

HSIE Results Daily

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Results Reviews

- **ICICI Securities:** With FY21 being a super-normal year for brokers, ISEC reported pure broking revenue growth of 55/12% YoY/QoQ. With implementation of the second phase of peak margin, ISEC lost another 330bps QoQ in derivative market share. However, we are comforted by (1) the company's focus on gaining client share through diversified channels and (2) its initiatives to recoup its market share. However, we remain wary of the impact the successive phases of peak margin regulations may have on the overall trading activity. Discount brokers' acquiring a higher client share remains a concern. Given the highly cyclical nature of the business and the stage of the current cycle, we expect earnings to moderate in FY22/23E. We maintain an ADD rating with a target price of INR560, i.e. 23x Mar-23E EPS.

HSIE Research Team

hdfcsec-research@hdfcsec.com

ICICI Securities

Good quarter but uncertainty ahead

With FY21 being a super-normal year for brokers, ISEC reported pure broking revenue growth of 55/12% YoY/QoQ. With implementation of the second phase of peak margin, ISEC lost another 330bps QoQ in derivative market share. However, we are comforted by (1) the company's focus on gaining client share through diversified channels and (2) its initiatives to recoup its market share. However, we remain wary of the impact the successive phases of peak margin regulations may have on the overall trading activity. Discount brokers' acquiring a higher client share remains a concern. Given the highly cyclical nature of the business and the stage of the current cycle, we expect earnings to moderate in FY22/23E. We maintain an ADD rating with a target price of INR560, i.e. 23x Mar-23E EPS.

- 4QFY21 highlights:** The total broking revenues at INR 5.03bn (+55%/12% YoY/QoQ) were ahead of estimates (+28% vs. estimate) as the share of high-yielding cash delivery volumes improved in the overall mix. The implementation of the second phase of peak margin requirements resulted in derivative/cash market share falling further 330/90bps QoQ in Mar-21. Client acquisition has significantly picked up to 354k acquisitions (+234/155% YoY/QoQ), with digital channel contributing the majority share. ISEC believes that the higher number of trades will compensate for the lower pricing in the derivatives and intra-day segments. MF distribution revenue was at INR694mn (+22/11% YoY/QoQ) as AAUM recovered 8% sequentially, driving the overall distribution revenue higher by 22/22% YoY/QoQ to INR1.41bn. Driven by 15 deals, IB revenue grew +4.4/1.3x YoY/QoQ to INR533mn.
- Employee expenses improved 24/18% YoY/QoQ as performance for maximum payable variable pay was achieved in 1HFY21; ISEC had already provided for this. However, other expenses grew sharply (+65/58% YoY/QoQ) as a result of expenditure on technology and digital marketing. The strong beat on APAT (+41% vs. est.) at INR3.3bn (112/24% YoY/QoQ) was driven by higher revenues, but partially offset by higher expenses.
- Outlook: While FY21 has been a year of volatile markets, we believe volumes would moderate in FY22E, particularly in the derivative segment.** Further, we remain watchful of the impact of changing regulations, and believe earnings are peaking out.

Quarterly financial summary

(INR mn)	4Q FY21	4Q FY20	YoY (%)	3Q FY21	QoQ (%)	FY19	FY20	FY21P	FY22E	FY23E
Adj. revenues	7,393	4,804	53.9	6,201	19.2	16,456	16,116	24,304	18,999	19,399
EBITDA	4,858	2,513	93.3	3,970	22.4	7,358	7,873	14,364	10,090	10,012
EBITDA Margin (%)	65.7	52.3	1341bps	64.0	168bps	44.7	48.9	59.1	53.1	51.6
APAT	3,295	1,559	111.4	2,670	23.4	4,773	5,622	10,677	7,361	7,818
AEPS	10.2	4.8	111.4	8.3	23.3	14.8	17.5	33.1	22.9	24.3
EV/EBITDA (x)						19.2	19.6	12.2	15.2	15.3
P/E (x)						28.7	24.3	12.8	18.6	17.5
ROE (%)						50.4	49.8	70.4	40.5	40.6

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY22E			FY23E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps
Revenues	18,999	18,679	1.7	19,399	19,307	0.5
EBITDA	10,090	9,977	1.1	10,012	10,116	-1.0
EBITDA margin (%)	53.1	53.4	-31bps	51.6	52.4	-79bps
APAT	7,361	7,314	0.6	7,818	7,883	-0.8
RoE (%)	40.5	40.4	12bps	40.6	40.3	33bps

Source: Company, HSIE Research

ADD

CMP (as on 20 Apr 2021) INR 425

Target Price INR 560

NIFTY 14,296

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 560	INR 560
EPS %	FY21E +0.6%	FY22E -0.8%

KEY STOCK DATA

Bloomberg code	ISEC IN
No. of Shares (mn)	322
MCap (Rs bn) / (\$ mn)	137/1,839
6m avg traded value (Rs mn)	286
52 Week high / low	Rs 569/308

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.1)	(2.7)	26.2
Relative (%)	(0.9)	(20.3)	(24.5)

SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	75.0	75.0
FIs & Local MFs	9.9	9.0
FPIs	4.6	3.7
Public & Others	10.5	12.2
Pledged Shares	Nil	Nil

Source : BSE

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7328

Sahej Mittal

sahej.mittal@hdfcsec.com
+91-22-6171-7323

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Krishnan ASV	ICICI Securities	PGDM	NO
Sahej Mittal	ICICI Securities	ACA	NO

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com