

ICICI Securities Ltd.



ICICI Securities Ltd.

Stress remained in broking; improved contribution of distribution income

| | | | | | |
|----------------|-------------------|---------------------------|------------------------------------|-----------------------|------------------------------|
| CMP INR 474 | Target INR 560 | Potential Upside 18.2% | Market Cap (INR Mn) INR 153,140 | Recommendation BUY | Sector Financial Services |
|----------------|-------------------|---------------------------|------------------------------------|-----------------------|------------------------------|

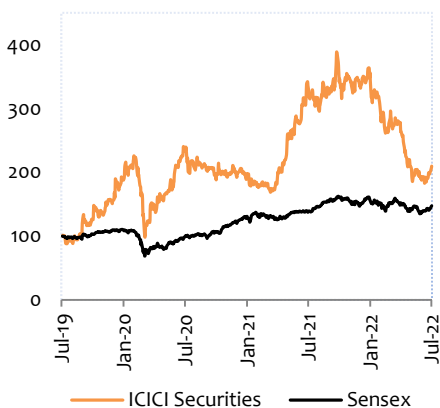
Result Highlights of Q1FY23

- Total revenue reported at INR 7,936Mn (-11% qoq, +6.5% yoy) due to overall toned-down industry growth across segments. Revenue from 'Equities and Allied Business' segment reported sequential flat growth at INR 5,246Mn (+10% yoy). 'Distribution income' continued to grow at INR 1,520Mn (+1% qoq / +20% yoy).
- EBITDA reported at INR 4,826Mn (-14.2% qoq / +2.6% yoy). EBITDA margin stood at 60.8% (-226bps qoq / -231bps yoy), as employee expenses stood to INR 1,750Mn (+3% qoq / +16.0% yoy) and operating expenses reported at INR 1,340 Mn (-15.8% qoq / +5.6% yoy). Cost to income ratio stood at 53.9% (+482bps qoq / +949bps yoy).
- PBT reported at INR 3,670Mn (-19.3% qoq / -11.9% yoy). PBT margin stood at 46.3% (-473bps qoq / -966bps yoy) on account of higher interest expenses.
- PAT reported at INR 2,736Mn (-19.4% qoq / -11.9% yoy). PAT margin stood at 34.5% (-361bps qoq / -721bps yoy). EPS stood at INR 8.46.
- ISEC has added 4.47 lakh clients (vs. +6.18 lakh in Q4FY22) during Q1FY23 with a client base of 80 lakhs as on Jun'22. Overall industry growth moderated on account of drop in the growth of new customer acquisition over the last 2 quarters.

MARKET DATA

| | |
|---------------------|----------|
| Shares outs (Mn) | 323 |
| Equity Cap (INR Mn) | 1,613 |
| Mkt Cap (INR Mn) | 1,53,140 |
| 52 Wk H/L (INR) | 896/432 |
| Volume Avg (3m K) | 524.8 |
| Face Value (INR) | 5 |
| Bloomberg Code | ISEC IN |

SHARE PRICE PERFORMANCE



MARKET INFO

| | |
|--------|--------|
| SENSEX | 56,072 |
| NIFTY | 16,719 |

SHARE HOLDING PATTERN (%)

| Particulars | Jun 22 | Mar 22 | Dec 21 |
|-------------|--------|--------|--------|
| Promoters | 74.9 | 74.9 | 74.9 |
| FIIIs | 7.1 | 7.3 | 6.6 |
| DIIIs | 6.7 | 7.1 | 7.8 |
| Others | 11.3 | 10.7 | 10.7 |
| 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 | 34751 | 38032 |
| EBITDA | 8820 | 15922 | 21855 | 22353 | 25242 |
| PAT | 5420 | 10676 | 13756 | 13085 | 15052 |
| PAT margin (%) | 31.8% | 41.3% | 40.0% | 37.7% | 39.6% |
| EPS | 16.8 | 33.1 | 42.7 | 40.6 | 46.7 |
| P/E | 16.5x | 11.6x | 14.6x | 11.7x | 10.2x |

Source: Company data, KRChoksey Research

Brokerage revenue dropped due to weak market sentiments

- Revenue reported at INR 7,936Mn below our estimates of INR 8,948Mn (down 11.3%) and PAT reported at INR 2,736Mn (our estimate: INR 3,370Mn, down 18.8%).
- Revenue from retail brokerage** de-grew by 25% yoy at INR 2,623Mn and **Institutional brokerage and allied equities** reported at INR 486Mn (-17% yoy / -22.5% qoq).
- MF Revenue witnessed a stable growth while insurance business had an impact due to seasonality.** MF revenue stood at INR 892Mn de-grew by 21% YoY (MF Average AUM: INR 57.6Bn). However, life insurance revenue stood at INR 126Mn (-61% YoY) which was slightly impacted due to seasonality. **Overall distribution income** reported at INR 1,520Mn (+28% yoy / -10% qoq).
- Investment banking revenue** stood at INR 350Mn as against INR 474Mn in Q1FY22 due to weak market sentiments that had a direct impact on primary market activities. However, ISEC has a strong pipeline of 42 deals worth INR 825Bn (excluding the amount of additional 23 deals).
- We revise our revenue / PAT estimate by -3% / -5% in FY23 and -5% / -4% in FY24, respectively, which factors de-growth observed in Q1FY23 and expected weak market conditions in the near term.

Client growth has moderated since last 2 quarters

- As industry has observed subdued client addition since Q4FY22, ISEC has also acquired ~6.8 lakhs clients in Q3FY22 and lowered the trend in Q1FY23 with the addition of ~4.5 lakhs clients. Overall market share as per NSE active client base also dropped at 8.4% as on Jun'22. It has ~6.5% market share in incremental demat accounts. Overall active clients stood at 3.56 mn with activation ratio of 79%.

Cost to income ratio grew by 949bps yoy led by weak revenues and steady costs

- Cost to income ratio increased at 53.9% led by weak topline performance during the quarter (marketing costs ~INR 20Cr, Tech costs: INR ~20-22Cr). Overall employee costs grew by 3% qoq despite salary increments during the quarter. EBIT margin and Net margin declined at 58.7% / 34.5% by 245bps / 721bps yoy, respectively.

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Key Concall Highlights

Management's industry observations and insights:

- There is a moderation in the overall broking industry since October 2021 which has intensified in Q1FY23. The growth in new demat accounts declined by 25% qoq. The growth in NSE active clients dropped at 5.5% which is the slowest growth over the last 2 years. Also, there is a declining trend on monthly basis, as there were addition of 5 lakh NSE active clients in May'22 that came down at 3 lakh in Jun'22.
- ISEC's retail equity ADTO declined by 15% qoq. There is a weakening trend in cash volumes on MoM basis. F&O trading activity was relatively better than cash segment; however, pace of growth was moderated at 25% qoq in Q4FY22 and 11% qoq in Q1FY23.
- Overall primary market activity was weak primarily because of LIC IPO. Mutual fund growth also slowed down, as it observed a de-growth of 15% / 16% in equity and debt, respectively.

Equity and Allied Revenue

- ISEC has a major focus on four key areas, such as market share improvement across businesses, revenue diversification, cost control without compromising growth opportunities and to remain ahead of market for future business opportunities.
- Retail derivative market share has improved from 3.3% in Q4FY22 to 3.5% in Q1FY23. It was at 3.6% in the month of Jun'22. In order to penetrate the derivative market further, it is expected to launch 7-8 tools for its investors which will improve the client engagement and market activities.
- In MTF business, it a leading market player with 22.4% market share. It is also gaining market share sequentially in its recently launched commodities segment which was at 4.4% in Q1FY23 compared to 4.1% in Q4FY22.
- ISEC has also launched 'LIFEY' product to improve the customer engagement which will primarily help investors do goal planning such as marriage, buying a car, career planning or holiday planning, etc.
- There was a growth in allied revenues from INR 17 Cr to INR 32 Cr on account of transaction based charges.

Distribution Business

- Contribution of distribution income was increased from 16% in Q1FY22 to 19% in Q1FY23. Mutual Fund and Insurance products are seasonal in nature while wealth, fixed income, loan distribution and PMS products are holding the sequential trend.
- ISEC PMS AUM grew by 10% qoq which is stood at ~INR 800Cr.

Other Key points

- There has been an increase in overall expenses in seven quarters in a row; however, declined sequentially by 2% on account of reduction in discretionary expenses in the context of weak market conditions.
- It has launched iLearn new age learning platform which comprises of short videos, podcasts and investor community platform which will boost the client engagement.
- It has recently entered in to an exclusive partnership with HSBC Bank which will offer ICICI Securities three-in-one broking account for its global customers.
- It expects tech spends to moderate and will be deferred over six to seven quarters.

Key Risks:

- Volatility in domestic and global markets may have an impact on Indian markets which is uncertain to predict accurately.
- Change in 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

The share price of ICICI Securities corrected by ~40% from its 52 week high due to market volatility led by concerns over geopolitical issues and key global / domestic macroeconomic indicators., as it had a direct impact on market trading activities and traded volumes. We believe in strong business model of ICICI Securities which has positioned well in this competitive industry. It has a major focus on maximizing client activities by initiating various strategies, products and tools in order to maximize clients' wealth. We have revised our EPS estimate downwards for FY23E/FY24E at INR 40.6 and INR 46.7, respectively. ISEC is currently trading at P/E multiple of 11.7x / 10.2x to FY23E / FY24E EPS, respectively. We assign PE multiple of 12.0x to FY24 EPS and revise our target price at INR 560/share (Previous target: INR 935) with an upside of 18.2% over CMP.

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Q1FY23 Result Performance

| Particulars (INR mn) | Q1 2023 | Q4 2022 | QoQ (%) | Q1 2022 | YoY (%) |
|-------------------------------------|--------------|--------------|---------------|--------------|---------------|
| Total Revenue | 7,936 | 8,917 | -11.0% | 7,453 | 6.5% |
| Employee Expenses | 1,750 | 1,700 | 3.0% | 1,509 | 16.0% |
| Operating Expenses | 1,340 | 1,591 | -15.8% | 1,268 | 5.6% |
| Impairment on financial instruments | 20 | 2 | 988.9% | -30 | -166.4% |
| EBITDA | 4,826 | 5,625 | -14.2% | 4,705 | 2.6% |
| EBITDA Margin (%) | 60.8% | 63.1% | -226bps | 63.1% | -231bps |
| Depreciation and Amortization | 164 | 174 | -5.5% | 144 | 13.9% |
| EBIT | 4,662 | 5,451 | -14.5% | 4,561 | 2.2% |
| EBIT Margin (%) | 58.7% | 61.1% | -238bps | 61.2% | -245bps |
| Interest Expenses | 1,004 | 911 | 10.2% | 418 | 140.2% |
| Other income | 12 | 6 | 92.1% | 24 | -49.6% |
| Profit Before Tax | 3,670 | 4,546 | -19.3% | 4,167 | -11.9% |
| PBT Margin (%) | 46.3% | 51.0% | -473bps | 55.9% | -966bps |
| Tax expenses | 934 | 1,150 | -18.8% | 1,060 | -11.8% |
| Profit After Tax | 2,736 | 3,396 | -19.4% | 3,107 | -11.9% |
| PAT Margin (%) | 34.5% | 38.1% | -361bps | 41.7% | -721bps |
| Diluted EPS | 8.5 | 10.5 | -19.7% | 9.6 | -12.2% |

Source: Company data, KRChoksey Research

Quarterly performance of key parameters

| Particulars | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Equity ADTO blended market share | 10.7% | 11.1% | 10.5% | 9.6% | 9.2% | 8.8% | 8.3% | 8.9% | 8.0% |
| Derivative ADTO blended market share | 8.9% | 8.8% | 6.3% | 3.0% | 3.3% | 3.1% | 3.0% | 2.8% | 2.9% |
| Retail Equity ADTO market share | 12.2% | 12.3% | 12.1% | 10.73% | 9.91% | 10.04% | 9.80% | 9.99% | 9.71% |
| Retail Derivative ADTO market share | 12.3% | 11.4% | 8.1% | 3.96% | 4.17% | 3.69% | 3.55% | 3.32% | 3.48% |
| Home + Other loans Disbursed (INR Bn) | 1.07 | 3.59 | 4.33 | 5.32 | 3.18 | 6.86 | 5.88 | 6.64 | 6.19 |
| Clients with +2 products (INR Mn) | 0.95 | 0.97 | 0.99 | 1.02 | 1.05 | 1.09 | 1.12 | 1.15 | 1.17 |
| Cross sell ratio* | 1.62 | 1.70 | 1.70 | 1.78 | 1.79 | 1.76 | 1.75 | 1.65 | 1.74 |
| Prime customer base (Mn) | 0.38 | 0.42 | 0.53 | 0.65 | 0.75 | 0.87 | 0.96 | 1.06 | 1.06 |
| Prepaid customer base (Mn) | 0.091 | 0.090 | 0.090 | 0.088 | 0.087 | 0.084 | 0.081 | 0.082 | 0.105 |
| Neo customer base (Mn) | - | - | - | 0.05 | 0.10 | 0.14 | 0.18 | 0.22 | 0.24 |
| MTF Average book (INR Mn) | 5,579 | 10,579 | 12,277 | 21,089 | 29,212 | 39,847 | 52,321 | 57,408 | 57,654 |
| MTF Exit market share | 16.0% | 16.7% | 18.4% | 19.2% | 22.0% | 21.8% | 22.2% | 22.3% | 22.4% |
| ESOP daily average book (INR Mn) | 3,881 | 7,528 | 6,119 | 4,563 | 7,058 | 11,698 | 13,930 | 14,656 | 12,992 |
| Head count | 3,729 | 3,669 | 3,876 | 3,772 | 3,862 | 4,059 | 4,024 | 4,089 | 4,094 |
| Cost to income | 53.0% | 45.0% | 42.3% | 44.7% | 44% | 45.0% | 46.0% | 49% | 54% |

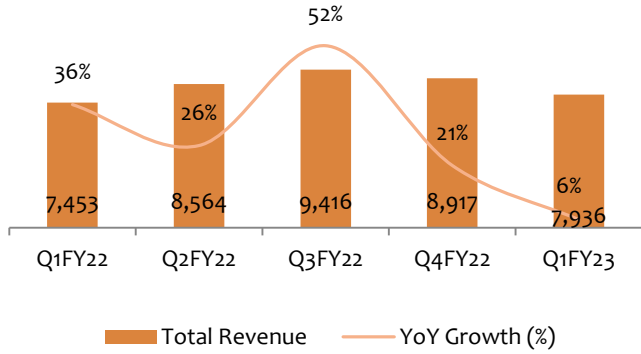
Source: Company data, KRChoksey Research

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

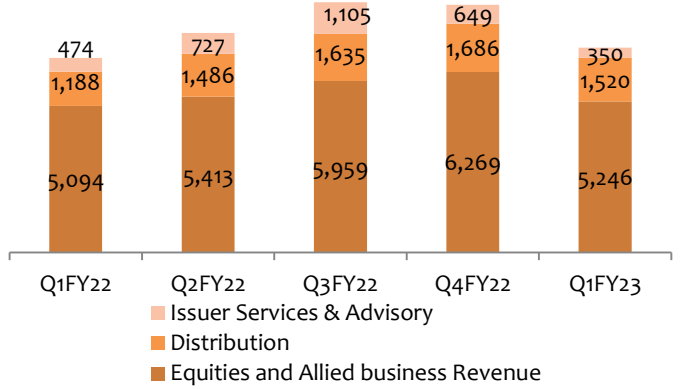
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Quarterly fundamental performance

Revenue grew by 6% YoY as against 21% in Q4FY22



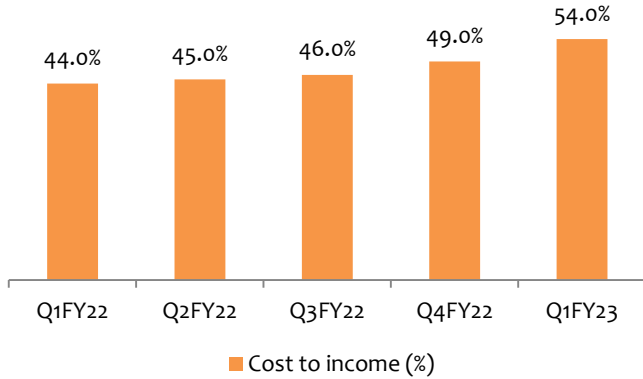
Revenue Segment Performance



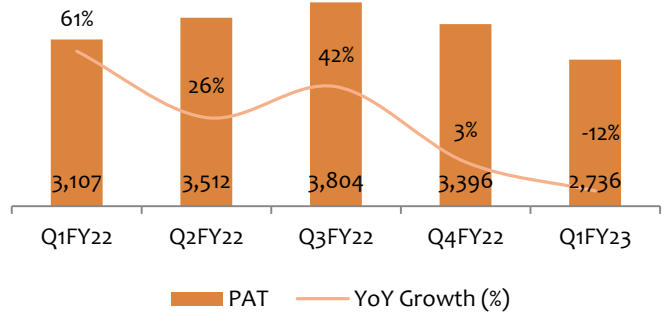
Source: Company data, KRChoksey Research

Operational trend: Cost to income (%) elevated and PAT has observed de-growth on account of weak topline performance

Cost to income (%)

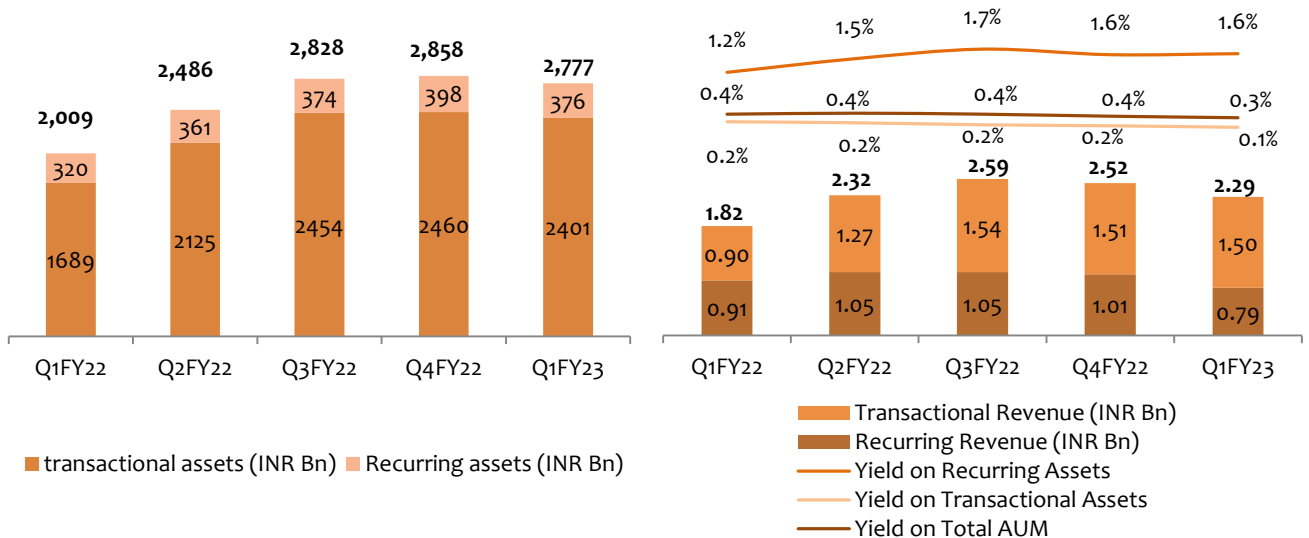


PAT de-grew by 12% yoy as against 3% yoy growth in Q4FY22



Source: Company data, KRChoksey Research

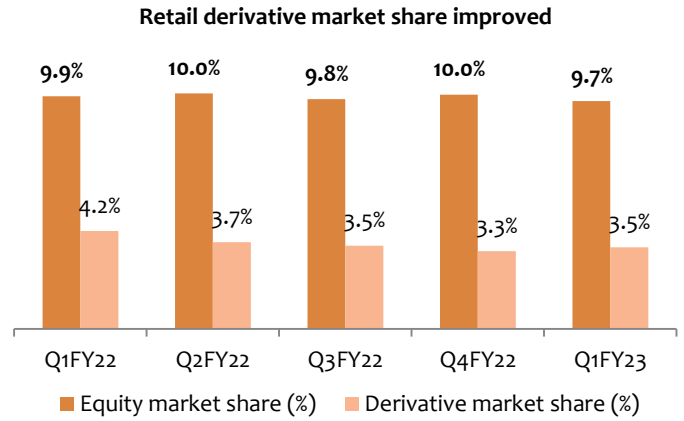
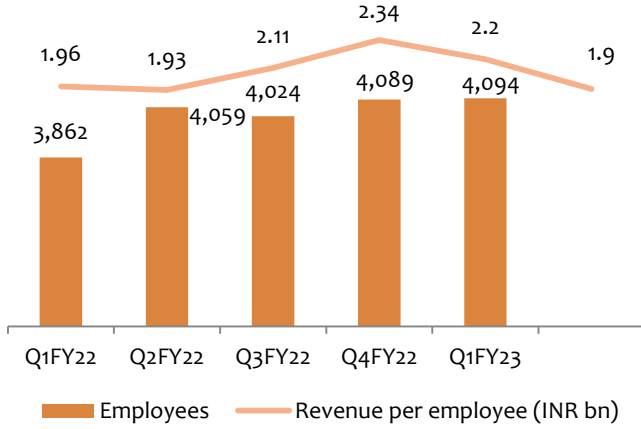
Private Wealth Management AUM stood at INR 2.8 tn of AUM (38% YoY) for ~70,000 clients; ~1,600 clients added during Q1FY23



Source: Company data, KRChoksey Research

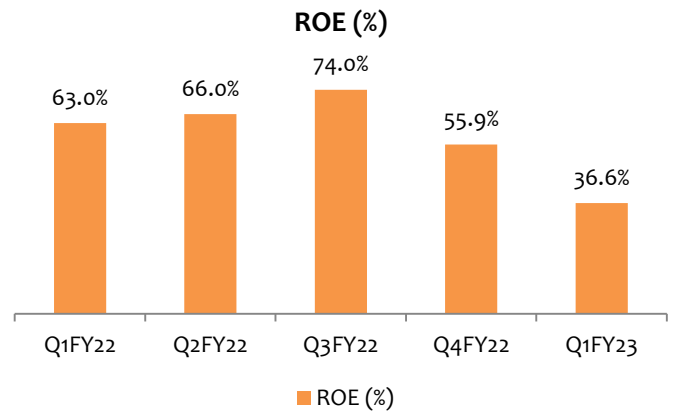
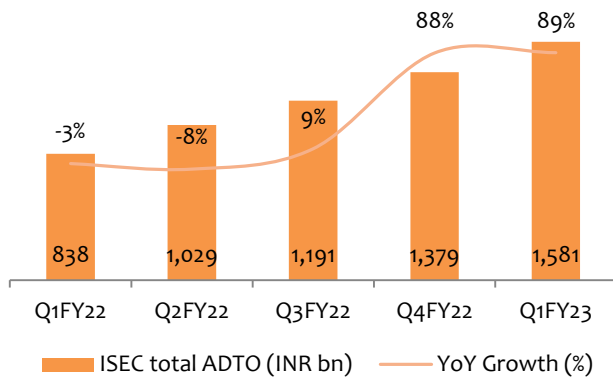
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Revenue per employee has observed moderation due to decline in overall revenue; retail equity market share declined and derivative market share improved on a sequential basis



Source: Company data, KRChoksey Research

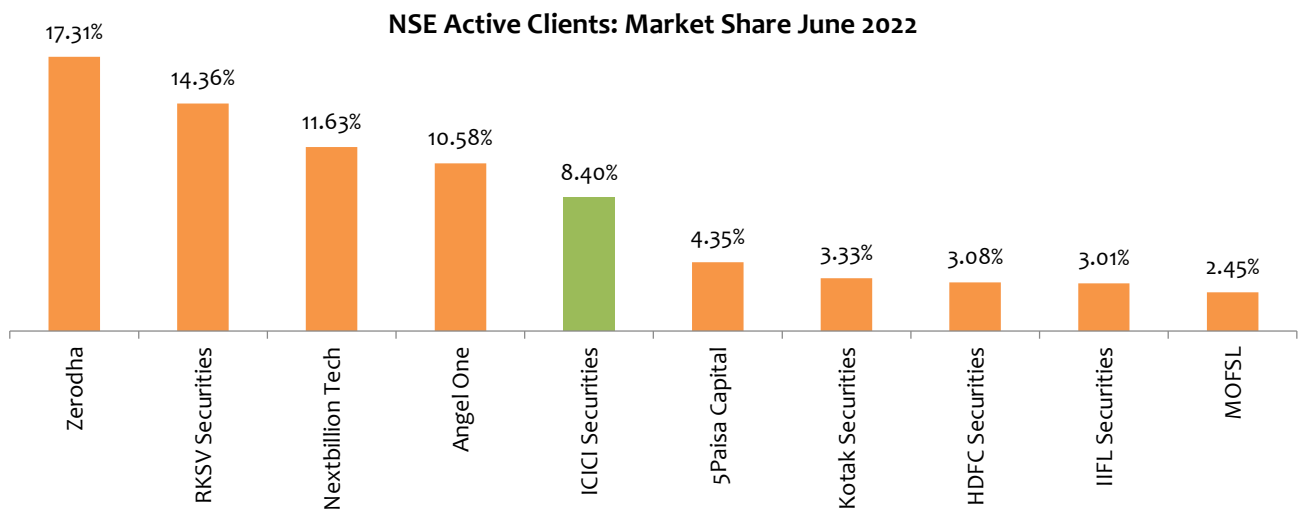
ISEC ADTO Performance and ROE Trend declining since last 2 quarters



Source: Company data, KRChoksey Research

ISEC NSE Active Clients market share: overall industry experienced moderated growth

It has ~6.5% market share in incremental Demat accounts



Source: NSE, KRChoksey Research

ICICI Securities Ltd.

Financial Statements

| PROFIT & LOSS ACCOUNT (INR mn) | FY 2020 | FY 2021 | FY 2022 | FY 2023E | FY 2024E |
|--------------------------------|---------|---------|---------|----------|----------|
| Total Revenue | 17,062 | 25,862 | 34,350 | 34,751 | 38,032 |
| Operating expenses | 8,242 | 9,939 | 12,495 | 12,398 | 12,791 |
| EBITDA | 8,820 | 15,922 | 21,855 | 22,353 | 25,242 |
| Depreciation and Amortization | 614 | 542 | 625 | 713 | 818 |
| EBIT | 8,206 | 15,381 | 21,229 | 21,640 | 24,424 |
| Interest Expenses | 864 | 1,073 | 2,737 | 4,077 | 4,244 |
| Other income | 187 | 0 | -35 | -12 | 0 |
| Profit before tax | 7,529 | 14,308 | 18,458 | 17,550 | 20,180 |
| Tax expenses | 2,109 | 3,632 | 4,702 | 4,466 | 5,128 |
| Profit After Tax | 5,420 | 10,676 | 13,756 | 13,085 | 15,052 |

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 | 27,961 | 34,530 |
| Shareholders' funds | 12,095 | 18,038 | 24,305 | 29,574 | 36,143 |
| Borrowings | 14,975 | 35,210 | 77,392 | 84,685 | 93,153 |
| Other liabilities & provisions | 17,358 | 28,310 | 34,765 | 40,609 | 46,922 |
| TOTAL LIABILITIES & EQUITY | 44,428 | 81,557 | 1,36,462 | 1,54,868 | 1,76,219 |
| Cash and Bank | 24,114 | 38,448 | 56,166 | 65,167 | 77,073 |
| Investments | 25 | 152 | 107 | 109 | 111 |
| Advances | 5,709 | 29,015 | 68,567 | 75,423 | 82,966 |
| Fixed & other assets | 14,581 | 13,943 | 11,622 | 14,168 | 16,069 |
| TOTAL ASSETS | 44,428 | 81,557 | 1,36,462 | 1,54,868 | 1,76,219 |

Source: Company data, KRChoksey Research

| KEY RATIOS | FY 2020 | FY 2021 | FY 2022 | FY 2023E | FY 2024E |
|-----------------------------------|---------|---------|---------|----------|----------|
| Growth rates | | | | | |
| Revenue (%) | 0.1% | 51.6% | 32.8% | 1.2% | 9.4% |
| EBITDA (%) | 11.0% | 80.5% | 37.3% | 2.3% | 12.9% |
| PAT (%) | 10.4% | 97.0% | 28.9% | -4.9% | 15.0% |
| Total Assets (%) | -4.8% | 83.6% | 67.3% | 13.5% | 13.8% |
| Other Ratios | | | | | |
| Cost/income (%) | 57.0% | 44.7% | 46.2% | 49.5% | 46.9% |
| Opex/ average assets (%) | 19.4% | 16.6% | 12.0% | 9.0% | 8.2% |
| Debt/Equity | 1.24 | 1.95 | 3.18 | 2.86 | 2.58 |
| Profitability | | | | | |
| ROAA (%) | 11.9% | 16.9% | 12.6% | 9.0% | 9.1% |
| ROAE (%) | 48.0% | 70.9% | 65.0% | 48.6% | 45.8% |
| Per share data / Valuation | | | | | |
| EPS (INR) | 16.8 | 33.1 | 42.7 | 40.6 | 46.7 |
| BV (INR) | 37.5 | 55.9 | 75.4 | 91.7 | 112.1 |
| P/E (x) | 16.5x | 11.6x | 14.6x | 11.7x | 10.2x |
| P/BV (x) | 7.4x | 6.9x | 8.2x | 5.2x | 4.2x |

Source: Company data, KRChoksey Research

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| ICICI Securities Ltd. | | | | Rating Legend (Expected over a 12-month period) | |
|-----------------------|-----------|----------|----------------|---|----------------|
| Date | CMP (INR) | TP (INR) | Recommendation | Our Rating | Upside |
| 25-Jul-22 | 474 | 560 | BUY | Buy | More than 15% |
| 20-Jan-22 | 788 | 935 | BUY | | |
| 20-Oct-21 | 804 | 935 | BUY | Accumulate | 5% – 15% |
| 22-Jul-21 | 744 | 830 | BUY | Hold | 0 – 5% |
| 20-May-21 | 579 | 708 | BUY | | |
| 22-Apr-21 | 424 | 578 | BUY | Reduce | -5% – 0 |
| 27-Jan-21 | 414 | 578 | BUY | | |
| 9-Dec-20 | 461 | 565 | BUY | Sell | Less than – 5% |

ANALYST CERTIFICATION:

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