

Robust Quarter, Healthy Performance Across Most Segments!

Est. Vs. Actual for Q3FY24: Revenue – **BEAT**; EBITDA – **BEAT**, PAT – **BEAT**

Changes in Estimates post Q3FY24

FY24E/FY25E: Revenue 17%/19%; PAT 19%/18%

Key Takeaways

- **Growth drivers identified** – ISEC will continue to grow with a focus on (1) Acquisition of quality clients, (2) Gaining market share across revenue-generating segments, (3) Growing the distribution segment with a primary focus on loans and mutual funds while offering insurance only as a life-cycle need product. On the distribution front, the company's focus will be on insurance as a risk management tool and the company will pivot out of the segment with incremental focus being on equities, mutual funds, and loan distribution. Going forward, the focus will remain on enhancing the customer experience.
- **Mixed Performance on market share** – On a segmental basis, broking revenue de-grew by 4% QoQ, largely owing to lower retail derivative revenues. While the operational metrics in the derivative segment continued to progress well (volumes, lots, orders, new customers etc), revenue decline was primarily owing to lower trading days and yield contraction. The company continues to maintain its leadership position in the MTF book.

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 ensure scalable growth over the long term. However, near-term headwinds persist owing to the global volatility and general elections taking place in the first half of 2024.

Current Valuation: N.A **Earlier Valuation:** N.A

Current TP: Under Review **Earlier TP:** Under Review

Recommendation: Given that the company awaits approval from the exchanges for delisting and will be delisted in the coming quarters, we continue to keep the stock '**Under Review**'

Financial Performance:

- **Market Share** - In Q3FY24, ISEC has been able to improve its market share in the cash segment to 13.1% vs. 12.8% QoQ. However, in the retail derivative segment, the company's market share declined by ~30bps to 3.4%. Similarly, in the commodity segment, the company lost market share by ~30bps QoQ. Mutual Fund AUM Market share has remained steady at 1.7%.
- **Update on Focus Areas** - (a) **Wealth Management:** ISEC added ~10K clients during the quarter. Total AUM grew by 25/10% YoY/QoQ. Revenues grew by 56/12% YoY/QoQ. Blended yields improved to 42bps vs. 40bps. QoQ, led by improved yields in the recurring assets (+10bps QoQ); (b) **Derivative Segment:** In Q3FY24, F&O orders/customers grew by 27/19% YoY. *The sequential decline in revenue can be attributed to a lower number of trading days and yield contraction; (c) **Loan Disbursements:** ISEC now offers home loans, personal loans, loans against securities and credit cards. The company distributed loans of Rs 21.7 Bn (+116% YoY). The share of home loans dropped significantly to 35% vs. 55% QoQ.
- **Revenue grew by 50/6% YoY/QoQ.** Broking revenues were down 4% QoQ. Opex growth was modest at 39/3% YoY/QoQ, mainly led by higher interest costs. EBITDA (Calc.) grew by 66/12% YoY/QoQ. EBITDA Margins (calc.) stood at 68.9% vs. 62.4/64.9% YoY/QoQ. PAT grew by 66/10% YoY/QoQ.

Outlook:

Improvement in cash market volumes resulted in improved market share. However, owing to lower trading days and on account of yield migration, the company lost market share in the retail derivatives segment. The company has been treading on the focused efforts and we expect a similar performance to continue. The company will continue to invest in technology and the franchise, thereby keeping Opex growth elevated. **We continue to maintain our 'Under Review' rating, given that ISEC will be delisted.**

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Revenue	1,323	+5.9	+50.5	1,300	+1.7
EBITDA	911	+12.5	+66.0	849	+7.4
EBITDA Margin (%)	68.9	+399 bps	+652 bps	65.3	+360 bps
Net Profit	465	+9.8	+65.6	431	+7.8

Source: Company, Axis Research

(CMP as of 16 Jan, 2024)

CMP (Rs)	785
Upside /Downside (%)	N.A
High/Low (Rs)	799/417
Market cap (Cr)	25,377
Avg. daily vol. (6m)Shrs.	4,95,982
No. of shares (Cr)	32.3

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	74.8	74.8	74.8
FII	9.5	10.1	10.3
MFs / UTI	1.0	2.3	2.1
Others	14.7	12.8	12.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Revenues	3,425	4,786	5,550
PBT	1,501	2,100	2,440
Net Profit	1,118	1,563	1,817
EPS (Rs)	34.6	48.4	56.3
P/E (x)	22.7	16.2	14.0
RoE (%)	42.3	48.8	45.8
Div. Payout (%)	55.0	55.0	55.0

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Revenues	17.0	19.0
PAT	19.2	17.8

ESG disclosure Score**

Environmental Disclosure	16.4
Social Disclosure Score	26.8
Governance Disclosure Score	84.9
Total ESG Disclosure Score	42.7

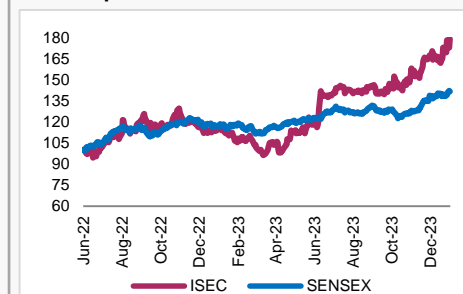
Sector Average

38.9

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

Dnyanada Vaidya

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

Prathamesh Sawant, CFA

Research Analyst

Email: Prathamesh.sawant@axissecurities.in

CA Bhavya Shah

Research Associate

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	4,786	5,550	4,090	4,664	17.0	19.0
PAT	1,563	1,817	1,312	1,543	19.2	17.8

Source: Company, Axis Securities

Results Review (Consolidated)

	Q3FY24	Q3FY23	YoY %	Q2FY24	QoQ %	9MFY24	9MFY23	% YoY
Business Metrics								
Client Base (Mn)	9.7	8.7	10.6	9.5	2.0	9.7	8.7	10.6
Client Addition ('000)	218	340	-35.8	224	-2.6	2,850	4,713	-40
Overall Active clients	2.3	3.1	-26.2	2.4	-2.1	2.3	3.1	-26.2
NSE Active clients	1.9	2.7	-30.5	1.9	-2.2	1.9	2.7	-30.5
Wealth Management AUMs (Rs. Bn)	4,067	3,250	25.1	3,710	9.6	4,067	3,250	25.1
MF AUM (Rs. Trn)	644	541	19.2	608	5.9	644	541	19.2
Life Insurance Premium (Cr)	272	234	16.2	243	11.8	272	234	16.2
Profit & Loss								
Revenue from Operations	1,299	860	50.9	1,228	5.8	3,429	2,466	39.1
-- Broking Income	465	314	48.1	484	-4.1	1,292	946	48.1
-- Income from Services	379	278	36.6	356	6.6	987	805	36.6
-- Interest Income	455	269	69.0	388	17.2	1,150	714	69.0
Other Operating Revenues	24	18	29.4	20	16.9	76	65	29.4
Other Income	0	1	-100.0	0	-100.0	0	9	-100.0
Total Revenue	1,323	880	50.3	1,249	5.9	3,506	2,540	50.3
Operating Expenses								
-- Employee Expenses	229	176	30.4	229	-0.1	660	536	23.0
-- Interest Expense	261	153	70.3	215	21.3	660	362	82.5
-- Depreciation	27	19	40.4	26	5.4	75	55	38.0
-- Other Opex	182	154	18.1	209	-12.7	553	440	25.8
Total Expenses	699	503	39.2	679	3.0	1,948	1,392	39.9
C-I Ratio (%)	52.9%	57.1%		54.4%		55.6%	54.8%	
EBITDA	911	549	66.0	810	12.5	2,293	1,555	47.5
EBITDA Margin (%)	68.9%	62.4%		64.9%		65.4%	61.2%	
Profit Before Tax	623	377	65.2	570	9.4	1,557	1,148	35.7
Tax	158	96	64.2	146	8.6	397	293	35.7
Profit After Tax	465	281	65.6	424	9.8	1,160	855	35.7

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Revenue from Operations	3,435	3,416	4,774	5,536
Other Income	4	10	12	14
Total Income	3,438	3,425	4,786	5,550
Total Operating Expense	1,586	1,924	2,686	3,110
PBT	1,853	1,501	2,100	2,440
Tax	470	383	536	623
Profit After Tax	1,383	1,118	1,563	1,817

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Equity Share Capital	161	161	161	161
Reserves & Surplus	2,269	2,691	3,395	4,213
Net Worth	2,431	2,853	3,556	4,374
Borrowings	7,846	9,408	11,871	13,298
Other Liabilities	3,370	3,308	3,573	3,858
Total Liabilities	13,646	15,569	19,000	21,530
Cash & Bank balances	5,617	6,791	8,097	8,961
Loans	6,857	6,420	8,025	9,309
Fixed Assets & Others	1,173	2,358	2,878	3,261
Total Assets	13,646	15,569	19,000	21,530

Source: Company, Axis Securities

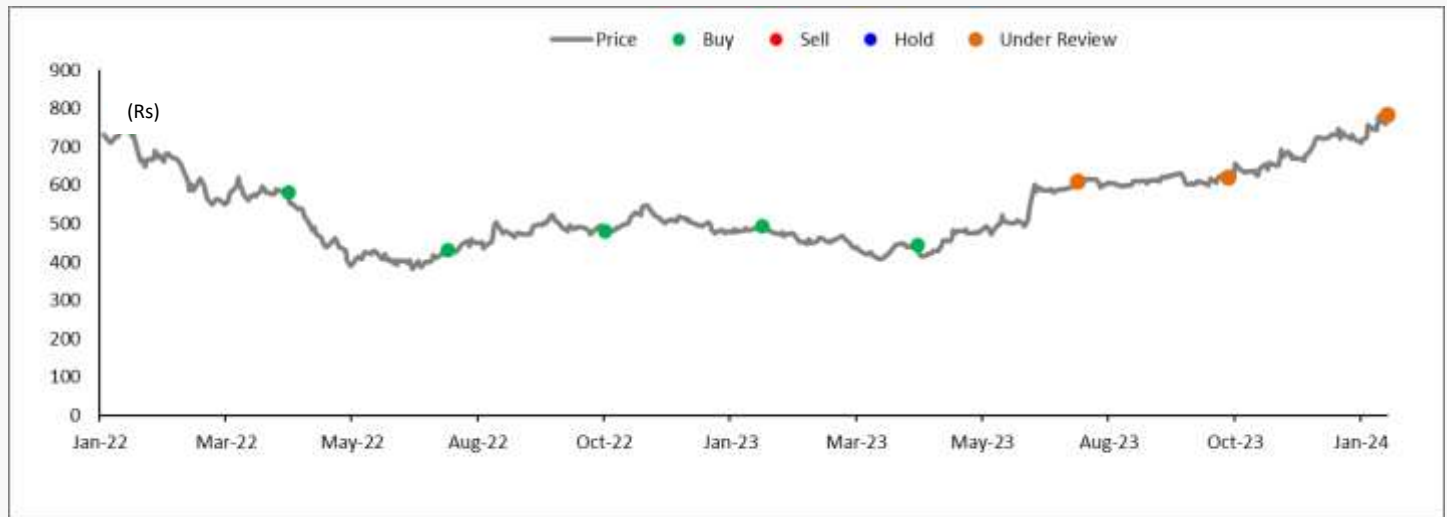
Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24E	FY25E
Profitability & Efficiency Ratios				
RoE (%)	65.0	42.3	48.8	45.8
RoA (%)	12.7	7.7	9.0	9.0
Cost to Income Ratio (%)	46.1	56.2	56.1	56.0
Valuation				
BVPS	75.3	88.4	110.1	135.5
Change	33%	17%	25%	23%
Price-BV (x)	8.4	7.1	5.7	4.7
EPS	42.8	34.6	48.4	56.3
Change	29%	-19%	40%	16%
Price-Earnings (x)	14.7	18.2	13.0	11.2
Dividend Per Share	24.0	19.0	26.6	30.9
Dividend Payout Ratio	56%	55%	55%	55%
Dividend Yield (%)	3.8%	3.0%	4.2%	4.9%

Source: Company, Axis Securities

ICICI Securities Price Chart and Recommendation History



Date	Reco	TP	Research
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	500	Result Update
24-Jul-23	NA	NA	UNDER REVIEW
17-Oct-23	NA	NA	UNDER REVIEW
17-Jan-24	NA	NA	UNDER REVIEW

Source: Axis Securities

About the Analyst



Analyst: Dnyanada Vaidya

Contact Details: dnyanada.vaidya@axissecurities.in

Sector: BFSI

Analyst Bio: Dnyanada Vaidya is MMS (Finance) with over 6 years of research experience in the Banking/NBFC sector.

About the Analyst



Contact Details: bhavya1.shah@axissecurities.in

Sector: BFSI

Analyst Bio: Bhavya Shah is Chartered Accountant and CFA level 2 cleared with over 6 months of research experience in the Banking/NBFC Industry

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