

Mixed performance; real estate exit remains catalyst...

About the stock: IIFL Securities (IIFL Sec) is engaged in retail and institutional broking, distribution of financial products and investment banking.

- The company has a client base of ~30 lakh
- IIFL's institutional broking segment has ~780+ domestic and foreign clients

Q4FY22 Results: IIFL Sec reported a mixed performance.

- Client addition robust at ~2.08 lakh; ADTO up 34% QoQ to ₹ 1.1 lakh crore
- Revenue up 46% YoY, 3.2% QoQ amid sequential subdued brokerage & interest income
- Overall opex increased 10% QoQ, resulting in 8.4% fall in PAT QoQ and 2% YoY growth at ₹ 79 crore

What should investors do? IIFL Sec's share price has grown by ~1.7x over the past one year

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value IIFL Sec at ~9.4x FY24E EPS and revise our target price to ₹ 98.

Key triggers for future price performance:

- Continued focus on client acquisition & increased market activity to be key
- Higher client engagement to improve per client matrix
- Fierce competition from discount brokers remain a challenge
- Exit from real estate assets to act as re-rating catalyst

Alternate Stock Idea: Apart from IIFL Sec, in our coverage we also like 5Paisa.

- It is a leading discount broker and offers a play on new age fintech financial intermediary with robust client addition
- BUY with a target price of ₹ 530



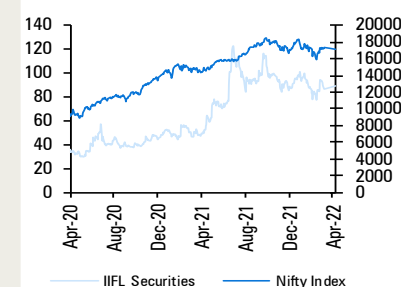
Particulars

	Amount
Market Capitalisation	₹ 2719 crore
Networth	₹ 1182 crore
52 week H/L	₹ 129/49
Face Value	₹ 2

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Mar-22
Promoter	31.4	31.4	31.4	31.3
FII	16.2	16.1	16.3	16.6
DII	4.2	4.3	3.5	3.2
Others	48.1	48.3	48.8	49.0

Price Chart



Recent Event & key risks

- Strong client acquisition at 2.08 lakh & 34% QoQ growth in ADTO
- Key Risks:** (i) Volatility in capital market (ii) Rising competitive intensity

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Key Financial Summary

	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
ADTO (₹ crore)	17710	20070	29590	78800	64.5%	89963	97775	11.4%
Market Share (%)	1.8	1.4	1.1	1.1	-14.9%	1.1	1.2	3.6%
Revenue from operation (₹ crore)	835.1	717.5	790.9	1232.3	13.8%	1312.7	1373.8	5.6%
Net Profit (₹ crore)	172.1	232.1	220.3	305.8	21.1%	313.3	317.2	1.8%
EPS (₹)	5.4	7.3	7.3	10.1		10.3	10.4	
P/E (x)	16.6	12.3	12.3	8.9		8.7	8.6	
RoE (%)	25.4	28.8	23.9	28.5		23.4	19.2	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Muted sequential performance

- Revenue from operations declined 2% QoQ to ₹ 362 crore
- The company made a significant investment in technology and added manpower. PAT declined 8% QoQ and remained largely flat YoY at ₹ 78.8 crore
- Average daily turnover (ADTO) increased 153% YoY to ₹ 111500 crore
- Mutual Fund AUM grew 4% QoQ to ₹ 7130 crore, SIP AUM grew 5% QoQ to ₹ 1510 crore with a monthly average transaction count of 1,47,985
- Client addition was at ~2.08 lakh in Q4FY22

Q4FY22 Earnings Conference Call highlights

- Employee expenses were higher as a result of increase in head count, salary hike and performance linked variable pay. Employee count was at 2529 in Q4FY22
- Distribution income for Q4FY22 was at ₹ 56 crore vs. similar number QoQ
- Opex increased due to addition of employee, higher sub broker payout and increase in tech expense
- Gross MTF book at ₹ 538 crore, yields at 14-15%.
- Cash yield – 7 paisa; derivative – 0.09 paisa
- Planning to sell office space, book value ₹ 243 crore and market value of ₹ 650 crore
- Strategy was to continue to build on research and technology

Peer comparison

Exhibit 1: Peer Comparison

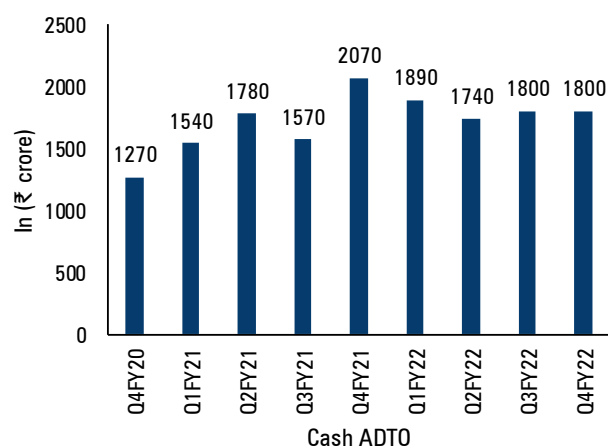
Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
IIFL Sec	89	98	Hold	2718	7.3	10.1	10.3	10.4	12.3	8.9	8.7	8.6	2.8	2.3	1.8	1.5	23.9	28.5	23.4
Geojit	66	110	Buy	1580	5.2	6.1	6.5	7.4	12.8	10.8	10.1	9.0	2.4	2.0	1.6	1.4	20.1	19.9	17.6
MCX	1430	2000	Buy	7291	44.2	30.3	44.4	52.6	32.4	47.1	32.2	27.2	5.1	5.0	4.7	4.0	15.9	10.5	14.6

Source: Company, ICICI Direct Research

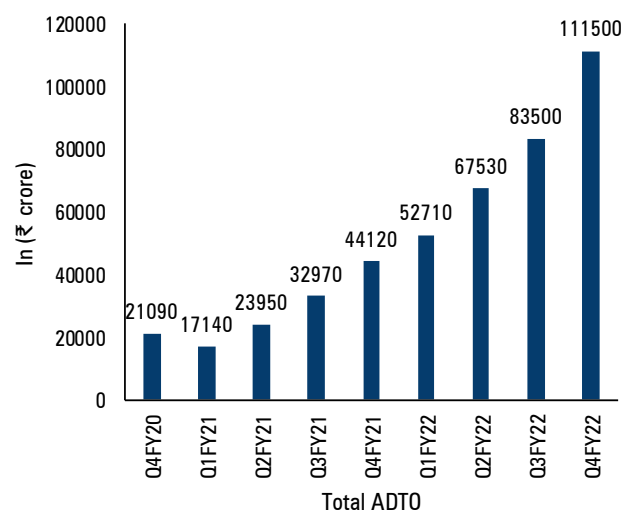
Exhibit 2: Variance Analysis

Particulars	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ	Comments
Revenue from operation	346.8	238.1	46%	335.9	3%	QoQ decline in interest income partially redulted in muted revenues
Other Income	15.3	18.1	-15%	32.0	-52%	
Total Income	362.0	256.2	41%	368.0	-2%	
Employee expense	96.7	63.3	53%	85.5	13%	Increase in headcount during the quarter
Finance cost	18.4	13.6	35%	39.4	-53%	
Depreciation	16.7	11.4	47%	16.4	2%	
Other expenses	124.8	76.4	63%	113.3	10%	Marketing & technology spends led to QoQ rise
Total Expense	256.6	164.7	56%	254.6	1%	
Profit Before Tax	105.5	91.5	15%	113.3	-7%	
Share of associate	0.0	0.1		0.1		
Tax	26.6	14.3	86%	27.3	-3%	
PAT	78.9	77.3	2%	86.1	-8%	Muted topline resulted in sequential PAT de-growth

Source: Company, ICICI Direct Research

Exhibit 3: Cash ADTO flat QoQ


Source: Company, ICICI Direct Research

Exhibit 4: Derivatives segment continues to propel ADTO


Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit & Loss (₹ crore)						
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue from operation	835.1	717.5	790.9	1232.3	1312.7	1373.8
Other Income	40.40	72.50	76.93	84.08	88.29	92.70
Total Income	875.5	790.0	867.8	1316.4	1400.9	1466.5
Employee expense	256.6	221.1	211.3	324.1	350.0	378.0
Finance cost	114.5	102.1	49.6	101.5	109.7	118.4
Depreciation	41.9	55.3	45.9	63.5	64.1	64.7
Other expenses	204.5	211.5	276.2	425.4	459.4	482.4
Total Expense	617.5	590.1	583.0	914.4	983.2	1043.5
Profit Before Tax	258.0	199.9	284.7	402.0	417.8	423.0
Tax	86.6	53.0	64.4	96.3	104.4	105.7
Profit After Tax	172.1	232.1	220.3	305.8	313.3	317.2
Exceptional Item	0.0	0.0	0.0	0.0	0.0	0.0
PAT post excp item	172.1	232.1	220.3	305.8	313.3	317.2
EPS	5.39	7.26	7.27	10.06	10.31	10.44

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios						
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
ADTO (₹ crore)	17710	20070	29590	78800	89963	97775
Market Share (%)	1.8	1.4	1.1	1.1	1.1	1.2
Yield (%)	0.012	0.008	0.006	0.003	0.003	0.002
ROE (%)	25.4	28.8	23.9	28.5	23.4	19.2
No of Shares (crore)	31.9	32.0	30.3	30.4	30.4	30.4
EPS (₹)	5.4	7.3	7.3	10.1	10.3	10.4
PE (x)	16.6	12.3	12.3	8.9	8.7	8.6
Book Value (₹)	22.9	27.5	31.9	38.9	49.2	59.6
P/BV (x)	3.9	3.2	2.8	2.3	1.8	1.5
Pat margin (%)	19.7	29.4	25.4	23.2	22.4	21.6
CI Ratio (%)	70.5	74.7	67.2	69.5	70.2	71.2
Mcap/Sales (x)	3.2	3.6	3.3	2.1	2.0	1.9

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)						
Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
Source of Funds						
Equity Capital	63.8	63.9	60.6	60.8	60.8	60.8
Reserve& Surplus	667.1	815.9	907.0	1121.0	1434.3	1751.6
Networth	730.9	879.8	967.6	1181.8	1495.1	1812.4
Borrowings	660.5	405.6	291.6	607.0	637.4	669.3
Other Liability	1658.5	1148.2	2285.0	4252.2	4039.6	3837.6
Total	3049.9	2433.6	3544.1	6041.0	6172.1	6319.3
Application of Funds						
Fixed Asset	469.8	497.2	389.1	380.7	342.6	308.4
Investment	139.6	230.9	73.7	227.5	250.3	275.3
Advances	433.2	24.3	98.0	473.3	568.0	681.6
Cash	1065.0	1027.2	1677.5	3740.1	3366.1	3029.5
Other Asset	942.3	654.0	1305.7	1219.3	1645.1	2024.4
Total	3049.9	2433.6	3544.1	6041.0	6172.1	6319.3

Source: Company, ICICI Direct Research

Exhibit 6: Growth Ratios						
Growth (%)	FY19	FY20	FY21	FY22	FY23E	FY23E
Total Asset	6.6	-20.2	45.6	70.5	2.2	2.4
Advances	430.9	-94.4	303.1	382.8	20.0	20.0
Borrowing	-34.8	-38.6	-28.1	108.2	5.0	5.0
Total Income	-7.6	-9.8	9.9	51.7	6.4	4.7
Operating expense	-7.5	-4.4	-1.2	56.8	7.5	6.1
Net profit	-4.7	34.9	-5.1	38.8	2.5	1.2
Book Value	17.1	20.1	16.0	21.7	26.5	21.2
EPS	-4.9	34.6	0.1	38.4	2.5	1.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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