




Estimate change	
TP change	
Rating change	

Bloomberg	ISEC IN
Equity Shares (m)	322
M.Cap.(INRb)/(USDb)	156.2 / 2
52-Week Range (INR)	569 / 204
1, 6, 12 Rel. Per (%)	-2/21/46
12M Avg Val (INR M)	255

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Revenues	17.2	24.1	24.7
Opex	9.7	12.0	12.7
PBT	7.5	12.0	12.0
PAT	5.4	9.0	8.9

Ratios

C/I ratio (%)	56.4	50.0	51.5
PAT margin (%)	31.4	37.3	36.2
RoE (%)	48.0	66.7	55.3
Div. Payout (%)	70.6	70.0	70.0
EPS	16.8	27.8	27.7

Valuations

P/E (x)	28.8	17.4	17.5
P/BV (x)	12.9	10.6	8.9
Div. Yield (%)	2.3	4.0	4.0

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	77.2	79.2	79.2
DII	10.1	10.2	12.0
FII	4.0	3.8	2.7
Others	8.7	6.8	6.1

FII Includes depository receipts

CMP: INR485 TP: INR625 (+29%) Buy

Strong all-round performance

- ICICI Securities (ISEC)'s PAT grew 44% QoQ / 106% YoY to INR2.8b (27% beat). The beat was driven by higher-than-expected investment banking (IB) revenue and interest income, coupled with in-line opex.
- **Total revenue grew 25% QoQ to INR6.8b, driven by a) 10% QoQ growth in brokerage income to INR3.92b, b) 69% QoQ growth in income from services (distribution and IB revenue), and c) 44% QoQ growth in interest income to INR898m.**

Gaining market share in cash and derivatives trading

- The company acquired INR113k new customers in the quarter v/s 83k QoQ. The total NSE active clients grew 8% QoQ to 1.2m. The number of 'Prime' customers also jumped from 380k to 420k sequentially.
- **ISEC's volume market share in cash equities increased 40bp QoQ / 240bp YoY to 11.7%. Its share in derivatives was largely stable QoQ, but up 150bp YoY to 8.8%.**

Distribution income picks up; IB revenue surprises

- Distribution income picked up 24% from 1Q lows on: a) higher MF income due to MTM gains on equity schemes and b) higher income in life insurance distribution due to the low base in 1Q.
- Investment banking revenue nearly tripled from INR220m to INR623m sequentially. The company participated in 42 ECM transactions in the quarter (v/s 6 in the prior quarter).

Key concall highlights

- It acquired 28k customers from the open architecture platform in 2Q.
- The co. introduced new 'Prime' plans with reduced subscription charges.
- It increased market share on gross equity flows from 8bp to 27bp, and MS in SIPs from 3.23% to 3.44%.

Other highlights

- Lending book revenue almost doubled QoQ to INR447m, with the total book at INR18.7b. Interest income increased 44% QoQ to INR898m.
- Yield in the Wealth Management segment improved 4bp QoQ / 16bp YoY to 38bp. Total AUM increased 15% QoQ to INR1.15t on MTM gains.

Other highlights

Initiatives such as the ICICI Bank tie-up, 'Prime', and 'Options 20' have yielded results. **Importantly, the Brokerage segment is benefitting from tailwinds of increased trading activity from retail customers. While there could be some moderation due to the new regulations from Dec 1, we expect strong growth to continue.** Distribution income has been weak over the past two years, but seems to have bottomed out. With increased capital market activity, IB revenues are likely to remain robust, although they could vary significantly on a QoQ basis. **With operating leverage, we expect the C/I ratio to decline ~500bp to 51%, resulting in a 25% PAT CAGR over FY20-23E.** We increase our estimates by ~15/5% for FY21/FY22. Maintain **Buy**, with TP of INR625 (23x FY22E EPS).

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Quarterly Performance												(INR m)
Y/E March	FY20				FY21				FY20	FY21E	2QFY21E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue from Operations	3,865	4,170	4,222	4,804	5,460	6,807	5,866	5,920	17,062	24,053	5,828	17
Other Income	156	12	4	15	4	-2	5	14	187	20	5	-144
Total Income	4,021	4,182	4,227	4,819	5,464	6,805	5,871	5,934	17,249	24,073	5,833	17
Change YoY (%)	-7.7	-8.7	4.4	12.5	35.9	62.7	38.9	23.1	-0.1	39.6	39.5	
Operating Expenses	2,261	2,341	2,376	2,742	2,870	3,082	3,029	3,051	9,720	12,032	3,107	-1
Change YoY (%)	-3.1	-6.5	-3.7	14.5	26.9	31.6	27.5	11.3	0.2	23.8	32.7	
PBT	1,760	1,841	1,851	2,077	2,594	3,723	2,842	2,882	7,529	12,042	2,726	37
Change YoY (%)	-13.1	-11.4	17.1	10.0	47.4	102.2	53.6	38.8	-0.6	59.9	48.1	
Tax Provisions	622	490	479	519	663	942	731	735	2,109	3,071	701	34
Net Profit	1,138	1,351	1,372	1,559	1,931	2,782	2,111	2,147	5,420	8,971	2,025	37
Change YoY (%)	-15.0	0.7	35.6	28.3	69.7	105.9	53.8	37.8	10.4	65.5	49.8	
Key Operating Parameters (%)												
Cost to Income Ratio	56.2	56.0	56.2	56.9	52.5	45.3	51.6	51.4	56.4	50.0	53.3	
PBT Margin	43.8	44.0	43.8	43.1	47.5	54.7	48.4	48.6	43.6	50.0	46.7	
Tax Rate	35.4	26.6	25.9	25.0	25.6	25.3	25.7	25.5	28.0	25.5	25.7	
PAT Margins	28.3	32.3	32.5	32.3	35.3	40.9	36.0	36.2	31.4	37.3	34.7	
Revenue from Operations (INR m)												
Retail Brokerage Income	1,893	1,833	1,961	2,501	3,210	3,534	3,287	3,234	8,188	13,265		
Institutional Brokerage Income	306	326	285	372	348	386	360	388	1,289	1,482		
Investment Banking	167	323	176	99	223	623	250	254	765	1,350	176	
Distribution Income	984	1,062	1,029	1,155	798	990	970	1,058	4,230	3,816		
Other servicing Income	10	67	84	62	103	285	100	112	223	600		
Interest Income	501	535	602	712	624	898	844	853	2,350	3,220		
Other Operating Income	4	24	86	-96	154	90	55	21	17.7	321		
Revenue from Operations Mix (%)												
Retail Brokerage Income	49.0	44.0	46.4	52.1	58.8	51.9			48.0	55.1		
Institutional Brokerage Income	7.9	7.8	6.7	7.7	6.4	5.7			7.6	6.2		
Investment Banking	4.3	7.7	4.2	2.1	4.1	9.2			4.5	5.6		
Distribution Income	25.5	25.5	24.4	24.0	14.6	14.5			24.8	15.9		
Other servicing Income	0.3	1.6	2.0	1.3	1.9	4.2			1.3	2.5		
Interest Income	13.0	12.8	14.2	14.8	11.4	13.2			13.8	13.4		
Other Operating Income	0.1	0.6	2.0	-2.0	2.8	1.3			0.1	1.3		
Opex Mix (%)												
Employee Expenses	56.3	57.2	55.9	50.9	60.2	0.0			54.9	58.1		
Depreciation	6.9	6.3	6.2	5.9	4.7	0.0			6.3	4.5		
Interest Expenses	7.9	7.6	9.2	10.5	8.0	0.0			8.9	9.3		
Others	28.9	28.9	28.6	32.6	27.1	0.0			29.9	28.1		
Other Parameters (%)												
Blended MS	7.4	7.3	8.7	8.0	9.0	8.9						
Equity MS	8.1	8.7	8.9	9.1	10.7	11.1						
Derivatives MS	7.4	7.3	8.7	8.0	8.9	8.8						
NSE Active Customer MS	9.8	10.1	10.0	10.0	9.2	0.0						
No. Of Branches	198	187	178	172	171	156						
Network Partners	7500+	8000+	8600+	9400+	12100+	13600+						

E: MOFSL Estimates



Highlights from management commentary

Business updates

- **80% of customer sourcing is done from the website or the app. It acquired 28k customers in 2Q from the digital sourcing platform.**
- Non-ICICI Bank accounts contributed 35% to new customer adds in the quarter.
- **ICICI Bank sourced 55% of new clients in the quarter v/s 80% in FY20.**
- It introduced a commodity trading product during the quarter.
- **42 ECM transactions of INR1.09t were done. 24 IB deals were signed in the quarter. It has seven deals in the pipeline (amounting to INR85b).**
- **It reintroduced a new Prime offering a few days ago as well as modified old plans. Details follow –**
- The quality of customers acquired from the open architecture model is largely similar to that of ICICI Bank customers.
- **Opex has increased QoQ as variable cost due to strong company performance has been factored in.**
- Yields improved in Wealth Management due to a) good growth in equity delivery volumes and b) higher interest income from ESOP and MTF.
- Incremental cost of funds is near the repo rate. Hence, NIM is 4–5%.

Distribution segment

- **Market share increased on gross equity flows from 8bp to 27bp. MS in SIPs improved from 3.23% to 3.44%.**
- INR3b loans were distributed v/s INR2.4b YoY.
- It is working on an app from MF distribution. This would be rolled out in a few weeks.

Industry

- 13% decline was seen in trading volumes in Sep due to operational factors post the new regulations from Sep 1.
- Regulations coming in from Dec 1 would impact volumes and revenues for the entire industry in the short term.

Others

- Some competitors have acquired customers at much higher acquisition cost.
- Generated leads equal 8–10x the number of customers acquired. The co. needs to step up its conversion rate.
- **75% of new ICICI Bank customers are Prime customers.**
- It has tied up with a US-based broker in institutional equities to get empaneled with new FII clients. It seeks tie-ups with other brokers for Taiwan, Korea, and the UK.
- 97% of customer orders are done by the customers themselves.
- “Receivables” on BS comprise receivables from exchanges, etc., as of the prior two days.
- INR70–100m capex is incurred on technology every year. But, this year, the company wants to more than double this.
- It has 200–250 people working on technology. 5–6% of its employee cost is from this segment.

- Fixed deposits with exchanges amount to INR24–26b of total cash of INR30 on the BS.
- ARPU growth in retail brokerage is marginally more than 20% YoY.
- It would achieve breakeven within 5–6 months as far as customer acquisitions are concerned.

Exhibit 1: New Prime plans

Annual Fee (INR)	Yield (bp)	eATM limit (INR m)
299	27	0.3
999	22	1.0
1,999	18	2.5
2,999	15	10.0

Source: MOFSL, Company

Valuation and view

- ISEC is a classic play on increasing the financialization of savings and retail participation in the equity markets. Thus, its business and profitability are cyclical.
- During the downcycle of the past two years, the company took several initiatives to make the business leaner and well-gearred for the upcycle. Initiatives such as the ICICI Bank tie-up, 'Prime', 'Prepaid', and 'Options 20' models, etc., have started yielding results.
- **Post COVID-19, the Retail Brokerage segment in India has benefitted from tailwinds of increased trading activity from retail customers, especially in Tier 2 and Tier 3 cities. Customer acquisitions in the industry have seen an upsurge over the past six months. ISEC is well-placed to benefit from sectoral tailwinds. The new open architecture platform could be a game-changer over the next few quarters in terms of customer acquisitions.**
- However, there could be some moderation in trading activity, especially in intraday and the Derivatives segment post the implementation of new margin-related norms on Dec 1. We build-in a modest impact of the same.
- In the Distribution segment, regulatory headwinds have been seen in the past two years. **However, with this now largely behind, and notwithstanding near-term challenges, revenue should improve gradually.** We expect the company to improve its market share in mutual fund distribution. In the Capital Markets segment, while ISEC is among the leading players, the business tends to be cyclical. However, in the current scenario, ISEC should see a strong uptick in investment banking revenues.
- **Over FY20–23E, we expect revenue to grow at a 17% CAGR, while cost-cutting should result in a ~500bp C/I ratio reduction to 51%.** As a result, the company should deliver a 25% PAT CAGR to INR9.7b. We increase our estimates by ~15/5% for FY21/FY22. **Maintain Buy, with TP of INR625 (23x FY22E EPS).**

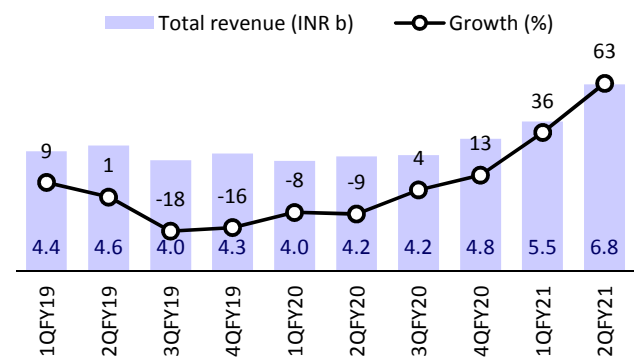
Exhibit 2: We upgrade estimates by ~15/5% to factor in stronger revenue growth in the Distribution and IB segments

INR b	Old Est.		New Est.		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Brokerage Income	14.5	13.9	14.7	14.1	1.6	1.6
Income from services	4.8	5.7	5.8	6.4	21.3	12.7
Other Income	2.9	3.7	3.6	4.2	21.7	11.3
Total Income	22.2	23.3	24.1	24.7	8.5	5.9
Operating Expenses	11.7	11.9	12.0	12.7	2.4	6.5
PBT	10.5	11.4	12.0	12.0	15.2	5.2
Tax	2.7	2.9	3.1	3.1	14.3	6.2
PAT	7.8	8.5	9.0	8.9	15.5	4.8
C/I ratio	52.9	51.2	50.0	51.5		
RoE	58.6	54.2	66.7	55.3		
Dividend payout ratio	70.0	70.0	70.0	70.0		

Source: MOFSL, Company

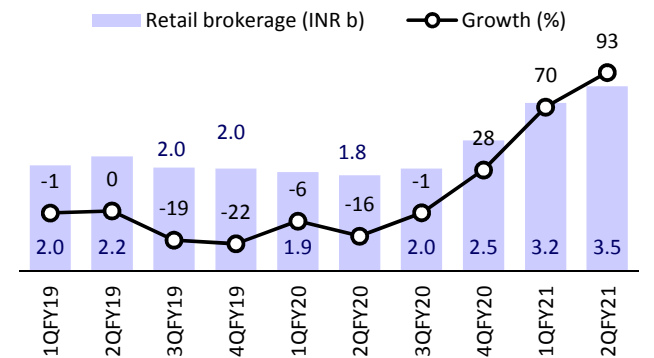
Key exhibits

Exhibit 3: Sharp uptick in revenue growth...



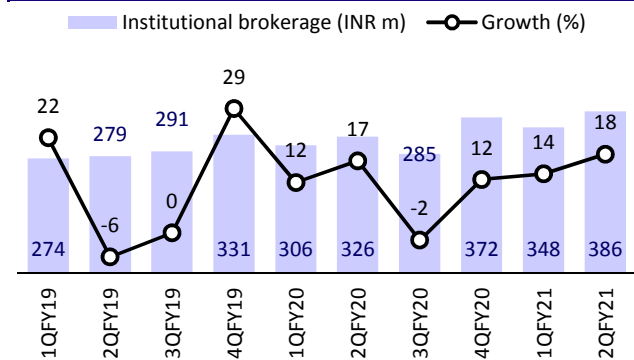
Source: MOFSL, Company

Exhibit 4: ...driven by Retail Brokerage



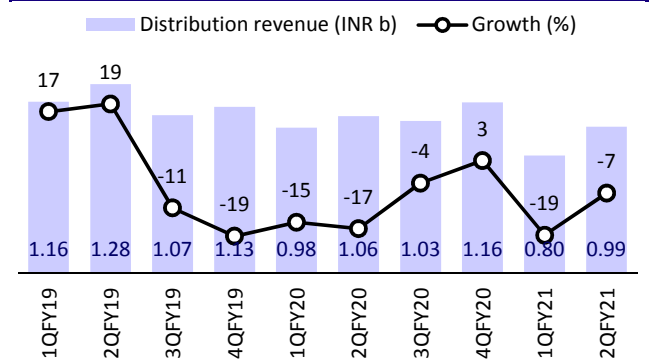
Source: MOFSL, Company

Exhibit 5: Institutional Brokerage revenue is healthy



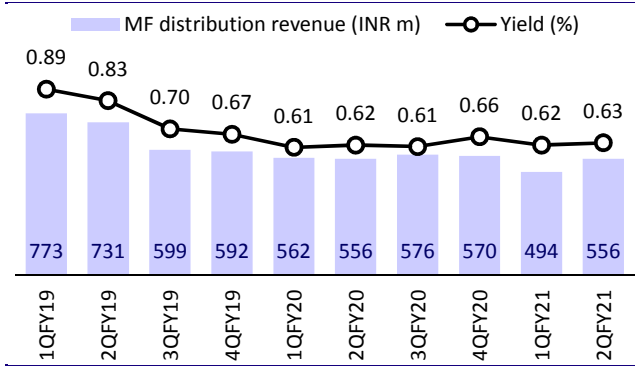
Source: MOFSL, Company

Exhibit 6: Distribution revenue picks up QoQ



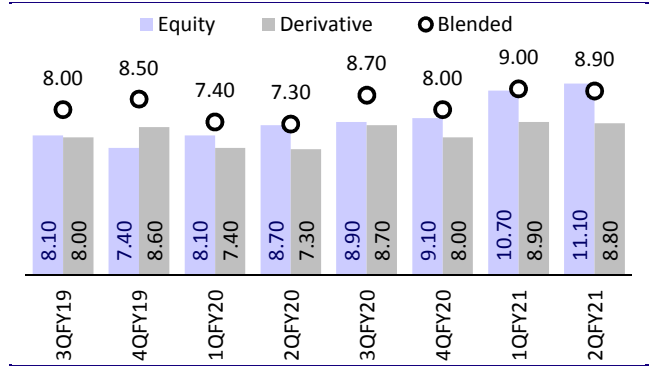
Source: MOFSL, Company

Exhibit 7: MF distribution yields stable



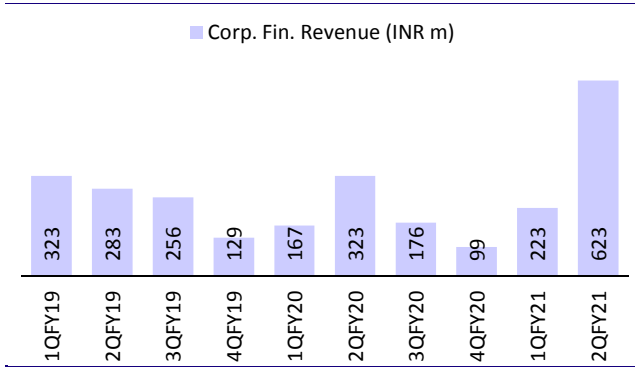
Source: MOFSL, Company

Exhibit 8: 30bp QoQ increase in cash equities MS (%)



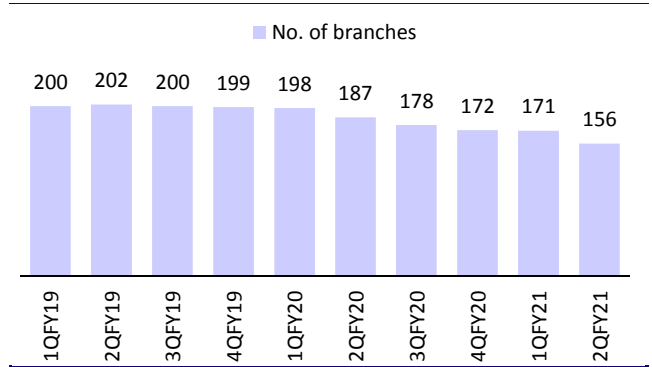
Source: MOFSL, Company

Exhibit 9: Investment Banking revenue doubles YoY



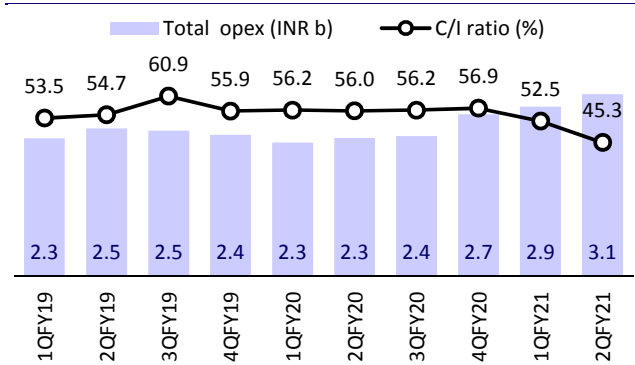
Source: MOFSL, Company

Exhibit 10: Branch rationalization ongoing



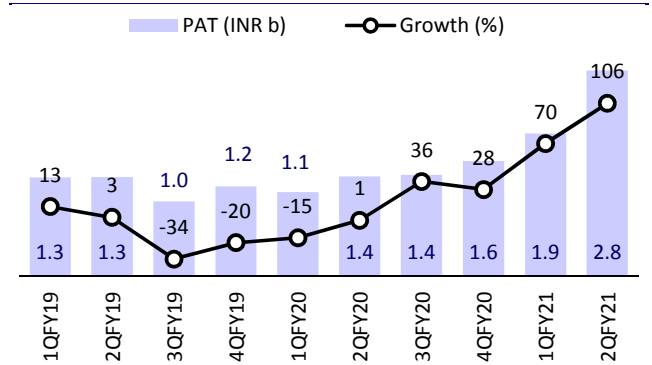
Source: MOFSL, Company

Exhibit 11: C/I ratio down ~700bp QoQ



Source: MOFSL, Company

Exhibit 12: PAT jumps sharply



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Total Income	11,246	14,042	18,610	17,270	17,249	24,073	24,676	26,800
Change (%)	-7.0	24.9	32.5	-7.2	-0.1	39.6	2.5	8.6
Brokerage Income	6,607	7,756	10,243	9,328	9,476	14,747	14,084	14,862
Income from Services	3,499	4,982	6,552	5,733	5,218	5,766	6,436	7,111
Interest Income	957	1,091	1,574	1,792	2,350	3,220	3,702	4,258
Other Operating Income	182	214	241	193	19	321	431	541
Other Income	0	0	0	225	187	20	24	29
Operating Expenses	7,505	8,822	10,086	9,698	9,720	12,032	12,698	13,734
Change (%)	-1.2	17.6	14.3	-3.8	0.2	23.8	5.5	8.2
Employee expenses	4,014	4,847	5,504	5,545	5,338	6,992	7,552	8,156
Interest expenses	258	289	495	423	864	1,123	1,292	1,485
Depreciation	160	155	153	150	614	540	565	590
Others	3,073	3,531	3,935	3,580	2,905	3,376	3,290	3,503
Profit Before Tax	3,741	5,220	8,524	7,572	7,529	12,042	11,978	13,066
Change (%)	-16.8	39.5	63.3	-11.2	-0.6	59.9	-0.5	9.1
Tax	1,354	1,835	2,989	2,665	2,109	3,071	3,054	3,332
Tax Rate (%)	36.2	35.1	35.1	35.2	28.0	25.5	25.5	25.5
PAT	2,387	3,386	5,535	4,907	5,420	8,971	8,924	9,735
Change (%)	-18.8	41.8	63.5	-11.3	10.4	65.5	-0.5	9.1
Proposed Dividend	1,939	2,468	3,646	3,646	3,825	6,280	6,247	6,814

Balance Sheet						(INR m)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Equity Share Capital	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Reserves & Surplus	2,371	3,404	6,866	8,862	10,485	13,176	15,853	18,773
Net Worth	3,982	5,015	8,477	10,473	12,095	14,787	17,464	20,384
Borrowings	2,356	3,987	6,771	4,518	14,998	13,498	14,848	17,075
Other Liabilities	7,637	11,423	13,491	31,655	17,335	19,069	20,976	23,073
Total Liabilities	13,975	20,424	28,739	46,646	44,428	47,353	53,287	60,532
Cash and Investments	6,406	9,952	15,499	31,515	24,139	23,367	26,149	29,768
Change (%)	-25.0	55.3	55.7	103.3	-23.4	-3.2	11.9	13.8
Loans	1,546	50	5,782	4,033	5,709	7,992	9,591	11,509
Net Fixed Assets	378	375	421	476	2,061	2,267	2,494	2,743
Net Current Assets	5,644	10,048	7,037	10,623	12,520	13,727	15,054	16,512
Total Assets	13,975	20,424	28,739	46,646	44,428	47,353	53,287	60,532

E: MOFSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
As a percentage of Revenues								
Brokerage Income	58.8	55.2	55.0	54.0	54.9	61.3	57.1	55.5
Income from Services	31.1	35.5	35.2	33.2	30.2	24.0	26.1	26.5
Interest Income	8.5	7.8	8.5	10.4	13.6	13.4	15.0	15.9
Other Income	1.6	1.5	1.3	2.4	1.2	1.4	1.8	2.1
Total cost	66.7	62.8	54.2	56.2	56.4	50.0	51.5	51.2
Employee Cost	35.7	34.5	29.6	32.1	30.9	29.0	30.6	30.4
Opex (ex emp) Cost	31.0	28.3	24.6	24.0	25.4	20.9	20.9	20.8
PBT	33.3	37.2	45.8	43.8	43.6	50.0	48.5	48.8
PAT	21.2	24.1	29.7	28.4	31.4	37.3	36.2	36.3
Profitability Ratios (%)								
RoE	63.6	75.3	82.0	51.8	48.0	66.7	55.3	51.4
Dividend Payout Ratio	81.2	72.9	65.9	74.3	70.6	70.0	70.0	70.0
Valuations								
BVPS (INR)	12.4	15.6	26.3	32.5	37.5	45.9	54.2	63.3
Change (%)	13.0	25.9	69.0	23.5	15.5	22.3	18.1	16.7
Price-BV (x)					12.9	10.6	8.9	7.7
EPS (INR)	7.4	10.5	17.2	15.2	16.8	27.8	27.7	30.2
Change (%)	-18.8	41.8	63.5	-11.3	10.4	65.5	-0.5	9.1
Price-Earnings (x)					28.8	17.4	17.5	16.0
DPS (INR)	5.0	6.4	9.4	9.4	11.0	19.5	19.4	21.2
Dividend Yield (%)					2.3	4.0	4.0	4.4

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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