

Consolidating online retail trading business....

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 ~800+ domestic and foreign clients

Online retail trading business to be transferred to 5Paisa Capital:

- The boards of IIFL Securities Ltd & 5Paisa Capital Ltd have approved transfer of the former's online retail trading business to 5Paisa Capital subject to statutory approvals. The reorganisation between the two IIFL group entities aims to consolidate online retail trading businesses under one single entity
- Business reorganisation has been undertaken to mitigate overlap and, thus, focus on scalability, profitability and efficient utilisation of capital**
- Accordingly, ~15 lakh low ticket size customers which contributes ~5% of ADTO (low ticket size defined as customer with asset base of up to ₹ 10 lakh) will be shifted from IIFL sec to 5Paisa Capital**
- IIFL Sec henceforth will focus on larger tick size customer with asset base of above ₹ 1 crore. Next leg of expansion plan includes targeting customer asset base of ₹ 10 lakh-1 crore**
- Following the transfer, IIFL Securities shareholders will receive one share of ₹ 10 paid up of 5Paisa Capital for every 50 shares of ₹ 2 paid up of IIFL Securities held by them as on the record date
- Currently, IIFL Securities operates in four business segments i.e. online retail trading (OLRT), private client group, institutional equities and investment banking and franchisee (B2B)

What should investors do? IIFL Sec's share price has grown by over 45% in the past two years. IIFL Sec has about one-third revenue contributed by retail brokerage while the customer pool to be shifted contributes ~5% of ADTO. Thus, business reorganisation is seen not having any material impact on the topline though benefit from cost saving and improved focus on target customers remains to be watched.

- We maintain our **HOLD** recommendation on the stock.

Target Price and Valuation: We value IIFL Sec at ~7.3x FY24E EPS and revise our target price to ₹ 75.

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 ₹ 375



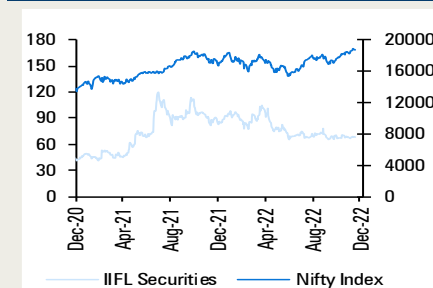
Particulars

	Amount
Market Capitalisation	₹ 2092 crore
Networth	₹ 1290 crore
52 week H/L	₹ 105/64
Face Value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-22	Mar-22	Jun-22	Sep-22
Promoter	31.4	31.3	31.3	31.3	31.3
FII	16.3	16.5	16.6	16.7	16.6
DII	3.5	3.1	3.2	3.2	3.2
Others	48.8	49.1	49.0	48.9	48.9

Price Chart



Recent Event

- Transfer of online retail business division comprising of ~15 lakh clients contributing ~5% of ADTO
- Key Risk:** i) Competitive intensity & rising competitive intensity in wealth management space. ii) Higher than expected customer acquisition

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Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenue	42,608.2	54,351.5	60,591.6	68,439.0	17%	82,436.5	1,03,741.4	23%
PAT	3133.5	2269.0	4470.5	4556.8	13%	6858.4	8992.2	40%
EPS (₹)	39.6	53.9	35.2	52.7		43.1	56.5	
BV (₹)	299.7	405.3	439.9	505.9		295.9	352.0	
P/E	45.1	33.1	50.7	33.9		41.4	31.6	
P/BV	6.0	4.4	4.1	3.5		6.0	5.1	
RoA	1.8	1.9	1.1	1.4		1.6	1.5	
RoE	14.1	15.3	8.3	11.1		15.7	17.4	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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