

Healthy client acquisition, funding aid performance...

About the stock: IIFL Securities (IIFL Sec) is engaged in retail and institutional broking, distribution of financial products and investment banking.

- The company caters to an active retail client base of ~3.24 lakh
- IIFL's institutional broking segment has ~755+ domestic and foreign clients

Q2FY22 Results: IIFL Sec reported a healthy performance.

- Client acquisition robust at ~2 lakh; ADTO up 28.1% QoQ to ₹ 67530 crore
- Revenue up 48% YoY, 19% QoQ amid growth in brokerage & interest income
- Headcount addition & sales expenditure increased overall opex by 22% QoQ; PAT growth healthy at ~41% YoY & 5% QoQ to ₹ 72 crore

What should investors do? IIFL Sec's share price has grown by ~4.6x over the past two years (from ~₹ 23 in September 2019 to ~₹ 105 levels in October 2021).

- We maintain our HOLD rating on the stock

Target Price and Valuation: We value IIFL Sec at 11.3x FY23E EPS and maintain our target price at ₹ 115.

Key triggers for future price performance:

- Focus on client acquisition & increased market activity to act as key catalyst
- Higher client engagement to improve per client matrix remains in focus
- Anticipated exit from real estate investment could lighten balance sheet and act as medium term catalyst
- Fierce competition from discount broker could act as a deterrent

Alternate Stock Idea: Apart from IIFL Sec, in our coverage we also like 5Paisa.

- It is a leading discount broker and offers a play on new age fintech financial intermediary with robust client addition
- BUY with a target price of ₹ 530

Key Financial Summary

	FY19	FY20	FY21	3 year CAGR (FY18-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
ADTO (₹ crore)	17710	20070	29590	28.4%	43385	44105	22.1%
Market Share (%)	1.8	1.4	1.1		1.3	1.2	
Revenue from operation (₹ crore)	835.1	717.5	790.9	-1.8%	1115.8	1201.0	23.2%
Net Profit (₹ crore)	172.1	232.1	220.3	6.8%	282.9	308.2	18.3%
EPS (₹)	5.4	7.3	7.3		9.3	10.2	
P/E (x)	19.5	14.5	14.4		11.2	10.3	
RoE (%)	25.4	28.8	23.9		25.5	21.9	

Source: Company, ICICI Direct Research



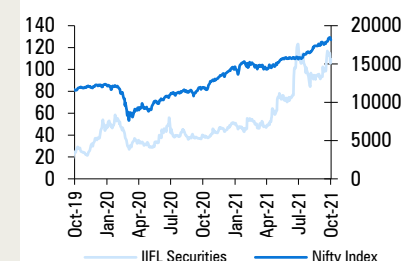
Particulars

Particulars	Amount
Market Capitalisation	₹ 3179 crore
Networth	₹ 1110 crore
52 week H/L	₹ 129/36
Face Value	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	29.8	29.7	31.4	31.4	31.4
FII	15.5	15.6	16.2	16.1	16.3
DII	4.7	4.2	4.2	4.3	3.5
Others	50.1	50.4	48.1	48.3	48.8

Price Chart



Recent Event & key risks

- Strong client acquisition at 2 lakh & 28% QoQ growth in ADTO
- Key Risks:** (i) Reduction in market volatility, (ii) Rising competitive intensity

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Healthy client accretion supports performance

- Highest quarterly client addition at 2 lakh in Q2FY22
- Average daily turnover (ADTO) increased 28.1% QoQ to ₹ 67530 crore, with market share steady at ~1.1%
- Mutual fund AUM grew 20% QoQ to ₹ 6860 crore as on September 30, 2021. SIP AUM grew 14% QoQ to ₹ 1330 crore with a monthly transaction count of 1,12,517. Insurance premium amounted to ₹ 44 crore, up 49% QoQ
- PAT grew 5% QoQ to ₹ 72 crore, led by 19% QoQ jump in revenue partially offset by 22% QoQ increase in expenses

Q2FY22 Earnings Conference Call highlights

- Employee expenses were higher as a result of increase in head count, salary hike and performance linked variable pay. Employee count was at 2376 in Q2FY22 compared to 2136 in Q1FY22
- Finance cost increased primarily due to increased borrowing cost for IPO funding
- Sub brokerage payout and increase in marketing and tech spends led to increase in other expense in Q2FY22
- Interest income witnessed a sharp jump from ₹ 21 crore in Q1FY22 to ₹ 49.9 crore in Q2FY22, primarily on account of IPO funding as the current quarter witnessed a huge number of IPOs
- Cash market share was at 2.69% in the current quarter vs. 2.59% in the previous quarter. F&O market share was largely flat at 1.1%
- Customer acquisition cost (CAC) was at ₹ 1000-1200. The payback period for CAC is at about 15-18 months
- In employee cost of ₹ 75 crore, roughly 80% was fixed while 20% was variable
- Distribution income was at ₹ 50 crore, primarily driven by sale of AIF, NCDs
- Account opening is fully digitised as a result of investment in technology
- The company has ~6 lakh sq ft of real estate investment on balance sheet

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
IIFL Sec	105	115	Hold	3179	7.3	9.3	10.2	14.4	11.2	10.3	3.3	2.5	2.0	23.9	25.5	21.9
5 paisa	450	530	Buy	1323	6.8	7.0	13.8	66.3	64.0	32.6	7.2	3.2	2.9	11.7	7.3	9.3
Geojit	87	110	Buy	2069	5.2	6.1	6.5	16.8	14.2	13.3	3.1	2.6	2.2	20.1	19.9	17.6
MCX	1858	2000	Buy	9474	44.2	36.8	41.0	42.0	50.5	45.3	6.7	6.4	6.1	15.9	12.6	13.4

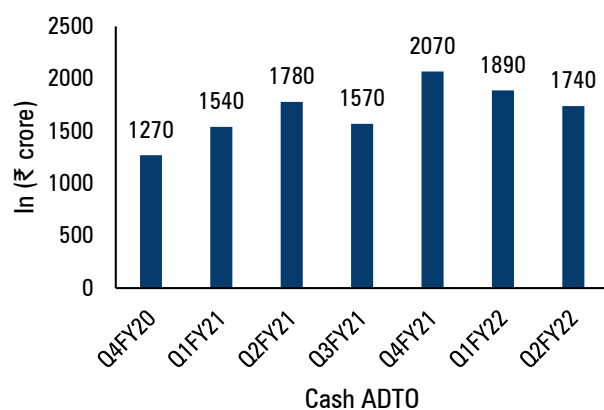
Source: Company, ICICI Direct Research

We believe IIFL Sec remains a beneficiary of healthy client accretion and increased market activity.

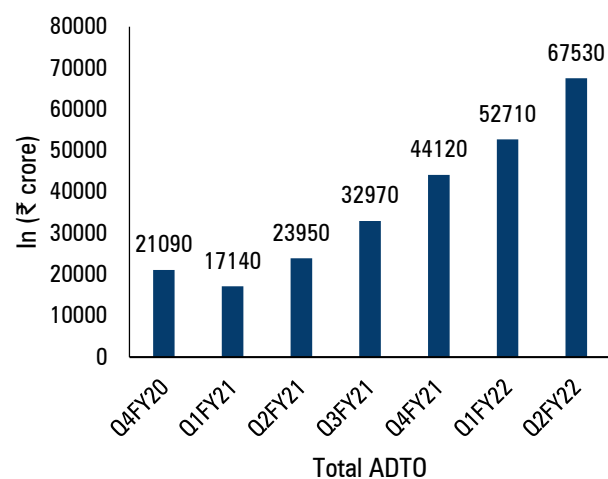
Exhibit 2: Variance Analysis

Particulars	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ	Comments
Revenue from operation	299.0	201.9	48%	250.6	19%	Healthy client accretion and increase in interest income aided topline growth
Other Income	19.3	16.3	18%	17.4	11%	
Total Income	318.4	218.2	46%	268.1	19%	
Employee expense	75.6	48.3	57%	66.3	14%	Headcount increased ~10% QoQ to 2376
Finance cost	30.4	13.6	123%	13.4	127%	
Depreciation	15.1	12.1	25%	15.2	0%	
Other expenses	100.8	74.9	35%	86.6	16%	Marketing & technology spends led to QoQ rise
Total Expense	221.9	148.9	49%	181.4	22%	
Profit Before Tax	96.5	69.3	39%	86.7	11%	
Share of associate	0.0	0.0		0.0		
Tax	24.5	18.4	33%	17.8	37%	
PAT	72.0	50.9	41%	68.8	5%	Healthy topline growth partially offset elevated expense

Source: Company, ICICI Direct Research

Exhibit 3: Cash ADTO witnesses QoQ decline


Source: Company, ICICI Direct Research

Exhibit 4: Derivatives segment continues to propel ADTO


Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit & Loss (₹ crore)					
Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenue from operation	835.1	717.5	790.9	1115.8	1201.0
Other Income	40.40	72.50	76.93	92.32	110.78
Total Income	875.5	790.0	867.8	1208.1	1311.8
Employee expense	256.6	221.1	211.3	285.3	308.1
Finance cost	114.5	102.1	49.6	99.3	107.2
Depreciation	41.9	55.3	45.9	59.6	60.2
Other expenses	204.5	211.5	276.2	386.7	425.4
Total Expense	617.5	590.1	583.0	830.9	900.9
Profit Before Tax	258.0	199.9	284.7	377.3	410.9
Tax	86.6	53.0	64.4	94.3	102.7
Profit After Tax	172.1	232.1	220.3	282.9	308.2
Exceptional Item	0.0	0.0	0.0	0.0	0.0
PAT post expc item	172.1	232.1	220.3	282.9	308.2
EPS	5.39	7.26	7.27	9.34	10.17

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios					
Particulars	FY19	FY20	FY21	FY22E	FY23E
ADTO (₹ crore)	17710	20070	29590	43385	44105
Market Share (%)	1.8	1.4	1.1	1.3	1.2
Yield (%)	0.012	0.008	0.006	0.006	0.006
ROE (%)	25.4	28.8	23.9	25.5	21.9
No of Shares (crore)	31.9	32.0	30.3	30.3	30.3
EPS (₹)	5.4	7.3	7.3	9.3	10.2
PE (x)	19.5	14.5	14.4	11.2	10.3
Book Value (₹)	22.9	27.5	31.9	41.3	51.5
P/BV (x)	4.6	3.8	3.3	2.5	2.0
Pat margin (%)	19.7	29.4	25.4	23.4	23.5
CI Ratio (%)	70.5	74.7	67.2	68.8	68.7
Mcap/Sales (x)	3.9	4.3	3.9	2.8	2.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)					
Particulars	FY19	FY20	FY21	FY22E	FY23E
Source of Funds					
Equity Capital	63.8	63.9	60.6	60.6	60.6
Reserve & Surplus	667.1	815.9	907.0	1189.9	1498.1
Networth	730.9	879.8	967.6	1250.5	1558.7
Borrowings	660.5	405.6	291.6	306.2	321.5
Other Liability	1658.5	1148.2	2285.0	2399.2	2519.2
Total	3049.9	2433.6	3544.1	3955.9	4399.3
Application of Funds					
Fixed Asset	469.8	497.2	389.1	350.2	315.2
Investment	139.6	230.9	73.7	81.1	89.2
Advances	433.2	24.3	98.0	196.1	294.1
Cash	1065.0	1027.2	1677.5	1509.8	1358.8
Other Asset	942.3	654.0	1305.7	1818.7	2342.0
Total	3049.9	2433.6	3544.1	3955.9	4399.3

Source: Company, ICICI Direct Research

Exhibit 6: Growth Ratios (%)					
Growth (%)	FY19	FY20	FY21	FY22E	FY23E
Total Asset	7	-20	46	12	11
Advances	431	-94	303	100	50
Borrowing	-35	-39	-28	5	5
Total Income	-8	-10	10	39	9
Operating expense	-8	-4	-1	43	8
Net profit	-5	35	-5	28	9
Book Value	17	20	16	29	25
EPS	-5	35	0	28	9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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