19 May 2020

Initiating Coverage | Sector: NBFCs

ICICI Securities

Not just a broker!

Research Analyst: Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com);+91 22 6129 1526 | **Piran Engineer** (Piran.Engineer@MotilalOswal.com); +91 22 6129 1539
Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com); +91 22 6129 1542 | **Divya Maheshwari** (Divya.Maheshwari@motilaloswal.com); +91 22 6129 1540

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ICICI Securities

BSE Sensex	S&P CNX
30,029	8,823

CMP: INR351 TP: INR460 (+31%) Buy

Stock info

Bloomberg	ISEC IN
Equity Shares (m)	322.1
M.Cap.(INRb)/(USDb)	113.2 / 1.5
52-Week Range (INR)	525 / 191
1, 6, 12 Rel. Per (%)	8/40/96
12M Avg Val (INR M)	151

Financial Snapshot (INR b)

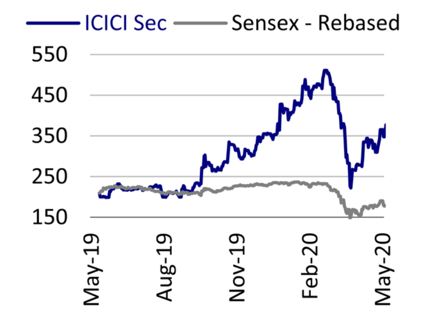
Y/E March	2020	2021E	2022E
Revenues	17.3	17.2	19.1
Opex	9.7	9.3	10.2
PBT	7.5	7.8	8.9
PAT	5.4	5.9	6.7
Ratios			
C/I ratio (%)	56.3	54.4	53.3
PAT margin (%)	31.4	34.2	35.0
RoE (%)	48.1	45.2	45.0
Div. Payout (%)	71.0	70.0	70.0
EPS	16.8	18.2	20.8
Valuations			
P/E (x)	20.9	19.3	16.9
P/BV (x)	9.3	8.2	7.1
Div. Yield (%)	3.2	3.6	4.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	79.2	79.2	79.2
DII	11.1	11.5	11.6
FII	3.2	2.7	2.7
Others	6.5	6.6	6.5

FII Includes depository receipts

Stock Performance (1-year)



Not just a broker!

Re-engineering the business model; Building a diversified franchise

- **ICICI Securities (ISEC) is India's second largest broker (~10% active client market share) and non-bank mutual fund (MF) distributor (after NJ Invest). It also ranks amongst the largest wealth managers in the country with an AUM of ~INR830b. Robust technology platform, innovative offerings, strong brand and ability to leverage the large distribution network of its parent ICICIBC are the key factors differentiating ISEC from its peers.**
- **Over the past year, the company has undertaken several initiatives (ICICIBC tie-up, 'Prime', 'Prepaid' and 'Options 20' models, Open architecture for broking business) to improve market share and profitability in the retail brokerage business, which have started to bear fruit. While ISEC is adding new product distribution and capacity in the wealth management/institutional equities business, it remains focused on the synergistic lending business to diversify revenues and reduce cyclicality.**
- **ISEC has maintained profitability despite revenue pressure in the recent past through several cost-cutting measures (reduction in branches/headcount, renegotiation of arrangements, etc.). These cost-cutting measures are likely to continue over the near-to-medium term and should result in ~400bp reduction in C/I ratio over FY20-23E, in our view.**
- **While we expect revenue growth to moderate in FY21 due to the impact of COVID-19, we believe 8% revenue CAGR over FY20-23E is achievable. At the same time, cost rationalization should result in nearly 400bp PAT margin improvement.**
- **The ongoing challenges in the industry are driving incremental market share toward large, institution-backed brokers like ISEC. Further, the company's business model is capital light with a dividend payout ratio of ~70%. Initiate with Buy rating and TP of INR460 (22x FY22E EPS). Key risk to our thesis stems from an extended economic slowdown arising due to the COVID-19 crisis and the resultant impact on capital market activities.**

Focus on ARPU and increasing customer base

ISEC is focusing on generating higher average revenue per customer (ARPU) and customer acquisition, which should lead to superior overall volumes. **It has taken several initiatives to increase customer base/volumes, such as (a) new revenue-share arrangement with ICICIB, which has helped increase activation rates and trading volumes from customers, (b) recently allowing non-ICICI Bank clients to open a trading account, (c) 'Prime' and 'Prepaid' plans and 'Option 20' for customers, (d) eATM, and (e) partnerships (sub-brokers, IFAs etc.)** Core to the ISEC strategy is ARPU (including distribution and lending revenues), and thus, cross-selling and innovative offerings are likely to be key initiatives in revenue generation. While yields are under pressure due to the changing industry volume mix and pricing pressure from competition, such initiatives are likely to generate volumes, change covert inactive clients to active clients and help top line growth in the retail business. **Overall we estimate 9% CAGR for retail brokerage revenues over FY20-23E.**

Distribution gradually becoming a larger revenue contributor

With an AUM of INR345b, ISEC is the second largest non-bank mutual fund distributor after NJ Invest. Around 75% of its AUM is in equity assets, wherein the commission earned is higher. This segment witnessed headwinds during the past 18 months from an upfront commissions ban and reduction in trail commissions. As a result, the average calculated yield declined from a peak of 100bp+ in 4QFY18 to 61bp in 1QFY20. However, with trail commissions on net flows higher than those on the back book, yields improved to 66bp in 4QFY20. Commission yields are now stable/marginally improving and revenues should grow in line with AUM. **However, over the near term, we expect a hit on revenues stemming from (a) higher-than-expected redemptions, and (b) lower NAVs in equity schemes.** Moreover, ISEC also distributes other financial products such as life and health insurance, loan products, fixed deposits, etc. In addition to providing an extra revenue stream, the distribution business also helps to reduce overall volatility of earnings stemming from the brokerage and investment banking segments.

Focus on alternative businesses to reduce dependency on brokerage revenues

In addition to brokerage and distribution, other key revenue sources for ISEC include margin funding and investment banking. **Over 9MFY20, ISEC grew its funding book (margin trade finance and ESOP funding) from INR4b to INR12b but scaled it down to INR5.8b in 4QFY20 due to heightened risk equities led by COVID19.** In our view, the company will grow this book opportunistically over the medium term. ISEC is among the leading investment banks in the country, especially in public market activities. Over the past 5 years, the company has worked on 140+ IPO deals amounting to INR1.8t+ in value. It has also built scale in the institutional brokerage division with revenues up 2.4x over FY16-20 to INR1.3b. Also, the company has carved out a separate business unit specifically catering to its wealth clients. Interestingly, the ESOP funding business assists in sourcing such clients. This business has over 30k customers and manages INR830b of customer assets.

Optimizing opex to counter revenue pressure

While ISEC’s C/I ratio of 56% is healthy, it is significantly above that of HDFC Securities, which is at 37%. Over the past two years, management has taken several initiatives to reduce operating expenses. **Number of branches have been pruned from 199 to 172 YoY and are expected to reduce further as unprofitable branches get shut. Headcount has been trimmed from 4,180 in FY18 to 3,790 in FY20. ISEC had also renegotiated demat charges with ICICI Bank resulting in 27% YoY decline in custodial and depository expenses to INR340m in FY19.** Such initiatives have helped total opex decline 5% over FY18-20. **With a pick-up in revenue growth, we expect operating leverage to play out, resulting in ~400bp reduction in the C/I ratio to 52% over FY20-23E. We bake in ~5% Opex CAGR vs ~8% CAGR in revenues.**

Lingering uncertainty over the near term – A key risk

Over the past two months, most equity brokers, including ISEC, have been key beneficiaries of the heightened stock market volatility as (a) trading volumes have been higher than ever before, and (b) new account openings have increased. However, as the situation settles, it remains to be seen whether investors would take a ‘wait-and-watch’ approach or continue to trade. **Post the Global Financial Crisis, over 2009-11, equity markets experienced 30%+ decline in equity case ADTO – it is likely that such a scenario is repeated if recovery is prolonged.** In addition, the sharp correction in stock prices and credit events has resulted in mutual fund redemptions from some retail investors. These redemptions, coupled with lower NAVs, would be a double whammy for ISEC. Hence, we believe that, in the near term, earnings growth would be driven by cost control rather than by revenue growth.

Earnings CAGR of ~12% and dividend payout of ~70%

Over the past year, ISEC has re-engineered its business model as well as its approach toward clients. **Initiatives such as the ICICI Bank tie-up, ‘Prime’, ‘Prepaid’ and ‘Options 20’ models, etc. have also started yielding results.** While brokerage revenues could be impacted in the near term due to uncertainty in the economic environment, structural drivers are in place for long-term growth. **Ongoing challenges in the industry are likely to aid market share shifts toward large, institution-backed players like ISEC.** Also, its distribution business is expanding with a wider coverage of financial products. While the macro environment is yet to turn around, cost cutting efforts should help maintain profitability. We expect revenue/Opex/PAT at 8%/5%/12% CAGR over FY20-23E. With the capital light nature of its business, we expect ISEC’s dividend payout to remain high at 70%. **Initiate with Buy rating and TP of INR460 (22x FY22E EPS).**

Exhibit 1: Peer comparison – Key metrics

FY19, INR m	ISEC	Kotak Sec.	HDFC Sec.	IIFL Sec.	Axis Sec.
Total Revenue	**17,270**	**17,256**	**7,821**	**8,756**	**1,984**
of which					
Brokerage revenue	9,328	8,681	5,260	5,048	1,597
Distribution revenue	4,639	1,997	1,262	1,804	126
Operating Expenses	9,698	10,932	2,868	6,139	1,529
C/I ratio (%)	56	63	37	70	77
PBT	7,572	6,324	4,952	2,616	455
PAT	**4,907**	**4,076**	**3,298**	**1,714**	**293**

Source: MOFSL, Company

Brokerage Industry Overview

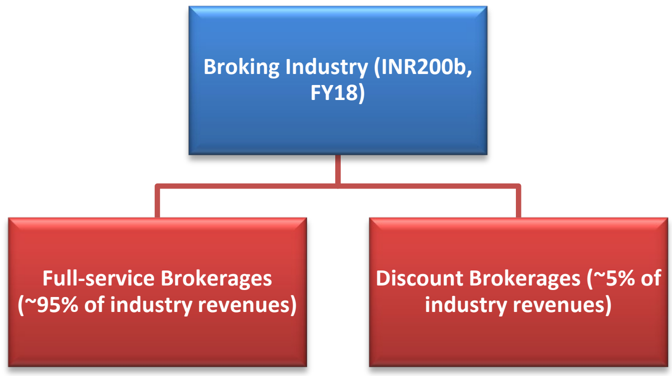
Consolidation of heavyweights

- **The retail brokerage industry in India comprises over 200 brokers. The past 5-6 years has witnessed the emergence of discount brokers, some of whom have gained relative prominence.**
- **Further, the last few years has seen large players consolidate their market share. The share of the top-10 players has increased from 24% in FY13 to 34% in FY19. We expect further consolidation in the near-to-medium term, especially given the ongoing challenges in the industry.**
- **While equity broking is a cyclical business, over the past 10/15 years, the Average Daily Turnover (ADTO) CAGR in cash equities has been 6%/12%.**

INR200b equity brokerage industry with ~10m active clients

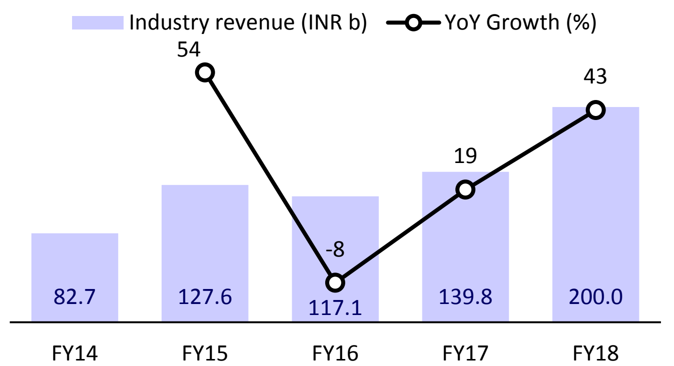
- According to CRISIL estimates, over FY14-18, the Indian equity brokerage industry delivered revenue (cash + derivatives) CAGR of 24% to INR200b. While there are no official estimates, our industry interaction suggests that total revenue was flat or modestly low in FY19 as compared to FY18.
- Unlike the US where 65-70% market share is held by discount brokers, in India, full-service brokers dominate the industry.
- **Over the past 3/5 years, NSE active clients grew at 19%/14% CAGR to 10m. Only two players (Zerodha and ISEC) have more than 10% share in active clients.**

Exhibit 2: Overview of brokerage industry



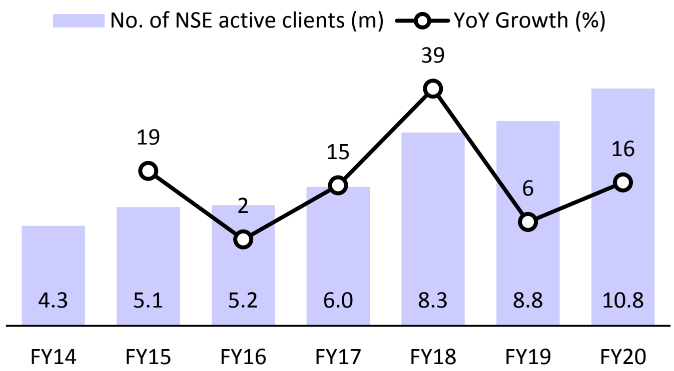
Source: MOFSL, Angel Broking DRHP

Exhibit 3: Trend in brokerage industry revenue



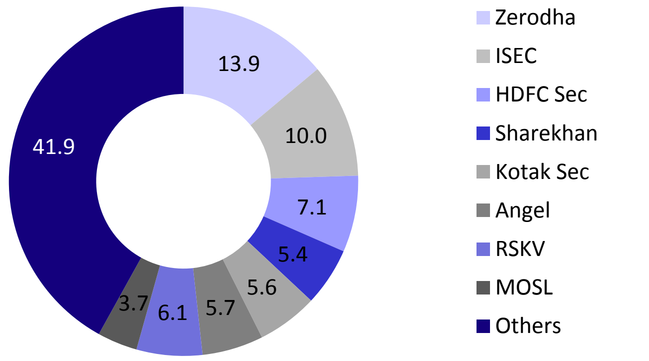
Source: MOFSL, Angel Broking DRHP

Exhibit 4: Trend in number of NSE active clients



Source: MOFSL, Company, NSE

Exhibit 5: Market share in active clients for large players (%)



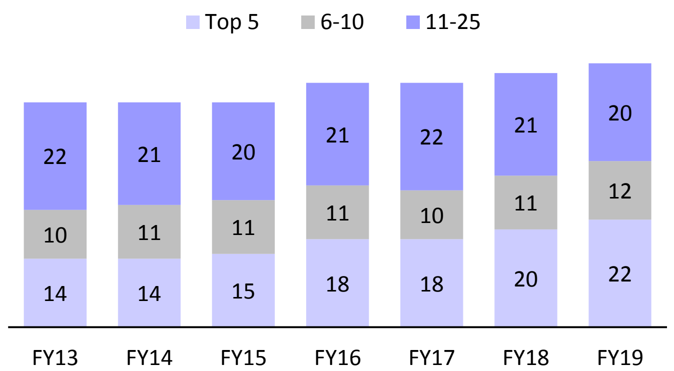
Source: MOFSL, NSE; as of FY20

The share of the top 5 players in NSE active client market share increased from 31% in FY15 to 43% in FY20.

Consolidation of large players to continue

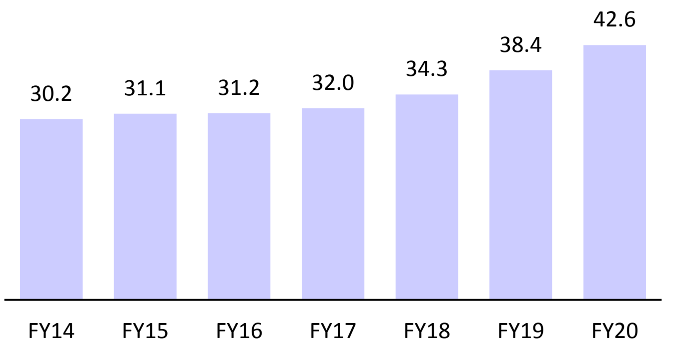
- Despite the fragmented nature of this industry, large players have consistently gained market share in the cash equities segment.
- **The share of the top 5/10 players in total trading turnover has increased every year from 14%/25% in FY14 to 22%/34% in FY19. Even in terms of active client base, the top-5 players have accounted for 43% of NSE active clients in FY20 v/s 31% in FY15.**
- The recent spate of events in the industry is likely to accelerate the market share gains of large, institution-backed brokers like ISEC.

Exhibit 6: Top-5 players gaining share in daily turnover (%)…



Source: MOFSL, Company; Note: The Top-5 players of FY13 could be different from those currently

Exhibit 7: …as well as NSE active client base (%)

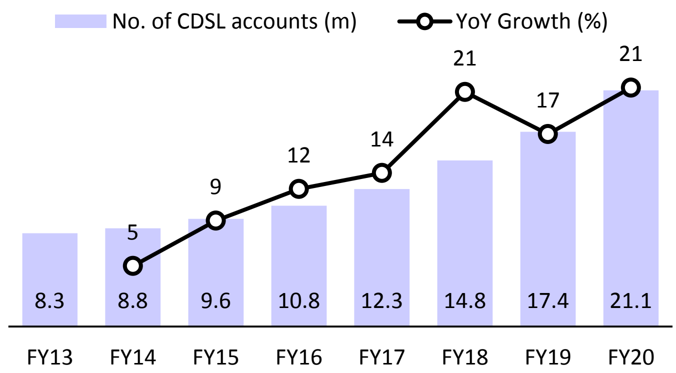


Source: MOFSL, Company, NSE; Note: Top-5 includes the top-5 players as at Dec'19

Number of CDSL/NSDL accounts opened

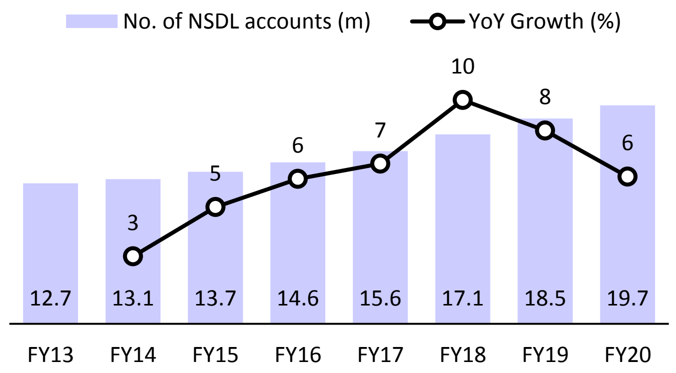
- Given the increasing financial literacy in the country, there has been an increase in the number of demat accounts over the past few years. **Over the past 5 years, the number of CDSL/NSDL accounts witnessed 17%/8% CAGR to reach ~20m each.**

Exhibit 8: 17% CAGR in no. of CDSL accounts over past 5 years…



Source: MOFSL, Company, SEBI

Exhibit 9: …compared to 8% CAGR for NSDL

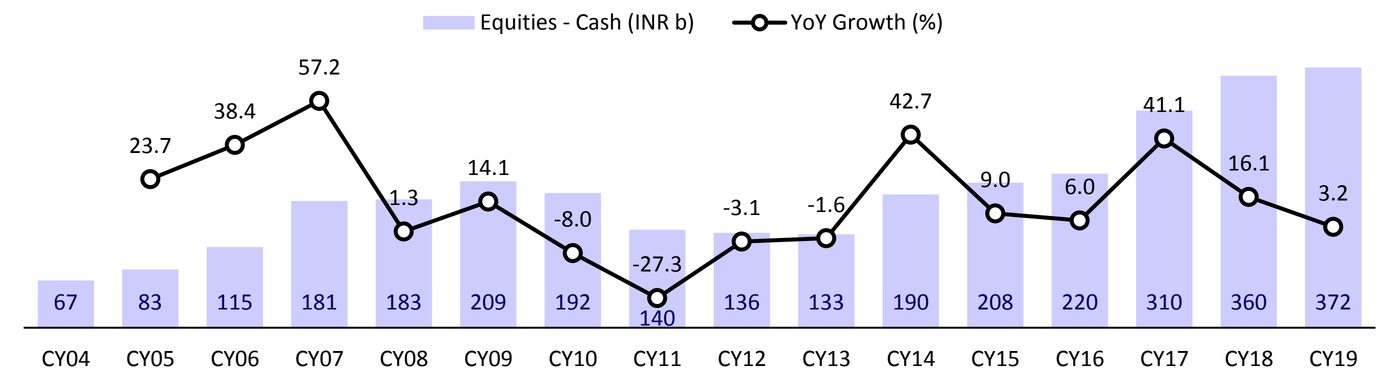


Source: MOFSL, Company, SEBI

14% ADTO CAGR in cash equities over the past 5 years

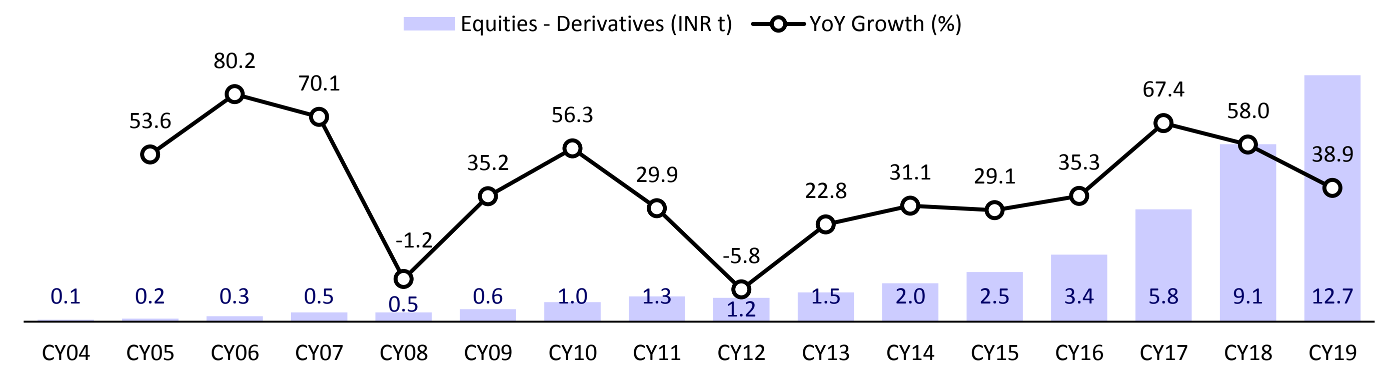
- Equity trading is a cyclical industry. In bull markets, volumes (average daily turnover) increase 40-50%, while in bear markets, it declines 20%+.
- **However, over the past 5/10/15 years, ADTO CAGR in cash equities has been 14%/6%/12%.**
- Following demonetization in CY16, a growth spike was witnessed in CY17, however, ADTO (cash equities) growth slowed down in CY18 and CY19.

Exhibit 10: Trend in cash equities ADTO over the long term



Source: MOFSL, BSE, NSE, NSDL, SEBI

Exhibit 11: Trend in derivative equities ADTO over the long term



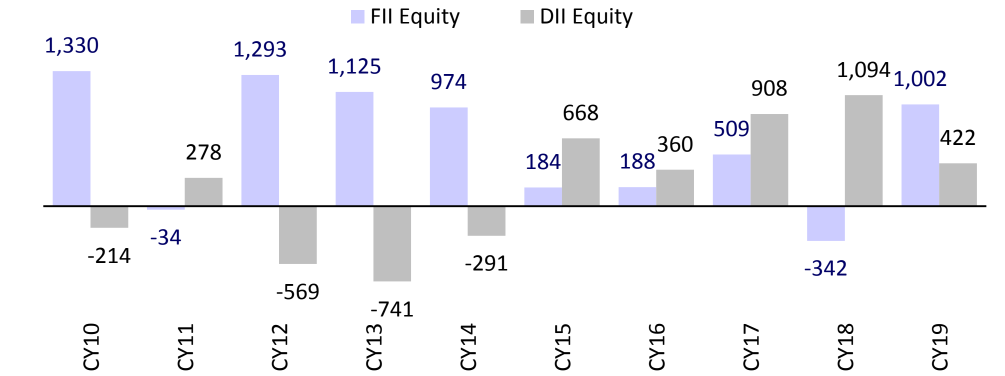
Source: MOFSL, BSE, NSE, NSDL, SEBI

Strong inflows from both FII and DII over the past four years.

Inflows into equities have been strong in recent years

Historically, whenever FIIs sold equities, DIIs have bought them and vice-versa. **However, 2015 onward, barring one year, net inflows into equities have been positive from both DIIs and FIIs.**

Exhibit 12: Net inflows into equities (INR b)



Source: MOFSL, Company, NSDL

Retail brokerage – The cash cow

Several Initiatives to improve client acquisition and ARPU

Initiatives such as new tie-up with ICICIBC and innovative product offerings has helped ISEC gain market share in the number of customers and has increased activation rate for inactive customers.

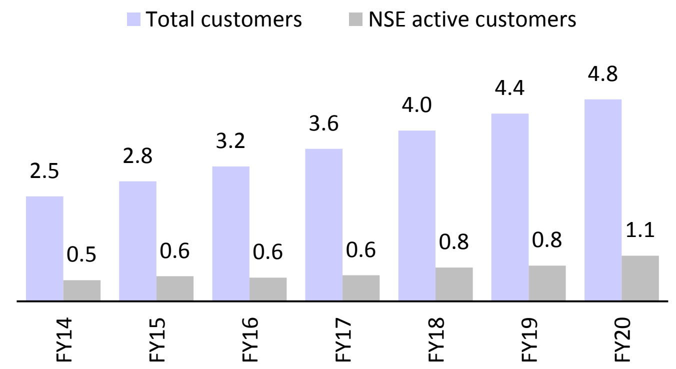
- **ISEC has consistently ranked among the leading retail brokerage institutions in India in terms of client base. It has delivered 12% CAGR in its client base over the past 6 years to 4.8m. Of these, 1.1m clients are 'NSE active'. Note that the customer base is typically sticky – 65% of revenues come from clients who have been with the company for over 5 years.**
- **On the client acquisition front, ISEC has five pillars of client acquisition, including (a) increasing reach by strengthening its successful partnership with ICICI Bank, (b) creating a digital pull and delivery using e-infrastructure, (c) focusing on self-employed customers across India i.e. '*Bharat'* focus, (d) improving reach to affluent customers and (e) growing partnerships with sub-brokers and IFAs.**
- **Around a year back, ISEC renewed tie-up with ICICI Bank (ICICIBC) for new client acquisition. In this arrangement, ISEC would pay ICICIBC 35%/25% of 1st year/2nd year brokerage earned from clients referred by the bank. In addition, the company would not cross-sell any other product to those clients for the first two years. This tie-up has started bearing fruit with client activation rate increasing from ~30% earlier to 71% in 4QFY20. ISEC has also introduced several unique products for client retention and ARPU improvement. Schemes such as 'Prime', 'Prepaid', 'eATM' and 'Options 20' are gaining traction with 40% of NSE active clients having subscribed to these schemes.**
- **In our view, retail brokerage revenues to grow a modest 5% YoY in FY21 (due to uncertainty in economic environment) and then grow at 10-12% CAGR over FY21-23E. Upside to our estimates could accrue from a sharp pick-up in capital market activity, especially in the mid-cap and small-cap segment.**

Amongst the largest brokers in India; 13% CAGR in active client base over FY15-20

10% market share in NSE active client base with customer base of 1.1m.

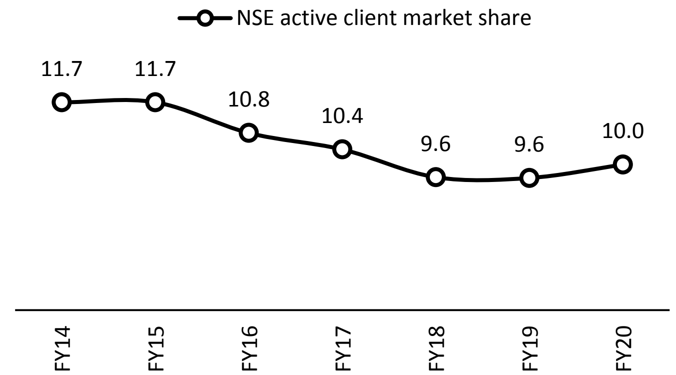
- ISEC has steadily increased its client base over the past 5 years, from 2.8m in FY14 to 4.8m in FY20. Of these, 1.5m are 'active' clients whereas 1.1m are NSE active clients. Those clients that have transacted at least once in the past 12 months are deemed 'active' clients. Further, ~65% of the retail brokerage comes from clients that have been with the company for more than 5 years.
- Over FY15-18, ISEC lost some market share in its NSE active client base due to the emergence of discount brokers; however, it marginally picked up over the past two years and currently stands at 10%.

Exhibit 13: Chart of total clients/NSE active clients over past 6 years



Source: MOFSL, Company

Exhibit 14: Market share trend of ISEC in NSE active clients (%)

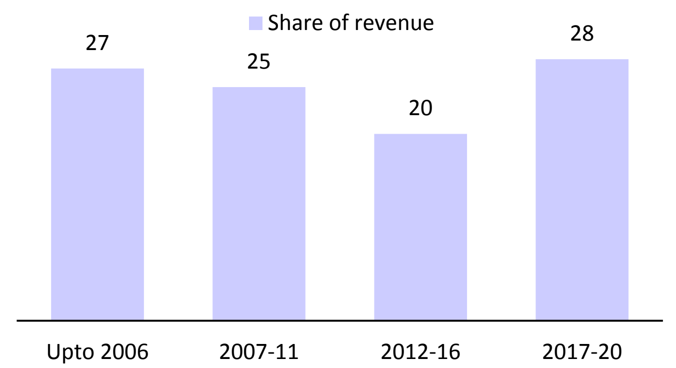


Source: MOFSL, Company

Higher ARPU from vintage customers

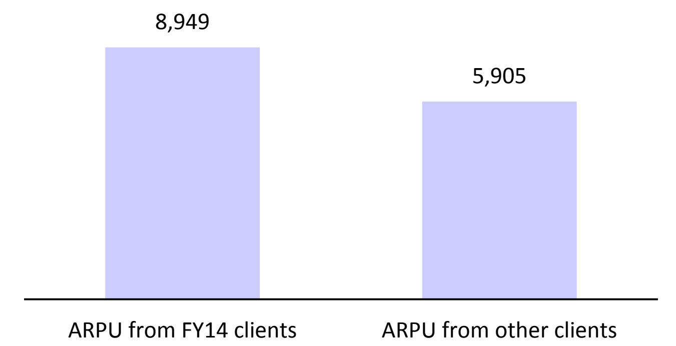
- Given the superior tech platform and innovative product features (described later), ISEC has managed to maintain a sticky customer base. In addition, revenues earned have increased with increasing vintage of the customer.
- For example, over 35% of active clients as of 2006 are still active with the company and contributed 25%+ to retail brokerage revenue. In addition, over 65% of retail broking revenues (in each of the past five fiscals) come from customers who have been with the company for more than five years.
- As per our calculations, a customer with over 5 years' vintage has 25%+ higher ARPU than other customers.

Exhibit 15: 27% of revenue coming from 14-year vintage clients (%)



Source: MOFSL, Company

Exhibit 16: ARPU from vintage clients higher than that of new clients (FY20, INR)



Source: MOFSL, Company, Note: Assuming 65% of retail brokerage revenues from 5 year+ vintage customers

Strong tech platform a key differentiator; Focus on cross-sell

- As ADTO for ISEC has grown 12x over the past 6 years, it has invested meaningfully in its tech platform to support such high volumes. Note that 95%+ of its equity transactions happen online.
- The company has handled more than 3.2m transactions in a day with 65,000 concurrent users. The capacity that has been built can handle 3x the average volumes in equities and 6x in non-equities.
- **ISEC has also focused on cross-selling its various products to its customer base. Currently, around 0.9m customers have two or more products with the company.**

Several initiatives taken in the past two years to drive growth

- Over the past two years, ISEC has taken several strategic initiatives to boost client sourcing and retention, such as the tie-up with ICICI Bank, products such as Prime, Prepaid, eATM, Options 20, etc.
- In addition, the company has expanded its partnerships with sub-brokers and IFAs, thus reducing dependence on ICICI Bank (share of new customers sourced from ICICI Bank down from 90% to 80% over the past five years).

Exhibit 17: Several initiatives to boost client acquisition and retention

Source: MOFSL, Company

ICICI Bank tie-up a win-win for both

Key benefits – (a) higher CASA balance for ICICIBC, and (b) access to affluent customer base at lower cost for ISEC.

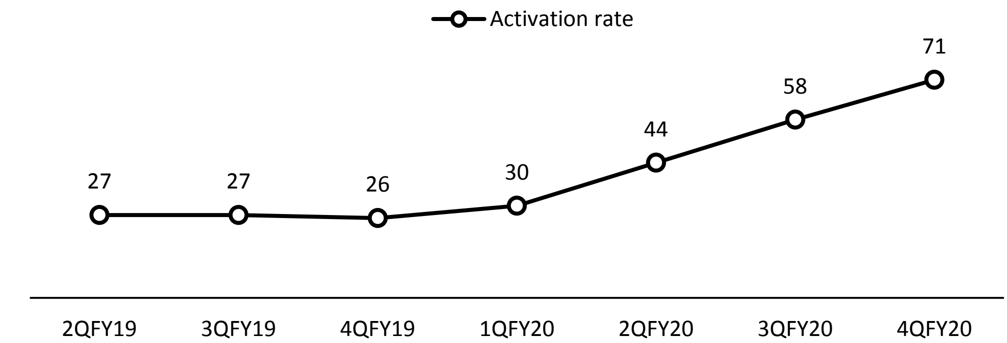
Under the new tie-up, for every client referred by ICICIBC, **ISEC will pay 35%/25% of the 1st year/ 2nd year brokerage earned from the client.** In addition, ISEC will not cross-sell any other product to that client for the first two years. The key benefits of this tie-up for both players are:

- **ISEC:** (a) access to the affluent client base of ICICIBC, and (b) reduction in sourcing cost/need for branches.
- **ICICI Bank:** Clients referred to by the bank maintain on an average ~2x the CASA balance of a regular client.

This is reflected from the improvement in activation rate over the past few quarters, which has increased from sub-30% earlier to 71% in 4QFY20. Activation rate is defined as the percentage of New Clients Acquired (NCA) that has traded during the quarter. ISEC is now intensifying its focus on acquiring non-resident Indians (NRIs) with accounts in ICICI Bank.

Activation rate up from ~30% earlier to 71% currently

Exhibit 18: Activation rate on an uptrend (%)



Source: MOFSL, Company

Three plans in the 'Prime' subscription

The company has been adding 60-80k new clients to the 'Prime' plan every quarter; currently ~0.31m clients have subscribed to the plan.

'Prime' is a subscription program wherein clients can trade at discounted rates and get other benefits for an annual subscription fee. It was initially open to only a select set of clients. However, from 1st Oct'19, it has been opened to the entire client base of ISEC. 'Prime' is focused on (a) customers with liquidity as the key criterion, (b) consolidation of portfolio from multiple brokers, and (c) targeting the lost customers of the past. Subscription fee of the 'Prime' plan is amortized over the year. **The company has been adding 60-80k new clients to the 'Prime' plan every quarter; currently, ~0.31m clients have subscribed to the plan.**

Over 90% of subscribers have subscribed to Plan 1.

Exhibit 19: Details of 'Prime' offerings

Prime	Subscription fee (INR)	Brokerage cost (bp)	Instant liquidity (INR m)
Plan 1	900	25	1.0
Plan 2	4,500	18	2.5
Plan 3	9,000	15	10.0

Source: MOFSL, Company

Key details of other products

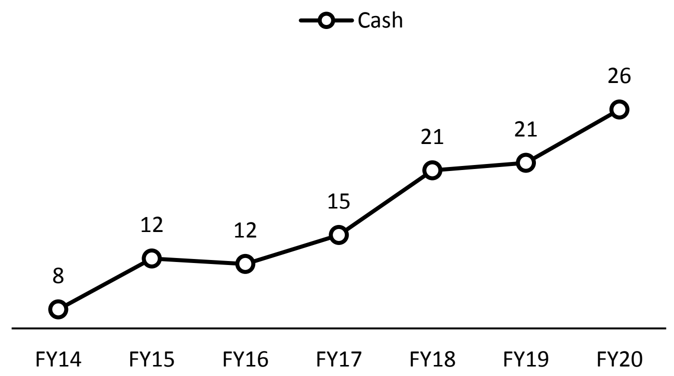
- **Prepaid: The client can prepay a fixed amount and then trade over 15 years at a reduced brokerage rate.** There are 6 plans in this product ranging from INR10k to INR300k pre-payment, with brokerage charges ranging from 9bp to 25bp. Other benefits include instant liquidity and equity research. So far, ~120k clients have subscribed to this plan.
- **eATM:** Clients would receive payout in their bank account within 30 minutes of their trade instead of the usual 2 days. This facility is free of cost and has a daily limit of INR50,000.
- **Direct2U:** For Private Wealth clients, the company offers access to investment in direct MF schemes, asset allocation strategies and investment advisory for a fee.
- **T20:** Client onboarding digitally in 20 minutes post which he/she can immediately begin trading.

Retail broking almost half of the total revenue pie

The company has ~9% market share in cash equities volumes and ~8 in derivative equities volumes

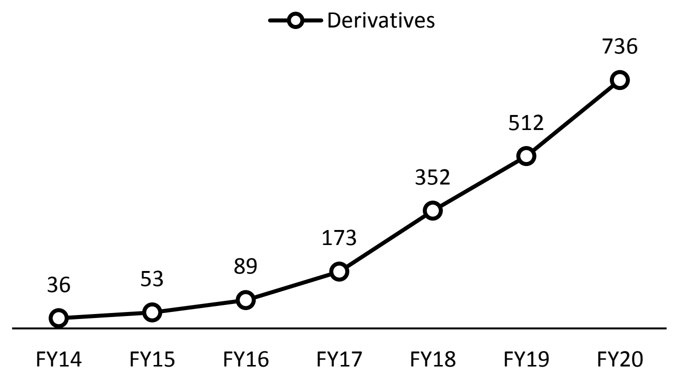
- **Total equity ADTO of the company has increased from INR187b in FY17 to INR762b in FY20. Note that this ADTO includes derivatives turnover too.**
- For the industry, ~50% of revenue comes from cash trading. On the other hand, for ISEC, it is slightly more than 50%.
- The retail brokerage segment is the largest segment for the company comprising 48% of total revenue as of FY20. However, given the focus on new segments, this share has been declining for the past five years and is likely to continue.

Exhibit 20: Trend in Cash equity ADTO (INR b)



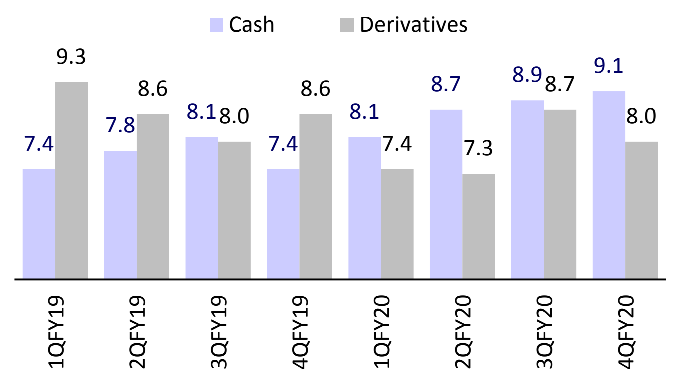
Source: MOFSL, Company; Note: ADTO includes institutional broking too, though it would be smaller than retail broking

Exhibit 21: Trend in derivative equities ADTO (INR b)



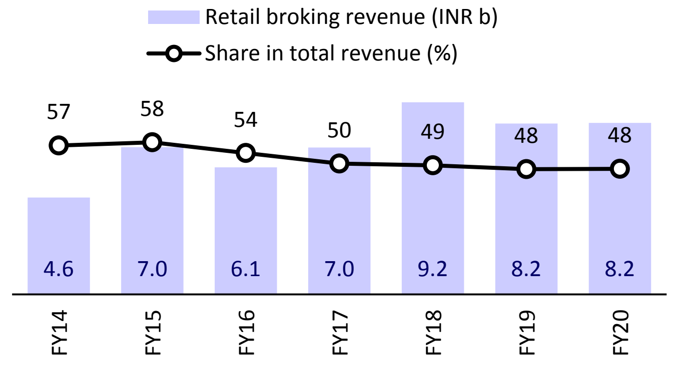
Source: MOFSL, Company

Exhibit 22: Market share trend in equity ADTO (%)



Source: MOFSL, Company

Exhibit 23: Retail broking revenue and share in total revenues

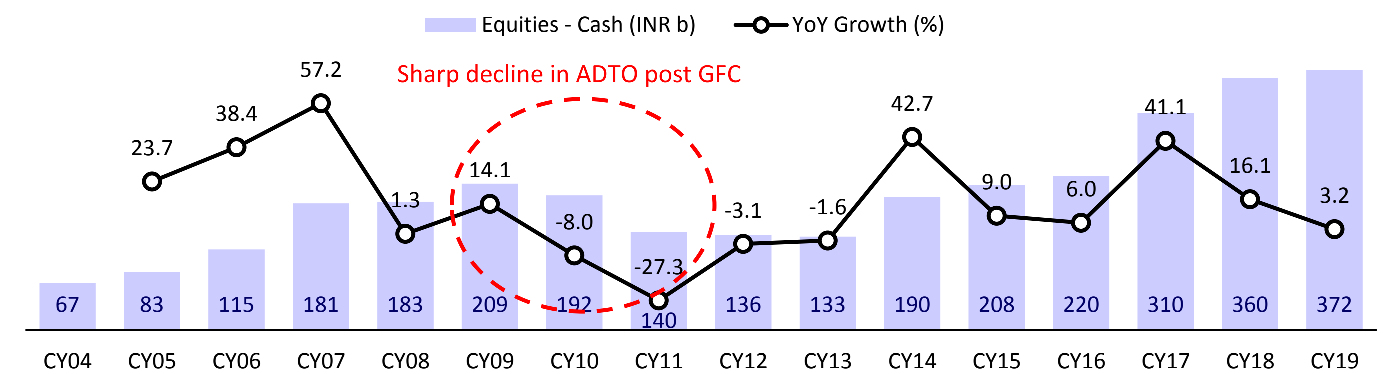


Source: MOFSL, Company

Sluggish economic activity may impact trading volumes in the near term

- Equity ADTO jumped sharply in the month of March due to extreme volatility in the markets – this has benefited players like ISEC.
- However, in the past, it has been noticed that trading volumes decline meaningfully after a correction in equity markets. **Over 2009-11, cash equity ADTO declined 30%+ due to muted participation from retail investors**.
- We believe such a phenomenon may play out over the next 1-2 quarters if economic activity remains muted or recovery expectation gets prolonged.

Exhibit 24: Trend in cash equities ADTO – Decline post GFC



Source: MOFSL, BSE, NSE, NSDL, SEBI

Loan book at ~INR6b; focus on margin and ESOP funding.

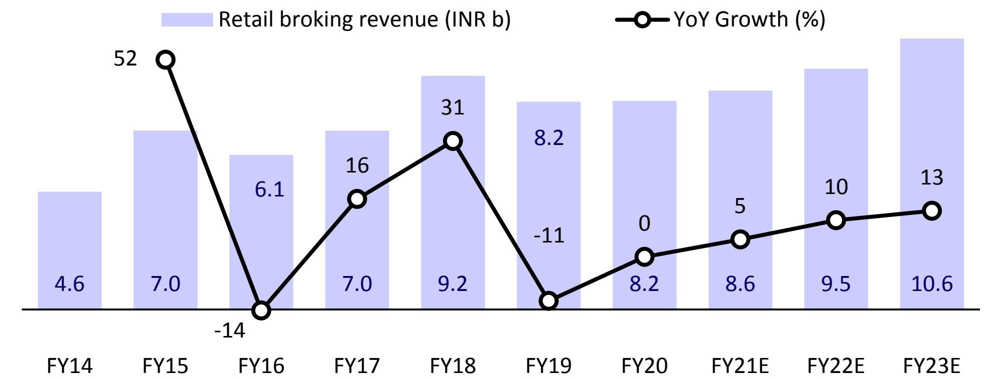
Growing the funding book opportunistically in this environment

- In order to diversify the business mix and add another revenue stream, the company has stepped up its funding book. While the company earlier provided only margin trade finance, it has recently started ESOP funding too.
- As a result, the loan book has grown from INR4b in FY19 to INR12b in 9MFY20.
- However, post the volatility in the equity markets in 4QFY20, the company has scaled down its book to ~INR6b in FY20. Going forward, loan growth would be more calibrated at 20% over the medium term, in our view.

FY21 to be modest; Expect a pick-up in FY22

- We expect FY21 to be a sluggish year in terms of retail brokerage revenue driven by uncertainty in investors' minds. Our base case assumes 5% YoY revenue growth in FY21 largely driven by new client acquisition.
- The key risk to our estimates stem from an extended period of sluggish economic activity leading to lack of confidence in investors' minds.

Exhibit 25: Retail broking revenue trend



Source: MOFSL, Company

Second largest non-bank MF distributor

Income from services comprises ~25% of total revenues

ISEC has ventured into distribution of other financial products apart from MF and Life insurance such as home loans, fixed deposits, etc.

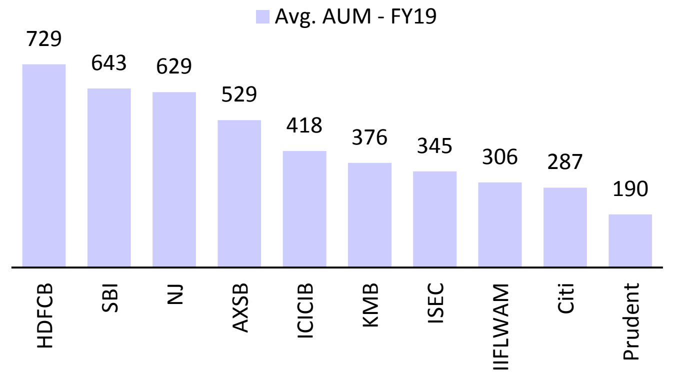
- **With an AUM of ~INR345b, ISEC is the second largest non-bank mutual fund distributor after NJ Invest. ~75% of ISEC's AUM is in equity assets, where the commission earned is higher. Moreover, the company distributes over 660k SIPs monthly.**
- **This segment has witnessed headwinds in the past 18 months due to a ban on upfront commissions coupled with the impact of lower regulatory TER (total expense ratio). As a result, average yield declined from 90bp+ earlier to 66bp currently. While yields have bottomed out, we expect near-term headwinds in the form of redemptions from mutual fund schemes coupled with lower NAVs leading to muted revenue traction.**
- **The company has ventured into distribution of other financial products such as life insurance, ICICIBC loan products, fixed deposits, etc. These segments now contribute ~40% of total distribution revenues currently.**
- **After a decline of 9% YoY in revenue in FY20, we expect a further decline of 6% YoY in FY21 due to reduction in mutual fund AUM. Thereafter, income from services should grow at 12-13% CAGR over the next two years.**

Second largest non-bank MF distributor in the country

Around ~75% of MF AUM in equity assets

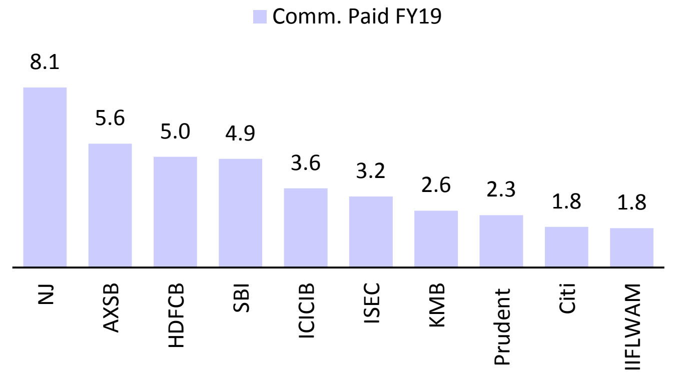
- **Average mutual fund AUM distributed by ISEC grew at 25% CAGR over the past five years to INR362b.** After NJ Invest, ISEC is the second largest non-bank MF distributor by AUM in India.
- **Within total AUM, the share of equity schemes has been consistently increasing, from 57% in FY14 to 74% currently.** A key factor responsible for the rise of the share of equity AUM is the steady systematic investment plan (SIP) trend; ISEC distributes around 660k folios every month in SIP.

Exhibit 26: Largest MF distributors by AUM (INR b)



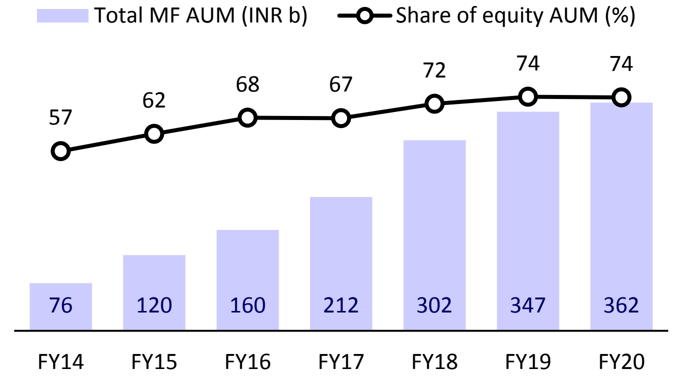
Source: MOFSL, AMFI; Note: NJ – NJ IndiaInvest, Prudent – Prudent Corp. Advisory

Exhibit 27: Largest MF distributors by revenue earned (INR b)



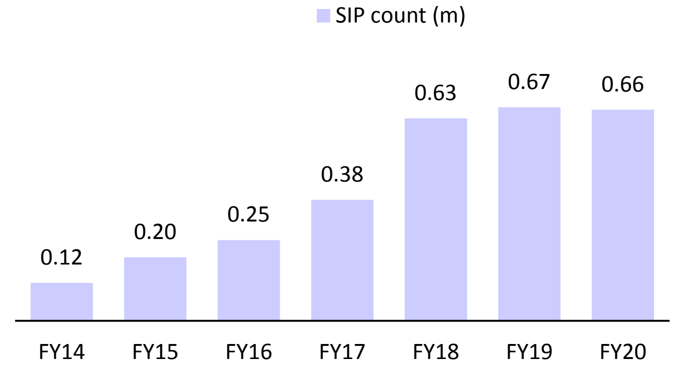
Source: MOFSL, AMFI; Note: NJ – NJ IndiaInvest, Prudent – Prudent Corp. Advisory

Exhibit 28: 29% CAGR in avg. equity MF AUM over FY15-20…



Source: MOFSL, Company

Exhibit 29: …driven by steady rise in SIP folio count

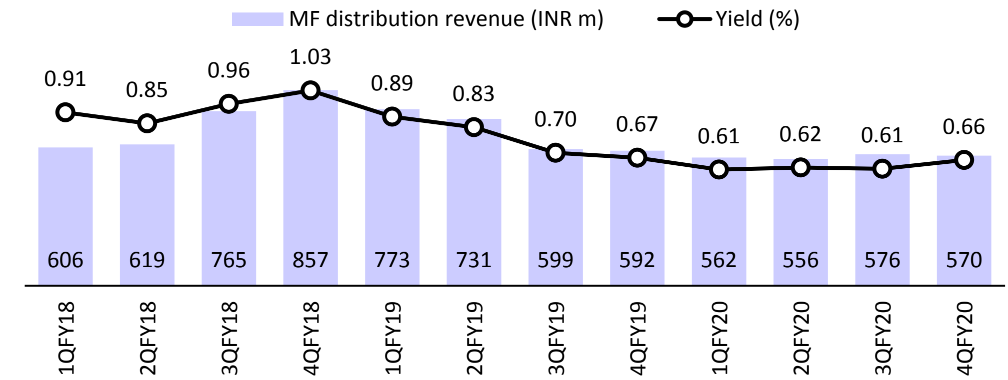


Source: MOFSL, Company

However, yields have declined due to regulatory pressure

- As a mutual fund distributor, ISEC has faced regulatory headwinds in the past 18 months. Upfront commissions were banned in Oct'18. Additionally, TER caps were introduced from Apr'19, resulting in TER cuts being passed on to distributors.
- Hence, MF distribution revenue declined 20%+ between 2QFY19-1QFY20. Yields have declined from 90bp+ earlier to 66bp currently.

Exhibit 30: MF distribution revenue impacted by regulatory changes



Source: MOFSL, Company

Near-term headwinds driven by possible redemptions coupled with lower NAVs

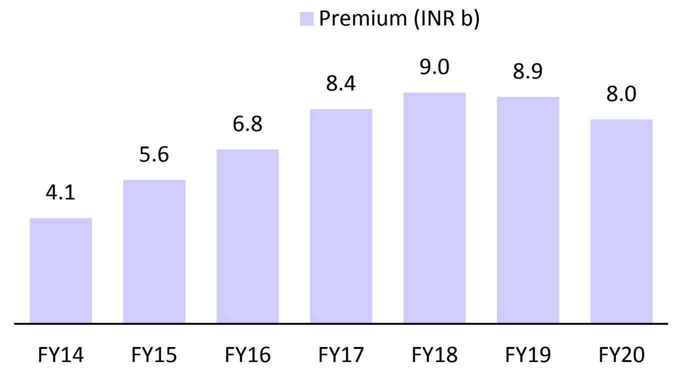
- Over the past two months, there have been increased redemptions in equity and debt mutual fund schemes driven by volatile equity markets and credit risk events in fixed income market.
- More importantly, with the Nifty 50 index having declined ~25%+ since its peak, it is likely that most MF schemes' NAVs have declined by a similar amount. As the income earned by the distributor is proportional to the AUM distributed, ISEC's MF distribution could meaningfully decline in the near term.

Diversifying to distribution of other financial products

- While mutual funds have been ISEC's primary distribution products, the company has scaled up the distribution of other products too (life insurance, FDs, pension, PMS/AIF, etc.).

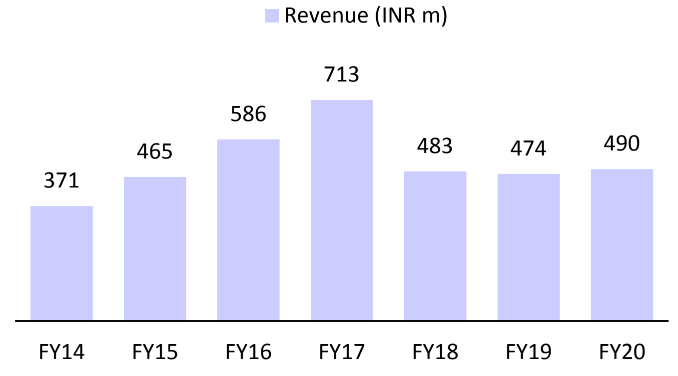
- Life insurance revenue has been largely stable at ~INR500m over the past three years with premium sold largely stable at INR8-9b.

Exhibit 31: While LI premiums have increased (INR b)…



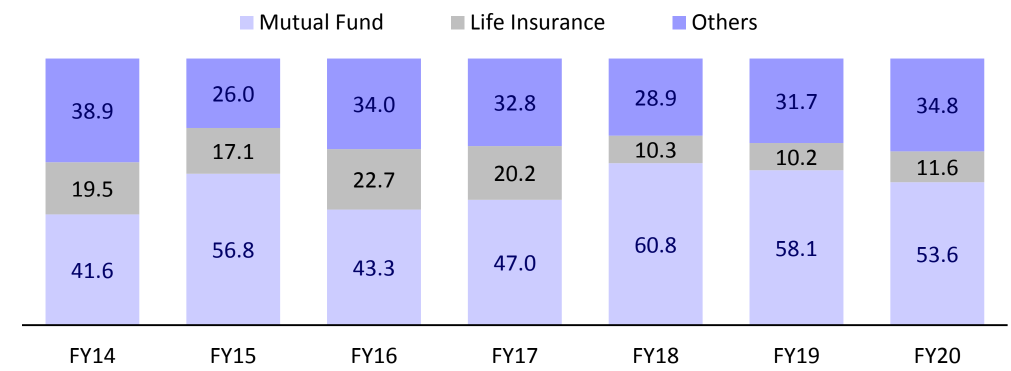
Source: MOFSL, Company

Exhibit 32: …revenue earned has been largely stable (INR m)



Source: MOFSL, Company

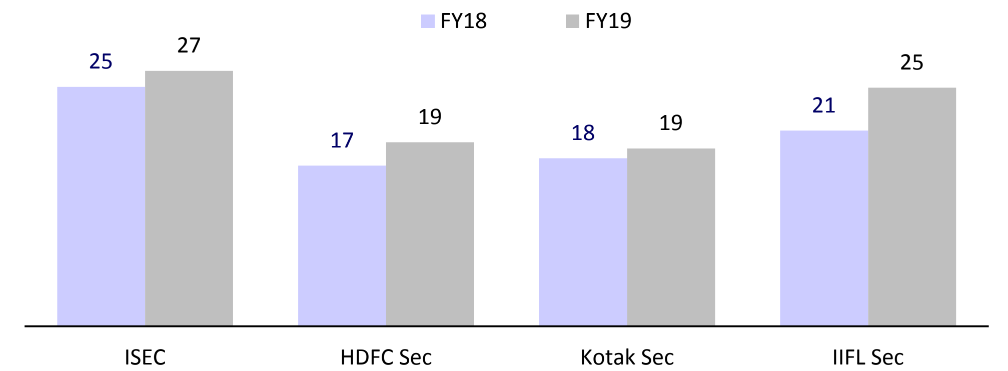
Exhibit 33: Mutual funds dominate the revenue mix in distribution (%)



Source: MOFSL, Company

More than one-fourth of ISEC's revenue comes from distribution.

Exhibit 34: ISEC leads peers in share of revenue coming from product distribution (%)



Source: MOFSL, Company; Note: IIFL numbers include advisory fees too

Foray into health insurance and loan distribution

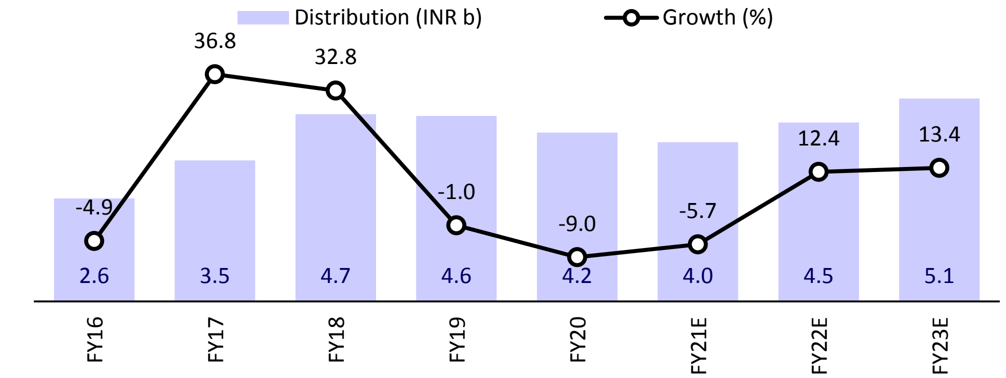
- In FY19, ISEC tied up with Religare Health Insurance and Star Health & Allied Insurance for distribution of its products.
- It has also started distributing lending products of ICICI Bank, such as home loans, LAP and personal loans.
- While both these initiatives are in a nascent stage, we believe they can become meaningful over the long term.

Distribution revenue CAGR over the next three years should be muted due to lower mutual fund AUM distributed

Expect 6% CAGR in income from services

- While MF distribution revenue is likely to decline 15% YoY in FY21 due to the sharp correction in equity markets, we expect it to recover FY22 onwards. Overall, we expect 4% MF distribution revenue CAGR over FY20-23.
- Life insurance distribution income has range bound at ~INR500m over the past three years. We expect this segment to deliver 5-10% YoY growth in the coming years.

Exhibit 35: Distribution revenue to remain muted in FY21



Source: MOFSL, Company

Scaling up the wealth management franchise

16% AUM CAGR over the past 5 years to INR830b; Net yields at 28bp

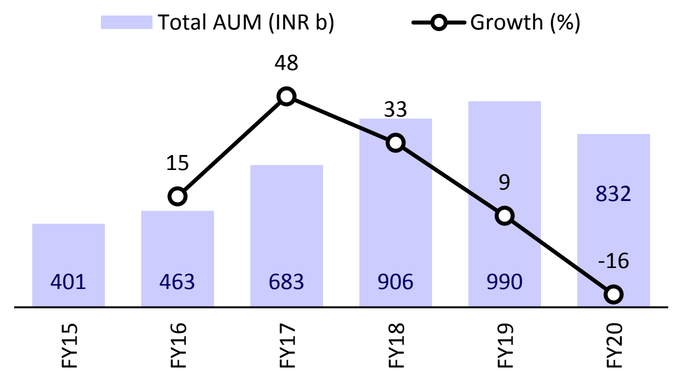
ISEC ranks amongst the top-10 wealth managers in India with over INR830b AUM.

- **With 32,000 clients, ISEC manages over INR830b in wealth management assets (average ticket size of INR30m). It has built an in-house team of 300+ relationship managers (RM) across 20+ cities to cater to its clientele.**
- **While the product offerings to wealth clients are largely similar to that of retail clients, there is a greater tilt toward distribution of more sophisticated products such as PMS and AIFs.**
- **While yields in this segment are meaningfully below that of the retail segment, ARPU of ~INR80k is significantly higher than ~INR9k for retail clients (Brokerage + loans). Management's focus in more on increasing ARPU rather than on increasing AUM.**

16% AUM CAGR over the past five years

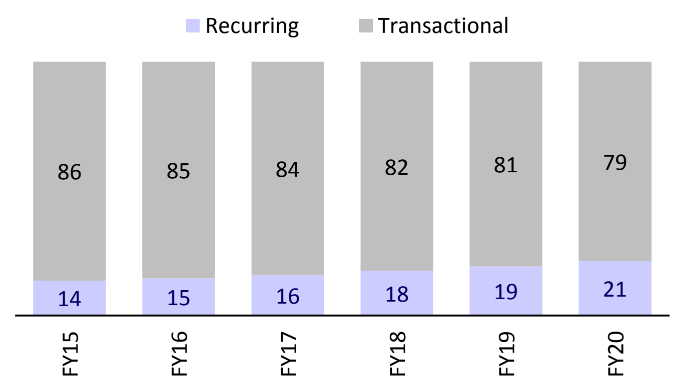
- From INR400b in FY15, ISEC's wealth management AUM (ex-promoter holding) has grown ~2x to INR832b in FY20.
- While the share of recurring assets is low, it has grown from 14% to 21% over FY15-20.

Exhibit 36: 16% CAGR in total AUM over FY15-20



Source: MOFSL, Company

Exhibit 37: Share of recurring assets increasing (%)



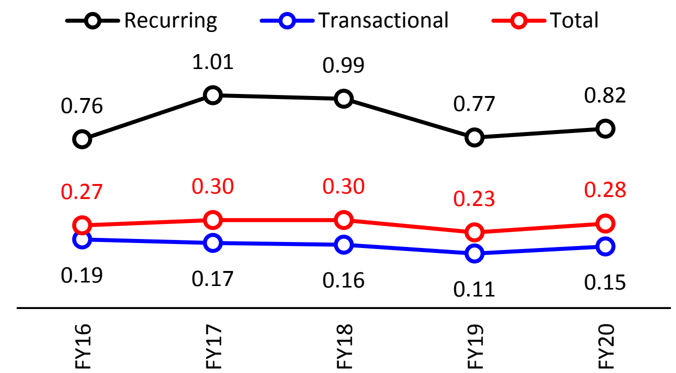
Source: MOFSL, Company

Yields lower than peers; Share of recurring revenue assets improving

Yield in the recurring assets segment is healthy at ~80bp while that in the transactional assets segment is much lower at 15bp.

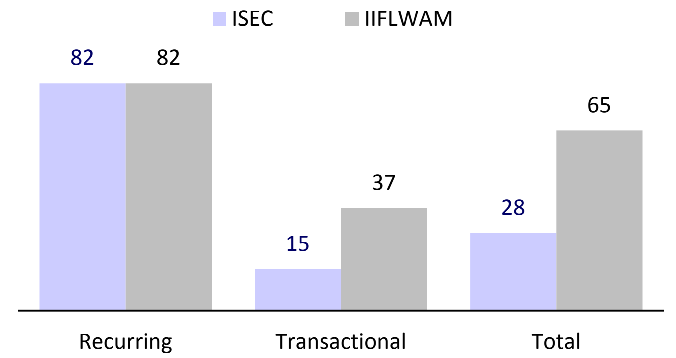
- **Blended calculated yields in this business amounts to 28bp, which is lower than peers like IIFLWAM.**
- While yield in the recurring assets segment is healthy at ~80bp, that in the transactional assets segment is much lower at 15bp. This can be attributed to lower churn as well as lower brokerage charges in the equities portfolio of clients.
- A comparison with IIFLWAM reveals that yields in both segments are lower. In our view, this can be attributable to:
  - **In the recurring assets segment, IIFLWAM generates a large share of income from lending activities, which helps boost overall yields.**
  - **In the transactional assets segment, IIFLWAM also earns money from distribution of structured bonds (which typically yields 30-35bp annually), as well as from carry income earned by its in-house AMC.**
- Hence, a comparison of ISEC's wealth management profitability with that of IIFLWAM may not be perfect.

Exhibit 38: Transactional yields lower (%)



Source: MOFSL, Company

Exhibit 39: Yield comparison with IIFLWAM (%)

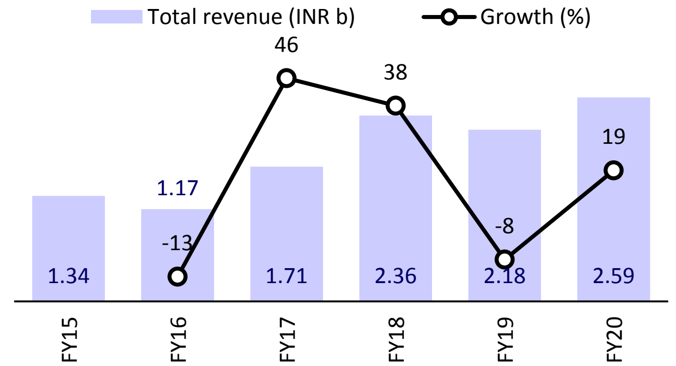


Source: MOFSL, Company; Note: Data as of latest reported periods

Revenue volatile; Increasing share of recurring revenue provides comfort

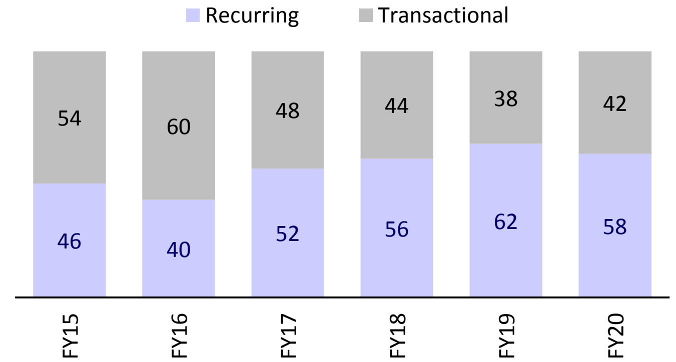
- Unlike the AUM, which has consistently increased steadily over the past 5 years, revenues have been volatile. However, revenue CAGR has been in line with AUM CAGR at 17%.
- The share of recurring revenue has been increasing and stood at 58% as of FY20. A higher share of recurring revenue reduces volatility of earnings.

Exhibit 40: Revenue growth has trailed AUM growth



Source: MOFSL, Company

Exhibit 41: Sharing of recurring revenue increasing (%)



Source: MOFSL, Company

Key risks

In our view, the key risk in this segment stems from regulations around portfolio management services (PMS) and alternative investment fund (AIF). Upfront fees and commissions were recently banned in PMS. Also, there is a likelihood of ban in AIFs over the near-to-medium term, which would impact ISEC's recurring revenue stream.

Capital markets' revenues lumpy

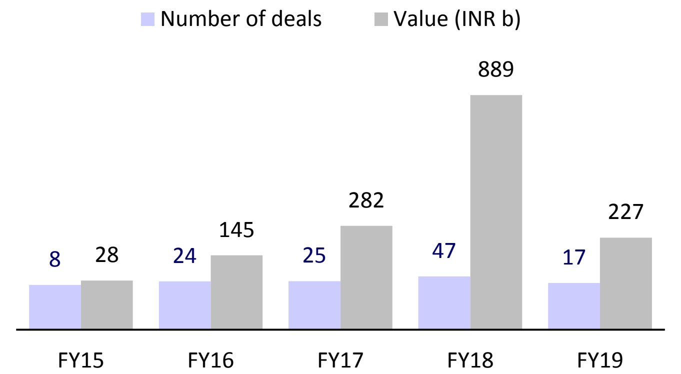
Scaling up institutional brokerage franchise

- **ISEC ranks amongst the leading investment banks in the country, especially with regards to public market activities. Over FY14-20, the company worked on 140+ IPO deals amounting to INR1.8t+ in value.**
- **It has also built scale in the institutional brokerage division with revenues being 2.4x over FY16-20 to INR1.3b.**
- **While the near-term looks tough, especially in the investment banking (corporate finance) business, we believe that this segment will remain one of the key revenue contributor for the company. Revenue from these two divisions should account for ~10% of consolidated revenue over the medium term.**

Deeply cyclical industry

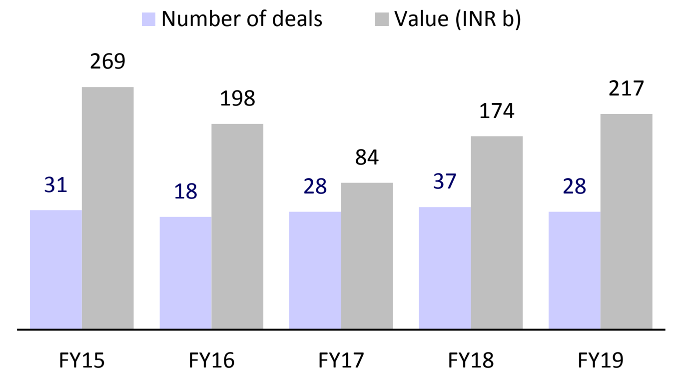
- The institutional capital markets business is a deeply cyclical one; in bull markets, the number of deals and revenues increase multifold while in bear markets, the decline in sharp.
- In the past 5 years, FY18 was a strong year for capital market activities, such as IPOs, QIPs, etc.

Exhibit 42: Trend in number and value of IPO deals



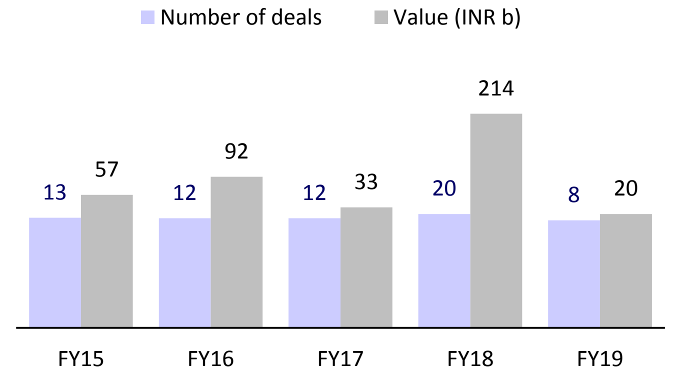
Source: MOFSL, Company

Exhibit 43: Trend in number and value of OFS deals



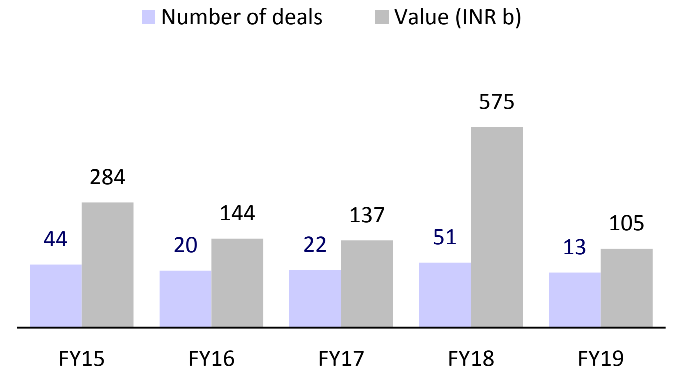
Source: MOFSL, Company

Exhibit 44: Trend in number and value of rights issues



Source: MOFSL, Company

Exhibit 45: Trend in number and value of QIP deals

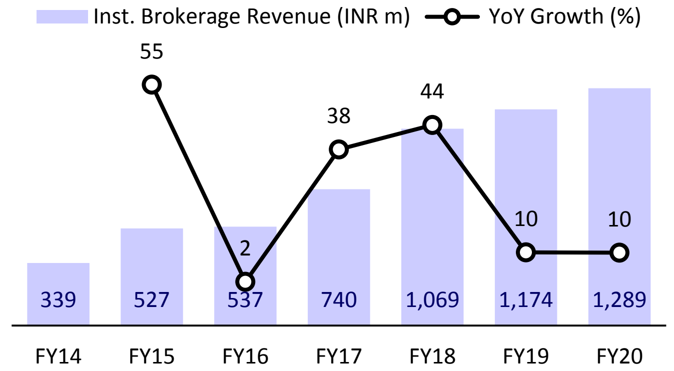


Source: MOFSL, Company

Large player in corporate finance; Scale-up of institutional brokerage business

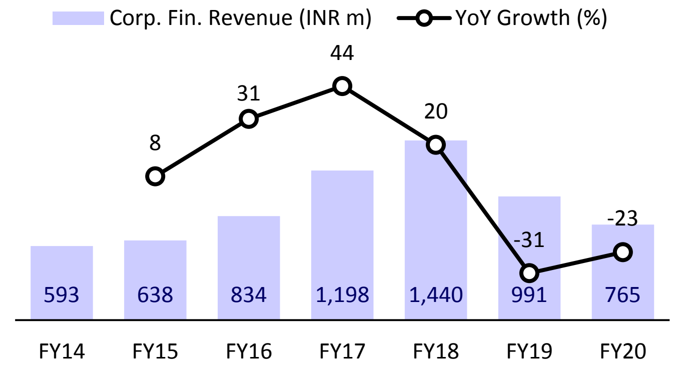
- **In FY14, ISEC's institutional broking business was small, clocking revenue of ~INR340m.** Since then, it has scaled up its team and added several new clients to its franchise. Additionally, it has managed to improve its wallet share of existing clients. **As a result, over FY15-20, the company delivered 20% revenue CAGR to reach INR1.3b.**
- In corporate finance/Investment banking, ISEC has been the market leader; revenues jumped >2x over FY15-18 to INR1.44b. However, given the subdued capital market activities, it has been under pressure for the past 1.5-2 years.

Exhibit 46: Scaling up the institutional brokerage segment…



Source: MOFSL, Company

Exhibit 47: …while corporate finance has been under pressure

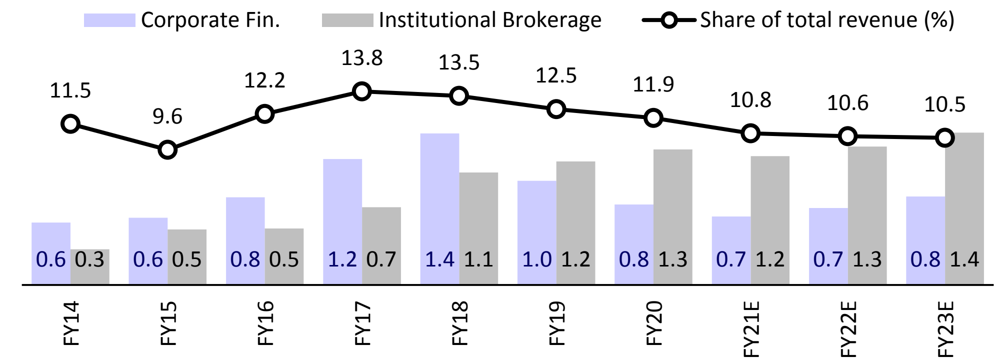


Source: MOFSL, Company

Expect 3-4% revenue CAGR; Upside from pick-up in capital market activities

- Given that both the corporate finance and institutional brokerage segments have reached reasonable scale, we do not foresee any significant market share gains.
- We bake in institutional brokerage revenue to decline 5% YoY in FY21 (lower commission rates from Mutual Funds and fall in Investment banking revenues) and then pick up in FY22. On the other hand, the revenue decline in corporate finance in FY21 is likely to be more severe at 15% YoY.

Exhibit 48: Corporate Finance/Institutional Brokerage to cumulatively account for 10-11% of total revenue



Source: MOFSL, Company

Cost-rationalisation a key focus area

Driving synergies from ICICIBC network

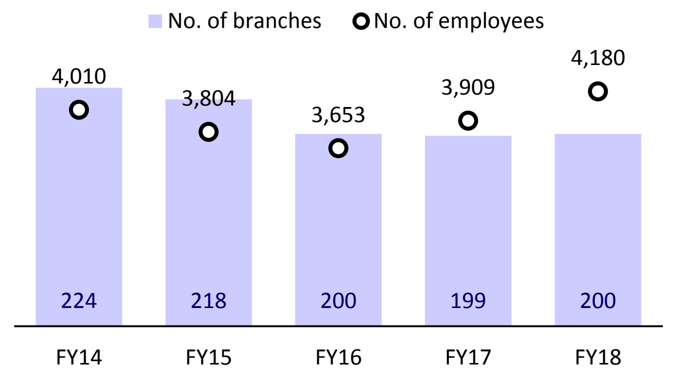
Over the pastyear, ISEC has trimmed its branch count from ~200 to 172 and has reduced overhead opex too.

- **Along with improving client acquisition and retention, cost-rationalization is another key focus area of the company, which has been accentuated under the new management.**
- **Despite modest ~7% revenue CAGR over FY15-20, ISEC has managed to reduce its C/I ratio by 600bp to 56%. This has been enabled by branch rationalization and renegotiation of contracts - over the past 4 quarters, ISEC has trimmed its branch count from ~200 to 172 and has reduced overhead opex too.**
- **In our view, under the new arrangement with ICICI Bank as well as with the digital push by the company, ISEC would need fewer branches and staff. Hence, there is scope for further opex reduction hereon. We forecast nearly 400bp improvement over FY20-23E to 52%.**

Expansion phase over FY15-18…

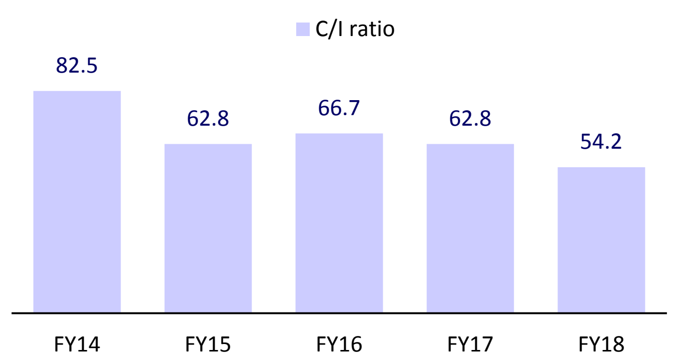
- Over FY15-18, ISEC was in an expansion mode across business segments. While the bank shut 18 branches, it added ~500 employees to its headcount.
- Yet, total operating expenses delivered a modest 10% CAGR to INR10.1b over FY15-18, resulting in 800bp+ C/I ratio decline.

Exhibit 49: Invested in capacity expansion over FY15-18…



Source: MOFSL, Company

Exhibit 50: …Yet, C/I ratio moderated over the same period

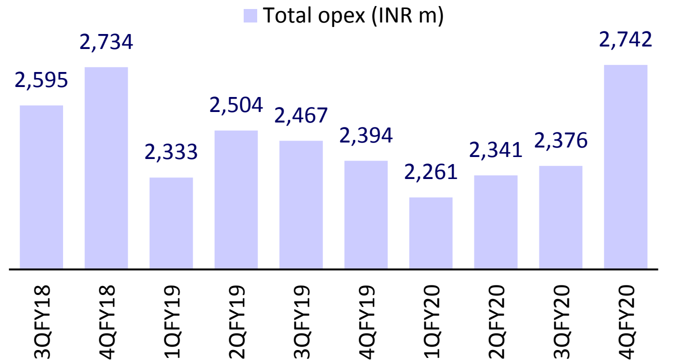


Source: MOFSL, Company; Note: FY18 numbers are as per Ind-AS

…followed by branch and headcount reduction over the past 1-2 years

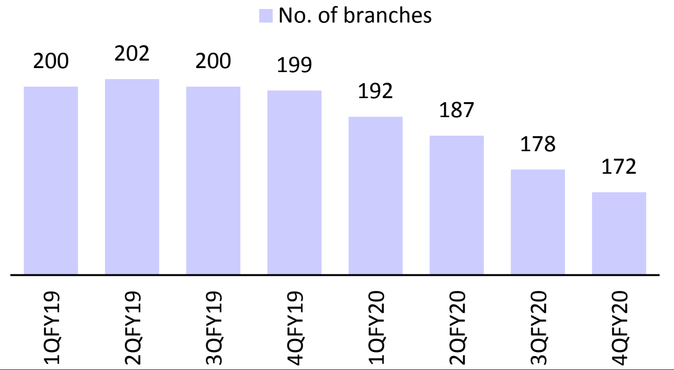
- However, given the volatile markets and sluggish revenue growth, the company has been focused on cutting costs over the past two years. Branches have been rationalized from 202 in 1HFY19 to 172 in FY20. We believe the company will continue to rationalize branches, albeit at a slower pace (v/s earlier).
- Headcount has been reduced from 4,180 in FY18 to 3,790 in FY20. The company has also reduced overhead expenses, such as custodial and depository charges (down 27% YoY to INR340m).
- As a result, total opex declined 5% over the past two years. **However, excluding the one-time provision of INR90m due to Covid-19 and the elevated interest cost in FY20 (due to higher share of margin funding), total opex declined 9% over FY18-20.**

Exhibit 51: Trend in quarterly opex



Source: MOFSL, Company; Note: Spike in 4QFY20 is due to higher finance cost and INR90m one-off provisions

Exhibit 52: Branch rationalization ongoing

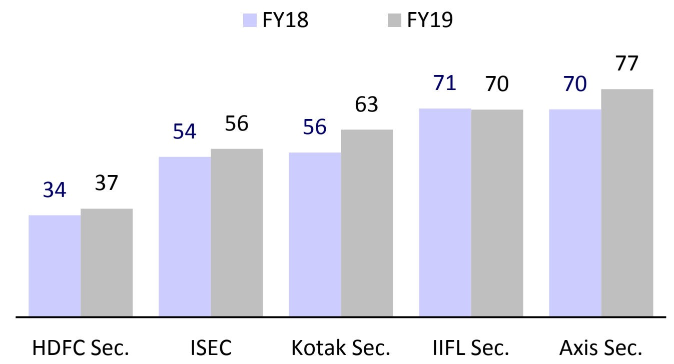


Source: MOFSL, Company

C/I ratio higher than that of HDFC Securities but better than smaller peers

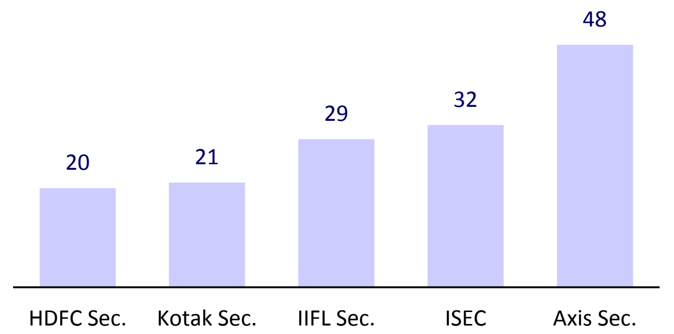
- In terms of the cost structure, HDFC Securities is the leader with 37% C/I ratio.
- This is due to low employee opex (Emp. Opex/Total income ratio of 20%). While Kotak Securities has a similar employee opex ratio, its "other opex" is significantly higher than that of HDFC Securities.

Exhibit 53: C/I ratio trend (%)



Source: MOFSL, Company

Exhibit 54: Employee cost/Total income ratio (FY19, %)



Source: MOFSL, Company

Renewed tie-up with ICICI Bank provides an opportunity to cut costs

Scope for another ~400bp reduction in C/I ratio over FY20-23

- **A key benefit of the ICICI Bank sourcing tie-up is that ISEC would have lesser dependence on a physical network.** We believe ISEC would be able to cut costs meaningfully over the next 1-2 years.
- Despite pressure on revenues in FY20, the company has been able to largely maintain its expense ratio. With 8% revenue CAGR over FY20-23E coupled with operating leverage, we expect 420bp reduction in C/I ratio to 52% by FY23E. The improvement is likely to be more back-ended in line with revenue growth pick-up.

12% earnings CAGR ahead

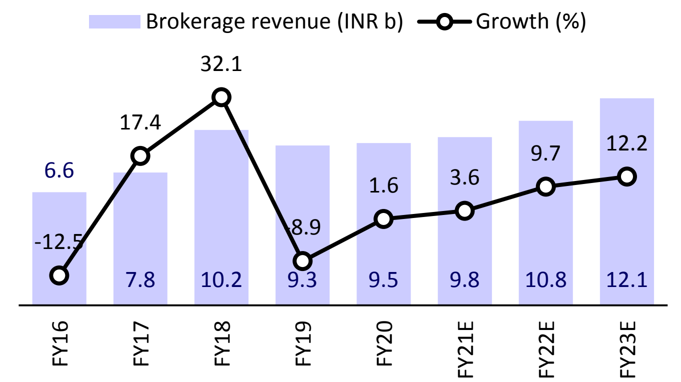
Diversified revenues and lean cost structure – Key drivers

- **Over FY18-20, revenues declined 7% on the back of lower trading volumes and adverse mix for the industry coupled with the impact of regulatory changes for mutual fund distribution.**
- **While near term brokerage revenue may be muted, we expect a gradual pick-up in equity market activity as dust related to COVID 19 settles down. In the mutual fund distribution business, there will be near-term headwinds, especially due to the NAV hit taken by most equity schemes.**
- **The focus on cost rationalization is likely to continue over the medium term. As a result, C/I ratio would decline 400bp to 52% over the next 3 years.**
- **Overall, we believe PAT would grow from INR5.4b in FY20 to INR7.9b by FY23E. PAT margins would improve from 31% to 36% over this time period. As the business model is capital light, we expect dividend payout ratio to be high at 70%.**

8% revenue CAGR over the medium term

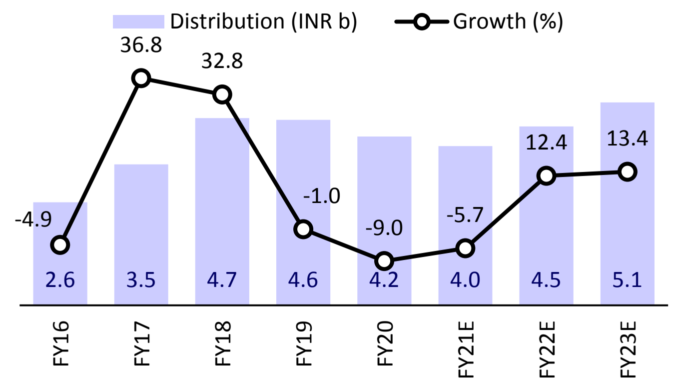
- Retail brokerage revenues have collapsed from a high of INR9.2b in FY18 to an estimated INR8.2b in FY20 on the back of lower cash equity volumes and adverse mix for the industry.
- While it is tough to predict growth, we believe the initiatives taken by the ISEC (ICICI Bank tie-up in particular) would help it to deliver high-single digit CAGR over the next three years. On the other hand, the institutional equities business should witness lower growth compared to the retail business.
- After a muted FY20, income from services is likely to be further subdued in FY21, but pick up gradually.

Exhibit 55: Trend in brokerage revenues



Source: MOFSL, Company

Exhibit 56: Trend in distribution revenues (including IB revenues)

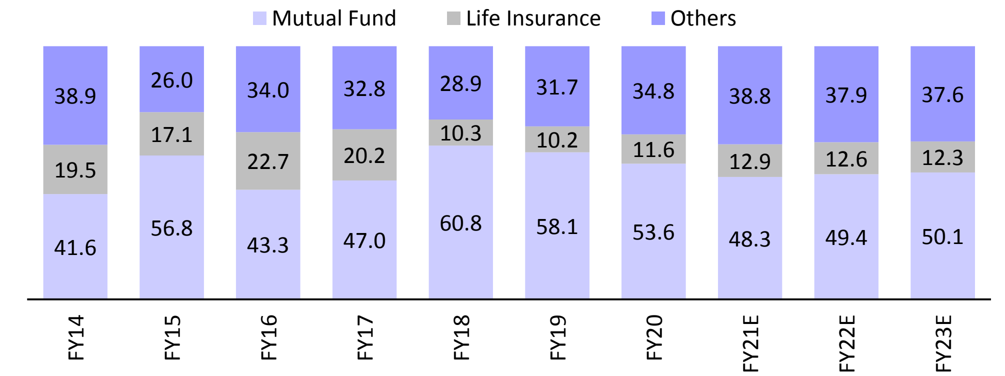


Source: MOFSL, Company

MF distribution revenue share to decline from 54% to 50%

- Mutual funds are likely to remain the dominant distribution products for the company. In the past, the share of MF revenues ranged between 40-60% of total income from services.
- However, we expect some moderation in the same, given lower equity AUM.

Exhibit 57: Share of life insurance and other distribution income to increase (%)

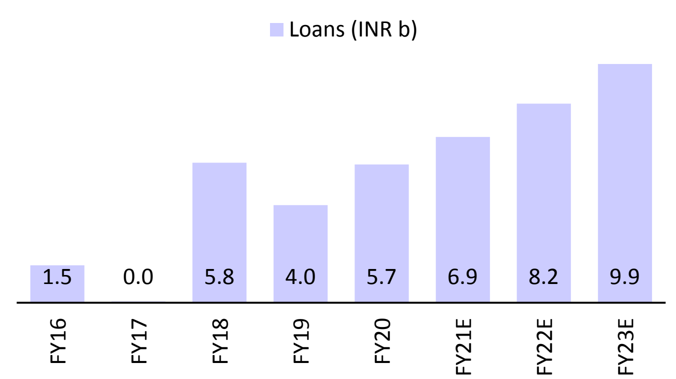


Source: MOFSL, Company

Fund-base income increasing; Calibrated disbursements in a volatile environment

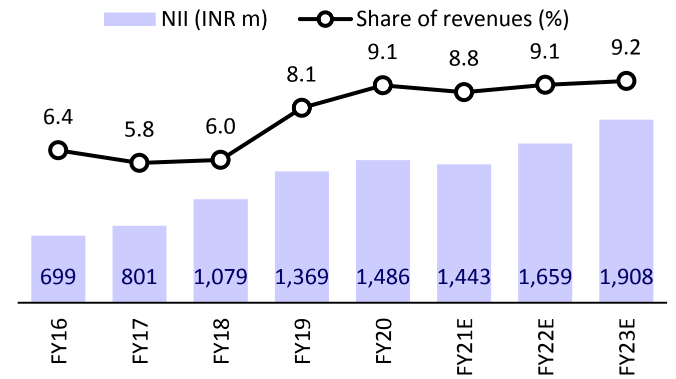
- To add to its revenue stream, ISEC has been growing its funding book (margin trade finance and ESOP funding) in the past few quarters. This book has scaled up from INR4b in Mar’19 to INR12b in Dec’19.
- However, with extreme volatility in 4QFY20, the company run-down the book in 4QFY20 to INR6b. We expect it to grow in a calibrated manner over the medium term.
- Note that a broker can fund up to 5x of its net worth according to regulations.

Exhibit 58: Loan book scaling up with MTF and ESOP funding



Source: MOFSL, Company

Exhibit 59: Share of NII in total revenues increasing

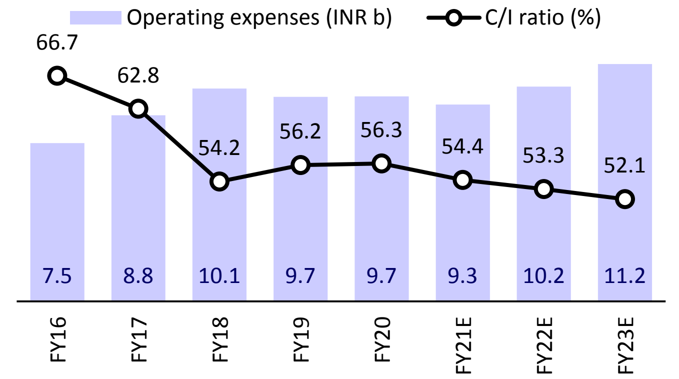


Source: MOFSL, Company

Focus on cost cutting to drive improvement in profitability

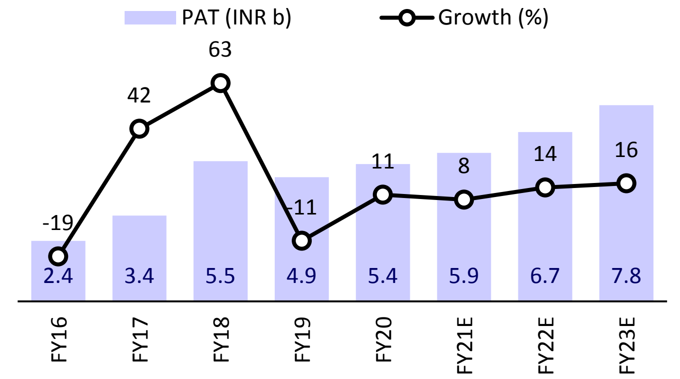
- Apart from revenue pick-up, a key upside from the ICICI Bank tie-up is the potential to reduce costs. With ICICI Bank as a focused partner, ISEC would not need as many branches/employees to source business.
- Under the new management team, the company is focused on cost-cutting to maintain profitability in the wake of the slowdown. Its number of branches has declined over the past two years from a 200 to 172.
- More importantly, the company does not need to add capacity if growth resumes. Hence, with improving revenue growth, C/I ratio is likely to decline 400bp to 52% over FY20-23E.
- As a result, we expect PAT to deliver ~12% CAGR to INR7.9b by FY23E.

Exhibit 60: Operating efficiencies key driver of growth



Source: MOFSL, Company

Exhibit 61: Expect Earnings CAGR of ~12% over FY20-23E

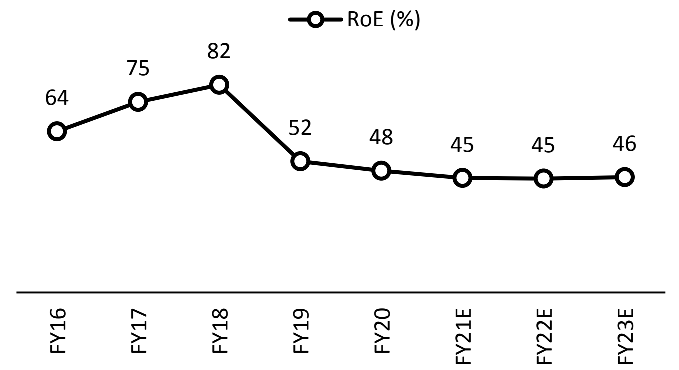


Source: MOFSL, Company

Low capital requirement leads to high RoE and high dividend payout

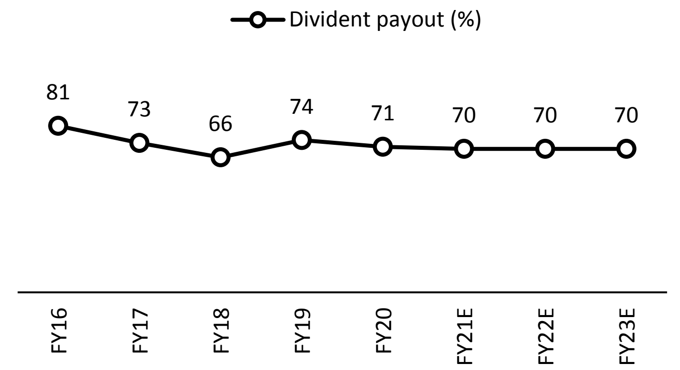
- Barring the funding segment, ISEC has a capital-light model. Even if the company scales up its funding book, it would not need external capital for the next five years at least.
- As a result, the company has followed a policy of returning bulk of the profits to shareholders as dividend. Historically, dividend payout ratio has ranged between 65-80% and we expect that to continue.

Exhibit 62: RoE trend (%)



Source: MOFSL, Company

Exhibit 63: Dividend (including tax) payout ratio (%)



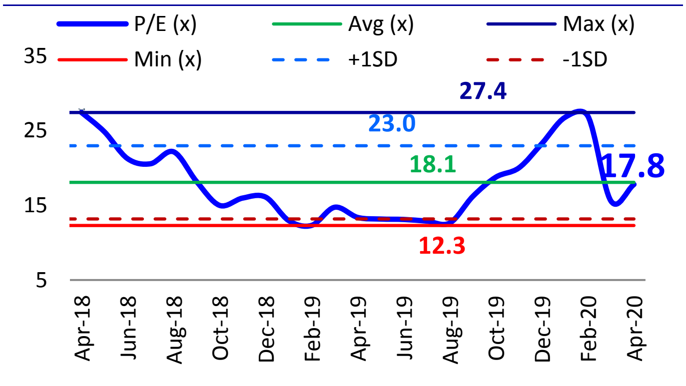
Source: MOFSL, Company

Valuation and view

Initiate with a Buy

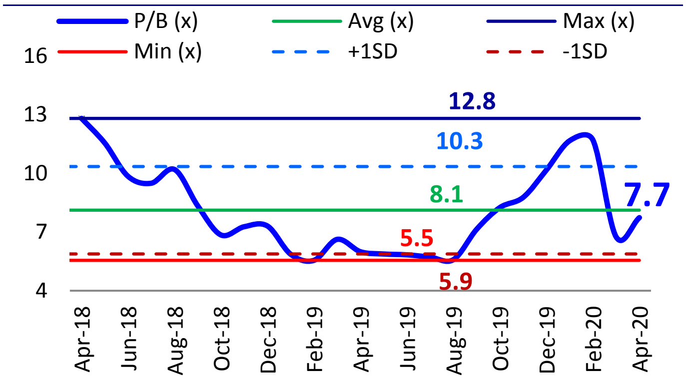
- **ISEC is a classic play on increasing the financialization of savings and retail participation in equity markets. Thus, its business and profitability is very cyclical.**
- **However, during the downcycle of the past two years, the company has taken several initiatives to make its business leaner and well-geared for the upcycle. We believe the benefits of the ICICI Bank tie-up are still at a nascent stage and its true value will be witnessed over the next 3-5 years.**
- **The company is trying to move away from its image of a retail broker to a one-stop shop for all financial needs. Its recent foray into health insurance distribution coupled with its entry as a loan DSA adds to its existing suite of client offerings.**
- **Over the next 3 years, we expect revenue to grow at 8% CAGR, while cost-cutting should result in 420bp C/I ratio reduction. As a result, the company should deliver ~12% PAT CAGR to INR7.9b.**
- **Unlike the lending business, ISEC's business is largely capital light and the entire revenue is cash-flow based (no accrual income). We initiate coverage with a Buy rating and a TP of INR460 (22x FY22E EPS).**

Exhibit 64: P/E chart (1-year forward)



Source: MOFSL, Company

Exhibit 65: P/B chart (1-year forward)



Source: MOFSL, Company

Key risks

Continued sluggishness in ADTO

Post the surge in FY18, ADTO (cash equities) were modest in FY19 (flat YoY) and grew 9% in FY20. If the next few years witness continued sluggishness in industry volumes, it would impact revenue growth for the company.

Revenue concentration in retail brokerage business

In the retail brokerage business, ~5% clients contribute ~60% of the revenues, which makes the company vulnerable to any reduction in activities by such clients.

Yield pressure emanating from discount brokers

The past five years have witnessed formidable competition from discount brokers. Overall retail broking yields have been under pressure, both in cash as well as the derivatives segment. Continued competition from discount brokers could result in further yield compression for the industry on the whole.

Further cuts in commissions by mutual funds

In Oct ’18, SEBI banned upfront commission payments to mutual fund distributors. Further, in Apr’19, as mutual funds were subject to TER cuts in the equity segment, they passed the bulk of it to distributors. While further cuts seem to be largely ruled out in the near term, if they were to happen again, it would further hamper revenue growth for the company. Further, volatile markets have resultant impact on MTM of equity book which in turn impact the trail fees.

Operating leverage not playing out as expected

A key factor in our thesis of improving profitability is the moderation in operating expenses growth, driven by branch rationalization and digitization of processes. However, if this does not play out, it would result in modest PAT growth.

Bull & Bear Case

Bull Case

- ☑ In our bull case, we factor in 16% revenue CAGR driven by a sharp pick-up in retail brokerage revenues (vs 8% revenue CAGR in the base case)
- ☑ C/I ratio is likely to decline to 50% by FY23 vs 52% in the base case
- ☑ As a result, PAT is likely to grow at 23% CAGR over FY20-23 to INR10b (vs INR7.9b in the base case).
- ☑ Based on the above assumptions, we value the company at INR589 (25x FY22E EPS) – an upside of 64%.

Bear Case

- ☑ In our bear case, we factor in 5% revenue CAGR driven by sluggish brokerage and distribution revenues (vs 8% revenue CAGR in the base case)
- ☑ C/I ratio is likely to remain elevated at 58% by FY23 vs 52% in the base case
- ☑ As a result, PAT is likely to grow at 5% CAGR over FY20-23 to INR6.3b (vs INR7.9b in the base case).
- ☑ Based on the above assumptions, we value the company at INR255 (15x FY22E EPS) - a downside of 29%.

Exhibit 66: Scenario analysis – Bull Case

INR b	FY21E	FY22E	FY23E
Net revenues	19.5	22.4	26.9
Operating expenses	10.9	12.3	13.5
PBT	8.6	10.1	13.4
PAT	6.5	7.6	10.0
Change YoY (%)	19.1	17.5	32.2
Revenue Growth (%)	13.0	15.0	20.0
Cost to Income (%)	55.8	54.9	50.3
RoE (%)	50.9	54.3	64.9
EPS	20.0	23.6	31.1
Target PE multiple (FY22E)	**25.0**		
Target price (INR)	**589**		
Upside (%)	**64**		

Source: MOFSL, Company

Exhibit 67: Scenario analysis – Bear Case

INR b	FY21E	FY22E	FY23E
Net revenues	17.3	18.1	19.9
Operating expenses	10.3	10.8	11.6
PBT	6.9	7.3	8.4
PAT	5.2	5.5	6.3
Change YoY (%)	-3.9	5.0	14.4
Revenue Growth (%)	0.0	5.0	10.0
Cost to Income (%)	59.7	59.7	58.1
RoE (%)	41.0	39.1	40.5
EPS	**16.2**	17.0	19.4
Target PE multiple (FY22E)	**15.0**		
Target price (INR)	**255**		
Upside (%)	**-29**		

Source: MOFSL, Company

Company overview

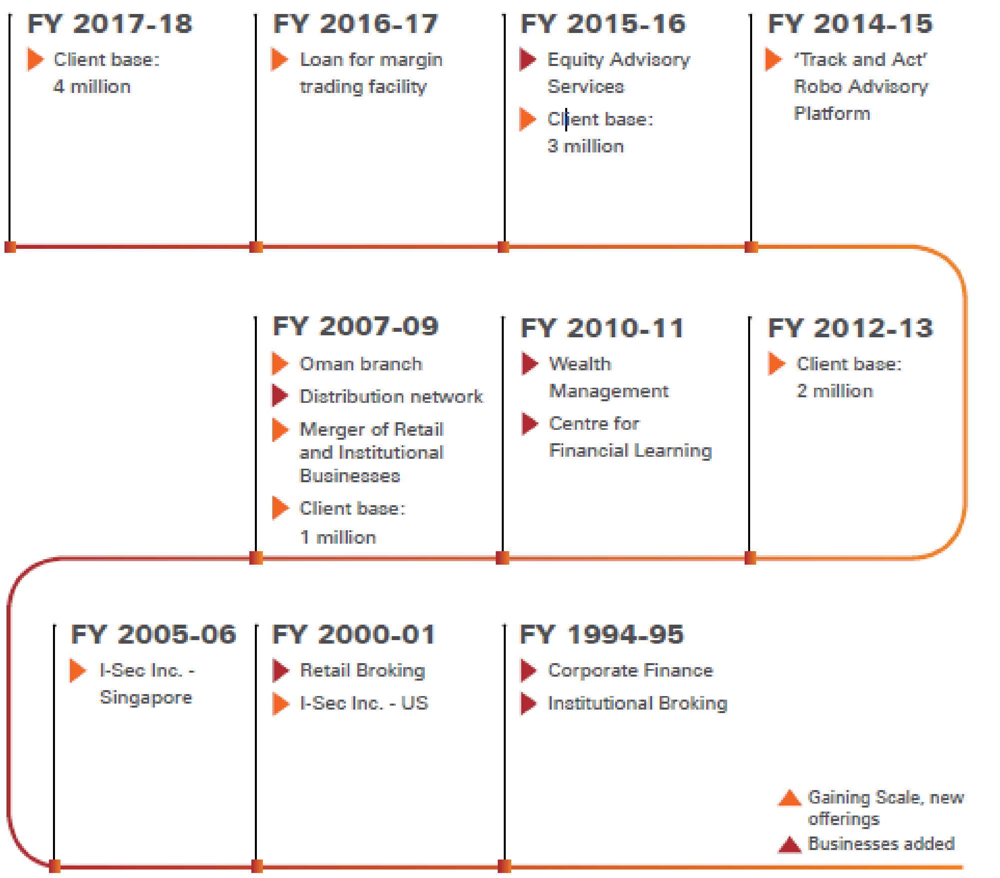
ICICI Securities (ISEC) is a technology-based securities firm in India offering a wide range of financial services including brokerage, financial product distribution and investment banking to retail and institutional clients.

ICICI Securities is headquartered in Mumbai and operates offices in India, the United States, Singapore and Oman. It is part of the ICICI Group, one of the largest financial conglomerates in the country and is promoted by ICICI Bank.

It is among the top two equity brokers in India since 2014 by revenue and by the number of active clients, backed by its retail brokerage business, which accounted 48% of the revenue as of FY20. As of FY20, ICICIDirect, ISEC's proprietary electronic brokerage platform, had approximately 4.8m operational accounts of which, 1.5m were active.

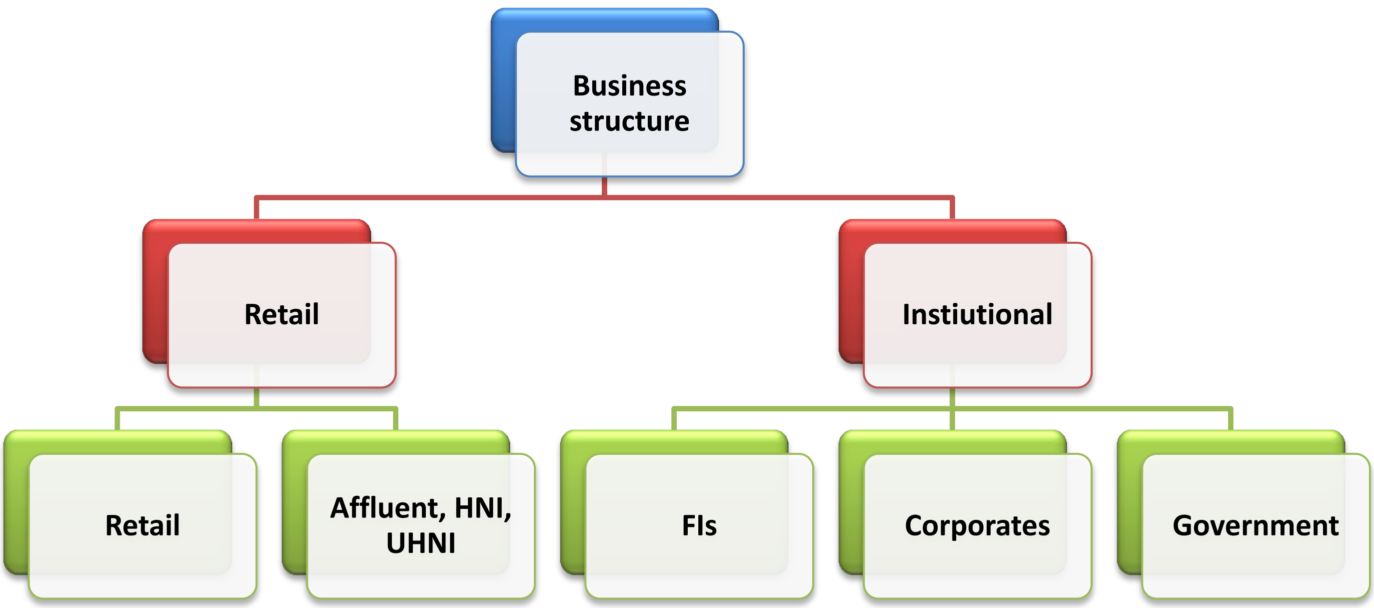
ISEC also distributes various third-party products including mutual funds, insurance products, fixed deposits, loans, tax services and pension products. The retail brokerage and distribution businesses are supported by their nationwide network, which consists own branches (172), ICICI Bank branches (5,200+) through which ISEC's electronic brokerage platform is marketed and sub-brokers, authorised persons, independent financial associates and independent associates. It also offers advisory services, including financial planning, equity portfolio advisory, and access to alternate investments, retirement planning and estate planning.

Exhibit 68: Major milestones



Source: MOFSL, Company

Exhibit 69: Business Structure



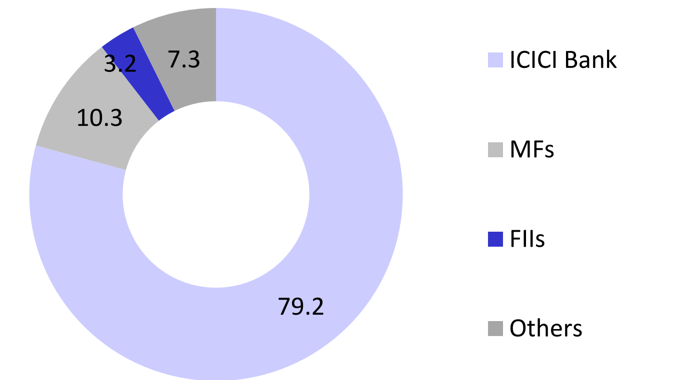
Source: MOFSL, Company

Exhibit 70: Key Parameters

Human Capital Strength	
Research Analysts	
Retail Broking	45
Institutional Broking	37
Investment Banking	**70**
Top Management	2
Business Groups	3631
Support Functions	418
Relationship Managers	1200+
Total Operational Clients (m)	**4.8**
-Of which active clients	1.5
-Of which NSE active clients	1.1
Physical Presence	
Branches (present through 75 cities)	172

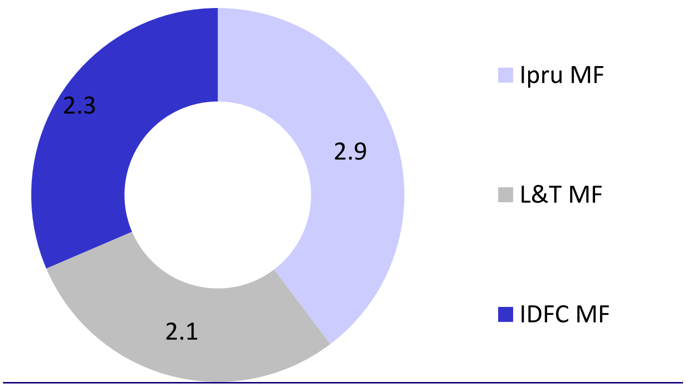
Source: MOFSL, Company

Exhibit 71: Shareholding pattern (Mar '20, %)



Source: MOFSL, Company, BSE

Exhibit 72: Top MF holders (FY20, %)



Source: MOFSL, Company, BSE

Exhibit 73: Key Management Personnel

Name	Designation	Brief Profile
Mr. Vijay Chandok	MD & CEO	Mr. Chandok joined the ICICI Group in 1993 and has served at the group level in various capacities. He has nearly three decades of experience in the financial services industry. He holds an MBA in Finance from Narsee Monjee Institute of Management Studies (NMIMS) and a Bachelor's degree in Mechanical Engineering from Indian Institute of Technology, Varanasi.
Mr. Harvinder Jaspal	CFO	Mr. Jaspal joined the company in 2017. He has previously worked with ICICI Prudential Life Insurance Company Limited for 12 years in Finance and Accounts. Prior to this, he was associated with Hindustan Unilever. He holds a Bachelor's degree in Engineering from Maulana Azad College of Technology, Bhopal, and holds a Post-Graduate Diploma in Business Management from Indian Institute of Management Society, Lucknow.
Mr. Ajay Saraf	Executive Director, Head of IB & Equities	Mr. Saraf has been associated with ISEC since 2012. He is a member of the Institute of Chartered Accountants of India and Institute of Cost and Works Accountants of India. He has over 25 years of experience. He has previously worked with ICICI Bank for nine years in Corporate banking and in Small and Medium Enterprises verticals. Prior to ICICI Bank, he worked with American Express Bank Limited.

Source: MOFSL, Company

Financials and Valuation

Income Statement									(INR M)
Y/E March	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Total Income	**12,095**	**11,246**	**14,042**	**18,610**	**17,270**	**17,252**	**17,152**	**19,092**	**21,585**
Change (%)	48.9	-7.0	24.9	32.5	-7.2	-0.1	-0.6	11.3	13.1
Brokerage Income	7,554	6,607	7,756	10,243	9,328	9,477	9,822	10,774	12,087
Income from Services	3,363	3,499	4,982	6,552	5,733	5,218	4,885	5,485	6,224
Interest Income	910	957	1,091	1,574	1,792	2,350	2,350	2,703	3,108
Other Operating Income	268	182	214	241	193	20	70	100	130
Other Income	0	0	0	0	225	187	25	30	36
Operating Expenses	**7,598**	**7,505**	**8,822**	**10,086**	**9,698**	**9,720**	**9,328**	**10,177**	**11,248**
Change (%)	13.4	-1.2	17.6	14.3	-3.8	0.2	-4.0	9.1	10.5
Employee expenses	3,921	4,014	4,847	5,504	5,545	5,338	4,938	5,431	6,110
Interest expenses	311	258	289	495	423	864	907	1,043	1,200
Depreciation	163	160	155	153	150	614	639	664	689
Others	3,204	3,073	3,531	3,935	3,580	2,904	2,844	3,039	3,249
Profit Before Tax	**4,497**	**3,741**	**5,220**	**8,524**	**7,572**	**7,532**	**7,824**	**8,914**	**10,337**
Change (%)	216.3	-16.8	39.5	63.3	-11.2	-0.5	3.9	13.9	16.0
Tax	1,558	1,354	1,835	2,989	2,665	2,109	1,956	2,229	2,584
Tax Rate (%)	34.6	36.2	35.1	35.1	35.2	28.0	25.0	25.0	25.0
PAT	**2,939**	**2,387**	**3,386**	**5,535**	**4,907**	**5,423**	**5,868**	**6,686**	**7,752**
Change (%)	223.5	-18.8	41.8	63.5	-11.3	10.5	8.2	13.9	16.0
Proposed Dividend	1,915	1,939	2,468	3,646	3,646	3,851	4,107	4,680	5,427

Balance Sheet									(INR M)
Y/E March	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Equity Share Capital	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Reserves & Surplus	1,912	2,371	3,404	6,866	8,862	10,485	12,245	14,251	16,576
Net Worth	**3,523**	**3,982**	**5,015**	**8,477**	**10,473**	**12,095**	**13,856**	**15,861**	**18,187**
Borrowings	2,790	2,356	3,987	6,771	4,518	14,998	13,498	14,848	17,075
Other Liabilities	7,315	7,637	11,423	13,491	31,655	17,335	19,069	20,976	23,073
Total Liabilities	**13,629**	**13,975**	**20,424**	**28,739**	**46,646**	**44,428**	**46,422**	**51,685**	**58,335**
Cash and Investments	8,543	6,406	9,952	15,499	31,515	24,139	23,577	25,916	29,215
Change (%)	22.6	-25.0	55.3	55.7	103.3	-23.4	-2.3	9.9	12.7
Loans	**1,457**	**1,546**	**50**	**5,782**	**4,033**	**5,709**	**6,850**	**8,221**	**9,865**
Net Fixed Assets	385	378	375	421	476	2,061	2,267	2,494	2,743
Net Current Assets	3,243	5,644	10,048	7,037	10,623	12,520	13,727	15,054	16,512
Total Assets	**13,629**	**13,975**	**20,424**	**28,739**	**46,646**	**44,428**	**46,422**	**51,685**	**58,335**

E: MOSL Estimates

Financials and Valuation

Ratios									(%)
Y/E March	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
As a percentage of Revenues									
Brokerage Income	62.5	58.8	55.2	55.0	54.0	54.9	57.3	56.4	56.0
Income from Services	27.8	31.1	35.5	35.2	33.2	30.2	28.5	28.7	28.8
Interest Income	7.5	8.5	7.8	8.5	10.4	13.6	13.7	14.2	14.4
Other Income	2.2	1.6	1.5	1.3	2.4	1.2	0.6	0.7	0.8
Total cost	**62.8**	**66.7**	**62.8**	**54.2**	**56.2**	**56.3**	**54.4**	**53.3**	**52.1**
Employee Cost	32.4	35.7	34.5	29.6	32.1	30.9	28.8	28.4	28.3
Opex (ex emp) Cost	30.4	31.0	28.3	24.6	24.0	25.4	25.6	24.9	23.8
PBT	**37.2**	**33.3**	**37.2**	**45.8**	**43.8**	**43.7**	**45.6**	**46.7**	**47.9**
PAT	**24.3**	**21.2**	**24.1**	**29.7**	**28.4**	**31.4**	**34.2**	**35.0**	**35.9**
Profitability Ratios (%)									
RoE	97.7	63.6	75.3	82.0	51.8	48.1	45.2	45.0	45.5
Dividend Payout Ratio	65.2	81.2	72.9	65.9	74.3	71.0	70.0	70.0	70.0

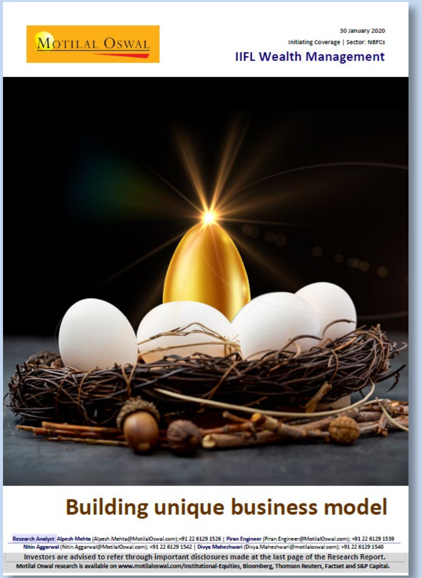
Valuations	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
BVPS (INR)	10.9	12.4	15.6	26.3	32.5	37.5	43.0	49.2	56.5
Change (%)	41.3	13.0	25.9	69.0	23.5	15.5	14.6	14.5	14.7
Price-BV (x)						**9.3**	**8.2**	**7.1**	**6.2**
EPS (INR)	9.1	7.4	10.5	17.2	15.2	16.8	18.2	20.8	24.1
Change (%)	223.5	-18.8	41.8	63.5	-11.3	10.5	8.2	13.9	16.0
Price-Earnings (x)						**20.9**	**19.3**	**16.9**	**14.6**
DPS (INR)	5.0	5.0	6.4	9.4	9.4	11.3	12.8	14.5	16.8
Dividend Yield (%)						**3.2**	**3.6**	**4.1**	**4.8**

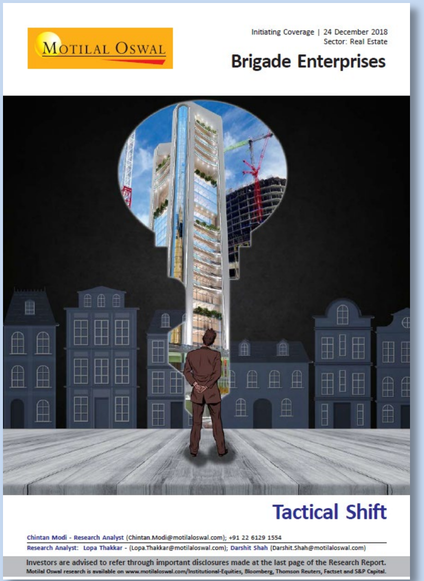
E: MOFSL Estimates

NOTES

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS





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

Disclosures

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