

ICICI Securities Limited

Nifty: 21462

CMP: INR 764

WHERE ADVISORY MEETS EXCELLENCE

Stock Broking

ICICI Securities Limited reported robust Q3FY24 results, showcasing a substantial 50% overall revenue growth and notable market share improvements across various revenue-generating parameters. The Profit after Tax surged to 466 crore, reflecting a significant 66% YoY increase and a 10% QoQ rise. The company's success is attributed to effective diversification strategies and a customer-centric coverage model. Key highlights include a 12% sequential growth and a remarkable 56% YoY increase in the wealth management segment, adding over 10,000 Private Wealth Management clients and surpassing a total base of 1,00,000+. Additionally, the company maintained its leading position in the MTF segment with a notable 56% YoY growth, commanding a substantial 22% market share. Despite these achievements, the stock is currently 'Under Review' due to the promoter's intention to delist ISEC.

Revenue growth across business segments:

ICICI Securities reported robust revenue growth across diverse business segments in Q3FY24. Retail Equities and Allied revenue saw a substantial 50% YoY increase, reaching ₹755 crore, with equity revenue growing by 60% YoY to ₹278 crore and derivative revenue up by 22% YoY to ₹124 crore. Distribution income exhibited a 5% YoY growth, reaching ₹175 crore. Private Wealth Management (PWM) revenue showed a remarkable 56% YoY increase, totaling ₹403 crore. On the institutional front, Issuer Services and Advisory revenue surged to ₹973 crore, marking a significant 102% YoY growth, while Institutional Equity & Allied Revenue reached ₹903 crore, reflecting an impressive 94% YoY increase. MF and other distribution revenue grew by 14% YoY and 16% YoY respectively. Loans distributed for Q3FY24 stood at ₹2,170 crore, up by 116% YoY. The MTF book continued its strong performance, growing by 56% YoY and maintaining a leadership position in market share with 22%.

Improving market share:

In Q3FY24, ICICI Securities significantly enhanced its market presence across diverse parameters. The retail cash equity market share experienced a notable increase from 10.5% to 13.1% YoY, while the retail option premium market shares rose from 7.5% to 8.0% YoY. The company demonstrated continued progress in the commodity market segment, elevating its market share from 5.6% to 7.5% YoY. Additionally, ICICI Securities maintained its stronghold

in the MTF (Margin Trading Fund) segment, commanding a substantial ~22% market share. The addition of approximately 10,000 Private Wealth Management (PWM) clients propelled the company's PWM client base to over 1,00,000, further solidifying its market position.

Diversifying the revenues and reducing cyclical component:

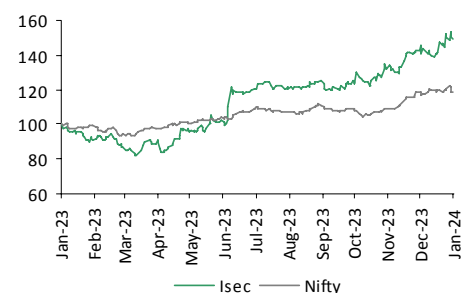
In Q3FY24, the Company demonstrated its dedication to diversifying its revenue sources, thereby reducing its dependence on cyclical elements. Notably, the equity business accounted for 25% of the total revenue. Derivatives revenue now represents 10% of the overall revenue, while Allied revenue makes up 29%, and the Distribution business contributes 13%. These segments exhibit a lower sensitivity to market fluctuations and are less cyclical, showcasing the Company's effective initiatives in establishing a more stable and resilient revenue stream.

Outlook:

While encountering short-term headwind in the broking business, the company's proactive efforts to reduce dependence on cyclical factors and diversify revenue streams have introduced a level of stability to its overall revenue growth. Ongoing investments in technology and franchise development are anticipated to play a pivotal role in establishing a scalable franchise for ISEC. Nevertheless, in light of the recent announcement regarding ISEC's delisting, we have initiated a review of the ISEC stock.

Shareholding (%)	Dec-23
Promoters	74.77
Mutual Funds	2.12
Other Domestic Institutions	4.23
FII	10.33
Retail and others	8.55

Relative Price Performance



Key Data	
NSE Symbol	ISEC
Bloomberg Code	ISEC
Reuters Code	ICCI.NS
Shares Outstanding	322,678,721
Face Value	5
Mcap (In cr)	24,680
52week H/L	799.55/416.30
Beta	0.72

(INR Cr.)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Sales	794	858	879	885	934
Expenses	311	335	330	337	363
Operating Profit	483	523	549	548	571
OPM %	61%	61%	62%	62%	61%
Other Income	1	7	1	0	0
Interest	100	108	153	175	185
Depreciation	16	19	19	21	22
Profit before tax	367	404	377	353	364
Tax %	25%	26%	26%	26%	26%
Net Profit	274	300	281	263	271
EPS in Rs	8.48	9.31	8.7	8.14	8.39

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Key Risk:

- High competition: ICICI Securities has been facing tough competition from emerging discount brokers such as Upstox and Zerodha. To stay competitive and maintain or increase its market share, ISEC has introduced discounted brokerage fees on various products such as NEO, where the fees are significantly lower. In addition, ISEC has a presence in Smallcase as well.

Moreover, while the other competitors primarily operate in the brokerage business, ISEC has diversified its income sources through its current strategy.

- Volatility in the market: Since ISEC's revenues are closely tied to the performance of the stock market, there is an inherent

risk associated with the volatile nature of stocks. However, ISEC has taken steps to mitigate this risk by diversifying its sources of revenue.

While the brokerage revenue was impacted by the recent market moderation this quarter, the impact was minimized because of the company's diversified business revenue.

- Any regulatory changes: The most recent regulation mandates that brokers cannot use their clients' funds for bank guarantees, and this will certainly have an impact on their operations. However, ISEC will not be affected by this regulation and will enjoy a competitive advantage over its peer companies because it does not rely on this revenue-generating method.

Quarterly Financials

INR (mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	13,227.30	8,789.60	50%	12490	6%	35,060.40	25,309.70	39%
Operating expenses	362.1	266.6	36%	486.8	-26%	1,183.90	816.1	45%
Fee and commission expenses	511.1	425.9	20%	534.2	-4%	1,431.80	1,197.00	20%
Impairment on financial instruments	33.2	15	121%	52.8	-37%	93.3	50	87%
Employee Cost	2,291.70	1,756.80	30%	2339.2	-2%	6,643.30	5,364.30	24%
Other Expenses	917.4	837.4	10%	975	-6%	2,782.70	2,334.60	19%
Total Expenditure	4115.5	3301.7	25%	4388	-6%	12135	9762	24%
EBITDA	9111.8	5487.9	66%	8102	12%	22925.4	15547.7	47%
EBITDA Margins (%)	69%	62%	10%	65%	6%	65%	61%	6%
Depreciation	271.6	193.5	40%	257.6	5%	752.3	545.2	38%
Other Income	5.3	9.2	-42%	-0.4	-1425%	6.2	93	-93%
EBIT	8845.5	5303.6	67%	7844	13%	22179.3	15095.5	47%
Interest	2,606.50	1,530.30	70%	2150.5	21%	6,603.10	3,616.20	83%
PBT	6239	3773.3	65%	5693.5	10%	15576.2	11479.3	36%
Tax	1,582.10	963.80	64%	1457.2	9%	3,974.60	2,929.80	36%
Profit After Tax	4656.9	2809.5	66%	4236.3	10%	11601.6	8549.5	36%
Profit After Tax Margins (%)	35%	32%	10%	34%	4%	33%	34%	-2%
Equity	1615.5	1614.1		1615.5		1615.5	1614.1	
Face Value	5	5		5		5	5	
EPS	14.34	8.68	65%	13.06	10%	35.75	26.42	35%

Financials

Income Statement

Y/E (INR mn)	2022	2023	2024E	2025E
Net Revenue	34,385.13	34,255.03	36,245.15	38,371.37
Expenses				
Finance Costs	2,736.80	5362.9	2885.43	2946.1
Fees and commission expense	1665.6	1,563.20	1654.02	1751.05
Net loss on fair value changes	0	0	0	0
Impairment on financial instruments	-69.4	32.9	100	100
Operating expenses	1139.6	1,307.40	1,383.36	1,464.51
Employee benefits expenses	6644.1	6978	8886	10219
Depreciation, amortization and impairment	625.3	750.7	953.41	1,334.78
Other expenses	3115.2	3248	3437	3639
Total Expenses	15857.2	19243.6	19299.3	21454.1
Profit before tax	18527.93	15011.43	16945.83	16917.3
Tax expenses	4701.6	3834.9	4236.46	4229.32
PAT	13826.33	11,176.53	12,709.37	12,687.97
EPS		34.62	39.39	39.32

Balance Sheet

Y/E (INR mn)	2022	2023	2024E	2025E
Assets				
Financial assets				
Cash and cash equivalents	7735.9	2,406.40	1,617.74	7,882.26
Bank balance other than (a) above	48430.2	65,501.30	69,306.74	73,372.43
Derivatives financial instruments	0.8	-	-	-
Securities for trade	2430.2	9,163.30	9,695.66	10,264.43
Receivables				
Trade receivables	3848.3	7,734.40	3,972.07	4,205.08
Loans	68566.7	64,198.80	67,928.56	71,913.41
Investments	107.1	77.1	81.58	86.36
Other financial assets	1135.7	1,196.60	1,266.12	1,340.39
Non-financial assets				
Current tax assets (net)	1247.1	1,365.00	1,444.30	1,529.03
Deferred tax assets (net)	424.1	373.5	395.2	418.38
Property, plant and equipment	627.2	1,238.20	1,733.48	2,426.87
Right - of - use assets	899	968.6	767.32	744.3
Capital work in progress	109.6	192.9	204.11	216.08
Intangible assets under development	32.6	115.8	122.53	129.72
Other intangible assets	309.5	370.5	392.02	415.02
Other non-financial assets	558.2	785.6	831.24	880
Total Assets	136462.2	155688	159758.67	175823.78
Liabilities and Equity				
Liabilities				
Derivatives financial instruments	0	0.4	0	0
Trade payables	10776.1	9,148.40	1,895.01	2,006.17
Debt securities	77392.3	87886.9	90270.38	92075.79
Borrowings (Other than debt securities)	0	5038.9	0	0
Deposits	43.6	74.2	77.91	81.81
Lease Liabilities	1019.4	1082.7	959.15	930.38
Other financial liabilities	16521.6	18,239.60	19,299.27	20,431.41
Non-financial liabilities				
Current tax liabilities (net)	0	0	0	0
Provisions	151	177.4	187.71	198.72
Other non-financial liabilities	6252.9	5,515	5,834.88	6,177.16
Equity				
Equity share capital	1613.4	1614	1614	1614
Other equity	22691.9	26911	39620	52308
Total Liabilities	136462.2	155688	159758.67	175823.78

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