

# ICICI Securities Ltd.



# ICICI Securities Ltd.

**Moderate impact on margins by enhanced investment in technology**

CMP INR 597	Target INR 935	Potential Upside 56.6%	Market Cap (INR Mn) INR 192,671	Recommendation BUY	Sector Financial Services
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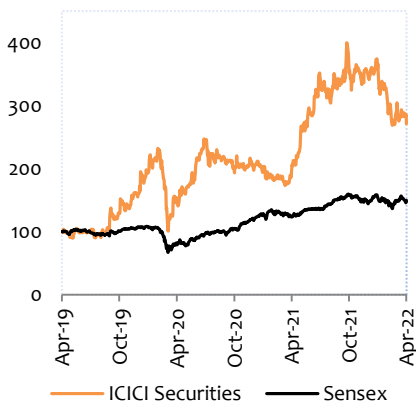
## Result Highlights of Q4FY22

- Total revenue reported at INR 8,915Mn (-5.3% qoq, +20.6% yoy) due to lowered revenue by 41% qoq of issuer and advisory business segment. The impact was on account of postponement of multiple primary issues due to geopolitical tensions. Investment banking revenue stood at INR 649 Mn (+22% yoy). Revenue from Equities and Allied Business segment reported at INR 6,269Mn (+5% qoq / +30% yoy). Distribution income continued to grow at INR 1,686Mn (+3% qoq / +21% yoy).
- EBITDA reported at INR 5,623Mn (-7.6% qoq / +15.7% yoy). EBITDA margin stood at 63.1% (-152bps qoq / -264bps yoy), as cost to income ratio stood at 49.1% (+319bps qoq / +877bps yoy). The proportion of Variable expenses stood at 58% in Q4FY22 with an increase from the levels of 28% in Q1FY20.
- PBT reported at INR 4,539Mn (-11.0% qoq / +2.9% yoy). PBT margin stood at 50.9% (-323bps qoq / -877bps yoy) on account of higher interest expenses. PAT reported at INR 3,388Mn (-10.9% qoq / +2.8% yoy). PAT margin stood at 38.0% (-239bps qoq / -656bps yoy). EPS stood at INR 10.5.

## MARKET DATA

Shares outs (Mn)	323
Equity Cap (INR Mn)	1,613
Mkt Cap (INR Mn)	192,671
52 Wk H/L (INR)	896/432
Volume Avg (3m K)	476.6
Face Value (INR)	5
Bloomberg Code	ISEC IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	57,912
NIFTY	17,137

## SHARE HOLDING PATTERN (%)

Particulars	Mar 22	Dec 21	Sep 21
Promoters	74.89	74.89	74.91
FIIIs	7.32	6.58	6.29
DIIIs	7.08	7.79	7.51
Others	10.71	10.74	11.29
Total	100.0	100.0	100.0

## Key Financials

Particulars (INR mn)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
Revenue	17062	25862	34350	35791	39887
EBITDA	8820	15922	21855	22879	26057
PAT	5420	10676	13756	13834	15700
PAT margin (%)	31.8%	41.3%	40.0%	38.7%	39.4%
EPS	16.8	33.1	42.7	42.9	48.7
P/E	16.5x	18.1x	14.0x	13.9x	12.3x

Source: Company data, KRChoksey Research

## Topline and operating margin performance below our estimates

- ISEC has reported revenue of INR 8,915Mn below our estimates of INR 9,209Mn (down 3.2%) and PAT reported at INR 3,388Mn (our estimate: INR 3,772Mn, down 10%). Cost to income ratio increased up to 49% (40% in Q4FY21) on account of higher spending on technology and marketing activities (Tech and marketing spends stood at ~INR 52-55 cr). Net margin stood at 38% below our estimate of 41%.

## FY22 Financial Performance

- ISEC reported revenue of INR 34,350 Mn (+32.8% YoY) as against at INR 25,862 Mn in FY21. EBITDA reported at INR 21,855 Mn (+37.3% YoY) and EBITDA margin improved at 63.6% (+206bps YoY). PAT reported at INR 13,826 Mn (+29.5 YoY) and PAT margin lowered at 40.3% (-103bps YoY) on account of higher interest expenses during FY22.

## Steady growth in broking revenue; however allied income supporting strategic growth

- The focus on managing cutthroat competition from discount brokers and improving the quality of allied businesses has enabled ISEC to position itself well in the market.
- The revenue from retail allied business activities contribution in retail equity and allied business has been consistently growing since Q1FY20 at 10% to 38% in Q4FY22. Similarly, revenue from institutional allied business has been consistently growing its contribution in institutional equity and allied business since Q1FY20 at 6% to 24% in Q4FY22.
- ISEC has a total client base of ~75.6 Lakh, of which +6.2 lakh clients were added during Q4FY22 (80% of new customers sourced through non ICICI bank channels). It has over 3.3 Mn active clients and 3.03 Mn NSE Active clients as on Mar'22.

## Growing trend in distribution segment; short term impact on investment banking

- Overall distribution revenue grew by 3% on sequential basis at INR 1,686Mn (21% yoy). Life Insurance revenue grew by 49% qoq at INR 261Mn. MF revenue grew by 35% yoy; however, sequential performance was impacted due to market volatility amid global geopolitical tensions.
- Investment banking revenue de-grew by 41% qoq at INR 649Mn as against INR 1,105Mn in Q3FY22. ISEC has a strong pipeline of 67 deals worth INR 879Bn.

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## Key Concall Highlights

- Overall momentum was lost with respect to new demat accounts during the quarter.
- Derivative trading volume has grown during the period; however, there was a weak stimulus.

## Equity and Allied Revenue

- Based on retail broking revenues, +60% revenue in FY22 was contributed by >5 year vintage customers.
- In FY22, it has served a diversified age group wise customers where ~40% of revenue contributed by millennials & Gen Z, 30% from the customers aged between 40-50 and 30% from customers more than 50 years of age.
- Client addition during the year remained strong. More than 80% of active customers in last 3 years are from millennials and Gen Z category.
- 66% of customers acquired in Q4FY22 are below 30 years of age of which 85% are sourced through tier II and III cities
- Average ESOP + MTF book has scaled up from INR 25.7Bn in FY21 to INR 72.1Bn in FY22. ESOP funding stood at INR 14.7Bn in FY22. It may observe slower growth in ESOP funding during FY23 due to RBI regulations.
- Total assets managed by ISEC reported growth of 48% yoy to reach the size of INR 5.64Tn in FY22. PMS book stood at INR 7.15Bn and MF assets stood at INR 566Bn as on FY22.
- It has over 1Mn prime customers and 0.2Mn NEO customers as on March 2022.

## Distribution Business

- Weak market sentiments had an impact on Mutual Funds business during the quarter; however, it has observed growth in insurance and loans distribution.
- ISEC is focusing on diverse loan book where other loans accounted for 31% of total loans disbursed.
- In the insurance business, It has partnered and launched a product with Coverfox. In this, Coverfox will help ISEC to integrate its brand and provide analytical based platform for its customers.

## Growth plans and operating efficiency

- There was a material impact on cost to income ratio during FY22 on account of higher investment in technology and marketing activities. The spends on technology increased by 70% yoy in FY22. In FY22, The tech expenses stood at ~INR 80Cr and marketing expenses stood at ~INR 100Cr; CAPEX stood at ~INR 60Cr.
- ISEC is planning to invest 2.5 times of such spends in FY23 which will be a combination of CAPEX & OPEX. It expects to observe growth in the tech and marketing expenses during FY23 and FY24.

## Key Risks:

- Volatility in domestic and global markets may have an impact on Indian markets which is uncertain to predict accurately.
- Changing regulations / SEBI norms may have a material impact on trading volumes of various segments. It may have a significant impact on company's business operations and market share.

## Valuation

We believe in ISEC's client sourcing capabilities with better and full product portfolio available to serve its customers better. Open architecture, digital sourcing has attracted customers from tier II and III cities, while there is a growing traction in young age customers acquisition. We revised our FY23 revenue estimates downwards by 10% amid market volatility in the beginning of the year and PAT estimates by 16% on account of rising marketing and technology spends. We roll forward our estimates to FY24 and our EPS estimate for FY23E/FY24E at INR 42.9 and INR 48.7, respectively. It is currently trading at P/E multiple of 13.9x / 12.3x to FY23E/FY24E EPS, respectively. We assign retain our target of INR 935/share (PE of 19.2x to FY24E EPS) and maintain our BUY rating on the stock (an upside of 56.6% over CMP).

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## Q4FY22 and FY22 Result Performance

PROFIT & LOSS ACCOUNT (INR millions)	Q4 2022	Q3 2022	QoQ (%)	Q4 2021	YoY (%)	FY 2022	FY 2021	YoY (%)
<b>Total Revenue</b>	<b>8,915</b>	<b>9,416</b>	<b>-5.3%</b>	<b>7,393</b>	<b>20.6%</b>	<b>34,350</b>	<b>25,862</b>	<b>-5.3%</b>
Employee Expenses	1,700	1,729	-1.7%	1,059	60.5%	6,644	5,880	-1.7%
Operating Expenses	1,591	1,602	-0.7%	1,555	2.3%	5,920	4,101	-0.7%
Impairment on financial instruments	2	3	-47.1%	-78	-102.3%	-69	-41	-47.1%
<b>EBITDA</b>	<b>5,623</b>	<b>6,082</b>	<b>-7.6%</b>	<b>4,858</b>	<b>15.7%</b>	<b>21,855</b>	<b>15,922</b>	<b>-7.6%</b>
EBITDA Margin (%)	63.1%	64.6%	-152bps	65.7%	-264bps	63.6%	61.6%	206bps
Depreciation and Amortization	174	160	8.8%	139	24.9%	625	542	8.8%
<b>EBIT</b>	<b>5,449</b>	<b>5,923</b>	<b>-8.0%</b>	<b>4,719</b>	<b>15.5%</b>	<b>21,229</b>	<b>15,381</b>	<b>-8.0%</b>
EBIT Margin (%)	61.1%	62.9%	-178bps	63.8%	-270bps	61.8%	59.5%	233bps
Interest Expenses	910	827	9.9%	306	197.5%	2,737	1,073	9.9%
Other income	0	3	-110.7%	0	NA	35	0	-110.7%
<b>Profit Before Tax</b>	<b>4,539</b>	<b>5,098</b>	<b>-11.0%</b>	<b>4,413</b>	<b>2.9%</b>	<b>18,528</b>	<b>14,308</b>	<b>-11.0%</b>
PBT Margin (%)	50.9%	54.1%	-323bps	59.7%	-877bps	53.9%	55.3%	-139bps
Tax expenses	1,151	1,295	-11.1%	1,118	2.9%	4,702	3,632	-11.1%
<b>Profit After Tax</b>	<b>3,388</b>	<b>3,804</b>	<b>-10.9%</b>	<b>3,295</b>	<b>2.8%</b>	<b>13,826</b>	<b>10,676</b>	<b>-10.9%</b>
PAT Margin (%)	38.0%	40.4%	-239bps	44.6%	-656bps	40.3%	41.3%	-103bps
<b>Diluted EPS</b>	<b>10.5</b>	<b>11.7</b>	<b>-10.4%</b>	<b>10.2</b>	<b>2.9%</b>	<b>42.8</b>	<b>33.1</b>	<b>-10.4%</b>

Source: Company data, KRChoksey Research

## Quarterly performance of key parameters

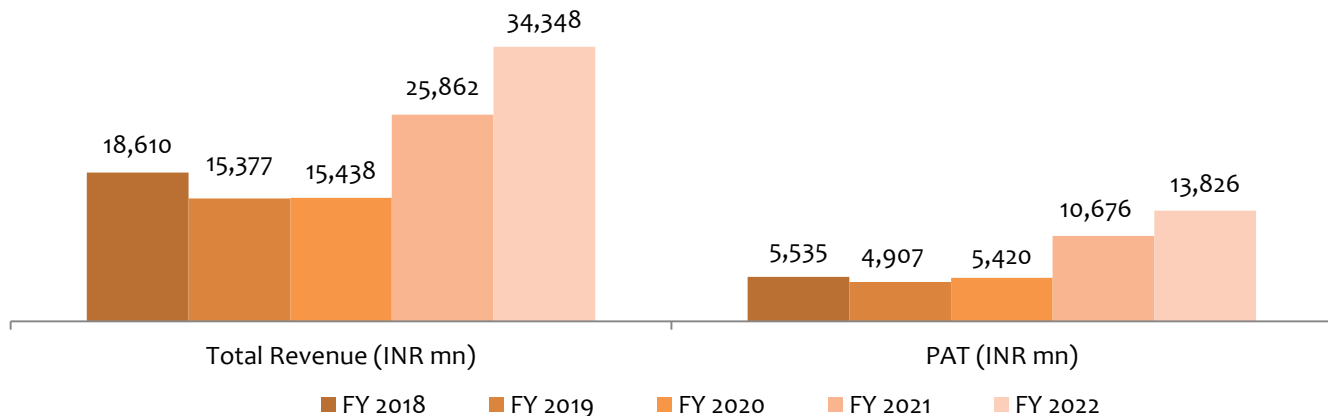
Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
ISEC blended market share (%)	9.0%	8.9%	6.5%	3.2%	3.4%	3.2%	3.1%	2.8%
Equity market share (%)	10.7%	11.1%	10.5%	9.6%	9.2%	8.8%	8.3%	10.2%
Derivative market share (%)	8.9%	8.8%	6.3%	3.0%	3.3%	3.1%	3.0%	2.8%
Home + Other loans Disbursed (INR bn)	1.10	3.60	4.30	5.30	3.20	6.90	5.90	6.60
Clients with +2 products (INR mn)	0.95	0.97	0.99	1.02	1.05	1.09	1.12	1.15
Cross sell ratio*	1.66	1.74	1.76	1.78	1.79	1.76	1.75	1.65
Customer traded in 2 / more products (mn)	0.95	0.97	0.99	1.02	1.05	1.09	1.12	1.15
Prime customer base (mn)	0.38	0.42	0.53	0.65	0.75	0.87	0.96	1.06
Prepaid customer base (mn)	0.091	0.090	0.090	0.088	0.087	0.084	0.081	0.082
Neo customer base (mn)	-	-	-	0.05	0.10	0.14	0.18	0.22
Head count	3,729	3,669	3,900	3,772	3,862	4,059	4,024	4,089
Cost to income (%)	53.0%	45.0%	42.3%	44.7%	44%	45.0%	46.0%	49.0%

Source: Company data, KRChoksey Research

\* Active clients and transaction considered for rolling 12 months (excluding customers acquired in last 90 days), NA- Not Available

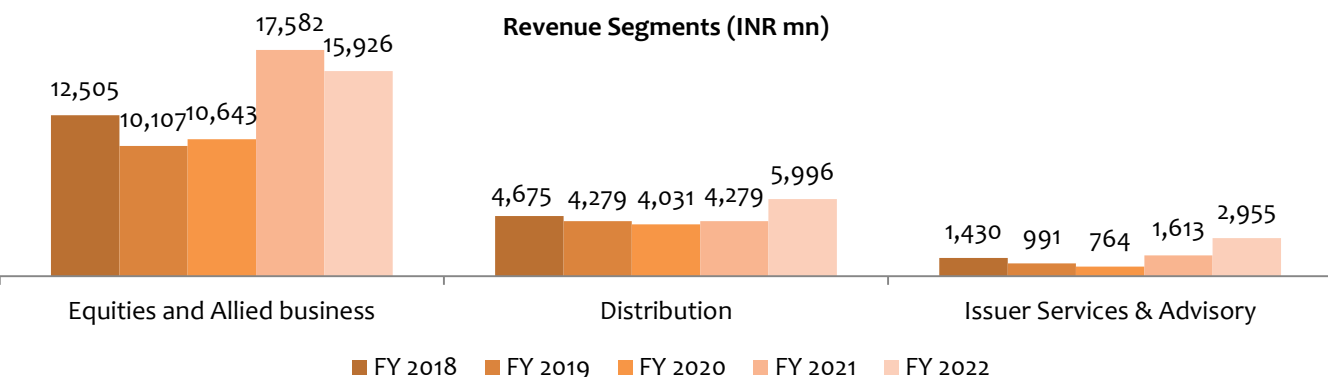
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## Annual Fundamental Performance



Source: Company data, KRChoksey Research

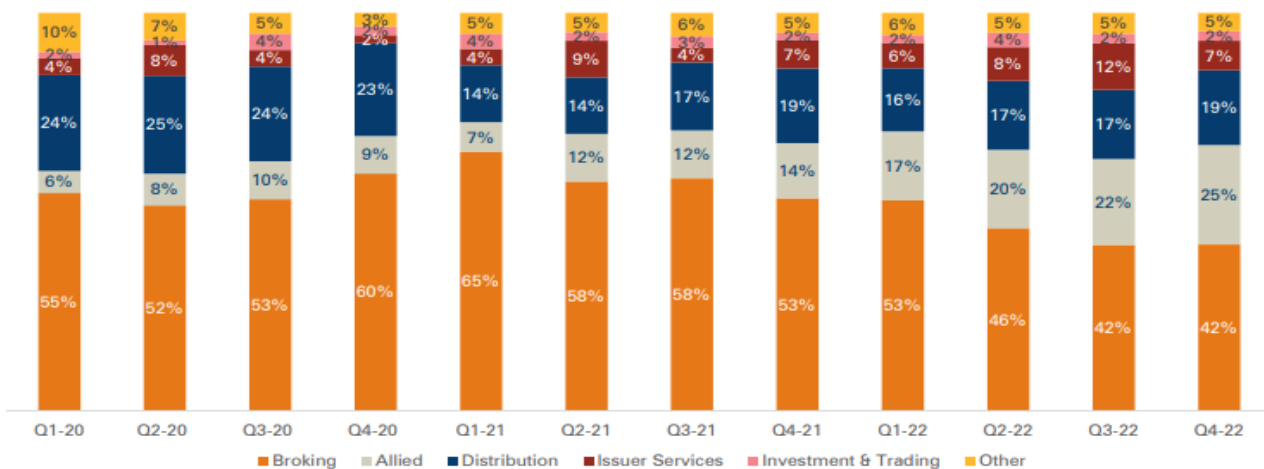
## Revenue Segment Performance – Annual Trend



Source: Company data, KRChoksey Research

## Revenue Segment - Quarterly Performance; broking revenue contribution declined substantially since Q1FY20 from 55% to 42%

### Growing contribution of other businesses in overall revenues



Increasing diversification along with revenue growing at 34% CAGR

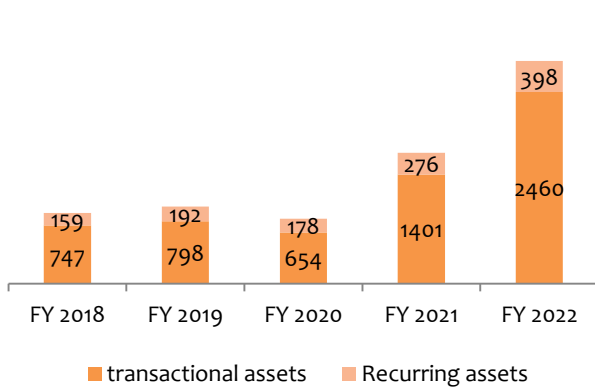
Revenue CAGR from Q1-20 to Q4-22

Source: Company data, KRChoksey Research

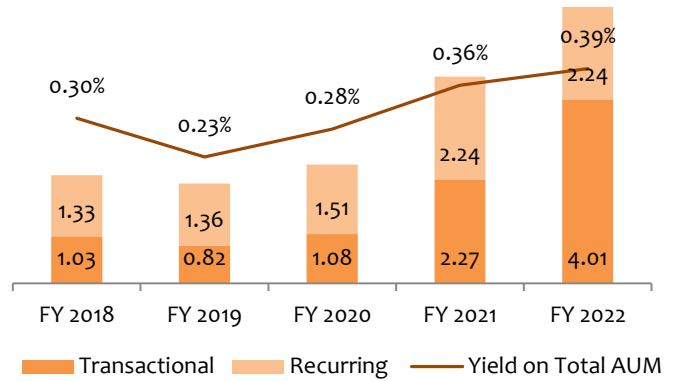
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**Wealth Management Performance – Overall yield has improved from 0.30% in FY16 to 0.39% in FY22**

**Wealth Management Clients' Assets (INR bn)**



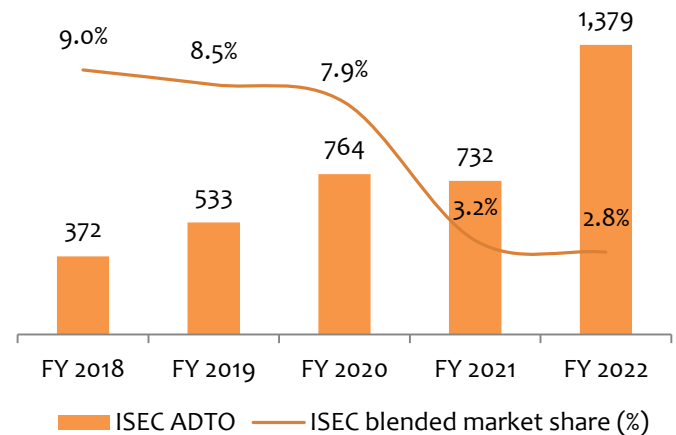
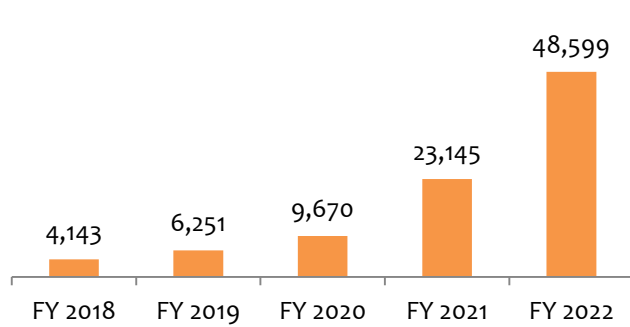
**Wealth Management Revenue (INR bn)**



Source: Company data, KRChoksey Research

## ISEC ADTO Performance

**Total market ADTO (INR bn)**

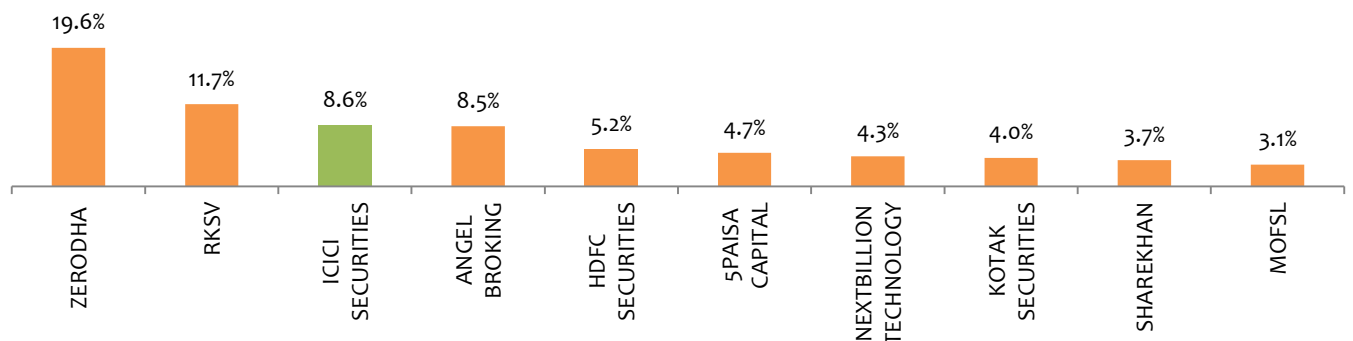


Source: Company data, KRChoksey Research

## ISEC market share : NSE Active Clients

It has ~7% market share in incremental demat accounts

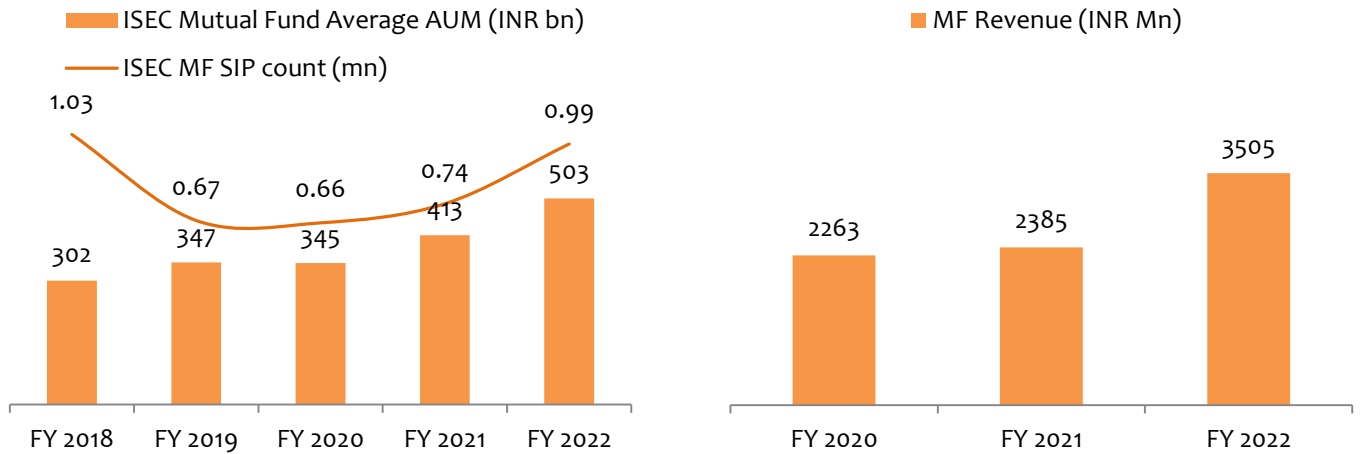
**NSE Active Clients: Market Share March 2022**



Source: NSE, KRChoksey Research

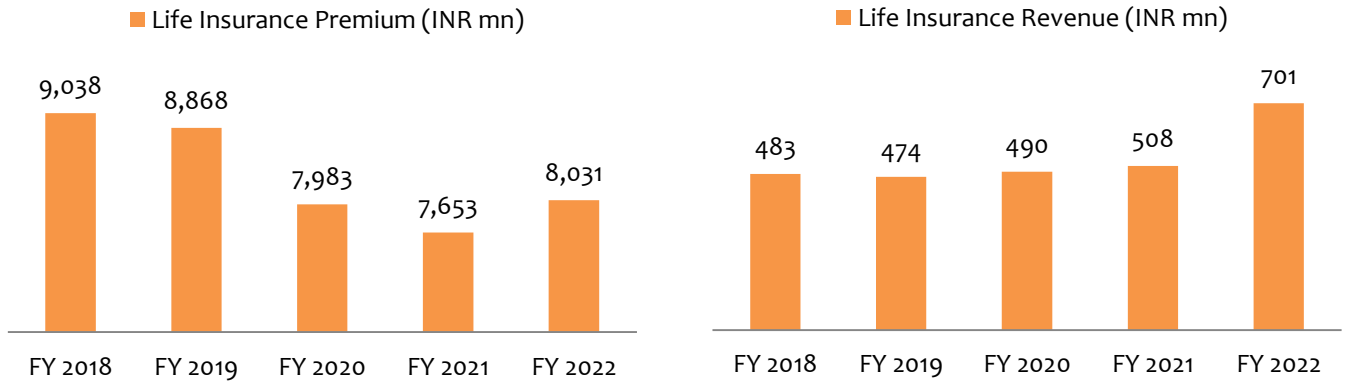
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## Mutual Fund business has shown a steady growth



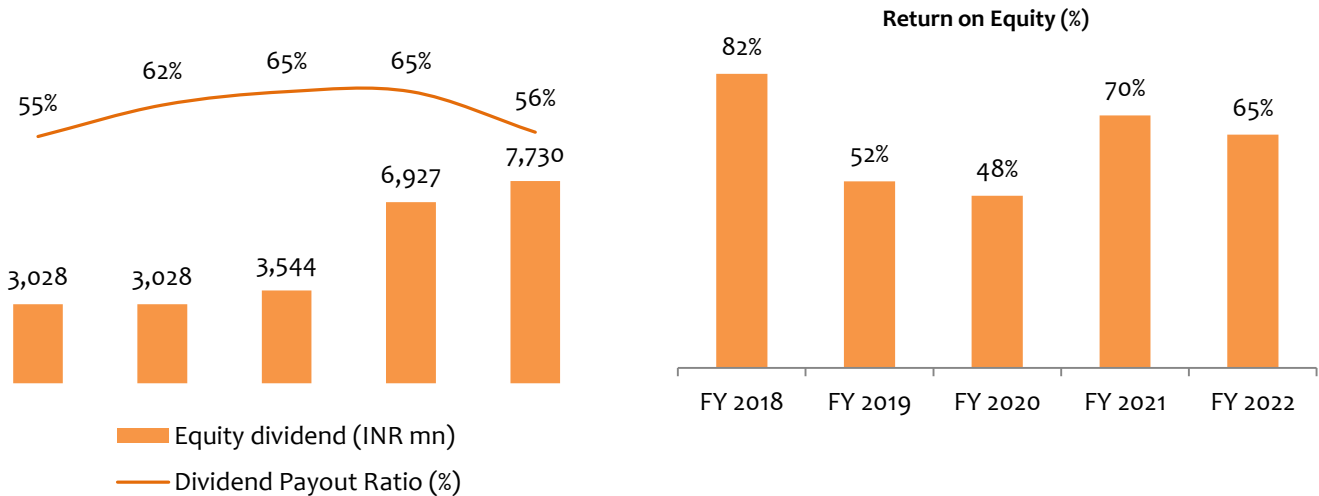
Source: Company data, KRChoksey Research

## Life Insurance business revenue has seen a rapid growth during FY22



Source: Company data, KRChoksey Research

## More than 50% of profits are being distributed to its shareholders; Final dividend announced at INR 24 in FY22



Source: Company data, KRChoksey Research

# ICICI Securities Ltd.

## Financial Statements

PROFIT & LOSS ACCOUNT (INR mn)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
<b>Total Revenue</b>	17,062	25,862	34,350	35,791	39,887
Operating expenses	8,242	9,939	12,495	12,912	13,830
<b>EBITDA</b>	8,820	15,922	21,855	22,879	26,057
Depreciation and Amortization	614	542	625	695	818
<b>EBIT</b>	8,206	15,381	21,229	22,184	25,239
Interest Expenses	864	1,073	2,737	3,637	4,191
Other income	187	0	-35	0	0
Profit before tax	7,529	14,308	18,458	18,547	21,048
Tax expenses	2,109	3,632	4,702	4,713	5,348
<b>Profit After Tax</b>	5,420	10,676	13,756	13,834	15,700

Source: Company data, KRChoksey Research

BALANCE SHEET (INR mn)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
Share capital	1,611	1,611	1,613	1,613	1,613
Reserves & surplus	10,485	16,427	22,692	28,280	35,135
<b>Shareholders' funds</b>	12,095	18,038	24,305	29,893	36,748
Borrowings	14,975	35,210	77,392	86,253	1,03,503
Other liabilities & provisions	17,358	28,310	34,765	41,148	48,081
<b>TOTAL LIABILITIES &amp; EQUITY</b>	44,428	81,557	1,36,462	1,57,295	1,88,332
Cash and Bank	24,114	38,448	56,166	67,596	89,190
Investments	25	152	107	107	107
Advances	5,709	29,015	68,567	75,423	82,966
Fixed & other assets	14,581	13,943	11,622	14,168	16,069
<b>TOTAL ASSETS</b>	44,428	81,557	1,36,462	1,57,295	1,88,332

Source: Company data, KRChoksey Research

KEY RATIOS	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
<b>Growth rates</b>					
Revenue (%)	0.1%	51.6%	32.8%	4.2%	11.4%
EBITDA (%)	11.0%	80.5%	37.3%	4.7%	13.9%
PAT (%)	10.4%	97.0%	28.9%	0.6%	13.5%
Total Assets (%)	-4.8%	83.6%	67.3%	15.3%	19.7%
<b>Other Ratios</b>					
Cost/income (%)	57.0%	44.7%	46.2%	48.2%	47.2%
Opex/ average assets (%)	19.4%	16.6%	12.0%	9.3%	8.5%
Debt/Equity	1.24	1.95	3.18	2.89	2.82
<b>Profitability</b>					
ROAA (%)	11.9%	16.9%	12.6%	9.4%	9.1%
ROAE (%)	48.0%	70.9%	65.0%	51.0%	47.1%
<b>Per share data / Valuation</b>					
EPS (INR)	16.8	33.1	42.7	42.9	48.7
BV (INR)	37.5	55.9	75.4	92.7	114.0
P/E (x)	16.5x	18.1x	14.0x	13.9x	12.3x
P/BV (x)	7.4x	10.7x	7.9x	6.4x	5.2x

Source: Company data, KRChoksey Research



# ICICI Securities Ltd.

ICICI Securities Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
22-Apr-22	597	935	BUY	<b>Buy</b>	More than 15%
20-Jan-22	788	935	BUY		
20-Oct-21	804	935	BUY	<b>Accumulate</b>	5% – 15%
22-Jul-21	744	830	BUY	<b>Hold</b>	0 – 5%
20-May-21	579	708	BUY		
22-Apr-21	424	578	BUY	<b>Reduce</b>	-5% – 0
27-Jan-21	414	578	BUY	<b>Sell</b>	Less than – 5%
9-Dec-20	461	565	BUY		

#### ANALYST CERTIFICATION:

I, Priyanka Baliga [M.Com, BMS (Finance)], Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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