

January 19, 2024

To, The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai – 400001. Tel No.: 22721233 Fax No.: 22723719/22723121/22722037/ BSE Scrip Code: 540776	To, The Manager, Listing Department, The National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai – 400051. Tel No.: 2659 8235 Fax No.: 26598237 NSE Symbol: 5PAISA
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Dear Sir/Madam,

Sub:- Transcript of Earnings Conference Call on Unaudited Financial Results (Standalone and Consolidated) for the quarter ended December 31, 2023:

In continuation of our letter dated January 09, 2024 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of Earnings Call held on Friday, January 12, 2024 for discussing financial and operational performance of the Company for the quarter ended December 31, 2023 has been made available on the website of the Company at;

https://storage.googleapis.com/5paisa-prod-storage/files/investor_relations/2024-01/5%20Paisa%20Capital%20Limited%20Q3FY24%20Conference%20Call%20on%2012.01.2024.pdf

Kindly take the same on record and acknowledge.

Thanking You,
Yours faithfully,

For 5paisa Capital Limited

Namita Godbole
Company Secretary & Compliance Officer
ICSI Membership No.: A21056
Email ID: csteam@5paisa.com

5paisa Capital Limited



Spaisa Capital Limited
Q3 FY24 Earnings Conference Call

Event Date / Time : 12/01/2024, 14:00 Hrs.
Event Duration : 48 mins 33 secs

CORPORATE PARTICIPANTS:

Mr. Narayan Gangadhar

Managing Director and Chief Executive Officer

Mr. Gourav Munjal

Whole-Time Director and Chief Financial Officer

Q&A PARTICIPANTS:

1. **Devvrat Himatsingka** : Augmenta Asset Manager LLP
2. **Krishna Prasad** : Individual Investor
3. **Mitesh Kamdar** : Aditya Equity Investment
4. **Deepak Poddar** : Sapphire Capital
5. **Vivek Joshi** : Freeturns
6. **Dhaval Gada** : DSP
7. **Nagraj Chandrasekar** : Emerge Capital
8. **Thinnai Nema** : Rivean Capital

Moderator

Good afternoon, ladies, and gentlemen. I'm Soumya, moderator for the conference call. Welcome to 5paisa Capital Limited Q3 FY24 Earnings Conference Call. We have with us today, Mr. Narayan Gangadhar, MD and CEO of 5paisa Capital Limited; and Mr. Gaurav Munjal, Whole-Time Director and CFO, 5paisa Capital Limited. As a reminder, all participants will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Narayan Gangadhar, MD and CEO of 5paisa Capital Limited. Thank you and over to you sir.

Narayan Gangadhar

Hello everyone, good afternoon and welcome to our Q3 FY24 earnings call. On this call I'm joined with Mr. Gaurav Munjal, our Chief Financial Officer. Q3 has been a great quarter for investors and the broking industry. Nifty touched an all-time high and the overall industry saw an addition of more than 96 lakh demat accounts. The total demat accounts of the country stood at 13.93 crore. In Q3 FY24, we acquired 2.3 lakh customers reflecting a 71% growth QoQ and our total customer base has reached 39.6 lakhs. Further, our market share in incremental client acquisitions grew from 1.3% in Q2 FY24 to 2.4% in Q3 FY24.

During the past quarter, our total average daily turnover grew to INR 3.7 trillion and 80% YoY growth. Our average client funding book stood at INR 317 crore, a growth of 18% QoQ, and the mutual fund AUM reached INR 801 crore, a 20% QoQ growth. We are happy to report that we have achieved our lifetime highest revenue in Q3 FY24 of INR 100.3 crore, and our profit after tax stood at INR 15 crore, a growth of 37% YoY. Further, we have ended nine months FY24 with a revenue of INR 281 crore and our PAT stood at INR 48.6 crore, a growth of approximately 68% YoY.

This quarter has been a marquee quarter for our product. In the last earnings call I had outlined that we have undertaken a major initiative to overhaul our product and tech platform and I'm happy to report that we have taken significant steps in that direction. We have rebuilt and launched our entire product onboarding journey placing a strong emphasis on UI and UX. We have introduced industry-first features such as Reverse Penny Drop, Account Aggregator integrations and API optimizations to significantly speed up the onboarding process.

We enhanced the option chain by introducing support for various indices such as Sensex, Midcap Nifty and Fin Nifty alongside Nifty and Bank Nifty. We introduced bulk order modifications, a game changing feature which allows users to edit multiple orders simultaneously. This is a game changer for high volume traders, marking an industry-first launch. We also optimized our option chain journeys to support straddle

and bulk orders, allowing users to place multiple orders effortlessly with a single click directly from the option chain.

Last quarter, we had also discussed various initiatives which we have undertaken to overhaul our MarTech stack. This is critical to help us scale and acquire more customers digitally. This quarter, we successfully implemented an omni-channel communication strategy, tailoring interactions to users and preferred channels. We curated the client communication plan that included best practices in terms of content, channel and trigger time. Reducing the lead churn from 30 days to 7 days to connect with users very early in their onboarding journey has led to better conversions.

We have been actively focusing on scale while optimizing on lower funnel events such as buy-sell trades in F&O, cash, commodity segments. More such initiatives are underway as we build in the best-in-class digital engine to acquire customers at scale. As we discussed in the last quarter, we expect these initiatives to land in the coming quarter and also in the next quarter.

Finally, I want to end the call with restating that we are a technology-first company. We are going to continue investing in new technologies, especially in security, AI and data science, and build fresh product capabilities to further scale our digital enabled revenue pipeline. We will continue to invest in MarTech and augment our customer acquisition in coming quarters to set the stage for future growth.

With this, we would like to open the meeting to any questions from the audience. Thank you very much.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Our first question comes from the line of Devvrat Himatsingka from Augmenta. Please go ahead.

Devvrat Himatsingka

Hi sir, very refreshing to see a good set of numbers. I was not able to understand the ESOP bit and how you are continuously issuing new ESOP's and taking approvals for that. So, can you give us some guidance on what that looks like and what kind of expenses can be incurred because of that going forward, that would be very helpful. And sir, after you answer this, I'll just come to my next one.

Narayan Gangadhar

So, right now our ESOP, we had got it approved from the shareholders, and the same has not been granted to the seniors as of now. But currently it is approximately in the range of INR 60 lakh to INR 80 lakh in a quarter, which may increase going forward and because once it is granted, only then we can take into the finance and account.

Devvrat Himatsingka

Okay, so what kind of impact could we see this having on the employee costs? Like overall, if you can shed some light out there?

Gourav Munjal

So, that depends upon the numbers and the people who are going to be joined in future. So, once it is granted, but yes, we need to follow the Ind AS . But generally, in that case, major of the costing comes in first year and then it's reduced in second and third year.

Devvrat Himatsingka

Okay. Thank you, sir. One other question I have, like we are planning to move from T+1 to T+0, say by March, April. Do you think it can be seamlessly implemented and do you think this would increase volume significantly going forward?

Narayan Gangadhar

First of all, I think, yeah, it can be seamlessly implemented, but I don't see it impacting the volume. If anything, it impacts more, it does introduce slightly more liquidity in the market, but the measured impact is not really going to be that significantly high, but I do believe this is a good step forward in terms of clean governance.

Devvrat Himatsingka

No. Right, sir. Absolutely. And just one last question, sorry. How much free cash do you have on your balance sheet?

Gourav Munjal

So, it would be approximately INR 70 crore to INR 80 crores right now.

Devvrat Himatsingka

INR 70 crore to INR 80 crores?

Gourav Munjal

Yes.

Devvrat Himatsingka

Okay. Thank you so much, sir. If I have any questions, I'll come back in line. Thank you.

Gourav Munjal

Sure.

Moderator

Thank you. Our next question comes from Krishna Prasad, an individual investor. Please go ahead.

Krishna Prasad

Hello. Hi sir. Am I audible?

Narayan Gangadhar

Yes, you are.

Krishna Prasad

Hi sir. Good afternoon. Congrats on the good set of numbers. Sir, I want to know that your market share has reduced in this quarter. So, any reason, sir?

Narayan Gangadhar

What has reduced?

Krishna Prasad

Market share.

Narayan Gangadhar

So, over the past, if you look back at the history of 5paisa going back through the start of the year, right, from June of last year we actively were in a phase where we wanted to improve our digital efficiency. So, as a result of which, really the focus was on essentially achieving more profitability and getting the system to a state where we can again get back to scale. So, as a result of which, our goal was really not to acquire customers. See, it's very easy to throw money and get customers in the market. Everybody is doing it. There's no rocket science.

We believe that's not a strategy we want to pursue just yet. As a result of which, after I joined, we made an active decision to actually decelerate growth. So, whatever you see is completely planned. And I expect the market share to stabilize only in a few quarters, because it doesn't make sense to continue spending money when we are not able to get the ROI we want. So right now, the growth that I am reporting, that is coming at the right level of unit economics, which we can support. So, the key is going to be to scale that, and that's the reason why you see a deceleration. And you will expect to see this next quarter as well before we stabilize.

Krishna Prasad

Okay, sir. So, in the next eight months or next year, do we have any target in terms of OPM? OPM, operating margin at 30% in that manner. So, any guidance on that?

Narayan Gangadhar

See, we don't give any guidance on that, but this year, as I have said in the previous earnings call, this year and the subsequent quarters to come are going to be all about scaling and growth. So, there will obviously be new costs. There'll be costs in terms of client acquisition, there will be costs in terms of ESOP's. Those kinds of expenses, lot of which will be one-time in just getting the process and the build up to scale. So, I would say that, as of now we don't give any particular guideline, but we will obviously be within the same range as we have always been historically. I don't see that changing per se.

Krishna Prasad

Okay, sir. Thanks so much and all the best for your future.

Narayan Gangadhar

Thank you.

Moderator

Thank you. Our next question comes from Mitesh Kamdar from Aditya Equity Investment. Please go ahead.

Mitesh Kamdar

Hello. I had a question regarding the other expenses. There is a marked increase in other expenses this quarter. Any reason for the same?

Narayan Gangadhar

There is a?

Mitesh Kamdar

Marked increase in other expenses this quarter.

Narayan Gangadhar

Actually, as you see that advertisement cost is a part of other expenditure. And our acquisition has grown up from INR 1.35 lakh to INR 2.32 lakh. So yes, it is in the line of the acquisition.

Mitesh Kamdar

Okay. Fine. Thank you.

Moderator

Thank you. Our next question comes from Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar

Hello. Am I audible, sir?

Narayan Gangadhar

Yes.

Deepak Poddar

Thank you. First of all, thank you very much for this opportunity. Sir, I'm a little confused, I mean, in the sense. Now, you spoke about that we had planned to deaccelerate the market share, and at the same time our other expenses and advertisement cost is increasing and the number of client addition is also increasing. So, I'm not able to understand, I mean, at one time we are planning to deaccelerate market share and at the other time our cost is increasing and even our gross addition in clients is also higher. So, where is this mismatch we are talking about?

Narayan Gangadhar

Yes. So see, the gross are only increasing in this quarter. Okay. So, the decision to decelerate was taken around in June of last year. So, it's been going on for the last two quarters and only now we have decided to accelerate again. So, the cost increase you're seeing is from there. Now, because of this, what has happened is, because the reason we decelerated, it's very important to remember this, is that the reason for deceleration is because we wanted to improve our digital acquisition engine, we wanted to build the product journeys and we wanted to get that right. So, that is the conscious call. So, now we are at a point where we believe that in a quarter or so we will be ready to ramp up the engine and scale it further, and this quarter onwards, we have just started that work. That's why you see the cost going up and that's how you see the acquisition numbers where they are today.

Deepak Poddar

Okay. So, you do expect your market share, I mean, which has declined from 3.2% to 2.8% in this quarter to further decline in the fourth quarter, right?

Narayan Gangadhar

Yes, I do.

Deepak Poddar

And from first quarter you expect to see the upward trajectory in terms of your market share?

Narayan Gangadhar

Yes. And see, I also want to add one more point. Right? If you look at most businesses which are like ours, you will see that generally when the deceleration happens, you grow only at the rate at which you incrementally acquire customers. This is the rule of thumb. So, if you take any leading player, generally you will grow only at that rate, because no one has a secret sauce to acquire better customers than

anybody else. Whether it is us or the next two players above us, there is absolutely no differentiation in the acquisition engine whatsoever. So, whether you see 10 lakh acquisitions per month, 30 lakh or even 1 crore acquisitions per month, the reality is, it's ultimately just a financial game and nothing else more than that.

Now, the key is, to play that we have to get digitally highly-highly efficient, because the differentiator is who has a better engine, not who can invest more capital. So, the way we are approaching it is that because for 5paisa for many years we never invested in technology. We never really invested as much as we wanted. I mean, we always are a technology company, but it was not so much of a priority. So, the engine was not built to scale. But in these last six months, we have put a lot of effort in getting the engine back up where we believe now in a quarter or so, we will increase.

So, the deceleration is happening because of clients which have been acquired in the last quarter and the quarters before. Anybody who we have acquired now, we are seeing excellent performance from them, and we will see their impact only in the coming quarters, because generally it takes the client a quarter or two to get settled in, just to learn the system, to get acclimatized, and they look for the right opportunity. So, there is a cool off period. And that's why I'm saying that the market share will dip before it corrects again.

Deepak Poddar

Okay. I understood that point. But I think in the last call, we were of the view that we are looking to double our market share in one year and accordingly our revenue growth will also likely to follow. You may not have 1:1 kind of a correlation, but maybe 1:0.5 kind of correlation or 0.5:0.7. So, is there any change in the view on that front and how do we see that going forward?

Narayan Gangadhar

No, there is no change in the view. It's just that for accelerating at that pace, we can only make that call quarter-over-quarter. There are some quarters where we want to launch something, then there are some quarters where we want to differ it. So, we are not time boxing ourselves in the sense that if it makes no business sense, we are not going to spend the money, it's as simple as that, even if it means we have to stay away from the market. So right now, the market is hot.

Everybody is acquiring a lot of customers. If you look at the top three, the numbers they have reported, it's through the roof. Right? But we believe it's not the right time to enter the market. So, for us, the game plan is we want to wait and watch, and also we want to get our technology systems in order. So, what you will see though, is you will see a systematic increase in our acquisition plan and we will definitely have a roadmap to end the year, that is next financial year at the numbers we talked about.

Deepak Poddar

So, FY25 end, we are looking at what, 5% to 6% kind of a market share. Would that be a fair assumption?

Narayan Gangadhar

I don't want to put any number to it, but it will definitely be 2x what we have today. The number is, again, it depends on the quality of customers also that we acquire.

Deepak Poddar

Okay.

Narayan Gangadhar

If we can give away free ETFs and get 5% like some other competitors have done. We can run incentives and get. There are other security companies which have reached 6%, 7% market share. But that's not meaningful, because it doesn't result in any impact to bottom line. So, it has to be 5% with the right kind of profitability and other metrics. So, please remember that.

Deepak Poddar

Correct. Fair enough. And revenue growth should follow. Right? I mean, with some lag.

Narayan Gangadhar

Yes, exactly. And that is what you're seeing in this quarter as well, right? You will see this kind of trajectory. Yes.

Deepak Poddar

So, what sort of correlation we are looking at? I mean, would it be 0.5 or 1:1 correlation? Can it be possible? I mean, in terms of market share and your revenue.

Narayan Gangadhar

No, those kind of correlations cannot be had in this industry. It's too immature to have that kind. You can get that at a Hindustan Unilever. Not here. Here the market is very new.

Deepak Poddar

Okay. Fair enough. And your other expenses, can you give the breakup of your fixed cost and the client acquisition cost, out of this I think INR 50-odd-crores you have spent?

Narayan Gangadhar

Approximately 45% to 50% is related to the advertisement and the customer acquisition, basically, and approximately 30% to 35% is our IT cost and rest is the other business cost.

Deepak Poddar

So, 45% to 50% is your client acquisition cost, right?

Narayan Gangadhar

Yes. This includes everything.

Deepak Poddar

Okay. And just my last query. In terms of your margin, you do expect to have some softness in your margin largely driven by the cost that is expected to come on account of your effort to scale up the business. Right? And on the investment that we are looking to do in the tech side.

Narayan Gangadhar

Correct, that is correct.

Deepak Poddar

Okay. But is there any rough range that this is the minimum threshold that we do expect that it should not go below that level either it's for 25%, whatever, I mean, in threshold, minimum threshold we're looking at?

Narayan Gangadhar

We are a growth company. So, there is no such range per se. Some quarters it can be high, some quarters it will be low. There's no such normalizations that we work for. We work for certain level of unit economics and certain high level operating margins. Everything else is, I think, more sensitive information which we don't disclose in the call.

Deepak Poddar

Okay, fair enough. I think that's it from my side, all the very best to you. Thank you so much.

Moderator

Thank you. Our next question comes from Vivek Joshi from Freeturns. Please go ahead.

Vivek Joshi

Good afternoon and heartiest congratulations for achieving the milestone of INR 100 crores on the revenue side. So, sir, I was just going through the data for Jan 2022 and Jan 2023, so the number of active clients which we have at 5paisa has reduced from something INR 12 lakh to INR 5 lakh, and our market share has also fallen. And from 6th largest broker to I think we are right now at 12th largest broker. So where do we see, sir, this degrowth stopping and the growth picking up?

Narayan Gangadhar

Yes. See that is why the company pivoted. I joined the company at the end of Q1 last year and the main reason was to repivot and rechange this curve. So obviously, as I mentioned that a lot of the deceleration that you see is very much in line with the strategy that was planned. And what I see is that over the coming quarters, I do see the trends changing and I do see these numbers coming back to those levels. But it will take us a little bit of time as we figure out what is the right game plan to both launch our new products which we are working on as well as also build and scale the new technology stacks as well as the MarTech stack that we are continuing to build.

Vivek Joshi

Okay, but sir any logical reason for just stopping the inflow for the client? Because every broker out there is kind of acquiring customer like anything and we are following reverse strategies so.

Narayan Gangadhar

Yes, we agree. Losing 90% of the customers they acquire. You have to remember that acquisition is a very meaningless metric. We have to look at, ultimately the thing that matters is whether we can curate that customer over a long period of time. So, we want to make sure that when we scale, we have the right engagement story for the customers over a period of time. And for that there has to be proper digitization of our journeys. In terms of digitization, up until last year we were not amongst the top brokers at all, the top digital brokers. Whereas now our first objective is to get to that stage only then all these things can be worked on acquiring more customers and scaling.

And if you take an example, if you look from August, July or August, were doing roughly only 25,000 accounts per month, and now we are touching almost 80,000, 90,000 accounts per month. So, there has been a massive growth. And this growth I do expect to scale, but there will be both cost and it will take a little bit of time for the revenue to materialize, because there is a lead time of a quarter or so before the clients come in and start trading and things like that.

Vivek Joshi

Sir, can we expect something around roughly 1 lakh or some ballpark figure for the monthly addition for the client, for the active side of the investors or the traders?

Narayan Gangadhar

See, we don't discuss those kinds of details here. You have the prior history, you have the prior data that we always publish in the earnings call. You can work backwards from there, but we don't comment about our long-term strategy here.

Vivek Joshi

Okay. As far as, sir, I remember, I think something around in 2022, June 2022, we discussed over the figure that something around 1 lakh addition is what we targeted, and then we reversed to the strategy and we stopped the client addition. So, that was the context I was referring to. So, any such kind of figure you like to share with us?

Narayan Gangadhar

No. As I told you, taking the number in isolation is not a very useful metric to look at this business.

Vivek Joshi

Okay, that's it from my side. Thank you.

Moderator

Thank you. Our next question comes from Dhaval Gada from DSP. Please go ahead.

Dhaval Gada

Thanks for the opportunity. Just a couple of questions. First is relating to the point on market share. So, you talked about the digital strategy, getting the digital strategy right, you also talked about, which is internal. The second point you mentioned was around competition being very aggressive on customer

acquisition, and you chose to participate less in this market compared to the opportunity that you wanted to capture. And lastly, you also talked about getting the right unit economics in place.

Just trying to understand, about two or three quarters from now. Do you think all of this will be in place for you to sort of on a design level start growing QoQ in a more, I would say, more planned manner, even assuming competition is far more intense, et cetera, or is there anything else that one needs to be cognizant of, that there can be some more delay or some other variable to work out for?

Narayan Gangadhar

Yes, that's a very good question. See, this is the main reason that in every quarter I give a very detailed product update and a very detailed business update as well, because we talk about the underlying engine and the improvements we are doing both on product and tech, as well as on the business side. So, as you have observed, is that our goal is in Q2, which is something I said in the earlier call last quarter. In Q2 FY25, we are gearing up for a launch of our major product, and there's a lot of improvements planned before then, but that's where we plan on launching our new services and new products. And this is something I have already mentioned in the earlier calls. So, to that end, we want to gear up for that.

So, for the next three months, four months, regardless of what is the client acquisition in the market, the top private players, whatever they acquire, is not very much meaningful to me because we believe that there is enough growth in the market. We are barely at sitting at a 4% market penetration. Even if they win the whole race within the next two years. That is not to say that they're going to be around in five years from now, because five years ago or ten years back, the entire landscape was different and now it's very different. So, it's going to continue to change. So, it's very important that we build that playbook. So our first, obviously, our major launches are coming up in the coming quarters, which is why we give detailed product updates.

And also, as I said, if you look at our marketing engine, in my very first earnings call, I had said that we are going to scale, right? And at that time we didn't give any indication. But you can see that we have scaled from 35,000 to now ending at about 80,000-90,000, right? So, I expect us to follow that trajectory. Now, sometimes it may not be as steep if we hit snags along the way. If we realize that the product development is not moving as fast, then we will descale accordingly. It's very critical for us to not scale for the heck of scaling.

Dhaval Gada

So just one follow up to this and to understand it better is, let's say, by August, September or October, whenever the new stack is in place, the new design is in place. Do you expect it to sort of go exponential from where you were, let's say, before this planned deceleration that you talked about, and therefore you're sort of building your platform and you have stack everything in place for a much bigger journey compared to where you were, let's say, four quarters back. Would that be fair? It should be comparable to what the top three approach players are doing right now in the market. Is that fair? Or there's still some

more thing to be done even beyond that, which may take another few quarters of a year? How should one know about?

Narayan Gangadhar

No, it won't take beyond that. It is exactly what you outlined. And to give you some sense of our track record, when I joined the company in June, our incremental market share and acquisitions, they stood hardly at 25,000 accounts, something like 1%. Obviously, we have doubled that while keeping our health metrics relatively constant. So, this gives you some sense of what kind of North Star we are looking at. So, what we have realized is that, and I have run a couple of other broking firms as well.

So, I can give from my own experience that it is extremely critical to not to scale only when the digital infrastructure is actually ready. Otherwise, success can mask a lot of the other inefficiencies digitally, and it won't be scalable. So, for us it is very important because we've just started the digitization journey and it is very important to keep continuing to build that and to scale only in accordance with that, to support future growth. So, this is how we see it. But as you rightly said, take around Q2 as we go ahead and launch that and then beyond.

Dhaval Gada

Understood, very useful. So, just one last thing on the unit economics, and this somewhat relates to a point that you mentioned about previous organizations. So obviously they have a sort of significant head start and sort of a strong cash flow at this point of time, which helps them slightly be more generous in new acquisition, et cetera. And from where you start this journey, do you see that this unit economics, the ideal unit economics to be different for this company, especially in the first few years of the journey, let's say FY25-26 and thereafter somewhat stabilized to where some of the other leading players are, or you think there is something out there which they are not tapping in the right way and which you'll be able to optimize in much better fashion. Just some thoughts around how one should think about more next two, three-year unit economics and then beyond.

Narayan Gangadhar

Yes, see, we can only comment about our business. So, I'll tell you that, first of all, see, our business is very different than some others. Okay? We don't have any B2B business or anything like that. So, we are not showing any. Our RPCs and our customer metrics are completely digital, both sourced and serviced and also operated off. Even we don't have any kind of a B2B model in place. Secondly, unlike some of the other privately held brokers, we don't have focus on mutual fund or anything of that sort. And I don't even believe that those journeys are very meaningful for our product.

So, from the get-go, the way I'm thinking about the business here is that we really want to get the core journey is correct and we want to focus on exclusively, fully digitally engaged and fully driven by the product experience to launch more features in the coming quarters. And I believe that as far as your

question on unit economics is concerned, you can do the math with, I mean, everybody's number is, at least some numbers are public, and now even Zerodha's numbers are public, so we don't want to talk about them. But basically everybody's publishing the numbers in some shape or form and you can see that everyone's RPC is down. There is not a single one who has been able to keep the RPC at the same growth rate that they saw even a year-and-a-half ago.

So that tells you that the quality and the deceleration has been much more rapid than the acquisition rate. So, it's very important that we do a very critical signal to noise test before we acquire. This is why, unlike any strategy I've executed in the past, in 5paisa, the focus is very much on that and that is how we are looking at growth. So, I believe that's the only way to responsibly grow from here on out and as far as the lead time to catch up with other brokers and all is concerned. See, the simple thing is that these kind of the right capital infusion, anybody can catch up with anybody in no time.

And you have seen the example where a privately listed broker went from nowhere to number two or number three last year and that privately held broker really was not able to scale. So, I think those kind of metrics are not very meaningful. The key is, can you build that stickiness on the platform and the right digital engine.

Dhaval Gada

Got it. Very useful and wish you all the very best. Thanks.

Narayan Gangadhar

Thank you.

Moderator

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. Our next question comes from Nagaraj Chandrasekar from Emerge Capital. Please go ahead.

Nagaraj Chandrasekar

Hi. Thank you. You answered most of my questions. Just I wanted some clarity on note five in the notes to accounts, there is a reversal of around INR 7 crores, which taken as an expense this quarter. What exactly is this and why has it been reversed?

Gourav Munjal

Actually that has marked not for this quarter. That has marked for the previous year because we have to give the comparison. December 2022 and in complete financial year we have done a reversal of INR 7

crore. This was in line with SEBI's circular that you need to reverse the upfront margin penalty which we have charged from the customers. And this is in the same line which they have given instruction to every broker. So, every broker has done that and we have also done that.

Nagaraj Chandrasekar

Okay, but it's a non-cash expense that's relevant to a prior year that's taken this quarter, right?

Gourav

Actually the question is pertaining to last year. First of all, there is nothing related for this current year. The second is it was not expenses, it is an income which brokers had recorded in an earlier period and after the SEBI involvement they had to reverse it.

Nagaraj Chandrasekar

Okay, so your cash expenses are broadly flat QoQ, your actual cash expenses, if you remove this one off at around INR 43 crores, they've not changed much. But your customer additions have gone up significantly to this 80,000 a month cadence. So, you mentioned earlier in the call, you said the industry is to be commoditized, but you're at this cadence of 80,000 a month now. So, you think it will be profitable clients for you, will trade often with you going forward. Just any further clarity on what you are doing specifically to make them come to you, what you're doing product or margin or other incentive wise to come get them to trade with us, where else they're trading, who else are they trading with and why exactly they're coming to us, who are they coming to us from? Any sort of colors, without any, whatever you can diverge given comparative.

Narayan Gangadhar

Your voice is not properly audible. If you are speaking with your earphone and something else, can you change that, because it's not proper audible.

Nagaraj Chandrasekar

I just want to understand the clients that we have started adding now and we say we will ramp this up. You said they're going to be profitable. So, why exactly are they coming to us? What are we doing? Product or incentives on margins and otherwise that are making them come to us? And who are they coming to us from mostly?

Narayan Gangadhar

The market acquisition, we have obviously multipronged strategy. Some of them have come, a lot of customers come to us from other brokers where they're not getting quality of service or better product

experience, and some of them come from new client acquisitions. We really don't really discern at that level. For us, it's important that as the product experience has gotten much better, our app rating, for example, has dramatically improved and the core journeys have improved. So organically, we see people coming and obviously from our own efforts as well, that is driving a lot of inbound traffic. Other than that, I think the other features which you described, we think like those are table stakes for us to execute the business. There's no core value proposition there.

Nagaraj Chandrasekar

Understood. Just one more balance sheet clarification on the free cash. Can you give a sense on the September cash we had on balance sheet, how that translates to free cash for us? How much is margin? How much is client margin? How much is free cash? Just wanted a further clarity on that.

Narayan Gangadhar

So, approximately, we have INR 500 crore net worth and out of that approximately INR 420 crore is a liquid net worth. Another thing, we have a margin in exchange, approximately INR 1,700 crore, INR 1,800 crore. And now with the SEBI circular and rules that every client's money is with the exchanges and apart from that, we have also kept margin in FD form.

Nagaraj Chandrasekar

Okay, so your free cash, including the margin is INR 70 crores, INR 80 crores or is it more?

Narayan Gangadhar

Yes, it's a INR 70 crore, INR 80 crore. But actually you can't say it's a free cash. It's a cash which you may require at any point of a time. If the market is volatile, then you need to give to the exchanges for the margin purpose. So, not exactly it's a free cash. It is a safety cash which we have. A safety margin cash which we have. So that in a volatile market, we can put more in exchanges.

Nagaraj Chandrasekar

Got it. Thank you.

Nagaraj Chandrasekar

Thank you.

Moderator

Thank you. We have a follow up question from Dhaval Gada from DSP. Please go ahead.

Dhaval Gada

Thanks again. So just a couple of other questions, one relating to the acquisition of clients from IIFL Securities. What's the update on that? And also, on a steady state basis for next year, what should one think about from an employee cost perspective? If you could give some clarity, excluding the ESOP cost, I know that's a variable, but just outside of that, what's the more stable number to go?

Narayan Gangadhar

Yes, so I think for the first point, the discussions are on with the regulators. We don't have any further update really to report on that, once we hear back, we will be obviously announcing. So, the discussions are on and I expect it to take a little bit more time.

Now, regarding the costing, see, as I mentioned, we have most of the cost for employee growth in the sense the team size, the team calibration. I would say we are pretty well staffed. We are pretty well actually staffed up from a human capital point of view, especially on engineering and product. And that's been the focus. Now, there may be expenses on the other teams, like call center sales, whatnot, but those I expect to be very much in line with our growth. And more importantly, I expect those to only grow with revenue. I don't expect too much of an upfront hit.

Now, ESOP, as you very rightly pointed out, we have not taken any ESOP costs at all so far. And we expect to take that sometime, obviously, in the coming quarter or so, because that's something that is a part of our long-term plan for incentivization of employees. But that typically as a company, we only do that once a year. Historically, we have done it only once a year and at the March, April time frame.

Dhaval Gada

Understood, sir. Just to be clear on the ESOP cost, that would likely come in first-half of next year in a meaningful way and then get spread over the following years in a more normal way. So, there will be a large cost, non-cash cost, which can come in the first half of next financial year.

Gourav Munjal

Yes, that's the way that Ind AS works.

Narayan Gangadhar

You heard the answer.

Dhaval Gada

Sorry. No, I missed it, sorry.

Gourav Munjal

No, you are right. Absolutely right, which you are saying, because that's the way that Ind AS works. Most of the cost comes in first year and then it's followed by the second and third year.

Narayan Gangadhar

So, yes, we will see the cost either in Q4 of this quarter or most likely in Q1. But there could be some in Q4 also, but not beyond that, and the rest will get split over subsequent years, as Gaurav was mentioning.

Dhaval Gada

Got it. Thank you.

Nagaraj Chandrasekar

Thank you.

Moderator

Thank you. Our next question comes from Thinnai Nema from Rivean Capital. Please go ahead.

Thinnai Nema

Hi, sir. So, thank you for taking my question. As you said that you are only interested in acquiring high quality customers, the ones that stick around. So, could you help us understand who exactly are the high-quality customers? Is the stickiness determined by the kind of services they avail? For example, is it that the F&O trading customers are more volatile than the ones who simply invest in equities? Any color on client profiling or any trends that you see?

Narayan Gangadhar

This is very sensitive to our core product, to our core business strategies. Obviously, we cannot comment on this. But I'll just give you some broad guidelines. As we have seen, there are a lot of new entrants in the market, most of them are F&O players, most of them come in and they experiment with it. 90% of them will leave the system. And from the ones who are left, they will rise up the food chain and they eventually give more RPC than everybody else. That's typically the client profile and behavior.

And there are many strategies to retain customers. One of them is, obviously you pursue a super app strategy. The other one is the way the private players are going about it, where you build like a good portfolio of alternate agencies, just as Groww has an excellent mutual fund business. So, you kind of build up something like that and go.

But for us, we are not looking at any of those plans, because we believe that the audience we are after and the market we want to curate is really exclusively for traders and F&O customers. So, for them, we believe that there's a different playbook that has to be thought out. And that market is actually, nobody has a handle on that market today, neither of the top four players. So, that is something that we have to work on actively.

Thinnai Nema

All right, sir. Thank you so much.

Moderator

Thank you. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad. There are no further questions. Now, I hand over the floor to Narayan Gangadhar for closing comments.

Narayan Gangadhar

Thank you very much for joining our quarterly earnings call. We look forward to meeting you all again next quarter and keeping you abreast on the progress. If you have any further questions, please email ir@5paisa.com. Have a wonderful rest of the day. Thank you.

Moderator

Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant evening.

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