



ICICI Securities Ltd.

CMP: Rs 470

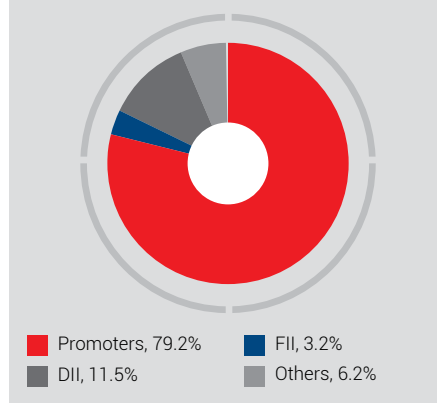
Rating: BUY

Target: Rs 620

Company Information

BSE Code	541179
NSE Code	ISEC
Bloomberg Code	ISEC.IN
ISIN	INE763G01038
Market Cap (Rs. Cr)	15120
Outstanding shares (Cr)	32.2
52-wk Hi/Lo (Rs.)	524.7 / 195.3
Avg. daily volume (1yr. on NSE)	418037
Face Value (Rs.)	5
Book Value	37.5

Share holding pattern as on March 2020



Investment Rationale

Leading retail broking house

ICICI Securities Ltd. (ISEC) is one of the leading broking house in India with client base of 4.8 million in FY20. Out of 4.8 million clients, 1.5 million are active clients whereas 1.1 million are NSE clients. Over the past 5 years, the broking firm has steadily increased its client base from 2.8 million in FY14 to 4.8 million in FY20, at a CAGR of 9.4%. ISEC's around 65% of the retail brokerage comes from clients that have been with the company for more than 5 years. However, with the emergence of discount broking, ISEC has lost some market

share during FY15-18, but with ability of strong franchise and technological platform, it has able to recover its market share over the past two years and currently stands at 10%. ISEC has strong presence in retail broking which accounts nearly half of the total revenue (48%) in FY20. During FY17-FY20, total equity average daily turnover (ADTO) has increased from Rs 187 billion to Rs 762 billion at a whopping rate of 59% CAGR. For the broking industry, nearly 50% of revenue comes from cash trading, while for ISEC, it is slightly more than 50%. Equity ADTO jumped sharply in the month of March due to extreme

volatility in the markets, which has benefited ISEC and that reflected in Q4FY20 bottomline which increased by whopping 54% YoY. New work culture i.e. work from home is likely to provide traction to retail broking business, as people are staying at home will be engaged in trading in equities, which is going to spur the equity trading volume going ahead.

Buildup of strong technological platform

The entire world has been adapting the technological development and digitalization, this is a new normal for everybody. Now the technological advancement become the most

essential part of any kind of business in order to survive and thrive in future. ISEC has realized it and picked the trend and over the years established a strong technological platform and enable its customers to do online trading from any part of the country. Over the past 6 years, ISEC's ADTO has grown 12x owing to its meaning full support from tech platform which generate high volumes. Currently, in broking industry, more than 95% equity transactions are done through online. ISEC handles more than 3.2 million 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. Company has also focused on cross selling its various products to its customer base. Currently, around 0.9 million customers have two or more products with the company. Further, over the past 2 years, company 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. ISEC has also expanded its partnership with sub-brokers, thus reducing the dependency on ICICI Bank, which share has reduced from 90% to 80% in last 5 years. These initiatives along with strong technological platform will aid the company

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to gain market share by increasing the client base and get benefited from equity market volatility.

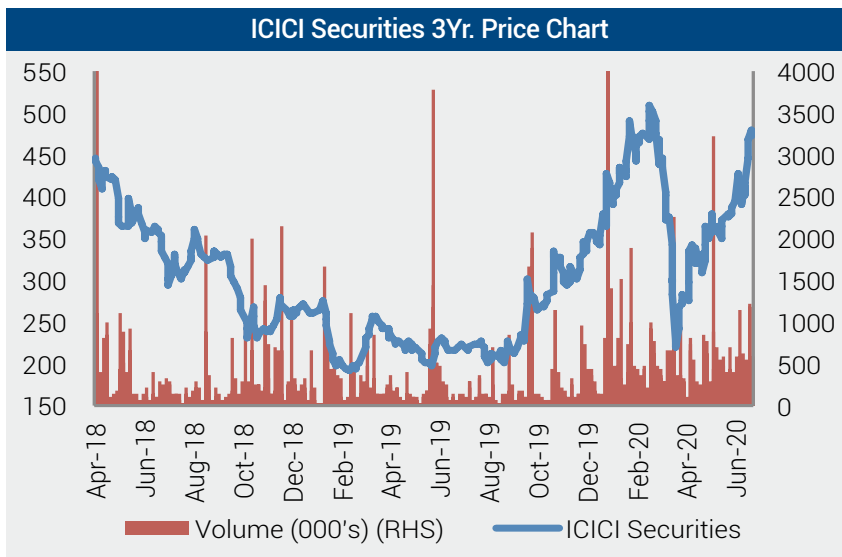
Increasing Customer Base

Apart from being India's largest retail broker, ISEC has also been one of the most innovative brokers in both in equity and F&O segment to provide ease to its customers. It was the first Indian broking firm to offer 'Lifetime Prepaid Brokerage Plans' which aimed at helping customers to optimize their transaction costs and spread their trading over a period of time. It also came up with various other products and services such as "Order Level SPAN Margining" facility, "I-Gain" and "Bullet Trade". These plans though came at a cost, but it helped retain its customers and also bring more customers to ISEC platform. 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 new revenue-share arrangement with ICICI Bank, which has helped increase activation rates and trading volumes from customers. ISEC opened up the I-direct platform, allowing even non ICICI Bank account holders to trade on I-direct. ISEC launches two different plans - Prime and Prepaid - for different types of customers to reduced broking rates. ISEC also launched the eATM product, which provides an instant liquidity to customers. ISEC has also come up with new plans "OPTION20" in derivatives segment to capture the growing volumes of options. 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.

Q4FY20 Result Analysis

The company has reported consolidated revenue of Rs. 482 crore in Q4FY20, against Rs. 428 crore in Q4FY19, up 13%, aided by growth in retail equities & allied business. Consolidated Profit After Tax (PAT) for Q4FY20 stood at Rs. 156 crore, Vs Rs. 122 crore in Q4FY19, up 28%, on account of growth in revenue and changes in statutory tax rates. During the quarter, Retail Equities and Allied Business revenue rose 35% to Rs. 292 crore vs Rs. 215 crore in Q4FY19. The allied business comprises lending towards ESOP & MTF, and Prime subscription fees. Prime subscription income grew 44% sequentially to ~Rs. 8 crore in Q4FY20. Currently there are over 3.1 lakh Prime subscribers. Institutional equities business revenue during the quarter rose by 13%



YoY to Rs. 37 crore due to increased traction in block deals. Distribution revenue stood at Rs. 115 crore in Q4FY20 up 3% against Q4FY19. The company earned Rs. 57 crore of revenue through MF distribution during the quarter, vs Rs. 59 crore in Q4FY19, down 4%. The company has 1.48 million active clients (those having traded in the last 12 months) and ~1.08 million NSE active clients (those having traded on the NSE in the last 12 months), up 16% and 27% respectively. During the quarter, I-Sec's NSE active market share grew ~40 basis points on-year to 10%.

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into revenue sharing arrangement with ICICI Bank by aligning with their relationship managers. Besides, it also took bold cost cutting measures like reduction in branches/headcounts and re-aligning employee incentives. On the business front, the company launched attractive broking plans under "PRIME", "PREPAID" & "OPTION20" category and enhanced its focus on selling other investment products, which have also bore fruits. Besides, recently ISEC has also allowed non-ICICI Bank clients to open a trading account. Lockdown has come as a blessing for the broking industry as there has been a surge in trading activity. Beginning Mar'20 internet trading volume jumped 71% in Jun'20. Besides, there is ample room for cross-sell innovations to generate higher revenues. Despite stringent competition from discount brokerages, ISEC's strong financial position and investment in technology will enable to gain market share amid consolidation in the industry. Hence, we recommend our investors to BUY the scrip for a target of Rs. 620 from 12-18 months investment perspective. Currently, the scrip is valued at P/E multiple of 23.2 on FY22E EPS.

Key risks

- Equity market is always exposed to the vulnerability of any kind of global or domestic events, thus currently the pandemic of COVID-19 has a serious implication on the market and if based on renewed fears market start falling again, it will directly impact the trading volume of broking industry as well for ISEC.
- Increasing presence of discount brokers is always a threat to full time broking firms as well for ISEC, which can put pressure on earnings as well on margins as there will be more competition on slashing brokerage

fees.

Valuation

ICICI Securities (ISEC) is one of the leading broking houses in India and has withered through a rough period in equity markets after achieving peak profits in FY18 together with increased competition from discount brokerages and tightening rules for mutual fund commissions. Backed by strong parent and with more than two decades of experience, the company has responded well with focus on digitalization and sharpened its focus on cross-sell by re-aligning employee incentives and entering

Particulars (in Rs Cr)	FY19	FY20	FY21E	FY22E
Net Sales	1704.6	1706.2	1702.4	1968.1
Growth (%)	-4.4	0.1	-0.2	15.6
EBITDA	598.9	657.6	874.9	1099.8
EBITDA Margin (%)	35.1	38.5	51.4	55.9
Net profit	481.3	549.5	528.4	665.6
Net Profit Margin (%)	28.2	32.2	31.0	33.8
EPS (Rs)	14.9	17.0	16.5	20.4

Consensus Estimate: Bloomberg, Ashika Research

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