

Strong quarter, outlook bright


In 4QFY21, ISEC witnessed its highest ever client acquisition at ~354,000 accounts, driven in large part by the scale-up in digital sourcing. This took its NSE active client base to 1.58mn (+46% YoY). Despite the ADTO decline in the quarter, retail broking revenue grew 9% QoQ driven by higher blended yield. ISEC lost some market share due to the impact of the margin norms; however it has undertaken certain new initiatives to begin to claw this back over the next few quarters. Client acquisition is expected to remain strong going forward, aided by ISEC's diversified sourcing and product offerings. We raise earnings by 3.9/5.9% for FY22/23ii. As a result, we marginally increase our target price to Rs580. Maintain BUY.

Key highlights of 4QFY21: ISEC's reported profit of Rs3.29bn grew 111% YoY driven by sharp growth in overall revenue (+53% YoY) and controlled operating expenses (+9% YoY). Brokerage revenue grew 37% YoY despite a contraction in ADTO; driven by sharply higher blended yield owing to the higher mix of equity in overall ADTO and higher mix of delivery within equity. Distribution revenue grew 25% YoY, while investment banking revenue was sharply higher at Rs0.53bn (Rs0.10bn in 4QFY20).

Raise earnings by 3.9/5.9% for FY22/23ii: We increase our broking revenue estimates, as higher blended yields are partially offset by lower volume estimates. We also build-in a slight moderation in investment banking revenue in FY22ii. Overall however, the revenue mix will shift toward non-broking revenue streams going forward. We expect cost-to-income ratio to remain at <50% as ISEC continues to focus on improving both productivity and efficiency.

Strong profitability outlook; valuations favourable: While overall profits could decline versus FY21 owing to the decline in broking yields, continued high pace of client acquisitions and newer product propositions would aid ISEC in delivering a 40-50% RoE going forward. We increase our target price marginally to Rs580/share.

Result update

CMP	Rs425	Price performance (%)			
12-mth TP (Rs)	580 (37%)		1M	3M	1Y
Market cap (US\$m)	1,827	Absolute (Rs)	3.6	-5.1	26.2
Bloomberg	ISEC IN	Absolute (US\$)	0.3	-7.5	33.4
Sector	Broking	Rel.to BSE Midcap	4.5	-8.8	-42.2
Shareholding pattern (%)		Cagr (%)		3 yrs	5 yrs
Promoters	75.0	EPS		24.5	34.9
Pledged (as % of promoter share)	0.0	Stock performance			
FII	3.7				
DII	7.0				
52Wk High/Low (Rs)	569/308				
Shares o/s (m)	322				
Daily volume (US\$ m)	4.0				
Dividend yield FY22ii (%)	4.3				
Free float (%)	25.0				

Financial summary (Rs m)

Y/e 31 Mar, Parent	FY20A	FY21A	FY22ii	FY23ii	FY24ii
Operating revenue (Rs m)	17,249	25,862	24,638	25,859	29,937
Operating profit (Rs m)	7,529	14,308	12,461	13,037	15,804
Pre-exceptional PAT (Rs m)	5,420	10,677	9,325	9,756	11,826
Pre-exceptional EPS (Rs)	16.8	33.1	28.9	30.3	36.7
Growth (%)	10.4	96.9	(12.7)	4.6	21.2
IIFL vs consensus (%)			NA	NA	NA
PE (x)	25.2	12.8	14.7	14.0	11.6
Book value (Rs)	38	57	64	76	94
PB (x)	11.3	7.5	6.6	5.6	4.5
ROA (%)	11.9	16.9	10.8	10.2	10.9
ROE (%)	48.0	70.4	48.0	43.2	43.2

Source: Company, IIFL Research. Priced as on 20 April 2021

Figure 1: ISEC – 4QFY21 Financial Summary

Income Statement (Rs mn)	4QFY20	3QFY21	4QFY21	YoY (%)	QoQ (%)
Revenue					
Brokerage income	2,874	3,623	3,945	37	9
Retail brokerage	2,502	3,243	3,460	38	7
Institutional brokerage	372	380	485	30	28
Distribution income	1,108	1,053	1,388	25	32
MF distribution	570	627	694	22	11
Life insurance distribution	171	116	246	44	112
Others	367	310	448	22	45
Interest & other op. income	714	900	1,036	45	15
Investment banking	99	234	533	438	128
Other income	25	390	492	1,874	26
Total Revenue	4,819	6,200	7,393	53	19
Expenses					
Employee benefits expenses	1,397	1,297	1,059	(24)	(18)
Finance costs	288	253	306	6	21
Depreciation	163	138	139	(14)	1
Other expenses	895	934	1,476	65	58
Total Expenses	2,742	2,622	2,980	9	14
Profit before tax	2,077	3,578	4,413	112	23
Tax	519	908	1,118	116	23
Profit after tax	1,559	2,670	3,295	111	23
Key data points and ratios					
Active clients on NSE (mn)	1.08	1.29	1.58	46	22
ADTO (Rs bn)	851	1,093	732	(14)	(33)
Market share (%)	8.0	6.5	3.2	-480 bps	-330 bps
Yield (bps)	0.54	0.53	0.86	60	63
MF AAUM (Rs bn)	345	383	413	20	8
Life Insurance Premium (Rs mn)	2,653	1,783	2,909	10	63
MTF & ESOP book (Rs bn)	5.8	18.4	25.7	343	40
Cost-to-income (%)	56.9	42.3	40.3	-1659 bps	-198 bps
PAT margin (%)	32.3	43.1	44.6	1222 bps	149 bps

Source: Company, IIFL Research

Key takeaways from the earnings call

Broking

- **New margin norms:**
- Requirement of 50% peak margin for intraday products from Mar-21 (25% from Dec-20) resulted in a reduction in volume for intraday equity and derivative products which led to a decline in market share. However the market share decline in the derivative segment was far lower than in 3QFY21.
- The peak margin norms, had a greater impact on ISEC as ISEC offered higher leverage to its customers and ISEC has a greater share of intraday volumes in its ADTO mix, versus the industry. Ideally the impact should be similar across the industry going forward as all players should be at a level playing field now.
- ISEC is undertaking various initiatives to regain its market share, however the results could be visible only after a few quarters.
- ISEC's blended market share in the equity segment decreased to 9.6% in 4QFY21 versus 10.5% in 3QFY21. However, the market share loss was mainly in the intraday portion, while market share in the delivery portion has increased.
- Intraday products volume in the equity segment would be ~80%.
- **Broking revenue mix:** Of the broking revenue, >50% is contributed by the equity segment. Within the equity segment, >50% (substantially higher) is contributed by the delivery segment. The market is currently seeing higher traction in the delivery segment, however this could moderate going forward.
- **NEO:** ISEC launched its NEO plan in end Dec-2020. MoM adoption has been increasing and it now has ~60,000 subscribers, however this should increase substantially going forward.
- **Retail broking revenue:** The 9% QoQ increase was driven by higher customer acquisition, better volume mix and lower yield of volumes that were impacted by margin norms. This increase was also despite lesser trading days and loss of market share.

Distribution

- Improvement in yield in life insurance distribution in the quarter was driven by a more favourable product mix.

- To counter platforms offering direct MFs, ISEC is i) differentiating its products by virtue of its application interface, instant liquidity and instant loan facility and ii) pushing passive MFs which have lower expense ratios to begin with.

MTF & ESOP book

- The MTF & ESOP book grew 40% QoQ to Rs25.7bn. Of this, the MTF book forms a substantially larger part.
- As per the management’s estimate, ISEC has a ~20% market share in MTF.

Sourcing

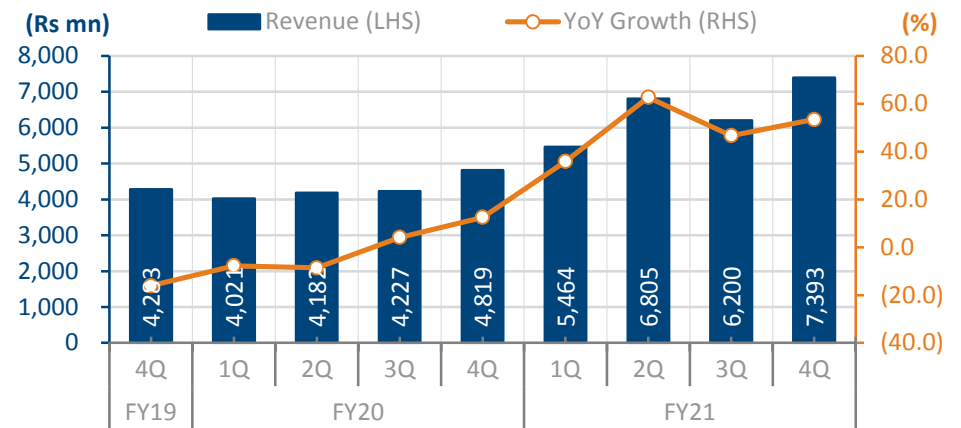
- ISEC sourced 354,000 new clients in the quarter, up 234% YoY. Of this, digital sourcing accounted for ~225,000 accounts (64%). Sourcing from ICICIBC was lower in the quarter due to the sharp skew in favour of digital account opening in Mar-21, however it will remain to be seen as to where the mix eventually stabilises.
- ISEC has tied-up with Federal Bank (FB) in 4QFY21 in order to source new clients. The revenue sharing arrangement would be the same as the one ISEC has with ICICIBC.
- ISEC is also currently in talks with 4-5 further partners for sourcing tie-ups going forward.

Operating expenses

- Management remains focused on improving operating leverage by reducing the branch and employee count.
- Going forward, cost-to-income ratio should be <50% for FY22. The 40% achieved in FY21 would not be sustainable. Employee costs/total income would be 25-27% on a sustainable basis as compared to 23% in FY21 (historically been ~30%).
- Branch count was further rationalised, declining 14% YoY to 148 branches.
- The increase in fees and commission income in the quarter was mainly due to higher variable costs, attributed to: i) expenses linked with higher deal activity in investment banking, ii) higher revenue share with ICICIBC on account of higher broking revenues and iii) higher revenue share with business partners.

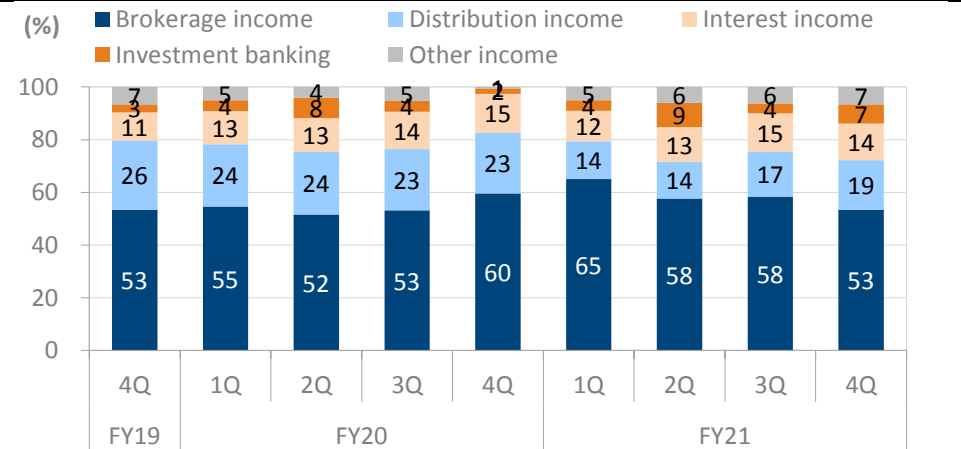
Key trends in the quarter

Figure 2: Trend in total revenue



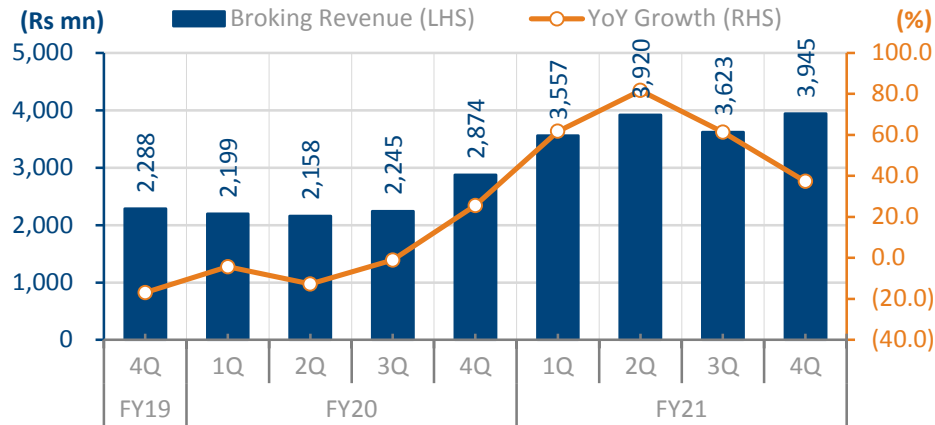
Source: Company, IIFL Research

Figure 3: Trend in revenue mix – brokerage income remains the mainstay, but higher contribution from distribution and investment banking in the quarter



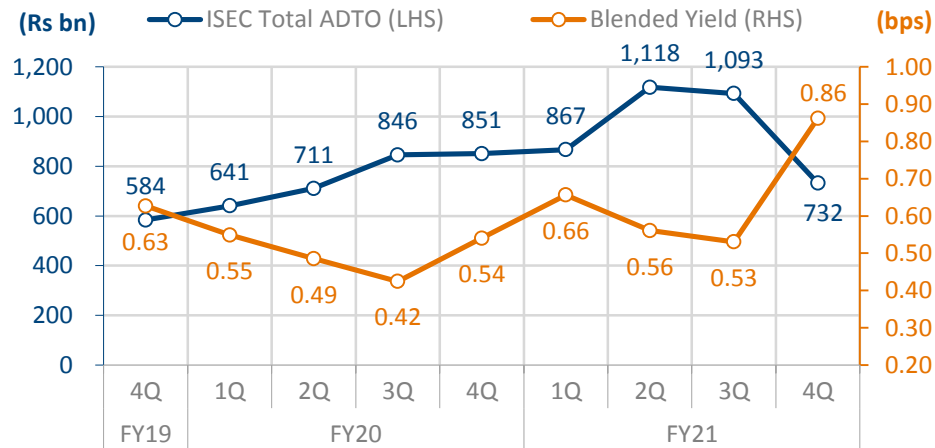
Source: Company, IIFL Research

Figure 4: Trend in broking revenue – brokerage revenue improved QoQ due to the increase in blended yields



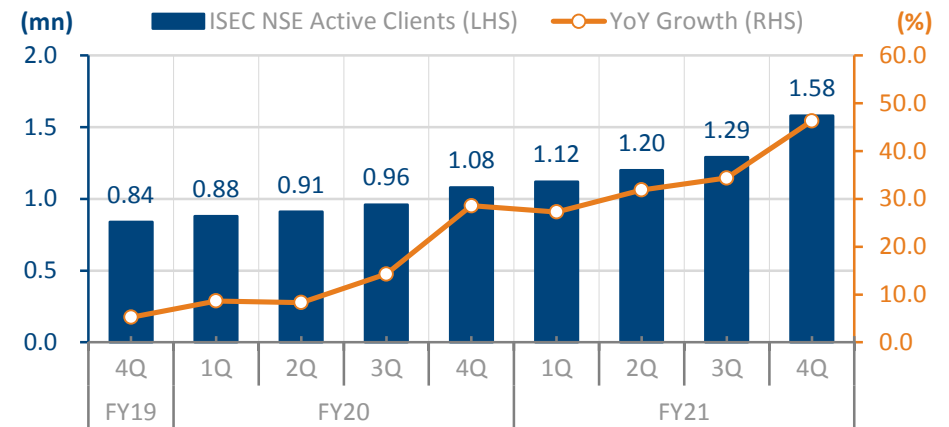
Source: Company, IIFL Research

Figure 5: Trend in ADTO & blended yield for ISEC



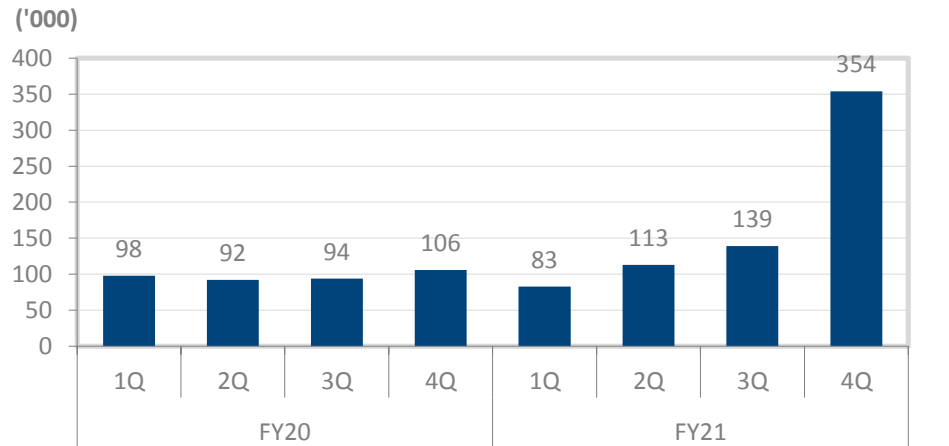
Source: Company, IIFL Research

Figure 6: Trend in ISEC's NSE active clients



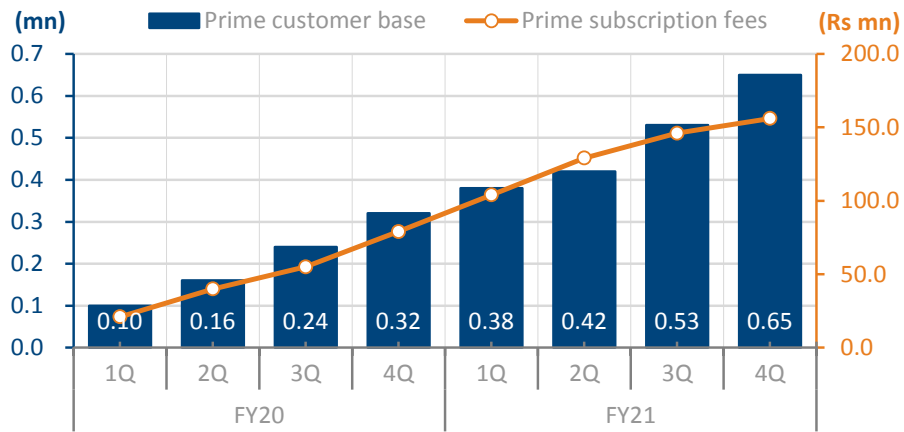
Source: Company, IIFL Research

Figure 7: Trend in new client acquisition – new client acquisition grew 155% QoQ



Source: Company, IIFL Research

Figure 8: Prime plan – customers under the Prime plan account for 41% of NSE active clients



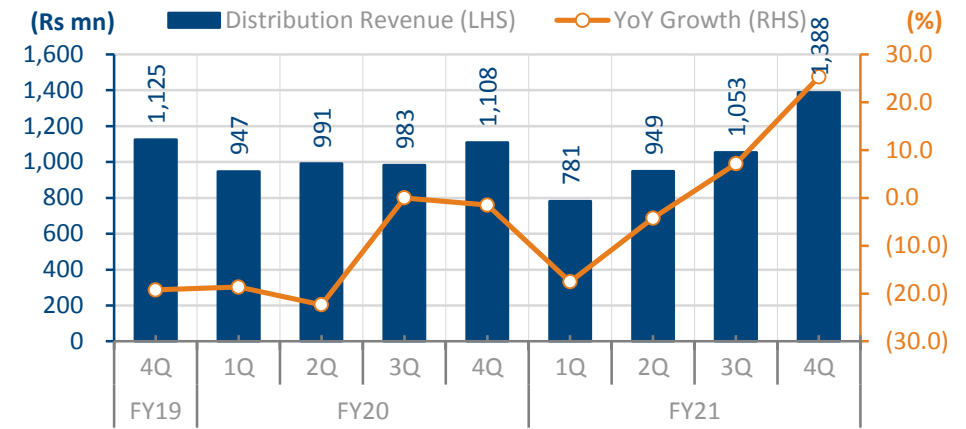
Source: Company, IIFL Research

Figure 9: Key details for the broking details

Particulars	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
ISEC ADTO (Rs bn)					
Equity	31	49	52	49	55
Derivative	821	817	1,069	1,038	677
Total	852	866	1,121	1,088	732
ISEC ADTO mix (%)					
Equity	3.6	5.6	4.7	4.5	7.5
Derivative	96.4	94.4	95.3	95.5	92.5
Total	100.0	100.0	100.0	100.0	100.0
ISEC ADTO growth (%)					
Equity	50	115	120	80	79
Derivative	45	32	56	27	(18)
Total	46	35	58	29	(14)
ISEC ADTO market share (%)					
Equity	9.1	10.7	11.1	10.5	9.6
Derivative	8.0	8.9	8.8	6.3	3.0
Total	8.0	9.0	8.9	6.5	3.2

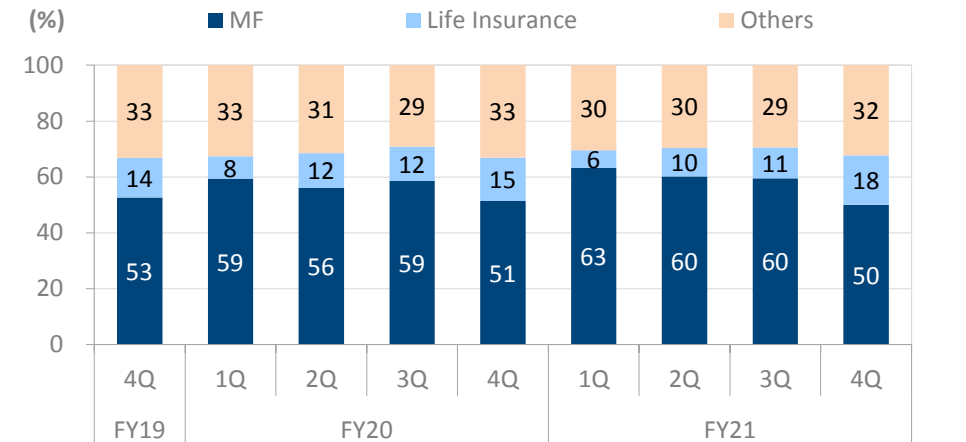
Source: Company, IIFL Research

Figure 10: Trend in distribution revenue



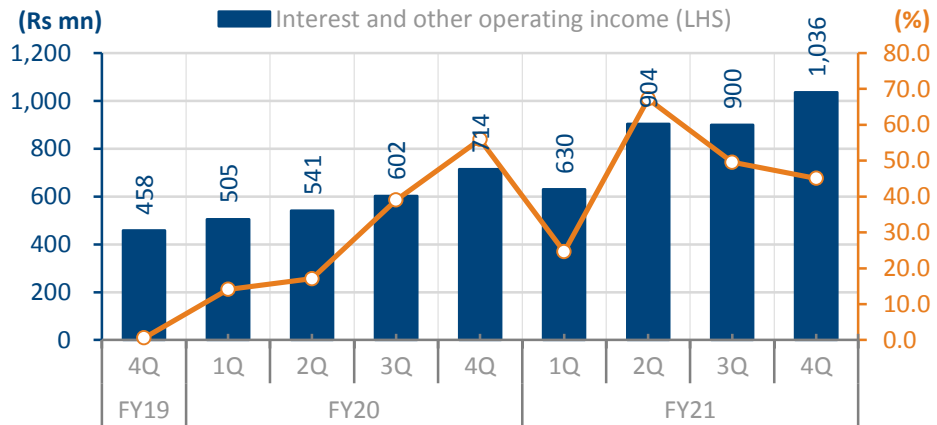
Source: Company, IIFL Research

Figure 11: Mix of distribution revenue



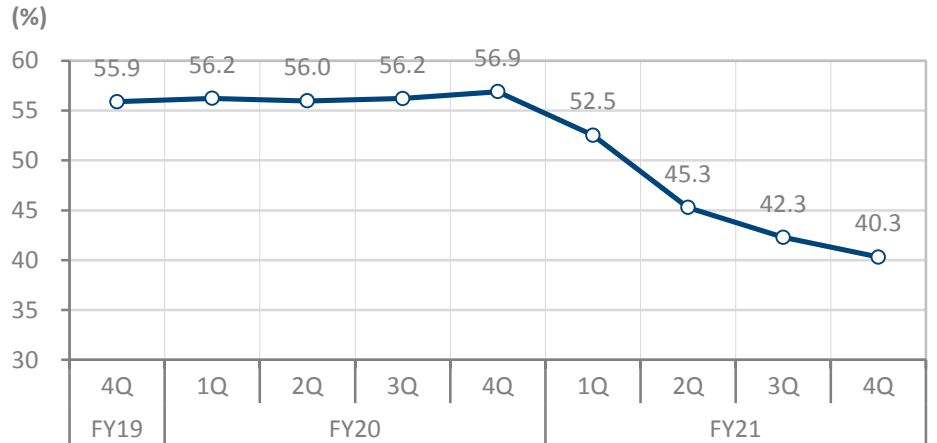
Source: Company, IIFL Research

Figure 12: Trend in interest and other operating income



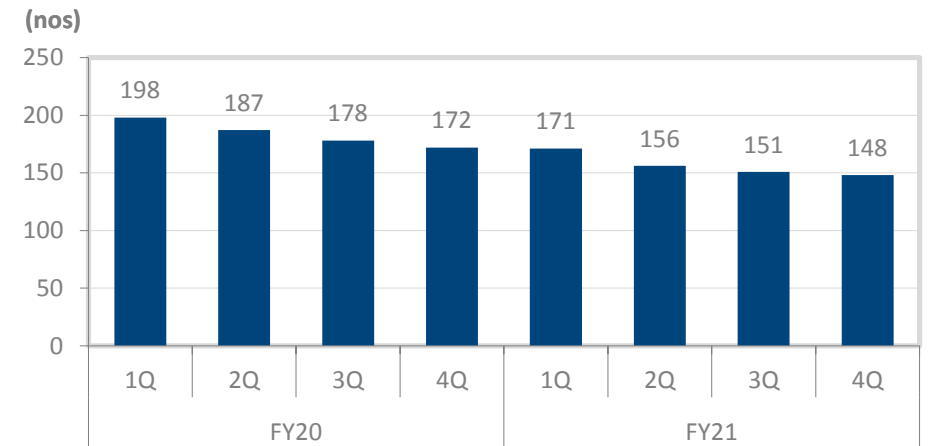
Source: Company, IIFL Research

Figure 13: Cost-to-income ratio



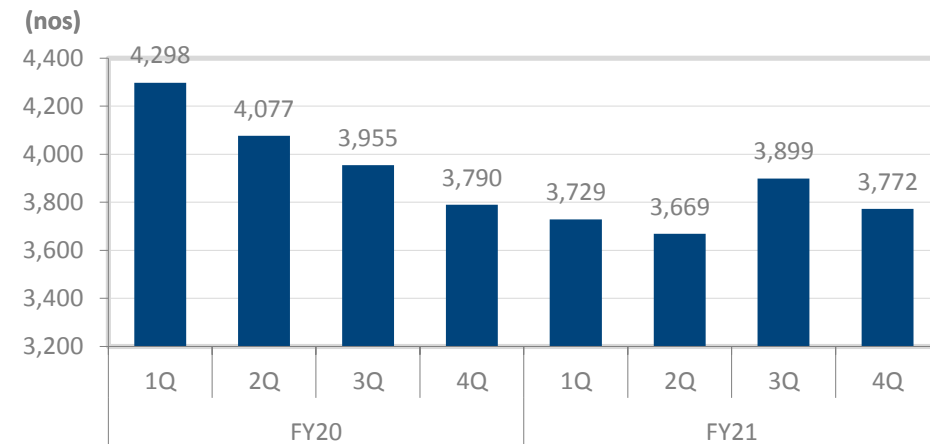
Source: Company, IIFL Research

Figure 14: Trend in number of branches



Source: Company, IIFL Research

Figure 15: Trend in number of employees



Source: Company, IIFL Research

Earnings revision summary

Figure 16: Earnings revision summary

Earnings revision summary	FY22ii	FY23ii
Revenue (Rs m) - Old	23,962	25,248
Revenue (Rs m) - New	24,638	25,859
% Change	2.8	2.4
Net profit (Rs m) - Old	8,975	9,206
Net profit (Rs m) - New	9,325	9,756
% Change	3.9	6.0
EPS (Rs) - Old	27.9	28.6
EPS (Rs) - New	28.9	30.3
% Change	3.9	5.9

Source: Company, IIFL Research

Figure 17: Key earnings drivers

Y/e 31 Mar (%)	FY20	FY21ii	FY22ii	FY23ii	FY24ii
ISEC ADTO (Rs bn)	764.0	958.0	1,053.8	1,159.2	1,333.1
Brokerage Yield/ADTO (bps)	0.50	0.63	0.51	0.45	0.45
ISEC MF AUM (Rs bn)	362.0	367.0	403.7	444.1	488.5
MF dist commission (% of AUM)	0.63	0.65	0.62	0.60	0.60
ISEC Life Insurance Premium (Rs bn)	8.0	7.7	8.4	9.3	10.2
Life ins commission (% of premium)	6.1	6.6	6.3	6.0	6.0
Operating costs growth	0.2	18.9	5.4	5.3	10.2
Cost/income ratio	56.4	44.7	49.4	49.6	47.2
Tax rate	28.0	25.4	25.2	25.2	25.2

Source: Company, IIFL Research

Figure 18: ISEC – RoE decomposition

Y/e 31 Mar (%)	FY20	FY21	FY22ii	FY23ii	FY24ii
Brokerage income	20.8	23.8	15.6	13.6	13.9
Distribution income	8.9	6.6	5.3	5.3	5.5
Interest and other income	5.2	5.5	4.8	5.2	5.5
Investment banking/advisory income	2.2	4.3	2.2	2.1	2.1
Treasury & Trading income	0.9	0.8	0.7	0.7	0.7
Total operating income	37.9	41.0	28.6	26.9	27.7
Employee cost	11.7	9.3	7.2	6.8	6.7
Finance cost	1.9	1.7	1.8	1.8	1.7
Depreciation cost	1.3	0.9	0.6	0.6	0.6
Other operating expenses	6.4	6.4	4.5	4.2	4.1
Total operating expenses	21.3	18.3	14.1	13.4	13.1
Profit before tax	16.5	22.7	14.5	13.6	14.6
Taxes	4.6	5.8	3.6	3.4	3.7
Net profit	11.9	16.9	10.8	10.2	10.9
Leverage	4.0	4.2	4.4	4.3	4.0
RoE	48.0	70.4	48.0	43.2	43.2

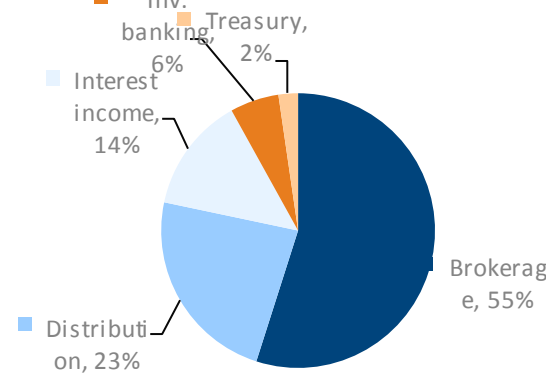
Source: Company, IIFL Research

Background: ICICI Securities (ISEC) is a leading technology-based securities firm in India. The company was incorporated on March 9, 1995 as ICICI Brokerage Services Limited and is promoted by ICICI Bank. It is one of the pioneers in the e-brokerage business in India. The company offers wide range of financial services including brokerage, financial product distribution and investment banking and treasury and trading services. ISEC is the second-largest equity broker in India as of FY20 with retail brokerage contributing 47.5% of total revenue. The company is headquartered in Mumbai, and operates through offices in India, the United States, Singapore and Oman.

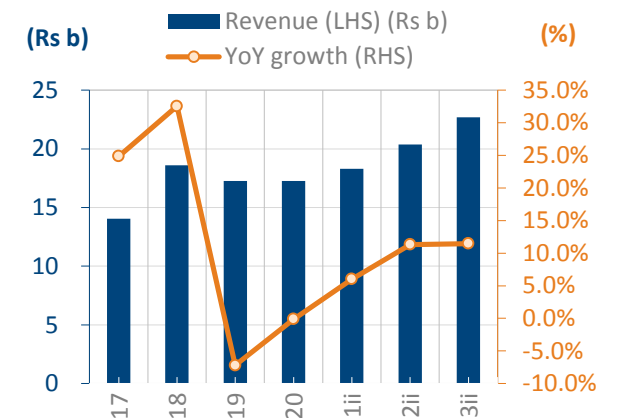
Management

Name	Designation
Vijay Chandok	MD & CEO
Ajay Saraf	Executive Director
Harvinder Jaspal	CFO

Revenue mix (FY20)



Revenue growth

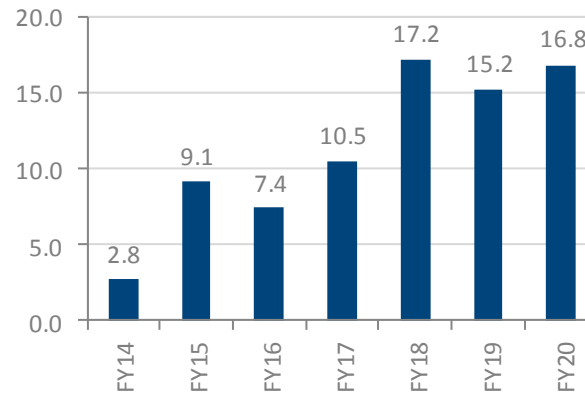


Key earnings drivers

Y/e 31 Mar, Parent	FY20A	FY21A	FY22ii	FY23ii	FY24ii
ADTO (Rs bn)	764.0	958.0	1053.8	1159.2	1333.1
Brokerage Yield (bps)	0.5	0.6	0.5	0.5	0.5
MF AUM (Rs bn)	362.0	367.0	403.7	444.1	488.5
MF dist comm (% of AUM)	0.6	0.6	0.6	0.6	0.6
Life Ins Premium (Rs bn)	8.0	7.7	8.4	9.3	10.2
Life Ins comm (% of prem)	6.1	6.6	6.3	6.0	6.0
Operating costs growth (%)	0.2	18.9	5.4	5.3	10.2
Cost/income ratio (%)	56.4	44.7	49.4	49.6	47.2
Tax rate (%)	28.0	25.4	25.2	25.2	25.2

Source: Company data, IIFL Research

EPS



PF Chart



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY20A	FY21A	FY22ii	FY23ii	FY24ii
Brokerage income	9,476	15,045	13,436	13,041	14,997
Distribution income	4,031	4,171	4,567	5,137	5,938
Interest income	2,350	3,449	4,139	4,966	5,960
Investment banking/advisory income	994	2,697	1,922	2,053	2,281
Treasury & trading income	398	500	575	661	760
Total operating income	17,249	25,862	24,638	25,859	29,937
Employee expenses	5,338	5,880	6,174	6,482	7,260
Finance costs	864	1,073	1,549	1,704	1,875
Depreciation	614	542	553	580	609
Other operating expenses	2,905	4,060	3,902	4,055	4,389
Total operating expenses	9,720	11,554	12,177	12,821	14,133
Profit before tax	7,529	14,308	12,461	13,037	15,804
Taxes	2,109	3,631	3,136	3,281	3,978
Reported net profit	5,420	10,677	9,325	9,756	11,826

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY20A	FY21A	FY22ii	FY23ii	FY24ii
Net loans & advances	5,709	29,015	34,817	41,781	50,137
Other interest-earning assets	25	29	32	35	38
Total interest-earning assets	5,733	29,043	34,849	41,816	50,175
Fixed assets	2,061	1,688	1,941	2,135	2,349
Other assets	36,634	51,078	53,774	57,532	62,292
Total assets	44,428	81,809	90,565	101,483	114,816
Other interest-bearing liabilities	14,975	35,210	38,731	42,604	46,864
Total interest-bearing liabilities	14,975	35,210	38,731	42,604	46,864
Non-interest-bearing liabilities	17,358	28,378	31,216	34,338	37,772
Total liabilities	32,333	63,588	69,947	76,941	84,636
Total Shareholder's equity	12,095	18,221	20,618	24,542	30,181
Total liabilities & equity	44,428	81,809	90,565	101,483	114,816

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY20A	FY21A	FY22ii	FY23ii	FY24ii
Balance Sheet Structure Ratios (%)					
Loan Growth	41.6	408.3	20.0	20.0	20.0
Borrowings Growth	234.8	135.1	10.0	10.0	10.0
Growth in Total Assets	(4.8)	84.1	10.7	12.1	13.1
Profitability Ratios (%)					
PBT Margin	43.6	55.3	50.6	50.4	52.8
PAT Margin	31.4	41.3	37.8	37.7	39.5
ROA	11.9	16.9	10.8	10.2	10.9
ROE	48.0	70.4	48.0	43.2	43.2
Net Profit Growth	10.4	97.0	(12.7)	4.6	21.2
FDEPS Growth	10.4	96.9	(12.7)	4.6	21.2
Efficiency Ratios (%)					
Cost to Income Ratio	56.4	44.7	49.4	49.6	47.2
Salaries as % of Non-Interest costs	54.9	50.9	50.7	50.6	51.4

Ratio analysis - II

Y/e 31 Mar, Parent	FY20A	FY21A	FY22ii	FY23ii	FY24ii
Brokerage Yield/ADTO (bps)	0.50	0.63	0.51	0.45	0.45
Life ins commission (% of premium)	6.14	6.64	6.30	6.00	6.00
MF dist commission (% of AUM)	0.63	0.65	0.62	0.60	0.60
Total clients (mn)	4.8	5.4	6.5	7.8	9.3
Active clients (mn)	1.1	1.6	2.1	2.6	3.2
Branches (Nos.)	172	148	152	160	168
Employees (Nos.)	3,790	3,772	3,885	4,079	4,283
Dividend Payout Ratio (%)	65.4	64.9	62.5	63.4	64.6

Source: Company data, IIFL Research

Disclosure : Published in 2021, © IIFL Securities Limited (Formerly 'India Infoline Limited') 2021

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SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

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ICICI Securities: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
27 Jan 2021	446	570	BUY
15 Jan 2021	444	600	BUY