

ICICI Securities Ltd.



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Stress remained in broking; weak cash volume, partly offset by robust derivatives volumes

CMP INR 512	Target INR 560	Potential Upside 9.3%	Market Cap (INR Mn) INR 165,320	Recommendation ACCUMULATE	Sector Financial Services
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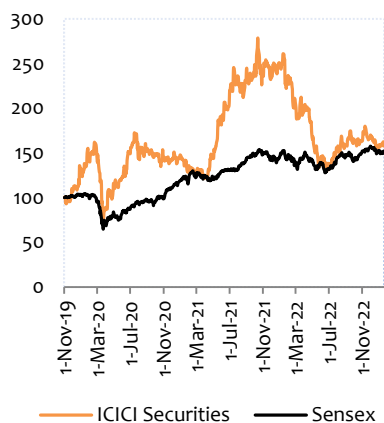
Result Highlights of Q3FY23

- I-Sec reported a revenue of INR 8,789 Mn, down 7% YoY, up 2% sequentially, due to overall toned-down industry growth across segments. The Retail Equities and Allied Business which includes lending towards MTF & ESOP, Prime & NEO subscription fees, reported revenues at INR5040 Mn, down 4% YoY. The Distribution Business reported revenues of INR1670 Mn in Q3FY23, up 2% YoY.
- EBITDA reported at INR 5,487.9 Mn (+4.8% qoq / -9.7% yoy). EBITDA margin stood at 62.4% (140bps qoq / -220bps yoy), as employee expenses stood to INR 1,756Mn (-5.4% qoq / +1.6% yoy).
- PBT reported at INR 3,773Mn (-6.5% qoq / -25.9% yoy). PBT margin stood at 42.8% (-420bps qoq / -1130bps yoy) on account of higher interest expenses.
- PAT reported at INR 2,809 Mn (-6.5% qoq / -26.1% yoy). PAT margin stood at 31.9% (-310bps qoq / -850bps yoy). EPS stood at INR 8.7.
- The company saw its total client base crossed 87 Lakh, up 25% YoY, with 3 lakh clients added during the quarter. Total client assets on the platform during the quarter touched INR6 lakh crore, UP 7% YoY.

MARKET DATA

Shares outs (Mn)	323
Equity Cap (INR Mn)	1,613
Mkt Cap (INR Mn)	1,65,320
52 Wk H/L (INR)	820/408
Volume Avg (3m K)	524.8
Face Value (INR)	5
Bloomberg Code	ISEC IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,858
NIFTY	18,107

SHARE HOLDING PATTERN (%)

Particulars	Dec 22	Sep 22	Jun 22
Promoters	74.9	74.9	74.9
FIIIs	7.7	7.4	7.1
DIIIs	5.8	6.2	6.7
Others	11.6	11.5	11.3
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

No signs of recovery in brokerage revenue due to weak market sentiments

- Revenue reported at INR 8,789Mn below our estimates of INR 8,900Mn (-1.2%) and PAT reported at INR 2,809Mn (our estimate: INR 3,210Mn, -12.5%). PAT was down 26% YoY sequentially on account of decline in cash volumes, muted capital market activities, increase in finance cost, and continued investments towards technology and other franchise value enhancing initiatives. Cost to income ratio grew from 54% in Q2FY23 to 57% in Q3FY23 led by weak revenues and steady costs.
- Revenue from retail brokerage and Institutional brokerage and allied equities** de-grew by 4% yoy at INR 5,040Mn. Revenue contribution from the cash segment has come down to 34% of overall equity revenue in Q3FY23 from 50% in Q3FY22. In the commodity segment, where it entered three years back, its market share is 5.6%, up 157 bps from the year ago period.
- I-Sec's Private Wealth Management (PWM)** business reported INR 2590 Mn of revenue in Q3FY23, same period of the last year.
- Institutional Equities** revenue during the quarter decreased by 32% YoY to INR 470 Mn, primarily due to decline in Cash ADTOs and muted capital markets.
- The Issuer Services and Advisory business** revenue stood at ~INR 480 Mn in Q3FY23, down 56% YoY due to reduction in number of capital market deals. The company has a strong IPO pipeline of amount over INR 41,1 Bn across 21 deals, with additional 16 deals where the amount is yet to be decided. If the market remains conducive, these deals could be executed quickly as most of these are in ready-to-launch stage

Client growth has moderated since last 2 quarters

- The company saw its total client base expand cross 87 Lakh, up 25% YoY, with 3 lakh clients added during the quarter. Total client assets on the platform during the quarter touched INR6 lakh crore, UP 7% YoY out of which INR3.2 lakh crore pertains to its 76,000 plus private wealth customers, comprising of HNIs, U-HNIs, and Family Offices.

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Key Concall Highlights

Management's observations and insights:

- There is a moderation in the overall broking industry since the last few quarters which has intensified in Q3FY23. New demat account openings continued to witness a moderation and declined 7% sequentially. NSE active clients continued to show a declining trend for the second straight quarter and it declined about 5% sequentially.
- In the commodity segment, ISEC's market share is 5.6%, up 157 bps YoY. Non broking revenue stood at 64% of overall revenue, vs 58% in Q3FY22.
- Total client assets on the platform during the quarter touched INR6 lakh crore, out of which INR3.2 lakh crore pertains to its 76,000 plus private wealth customers, comprising of HNIs, U-HNIs, and Family Offices.

Equity and Allied Revenue

- ISEC has a major focus on four key areas, such as improving Market share across various areas of business, diversifying their revenue mix and intensifying the focus on the wealth franchise, cost efficiency without compromising growth opportunities and building a product proposition to capitalize market opportunities.
- The Retail Equities and Allied Business which includes lending towards MTF & ESOP, Prime & NEO subscription fees, reported revenues at INR5040 Mn, down 4% YoY. The company is witnessing encouraging traction in newer digital tools specifically targeted at the derivatives traders, due to which contribution from the cash segment has come down to 34% of overall equity revenue in Q3FY23 from 50% in Q3FY22.
- The company has expanded its derivatives market-share to 3.8% and maintained its overall retail equity market share at 10.5% during the quarter. FNO activities witnessed an improvement sequentially where the ADTO's grew by 18%.
- 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.

Distribution Business

- The Distribution Business reported revenues of INR1670 Mn in Q3FY23, up 2% YoY on the back of growth in Mutual Fund and Life Insurance products.. Gross flows into debt mutual funds declined by 15% sequentially.
- ISEC's PMS book stood at INR 12 Bn, up 171% YoY and INR 10+ Bn loan distributed, up 71% YoY.

Other Key points

- Equity capital markets fund raise activity has picked up on the back of improved market conditions. Cash volumes declined 5% on sequential basis. It expects tech spends to moderate and will be deferred over six to seven quarters.
- It introduced products like flash trade, integrated watchlist and a risk based i-alert system. It has launched iLearn new age learning platform which comprises of short videos, podcasts and investor community platform which will boost the client engagement. The total downloads from all applications crossed 9 million.
- 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. They recently started credit card distribution and will soon be launching personal loans on their platform.
- The company has a strong IPO pipeline of amount over INR 411 Bn across 21 deals, with additional 16 deals where the amount is yet to be decided.

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

Given the continued weak base in retail broking business owing to weak cash volumes, ICICI Securities' revenue is expected to stay cyclical and is likely to show moderate growth for near term. The derivatives volume has remained robust and the uptick in customer activation is likely to aid the growth for the coming quarters. ISEC is currently trading at P/E multiple of 12.5x / 10.9x to FY23E / FY24E EPS, respectively. We continue with the target price of INR 560 with a P/E multiple of 12x to FY24's estimated EPS of INR 46.73, an upside of around 9.3% over the CMP. Accordingly, we maintain our rating to the "ACCUMULATE" rating on the stock.

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Q3FY23 Result Performance

Particulars (INR mn)	Q3 2023	Q2 2023	QoQ (%)	Q3 2022	YoY (%)
Total Revenue	8,789	8,584	2.5%	9,416	-6.5%
Employee Expenses	1,756	1,857	-5.4%	1,729	1.5%
Operating Expenses	1,545	1,493	3.4%	1,604	-3.6%
EBITDA	5,488	5,234	4.8%	6,082	-9.7%
EBITDA Margin (%)	62.4%	61.0%	140bps	64.6%	-220bps
Depreciation and Amortization	193	187	3.2%	159	21.3%
EBIT	5,294	5,046	4.9%	5,922	-10.6%
EBIT Margin (%)	60.2%	58.8%	140bps	62.9%	-270bps
Interest Expenses	1,530	1,082	41.4%	827	85.0%
Other income	9	71	-88.5%	2	350.0%
Profit Before Tax	3,773	4,035	-6.5%	5,098	-25.9%
PBT Margin (%)	42.8%	47.0%	-420bps	54.1%	-1130bps
Tax expenses	964	1,031	-6.5%	1,294	-25.5%
Profit After Tax	2,809	3,004	-6.5%	3,803	-26.1%
PAT Margin (%)	31.9%	35.0%	-310bps	40.4%	-850bps
Diluted EPS	8.7	9.3	-6.4%	11.7	-25.6%

Source: Company data, KRChoksey Research

Quarterly performance of key parameters

Particulars	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Equity ADTO blended market share	10.50%	9.60%	9.20%	8.80%	8.30%	8.90%	8.40%	8.70%	8.90%
Derivative ADTO blended market share	6.30%	3.00%	3.30%	3.10%	3.00%	2.80%	2.90%	3.10%	3.20%
Retail Equity ADTO market share	12.10%	10.73%	9.91%	10.04%	9.80%	9.99%	9.71%	10.62%	10.46%
Retail Derivative ADTO market share	8.10%	3.96%	4.17%	3.69%	3.55%	3.32%	3.48%	3.70%	3.77%
Home + Other loans Disbursed (INR Bn)	4.33	5.32	3.18	6.86	5.88	6.64	6.19	8.79	10.04
Clients with +2 products (INR Mn)	0.99	1.02	1.05	1.09	1.12	1.15	1.17	1.19	1.20
Cross sell ratio*	1.7	1.78	1.79	1.76	1.75	1.65	1.74	1.71	1.59
Prime customer base (Mn)	0.53	0.65	0.75	0.87	0.96	1.06	1.06	1.16	1.16%
Prepaid customer base (Mn)	0.09	0.088	0.087	0.084	0.081	0.082	0.105	0.107	0.105
Neo customer base (Mn)	-	0.05	0.1	0.14	0.18	0.22	0.24	0.27	0.25
MTF Average book (INR Mn)	12,277	21,089	29,212	39,847	52,321	57,408	57,654	54,971	63,880
MTF Exit market share	18.40%	19.20%	22.00%	21.80%	22.20%	22.30%	22.40%	23.00%	22.70%
ESOP daily average book (INR Mn)	6,119	4,563	7,058	11,698	13,930	14,656	12,992	10,659	7,861
Cost to income	42.30%	44.70%	44%	45.00%	46.00%	49%	54%	54%	57%

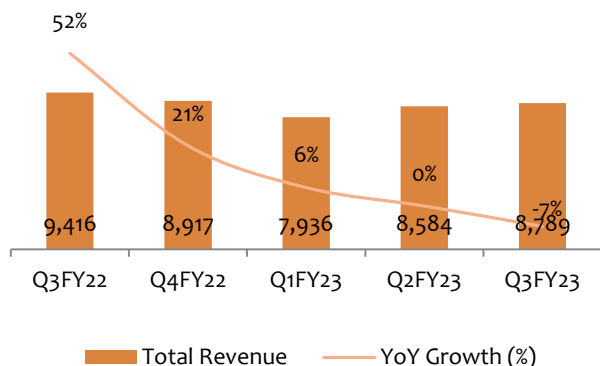
Source: Company data, KRChoksey Research

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

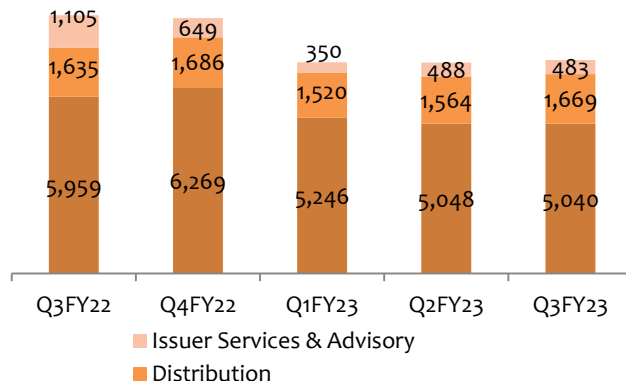
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Quarterly fundamental performance

Revenue declined by 7% YoY



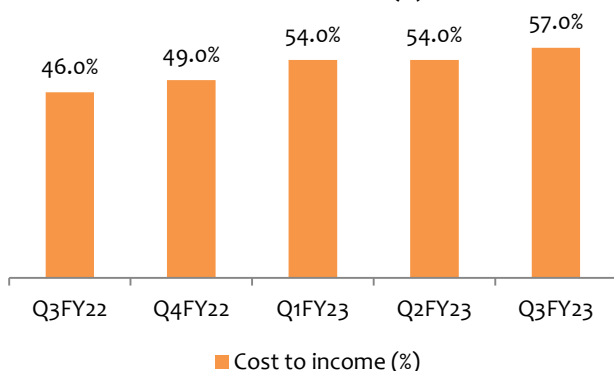
Revenue Segment Performance



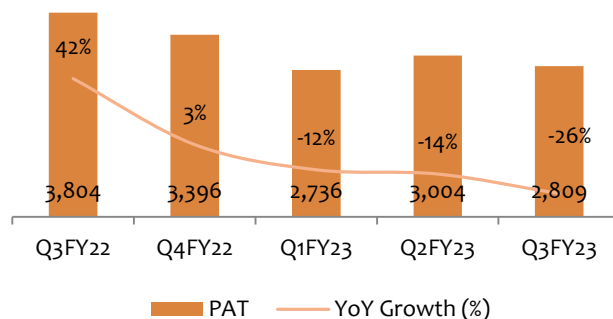
Source: Company data, KRChoksey Research

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

Cost to income (%)

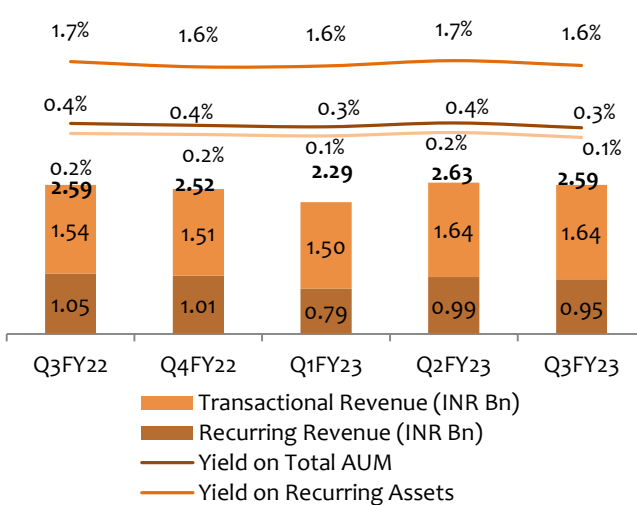
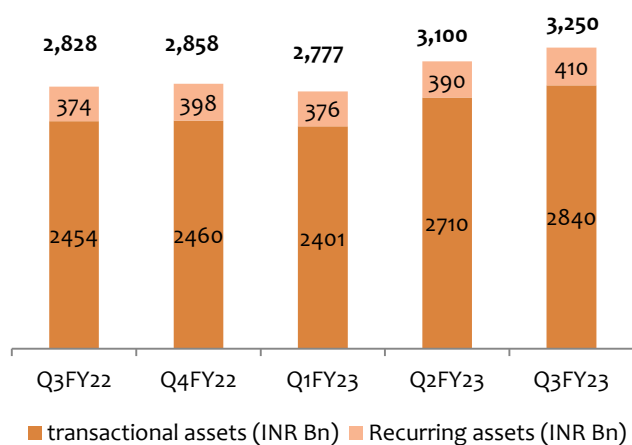


PAT declined by 26% YoY



Source: Company data, KRChoksey Research

Total assets reached a high of INR 3,250 Bn; Yield on Total AUM and recurring assets decreased marginally

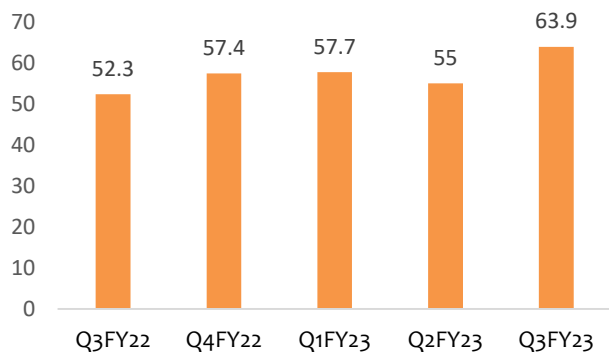


Source: Company data, KRChoksey Research

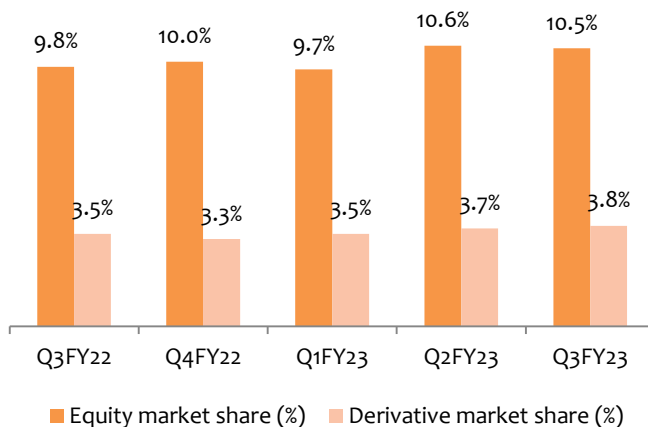
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Scaling up of MTF Book; Retail equity market share declined and derivative market share improved on a sequential basis

MTF (INR Bn)

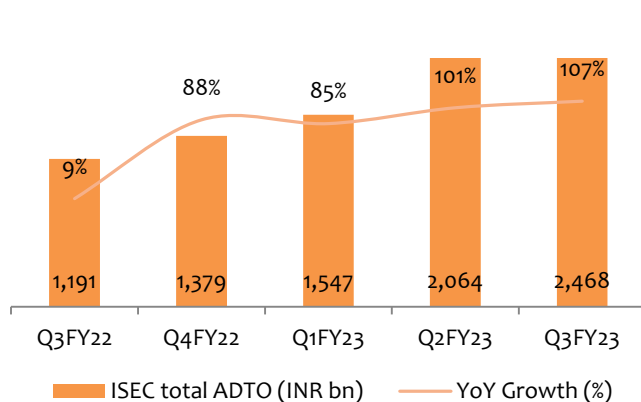


Market share has improved since last few quarters

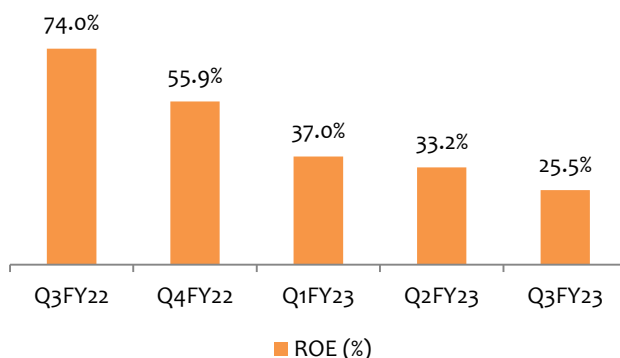


Source: Company data, KRChoksey Research

ISEC ADTO Performance and ROE Trend declining since last 2 quarters

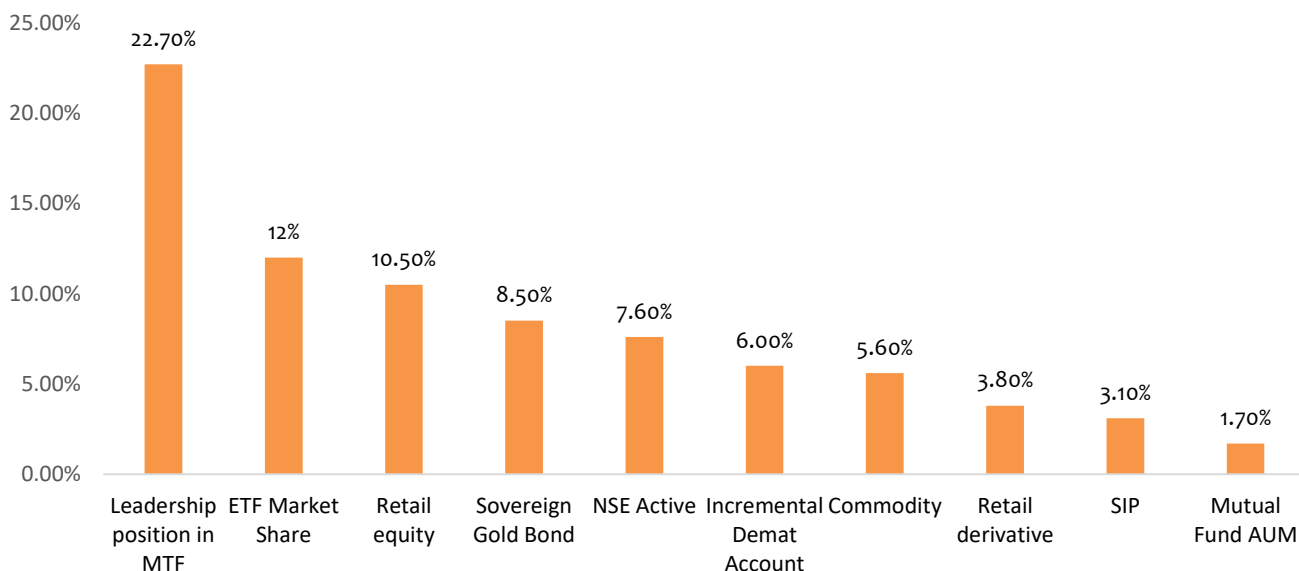


ROE (%)



Source: Company data, KRChoksey Research

Meaningful market share across segments



Source: NSE, KRChoksey Research

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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
20-Jan-23	512	560	ACCUMULATE	Buy	More than 15%
25-Jul-22	474	560	BUY		
20-Jan-22	788	935	BUY	Accumulate	5% – 15%
20-Oct-21	804	935	BUY		
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%

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