Rs)	65.8	73.8	82.1	130.8	161.3	210.1
P/BVPS	5.5	4.9	4.4	2.8	2.3	1.7
ROA(%)		3.5	3.7	9.3	9.2	12.0
ROE(%)		15.9	14.7	31.0	27.9	35.0

Source: Dalal & Broacha Research

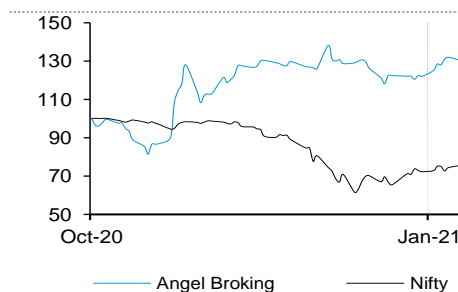
Rating	TP (Rs)	Up/Dn (%)
BUY	528	48

Market data

Current price	Rs	357
Market Cap (Rs.Bn)	(Rs Bn)	29
Market Cap (US\$ Mn)	(US\$ Mn)	401
Face Value	Rs	10
52 Weeks High/Low	Rs	407/223
Average Daily Volume	('000)	436
BSE Code		543235
Bloomberg		ANGELBRK:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-20	Jun-20
Promoters	44.56	N/A
Public	55.44	N/A
Others	0.00	N/A
Total	100	100

Source: BSE

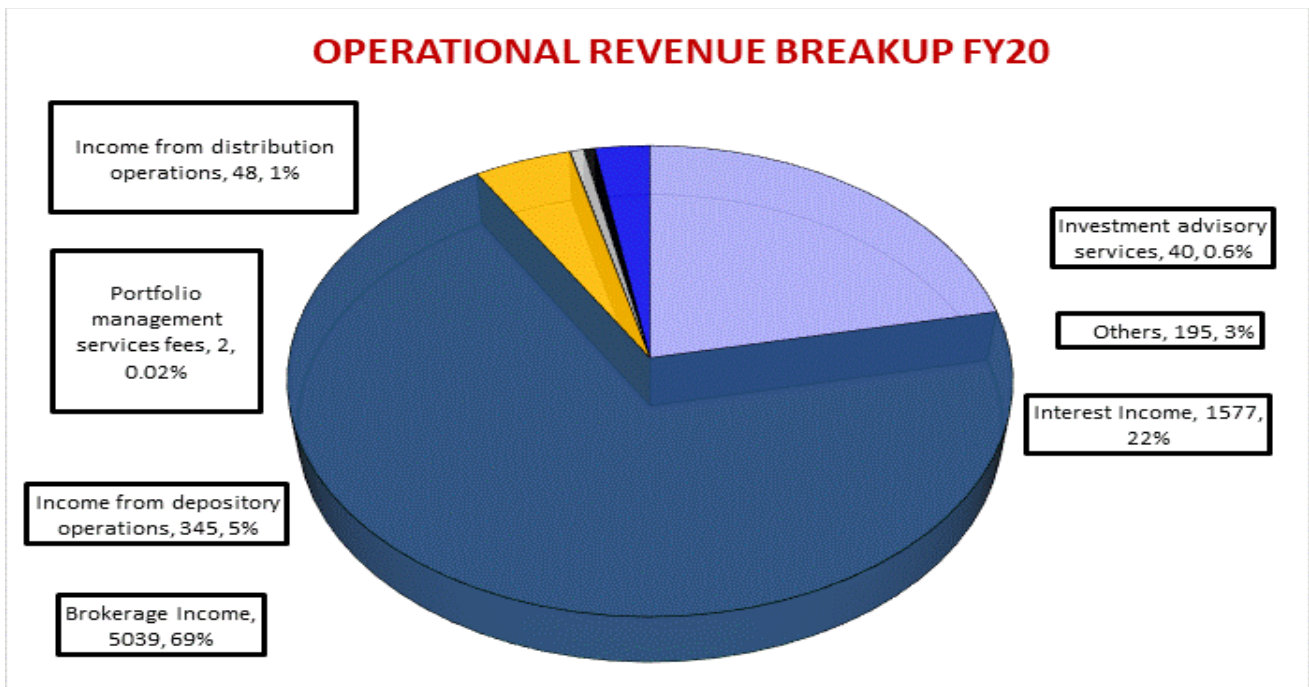
Company Background

Incorporated in 1996 Angel Broking is a digital financial services company providing broking and advisory services, margin funding, loans against shares (through one of its Subsidiaries, AFPL) and distribution of financial products to its clients.

Brief Description of Services offered:

1. **Broking and Advisory:** Broking services across equity (cash-delivery, intra-day, futures and options), commodity and currency segments, along with debt products. Company also facilitates participation of clients in initial public offerings undertaken by various companies. As a part of the broking and advisory services offered they also facilitate opening of demat accounts for our clients. **Company is a member of BSE, NSE, MSEI, MCX and 174 NCDEX.**
2. **Research Services:** As of June 30, 2020, company has a dedicated research team of 54 members who cater to quantitative and qualitative research requirements relating to the stock market such as equity fundamentals, technical, derivatives, commodities currencies and mutual funds.
3. **Investment Advisory:** Angel provide investment advisory services to retail clients with customized investment recommendations aided by rule based investment engine “ARQ”.
4. **Other financial services include Margin Trading Facility, distribution of third-party financial products like mutual fund and insurance products and loan against shares.**

Exhibit 1 (Figure in INR millions)

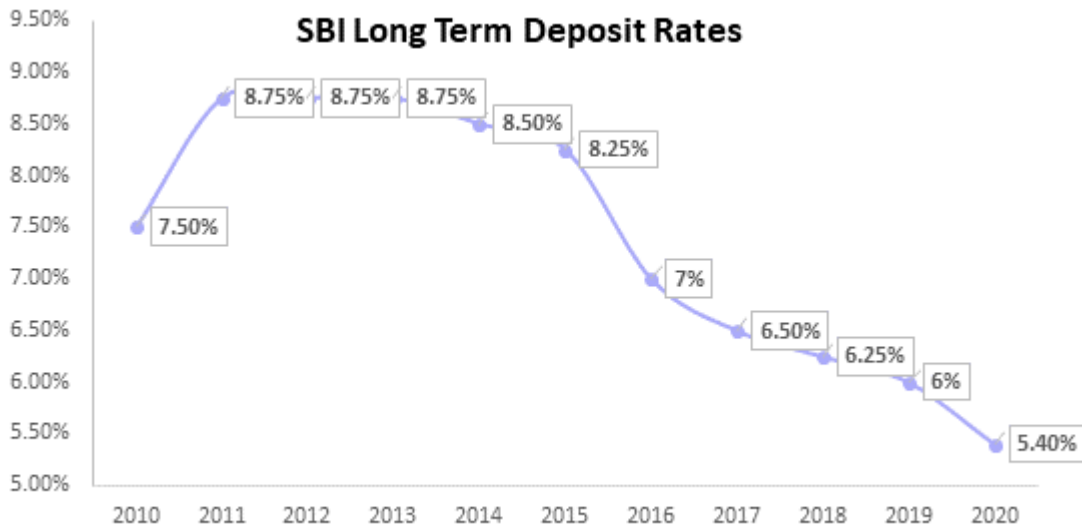


Source: Dalal & Broacha Research

Broking Industry Outlook:

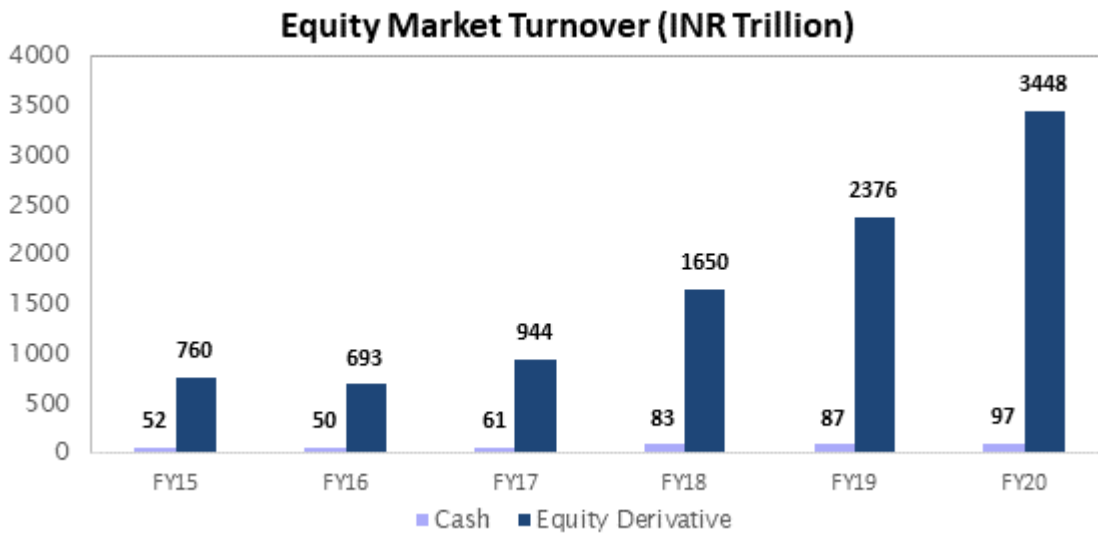
Low interest rates have resulted in increased participation in markets, thereby driving up volumes as shown below, there has been a massive rise in turnovers especially in derivative market.

Exhibit 2



Source: SBI, Dalal & Broacha Research

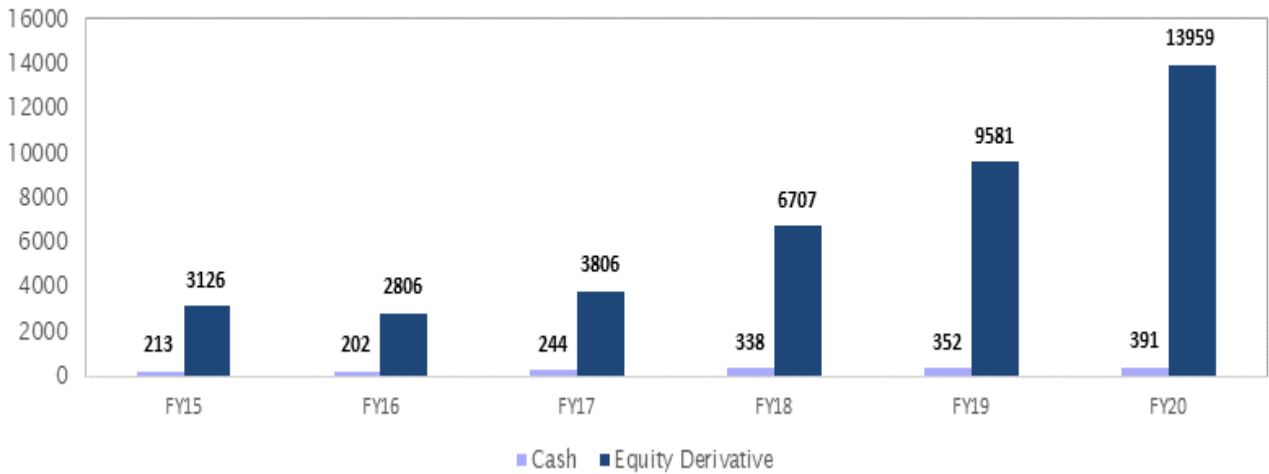
Exhibit 3



Source: SEBI, DRHP, Dalal & Broacha Research

Exhibit 4

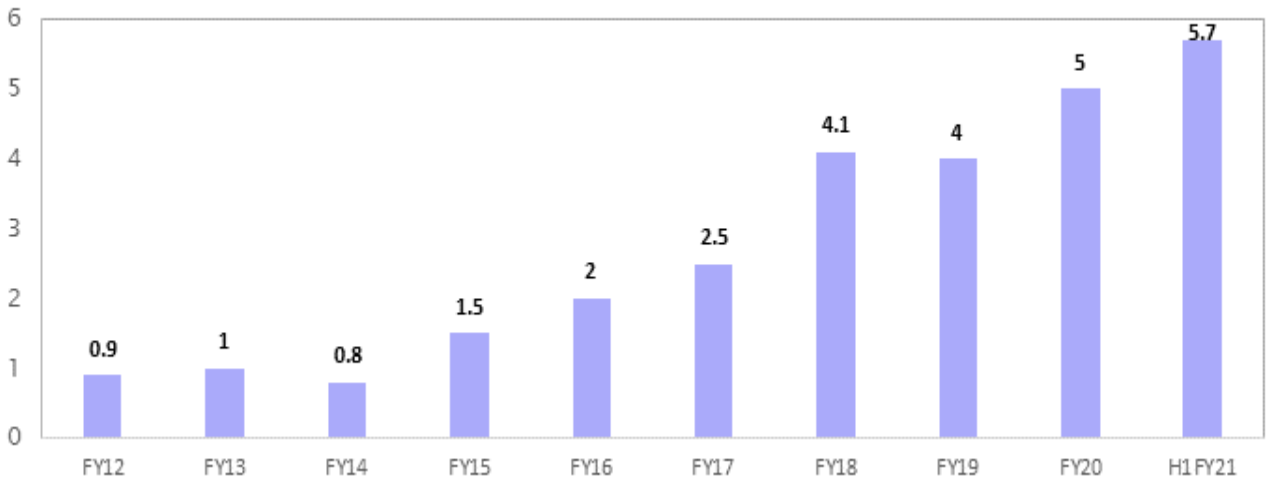
Average Daily Turnover increasing with Rising Investor Participation (INR Billion)



Source: SEBI, DRHP, Dalal & Broacha Research

Exhibit 5

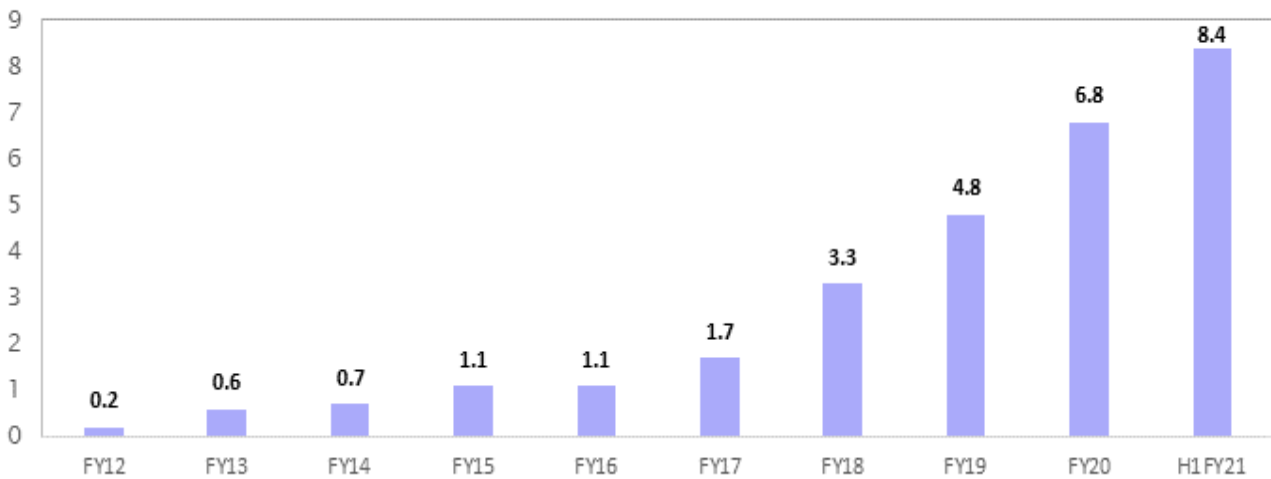
Trend of Incremental Demat Accounts (in Million)



Source: Dalal & Broacha Research

Exhibit 6

Industry Equity Retail ADTO (INR Trillion)



Source: Dalal & Broacha Research

(ADTO- Average Daily turnover)

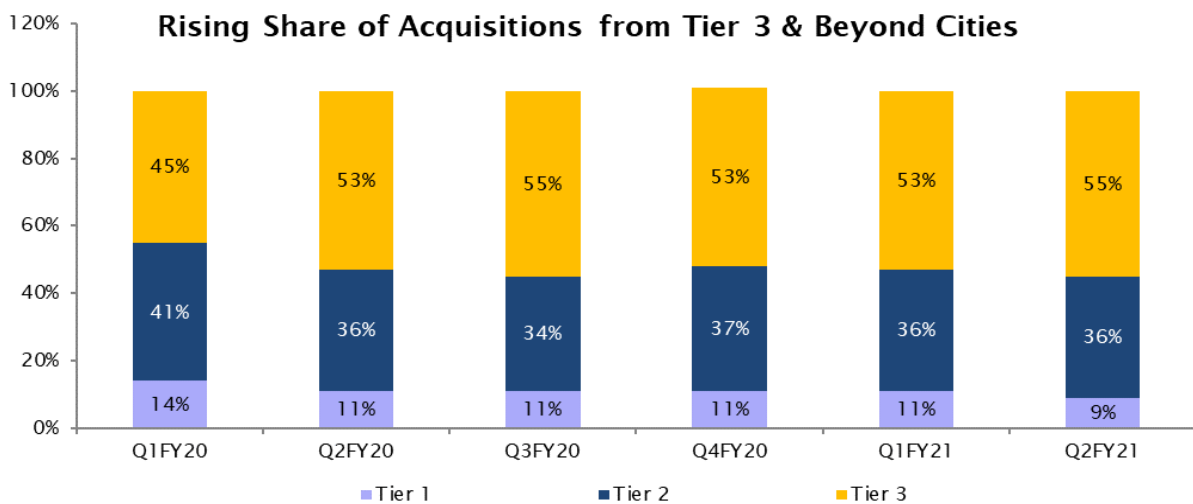
Rising share of Acquisitions from Tier 3 and beyond cities, thanks to increasing mobile data usage

With mobile data becoming cheap due to increase in competition within the telecom players, mobile data subscribers and usage has increased exponentially in the past few years. Angel Broking has capitalized big time on this and added clients across the length and breadth of country. In Q1'20 45% of customer acquisition was from Tier 3 and beyond cities, its risen to 55% in Q2'21

Its online and digital platforms, along with its vast network of Authorised Persons has enabled Angel to reach a large population of retail clients spread across approximately 96.8% or 18,635 pin codes in India.

Exhibit 7

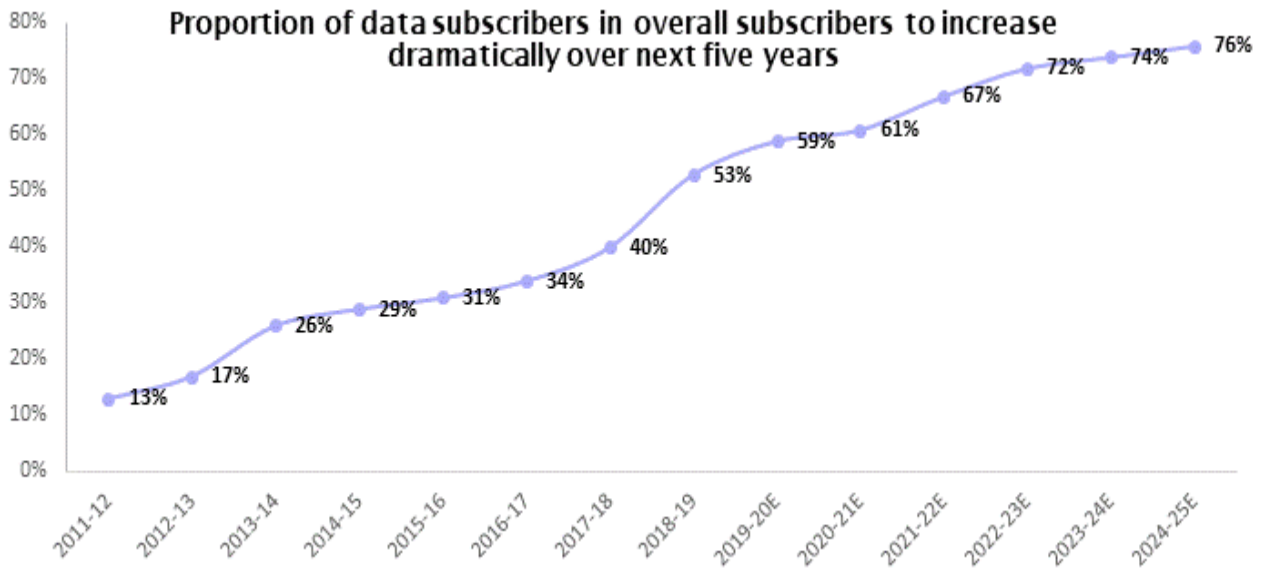
Rising Share of Acquisitions from Tier 3 & Beyond Cities



Source: Dalal & Broacha Research

Exhibit 8

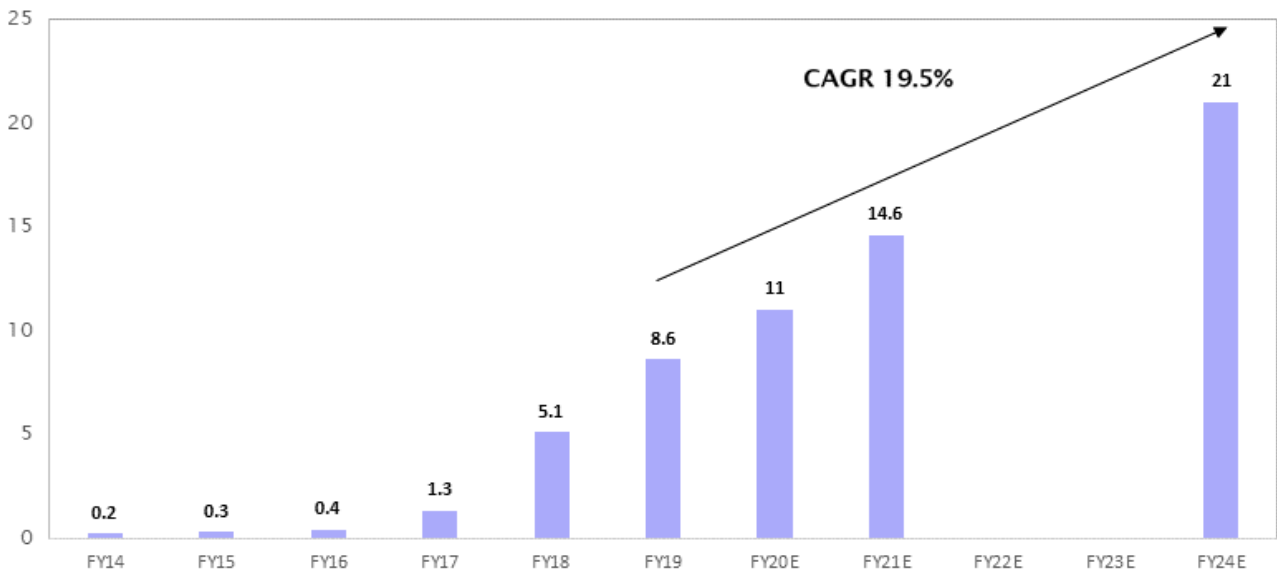
Mobile data was a priced commodity untill recently, with increasing competition India now has the cheapest mbile data in the world. India being the second biggest market for smartphones one can estimate the opportunity for people to start getting hooked to the markets.



Source: Company, TRAI, Crisil Research, Dalal & Broacha Research

Exhibit 9

Blended average data usage per subscriber (GB/sub/month)



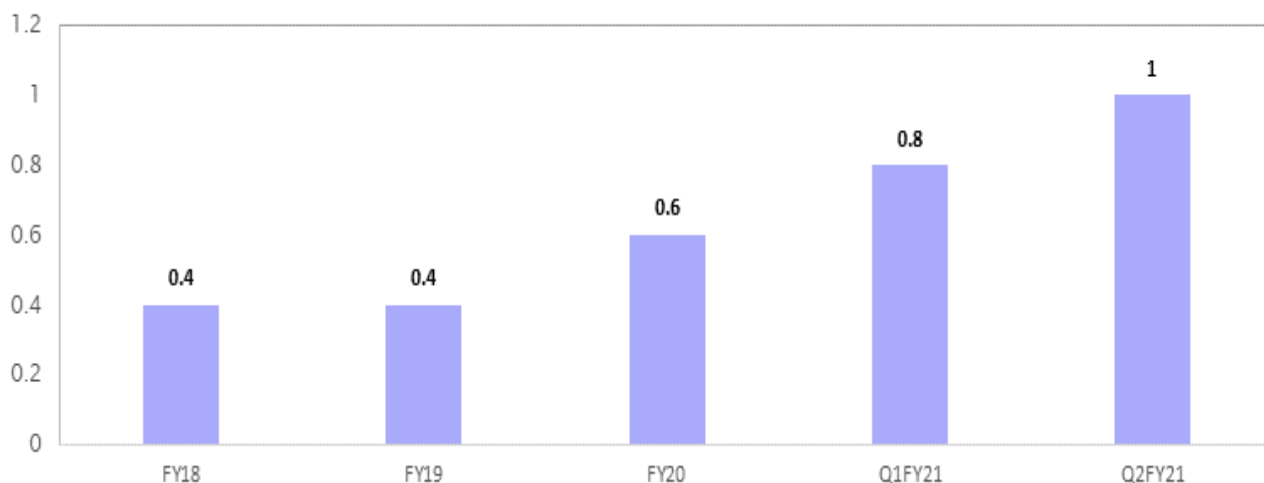
Source: Company, TRAI, Crisil Research, Dalal & Broacha Research

Addition of clients is important in the broking business, but increasing client activation is the most important.

As we have seen Angel is adding clients at an impressive rate, but they are also doing extremely well in client activation or in simple words encouraging them to do a transaction. **Giving them cashbacks on doing a trade, a gift or a scratch card or just reminding them constantly that they have a demat account and should do a trade is key.**

Exhibit 10

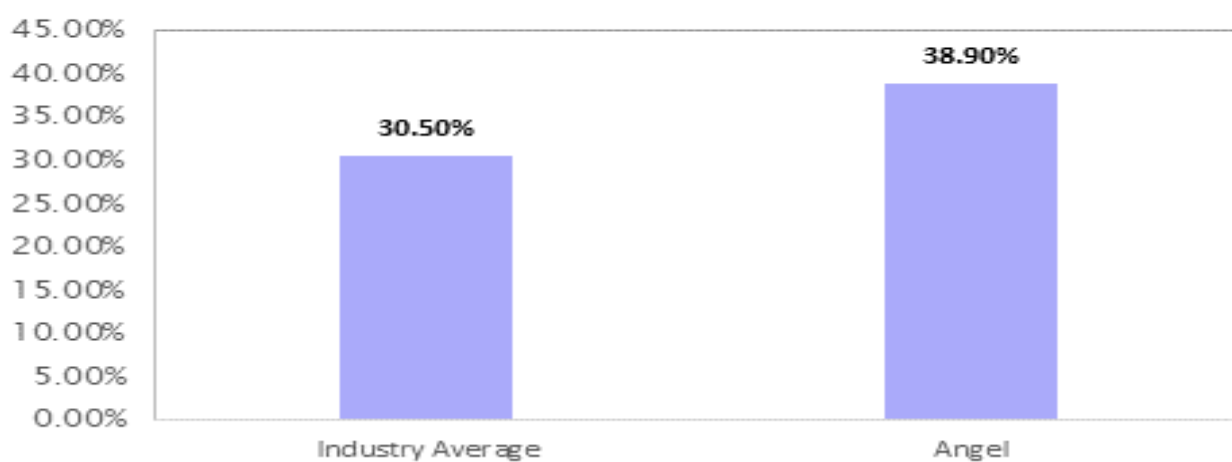
Angel's NSE Active Clients (In Million)



Source: Dalal & Broacha Research

Exhibit 11

Outperforming Industry in Client activity (Q2FY21)

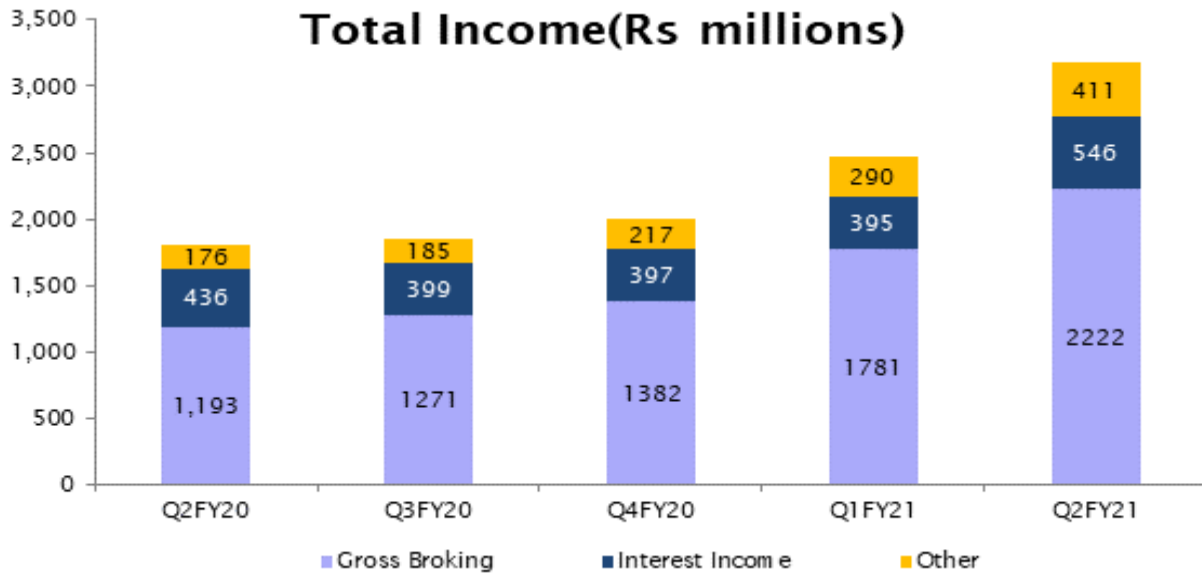


Source: Dalal & Broacha Research

Strong Quaterly earnings momentum with decreasing cost to net income

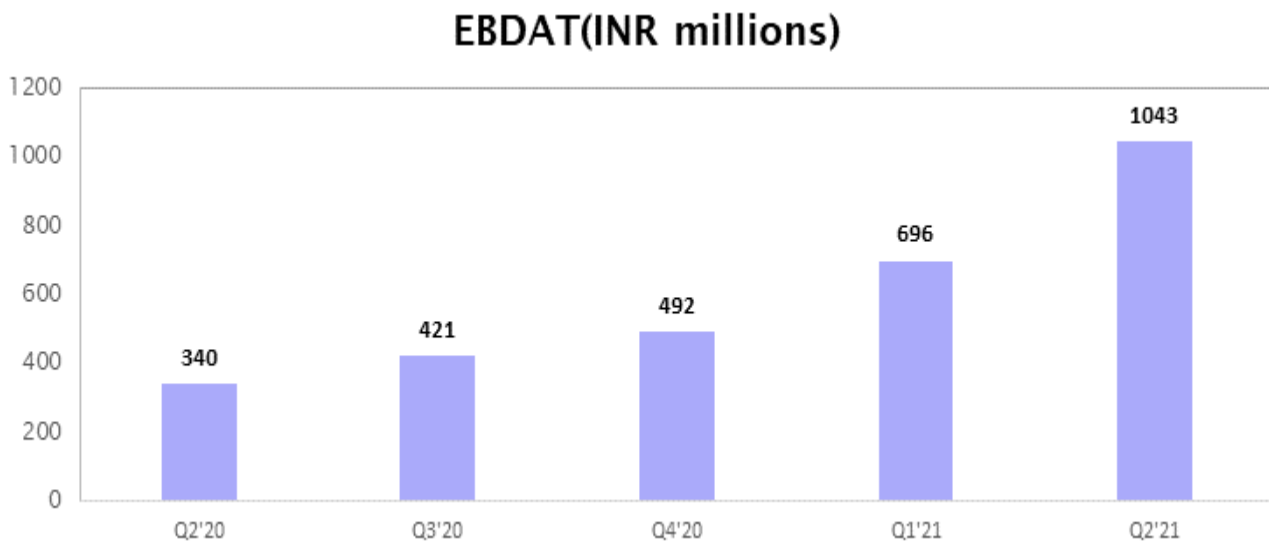
Angel Broking has posted very strong numbers upto H1'21 and we expect the strong trajectory to continue even in H2. There has been a 76% YoY and a 29% QoQ in total income in Q2'21. EBDAT margin has expanded from 30% in Q2'20 to just over 49% in Q2'21 and has managed to post an EPS of 14.9 for H1'21 compared to full year EPS of 12 for FY20.

Exhibit 12



Source: Dalal & Broacha Research

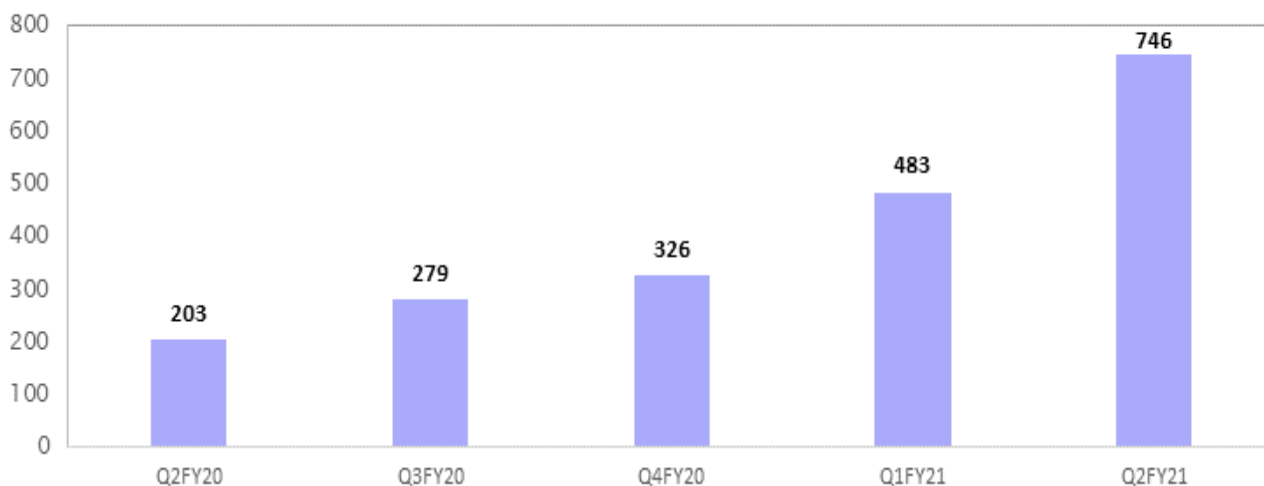
Exhibit 13



Source: Dalal & Broacha Research

Exhibit 14

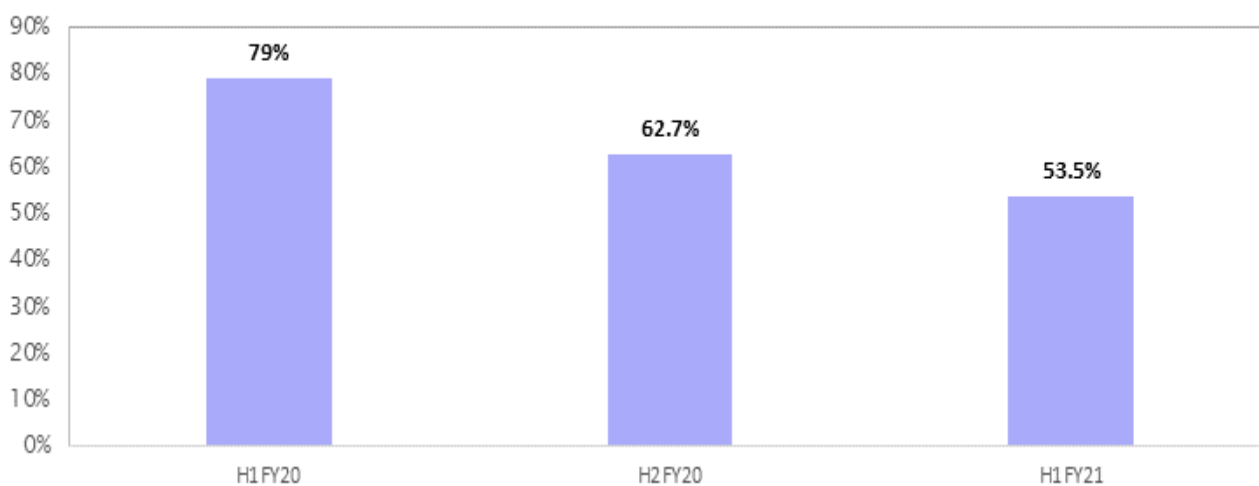
Profit After Tax(Rs millions)



Source: Dalal & Broacha Research

Exhibit 15

Cost to Net Income



Source: Dalal & Broacha Research

Brokerage rates of various major brokerages across products (As on September 2020)

Exhibit 16

Brokerages	Delivery	Intraday	Futures	Options	Commodity
Angel Broking	0	Rs 20	Rs 20	Rs 20	Rs 20
Zerodha	0	Rs 20	Rs 20	Rs 20	Rs 20
RKSV Securities	0	Rs 20	Rs 20	Rs 20	Rs 20
5 Paisa	Rs 20	Rs 20	Rs 20	Rs 20	Rs 20
Axis Securities	0.50%	0.05%	0.05%	Rs 100 per lot	Rs 100 per lot
Axis Securities(tiered plan)	0.25%	0.03%	0.03%	Rs 50 per lot	Rs 50 per lot
Kotak Securities	0.49%	0.049%	0.049%	Rs 300 per lot	Rs 300 per lot
HDFC Securities	0.50%	0.05%	0.05%	Rs 100 per lot	Rs 100 per lot
Motilal Oswal	0.50%	0.05%	0.05%	Rs 70 per lot	0.05%
IIFL Securities	0.50%	0.05%	0.05%	Rs 100 per lot	Rs 100 per lot
ICICI Securities	0.55%	0.275%	0.05%	Rs 95 per lot	Rs 95 per lot
ICICI Securities(tiered plan-1)	0.25%	0.025%	0.025%	Rs 35 per lot	Rs 35 per lot
ICICI Securities(tiered plan-2)	0.25%	0.025%	0.025%	Rs 20 per lot+ Rs 5 per lot	Rs 20 per lot+ Rs 5 per lot

Source: Dalal & Broacha Research

Peer comparison

Exhibit 11

Brokerages	Active Clients Share as on FY20(%)	Active Clients Share as on June 2020(%)	CAGR FY19-20(%)	CAGR(Fy15-20)(%)	Rank based on monthly incremental active client(April-20 to June20)	Number of Authorized Person(as on Fy20)	Fy20 Total Income(Rs mn)	3 year CAGR Income(Fy17-Fy20) (%)	FY20 PAT (Rs mn)	3 year CAGR PAT(Fy17-Fy20) (%)
Angel Broking	5.34	6.29	39.5	29	2	13971	7599	11	823	38
Zerodha	13.1	15.92	55.5	116	1	NA	NA	NA	NA	NA
ICICI Securities	9.97	9.17	27.4	13	6	1017	17221	7	5367	17
RKSV Securities	5.73	6.38	519	145	3	NA	NA	NA	NA	NA
India Pvt. Ltd.										
HDFC Securities	6.67	6.14	7.1	16	9	NA	8623	16	3842	21
Kotak Securities	5.3	5.2	30.5	16	5	3238	16900	11	5550	15
5 Paisa Capital	4.02	4.64	309	237	4	NA	1081	NA	NA	NA
Motilal Oswal	3.49	3.38	18.1	20	7	5776	NA	NA	NA	NA
Financial Services										
Axis Securities	2.5	2.48	-35	18	8	217	NA	NA	NA	NA
SBI Cap Securities	2.32	2.21	19.6	17	10	6	4959	26	849	48
India Infoline	2.03	1.93	2.3	-5	11	3969	6437	8	1426	23
Edelweiss Broking	1.2	1.11	8.3	23	12	2232	NA	NA	NA	NA
Reliance Securities	1.1	0.97	-0.8	1	15	2343	2083	0	-388	NA
Aditya Birla Money	0.4	0.38	-2.3	0	13	1738	1737	12	120	25
JM Financial	0.37	0.35	11.1	8	14	837	NA	NA	NA	NA

Source: Dalal & Broacha Research

Risks in the business

- Relies heavily on broking and related services business for a substantial share of revenue and profitability. Any reduction in its brokerage fee could have adverse effect on the business.
- The operation of Angel's businesses is highly dependent on information technology and ABL is subject to risks arising from any failure of, or issues in its IT systems.
- Increase in competition and pricing can affect rate of new client addition.

Promoter and Management

44.56% is owned by the promoters, Mr Dinesh D Thakkar, Mr Ashok D Thakkar and Ms Sunita A Magnani. There is no pledged holdings. Mr Dinesh D Thakkar is the Chairman and Managing Director of our Company. He has over 25 years of experience in the broking industry. Mr Vinay Agarwal is a Whole Time Director and Chief Executive Officer of Angel. He has over 18 years of experience in the broking industry.

Valuation and Outlook

Capital market participation is extremely low in India. Angel Broking is a well-established player and is highly nimble. Although the company will continue to face competition, it's used technology in an impressive way to achieve scale. **We have also taken a conservative** growth rate of its operational client base at CAGR ~32% between FY21-23E.

We initiate coverage on Angel Broking Ltd with a BUY rating giving a P/E multiple of 13x on FY22E EPS to arrive at target price of Rs 528 i.e. upside of 48%.

Company Financials

Profit & Loss Statement (in INR Million)	FY 18	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Income from operations	7643	7580	7246	11233	13076	17407
Other Income	157	261	301	316	332	348
TOTAL	7800	7841	7547	11549	13407	17755
Growth (%)		1	-4	53	16	32
EXPENDITURE :						
Finance Costs	946	684	489	460	529	609
Fee and Comission Expense	2464	2420	2304	3572	4158	5536
Operating Expenses +	2693	3304	3189	3508	3684	3868
Provisions & Contingencies +	97	152	377	554	593	636
TOTAL	6200	6559	6359	8095	8964	10648
Operating Profit	1697	1433	1565	4009	5036	7743
Growth (%)		-16	9	156	26	54
PBT	1600	1282	1188	3455	4444	7107
Tax	502	448	320	867	1115	1784
Net Profit for the year from continuing operations	1098	834	868	2588	3328	5323
Loss after tax on discontinued operations	-27	-36	-44	-11	0	0
Profit for the year	1071	798	824	2577	3328	5323
Growth (%)		-25	3	198	29	60
EPS (Rs)	15	12	12	32	41	65
DPS (Rs)	3	3	3	11	10	16

Balance Sheet (INR Million)	FY 18	FY 19	FY 20	FY 21E	FY 22E	FY 23E
CAPITAL AND LIABILITIES						
Capital	720	720	720	818	818	818
other equity	4016	4594	5194	9880	12376	16369
Borrowings	11374	8718	4909	6136	7056	8115
Trade Payables	6147	6378	9395	11233	13076	17407
Provisions	44	52	67	112	131	174
Tax Liabilities	2	3	0	1	1	2
Other Liabilities & Provisions	1484	1620	1616	5247	5839	6476
TOTAL	23787	22085	21902	33428	39298	49359
ASSETS						
Cash	1230	4470	6132	14047	18879	27599
Balances with Banks & money at Call	8217	5390	8003	9434	10371	11403
Trade Receivables	1568	2146	390	562	654	870
Investments +	56	149	353	50	50	50
Loans	10924	7617	2806	5539	5927	6362
Fixed Assets +	1065	1063	1039	935	841	757
Other Assets +	726	1250	3179	2861	2575	2317
TOTAL	23787	22085	21902	33428	39298	49359

Operational Data	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operational Client Base(millions)						
Opening Balance		1.06	1.29	1.82	3.82	4.95
Gross Adds		0.26	0.56	2.03	1.15	1.73
Churn		0.03	0.03	0.03	0.01	0.01
Closing Balance	1.06	1.29	1.82	3.82	4.95	6.67
Brokerage Income	4785	5014	5039	10572	12381	16678
Brokerage Income per Operational Cl	4514	3887	2769	2769	2500	2500

Angel's ADTO* (Rs. Bn.)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21E
Overall	253	358	450	582	619	1281	2261
F&O	198	290	369	492	511	1129	2120
Cash	26	27	32	33	58	69	61
Commodity							60

Disclaimer

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