

ICICI Securities Ltd.



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Steady topline growth; well-controlled costs

CMP INR 414	Target INR 578	Potential Upside 39.5%	Market Cap (INR Mn) INR 133,320	Recommendation BUY	Sector Financial Services
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Result Highlights of Q3FY21

- Total revenues reported at INR 6.2bn (-8.9% qoq, 46.9% yoy) as against INR 6.8bn / INR 4.2bn in Q2FY21 and Q3FY20, respectively. Revenue de-growth in segment 'equities and allied activities' was due to new margin norms which came in force from Dec'20. Distribution revenue grew up to INR 10.8bn (+9% qoq)
- EBITDA reported at INR 3.97bn (-4.1% qoq/ 79.3% yoy); however, EBITDA margin improved up to 64% (+319bps qoq / +1158bps yoy) on the back of reduction in employee expenses (-27% yoy / -2.3% yoy)
- Cost to income ratio has been improved up to 42.3% (-299bps qoq, -1398bps yoy)
- PBT reported at INR 3.6 bn (-3.9% qoq / 93.3% yoy). PBT margin reported at 57.7% (+300bps qoq / +1386bps yoy)
- PAT reported at INR 2.7 bn (-4.0% qoq / 94.6% yoy). PAT margin reported at 43.1% (+220bps qoq / +1056bps yoy)
- ROE stood at 71% (-500bps qoq / +2000 bps)

MARKET DATA

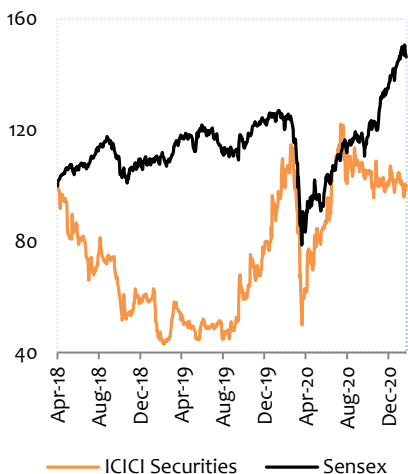
Shares outs (Mn)	322
Equity Cap (INR Mn)	1,611
Mkt Cap (INR Mn)	133,320
52 Wk H/L (INR)	569/204
Volume Avg (3m K)	658.3
Face Value (INR)	5
Bloomberg Code	ISEC IN

Key Financials

Particulars (INR mn)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Revenue	18610.1	17045.7	17062.2	24540.3	25092.7	28111.6
EBITDA	9232.4	7947.6	8820.0	14915.3	16281.9	17774.7
PAT	5534.7	4907.3	5420.0	9896.0	10296.8	10342.5
PAT margin (%)	29.7%	28.8%	31.8%	40.3%	41.0%	36.8%
EPS	17.2	15.2	16.8	30.7	31.9	32.1
P/E	25.7X	15.9X	16.5X	13.5X	13.0X	12.9X

Source: Company data, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	47,410
NIFTY	13,968

SHARE HOLDING PATTERN (%)

Particulars	Dec 20	Sep 20	Aug 20
Promoters	75.0	77.2	79.2
FIIIs	4.6	4.0	3.8
DIIIs	9.9	10.1	10.2
Others	10.5	8.8	6.9
Total	100.0	100.0	100.0

Sequential de-growth in topline; yet a strong quarter

- Revenue witnessed 9% sequential de-growth; however, it reported 46.9% yoy growth on the back of growing performance of Indian equity markets. ISEC witnessed decline in intraday/derivative trading volumes in Q3FY21 due to new margin norms which came in force from Dec'20. PAT reported at INR 2.7bn (95% yoy) was backed by improved cost efficiency.
- Overall distribution revenue grew by 9% qoq to INR 10.8bn. Mutual Fund (MF) revenue growth was led by increased MF market share to 0.28% from 0.15% and Non MF revenue grew on the back of increased proprietary PMS AUM of INR 1.7bn, home loan disbursements of INR 360 cr and 20% qoq growth in insurance revenue
- Private wealth management revenue grew at INR 1.14bn (86.9% yoy) where 6,700 clients were added during the quarter
- Issuer and advisory services revenue reported at INR 234 mn (33% yoy, -62% qoq) on the back of 10 investment banking deals (vs 7 in Q3FY20) and strong IPO pipeline of 10 deals amounting over INR 138 bn

Focus on new product launches to attract more customers

- NEO plan: the launch of NEO plan was targeted towards price sensitive customers where 20,000 new customers were added as on the date. Management is focused on new product launches in order to attract new as well as old customers.
- Further, it has launched 'ICICI Direct money', an easy to use app with view to simplify MF investment particularly for first time investors.

A cost efficient model; constant focus on streamlining operations

- Reduction in number of branches while increasing its number of business partners; a well-organised strategy to bring cost efficiency in the overall business. Cost to income ratio stood at 42.3% for the quarter. We expect ISEC's cost to income ratio to be in the range of ~46%-53% during FY22-23E.
- Enhanced operating leverage has generated more returns for Q3FY21 where branches reduced to 151 (-15% yoy) from 178 in Q3FY20 and employees stood at 3876 (-2% yoy) from 3955 in Q3FY20. Also, employee expenses were declined on the back of lower variable payment to employees in accordance with board policy.

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Key Con-call Highlights

Key industry highlights

- Equity markets continued strong momentum. During Q3FY21, 3.2mn new demat accounts were opened. Equity and derivatives ADTO increased 53% and 76% on yoy basis. Equity capital markets also saw 27 deals in the quarter as compared 12 in Q3FY20.
- Mutual funds witnessed subdued growth with gross flows declined by 41% yoy basis while net flows increased by 2% yoy basis driven by debt mutual funds. Equity MFs witnessed net outflow for straight 6th month in the month of Dec'20. SIPs flows for the industry fell to INR 73bn in Nov'20, the lowest since Apr'18. It has recovered back to INR 84bn in Dec'20.
- New margin rules by SEBI led to reduction in volume for the intraday equity and derivative products. However, there was an upsurge in cash delivery volume.

Key business highlights

- Overall business growth led by rapid digitisation; ISEC's 99%/95% of equity/MF transactions were performed online. Digital penetration is expected in future, as industry has witnessed a sharp shift from physical to digital/online transactions.
- Implementation of new margin norms resulted in declined turnover of derivative and intraday cash in month of Dec'20. Derivative Market share stood at 6.3% (-240bps yoy) in Q3FY21 primarily attributed by declined market share in the month of Dec'20. This was primarily on account of decline in offered leverage to its customers which was more than other brokers in the industry. However, this volume loss did not translate into equivalent revenue loss as the decrease in volume was driven by intraday low yielding products. In fact, decline in derivatives revenue in Dec'20 month as compared with Nov'20 represents only 7.6% of total retail brokerage revenue. Total retail equities revenue increased for the month of Dec'20 (9% mom) despite regulatory development.
- MTF+ESOP book witnessed stable sequential growth where continued growth observed for MTF book. ESOP book was encashed and declined during the quarter.

Other key updates

- Client base crossed 5 mn; it added 1.4 lakh customers which was highest ever in a quarter. NSE active customers increased by +50,000 in the Dec'20 highest in 9 months and incremental market share increased to 7% up from 1.5% in Apr'20 when the pandemic was broke out. It continues to invest in resources and efforts to further scale up digital sourcing in the coming quarters. This initiative has helped ISEC diversifying its sourcing mix with all non ICICI bank sourcing channels which includes digital sourcing, business partners and their own RM network which contributed 41% of total accounts sourced.
- Open architecture through digital channels sourced 38,000 customers in Q3FY21 as against 20,000 in Q1FY21 and 28,000 in Q2FY21. In Q3FY21, ~30% of total accounts sourced through other than ICICI bank. Client activation ratio continued its uptrend up to 67%. Additionally, healthy adoption of product proposition along with available client sourcing channels has helped grow NSE active clients base by 34% yoy basis which stood at 1.29 mn as at Dec'20. Also, total active client base stood at 1.63 mn (17% yoy).
- Home loans disbursement during Q3FY21 increased to INR 360 cr as against INR 240 cr in Q3FY20, highest amongst all previous quarters. Average MTF+ESOP book grew by 100% yoy basis which further diversified equities revenues. 17% of total retail equities revenue were from allied activities (ESOP+MTF interest income, depository/ other charges, NEO/prime subscription fees).
- Increased cross selling and customers with 2+ products increased over 1 mn (9% yoy) which has increased its cross sell ratio at 1.7 products per customer. Heightened focus on net promoter score in order to understand customers' risk appetite and preferences to ensure sustainable lifetime relationship. For improved API architecture and digitisation, ISEC has scrutinized ~140 fintechs of which 9 on boarded in various stages of implementation.
- NEO plan observed healthy run rate from new customers and reactivation of old customers. The product 'Options 20' has led to derivative revenue growth. There was a more traction from its existing customers. These plans are changing the model from volume to activity based revenue.

Valuation

We expect ISEC's blended market share to grow on account of positive momentum across capital markets and management's focused strategies towards business growth. Reactivation of old customers and rapid new client acquisition backed by new product propositions to boost overall business growth. Management is expected to have steady investment in digitisation to uphold digital agility of the business model. Enhanced operating leverage and adequate free cash flow to support overall business. We expect net earnings to grow healthy with improved cost to income ratio. Accordingly, we have raised our estimates for FY21-23E. We expect revenue to grow at 18% CAGR and PAT by 24% CAGR during the same period. **We rollover our valuation on FY23E EPS estimates of INR 32.1. We assign P/E multiple of 18x to our FY23E EPS of INR 32.1 to arrive at target price of INR 578/share (Previous target price: INR 565/share). We maintain our BUY recommendation on the stock.**

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Q3FY21 Result Performance

Particulars (INR mn)	Q3 2021	Q2 2021	QoQ (%)	Q3 2020	YoY (%)
Total Revenue	6201.1	6806.8	-8.9%	4222.4	46.9%
Employee Expenses	1297.4	1795.6	-27.7%	1328.1	-2.3%
Operating Expenses	948.4	848.5	11.8%	679.8	39.5%
Other Expenses	-14.7	21.9	-167.1%	0.2	-7450.0%
EBITDA	3970.0	4140.8	-4.1%	2214.3	79.3%
EBITDA Margin (%)	64.0%	60.8%	319bps	52.4%	1158bps
Depreciation and Amortization	137.6	130.7	5.3%	148.4	-7.3%
EBIT	3832.4	4010.1	-4.4%	2065.9	85.5%
EBIT Margin (%)	61.8%	58.9%	289bps	48.9%	1287bps
Interest Expenses	253.2	284.9	-11.1%	219.2	15.5%
Other income	-1.4	-2.2	-36.4%	4.3	-132.6%
Profit Before Tax	3577.8	3723.0	-3.9%	1851.0	93.3%
PBT Margin (%)	57.7%	54.7%	300bps	43.8%	1386bps
Tax expenses	907.6	941.5	-3.6%	478.7	89.6%
Profit After Tax	2670.2	2781.5	-4.0%	1372.3	94.6%
PAT Margin (%)	43.1%	40.9%	220bps	32.5%	1056bps
Key Ratios (%)					
Cost to Income (%)	42.3%	45.3%	-299bps	56.3%	-1398bps
ROE (%)	71.0%	76.0%	-500bps	51.0%	2000bps

Source: Company data, KRChoksey Research

Performance Trend

Particulars (INR mn)	FY 2019	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 2020	Q1FY21	Q2FY21	Q3FY21
Retail Equities and Allied	8933	2089	2072	2277	2915	9354	3209	3534	3243
ESOP+MTF	770	175	199	261	335	970	230	447	443
Prime	9	21	40	55	79	196	104	129	146
Institutional Equities	1174	306	326	285	372	1289	348	386	380
Distribution	4279	984	991	983	1155	4031	798	990	1079
MF Revenue	2695	562	556	576	570	2263	494	571	627
Non MF Revenue	1584	461	435	527	709	1768	336	475	542
Issuer Services & Advisory	991	167	323	176	99	764	223	623	234

Equities Segment	FY 2019	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 2020	Q1FY21	Q2FY21	Q3FY21
Operational accounts (mn)	4.43	4.52	4.6	4.68	4.77	4.77	4.86	4.96	5.07
Overall active clients (mn)	1.2	1.31	1.33	1.39	1.48	1.5	1.51	1.56	1.63
NSE Active clients (mn)	0.844	0.88	0.91	0.96	1.08	1.10	1.10	1.20	1.29
Direct Prime Clients (mn)	0	0.10	0.16	0.24	0.32	0.30	0.38	0.42	0.53
ISEC blended market share (%)	8.5%	7.4%	7.3%	8.7%	8.0%	7.9%	9.0%	8.9%	6.5%
Equity market share (%)	7.7%	8.1%	8.7%	8.9%	9.1%	8.7%	10.7%	11.1%	10.5%
Derivative market share (%)	8.6%	7.4%	7.3%	8.7%	8.0%	7.9%	8.9%	8.8%	6.3%

Source: Company data, KRChoksey Research

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Key Business Segments

Particulars	FY 2019	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 2020	Q1FY21	Q2FY21	Q3FY21
Mutual Fund Average AUM (INR bn)	347	368	358	375	345	362	318	352	383
Mutual Fund Equity AUM (INR bn)	258	274	263	279	254	268	236	262	287
Life Insurance Premium (INR mn)	8868	1483	1982	1865	2653	7983	1231	1729	1783
Life Insurance Revenue (INR mn)	474	76	123	120	171	490	49	97	116
Proprietary PMS AUM (INR bn)	0	0.1	0.5	1.1	1.1	1.1	1.3	1.6	1.7
ESOP and MTF book (INR bn)	4.6	5.1	6	9.5	12.5	5.8	9.5	18.1	18.4

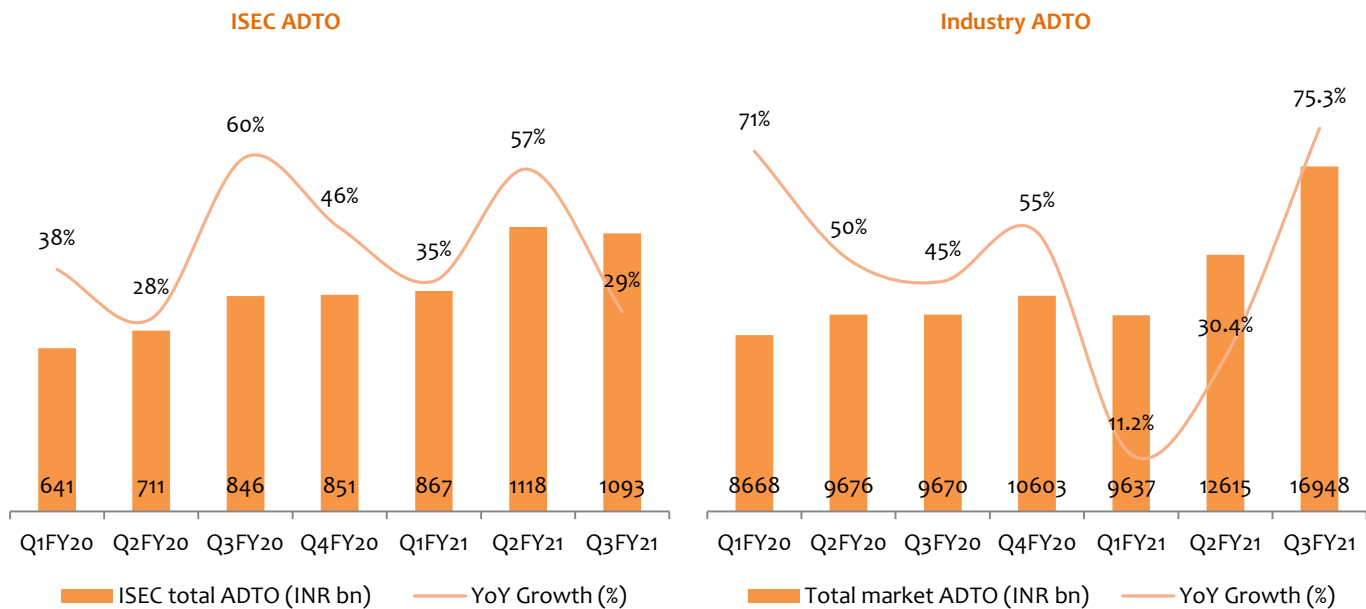
Source: Company data, KRChoksey Research

Quarterly performance of key parameters

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Home loans Disbursed (INR bn)	2.50	2.40	2.40	2.10	0.90	3.00	3.60
Clients with +2 products (INR mn)	0.87	0.88	0.91	0.93	0.95	0.97	0.99
Cross sell ratio	1.53	1.48	1.55	1.60	1.62	1.70	1.70
Head count	4298	4077	3955	3790	3729	3669	3876
Branch count	198	187	178	172	171	156	151
Cost to income (%)	56.0%	56.0%	56.0%	57.0%	53.0%	45.0%	42.3%
ROE (%)	41.0%	48.0%	51.0%	55.0%	59.0%	76.0%	71.0%

Source: Company data, KRChoksey Research

Quarterly Trend: Average Daily Turnover (ADTO)



Source: Company data, KRChoksey Research

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Financial Statements

PROFIT & LOSS ACCOUNT (INR mn)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Total Revenue	18610.1	17045.7	17062.2	24540.3	25092.7	28111.6
Operating expenses	9377.7	9098.1	8242.2	9625.0	8810.8	10336.9
EBITDA	9232.4	7947.6	8820.0	14915.3	16281.9	17774.7
Depreciation and Amortization	153.0	149.5	614.0	537.3	659.6	731.7
EBIT	9079.4	7798.1	8206.0	14378.0	15622.3	17043.0
Interest Expenses	495.0	423.4	863.9	1132.0	1893.3	3253.0
Other income	-60.5	197.6	187.2	0.0	0.0	0.0
Profit before tax	8523.9	7572.3	7529.3	13246.0	13729.0	13790.0
Tax expenses	2989.2	2665.0	2109.3	3350.0	3432.3	3447.5
Profit After Tax	5534.7	4907.3	5420.0	9896.0	10296.8	10342.5

Source: Company data, KRChoksey Research

BALANCE SHEET (INR mn)	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Share capital	1610.7	1610.7	1610.7	1610.7	1610.7	1610.7
Reserves & surplus	6866.4	8862.0	10484.7	14747.7	18807.3	22885.2
Shareholders' funds	8477.1	10472.7	12095.4	16358.4	20418.0	24495.9
Borrowings	6724.2	4473.0	14975.3	21514.6	25817.5	28399.3
Other liabilities & provisions	13535.8	31700.2	17357.5	16259.2	16998.4	20275.0
TOTAL LIABILITIES & EQUITY	28737.1	46645.9	44428.2	54132.2	63233.9	73170.2
Cash and Bank	15459.7	31486.2	24114.0	24599.0	25253.6	23872.9
Investments	39.2	28.5	24.7	27.2	24.5	22.0
Advances	5782.3	4032.7	5708.7	9133.9	13700.9	20551.3
Fixed & other assets	7454.5	11098.4	14580.8	20372.2	24255.1	28723.9
TOTAL ASSETS	28735.7	46645.8	44428.2	54132.2	63234.0	73170.2

Source: Company data, KRChoksey Research

KEY RATIOS	FY 2018	FY 2019	FY 2020	FY 2021E	FY 2022E	FY 2023E
Growth rates						
Revenue (%)	32.5%	-8.4%	0.1%	43.8%	2.3%	12.0%
EBITDA (%)	63.0%	-13.9%	11.0%	69.1%	9.2%	9.2%
PAT (%)	63.5%	-11.3%	10.4%	82.6%	4.0%	0.4%
Total Assets (%)	40.1%	62.3%	-4.8%	21.8%	16.8%	15.7%
Other Ratios						
Cost/income (%)	53.9%	56.7%	57.0%	46.0%	45.3%	50.9%
Opex/ average assets (%)	38.7%	24.5%	19.4%	20.6%	16.1%	16.2%
Debt/Equity	0.79	0.43	1.24	1.32	1.26	1.16
Profitability						
ROAA (%)	22.5%	13.0%	11.9%	20.1%	17.5%	15.2%
ROAE (%)	82.3%	51.8%	48.0%	69.6%	56.0%	46.1%
Per share data / Valuation						
EPS (INR)	17.2	15.2	16.8	30.7	31.9	32.1
BV (INR)	26.3	32.5	37.5	50.7	63.3	76.0
P/E (x)	25.7x	15.9x	16.5x	13.5x	13.0x	12.9x
P/BV (x)	16.8x	7.5x	7.4x	8.2x	6.5x	5.4x

Source: Company data, KRChoksey Research

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Bandhan Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Jan-21	414	578	BUY	Buy	More than 15%
9-Dec-20	461	565	BUY	Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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