

Estimate change



TP change



Rating change

Bloomberg	ISEC IN
Equity Shares (m)	322
M.Cap.(INRb)/(USDb)	203 / 2.7
52-Week Range (INR)	896 / 414
1, 6, 12 Rel. Per (%)	2/-14/29
12M Avg Val (INR M)	511

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Revenues	34.4	36.0	39.3
Opex	15.9	17.8	19.7
PBT	18.5	18.1	19.6
PAT	13.8	13.5	14.6

Ratios

C/I ratio (%)	46.1	49.5	50.2
PAT margin (%)	40.2	37.7	37.2
RoE (%)	65.0	50.8	46.3
Div. Payout (%)	55.9	65.0	65.0
EPS	42.9	42.0	45.3

Valuations

P/E (x)	14.7	15.0	13.9
P/BV (x)	8.3	7.0	5.9
Div. Yield (%)	3.8	4.3	4.7

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	74.9	74.9	75.0
DII	7.1	7.8	9.0
FII	7.3	6.6	3.7
Others	10.7	10.7	12.2

FII Includes depository receipts

CMP: INR629

TP: INR780 (+24%)

Buy

Revenue from Broking falls, Issuer Services segment witnesses some pressure

- ISEC witnessed a 6% YoY and 7% QoQ decline in revenue from the Retail Broking segment. For the eighth consecutive quarter, revenue has been in the INR3-3.5b range. Its customer count saw a 1.5x jump. While its Prime subscription fees has scaled up (up 71% YoY), its share in overall revenue is small. Revenue for the Issuer Services segment fell 41% QoQ to INR649m. Overall revenue grew 20% YoY to INR8.9b (inline) as the negative surprise in Issuer Services was offset by a beat in the Distribution segment. PAT at INR3.8b (+42% YoY) was 6% lower than our estimate, while C/I ratio rose 410bp QoQ to 49% on higher marketing costs and technology investments.
- We have lowered our FY23/FY24 EPS estimate by 10% each, to factor in weaker-than-expected traction in the Broking segment, a slowdown in the Issuer Services segment, the impact of a run-down in the ESOP funding book, and higher costs. We maintain our Buy rating on the stock with a revised TP of INR780 (based on 17x FY24E P/E), implying a potential upside of 24%.

Revenue from Retail Broking declines; momentum in client addition slows down

- Revenue from Retail Broking fell 6% YoY and 7% QoQ to INR3.3b.
- Its market share in the Retail Cash segment improved by 30bp QoQ to 10.1%, while the same in the Derivatives segment contracted 20bp to 3.3%.
- Revenue from the Institutional Equities segment fell 1% YoY to INR479m.
- **ISEC added 618k new customers in 4QFY22 v/s 676k QoQ.** Its Prime plan saw 90k customer additions as compared to 100k in 3QFY22.
- The activation rate improved by 800bp QoQ to 82%. The number of NSE active clients rose to 3m from 2.8m QoQ.

Income from Distribution continues to drive overall revenue growth

- Revenue from Distribution rose 21% YoY to INR1.7b (+3% QoQ), led by a strong performance in the distribution of MFs, which grew 35% YoY. Its SIP count rose to 0.99m from 0.98m in 3QFY22. AUM in the MF segment grew 22% YoY to INR503b, but remained flat QoQ.
- Given the volatility in the equity market, revenue from Investment Banking fell to INR649m. ISEC continues to have a strong deal pipeline (IPO), with 67 deals amounting to over INR879b.

Highlights from the management commentary

- Slower than industry client additions is on account of the management's focus on improving the quality of the channel mix. The current monthly addition run-rate of 0.2m will continue in the near term.
- FY23 will be a year of investments for ISEC. It will make strategic investments made in technology and marketing.
- Its cost-to-income ratio is expected to increase in FY23, before trending down towards 40% in the medium term.

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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 market share from the Broking business. With initiatives such as the NEO plan being implemented, the management expects an improvement going forward. We expect weakness in Issuer Services as a volatile equity market will delay its equity fund raising. The funding book is also likely to witness some pressure on the back of a run-down of the ESOP book. With costs likely to remain elevated owing to investments in technology and marketing, earnings are likely to remain under pressure. Income from Distribution will provide some cushion to earnings. New tie-ups and products will help scale-up the business. **We lower our FY23/FY24 EPS estimate by 10% each to factor in a weaker-than-expected traction in the Broking segment. We maintain our Buy rating on the stock with a revised TP of INR780 (based on 17x FY24E P/E), implying a potential upside of 24%.**

Quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue from Operations	5,460	6,807	6,201	7,393	7,453	8,564	9,416	8,917	25,862	34,350	8,998	-0.9
Total Income	5,464	6,805	6,200	7,393	7,477	8,566	9,419	8,923	25,862	34,385	8,994	-0.8
Change YoY (%)	35.9	62.7	46.7	53.4	36.8	25.9	51.9	20.7	49.9	33.0	21.6	
Operating Expenses	2,870	3,082	2,622	2,980	3,310	3,856	4,321	4,369	11,554	15,856	4,080	7.1
Change YoY (%)	26.9	31.6	10.4	8.7	15.3	25.1	64.8	46.6	18.9	37.2	36.9	
PBT	2,594	3,723	3,578	4,413	4,167	4,709	5,099	4,554	14,308	18,529	4,914	-7.3
Change YoY (%)	47.4	102.2	93.3	112.4	60.6	26.5	42.5	3.2	90.0	29.5	11.4	
Tax Provisions	663	942	908	1,118	1,060	1,197	1,295	1,149	3,631	4,700	1,303	-11.8
Net Profit	1,931	2,782	2,670	3,295	3,107	3,512	3,804	3,405	10,677	13,828	3,611	-5.7
Change YoY (%)	69.7	105.9	94.6	111.4	60.9	26.3	42.5	3.3	97.0	29.5	9.6	
Key Operating Parameters (%)												
Cost-to-Income Ratio	52.5	45.3	42.3	40.3	44.3	45.0	45.9	49.0	44.7	46.1	45.4	3.6
PBT Margin	47.5	54.7	57.7	59.7	55.7	55.0	54.1	51.0	55.3	53.9	54.6	-3.6
Tax Rate	25.6	25.3	25.4	25.3	25.4	25.4	25.4	25.2	25.4	25.4	26.5	-1.3
PAT Margin	35.3	40.9	43.1	44.6	41.6	41.0	40.4	38.2	41.3	40.2	40.1	-2.0
Revenue from Operations (INR m)												
Retail Brokerage Income	3,169	3,534	3,242	3,461	3,518	3,496	3,482	3,251	13,406	13,747		
Institutional Brokerage Income	348	386	380	485	432	445	438	477	1,599	1,792		
Investment Banking	223	623	234	533	474	727	1,105	649	1,613	2,955		
Distribution Income	798	990	1,079	1,412	1,206	1,512	1,635	1,686	4,279	6,039		
Other servicing Income	103	285	275	405	428	493	566	661	1,069	2,148		
Interest Income	624	898	893	1,034	1,317	1,702	2,047	2,119	3,449	7,185		
Other Operating Income	195	90	98	64	78	189	144	73	447.3	483		
Revenue from Operations Mix (%)												
Retail Brokerage Income	58.0	51.9	52.3	46.8	47.2	40.8	37.0	36.5	51.8	40.0		
Institutional Brokerage Income	6.4	5.7	6.1	6.6	5.8	5.2	4.7	5.4	6.2	5.2		
Investment Banking	4.1	9.2	3.8	7.2	6.4	8.5	11.7	7.3	6.2	8.6		
Distribution Income	14.6	14.5	17.4	19.1	16.2	17.7	17.4	18.9	16.5	17.6		
Other servicing Income	1.9	4.2	4.4	5.5	5.7	5.8	6.0	7.4	4.1	6.3		
Interest Income	11.4	13.2	14.4	14.0	17.7	19.9	21.7	23.8	13.3	20.9		
Other Operating Income	3.6	1.3	1.6	0.9	1.0	2.2	1.5	0.8	1.7	1.4		
Opex Mix (%)												
Employee Expenses	60.2	58.3	49.5	35.5	45.6	43.6	40.0	39.4	50.9	41.9		
Depreciation	4.7	4.2	5.2	4.7	4.4	3.8	3.7	4.0	4.7	3.9		
Interest Expenses	8.0	9.2	9.7	10.3	12.6	15.1	19.1	20.8	9.3	17.3		
Others	27.1	28.2	35.6	49.5	37.4	37.5	37.1	35.7	35.1	36.9		
Other Parameters (%)												
Blended MS	9.0	8.9	6.5	3.2	3.4	3.1	3.1	2.8				
Equity MS	10.7	11.1	10.5	9.6	9.2	8.8	8.3	10.2				
Derivatives MS	8.9	8.8	6.3	3.0	3.3	3.1	3.0	2.8				



Highlights from the management commentary

Industry

- The industry saw some moderation in growth in the Cash and F&O volumes.
- ESOP financing was capped at INR2m per customer as per the new RBI guideline.

Overall revenue, cost, and customers

- The management's focus has been on revenue diversification. This has resulted in the share of revenue from Retail Broking now declining to 36% as compared to 47% in 4QFY21. The share of revenue from Allied Broking, primarily MTFs, distribution income, and Corporate Finance have been the key drivers of revenue growth.
- The share of customers from Tier II and III towns rose to 85% from 80%. The same in the 25 years and below age group has risen to 49% from 42%.
- Slower than industry client addition is owing to the management's focus on improving the quality of the channel mix. The company will look to scale up after achieving a certain level of quality, while the current monthly addition run-rate of 0.2m will continue.
- Its cost-to-income ratio is expected to increase in FY23, before trending down towards 40% in the medium term.

Broking

- ISEC gained market share in the Cash segment on a sequential basis, but continued to lose share in Derivatives. To remedy the same, it is taking measures like: 1) lowering the price of traders, 2) faster platform execution, 3) additional tools – strategies to ease the trading process, and 4) offering APIs and algos. The management confessed to making a late start in investing in the Derivatives segment. However, it promised to continue investing as the number of trades and orders are improving on a daily basis.
- The market environment for Broking is slowing, but the medium-term outlook remains strong. FY23 will be a year of investments for ISEC. It will make strategic investments in technology and marketing. In technology, spends will be towards: 1) building its digital capabilities, 2) modernize its tech architecture, 3) migration to the Cloud, and 4) building a reliable risk-protected infrastructure. Technology spends in FY23 are likely to be 2.5x that of FY22. In FY21, the same saw an increase of 70%.

Products

- It recorded a number of firsts in 4QFY22: 1) witnesses significant traction in digital properties; 2) the PMS book crossed the INR7b mark; 3) the number of Prime customers crossed the 1m mark, 4) the market and money app downloads crossed the 1m mark, and 5) the one-click basket gained traction.
- The management said the MTF product is strategically important for revenue diversification. ESOP funding stood at INR14b out of a total book of INR75b. The same is expected to run down by 40-50%. The core MTF book will be linked to the market environment and ISEC will take a call based on market volatility. Else, it could scale it up significantly from the current customer base of 60,000.
- The management expects strong momentum in the Distribution segment to continue. ISEC has tied up with Coverfox for providing General Life Insurance, wherein Coverfox will provide the technology and ISEC will be the marketing

partner. This is a revenue-sharing arrangement and will help grow revenue for both parties.

- The Investment Banking segment now derives 20-25% of its revenue from activities that are not linked to the capital market. Currently, this business is witnessing headwinds.

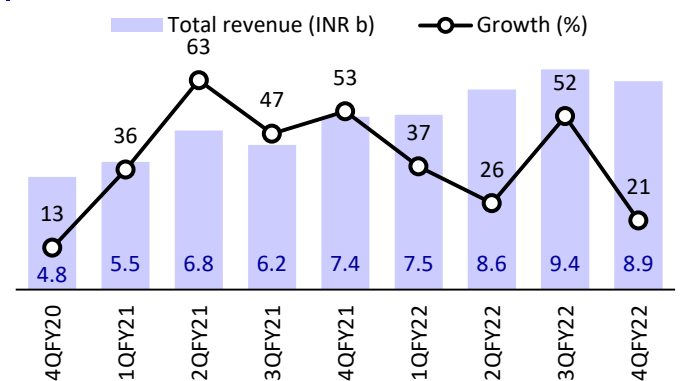
Exhibit 1: Downgrade our FY23E/FY24E EPS by ~9.9%/9.7% to factor in weak revenue from Broking and IB segments

INR b	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Brokerage income	17.0	18.4	16.4	17.7	-3.8	-3.8
Income from services	12.4	13.8	11.6	12.9	-6.9	-6.7
Other income	8.1	8.8	8.0	8.7	-0.9	-0.9
Total income	37.6	41.1	36.0	39.3	-4.2	-4.2
Operating expenses	17.3	19.3	17.8	19.7	2.9	2.5
PBT	20.2	21.8	18.1	19.6	-10.3	-10.1
Tax	5.2	5.6	4.6	5.0	-11.5	-11.3
PAT	15.0	16.2	13.5	14.6	-9.9	-9.7
C/I ratio	46.1	46.9	49.5	50.2		
RoE	58.4	51.9	50.8	46.3		
Dividend payout ratio	65.0	65.0	65.0	65.0		

Source: MOFSL, Company

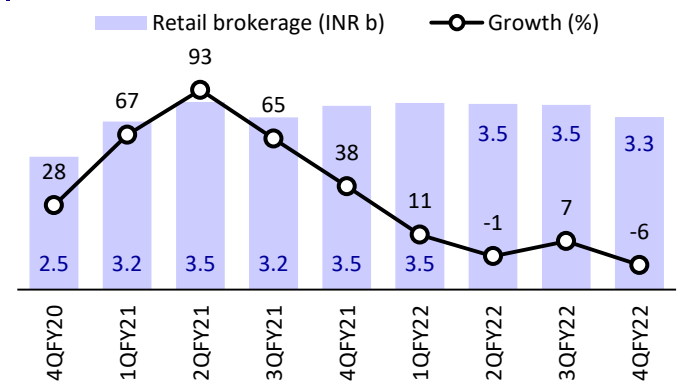
Key exhibits

Exhibit 2: Muted income from Broking income and a sharp decline in IB revenue impacts total revenue growth



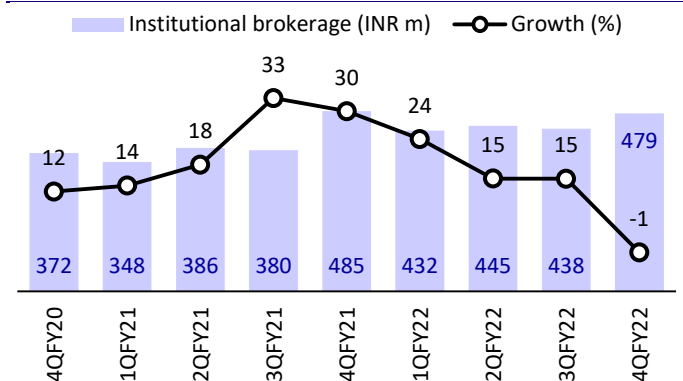
Source: MOFSL, Company

Exhibit 3: Retail Broking segment continues to remain weak



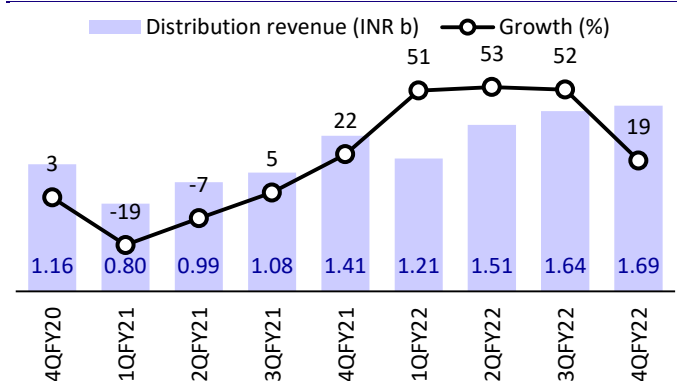
Source: MOFSL, Company

Exhibit 4: Revenue from Institutional Broking fell 1%



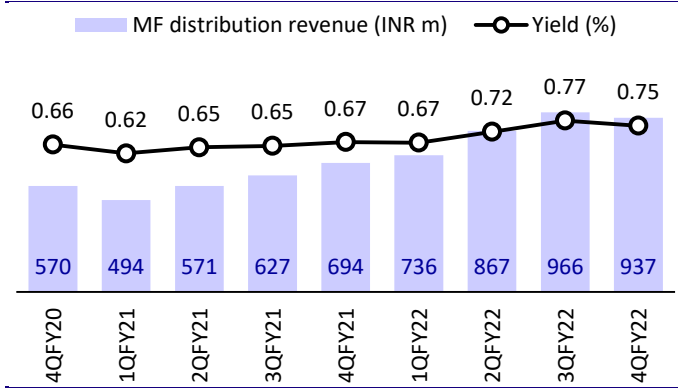
Source: MOFSL, Company

Exhibit 5: Distribution segment sees a slowdown in growth



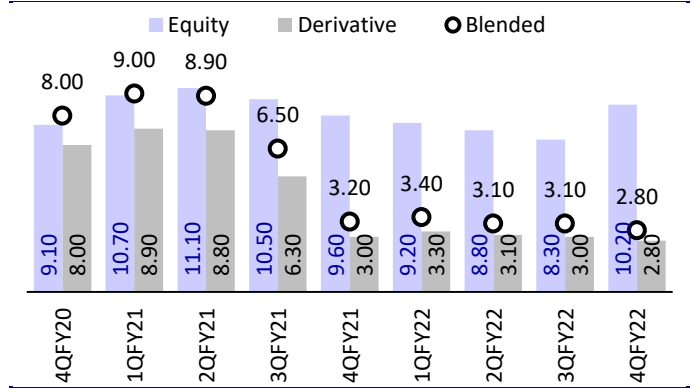
Source: MOFSL, Company

Exhibit 6: Revenue from distribution of Mutual Funds declines, yields contract



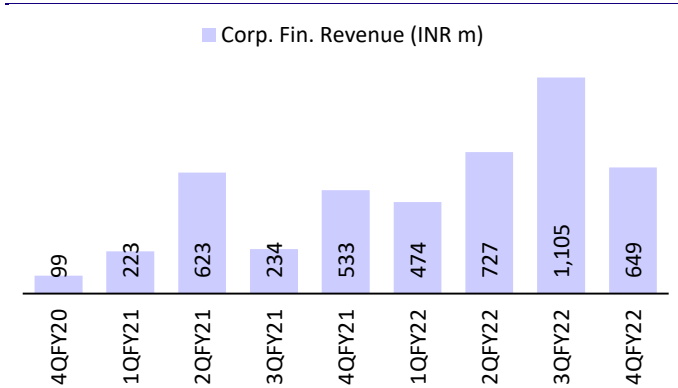
Source: MOFSL, Company

Exhibit 7: Market share in Equity improves, but continues to decline in the Derivatives segment



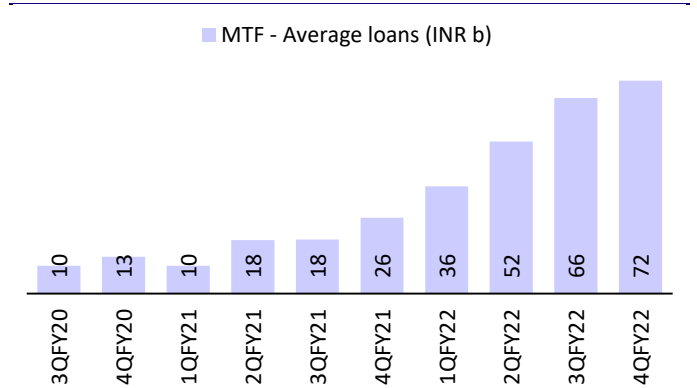
Source: MOFSL, Company

Exhibit 8: Decline in Issuer Services and Advisory revenues



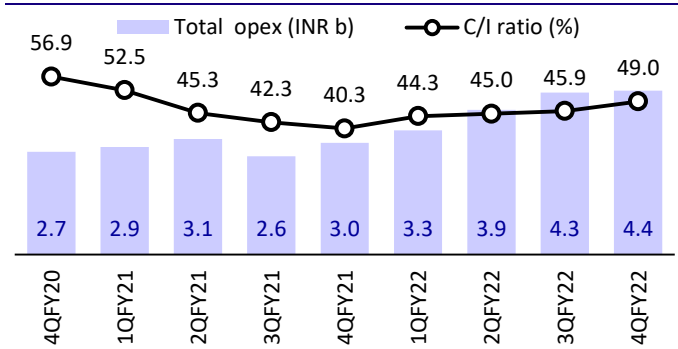
Source: MOFSL, Company

Exhibit 9: Strong growth momentum in the MTF book



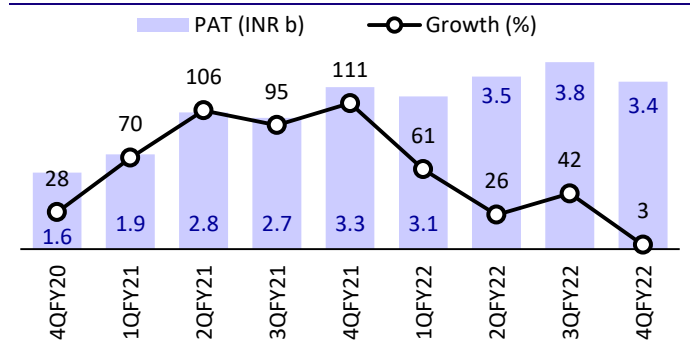
Source: MOFSL, Company

Exhibit 10: C/I ratio deteriorates sequentially



Source: MOFSL, Company

Exhibit 11: Trend in PAT



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income	18,610	17,270	17,249	25,862	34,384	35,965	39,342
Change (%)	32.5	-7.2	-0.1	49.9	33.0	4.6	9.4
Brokerage Income	10,243	9,328	9,476	15,045	15,526	16,391	17,742
Income from Services	6,552	5,733	5,218	6,961	11,020	11,553	12,913
Interest Income	1,574	1,792	2,350	3,449	7,185	7,544	8,148
Other Operating Income	241	193	19	407	618	435	490
Other Income	0	225	187	0	35	42	50
Operating Expenses	10,086	9,698	9,720	11,554	15,856	17,817	19,750
Change (%)	14.3	-3.8	0.2	18.9	37.2	12.4	10.9
Employee expenses	5,504	5,545	5,338	5,880	6,644	7,441	8,334
Interest expenses	495	423	864	1,073	2,737	2,874	3,104
Depreciation	153	150	614	542	625	650	675
Others	3,935	3,580	2,905	4,060	5,850	6,852	7,638
Profit Before Tax	8,524	7,572	7,529	14,308	18,528	18,148	19,592
Change (%)	63.3	-11.2	-0.6	90.0	29.5	-2.0	8.0
Tax	2,989	2,665	2,109	3,631	4,700	4,604	4,970
Tax Rate (%)	35.1	35.2	28.0	25.4	25.4	25.4	25.4
PAT	5,535	4,907	5,420	10,677	13,828	13,545	14,622
Change (%)	63.5	-11.3	10.4	97.0	29.5	-2.0	8.0
Proposed Dividend	3,646	3,646	3,825	6,940	7,731	8,804	9,504

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	1,611	1,611	1,611	1,611	1,613	1,613	1,613
Reserves and Surplus	6,866	8,862	10,485	16,610	22,692	27,433	32,550
Net Worth	8,477	10,473	12,095	18,221	24,305	29,046	34,163
Borrowings	6,771	4,518	14,998	35,238	77,392	83,584	96,121
Other Liabilities	13,491	31,655	17,335	28,350	34,764	38,241	42,065
Total Liabilities	28,739	46,646	44,428	81,809	1,36,461	1,50,870	1,72,349
Cash and Investments	15,499	31,515	24,139	38,822	56,274	64,063	73,187
Change (%)	55.7	103.3	-23.4	60.8	45.0	13.8	14.2
Loans	5,782	4,033	5,709	29,015	68,566	74,051	85,159
Net Fixed Assets	421	476	2,061	1,688	1,978	2,175	2,393
Net Current Assets	7,037	10,623	12,520	12,285	9,644	10,581	11,610
Total Assets	28,739	46,646	44,428	81,809	1,36,461	1,50,870	1,72,349

E: MOFSL estimates

Financials and valuations

Ratios								(%)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
As a percentage of Revenue								
Brokerage Income	55.0	54.0	54.9	58.2	45.2	45.6	45.1	
Income from Services	35.2	33.2	30.2	26.9	32.1	32.1	32.8	
Interest Income	8.5	10.4	13.6	13.3	20.9	21.0	20.7	
Other Income	1.3	2.4	1.2	1.6	1.9	1.3	1.4	
Total cost	54.2	56.2	56.4	44.7	46.1	49.5	50.2	
Employee Cost	29.6	32.1	30.9	22.7	19.3	20.7	21.2	
Opex (excl. emp.) Cost	24.6	24.0	25.4	21.9	26.8	28.8	29.0	
PBT	45.8	43.8	43.6	55.3	53.9	50.5	49.8	
PAT	29.7	28.4	31.4	41.3	40.2	37.7	37.2	
Profitability Ratios (%)								
RoE	82.0	51.8	48.0	70.4	65.0	50.8	46.3	
Dividend Payout Ratio	65.9	74.3	70.6	65.0	55.9	65.0	65.0	
Valuations								
BVPS (INR)	26.3	32.5	37.5	56.5	75.3	90.0	105.9	
Change (%)	69.0	23.5	15.5	50.6	33.2	19.5	17.6	
Price-to-BV (x)	23.9	19.3	16.8	11.1	8.3	7.0	5.9	
EPS (INR)	17.2	15.2	16.8	33.1	42.9	42.0	45.3	
Change (%)	63.5	-11.3	10.4	96.9	29.4	-2.0	8.0	
Price-to-Earnings (x)	36.6	41.3	37.4	19.0	14.7	15.0	13.9	
DPS (INR)	9.4	9.4	11.0	21.5	24.0	27.3	29.5	
Dividend Yield (%)	1.5	1.5	1.7	3.4	3.8	4.3	4.7	

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

*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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