

ICICI Securities Limited

Nifty: 19671

CMP: INR 637.25

WHERE ADVISORY MEETS EXCELLENCE

Stock Broking

On October 16, 2023, ICICI Securities Limited announced strong Q2FY24 results, featuring an impressive 45% year-on-year (YoY) revenue growth and a substantial 34% increase sequentially. These results can be attributed to effective diversification efforts and a customer-centric coverage model. Throughout the quarter, most performance indicators continued to trend upward, and the company saw noticeable gains in market share. Notably, the wealth management segment showed a 7% growth on a sequential basis and a remarkable 20% increase on a YoY basis. Furthermore, the company maintained its leading position in the MTF segments, commanding a significant 22% market share. In terms of cost management, the company achieved a decline in the cost-to-income ratio, which now stands at 41.9%. However, it's worth noting that due to the promoter's intention to delist ISEC, the stock has been placed 'Under Review.'

Revenue growth across business segments:

- Total revenue for the period reached Rs. 12,490 million, reflecting a substantial 45% year-on-year (YoY) growth. Meanwhile, the Profit after Tax (PAT) amounted to Rs. 4,236.3 million.
- Equity revenue experienced remarkable growth, surging by 51% YoY and an impressive 50% quarter-on-quarter (QoQ).
- Derivative revenue also saw substantial gains, increasing by 43% YoY and 28% QoQ.
- Distribution revenue expanded by 13% YoY and 11% QoQ.
- Mutual Fund (MF) and other distribution revenue displayed robust growth, with 14% YoY and 27% QoQ increases, respectively.
- During Q2FY24, the company distributed loans worth Rs. 14.6 billion, marking a notable 66% YoY and 25% QoQ increase.
- Allied revenue experienced substantial growth, rising by 47% YoY and 41% QoQ.
- The MTF (Market Trading Fund) book continued its impressive performance, growing by 44% YoY and maintaining its leadership in market share.

Improving market share:

In Q2FY24, the company saw a notable strengthening of its market presence across various parameters. Year-on-year, the retail cash equity market share surged from 58 basis points to 12.8%. Meanwhile, the retail derivative market share showed a slight increase of just under 10 basis points, reaching 3.7%. Furthermore,

the company made significant gains in the commodity market share, improving by 60 basis points. In the competitive MTF (Margin Trade Fund) segment, the company maintained its dominant position with an impressive 22% market share. The management's primary focus remains on attracting high-quality clients to enhance the Average Revenue Per User (ARPU) for the company.

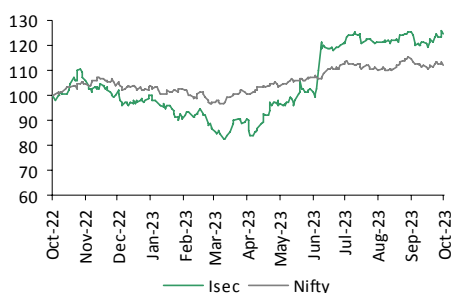
Diversifying the revenues and reducing cyclical component:

In Q2FY24, the Company demonstrated its dedication to diversifying its revenue sources, thereby reducing its dependence on cyclical elements. Notably, the equity business accounted for 27% of the total revenue. Derivatives revenue now represents 12% of the overall revenue, while Allied revenue makes up 26%, and the Distribution business contributes 14%. 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 challenges 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.

Relative Price Performance



Shareholding (%)

	Sep-23
Promoters	74.79
Mutual Funds	2.25
Other Domestic Institutions	3.96
FII	10.06
Retail and others	8.94

Key Data

NSE Symbol	ISEC
Bloomberg Code	ISEC
Reuters Code	ICCI.NS
Shares Outstanding	322,678,721
Face Value	5
Mcap (In cr)	20,590
52week H/L	683/416.30
Beta	0.71

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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 Results

(Rs In Mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	12490	8,584.60	45%	9343.1	34%
Operating expenses	486.8	304	60%	335	45%
Fee and commission expenses	534.2	395.8	35%	386.5	38%
Impairment on financial instruments	52.8	15.4	243%	7.3	623%
Employee Cost	2339.2	1,857.40	26%	2012.4	16%
Other Expenses	975	778.4	25%	890.3	10%
Total Expenditure	4388	3351	31%	3631.5	21%
EBITDA	8102	5233.6	55%	5711.6	42%
EBITDA Margins (%)	65%	61%	6%	61%	6%
Depreciation	257.6	187.4	37%	223.1	15%
Other Income	-0.4	71.7	-101%	1.3	-131%
EBIT	7844	5117.9	53%	5489.8	43%
Interest	2150.5	1,082.20	99%	1846.1	16%
PBT	5693.5	4035.7	41%	3643.7	56%
Tax	1457.2	1,031.60	41%	935.3	56%
Profit After Tax	4236.3	3004.1	41%	2708.4	56%
Profit After Tax Margins (%)	34%	35%	-3%	29%	17%
Equity	1615.5	1614.1		1614.1	
Face Value	5	5		5	
EPS	13.06	9.28	41%	8.36	56%

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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