

Angel Broking Ltd.

SSIS IPO GRADE 4.5/5 (Sound Fundamentals)
21st September, 2020

Rating Overview

Angel Broking Ltd (Angel) is one of the largest independent full-service retail broking house in India in terms of active clients on NSE (June'20). Leading retail focused broking house with advanced technology: Angel is the 4th/2nd largest player in terms of NSE active clients/incremental NSE active clients as on June'20 (7.7lakhs/1.9lakhs).

It has pan-India presence through vast network of Authorised Persons and thus grew its client base at 37% CAGR over FY18-Q1FY21 to 2.2mn. Angel has enhanced the client engagement through process digitization and expansion of technological platforms. Infact, 85% of its clients in last one year were acquired digitally. Angel has also managed to increase its monthly average online order execution of direct clients to more than 99% in Q1FY21.

Angel provides various online and digital products (Angel Broking Mobile App & web, Angel SpeedPro and Angel BEE, powered by ARQ, a rulebased investment engine) and services including research and advisory, margin funding and loans against shares at no incremental cost. Angel has >43.9lakhs/ ~10lakhs downloads of its mobile app/ Angel BEE app as of June'20.

Over FY16-20, Angel's revenue/PAT grew at a CAGR of 13%/27%, led by 13%/6% CAGR in brokerage income/interest income. However, its financials were muted over last two years due to its investment in digitization of operations and improving its services.

At the higher end of the price band, the issue is valued at 29x FY20 P/E (fully diluted), which is seems fairly priced. We like Angel given its leading position in retail broking, robust technology platform and innovative offerings. Considering the sharp rise in retail participation top players are likely to gain market share.

The major risks for investors are concentrated revenues and clients of the company. It goes without saying that broking services are highly competitive and have low margins. Our overall rating of Angel Broking is fundamentally strong and it holds a fair valuation post issue. Investors pay a fair price and investors can purchase it for medium to long term share appreciation.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

Angel Broking Ltd. (ABL) is one of the largest retail broking houses in India in terms of active clients on NSE as of June 30, 2020 (Source: CRISIL Report). ABL is a technology-led financial services company providing broking and advisory services, margin funding, loans against shares (through one of its Subsidiaries, AFPL) and financial products distribution to clients under the brand 'Angel Broking'. Company's broking and allied services are offered through (i) its online and digital platforms, and (ii) network of over 11,000 Authorised Persons (the 'Authorised Persons'), as of June 30, 2020.

ABL had more than 4.39 million downloads of its Angel Broking mobile application and nearly 1 million downloads of Angel BEE mobile application as of June 30, 2020, which enable clients to avail services digitally. Digital marketing has enabled ABL to garner 398 million digital impressions in June 2020 on its various online and digital platforms. Its customer outreach spans across approximately 96.87% or 18,649 pin codes in India as of June 30, 2020. The company manages Rs. 132,540 million in client assets and over 2.15 million operational broking accounts as of June 30, 2020.

Company's primary focus is to profitably grow retail broking, margin funding and distribution businesses through online and digital platforms, 'Angel Broking Mobile App', 'trade.angelbroking.com', 'Angel SpeedPro', 'Angel BEE', which are powered by 'ARQ', a rule-based investment engine. It provides broking services through the various web, digital and .exe platforms, which are integrated with each other enabling clients to have seamless trading and investment experience, help to position ABL to benefit from the development of the Indian financial market, increased emphasis on digitalization and growth in returns from such financial investments made.

Company's online and digital platforms, along with its vast network of Authorised Persons enable the company to reach a large population of retail clients spread across India. This widespread reach has enabled it to enhance client base by 36.81% CAGR from 1.06 million in FY18 to 2.15 million as on June 30, 2020. Over the last one year, it has more than doubled overall turnover market share in the retail broking space in India.

Fundamental Overview

On the financial performance front, on a consolidated basis ABL has posted revenue/net profits of Rs. 779.99 cr. / Rs. 109.79 cr. (FY18), Rs. 784.11 cr. / Rs. 83.40 cr. (FY19) and Rs. 754.71 cr. / Rs. 86.79 cr. (FY20). For Q1 of FY21, it has posted a net profit of Rs. 48.26 cr. on revenue of Rs. 246.60 cr. For FY18-FY20 period, it posted a decline in the bottom line due to its investment in digitization of operations and improving its services offerings. It has started bearing fruits of investments, as can be seen in Q1 FY21 performance.

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For the last three fiscals, on a consolidated basis, ABL has posted an average EPS of Rs. 11.90 and an average

RoNW of 15.74%. The issue is priced at a P/BV of 3.45 based on its NAV of Rs. 88.77 as on June 30,, 2020 (based on upper price band). For the last three fiscals, ABL has distributed on an average Rs. 23.4 cr. as yearly dividend payouts.

If we attribute latest earnings on fully diluted equity post issue, then asking price is at a P/E of around 13 against peer group P/E of 31.30. Thus prima facie issue is reasonably priced based on latest earning parameters.

As per offer documents, ABL has shown ICICI Securities Ltd., Geojit Financial Services Ltd., IIFL Securities Ltd., Motilal Financial Services Ltd. and JM Financial Ltd. as its listed peers. They are currently trading at a P/Es of around 24.97, 15.45, 8.03, 33.05 and 52.87, (as on September 18, 2020 closing). However, they are strictly not comparable on an apple to apple basis.

Particulars	For the year/period ended (Rs in Million)			
	30 June 2020	31 March 2020	31 March 2019	31 March 2018
Total Assets	29,731.02	21,592.05	21,690.56	22,828.67
Total Revenue	2,440.86	7,427.79	7,626.47	7,536.55
Profit After Tax	381.83	866.24	766.94	1,010.52

Issue Details

To part finance its working capital (Rs. 230.00 cr.) and general corpus fund needs, ABL is coming out with a maiden IPO with a combo offer of fresh equity issue (Rs. 300 cr.) and offer for sale (Rs. 300 cr.). It consists fresh equity issue of approx 9803922 shares of Rs. 10 each (at the upper price band) and offer for sale of 9803922 shares. Thus the overall issue will be for approx. 19607844 equity shares. The issue opens for subscription on September 22, 2020, and will close on September 24, 2020. The company has fixed the price band of Rs. 305 - Rs. 306 per share. Minimum application is to be made for 49 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. ABL mulls mobilizing around Rs. 600.00 cr. (based on upper price band) through this IPO. Issue constitutes 23.97% of the post issue paid-up capital of the company.

Having issued/converted entire equity at par, the company raised further equity in the price range of Rs. 21.60 to Rs. 903.81 between November 2007 and March 2018. It has also issued bonus shares in the ratio of 4 for 1 in March 2018.

The average cost of acquisition of shares by the promoters/ selling stakeholders is Rs. 0.06, Rs. 0.10, Rs. 0.49, Rs. 0.67, Rs. 0.99, Rs. 2.08, Rs. 2.40, Rs. 6.48, Rs. 12.69, Rs. 13, Rs. and Rs. 115.58 per share. Post issue, ABL's current paid-up equity capital of Rs. 72.00 cr. will stand enhanced to Rs. 81.80 cr. With this issue, the company is looking for a market cap of Rs. 2503.05 cr.

The issue is jointly lead managed by ICICI Securities Ltd., Edelweiss Financial Services Ltd., and SBI Capital

Markets Ltd., while Link Intime India Pvt. Ltd. is the registrar to the issue.

Application Dates	Sep 22, 2020 – Sep 22, 2020
Issue Type	Book Built Issue FPO
Face Value	₹10 per equity share
IPO Price	₹305 to ₹306 per equity share
Market Lot	49 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹600.00 Cr)

Issue Timeline

Basis of Allotment Date	Sep 29, 2020
Initiation of Refunds	Sep 30, 2020
Credit of Shares to Demat Account	Sep 30, 2020
IPO Listing Date	Oct 1, 2020

Investment Strategy

ABL has geared itself for pure digital play in the securities market and become the largest retail broking firm in India. Considering rising trends for stock market investments and an increasing number of investors, this company is poised for bright prospects ahead. Investors may consider investment for the long term.