

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	ISEC IN
Equity Shares (m)	322
M.Cap.(INRb)/(USDb)	264.3 / 3.5
52-Week Range (INR)	896 / 357
1, 6, 12 Rel. Per (%)	-1/-7/67
12M Avg Val (INR M)	502

## Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Revenues	25.9	34.5	37.6
Opex	11.6	15.6	17.3
PBT	14.3	18.9	20.2
PAT	10.7	14.0	15.0

## Ratios

C/I ratio (%)	44.7	45.2	46.1
PAT margin (%)	41.3	40.7	40.1
RoE (%)	70.4	67.9	58.4
Div. Payout (%)	65.0	65.0	65.0
EPS	33.1	43.6	46.7

## Valuations

P/E (x)	24.7	18.8	17.5
P/BV (x)	14.5	11.4	9.3
Div. Yield (%)	2.6	3.5	3.7

## Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	74.9	74.9	75.0
DII	7.8	7.5	9.9
FII	6.6	6.3	4.6
Others	10.7	11.3	10.5

FII Includes depository receipts

**CMP: INR819** **TP: INR1,000 (+22%)** **Buy**

## Brokerage revenues stay flattish, MTF and distribution income yield positive surprise

- ISEC witnessed flattish retail broking revenue for the seventh consecutive quarter despite improved traction in client acquisitions. However, this was more than offset by the strong performance in distribution, MTF books and investment banking revenue. Resultantly, ISEC's 3QFY22 revenue at INR9.4b (+52% YoY) was 10% higher than our forecasts. PAT at INR3.8b (+42% YoY) was ahead of our estimates by 11%, while the C/I ratio inched up 90bp sequentially to 45.9% driven by 11% rise in other expenses (mainly marketing costs and technology investments).
- We have raised our FY22E/FY23E EPS by ~3%/1%, to factor in higher-than-expected traction in the distribution segment. We have, however, lowered our growth estimates for Investment Banking and MTF segments (due to the impact from ESOP funding rule). We maintain our BUY rating on the stock with a revised TP of INR1,000 (based on 21x Sep'23E P/E), implying 22% potential upside.

## Retail broking topline remains muted; client additions gain traction

- Retail broking revenue remained flat QoQ, but grew 7% YoY to INR3.5b.
- ISEC's equity market share declined 50bp QoQ to 8.3% and derivatives market share saw a contraction of 10bp QoQ to 3.0%.
- The Institutional Equities segment delivered 15% YoY growth and 2% QoQ de-growth at INR438m.
- **ISEC added 676k new customers in 3QFY22 v/s 583k QoQ.** Its Prime plan saw the highest ever client additions during 3QFY22, taking the total customer count to 960k. Client acquisitions in the Neo plan have also started to witness some uptick.
- The activation rate was stable sequentially and improved 700bp YoY to 74%. **The number of NSE active clients rose to 2.8m from 2.3m QoQ.**

## Distribution income continues to drive overall revenue growth

- Distribution revenue rose 52% YoY to INR1.6b (+8% QoQ), led by strong performance in MF distribution that grew 11% QoQ. SIP count rose to 0.98m from 0.92m in 2QFY22. Overall, MF AUM grew 31% YoY to INR503b.
- With healthy deals, investment banking revenue jumped to INR1.1b. ISEC continues to have a strong deal pipeline (IPO) with 63 deals amounting over INR850b.

## Highlights from the management commentary

- Gross revenue impact of INR150-200m due to the revised RBI guidelines on ESOP funding. The MTF and ESOP books to see some decline in the coming quarters with ESOP books winding down.
- ISEC's market share in the MTF business stood at 22%.
- Some of the initiatives, to improve the market shares in Cash and Derivatives segments, have already been implemented and a few would be implemented in 4QFY22. Results are expected to be visible in 1-2 quarters.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Valuation and view**

ISEC has seen significant traction in client additions over the past few quarters, driven by digital organic sourcing. However, the same has not been replicated in brokerage market share. With initiatives such as the NEO plan being implemented, the company expects improvement going ahead. Conversely, there has been a marked growth in the MTF books led by a strong product offering. Distribution income growth has been robust driven by all sub-segments (MFs, insurance and loans). With strong capital markets, new tie-up with HDFC Life and new loan product launches, we expect the momentum to sustain. However, we have moderated our growth assumptions for the MTF (due to ESOP funding impact) and Investment Banking segments. **Our FY22E/FY23E EPS are higher by ~3%/1% to factor in higher-than-expected traction in the distribution segment. We maintain our BUY rating on the stock with a revised TP of INR1,000 (based on 21x Sep'23E P/E), implying 22% potential upside.**

**Quarterly Performance****(INR m)**

Y/E March	FY21				FY22				FY21	FY22E	FY22 3QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue from Operations	5,460	6,807	6,201	7,393	7,453	8,564	9,416	8,998	25,862	34,431	8,566	9.9
<b>Total Income</b>	<b>5,464</b>	<b>6,805</b>	<b>6,200</b>	<b>7,393</b>	<b>7,477</b>	<b>8,566</b>	<b>9,419</b>	<b>8,994</b>	<b>25,862</b>	<b>34,456</b>	<b>8,566</b>	<b>10.0</b>
Change YoY (%)	35.9	62.7	46.7	53.4	36.8	25.9	51.9	21.6	49.9	33.2	38.2	
Operating Expenses	2,870	3,082	2,622	2,980	3,310	3,856	4,321	4,080	11,554	15,567	3,930	9.9
Change YoY (%)	26.9	31.6	10.4	8.7	15.3	25.1	64.8	36.9	18.9	34.7	49.9	
<b>PBT</b>	<b>2,594</b>	<b>3,723</b>	<b>3,578</b>	<b>4,413</b>	<b>4,167</b>	<b>4,709</b>	<b>5,099</b>	<b>4,914</b>	<b>14,308</b>	<b>18,889</b>	<b>4,636</b>	<b>10.0</b>
Change YoY (%)	47.4	102.2	93.3	112.4	60.6	26.5	42.5	11.4	90.0	32.0	29.6	
Tax Provisions	663	942	908	1,118	1,060	1,197	1,295	1,303	3,631	4,854	1,196	8.3
<b>Net Profit</b>	<b>1,931</b>	<b>2,782</b>	<b>2,670</b>	<b>3,295</b>	<b>3,107</b>	<b>3,512</b>	<b>3,804</b>	<b>3,611</b>	<b>10,677</b>	<b>14,035</b>	<b>3,440</b>	<b>10.6</b>
Change YoY (%)	69.7	105.9	94.6	111.4	60.9	26.3	42.5	9.6	97.0	31.4	28.8	
<b>Key Operating Parameters (%)</b>												
Cost to Income Ratio	52.5	45.3	42.3	40.3	44.3	45.0	45.9	45.4	44.7	45.2	45.9	0.0
PBT Margin	47.5	54.7	57.7	59.7	55.7	55.0	54.1	54.6	55.3	54.8	54.1	0.0
Tax Rate	25.6	25.3	25.4	25.3	25.4	25.4	25.4	26.5	25.4	25.7	25.8	-0.4
PAT Margins	35.3	40.9	43.1	44.6	41.6	41.0	40.4	40.1	41.3	40.7	40.2	0.2
<b>Revenue from Operations (INR m)</b>												
Retail Brokerage Income	3,169	3,534	3,242	3,461	3,518	3,496	3,482	3,489	13,406	13,985		
Institutional Brokerage Income	348	386	380	485	432	445	438	444	1,599	1,759		
Investment Banking	223	623	234	533	474	727	1,105	759	1,613	3,065		
Distribution Income	798	990	1,079	1,412	1,206	1,512	1,635	1,747	4,279	6,100		
Other servicing Income	103	285	275	405	428	493	566	491	1,069	1,977		
Interest Income	624	898	893	1,034	1,317	1,702	2,047	2,004	3,449	7,070		
Other Operating Income	195	90	98	64	78	189	144	65	447.3	475		
<b>Revenue from Operations Mix (%)</b>												
Retail Brokerage Income	58.0	51.9	52.3	46.8	47.2	40.8	37.0	38.8	51.8	40.6		
Institutional Brokerage Income	6.4	5.7	6.1	6.6	5.8	5.2	4.7	4.9	6.2	5.1		
Investment Banking	4.1	9.2	3.8	7.2	6.4	8.5	11.7	8.4	6.2	8.9		
Distribution Income	14.6	14.5	17.4	19.1	16.2	17.7	17.4	19.4	16.5	17.7		
Other servicing Income	1.9	4.2	4.4	5.5	5.7	5.8	6.0	5.5	4.1	5.7		
Interest Income	11.4	13.2	14.4	14.0	17.7	19.9	21.7	22.3	13.3	20.5		
Other Operating Income	3.6	1.3	1.6	0.9	1.0	2.2	1.5	0.7	1.7	1.4		
<b>Opex Mix (%)</b>												
Employee Expenses	60.2	58.3	49.5	35.5	45.6	43.6	40.0	45.1	50.9			
Depreciation	4.7	4.2	5.2	4.7	4.4	3.8	3.7	4.1	4.7			
Interest Expenses	8.0	9.2	9.7	10.3	12.6	15.1	19.1	13.1	9.3			
Others	27.1	28.2	35.6	49.5	37.4	37.5	37.1	37.7	35.1			
<b>Other Parameters (%)</b>												
Blended MS	9.0	8.9	6.5	3.2	3.4	3.1	3.1					
Equity MS	10.7	11.1	10.5	9.6	9.2	8.8	8.3					
Derivatives MS	8.9	8.8	6.3	3.0	3.3	3.1	3.0					



## Highlights from the management commentary

### Industry

- Industry witnessed some growth moderation for both Cash and F&O volumes.
- ESOP financing capped at INR2m per customer according to new RBI guideline.

### Equity brokerage

- Working on the new product proposition that would help increase market share in retail segment for both equity and derivatives segments. Many of the initiatives have already been implemented and a few are likely to come by 4QFY22. Visible results in market share expected in the next 1-2 quarters.
- Introduced new plans for Prime & Prepaid, which are showing good traction.
- Jan'22 has already started to see some uptick in cash volumes.
- The revenue mix between cash and F&O has remained stable with a higher share of cash segment.
- RPU is currently at around INR9,000-10,000, considering total retail revenue. Newer customers who are joining in are younger and therefore have lower RPU, thereby, impacting the overall RPU level.
- During the quarter, Prime plan saw the highest ever client additions. Management expects the momentum to continue. Neo has started witnessing some uptick as well.
- Management expects growth to come in from (1) existing customers opting for higher proposition in Prime, and (2) traction in new customers acquired.
- Introduced scheme wherein, activations from customers who had stopped trading have improved by offering them a better proposition.

### MTF

- Gross revenue impact of INR150-200m due to a cap on ESOP funding. Eventually over the period, ESOP books to wind down as no new exposure can be taken.
- MTF contributed to more than 80% of the revenue within the MTF + ESOP segment.
- Upgrades incorporated within the app wherein one can select to pay upfront or opt for pay later during the buying process itself. The results are encouraging.
- Simplification of the process to lead to more and more customers opting for MTF option on MoM basis.
- The regulatory limit for MTF books stands at 5x of the net worth.

### IB and Corporate Advisory

- Investment banking is volatile in nature. This segment contributed to 15-20% of the overall revenue and profitability. Within this 20%, institutional flow business was more predictable in nature and the other part was volatile. Mix between the two was around 8:12. The company is trying to increase the share of predictable business by adding elements such as QIP.
- Market share in BFSI fund raising stood at ~90% during the past 18 months.
- Increasing resources in the Tech sector, as there is a good opportunity.
- Mobilization share in IB stood at 58% for the company.

### Cost

- 57% of the costs are variable in nature.
- Marketing spend was INR250-INR300m for the quarter.

### Others

- The company currently has ~140 branches.
- Improvement in MF Yields was largely due to higher share of Equity AUM.
- More than 95% of the other revenue is due to FD placed with exchanges. ISEC has FDs worth of INR70b.
- Non-home loan portfolio for the quarter was at INR1.8b and home loan portfolio stood at INR 4.1b.
- Yield on home loan portfolio is around 80-100bp depending on the product.

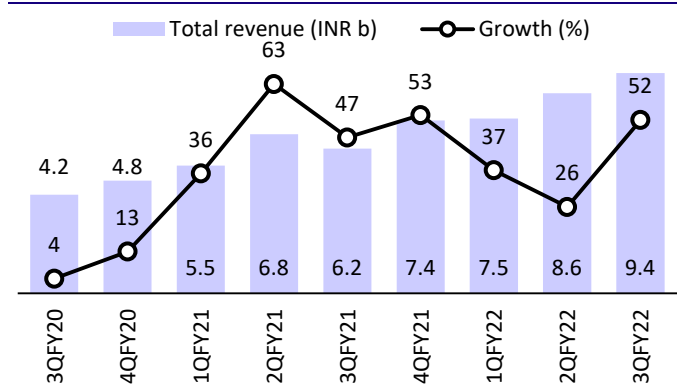
**Exhibit 1: Upgrade our FY22E/FY23E EPS by ~2.8/1.2% due to higher traction in the Distribution segment**

INR b	Old Est.			New Est.			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Brokerage Income	16.1	17.4	18.8	15.7	17.0	18.4	-1.9	-1.9	-1.9
Income from services	10.1	11.2	12.5	11.1	12.4	13.8	10.3	10.4	10.6
Other Income	7.2	8.3	9.3	7.6	8.1	8.8	4.4	-1.9	-6.0
<b>Total Income</b>	<b>33.4</b>	<b>36.9</b>	<b>40.6</b>	<b>34.5</b>	<b>37.6</b>	<b>41.1</b>	<b>3.2</b>	<b>1.8</b>	<b>1.0</b>
Operating Expenses	15.0	16.9	19.0	15.6	17.3	19.3	3.6	2.6	1.6
<b>PBT</b>	<b>18.4</b>	<b>20.0</b>	<b>21.7</b>	<b>18.9</b>	<b>20.2</b>	<b>21.8</b>	<b>2.8</b>	<b>1.2</b>	<b>0.5</b>
Tax	4.7	5.1	5.6	4.9	5.2	5.6	2.8	1.2	0.5
<b>PAT</b>	<b>13.7</b>	<b>14.9</b>	<b>16.1</b>	<b>14.0</b>	<b>15.0</b>	<b>16.2</b>	<b>2.8</b>	<b>1.2</b>	<b>0.5</b>
C/I ratio	45.0	45.8	46.6	45.2	46.1	46.9			
RoE	66.2	58.0	52.0	67.9	58.4	51.9			
Dividend payout ratio	65.0	65.0	65.0	65.0	65.0	65.0			

Source: MOFSL, Company

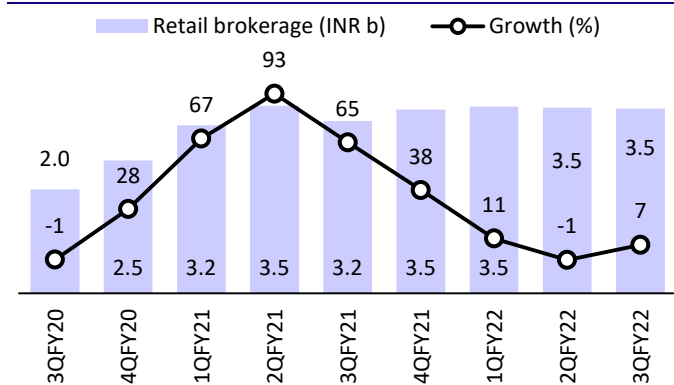
## Key exhibits

**Exhibit 2: Topline growth driven by strong performance in Distribution business**



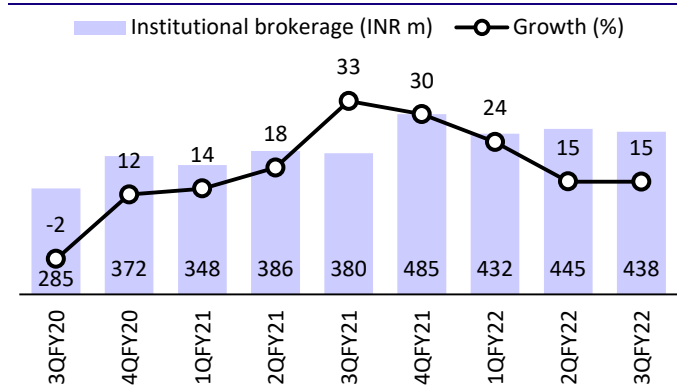
Source: MOFSL, Company

**Exhibit 3: Retail business remained range bound**



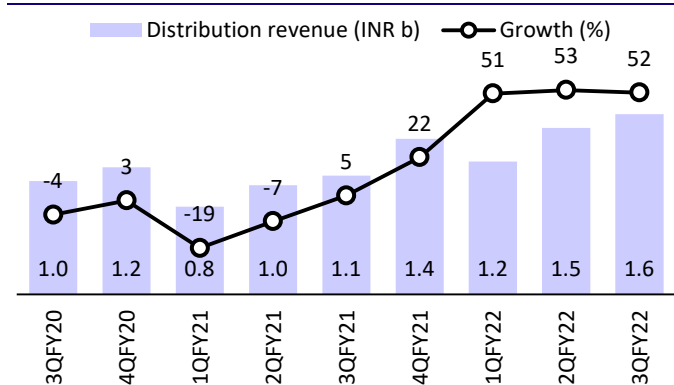
Source: MOFSL, Company

**Exhibit 4: Revenue from institutional brokerage grew 15%**

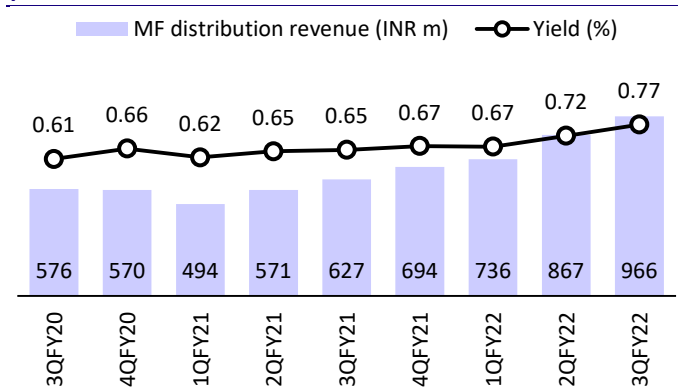


Source: MOFSL, Company

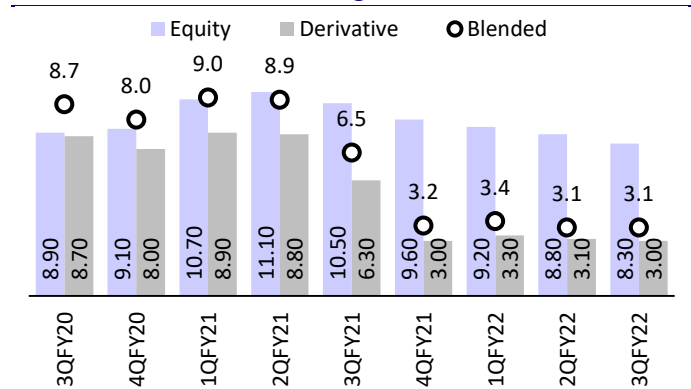
**Exhibit 5: Continued traction in Distribution segment**



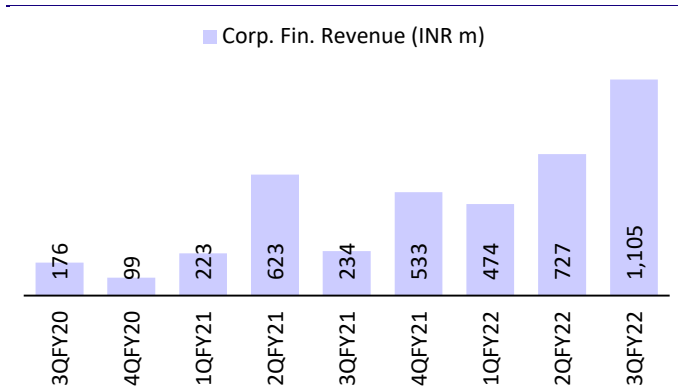
Source: MOFSL, Company

**Exhibit 6: MF distribution yields improved led by better product mix**

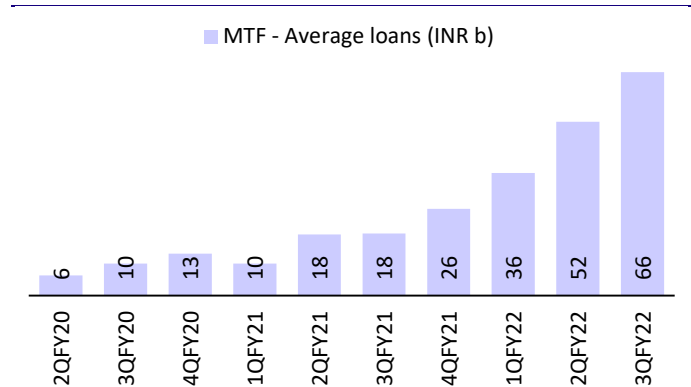
Source: MOFSL, Company

**Exhibit 7: Market share starting to stabilize**

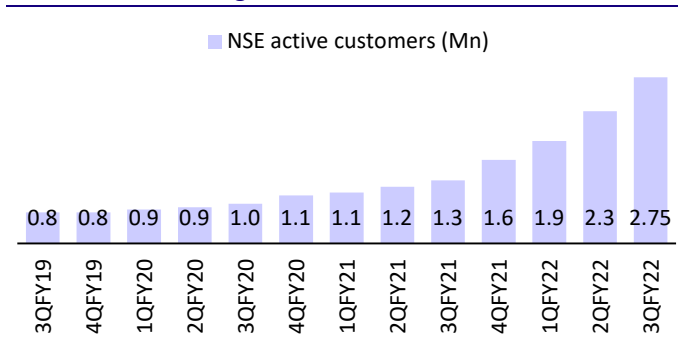
Source: MOFSL, Company

**Exhibit 8: Sharp jump in Investment Banking revenue**

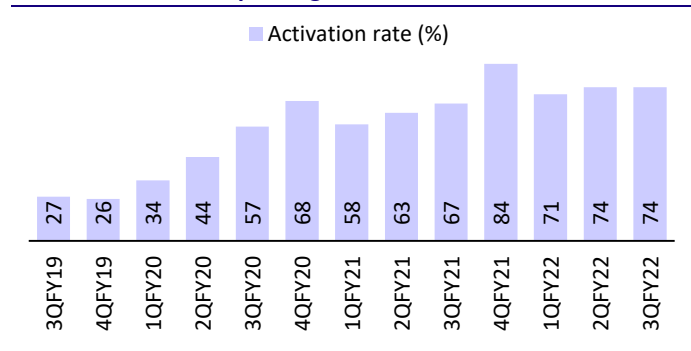
Source: MOFSL, Company

**Exhibit 9: Strong growth momentum in MTF books**

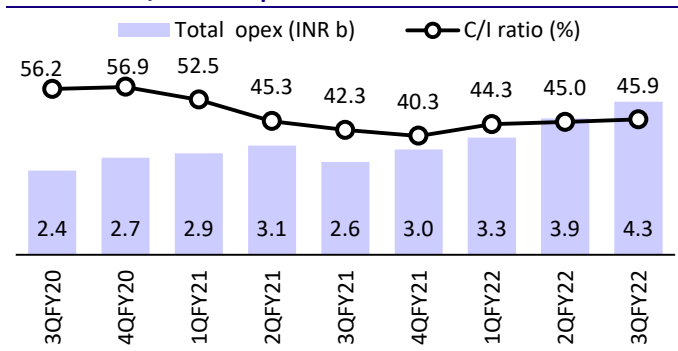
Source: MOFSL, Company

**Exhibit 10: Increasing NSE active customer count...**

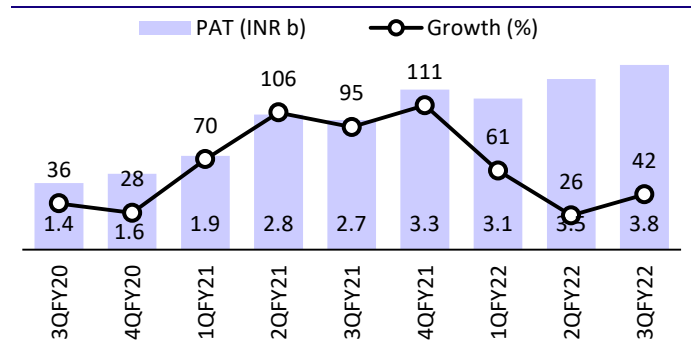
Source: MOFSL, Company

**Exhibit 11: ..with improving activation rate**

Source: MOFSL, Company

**Exhibit 12: C/I ratio improved YoY**

Source: MOFSL, Company

**Exhibit 13: Trend in PAT**

Source: MOFSL, Company

## Financials and valuations

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income</b>	<b>18,610</b>	<b>17,270</b>	<b>17,249</b>	<b>25,862</b>	<b>34,456</b>	<b>37,550</b>	<b>41,055</b>
Change (%)	32.5	-7.2	-0.1	49.9	33.2	9.0	9.3
Brokerage Income	10,243	9,328	9,476	15,045	15,744	17,038	18,440
Income from Services	6,552	5,733	5,218	6,961	11,142	12,416	13,847
Interest Income	1,574	1,792	2,350	3,449	7,070	7,635	8,246
Other Operating Income	241	193	19	407	476	431	486
Other Income	0	225	187	0	25	30	36
<b>Operating Expenses</b>	<b>10,086</b>	<b>9,698</b>	<b>9,720</b>	<b>11,554</b>	<b>15,567</b>	<b>17,307</b>	<b>19,259</b>
Change (%)	14.3	-3.8	0.2	18.9	34.7	11.2	11.3
Employee expenses	5,504	5,545	5,338	5,880	6,762	7,573	8,482
Interest expenses	495	423	864	1,073	2,360	2,549	2,753
Depreciation	153	150	614	542	620	595	570
Others	3,935	3,580	2,905	4,060	5,825	6,590	7,455
<b>Profit Before Tax</b>	<b>8,524</b>	<b>7,572</b>	<b>7,529</b>	<b>14,308</b>	<b>18,889</b>	<b>20,243</b>	<b>21,795</b>
Change (%)	63.3	-11.2	-0.6	90.0	32.0	7.2	7.7
Tax	2,989	2,665	2,109	3,631	4,854	5,202	5,601
Tax Rate (%)	35.1	35.2	28.0	25.4	25.7	25.7	25.7
<b>PAT</b>	<b>5,535</b>	<b>4,907</b>	<b>5,420</b>	<b>10,677</b>	<b>14,035</b>	<b>15,040</b>	<b>16,194</b>
Change (%)	63.5	-11.3	10.4	97.0	31.4	7.2	7.7
Proposed Dividend	3,646	3,646	3,825	6,940	9,122	9,776	10,526

### Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Reserves & Surplus	6,866	8,862	10,485	16,610	21,522	26,786	32,454
<b>Net Worth</b>	<b>8,477</b>	<b>10,473</b>	<b>12,095</b>	<b>18,221</b>	<b>23,133</b>	<b>28,397</b>	<b>34,065</b>
Borrowings	6,771	4,518	14,998	35,238	74,000	85,100	97,866
Other Liabilities	13,491	31,655	17,335	28,350	31,185	34,303	37,733
<b>Total Liabilities</b>	<b>28,739</b>	<b>46,646</b>	<b>44,428</b>	<b>81,809</b>	<b>1,28,318</b>	<b>1,47,801</b>	<b>1,69,664</b>
Cash and Investments	15,499	31,515	24,139	38,822	52,058	60,911	70,626
Change (%)	55.7	103.3	-23.4	60.8	34.1	17.0	15.9
<b>Loans</b>	<b>5,782</b>	<b>4,033</b>	<b>5,709</b>	<b>29,015</b>	<b>60,930</b>	<b>70,070</b>	<b>80,581</b>
Net Fixed Assets	421	476	2,061	1,688	1,857	2,043	2,247
Net Current Assets	7,037	10,623	12,520	12,285	13,472	14,777	16,211
<b>Total Assets</b>	<b>28,739</b>	<b>46,646</b>	<b>44,428</b>	<b>81,809</b>	<b>1,28,318</b>	<b>1,47,801</b>	<b>1,69,664</b>

E: MOFSL Estimates

## Financials and valuations

<b>Ratios</b>	<b>(%)</b>						
<b>Y/E March</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
<b>As a percentage of Revenues</b>							
Brokerage Income	55.0	54.0	54.9	58.2	45.7	45.4	44.9
Income from Services	35.2	33.2	30.2	26.9	32.3	33.1	33.7
Interest Income	8.5	10.4	13.6	13.3	20.5	20.3	20.1
Other Income	1.3	2.4	1.2	1.6	1.5	1.2	1.3
<b>Total cost</b>	<b>54.2</b>	<b>56.2</b>	<b>56.4</b>	<b>44.7</b>	<b>45.2</b>	<b>46.1</b>	<b>46.9</b>
Employee Cost	29.6	32.1	30.9	22.7	19.6	20.2	20.7
Opex (ex emp) Cost	24.6	24.0	25.4	21.9	25.6	25.9	26.3
<b>PBT</b>	<b>45.8</b>	<b>43.8</b>	<b>43.6</b>	<b>55.3</b>	<b>54.8</b>	<b>53.9</b>	<b>53.1</b>
<b>PAT</b>	<b>29.7</b>	<b>28.4</b>	<b>31.4</b>	<b>41.3</b>	<b>40.7</b>	<b>40.1</b>	<b>39.4</b>
<b>Profitability Ratios (%)</b>							
RoE	82.0	51.8	48.0	70.4	67.9	58.4	51.9
Dividend Payout Ratio	65.9	74.3	70.6	65.0	65.0	65.0	65.0
<b>Valuations</b>							
<b>BVPS (INR)</b>	<b>26.3</b>	<b>32.5</b>	<b>37.5</b>	<b>56.5</b>	<b>71.8</b>	<b>88.1</b>	<b>105.7</b>
Change (%)	69.0	23.5	15.5	50.6	27.0	22.8	20.0
Price-BV (x)	<b>31.1</b>	<b>25.2</b>	<b>21.8</b>	<b>14.5</b>	<b>11.4</b>	<b>9.3</b>	<b>7.7</b>
EPS (INR)	17.2	15.2	16.8	33.1	43.6	46.7	50.3
Change (%)	63.5	-11.3	10.4	96.9	31.4	7.2	7.7
Price-Earnings (x)	<b>47.6</b>	<b>53.7</b>	<b>48.6</b>	<b>24.7</b>	<b>18.8</b>	<b>17.5</b>	<b>16.3</b>
DPS (INR)	9.4	9.4	11.0	21.5	28.3	30.3	32.7
Dividend Yield (%)	<b>1.1</b>	<b>1.1</b>	<b>1.3</b>	<b>2.6</b>	<b>3.5</b>	<b>3.7</b>	<b>4.0</b>

## NOTES



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

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