

17 July 2024

India | Equity Research | Q1FY25 Result Review

Angel One

Financial Services

Business execution remains strong; long-term opportunity makes risk reward favourable at current valuations despite regulatory overhang

Angel One's business execution remains strong, underlined by increasing share in cash volumes (16.6%), share in F&O volumes (20.4%), share in active NSE clients (15.6%), growth in MTF book (160% between June'23 and Jun'24), and prospects of new business segments such as AMC, wealth management and other financial services. As such, despite possible regulatory overhang on option volumes, we remain constructive on the earnings growth opportunity coupled with the prospect of higher investor returns, basis current valuations (12x FY26E EPS). Key risks include any regulatory changes which may reduce participation in capital markets.

Maintain BUY with a revised TP of INR 2,800

We maintain our valuation multiple of 15x on Angel, basis its strong business execution well-summarised by share in cash volumes (16.6%), share in F&O volumes (20.4%), share in active NSE clients (15.2%), exhibited growth in MTF book (160% between June'23 and Jun'24) and prospects of new business segments like AMC, Wealth management and other financial services.

We estimate average daily orders of 7.6mn/9.2mn in FY25/26 vs 7.6mn in Q1FY25. We estimate net broking revenue to be INR 27.8bn/34.4bn in FY25/26 vs. INR 6.8bn in Q1FY25. We estimate average MTF book for to be INR 35bn/45bn in FY25/26 (vs INR 30bn in Jun'24) and total interest income to be INR 12.8bn/15.8bn in FY25/26E vs. INR 2.9bn in Q1FY25. Post-Sep'24, Angel's income from spread on exchange fees and depository fees will cease to exist. We factor this into our estimates and include a small rate hike in broking fees, which we expect the company to take in due time. We estimate gross broking blended rate to rise to INR 15.5/16 per order in FY25E/FY26E vs. INR 15 in Q1FY25.

Our FY25E/26E EBITDA margins stand at 44.5%/44.6% vs. 46.8% in FY24. We estimate PAT of INR 14.4bn/16.8bn in FY25/26. We value Angel on a 15x multiple on FY26E EPS of INR 187 (earlier INR 231) to arrive at a TP of INR 2,800 (earlier INR 3,469)

The cut in earnings is a result of a decline in orders per gross customer – from 63 orders per client in FY24 to 58/52 orders per client in FY25E/26E. We also expect customer addition to be lower than our earlier expectation. We factor customer additions of 10mn/12mn in FY25/26E (earlier 14mn/18mn in FY25/26E). Some of these cuts are partially offset by lower opex (declining from 53% of net revenue in FY24 to 52%/51% in FY25E/26E). We believe these are conservative estimates basis past track record and available levers of cost reduction.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Gross Revenue (INR mn)	30,016	42,716	57,428	66,818
Net Income (INR mn)	8,902	11,255	14,405	16,776
EPS (INR)	105.1	134.0	160.3	186.7
% Chg. YoY	42.4	26.4	28.0	16.5
CEPS (INR)	108.7	139.9	170.3	198.9
EBITDA Margin (%)	52.9	46.8	44.5	44.6
P/E (x)	21.2	16.6	13.9	11.9
Dividend Yield (%)	1.8	1.6	-	2.9
RoCE (%)	39.8	27.0	22.6	22.6
RoE (%)	47.5	43.3	23.7	25.1

Ansuman Deb

ansuman.deb@icicisecurities.com
+91 22 6807 7312

Shubham Prajapati

shubham.prajapati@icicisecurities.com

Sanil Desai

sanil.desai@icicisecurities.com

Market Data

Market Cap (INR)	200bn
Market Cap (USD)	2,393mn
Bloomberg Code	ANGELONE IN
Reuters Code	ANGB BO
52-week Range (INR)	3,900 /1,446
Free Float (%)	57.0
ADTV-3M (mn) (USD)	20.2

Price Performance (%)	3m	6m	12m
Absolute	(22.2)	(33.4)	29.9
Relative to Sensex	(32.9)	(43.7)	7.7

Earnings Revisions (%)	FY25E	FY26E
Revenue	-9%	-13%
EBITDA	-8%	-18%
EPS	-10%	-19%

Previous Reports

19-04-2024: [Q4FY24 results review](#)

18-01-2024: [Q3FY24 results review](#)

Orders remain robust in Q1FY25 at ~462mn; delivery-based orders (~61mn) provide opportunity to offset ancillary revenue loss impact

After a strong Q4FY24, the number of orders declined marginally by 2% but remained robust at 462mn in Q1FY25. F&O orders stood at 348mn while cash orders stood at 97mn in Q1FY25. Out of the 97mn cash orders, 36mn were intraday cash orders while 61mn were delivery cash orders. Average daily orders remained stable at 7.6mn. Gross broking revenue remained flattish at INR 9.2bn. Gross broking revenue accounted for 65% of total gross revenue for Angel One in Q1FY25 vs. 68% in Q4FY24. F&O contributed 84% of total broking revenue; cash/commodity contributed 11%/4%. Net broking revenue stood at INR 6.8bn in Q1FY25 vs. INR 6.9bn in Q4FY24. Blended rate on net revenue (considering total orders) increased marginally to INR 14.72 per order vs. INR 14.56 in Q4FY24. Blended rate on net revenue (ex-delivery orders) inched up to INR 16.96 per order vs. INR 16.81 in Q4FY24.

Considering delivery is 63% of cash orders (higher than industry), monetisation of these orders (currently they are free) presents significant room for countering the impact of “true to label” regulation. For example, effectively charging ~INR 16 per order on cash deliveries in Q1FY25 would have generated revenue of ~INR 1bn vs. rebate-based ancillary revenue of INR 1.1bn in Q1FY25.

Strong growth in MTF book (89% end-to-end in Q1FY25) without increase in borrowings for Angel One is driven by QIP fund raise in Apr'24

Average MTF book for Angel One increased 29.4% QoQ to INR 26.3bn. However, exit MTF book at end-Jun'24 touched INR 34bn. Borrowings for Angel One declined from INR 25.4bn in Q4FY24 to INR 22.5bn in Q1FY25. This strong growth in MTF book (end-to-end growth of 89% in Q1FY25) and reduction in borrowings (12% QoQ) was possible from QIP fund infusion which enabled the company to reduce borrowing for margin obligations and redirect that borrowing capacity towards increasing MTF book.

Angel One also experimented with differentiated MTF pricing, which resulted in blended yield ranging between 15% to 16%, from 18% in FY24. Angel One also made some innovations in its MTF book in terms of experience and product offering.

Total interest income for Angel One increased 19% QoQ to INR 2.9bn while the borrowing cost remained stable at INR 0.6bn.

EBITDA declines 12% QoQ in Q1FY25 due to IPL sponsorship costs; aims to maintain margin at 47–48% on steady-state-basis

Angel One witnessed 12% QoQ decrease in EBITDA to INR 4.2bn, mainly because of IPL sponsorship cost of INR 1.1bn. Full cost for IPL'24 has been recognised by Angel One in Q1FY25 and partly in Q4FY24. EBITDA margin also decreased to 37.7% in Q1FY25. Adjusted for IPL costs, EBITDA margin would have been 47.6%. Employee expenses were up 27% QoQ, at INR 2bn, driven by headcount increase in broking and wealth management businesses, increments and apportionment of variable pay.

In Q1FY25, Angel One also moved its process to new data centres. Depreciation and amortisation costs increased by 35% on a QoQ-basis to INR 226mn in Q1FY25. As this was the first full quarter post-capitalisation of data centre and disaster recovery sites in Q4FY24. In the conference call, management guided that they would continue to invest in brand building activities to amplify Angel One's brand and expect EBITDA margin to remain in the range of 47–48% on a steady-state-basis, notwithstanding any transient disruption from possible regulatory action. Angel One reported PAT of INR 2.9bn in Q1FY25 vs. INR 3.4bn in Q4FY24.

Management confident of overcoming possible regulatory challenges basis available internal levers and structural market under penetration

Over the last one-month, multiple regulatory changes have been proposed/expected, which can have a direct impact on Angel One. These regulatory changes include –

- Brokers to charge ‘true to label’ charges for clients
- Fewer weekly expiries
- Expected change in Lot sizes for F&O contracts
- NSE banning 1,000 scrips from being pledged as collateral.

In the Q1FY25 conference call, management opined and suggested possible course of action regarding these changes. In principle, management believes that the trading capital normally allocated by customers will not change, basis change in product design or frequency.

- True to label charges: Brokers, up until now, were earning a spread between exchange fees/depository charges charged from clients and the amount paid to exchanges and depositories. Angel One earned ~ INR 1.12bn from this in Q1FY25. Post Sep’24, this revenue stream will stop for Angel One as they will have to charge the clients the exact amount which they would pay to exchanges. To mitigate this impact, management said they have many levers including a price hike and charging F&O collateral fees.
- Expected change in lot sizes for F&O contracts: Media reports ([Link](#)) suggested that there could be a change in lot sizes for F&O contracts. No official circular or communication has come regarding this till date. Management expects limited impact from this, unless the change in lot size is extremely big. Management expects little reduction in volumes, as volumes did not increase materially post reduction in lot size of NIFTY/BANKNIFTY contracts.
- NSE banning 1,000 scrips from being pledged as collateral: NSE recently banned 1,000 stocks from being pledged as collateral. Angel One allows clients to pledge any stock as collateral and bears the cost if the exchange does not accept that stock. Management said they are internally evaluating this and should if they find it necessary to pass certain charges to customers, they would take appropriate call.

Historical cash volume trends could provide a roadmap for potential F&O volume trends in case of regulation changes

Two major regulatory changes pertaining to cash volumes have happened in the last few years. They are – 1) implementation of peak margin norms was started on 1st Dec'20 and completed on 1st Sep'21; and 2) SEBI's 50:50 margin rule being implemented Aug'22 onwards.

Before the implementation of peak margin norm in Dec'20, total cash ADTV on NSE and BSE was in the range of INR 600–700bn. Post the regulations, cash ATDV slowly dropped to the range of INR 500–600bn. However, over the next 1–1.5 years, cash ADTV is now above INR 1trn since Dec'23. One of the main reasons for increase in cash volumes was increasing investor participation. Annual individual investor participation in cash segment increased from 7.5mn in FY19 to 30.7mn in FY24. In the F&O segment, annual individual investor participation increased from 1.2mn in FY19 to 9.6mn in FY24.

Looking at this cash trend, of dip and resurgence, there is a possibility that option volumes can also overcome from a transient impact from regulations. However, it all depends on the severity of the regulations and as such remains a risk. (Refer exhibit 2–4)

Management commentary on new business

Wealth Management: Management believes there is strong tailwind in the emerging HNI/UHNI segment in India. Angel has hired people with strong domain expertise for WM business to tap this opportunity. The company will focus on emerging HNI segment, HNI segment and UHNI segment. In order to reach emerging HNI, management believes strong technology is necessary and company is working towards that with a separate technology team for wealth management business. Angel is expanding its wealth management team and has instituted an advisory council and Think Tank with renowned industry expert. The company aims to focus on product innovation across diversified verticals to cater a wider spectrum of clients by leveraging technology. Wealth management business will be omni channel implying digital as well as relationship manager mode. The company has already done registration with AMFI for MF distribution.

AMC business: Angel One is still waiting for approval from SEBI in the AMC business. No timelines were given by management but expect the same to be complete soon.

Lending Business: Angel One will be a distributor focusing on secured, unsecured products and credit cards over time. Currently unsecured Personal loans on beta testing phase for Angel One. No major approvals from RBI required as they are a distributor. Angel One will act as we act as a LSP (Lending Service Provider) for the lenders and are compliant with SEBI regarding the same.

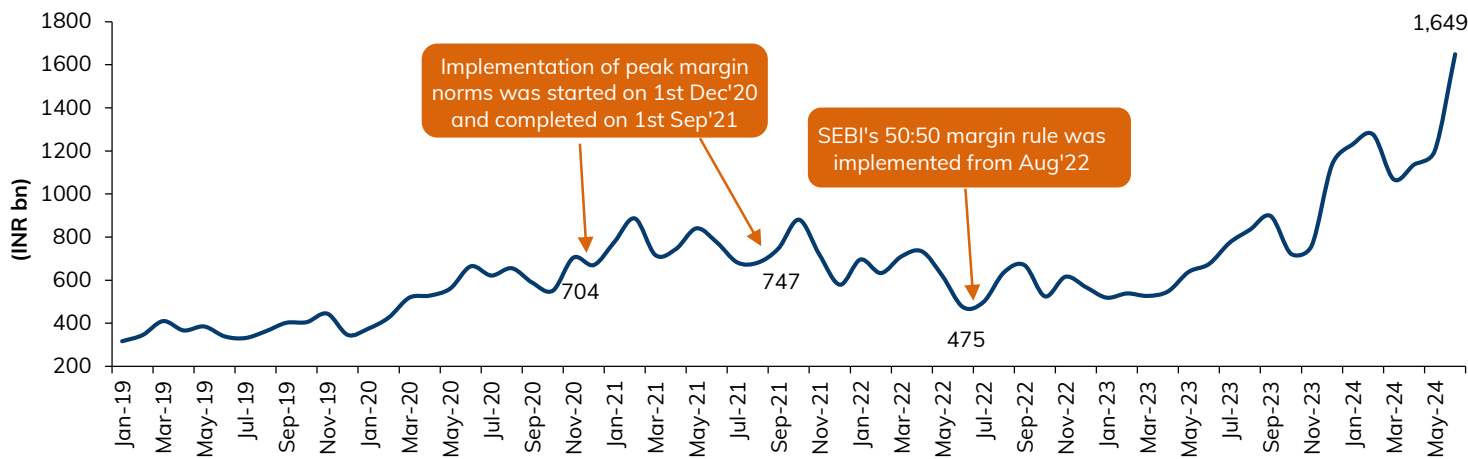
As per management, an impact of 0.6% is there on EBITDA margins (on net income) because of new businesses in Q1FY25.

Exhibit 1: Q1FY25 Result Review

INR (mn)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Net Interest income	2,388	1,265	89%	1,919	24%
Net brokerage income	6,801	3,952	72%	6,856	-1%
Net Broking Revenue Blended Rate	14.72	15.87	-7%	14.56	1%
Number of Orders	462	249	86%	471	-2%
Other Operating income	1,945	1,069	82%	1,835	6%
Total Income	11,134	6,286	77%	10,611	4.9%
Total Expenses					
Employee benefits	2,010	1,232	63%	1,587	27%
Impairment expenses	33	18	82%	31	6%
Others expenses	4,897	1,980	147%	4,238	16%
Total Expenses	6,940	3,230	115%	5,856	18%
EBITDA	4,194	3,056	37%	4,754	-12%
margins	37.7	48.6		44.8	
Depreciation	226	89	154%	167	35%
PBT	3,968	2,967	34%	4,587	-13%
Taxes	1,041	759	37%	1,188	-12%
Reported PAT	2,927	2,208	33%	3,399	-14%
Extraordinary	0	-		0	
Adjusted PAT	3,825	2,208	73.2%	3,627	5%

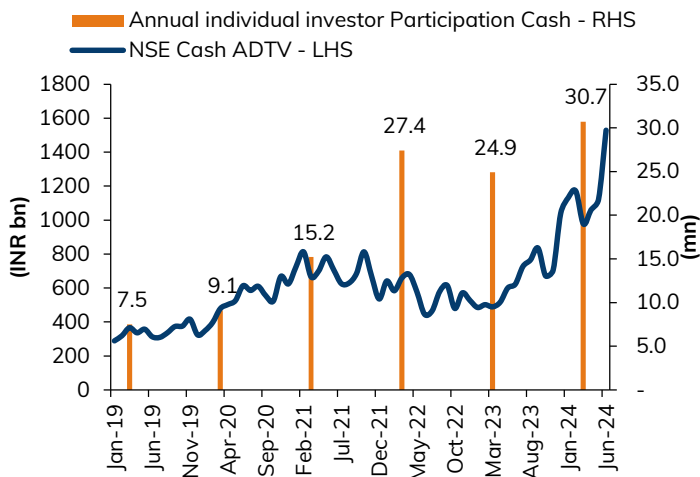
Source: I-Sec research, Company data

Exhibit 2: Cash ADTV witnessed a dip from INR 747bn in Sep'21 when peak margin regulation was implemented, but slowly volumes have surged back again with volumes above INR 1trn since Jan'24



Source: I-Sec research, NSE, BSE

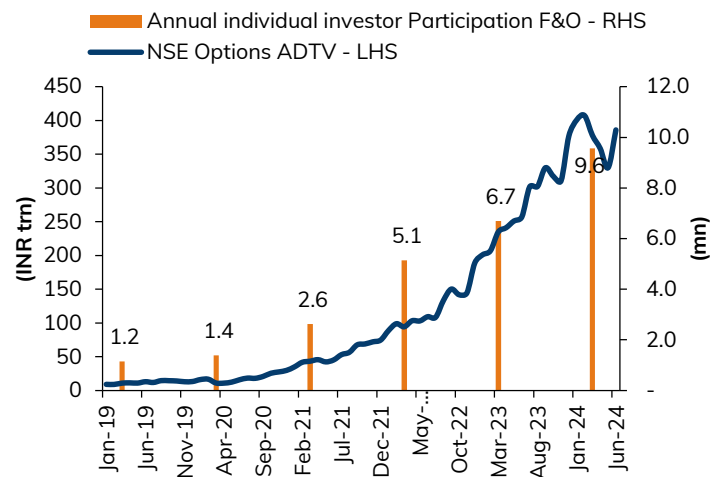
Exhibit 3: Investor base has also increased with rising cash volumes



Source: I-Sec research, NSE

Note: Annual individual investors are total number of investors who traded at least once in that year. Eg: 30.7mn individual investors traded in FY24 in cash

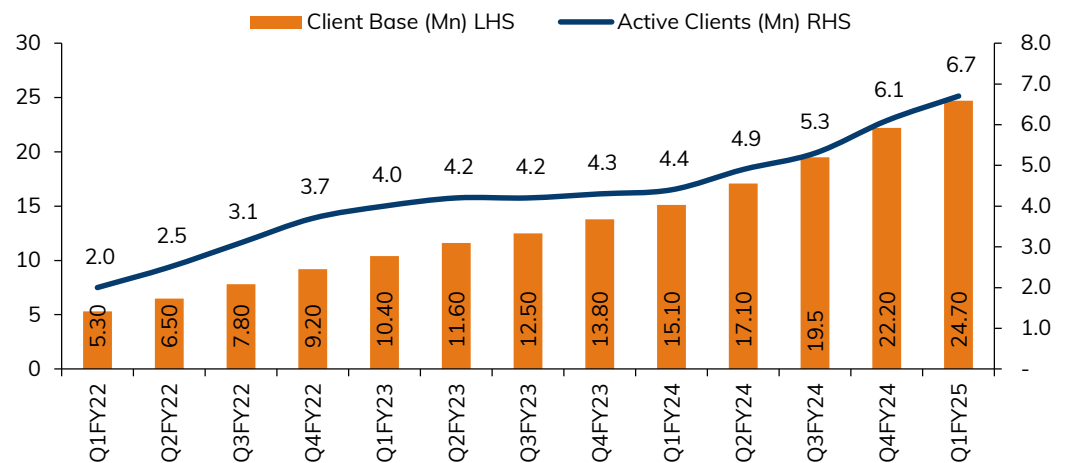
Exhibit 4: Investor base has also increased with rising options volumes



Source: I-Sec research, NSE

Note: Annual individual investors are total number of investors who traded at least once in that year. Eg: 9.6mn individual investors traded in FY24 in F&O

Exhibit 5: Q1FY25 had 2.5mn client acquisition



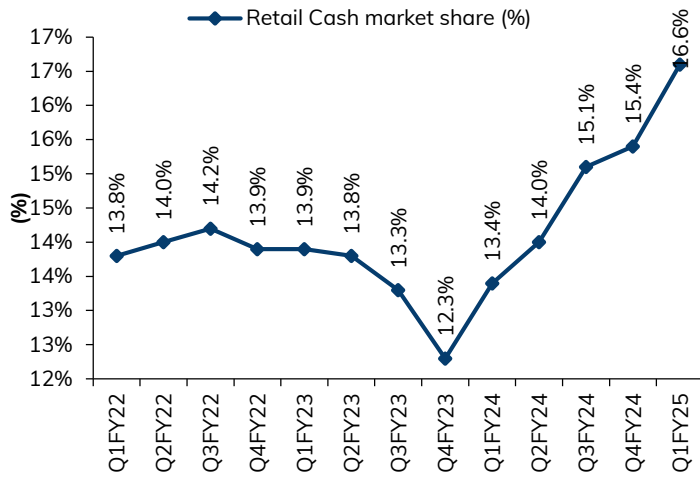
Source: I-Sec research, Company data

Exhibit 6: NSE active clients' market share

Market share (%)	FY23	Apr-23	May-23	Jun-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Nextbillion Technology	16.5	17.2	17.4	18.7	19.8	20.4	20.6	20.8	21.5	22.6	23.4	23.8	23.7	24.2	25.4
Zerodha Broking	19.6	20.2	19.9	20.6	20.2	19.9	19.8	19.4	19.1	18.8	18.4	18.2	17.7	17.5	17.8
Angel Broking	13.1	13.7	13.8	14.6	14.8	14.9	15.0	15.0	15.1	15.2	15.2	15.3	15.1	15.1	15.6
RKSV Securities India Private	8.8	7.1	6.8	7.0	6.8	6.7	6.7	6.6	6.5	6.4	6.4	6.3	6.1	6.0	6.2
ICICI Securities	7.1	7.2	6.8	6.8	6.2	5.9	5.7	5.5	5.3	5.0	4.8	4.6	4.5	4.4	4.4
HDFC Securities	3.3	3.4	3.3	3.4	3.2	3.1	3.0	3.0	2.9	2.8	2.8	2.7	2.7	2.6	2.7
Kotak Securities	2.8	2.9	2.9	3.1	3.1	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Motilal Oswal Financial Services	2.47	2.5	2.5	2.5	2.5	2.5	2.42	2.4	2.3	2.3	2.2	2.2	2.1	2.1	2.1
SBICAP Securities	1.6	1.7	1.7	1.9	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1
5Paisa Capital	2.0	2.0	1.7	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3
IIFL SECURITIES	1.5	1.5	1.5	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.0	1.0
Axis Securities	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Reliance Securities	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Aditya Birla Money	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
JM Financial service	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Geojit	-	-	-	-	-	-	-	-	-	0.6	0.6	0.6	0.6	0.6	0.6
Others	19.6	19.0	20.0	16.5	16.8	17.0	17.1	17.7	17.6	16.8	16.9	17.0	18.6	18.6	16.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

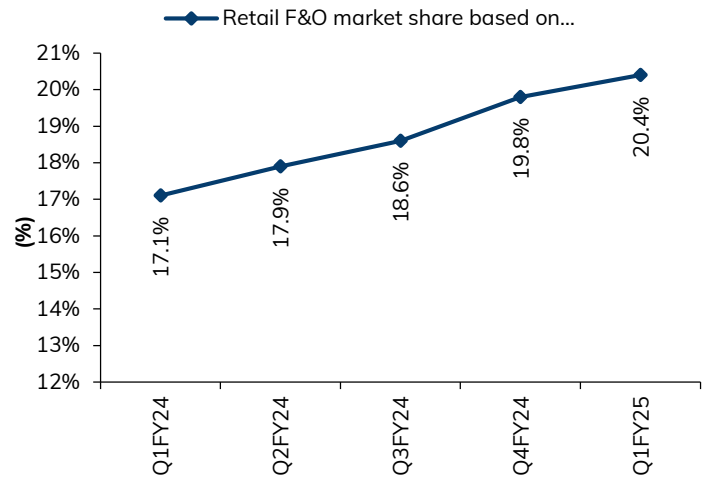
Source: I-Sec research, Company data

Exhibit 7: Angel's retail cash market share increased



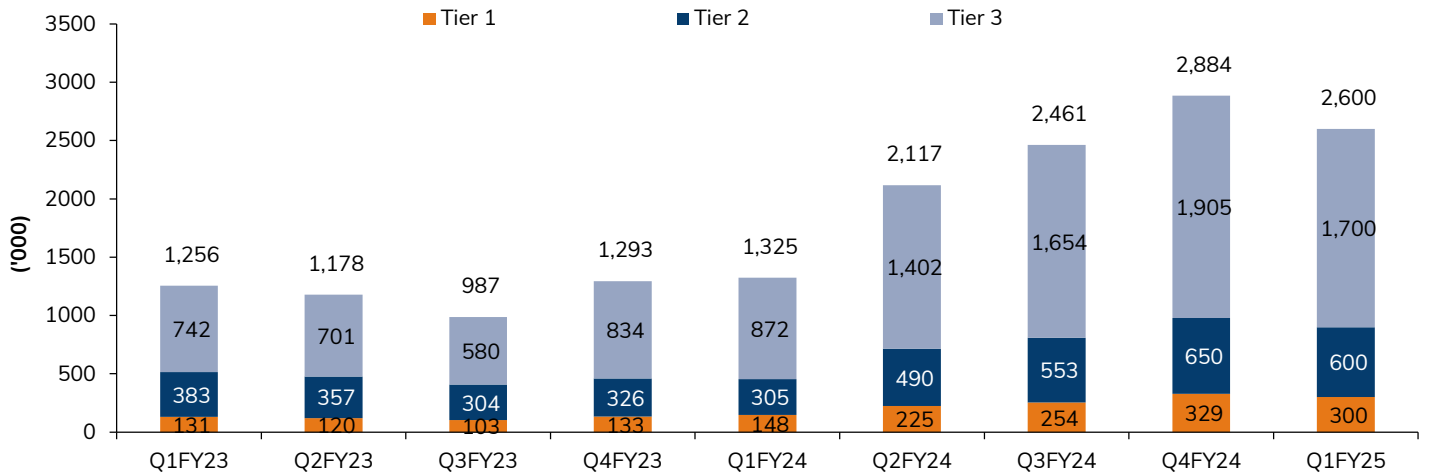
Source: I-Sec research, Company data

Exhibit 8: Angel's retail F&O market share, based on premium, increased



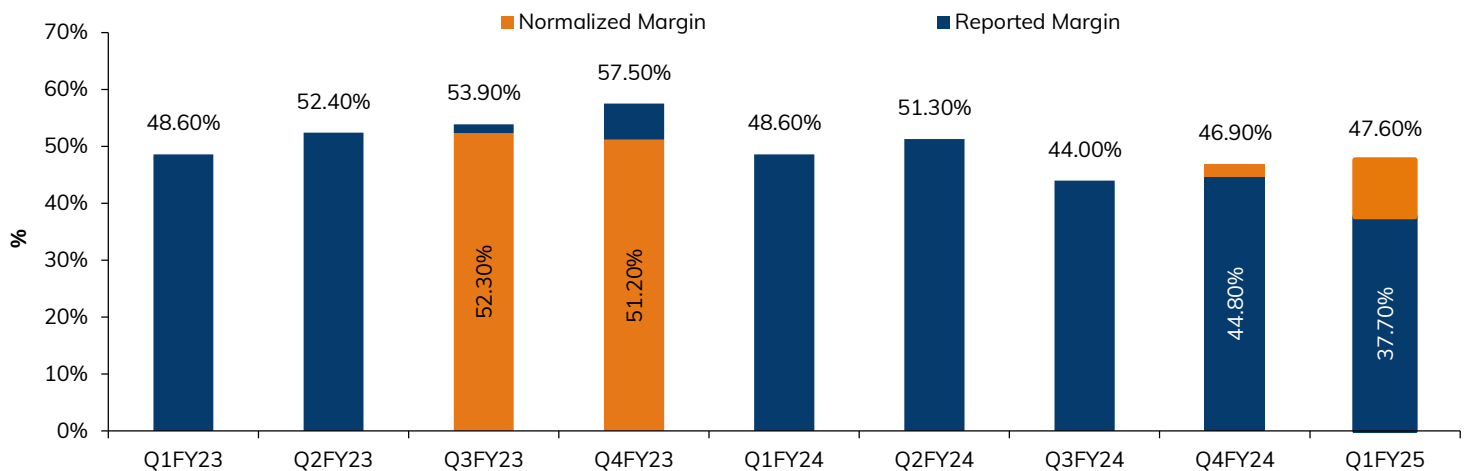
Source: I-Sec research, Company data

Exhibit 9: 89% of gross client addition contributed by tier-2/3 and cities beyond in Q1FY25



Source: I-Sec research, Company data

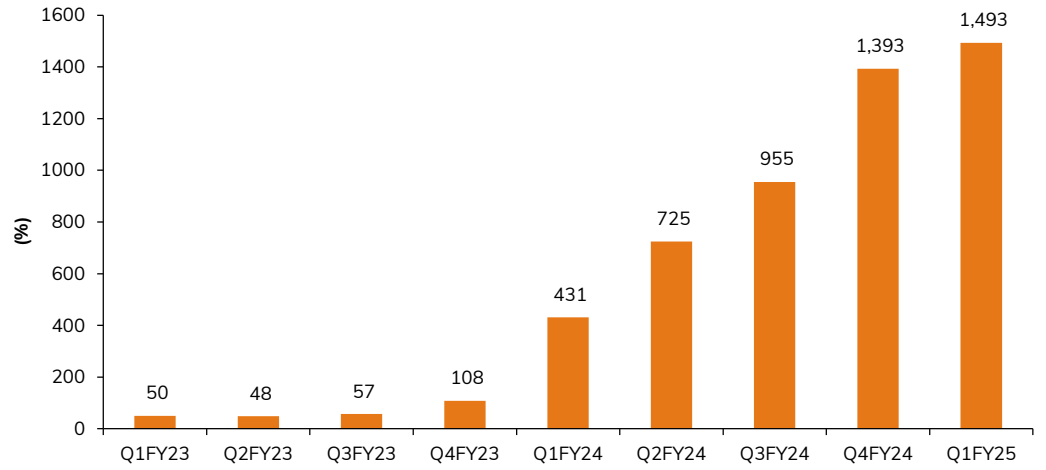
Exhibit 10: Consolidated EBITDA Margin



Source: I-Sec research, Company data

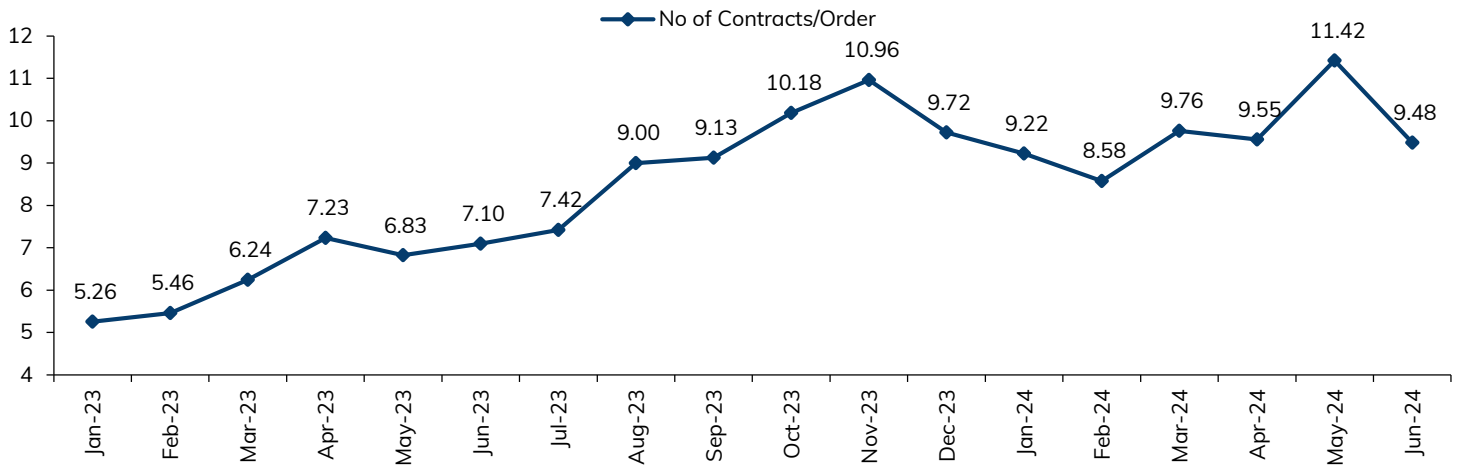
Note: Q4FY24 and Q1FY25 are normalized for IPL costs. Q3FY24 is adjusted for one time profit of INR 89.9mn on sale of property and Q4FY24 is adjusted for one-time positive impact of INR 405mn on account of reversal of - grants & variable pay provision

Exhibit 11: Angel registered more than 1.4mn new unique SIPs in Q1FY25



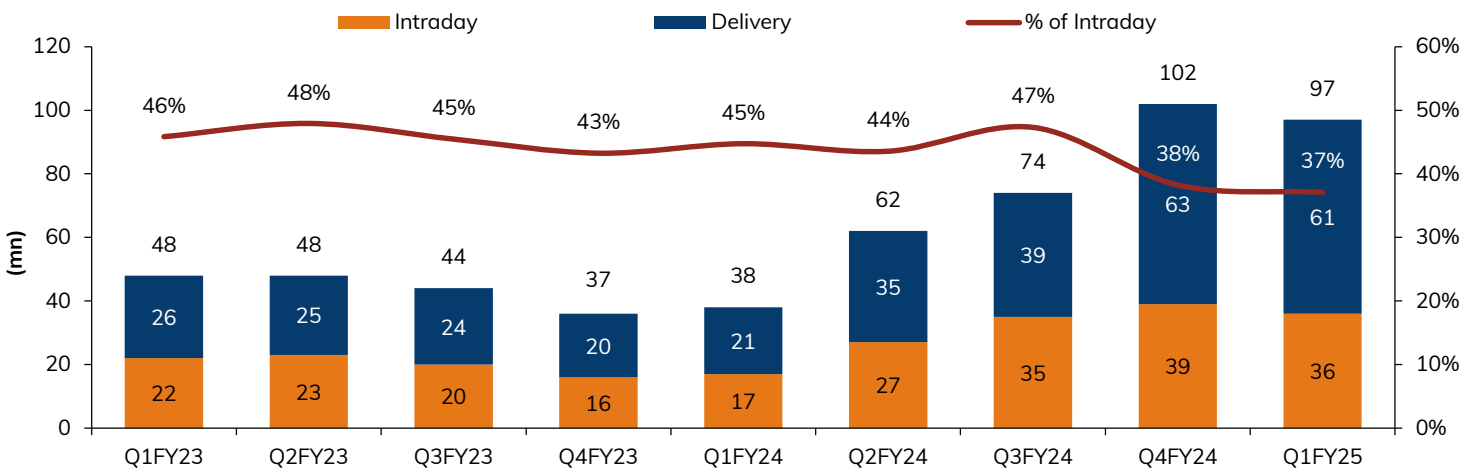
Source: I-Sec research, Company data

Exhibit 12: Number of contracts per order is increasing for Angel



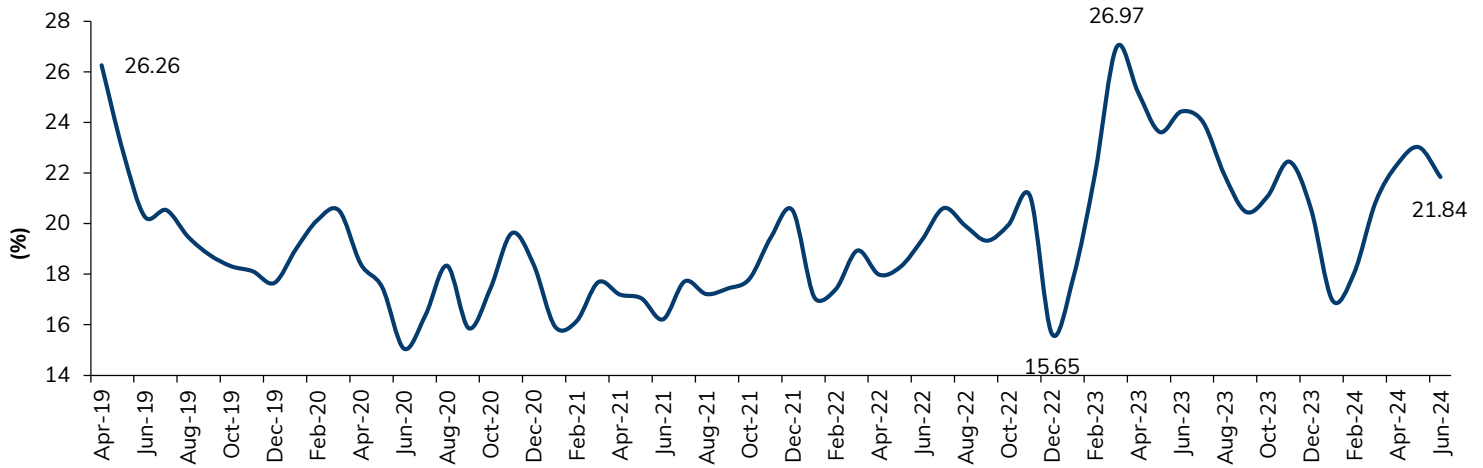
Source: I-Sec research, Company data

Exhibit 13: Angel's cash orders trend; delivery orders have seen strong increase in last two quarters



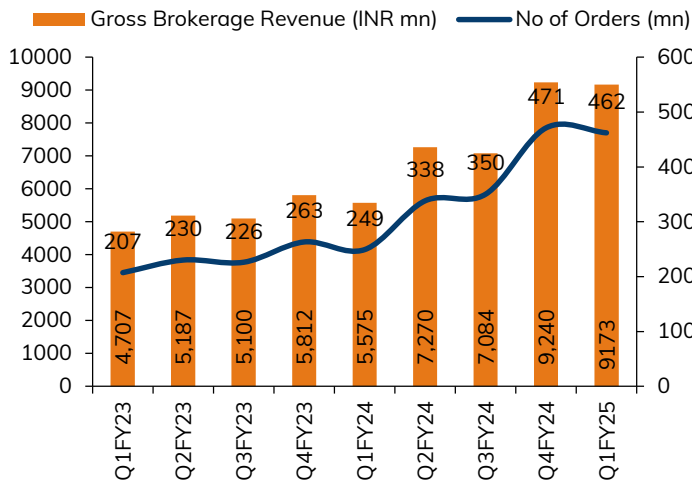
Source: I-Sec research, Company data

Exhibit 14: % of value of shares deliverable to value of shares traded for NSE



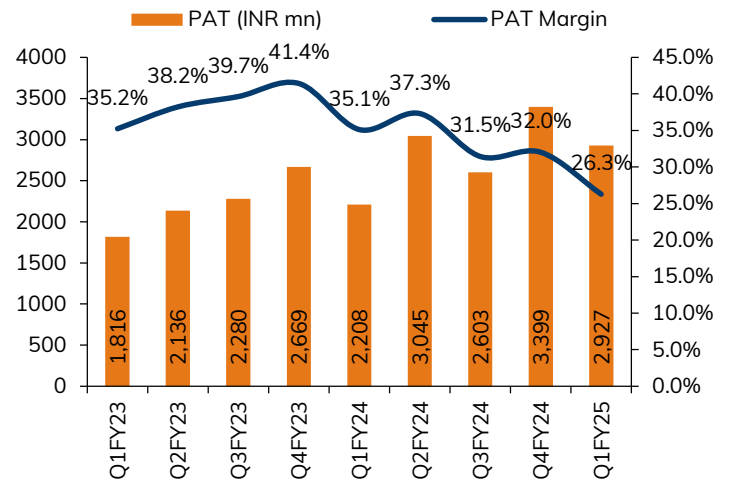
Source: I-Sec research, NSE

Exhibit 15: Angel's gross brokerage revenue and number of orders trend



Source: I-Sec research, Company data

Exhibit 16: Angel's PAT and PAT margin trend



Source: I-Sec research, Company data

Exhibit 17: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	38.3	38.2	38.2
Institutional investors	27.2	28.4	26.8
MFs and other	8.2	7.3	7.0
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	0.7	0.5	0.7
FIIIs	18.4	20.6	19.1

Source: Bloomberg, I-Sec research

Exhibit 18: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	22,714	33,250	45,676	52,975
Operating Expenses	10,689	17,695	25,350	29,345
EBITDA	12,025	15,555	20,326	23,630
EBITDA Margin (%)	52.9	46.8	44.5	44.6
Depreciation & Amortization	303	499	900	1,100
EBIT	11,723	15,056	19,426	22,530
Interest expenditure	-	-	-	-
Other Non-operating Income	-	-	-	-
Recurring PBT	11,918	15,137	19,426	22,530
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,016	3,881	5,021	5,753
PAT	8,902	11,255	14,405	16,776
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,902	11,255	14,405	16,776
Net Income (Adjusted)	8,902	11,255	14,405	16,776

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	60,515	1,11,822	2,48,805	2,90,894
of which cash & cash eqv.	54,911	98,443	2,15,021	2,35,538
Total Current Liabilities & Provisions	44,594	76,033	1,84,312	2,12,703
Net Current Assets	15,921	35,789	64,493	78,191
Investments	1,095	-	-	-
Net Fixed Assets	2,111	3,546	4,546	4,846
ROU Assets	38	56	56	56
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	331	493	493	493
Other assets	617	1,708	1,708	1,708
Deferred Tax assets	17	73	73	73
Total Assets	30,183	56,504	86,909	1,00,460
Liabilities				
Borrowings	7,872	25,353	25,353	27,000
Deferred Tax Liability	115	162	162	162
provisions	163	226	226	226
other Liabilities	417	377	377	377
Equity Share Capital	834	840	15,840	15,840
Reserves & Surplus	20,781	29,546	44,951	56,855
Total Net Worth	21,616	30,386	60,791	72,695
Minority Interest	-	-	-	-
Total Liabilities	30,183	56,504	86,909	1,00,460

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	15,765	29,548	1,02,878	25,341
Working Capital Changes	6,788	18,945	87,173	7,266
Capital Commitments	(862)	(1,596)	(1,000)	(300)
Free Cashflow	14,903	27,953	1,01,878	25,041
Other investing cashflow	(908)	1,095	-	-
Cashflow from Investing Activities	(1,770)	(501)	(1,000)	(300)
Issue of Share Capital	-	-	15,000	1
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(4,460)	17,481	-	1,647
Dividend paid	(3,374)	(2,997)	-	(5,872)
Others	-	-	-	-
Cash flow from Financing Activities	(7,834)	14,485	15,000	(4,224)
Chg. in Cash & Bank balance	6,161	43,532	1,16,878	20,817
Closing cash & balance	54,911	98,443	2,15,321	2,36,138

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
EPS(Basic Recurring)	105.1	134.0	160.3	186.7
Recurring Cash EPS	108.7	139.9	170.3	198.9
Dividend per share (DPS)	39.8	35.7	-	65.3
Book Value per share (BV)	255.3	361.7	676.4	808.8
Growth Ratios (%)				
Operating Income	31.0	42.3	34.4	16.4
EBITDA	41.6	29.4	30.7	16.3
Recurring Net Income	42.4	26.4	28.0	16.5
Recurring CEPS	41.7	28.7	21.7	16.8
Operating Ratio (%)				
Employee expenses/Sales	13.3	13.0	11.7	11.3
Opex & Other exps /Sales	22.4	28.4	29.5	29.4
Effective Tax Rate	25.3	25.6	25.8	25.5
D/E Ratio (x)	36.4	83.4	41.7	37.1
Valuation				
P/E	21.2	16.6	13.9	11.9
P/B	8.7	6.2	3.3	2.8
Dividend Yield	1.8	1.6	-	2.9
Return/Profitability Ratio (%)				
Recurring Net Income Margins	29.7	26.3	25.1	25.1
RoCE	39.8	27.0	22.6	22.6
RoNW	47.5	43.3	23.7	25.1
Dividend Payout Ratio	37.9	26.6	-	35.0
EBITDA Margins	52.9	46.8	44.5	44.6

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
