

Client acquisitions healthy; gearing for challenges

IIFL Securities reported a steady performance amid a healthy pace of client acquisition, increase in cash average daily turnover (ADTO). Revenue was steady at ₹ 178.3 crore with retail broking seeing some traction offset by fall in institutional, distribution income. Retail brokerage saw 7% YoY, 9% QoQ growth at ₹ 92 crore, on the back of strong customer acquisition at 75900, improvement in cash ADTO. Cash ADTO surged to ₹ 1540 crore vs. ₹ 1270 crore in Q4FY20. Lockdown impacted distribution of financial products and IB, which were down 29%, 56% to ₹ 21.4 crore, ₹ 1.2 crore, respectively. Institutional broking performance was muted with 16% YoY de-growth to ₹ 28.5 crore. Lower opex supported profit, up 11% QoQ to ₹ 41.5 crore.

ADTO pickup to be key focus area

Despite healthy pace of client acquisition at 75900 in Q1FY21, overall market share continued to fall from 2% in FY18 to 1.2% in Q1FY21. Market share in F&O stood at 1.12%, while share in cash segment dropped to 2.66%. Going ahead, strategy to continue pace of client acquisition and improvise client engagement remains the key to drive performance. We expect competitive brokerage plans as near-term action would shore up volumes with a view to capture higher share in options. Focus on increasing margin funding book to further add to revenue. Going ahead, ADTO is expected to increase at ~12% CAGR in FY21-22E to ₹ 26544 crore led by market share gain.

Improve engagement by adding more value for same customer

Earning fee-based income through selling financial products to gain momentum. AUM has increased from ₹ 27500 crore in Q1FY20 to ₹ 29300 crore in Q1FY21 (temporary blip in growth due to uncertain market conditions). Mutual fund AUM, post a decline in Q4FY20 revived ~20% QoQ to ₹ 3380 crore. Within insurance distribution, general insurance continued to witness healthy growth at 21% QoQ to ₹ 20.8 crore. Targeting mass affluent customers with networth up to ₹ 5 crore, management continues to focus on improvising client engagement and increase value for same customer via distribution of financial products. Expect earnings to grow at 19% CAGR in FY21-22E to ₹ 207 crore, excluding exceptional gains in FY20.

Valuation & Outlook

Client acquisition, focus on building AUM remains focus leading to a gradual shift towards stability in cyclical business. Covid has no direct impact on business; though decline in overall volumes impacted. PAT (excluding exceptional gains) is expected to increase at 19% CAGR in FY21-22E. Impact of recent regulations related to intraday trading & distribution would be watched. The company has ~₹ 700 crore worth of real estate with book value on balance sheet of ~₹ 350 crore. Monetisation of real estate assets remains upside catalyst to drive one-time gains. Given a beneficiary of strong growth in clients and cash ADTO witnessed in industry, we maintain **BUY** rating with TP at ₹ 46, valuing the stock at ~6.8x FY22E EPS.



Particulars

	Amount
Market Capitalisation	₹1294 crore
Networth	₹880 crore
52 week H/L	49/33
Face Value	₹2
D II Holding (%)	5
F II Holding (%)	15.4
Promoter Holding (%)	29.4
Others (%)	50.3

Key Highlights

- Total ADTO at ₹ 17140 crore with cash ADTO at ₹ 1540 crore
- Client base increased to 75900
- Focus on MTF book and launch of algo trading to add to revenue, going forward
- Maintain BUY with revised target price of ₹ 46/share

Source: ICICI Direct Research, Company

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Key Financial Summary

	FY18	FY19	FY20E	FY21E	FY22E
ADTO (₹crore)	13990	17710	21090	21015	26544
Market Share (%)	2.0	1.8	1.5	1.5	1.7
Revenue from operation (₹crore)	834.7	835.1	717.5	704.4	798.2
Net Profit (₹crore)	180.6	172.1	232.1	157.7	216.5
EPS (₹)	5.7	5.4	7.3	4.9	6.8
P/E (x)	7.1	7.4	5.5	8.1	5.9
RoE (%)	29.0	25.4	28.8	16.5	18.9

Source: Company, ICICI Direct Research

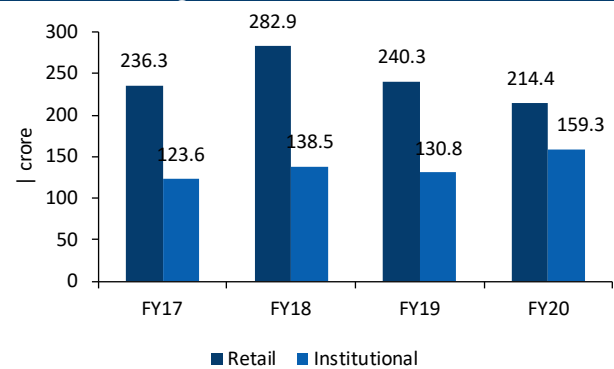
Snapshot of company

Exhibit 1: Revenue streams

₹crore	FY17	FY18	FY19	FY20	Proportion (FY20)
Broking					
Retail	236.3	282.9	240.3	214.4	27%
Institutional	123.6	138.5	130.8	159.3	20%
Distribution	102.7	154.4	180.4	154.7	20%
IB	36.1	82	33.4	33.4	4%
Others		289.3	290.6	228.15	29%
Total		947.1	875.5	789.95	100%

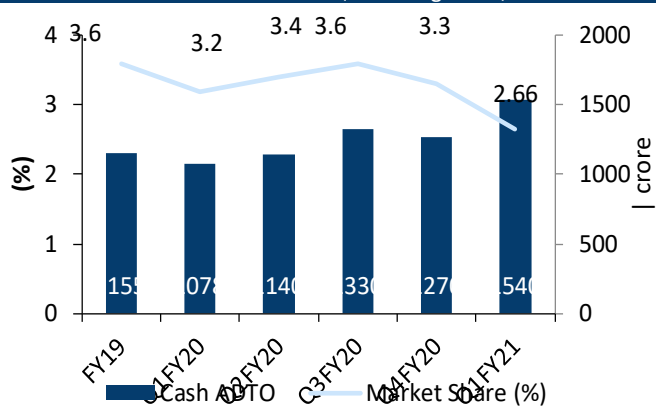
Source: Company, ICICI Direct Research

Exhibit 2: Brokerage income (retail & institutional)



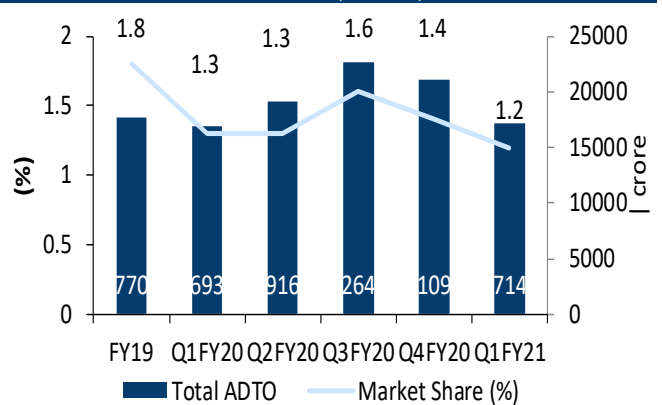
Source: Company, ICICI Direct Research

Exhibit 3: ADTO & market share (cash segment)



Source: Company, ICICI Direct Research

Exhibit 4: ADTO & market share (overall)



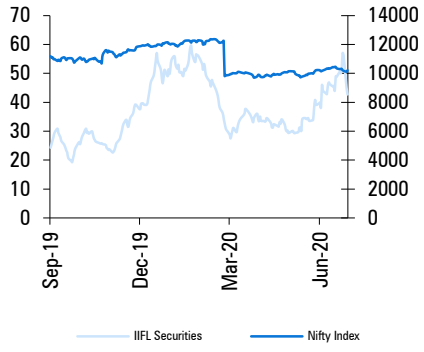
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly Performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue from operation	157.7	173.7	189.6	196.5	149.8
Brokerage Income	86.2	82.8	108.4	84.5	92.0
Distribution & related Inco	30.0	44.6	29.6	53.2	21.4
Interest, rental Income &	7.7	12.0	11.8	9.9	7.9
Institutional Equities	33.8	34.3	39.8	48.9	28.5
Other Income	27.3	11.2	20.7	13.3	28.5
Total Income	185.0	184.9	210.2	209.8	178.3
Expenses					
Employee expense	57.8	56.2	56.5	50.8	46.7
Finance cost	26.0	18.8	21.4	35.9	11.9
Depreciation	14.9	13.9	14.0	12.5	11.3
Other expenses	49.19	47.29	55.31	59.72	52.94
Total Expense	147.8	136.3	147.2	158.9	122.9
Profit Before Tax	37.2	48.6	63.0	51.0	55.4
Share of associate					
Tax	13.6	9.2	16.5	13.7	13.9
Profit After Tax	23.6	39.4	46.5	37.3	41.5

Source: Company, ICICI Direct Research

Exhibit 6: Price Chart



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit & Loss					
(₹ crore)					
Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue from operati	834.7	835.1	717.5	704.4	798.2
Other Income	112.40	40.40	72.50	61.63	73.95
Total Income	947.1	875.5	790.0	766.0	872.1
Employee expense	210.9	256.6	221.1	199.0	209.0
Finance cost	144.5	114.5	102.1	71.5	64.3
Depreciation	36.5	41.9	55.3	49.8	50.3
Other expenses	275.9	204.5	211.5	232.7	255.9
Total Expense	667.8	617.5	590.1	552.9	579.5
Profit Before Tax	279.3	258.0	199.9	213.1	292.6
Tax	92.9	86.6	53.0	55.4	76.1
Profit After Tax	180.6	172.1	232.1	157.7	216.5
Exceptional Item	0.0	0.0	0.0	0.0	0.0
PAT post excp item	180.6	172.1	232.1	157.7	216.5
EPS	5.67	5.39	7.26	4.93	6.78

Source: Company, ICICI Direct Research

Exhibit 9: Key Ratios					
Particulars	FY18	FY19	FY20E	FY21E	FY22E
ADTO (₹crore)	13990	17710	21090	21015	26544
Market Share (%)	2.0	1.8	1.5	1.5	1.7
Yield (%)	0.015	0.012	0.007	0.008	0.007
ROE (%)	29.0	25.4	28.8	16.5	18.9
No of Shares (crore)	31.9	31.9	32.0	32.0	32.0
EPS (₹)	5.7	5.4	7.3	4.9	6.8
PE (x)	7.1	7.4	5.5	8.1	5.9
Book Value (₹)	19.6	22.9	27.5	32.5	39.2
P/BV (x)	2.0	1.7	1.5	1.2	1.0
Pat margin (%)	19.1	19.7	29.4	20.6	24.8
CIRatio (%)	70.5	70.5	74.7	72.2	66.4
Mcap/Sales (x)	1.1	1.2	1.3	1.4	1.2

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					
(₹ crore)					
Particulars	FY18	FY19	FY20	FY21E	FY22E
Source of Funds					
Equity Capital	63.7	63.8	63.9	63.9	63.9
Reserve & Surplus	559.5	667.1	815.9	973.6	1190.1
Networth	623.2	730.9	879.8	1037.5	1254.0
Borrowings	1012.8	660.5	405.6	405.6	425.9
Other Liability	1225.8	1658.5	1148.2	1182.7	1241.8
Total	2861.8	3049.9	2433.6	2625.8	2921.7
Application of Funds					
Fixed Asset	583.9	469.8	497.2	472.3	425.1
Investment	159.5	139.6	230.9	254.0	279.4
Advances	81.6	433.2	24.3	29.2	43.8
Cash	855.3	1065.0	1027.2	924.5	832.0
Other Asset	1181.6	942.3	654.0	945.8	1341.4
Total	2861.8	3049.9	2433.6	2625.8	2921.7

Source: Company, ICICI Direct Research

Exhibit 10: Growth Ratios				
Growth (%)				
	FY19	FY20E	FY21E	FY22E
Total Asset	7	-20	8	11
Advances	431	-94	20	50
Borrowing	-35	-39	0	5
Total Income	-8	-10	-3	14
Operating expense	-8	-4	-6	5
Net profit	-5	35	-32	37
Book Value	17	20	18	21
EPS	-5	35	-32	37

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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