



## Near term Headwinds Exist; Long term story remains intact!

ICICI Securities Ltd. (ISEC) reported numbers stood below our and consensus estimates, mainly owing to lower brokerage income driven by weak market sentiments arising from the geopolitical tensions. While the momentum on the client addition has been strong YoY, it has moderated on a sequential basis. The digital sourcing and open architecture approach continue to aid new customer sourcing with ~80% of new customer additions coming from non-ICICI Bank channels vs ~69% in Q4FY21. The age group of the company's customer base has also shifted with ~66% of customers being <30years vs 62% YoY. Similarly, a large part of the newly-sourced customers being Gen-Z and Millennials gives ISEC the opportunity to partner with them in their financial journey. Currently, 40% of the revenues are generated by this category of customers.

The company's revenue stood at Rs 892 Cr (+21% YoY, -5% QoQ), below our expectations of Rs 920 Cr, as broking revenues took a hit owing to weak cash segment volumes along with the issuer and advisory business which was affected by the geopolitical tension resulting in delays in issues. However, healthy growth in the distribution business revenues supported revenue growth. Despite Opex growth remaining flattish QoQ, the company's C-I Ratio inched up to 49% owing to higher marketing costs and technology investments. The company's EBITDA stood at Rs 563 Cr (+16% YoY, -7% QoQ) vs our expectation of Rs 585 Cr PAT stood at Rs 329 Cr (+3% YoY, -11% QoQ) vs. our expectation of Rs 362 Cr.

### Key Result Highlights

- **Customer sourcing momentum remains robust** – The customer sourcing momentum has sustained YoY with ISEC adding 618K customers (vs 354K customers YoY and 676K customers QoQ during Q4FY22 taking the client base to ~7.6 Mn (+39% YoY) customers. Total active clients stood at 3.39 Mn (+78% YoY), while NSE active clients stood at 3.03 Mn (+92% YoY), thus helping ISEC maintain its NSE active customer market share stable at ~8.4% YoY.
- **Improving Cross-sell Ratio** – The company's cross-sell ratio stood at 1.65 vs 1.75 in Q3FY22 and 1.78 in Q4FY21. However, the number of clients having 2+ products improved to 1.15 Mn vs. 1.12 Mn in Q3FY22 and 1.02 Mn in Q4FY21, led by a superior product proposition.
- **Revenues growth driven by Distribution and Interest Income** – Distribution income stood at Rs 169 Cr (+19% YoY, +3% QoQ), supported by strong growth in the MF distribution incomes (+35% YoY) while life insurance distribution revenues reported a modest growth of 6% YoY. The wealth management segment continued its growth momentum with AUMs growing at 70% YoY. The company added ~3,000 clients in Q4FY22, taking the total client base to ~68,000. Wealth management revenues grew by 58% YoY. Blended yields moderated marginally to 0.35% vs 0.4% in Q4FY21.

### Management Concall Key Takeaways

**Opex to remain elevated in the near term** – ISEC continues to invest in building its franchise through marketing and tech advancements, keeping Opex elevated in the near term. A sizeable portion of the planned Opex will be towards technology as ISEC expects tech spends to be ~2.5x FY22 spends. The company aspires to bring the C-I ratio to ~40% over the medium term. **We expect the C-I ratio to inch up and remain in the range of 47-48% over FY23-24E vs ~46% in FY22.**

### Valuation and Recommendation

We believe near-term headwinds exist owing to the unfavourable market conditions which are likely to pose challenges in terms of revenues growth, especially in the broking segment. However, the diversification efforts that the company has made so far and will continue to pursue will partially insulate and support the top line. Higher spends on tech and marketing will keep the C-I ratio elevated. However, improving the share of variable expenses will help ISEC counter revenue cyclicality. We trim our EPS estimates by 10/2% over FY23/24E to factor-in lower brokerage revenues, run-down in the ESOP funding book and higher opex. We like the management's focus on on-boarding high-quality clients and believe this could help ISEC improve its ARPU. **We maintain our BUY recommendation on the stock with a revised target price of Rs 865/share (17x FY24E EPS), implying an upside of 38% from CMP.**

### Key Financials (Consolidated)

(Rs. Cr)	FY21	FY22P	FY23E	FY24E
Revenues	2,586	3,435	3,693	4,105
PBT	1,431	1,853	1,927	2,212
PAT	1,068	1,383	1,441	1,654
EPS (Rs)	33.1	42.8	44.7	51.3
EPS Growth (%)	97%	29%	4%	15%
P/E (x)	19.0	14.7	14.1	12.3
DPS	21.5	24.0	26.8	33.3
Div. Payout (%)	64.9%	56.0%	60.0%	65.0%
RoE (%)	70.9%	65.0%	53.0%	50.2%

Source: Company, Axis Research

(CMP as of Apr 20, 2022)

CMP (Rs)	629
Upside /Downside (%)	38%
High/Low (Rs)	896/403
Market cap (Cr)	20,301
Avg. daily vol. (6m) Shrs.	4,41,274
No. of shares (Cr)	32.2

### Shareholding (%)

	Mar-22	Dec-21	Sep-21
Promoter	74.9	74.9	74.9
FIs	7.3	6.6	6.3
MFs	2.6	3.1	3.5
Others	15.2	15.4	15.3

### Financial & Valuations

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Div. Payout (%)	56.0%	60.0%	65.0%
ROE (%)	65.0%	53.0%	50.2%

### Change in Estimates (%)

Y/E Mar	FY23E	FY24E
Revenues	-5.0	-1.0
PBT	-10.0	-2.0
PAT	-10.0	-2.0

### Axis vs Consensus

EPS Estimates	FY23E	FY24E
Axis	44.7	51.3
Consensus	43.2	45.9
<b>Mean Consensus TP (12M)</b>	<b>906</b>	

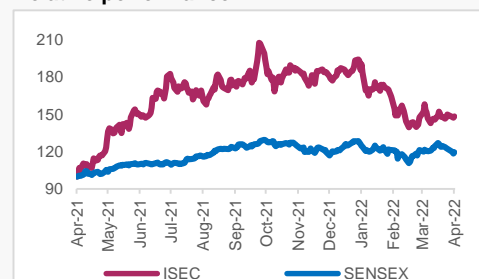
### ESG disclosure Score\*\*

Environmental Disclosure	26.4
Social Disclosure Score	36.8
Governance Disclosure Score	48.2
Total ESG Disclosure Score	33.9

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

### Relative performance



Source: Capitaline, Axis Securities

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## Additional Concall Highlights (Contd...)

- Cost 'variable'-ization efforts continue** – The management has indicated that the share of variable expenses which is linked to the market/volume/customer activity has further improved to 58% vs 57% in Q3FY22 and 46% in Q4FY21. **The higher share of variable expenses in the Opex structure enables ISEC to effectively counter the cyclicity in the revenues.**
- Continued traction in sourcing with a focus on quality** – The pull-back in the new client sourcing QoQ has been deliberate as the company focuses on onboarding high-quality customers. The digital sourcing channels cannot be viewed as one single sourcing channel but are sub-divided into multiple modes of sourcing customers (~5-6 sub-channels). Thus, with a focus on customer quality, ISEC has classified these channels as “Green”, “Orange” and “Red” basis the quality of customers sourced. ISEC is de-focusing on the “Red” channel. Despite customer sourcing being difficult from the “Green” and “Orange” channels, ISEC will continue to focus on these channels and look to maintain a monthly run-rate of adding ~200K clients. The progress of each channel is monitored fortnightly.
- 'Prime' Plan gaining traction** – The prime plan has a proposition to attract high intention customers and hence the customers in this segment are characterised by higher ARPUs. The company has also witnessed improvement in the equity market share by ~30bps QoQ which can be attributed to the scaling up of the Prime and Prepaid plans along with the MTF book. Currently, ISEC services ~1.06 Mn Prime customers vs 0.96 Mn customers in Q3FY22. ISEC launched lifetime payment variants for high-value Prime to make it more attractive for high volume customers
- Efforts to improve Derivative market share to yield results in the coming quarters** – With a view to improving the market share in the derivatives segment, ISEC has identified 4-levers namely (a) Pricing, (b) Experience, (c) Analytical tools and (d) API architecture. The pricing for the derivative segment has been taken care of by transitioning towards an activity-based pricing model by introducing the NEO plan which is gaining increased traction. Additionally, the launch of the Markets app, a one-click derivative platform, launch of a New trading view amongst others will help ISEC improve its market share. **On the back of investment in these levers, ISEC has observed traction in parameters like number of orders, customers, number of lots and contracts. Thus the management remains confident of market share improvement in the coming quarters.**
- Focus remains on reducing volatility in the issuer and advisory business** – The vertical contributes to 15-20% of the total revenues. ~20-25% of these revenues are not linked to capital market activity and hence remain insulated from any volatility. ISEC is making efforts to identify, build capabilities and thus improve the share of these revenues that are slightly more predictable.
- Broking Revenues take a hit** – Reduction in Cash market volumes along with the Issuer services and advisory revenue being impacted by the postponement of multiple primary issues owing to geopolitical tensions, resulted in a drop in the broking revenues. As a result, the share of the distribution business in total revenues has improved, while that of the core broking segment has reduced to 45% in FY22 vs 58% in FY21, in line with management's focus on maintaining the share of broking revenues at sub-50%, thus helping ISEC partially de-link from market volatility.
- Distribution income to scale-up** – The distribution revenues are supported by growth across all products like Mutual funds, Life insurance and loan disbursements. The company disbursed loans of Rs 660 Cr during the quarter vs Rs 590 Cr QoQ. The loan book is now being diversified with ~31% of loans being non-home loans. In insurance distribution, ISEC is enhancing the product suite, exploring a new partnership, looking to digitize the journey and has also introduced the Money application to drive growth. ISEC's focus on analytics and enhancing customer experience experiences will help further scale the distribution business.

## Change in Estimates

	Change in Estimates					
	Revised		Old		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII	3,698	4,110	3,911	4,151	(5.0)	(1.0)
PBT	1,927	2,212	2,145	2,250	(10.0)	(2.0)
PAT	1,441	1,654	1,604	1,683	(10.0)	(2.0)

Source: Axis Securities

**Result Update (Consolidated)**

	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %
<b><u>Business Metrics</u></b>					
Client Base (Mn)	7.6	5.4	40.0	7.0	8.9
Client Addition ('000)	618	354		676	
Overall Active clients	3.39	1.91	77.5	3.07	10.4
NSE Active clients	3.03	1.58	91.8	2.75	10.2
ISEC Total ADTO	1379	732	88.4	1191	15.8
Market share	2.8%	3.2%		3.1%	
Equity Segment ADTO (calc.)	38	55	-30.8	42	-10.4
Equity Segment Market Share	8.9%	9.6%		8.3%	
Derivative Segment ADTO (calc.)	1361	694	96.0	1157	17.6
Derivative Segment Market Share	2.8%	3.0%		3.0%	
Wealth Management AUMs (Rs Bn)	2858.0	1677.0	70.4	2828.0	1.1
MF AUM (Rs. Trn)	475.0	413.0	15.0	503.0	-5.6
Life Insurance Premium (Cr)	295.8	290.9	1.7	191.9	54.1
<b><u>Profit &amp; Loss</u></b>					
Revenue from Operations	872	733	19.0	927	-5.9
-- Broking Income	373	395	-5.5	392	-4.9
-- Income from Services	287	235	22.3	331	-13.0
-- Interest Income	212	103	105.0	205	3.5
-- Dividend Income	0	0	N.A	0	N.A
Other Operating Revenues	19	6	199.8	14	34.8
Other Income	0.63	0	N.A	0.28	125.0
<b>Total Revenue</b>	<b>892</b>	<b>739</b>	<b>20.7</b>	<b>942</b>	<b>-5.3</b>
Operating Expenses					
-- Employee Expenses	172	106	62.7	173	-0.3
-- Interest Expense	91	31	197.9	83	10.1
-- Depreciation	17	14	24.9	16	8.8
-- Other Opex	156	148	5.8	160	-2.7
Total Expenses	437	298	46.6	432	1.1
<i>C-I Ratio (%)</i>	<i>49.0%</i>	<i>40.3%</i>		<i>45.9%</i>	
EBITDA	563	486	15.9	608	-7.4
<i>EBITDA Margin (%)</i>	<i>63%</i>	<i>66%</i>		<i>65%</i>	
Profit Before Tax	455	441	3.2	510	-10.7
Tax	115	112	2.9	129	-11.2
Profit After Tax	340	329	3.3	380	-10.5

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Revenue from Operations	2,586	3,435	3,693	4,105
Other Income	-	4	5	6
<b>Net Income</b>	<b>2,586</b>	<b>3,438</b>	<b>3,698</b>	<b>4,110</b>
<i>Change %</i>	<i>50%</i>	<i>33%</i>	<i>8%</i>	<i>11%</i>
Total Operating Expense	1,155	1,586	1,771	1,899
<b>PBT</b>	<b>1,431</b>	<b>1,853</b>	<b>1,927</b>	<b>2,212</b>
Tax	363	470	486	558
<b>Profit After Tax</b>	<b>1,068</b>	<b>1,383</b>	<b>1,441</b>	<b>1,654</b>
<i>Change</i>	<i>97%</i>	<i>29%</i>	<i>4%</i>	<i>15%</i>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Equity Share Capital	161	161	161	161
Reserves & Surplus	1,661	2,269	2,846	3,425
<b>Net Worth</b>	<b>1,822</b>	<b>2,431</b>	<b>3,007</b>	<b>3,586</b>
Borrowings	<b>3,521</b>	<b>7,846</b>	<b>9,022</b>	<b>10,376</b>
Other Liabilities	2,838	3,370	3,640	3,931
<b>Total Liabilities</b>	<b>8,181</b>	<b>13,646</b>	<b>15,669</b>	<b>17,893</b>
Cash & Bank balances	3,879	5,617	6,403	7,429
Loans	2,901	6,857	8,022	9,145
Fixed Assets & Others	1,400	1,173	1,243	1,318
<b>Total Assets</b>	<b>8,181</b>	<b>13,646</b>	<b>15,669</b>	<b>17,893</b>

Source: Company, Axis Securities

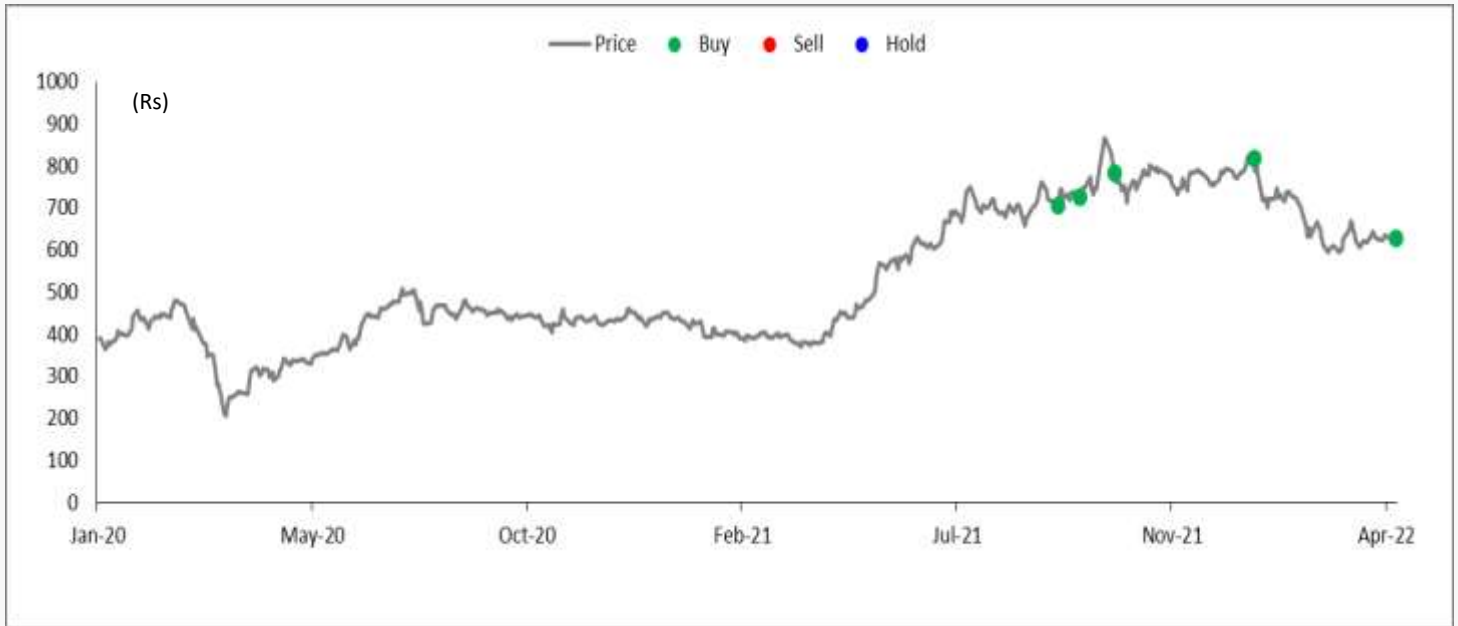
**Ratio Analysis**

(%)

Y/E March	FY21	FY22E	FY23E	FY24E
<b>Profitability &amp; Efficiency Ratios</b>				
RoE	70.9%	65.0%	53.0%	50.2%
RoA	16.9%	12.7%	9.8%	9.9%
Cost to Income	44.7%	46.2%	47.9%	46.3%
<b>Valuation</b>				
BVPS	56.5	75.3	93.2	111.1
<i>Change</i>	53%	33%	24%	19%
Price-BV (x)	11.1	8.4	6.7	5.7
EPS	33.1	42.8	44.7	51.3
<i>Change</i>	97%	29%	4%	15%
Price-Earnings (x)	19.0	14.7	14.1	12.3
Dividend Per Share	21.5	24.0	26.8	33.3
Dividend Payout Ratio	65%	56%	60%	65%
Dividend Yield (%)	3.4%	3.8%	4.3%	5.3%

Source: Company, Axis Securities

## ICICI Securities Price Chart and Recommendation History



Date	Reco	TP	Research
13-Sep-21	Buy	870	Initiating Coverage
28-Sep-21	Buy	870	Company Update
20-Oct-21	Buy	940	Result Update
19-Jan-22	Buy	990	Result Update
21-Apr-22	Buy	865	Result Update

Source: Axis Securities

**About the Analyst**

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**Sector:** BFSI

**Analyst Bio:** Dnyanada Vaidya is MMS (Finance) with over 4 years of research experience in the Banking/NBFC sector.

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