

Estimate change



TP change



Rating change



Bloomberg	ISEC IN
Equity Shares (m)	322
M.Cap.(INRb)/(USD\$)	148.9 / 1.8
52-Week Range (INR)	645 / 408
1, 6, 12 Rel. Per (%)	1/-10/-30
12M Avg Val (INR M)	182

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Revenues	34.3	37.9	42.0
Opex	19.2	21.0	22.9
PBT	15.0	17.0	19.0
PAT	11.3	12.7	14.3

Ratios

C/I ratio (%)	56.2	55.3	54.6
PAT margin (%)	32.9	33.5	34.0
RoE (%)	42.0	40.3	39.3
Div. Payout (%)	55.0	65.0	65.0
EPS	34.9	39.4	44.3
EPS Growth (%)	-18.6	13.0	12.2
BV	91.0	104.8	120.3

Valuations

P/E (x)	13.2	11.7	10.4
P/BV (x)	5.1	4.4	3.8
Div. Yield (%)	4.2	5.6	6.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	74.9	74.9	74.9
DII	5.1	5.8	7.1
FII	8.8	7.8	7.3
Others	11.4	11.6	10.7

FII Includes depository receipts

CMP: INR461

TP: INR530 (+15%)

Buy

Higher opex, weak IB revenue mar performance

- ICICI Securities (ISEC)'s overall revenue declined 1% YoY to INR8.9b in 4QFY23, in line with our estimate, as the weakness in retail brokerage and IB revenue was offset by strong interest rate-linked revenue (MTF and Treasury book) and distribution income.
- ISEC's retail broking revenue declined 13% YoY to INR3.2b. However, the decline in overall retail equity segment revenue was restricted to 6% thanks to 16% YoY growth in allied revenue. The issuer services segment's revenue dipped 80% YoY to INR127m.
- PAT stood at INR2.6b (-23% YoY), 5% lower than our estimate, The C/I ratio increased to 60.1% (v/s our estimate of 58.7%). This includes a one-time provision of INR161m pertaining to the reversal of penalties charged to customers in lieu of the peak margin shortfall. The adjusted C/I ratio was at 58.3%, better than our estimate of 58.7%.
- ISEC's revenue for FY23 stood at INR34.3b (flat YoY) and PAT at INR11.1b (-31% YoY).
- **We maintain our BUY rating with a TP of INR530 (premised on 12x FY25E P/E).**

Weakness in retail broking revenue continues

- For 4QFY23, ISEC's retail broking revenue declined 19% YoY to INR2.6b. However, its retail cash segment market share improved 105bp YoY to 11%, while derivatives segment market share expanded 32bp YoY to 3.6%.
- Institutional Equities segment revenue declined 21% YoY to INR493m in 4QFY23. Other fees and charges were up 96% YoY at INR317m, along with improvement in treasury income to INR454m (up 108% YoY).
- Issuer services and advisory revenue fell sharply by 80% YoY to INR 127m.
- ISEC added 371k new customers in 4QFY23 v/s 618k in 4QFY22. Active clients as a % of the total client base declined to 31% in 4QFY23 from 45% in 4QFY22. The number of NSE active clients fell to 2.33m in 4QFY23.

Distribution income and Treasury income drive revenue growth

- For 4QFY23, ISEC's interest income was higher by 13% YoY to INR1.7b. Avg MTF book improved to INR64b YoY from INR57b, whereas MTF market share rose 40bp YoY to 22.6%.
- Distribution revenue rose 14% YoY to INR1.9b, led by strong performance in the Life Insurance segment. SIP flows increased sequentially to INR13b in 4QFY23, the third consecutive quarter of increases.
- Investment & Trading income increased 108% YoY to INR454m.

One-off provision and tech investments lead to increase in C/I ratio

- For 4QFY23, the C/I ratio increased to 60.1% (v/s our estimate of 58.7%) from 49% in 4QFY22. This includes a one-time provision of INR161m pertaining to the reversal of penalties charged to customers in lieu of the peak margin shortfall. The adjusted C/I ratio was at 58.3%, better than our estimate of 58.4%.

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- Employee expenses were down 6% YoY owing to lower payout of variable elements. Going ahead, the company will continue to invest in human resources to enhance its RM and technology teams.

Highlights from the management commentary

- Market share in the derivatives segment grew by 30bp YoY. Overall derivatives revenue continued to rise for seven consecutive quarters to ~INR1.2b.
- The company has tied up with Tata Capital for LAS and personal loans. The effect of the partnership should be seen in 1QFY24.
- The diversification of revenues continued to gain momentum, which reduced dependence on cash volumes from ~50% few years ago to below ~20%.

Valuation and view

ISEC has seen tough times in the recent past due to high linkage of its revenue to broader equity markets. This has translated into a sharp decline in broking revenue as its dependence on cash volumes has been relatively higher. However, there has been stability in the past couple of quarters. The primary issuances have been on weak footing amid a volatile equity market. ISEC is now on the course of diversifying its revenue with the launch of several tools and products for the derivatives segment. Besides, the company has intensified its focus on increasing the penetration of MTF among its customers. The launch of new distribution products – loans and general insurance – will further enhance revenue in due course. On the cost front, ISEC will continue to invest in human resources and technology. **We broadly retain our estimates and maintain our BUY rating on the stock with a TP of INR530 (premised on 12x FY25E P/E).**

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23	4QFY23E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Total Income	7,477	8,566	9,419	8,923	7,948	8,656	8,799	8,852	34,385	34,255	8,698	1.8
Change YoY (%)	36.8	25.9	51.9	20.7	6.3	1.1	-6.6	-0.8	32.7	-0.5	-2.5	
Operating Expenses	3,310	3,856	4,321	4,371	4,277	4,621	5,025	5,320	15,858	19,243	5,105	4.2
Change YoY (%)	15.3	25.1	64.8	46.6	29.2	19.8	16.3	21.7	37.3	24.3	16.8	
PBT	4,167	4,709	5,098	4,552	3,670	4,036	3,774	3,532	18,527	15,013	3,593	-1.7
Change YoY (%)	60.6	26.5	42.5	3.2	-11.9	-14.3	-26.0	-22.4	29.0	-30.6	-21.1	
Tax Provisions	1,060	1,197	1,295	1,149	936	1,032	964	905	4,700	3,836	839	7.9
Net Profit	3,107	3,512	3,804	3,403	2,735	3,004	2,810	2,627	13,827	11,176	2,754	-4.6
Change YoY (%)	60.9	26.3	42.4	3.3	-12.0	-14.5	-26.1	-22.8	28.9	-31.0	-19.1	
Key Operating Parameters (%)												
Cost to Income Ratio	44.3	45.0	45.9	49.0	53.8	53.4	57.1	60.1	46.1	56.2	58.7	1.4
PBT Margin	55.7	55.0	54.1	51.0	46.2	46.6	42.9	39.9	53.9	43.8	41.3	-1.4
Tax Rate	25.4	25.4	25.4	25.2	25.5	25.6	25.5	25.6	25.4	25.6	23.3	2.3
PAT Margins	41.6	41.0	40.4	38.1	34.4	34.7	31.9	29.7	40.2	32.6	31.7	-2.0
Revenue from Operations (INR m)												
Retail Brokerage Income (ex-interest)	3,838	3,821	3,811	3,678	3,247	3,577	3,326	3,184	15,147	13,335	3,091	
Institutional Brokerage Income	587	634	689	627	486	425	466	493	2,538	1,870	402	
Investment Banking	474	727	1,105	649	350	488	483	127	2,956	1,448	452	
Distribution Income	1,188	1,486	1,635	1,686	1,520	1,564	1,669	1,929	5,996	6,682	1,788	
Others	566	736	721	745	832	1,131	1,141	1,380	2,767	4,484	1,188	
Interest Income	824	1,161	1,458	1,538	1,512	1,472	1,714	1,738	4,980	6,436	1,777	
Revenue from Operations Mix (%)												
Retail Brokerage Income	51.3	44.6	40.5	41.2	40.9	41.3	37.8	36.0	44.1	38.9	35.5	
Institutional Brokerage Income	7.8	7.4	7.3	7.0	6.1	4.9	5.3	5.6	7.4	5.5	4.6	
Investment Banking	6.3	8.5	11.7	7.3	4.4	5.6	5.5	1.4	8.6	4.2	5.2	
Distribution Income	15.9	17.4	17.4	18.9	19.1	18.1	19.0	21.8	17.4	19.5	20.6	
Others	7.6	8.6	7.7	8.3	10.5	13.1	13.0	15.6	8.0	13.1	13.7	
Interest Income	11.0	13.6	15.5	17.2	19.0	17.0	19.5	19.6	14.5	18.8	20.4	
Opex Mix (%)												
Employee Expenses	45.6	43.6	40.0	39.4	40.9	40.2	35.0	30.3	41.9	36.3	36.8	
Depreciation	4.4	3.8	3.7	4.0	3.8	4.1	3.9	3.9	3.9	3.9	3.8	
Interest Expenses	12.6	15.1	19.1	20.8	23.5	23.4	30.5	32.8	17.3	27.9	30.6	
Others	37.4	37.5	37.1	35.7	31.8	32.3	30.7	33.0	36.9	32.0	28.8	



Highlights from the management commentary

Industry

- FY23 was a mixed bag as the industry is facing global issues. This led to a decline in retail activity as cash volumes declined and even IB activity remained sluggish. Similar trends were witnessed in 4QFY23. However, the industry saw continued growth in derivatives volumes and SIPs.
- The new regulations announced this year shall benefit the industry over the medium term as they safeguard investor interest.

Business

- Market conditions have been tough to acquire customers, given high uncertainty around geopolitical issues and global interest rates.
- Currently, ISEC has a customer base of 1.15m in its Prime offering. The QoQ decline is owing to a reduction in subscription of INR299 plan, whereas it has the highest addition in the high-value plan and the life-time plan. It focuses on acquiring new customers in the life-time value plan.
- The company has a capacity of ~INR150b for MTF book. In 1QFY24, if there are no further rate hikes, the CoF will be stable while it reaps benefits of the 50bp increase in the lending rate implemented in 4QFY23. The number of customers subscribing for MTF increased by 3% sequentially.
- Broking rates are expected to increase as compliance costs have gone up. If IE brokerage is included in TER, it will have a near-term impact, which will be offset by higher volumes in the longer term.
- The cross-sell ratio is the number of customers having two products. The proportion of customers having spent less than two years is higher, and hence it is difficult to cross sell.
- The company does not provide BG for up-streaming of funds, and hence this should not have any material impact of the new regulations.
- For the wealth management platform, the customer acquisition is done through 1) open market sourcing, and 2) data analytics converting the existing pool of ICICI Direct customers that have potential to be above INR10m AUM with ISEC.
- MTF book and MF market share remained stable in FY23. The company continues to focus on quality clients, which have enabled it to improve the market share.
- The new company portal is likely to be live by next year.

Future Growth Levers

- **Wealth Management** – The wealth management business continues to grow. The total number of customers increased to ~78k (customers with more than INR10m AUM). ISEC has sweet spot dealing with clients having AUM of between INR 50m-250m. During FY23, the company added ~10k new clients, with total AUM standing at INR3.2tn. Overall revenue for 4QFY23 came in at INR2.6b and crossed ~INR10b for the first time in FY23. More importantly, the proportion of recurring income has increased to 66% (v/s 50% previous year) of total wealth management revenue. The rest 34% is transactional revenue, which includes equity broking, fixed income, AIF Cat-2, unlisted transaction, recurring revenues includes trail income from distribution of MF, PMS and AIF Cat-3 products as well as MTF interest income.

- **Derivatives Segment** – Its market share in the derivatives segment grew by 30bp YoY. Overall derivatives revenue continues to rise for seven consecutive quarters to ~INR1.2b. ISEC has launched several new tools, including flash trade and option plus. The company intends to increase the promotion of these tools through communication drives. A sequential decrease in the market share is primarily attributed to outages in Feb'23 (only for couple of days) and its resolution in Mar'23 brought the market share in line with 3QFY23.
- **Distribution of loans** – The company distributed INR37.5b in FY23, resulting in growth of 66%. For 4QFY23, loan disbursements stood at INR12.5b (highest in any quarter). The company has executed tie-up with Tata Capital for LAS and personal loans. The effect of the tie-up should be seen in 1QFY24. Of the total loans, 65% are mortgage home loans. Yields on LRD/LAP stood at ~1%/~1.5%, whereas business loans for promoters/SME have much lower yields. On a blended basis, the yield is 65bp, which will improve once personal loan distribution scales up.
- **Distribution of insurance** – Overall insurance distribution income stood at INR1.08b in FY23 and INR480m in 4QFY23. Digitization of general insurance should drive further growth. This business is driven mainly by life insurance, though non-life insurance accounts for ~50% of volumes in the number of policies issued. It has two modes for acquiring business: 1) 1300 RMs with strong client engagements, and 2) digitalization of the entire journey in general insurance and health insurance, specifically with the help of technical partners. Insurance yields were higher due to a higher share of new business premium, partly owing to income tax changes.

Financials

- The diversification of revenues continued to gain momentum, which reduced dependence on cash volumes from ~50% few years back to below ~20%. Revenue from the derivatives business continues to rise for seven consecutive quarters to ~14% of overall revenue.
- The decline in PAT is attributed to three factors: 1) The one-time penalty of INR161m reversed on account of margin shortfall; 2) the increase in the cost of finance was not passed on to customers (~2.5% increase in interest costs over last few quarters; only 1/3rd has been passed on); and 3) the increase in technology spends and marketing expenses pertaining to client acquisition.
- The company believes the cost-to-income ratio could decline in FY25.
- Employee expenses were lower in 4QFY23 as variable pay, which accounts for 30% of the entire employee costs, was lower. The company expects to enhance its RM teams, technology and digital teams and low touch connect – calling RMs.

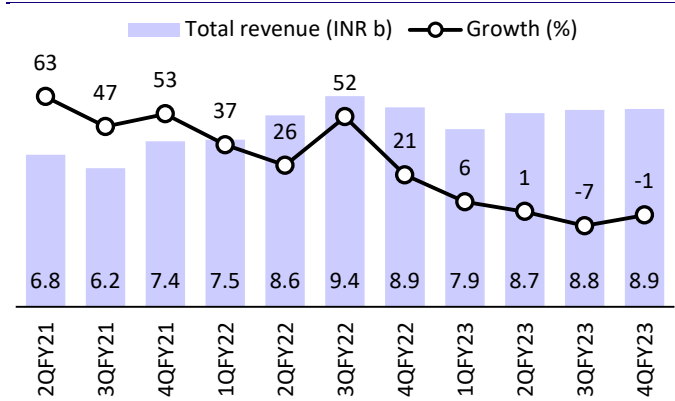
Exhibit 1: Upgrading estimates on strong revenue traction

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	37.3	40.9	37.9	42.0	1.7	2.7
Operating Expenses	20.3	22.1	21.0	22.9	3.4	3.6
PBT	17.0	18.7	17.0	19.0	-0.4	1.6
Tax	4.3	4.7	4.2	4.8	-0.4	1.6
PAT	12.8	14.1	12.7	14.3	-0.4	1.6
C/l ratio	54.4	54.2	55.3	54.6	0.9	0.5
RoE	41.9	39.9	40.3	39.3	-1.6	-0.6
Dividend payout ratio	65.0	65.0	65.0	65.0	0.0	0.0

Source: MOFSL, Company

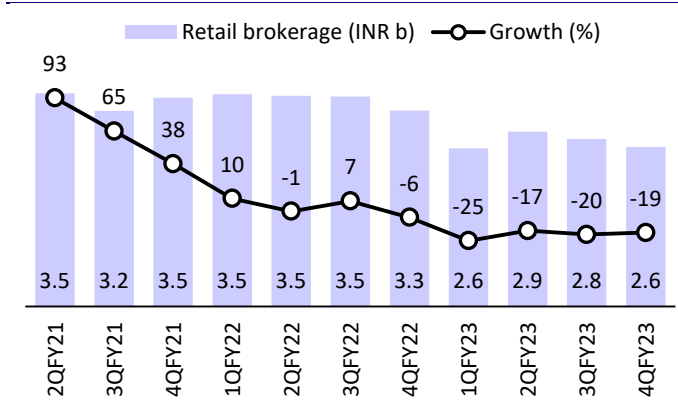
Key exhibits

Exhibit 2: Overall revenue is flat sequentially



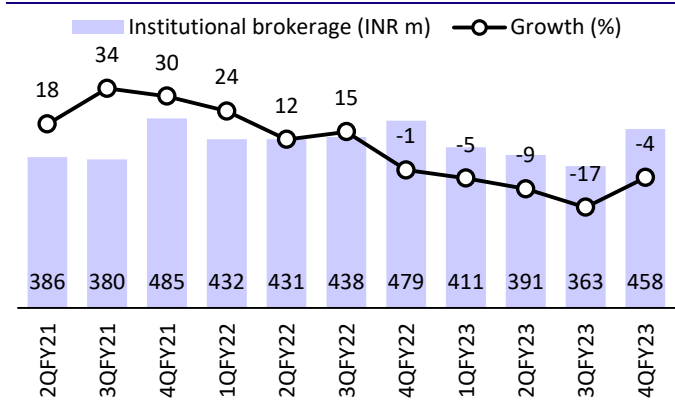
Source: MOFSL, Company

Exhibit 3: Retail brokerage declines again



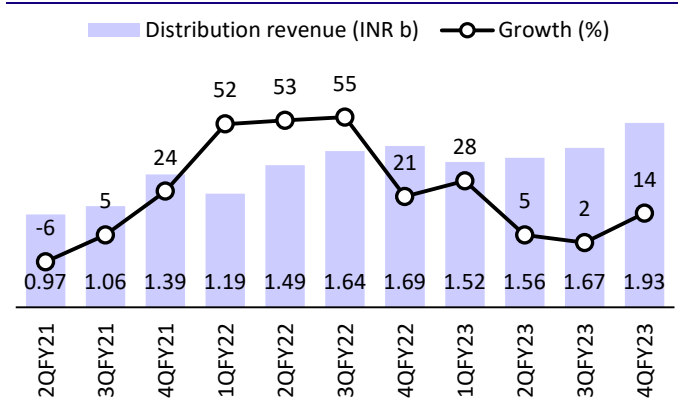
Source: MOFSL, Company

Exhibit 4: Revenue from institutional brokerage improves sequentially



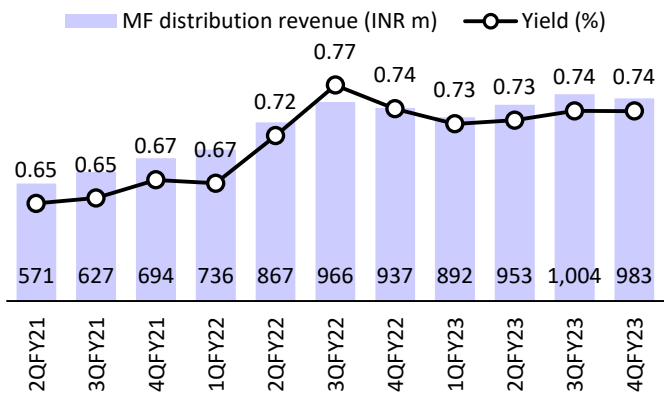
Source: MOFSL, Company

Exhibit 5: Life insurance products drive growth in the distribution segment



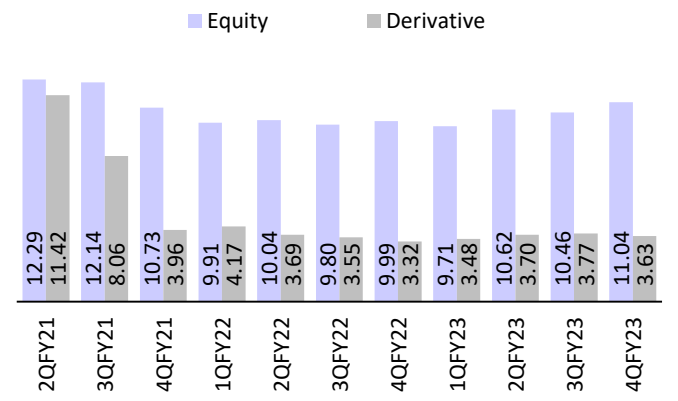
Source: MOFSL, Company

Exhibit 6: MF distribution revenue declines marginally QoQ; yields steady



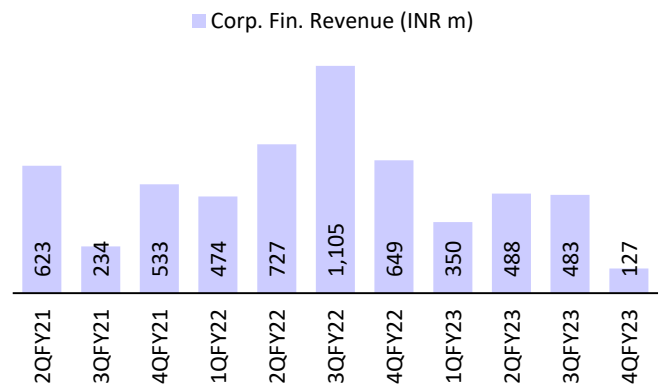
Source: MOFSL, Company

Exhibit 7: Market share improves sequentially in cash but declines in derivatives segment



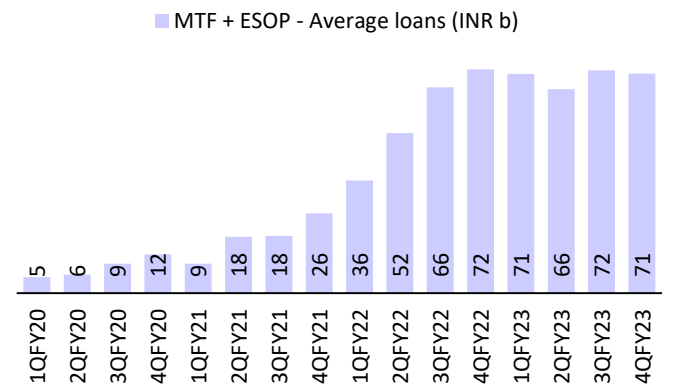
Source: MOFSL, Company

Exhibit 8: Issuer services & advisory revenue declines sharply on a sequential basis



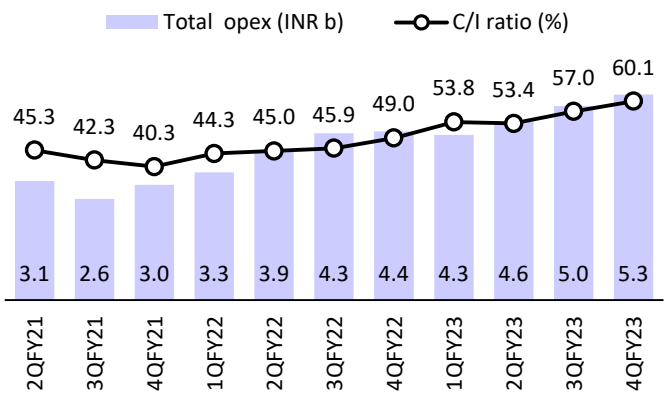
Source: MOFSL, Company

Exhibit 9: ESOP book declines sequentially, whereas MTF book remains higher



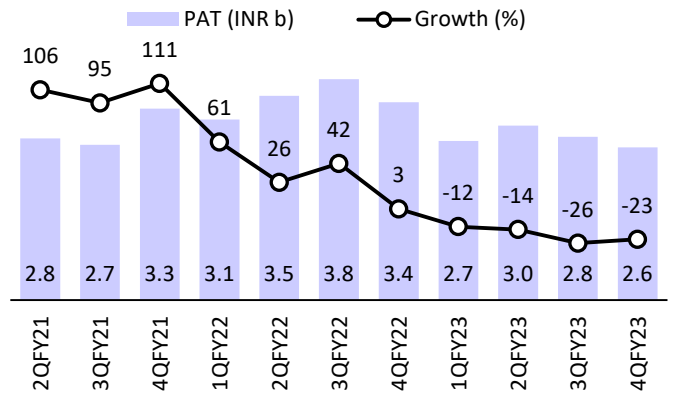
Source: MOFSL, Company

Exhibit 10: Increase in C/I ratio



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	FY23	FY24E	FY25E
Total Income	18,610	17,046	17,249	25,912	34,385	34,255	37,946	41,977
Change (%)	32.5	-8.4	1.2	50.2	32.7	-0.4	10.8	10.6
Brokerage Income	10,243	9,328	9,920	16,329	17,685	15,205	16,474	17,850
Income from Services	6,552	5,733	4,895	5,815	8,952	8,130	9,460	10,914
Interest Income	1,574	1,792	2,036	3,053	6,840	9,477	10,425	11,468
Other Operating Income	241	193	398	664	908	1,443	1,587	1,745
Other Income	0	0	0	50	0	0	0	0
Operating Expenses	10,086	9,698	9,720	11,554	15,858	19,243	20,983	22,939
Change (%)	14.3	-3.8	0.2	18.9	37.3	21.3	9.0	9.3
Employee expenses	5,504	5,545	5,338	5,880	6,645	6,978	7,676	8,444
Interest expenses	495	423	864	1,073	2,737	5,364	5,734	6,308
Depreciation	153	150	614	542	625	751	780	800
Others	3,935	3,580	2,905	4,060	5,851	6,150	6,792	7,388
Profit Before Tax	8,524	7,348	7,529	14,358	18,527	15,012	16,963	19,038
Change (%)	63.3	-13.8	2.5	90.7	29.0	-19.0	13.0	12.2
Tax	2,989	2,665	2,109	3,631	4,700	3,753	4,241	4,759
Tax Rate (%)	35.1	36.3	28.0	25.3	25.4	25.0	25.0	25.0
PAT	5,535	4,683	5,420	10,727	13,826	11,259	12,722	14,278
Change (%)	63.5	-15.4	15.7	97.9	28.9	-18.6	13.0	12.2
Proposed Dividend	3,646	3,646	3,825	6,940	7,731	7,318	8,270	9,281

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,611	1,611	1,611	1,611	1,613	1,613	1,613	1,613
Reserves & Surplus	6,866	8,862	10,485	16,610	22,692	26,632	31,085	36,083
Net Worth	8,477	10,473	12,095	18,221	24,305	28,245	32,698	37,696
Borrowings	6,771	4,518	14,998	35,238	77,392	83,584	96,121	1,10,539
Other Liabilities	13,491	31,655	17,335	28,350	34,764	38,241	42,065	46,271
Total Liabilities	28,739	46,646	44,428	81,809	1,36,461	1,50,070	1,70,884	1,94,506
Cash and Investments	15,499	31,515	24,139	38,822	56,274	63,262	71,723	81,201
Change (%)	55.7	103.3	-23.4	60.8	45.0	12.4	13.4	13.2
Loans	5,782	4,033	5,709	29,015	68,566	74,051	85,159	97,933
Net Fixed Assets	421	476	2,061	1,688	1,978	2,175	2,393	2,632
Net Current Assets	7,037	10,623	12,520	12,285	9,644	10,581	11,610	12,740
Total Assets	28,739	46,646	44,428	81,809	1,36,461	1,50,070	1,70,884	1,94,506

E: MOFSL Estimates * Data from FY20 is as per new disclosures

Financials and valuations

Ratios	(%)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
As a percentage of Revenues								
Brokerage Income	55.0	54.7	57.5	63.0	51.4	44.4	43.4	42.5
Income from Services	35.2	33.6	28.4	22.4	26.0	23.7	24.9	26.0
Interest Income	8.5	10.5	11.8	11.8	19.9	27.7	27.5	27.3
Other Income	1.3	1.1	2.3	2.8	2.6	4.2	4.2	4.2
Total cost	54.2	56.9	56.4	44.6	46.1	56.2	55.3	54.6
Employee Cost	29.6	32.5	30.9	22.7	19.3	20.4	20.2	20.1
Opex (ex emp) Cost	24.6	24.4	25.4	21.9	26.8	35.8	35.1	34.5
PBT	45.8	43.1	43.6	55.4	53.9	43.8	44.7	45.4
PAT	29.7	27.5	31.4	41.4	40.2	32.9	33.5	34.0
Profitability Ratios (%)								
RoE	82.0	49.4	48.0	70.8	65.0	42.0	40.3	39.3
Dividend Payout Ratio	65.9	77.9	70.6	64.7	55.9	55.0	65.0	65.0
Valuations								
BVPS (INR)	26.3	32.5	37.5	56.5	75.3	91.0	104.8	120.3
Change (%)	69.0	23.5	15.5	50.6	33.2	20.8	15.2	14.8
Price-BV (x)	17.5	14.2	12.3	8.2	6.1	5.1	4.4	3.8
EPS (INR)	17.2	14.5	16.8	33.3	42.9	34.9	39.4	44.3
Change (%)	63.5	-15.4	15.7	97.9	28.7	-18.6	13.0	12.2
Price-Earnings (x)	26.8	31.7	27.4	13.8	10.8	13.2	11.7	10.4
DPS (INR)	9.4	9.4	11.0	21.5	24.0	19.2	25.6	28.8
Dividend Yield (%)	2.0	2.0	2.4	4.7	5.2	4.2	5.6	6.2

E: MOSL Estimates

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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