

Progressing Well in Focus Segments!

Est. Vs. Actual for Q1FY24: Revenue – **BEAT**; EBITDA – **BROADLY INLINE**, PAT – **INLINE**
Changes in Estimates post Q1FY24

FY24E/FY25E: Revenue 6.1%/6.2%; PAT 1.9%/0.1%

Key Takeaways

- **Focus on improving Derivatives Market Share** – ISEC believes that key factors that will enable it to improve its market share rapidly in the derivative segment are: (a) Number of customers, (b) Volumes and (c) Revenue. The company has been closely monitoring its performance on these parameters and has seen healthy YoY growth. However, it has also identified hindrances which have slowed its pace of market share improvement in the derivative segment. These are: (1) Absence of intensive marketing efforts and (2) Performance of the app. The company is consistently working on fixing these issues. Thus, with concentrated efforts towards improving the product offering and proposition, the management expects ISEC to witness a meaningful improvement in the derivatives market share in the coming quarters.
- **Changing proposition in the Investment banking business** – ISEC has been able to strengthen its leadership position in the investment banking business primarily led by (1) Strengthening research capabilities, (2) Sharpening sectoral coverage (with a dominant presence in the BFSI and Infra/InvIT-REITs), (3) Strengthening the tech stack and (4) Deepening client relationship beyond IPOs given the monetization capability. The management believes that this has helped it even out the 'episodic'-nature of the business.

Sector Outlook: Cautiously Positive

Company Outlook: We believe the company's efforts to reduce dependence on the cyclical broking business and diversify revenue streams should lend some stability to overall revenue growth. ISEC's continued investments towards technology and franchise-building will keep cost ratios inflated. However, this would ensure scalable growth over the long term.

Current Valuation: N.A **Earlier Valuation:** 12x FY25E EPS

Current TP: Under Review **Earlier TP:** Rs 550/share

Recommendation: Given that the ISEC will be delisted, we have put the stock 'Under Review'.

Financial Performance:

- In Q1FY24, ISEC has been able to either improve or maintain its market share across segments. Its market share in the cash segment improved to 12.2% vs. 9.7/11% YoY/QoQ. Similarly, market share in the commodity segment improved to 7.2% vs. 4.4%/6.1% YoY/QoQ. ISEC has been able to maintain its market share QoQ to 3.6% in the derivative segment. The company has continued to maintain its leadership position in the MTF with a market share of ~22%.
- ISEC added 212K customers during the quarter, taking the customer base to 9.3 Mn customers (+16%/2% YoY/QoQ). Slower customer addition is in line with management's focus on onboarding better ARPU-generating customers. The overall active clients declined to 2.5 Mn vs 3.6/2.8 Mn YoY/QoQ. NSE active clients stood at 2.1 Mn and market share in terms of NSE active clients was down 180/50bps YoY/QoQ.
- The company's revenue grew by 18%/6% YoY/QoQ, aided by improved broking revenues (+13/11% YoY/QoQ). In line with expectations, distribution income de-grew by 18% QoQ, primarily owing to lower life insurance distribution income (-71% QoQ).
- Opex growth was elevated at 33%/7% YoY/QoQ, mainly led by higher interest costs. EBITDA (Calc.) grew by 18%/4% YoY/QoQ. EBITDA Margin (calc.) stood at 61.1% vs. 60.7%/61.9% YoY/QoQ. PAT grew by 3% QoQ and remained flattish YoY.

Outlook:

Improvement in cash market volumes drove the recovery in ISEC's revenues. The management has indicated that the momentum sustained so far in Q2FY24. The company has been trading well in terms of market share across segments and with focused efforts, we expect the improvement to continue. The investment phase is largely complete and the management expects cost ratios to peak in FY24 and improve thereon. We have tweaked our revenue estimates by ~6% over FY24-25E to reflect the recovery in the cash segment and increased contribution from the distribution segment. **We have put the stock 'Under Review' given that ISEC will be delisted.**

Key Financials (Consolidated)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Revenue	934	+5.6	+17.7	902	+3.6
EBITDA	571	+4.2	+18.3	564	+1.3
EBITDA Margin (%)	61.1	-78 bps	+40 bps	62.4	-130 bps
Net Profit	271	+3.1	-1.0	268	+1.0

Source: Company, Axis Research

(CMP as of 21 Jul, 2023)

CMP (Rs)	632
Upside /Downside (%)	N.A
High/Low (Rs)	650/417
Market cap (Cr)	20,428
Avg. daily vol. (6m) Shrs.	4,95,982
No. of shares (Cr)	32.3

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	74.9	74.9	74.8
FII	7.8	8.8	9.5
MFs / UTI	1.7	1.0	1.0
Others	15.7	15.4	14.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Revenues	3,425	3,956	4,499
PBT	1,501	1,679	1,989
Net Profit	1,118	1,250	1,481
EPS (Rs)	34.6	38.7	45.9
P/E (x)	18.3	16.3	13.8
RoE (%)	42.3	39.9	39.5
Div. Payout (%)	55.0	55.0	55.0

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Revenues	6.1	6.2
PAT	1.9	0.1

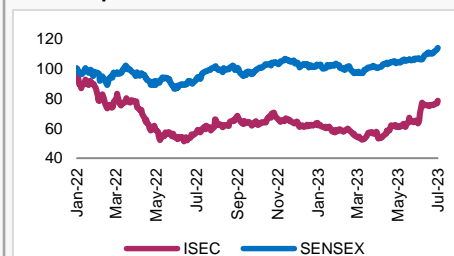
ESG disclosure Score**

Environmental Disclosure	16.4
Social Disclosure Score	26.8
Governance Disclosure Score	84.9
Total ESG Disclosure Score	42.7
Sector Average	37.3

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Operating Efficiency to improve Cost Ratios** – With key growth drivers identified and visibility on growth opportunities, ISEC has been investing in ramping-up capabilities, fresh hiring and also towards the franchise and technology, thereby keeping Opex growth and ratios elevated. Another key reason for higher Opex has been the increase in interest expense on MTF books. However, the management indicated that FY24 would be the end of the investment phase and cost ratios should trend downwards to sub-40% over the next couple of years.
- **Shift from cash market to F&O segment** –The increase in margins has been a key reason for weakness in the cash markets, as higher margins make it increasingly difficult to grow volumes. Higher margins have to an extent supported the shift towards the F&O segment. Multiple expiries results in lower entry cost opportunity especially for retail investors. These factors have collectively resulted in a shift from cash markets to the F&O segment given the ease of entry and attractiveness.

Key Risks to our Estimates and TP

- The key risk to our estimates remains a slowdown in overall market volumes especially cash market volume as a large part of the broking revenues is contributed by the cash market volumes/turnover.
- The sector in which ISEC operates is highly regulated and any change in regulations will hamper the efficient operations of the company thereby being a key downside risk to our estimates.

Change in Estimates

	Revised		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenues	3,956	4,499	3,730	4,235	6.1	6.2
PAT	1,250	1,481	1,227	1,480	1.9	0.1

Source: Company, Axis Securities

Results Review (Consolidated)

	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
<u>Business Metrics</u>					
Client Base (Mn)	9.3	8.0	16.2	9.1	2.1
Client Addition ('000)	212	447	-52.6	371	-42.9
Overall Active clients	2.5	3.6	-29.5	2.8	-10.7
NSE Active clients	2.1	3.2	-35.7	2.3	-12.0
ISEC ADTO	3,372	1,593	111.7	2,957	14.0
Market share	3.1%	2.9%		3.1%	
Equity Segment ADTO	43	36	19.4	35	21.1
Equity Segment Market Share	9.5%	8.4%		9.4%	
Derivative Segment ADTO	3,330	1,557	113.8	2,922	14.0
Derivative Segment Market Share	3.1%	2.9%		3.1%	
Wealth Management AUMs (Rs. Bn)	3,460	2,777	24.6	3,220	7.5
MF AUM (Rs. Trn)	564	489	15.3	530	6.4
Life Insurance Premium (Cr)	143	135	6.1	433	-66.9
<u>Profit & Loss</u>					
Revenue from Operations	902	777	16.2	860	5.0
-- Broking Income	343	303	13.0	310	10.5
-- Income from Services	252	255	-1.4	262	-4.0
-- Interest Income	308	218	41.1	287	7.2
Other Operating Revenues	32	17	91.2	25	26.6
Other Income	0	1	-89.3	0	-69.8
Total Revenue	934	795	17.6	885	5.6
Operating Expenses					
-- Employee Expenses	201	175	15.0	161	24.7
-- Interest Expense	185	100	83.9	175	5.7
-- Depreciation	22	16	35.8	21	8.6
-- Other Opex	162	136	19.1	175	-7.7
Total Expenses	570	428	33.3	532	7.2
<i>C-I Ratio (%)</i>	<i>61.0%</i>	<i>53.8%</i>		<i>60.1%</i>	
EBITDA	571	483	18.3	548	4.2
EBITDA Margin (%)	61.1%	60.7%		61.9%	
Profit Before Tax	364	367	-0.7	353	3.2
Tax	94	93	0.1	91	3.3
Profit After Tax	271	274	-1.0	263	3.1

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23P	FY24E	FY25E
Revenue from Operations	3,435	3,416	3,945	4,485
Other Income	4	10	12	14
Total Income	3,438	3,425	3,956	4,499
Total Operating Expense	1,586	1,924	2,277	2,509
PBT	1,853	1,501	1,679	1,989
Tax	470	383	429	508
Profit After Tax	1,383	1,118	1,250	1,481

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23P	FY24E	FY25E
Equity Share Capital	161	161	161	161
Reserves & Surplus	2,269	2,691	3,254	3,921
Net Worth	2,431	2,853	3,415	4,082
Borrowings	7,846	9,408	10,492	11,697
Other Liabilities	3,370	3,308	3,573	3,858
Total Liabilities	13,646	15,569	17,480	19,637
Cash & Bank balances	5,617	6,791	7,450	8,173
Loans	6,857	6,420	7,383	8,490
Fixed Assets & Others	1,173	2,358	2,648	2,974
Total Assets	13,646	15,569	17,480	19,637

Source: Company, Axis Securities

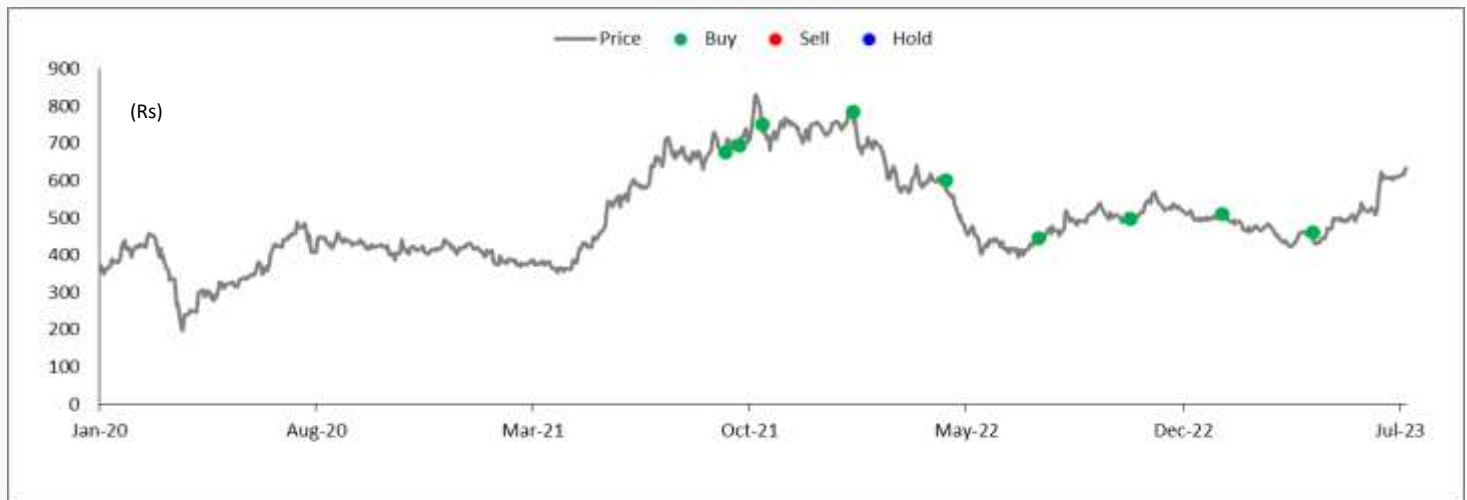
Ratio Analysis

(%)

Y/E March	FY22	FY23P	FY24E	FY25E
Profitability & Efficiency Ratios				
RoE (%)	65.0	42.3	39.9	39.5
RoA (%)	12.7	7.7	7.6	8.0
Cost to Income Ratio (%)	46.1	56.2	57.6	55.8
Valuation				
BVPS	75.3	88.4	105.8	126.4
Change	33	17	20	20
Price-BV (x)	8.4	7.2	6.0	5.0
EPS	42.8	34.6	38.7	45.9
Change	29	-19	12	18
Price-Earnings (x)	14.8	18.3	16.3	13.8
Dividend Per Share	24.0	19.0	21.3	25.2
Dividend Payout Ratio	56	55	55	55
Dividend Yield (%)	3.8	3.0	3.4	4.0

Source: Company, Axis Securities

ICICI Securities Price Chart and Recommendation History



Date	Reco	TP	Research
13-Sep-21	Buy	870	Initiating Coverage
28-Sep-21	Buy	870	Company Update
20-Oct-21	BUY	940	Result Update
19-Jan-22	BUY	990	Result Update
21-Apr-22	BUY	865	Result Update
22-Jul-22	BUY	530	Result Update
21-Oct-22	BUY	625	Result Update
20-Jan-23	BUY	600	Result Update
20-Apr-23	BUY	550	Result Update
24-Jul-23	N.A	N.A	Under Review

Source: Axis Securities

About the Analyst



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