

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	ISEC IN
Equity Shares (m)	322
M.Cap.(INRb)/(USD\$)	163.5 / 2
52-Week Range (INR)	886 / 408
1, 6, 12 Rel. Per (%)	-7/-23/-33
12M Avg Val (INR M)	267

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Revenues	34.9	38.2	41.8
Opex	18.1	19.8	21.6
PBT	16.8	18.4	20.2
PAT	12.6	13.8	15.2

Ratios

C/I ratio (%)	52.0	51.8	51.6
PAT margin (%)	36.0	36.1	36.3
RoE (%)	47.4	44.4	41.9
Div. Payout (%)	65.0	65.0	65.0
EPS	39.0	42.8	47.0
EPS Growth (%)	-9.1	9.8	10.0
BV	89.0	104.0	120.4

Valuations

P/E (x)	13.0	11.8	10.8
P/BV (x)	5.7	4.9	4.2
Div. Yield (%)	5.0	5.5	6.0

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	74.9	74.9	74.9
DII	6.8	7.1	7.3
FII	7.1	7.3	5.7
Others	11.3	10.7	12.1

FII Includes depository receipts

CMP: INR507
TP: INR640 (+26%)
Buy

Market share in Retail Brokerage improves

- Revenue from ISEC's Retail Broking business increased by 6% QoQ – the first sequential improvement in six quarters. The customer acquisition run-rate improved to 0.46m from 0.45m in 1QFY23. However, Prime subscription fees fell QoQ to INR269m. Revenue from Issuer Services improved 39% QoQ to INR488m, led by a recovery in Advisory activity.
- Overall revenue grew 8% QoQ to INR8.6b, 5% above our estimate as the strength in Retail Brokerage was offset by weak revenue from the Institutional segment (down 33% YoY). PAT fell 14% YoY to INR3b, above our estimate by 3%. C/I ratio fell to 53.4% (est. 52.5%) in 2QFY23.
- Our EPS estimates broadly remain unchanged. **We retain our Buy rating with a TP of INR640 (based on 15x FY24E P/E).**

Revenue from Retail Broking improves; client addition run-rate flattish

- Revenue from Retail Broking fell 17% YoY, but grew 10% QoQ to INR2.9b.
- Market share in the Retail Cash segment improved by 90bp QoQ to 10.6% and the same in the Derivatives expanded by 20bp to 3.7%.
- Revenue from the Institutional Equities segment declined by 9% YoY and 5% QoQ to INR391m in 2QFY23.
- ISEC added 462k new customers in 2QFY23 v/s 447k QoQ.** The activation rate declined by 20% QoQ to 59%. The number of NSE active clients fell to 3.06m from 3.19m QoQ.

Interest and Distribution income drive revenue growth

- Interest income grew 27% YoY, but fell 3% QoQ to INR1.5b. The average MTF book fell sequentially to INR55b from INR58b, whereas its MTF market share expanded by 60bp to 23%. The ESOP book fell to INR11b from INR13b in 1QFY23 due to revised regulatory norms.
- Distribution revenue rose 5% YoY and 3% QoQ to INR1.6b, led by strong performance in the MF and Life Insurance segments. Others segment saw a sharp fall (down 18% QoQ). SIP count was steady at 1m. SIP flows have been falling sharply to INR11.9b in 2QY23 from INR12.4b/INR13.2b in 1QFY23/4QFY22.
- Revenue from Investment Banking grew 39% QoQ, but fell 33% YoY to INR488m.

Highlights from the management commentary

- New client additions will be maintained at 0.4-0.45m every quarter. However, short-term headwinds remain. The management aims to maintain market share at 7-7.5% in this parameter.
- Encouraging signs are visible: 1) active F&O customers grew 25% QoQ, 2) cash volumes are flat QoQ as against five consecutive quarters of a QoQ decline, and 3) SIPs are seeing increasing trends for the industry as a whole.

Valuation and view

ISEC has seen tough times in the recent past due to high linkage of its revenue to the broader equity market. This has translated in a sharp decline in Broking revenue as its dependence on Cash volumes is relatively higher. However, there has been some stability in 2QFY23. Primary issuances have slowed down materially. The company is on course to diversify its revenue, with the launch of several tools and products for the Derivatives segment. The management has intensified its focus on increasing penetration of MTF among its customers. The launch of new Distribution products will further enhance revenue in due course. On the cost front, ISEC is judiciously spending on human resource and technology. **We broadly retain our estimates and maintain our Buy rating with a TP of INR640 (based on 15x FY24E P/E).**

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23E 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue from Operations	7,453	8,564	9,416	8,917	7,935	8,584	8,884	9,508	34,350	34,912	8,213	4.5
Total Income	7,477	8,566	9,419	8,923	7,948	8,656	8,896	9,412	34,385	34,912	8,225	5.2
Change YoY (%)	36.8	25.9	51.9	20.7	6.3	1.1	-5.6	5.5	33.0	1.5	-4.0	
Operating Expenses	3,310	3,856	4,321	4,369	4,277	4,621	4,621	4,631	15,856	18,149	4,320	7.0
Change YoY (%)	15.3	25.1	64.8	46.6	29.2	19.8	6.9	6.0	37.2	14.5	12.0	
PBT	4,167	4,709	5,099	4,554	3,671	4,035	4,276	4,781	18,529	16,762	3,905	3.3
Change YoY (%)	60.6	26.5	42.5	3.2	-11.9	-14.3	-16.1	5.0	29.5	-9.5	-17.1	
Tax Provisions	1,060	1,197	1,295	1,149	934	1,032	1,069	1,156	4,700	4,191	976	5.7
Net Profit	3,107	3,512	3,804	3,405	2,736	3,003	3,207	3,625	13,828	12,572	2,929	2.5
Change YoY (%)	60.9	26.3	42.5	3.3	-11.9	-14.5	-15.7	6.5	29.5	-9.1	-16.6	
Key Operating Parameters (%)												
Cost-to-Income Ratio	44.3	45.0	45.9	49.0	53.8	53.4	51.9	49.2	46.1	52.0	52.5	0.9
PBT Margin	55.7	55.0	54.1	51.0	46.2	46.6	48.1	50.8	53.9	48.0	47.5	-0.9
Tax Rate	25.4	25.4	25.4	25.2	25.5	25.6	25.0	24.2	25.4	25.0	25.0	0.6
PAT Margin	41.6	41.0	40.4	38.2	34.4	34.7	36.0	38.5	40.2	36.0	35.6	-0.9
Revenue from the Operations Mix (%)												
Retail Brokerage Income	51.5	44.6	40.5	41.2	40.9	41.7	42.1	40.7	44.1	36.2		
Institutional Brokerage Income	7.9	7.4	7.3	7.0	6.1	4.9	5.0	5.2	7.4	4.9		
Investment Banking	6.4	8.5	11.7	7.3	4.4	5.7	6.0	5.7	8.6	5.5		
Distribution Income	15.9	17.4	17.4	18.9	19.2	18.2	18.4	20.5	17.5	19.9		
Other servicing Income	7.6	8.6	7.7	8.4	10.5	13.2	11.0	10.8	8.1	6.8		
Interest Income	11.1	13.6	15.5	17.2	19.1	17.1	17.1	16.6	14.5	24.9		
OPEX Mix (%)												
Employee Expenses	45.6	43.6	40.0	39.4	40.9	40.2			41.9	41.0		
Depreciation	4.4	3.8	3.7	4.0	3.8	4.1			3.9	4.1		
Interest Expenses	12.6	15.1	19.1	20.8	23.5	23.4			17.3	22.4		
Others	37.4	37.5	37.1	35.7	31.8	32.3			36.9	32.4		
Other Parameters (%)												
Equity MS	9.9	10.0	9.8	10.0	9.7	10.6						
Derivatives MS	4.2	3.7	3.5	3.3	3.5	3.7						



Highlights from the management commentary

Industry

- Encouraging signs visible 1) F&O active continued to grow 25% QoQ, 2) Cash volumes flat QoQ as compared to 5 consecutive quarters of QoQ decline, 3) SIPs continue to show increasing trends.
- Challenges seen: Demat accounts addition decreased by 11%, NSE Active clients declined for the first time in many years, gross flows in MF declined, ECM activities were lower were the challenges in the quarter.

Four key focus areas for ISEC

- **Market share improvement:** Green shoots have appeared in market share on Retail ADTO as it improved 90bps QoQ to 10.6%, MTF business leadership continued improved by with market share improvement to 23%. Market share in demat accounts increased from 6.5% to 7.6% QoQ market share in demat accounts. Going ahead ISEC will focus on acquiring better quality clients.
- **Diversification of revenues:** ISEC is aiming to reduce cyclicity in its revenues. One of the key measures is through sharpening focus on the wealth franchise. Cash broking and Capital markets business are the only relatively more cyclical business.
- **Cost efficiencies:** Overall costs increased 8% QoQ and 20% YoY while CI ratio is flat. Increase is led by finance costs pertaining to MTF, Employee costs and technology costs. Going ahead spends will be judicious to balance growth and profitability.
- **Product proposition pipeline for future:** ISEC is making its app future ready and has done a soft launch of its Super app that will have all the products. Additionally it has launched product for trader called "Flash Trade" which is one of its kind in the industry, Smart order tool that allows user to place order based on rules through swipe on screen. The company has tied up with IDFC Bank to offer 3-in-1 account.

Wealth management initiatives

- Over the years, ISEC has increased its offerings to the wealth customers and added proprietary PMS schemes, retirement solutions, ESOP finance, MTF and most recently loans.
- It has an AUM of more than INR3t in this segment (customer with a net worth of over INR10m).
- Customer behavior in this segment: Revenue persistency is higher v/s other customers. The retention rate is 98% and AUM/revenue retention ratio is over 100% over a one-year period. AUM/revenue/ARPU increases with vintage.
- The company aims to add 1,500 to 3,000 customers per quarter.

Others

- Employee costs – Increase has been on the back of manpower hiring in segments such as technology, Data Science and Digital marketing.
- Other distribution – PMS/AIF products and IPOs witnessed lower distribution during the quarter. However, loan distribution business has picked up momentum to INR9b from INR6b QoQ.

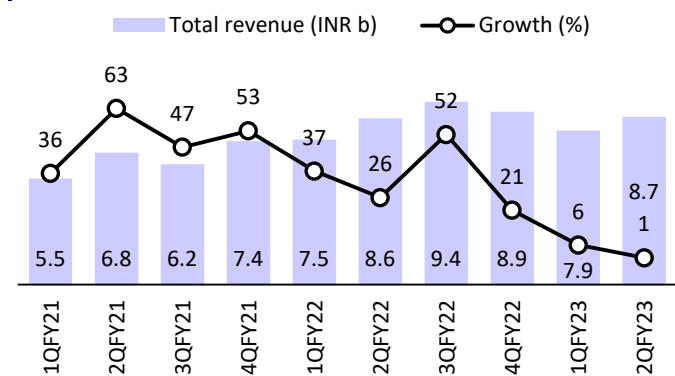
- The yields on Insurance were lower due to lower share of new business
- A large portion of migration of existing customers to Prime plan has happened, but customers in the lower subscription plans are moving to higher subscription plans.
- New client additions will be maintained at about 0.4-0.45m per quarter. However, short term headwinds remain. The management aims to maintain market share in this parameter at 7-7.5%.
- ISEC earns about 3-4% NIM in the MTF book wherein it charges around 9-9.2%, while its borrowing costs are 5-5.5%.

Exhibit 1: Broadly retain our earnings estimates

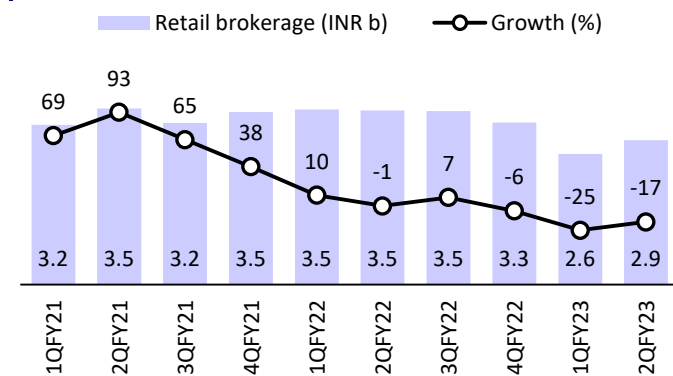
INR b	Old estimate		New estimate		Change (%)	
	FY23	FY24	FY23	FY24	FY23E	FY24E
Total Income	34.5	37.7	34.9	38.2	1.3	1.3
Operating Expenses	17.8	19.4	18.1	19.8	2.2	2.1
PBT	16.7	18.3	16.8	18.4	0.3	0.5
Tax	4.2	4.6	4.2	4.6	0.3	0.5
PAT	12.5	13.7	12.6	13.8	0.3	0.5
C/I ratio	51.5	51.4	52.0	51.8	0.5	0.4
RoE	47.3	44.2	47.4	44.4	0.1	0.2
Dividend payout ratio	65.0	65.0	65.0	65.0	0.0	0.0

Source: MOFSL, Company

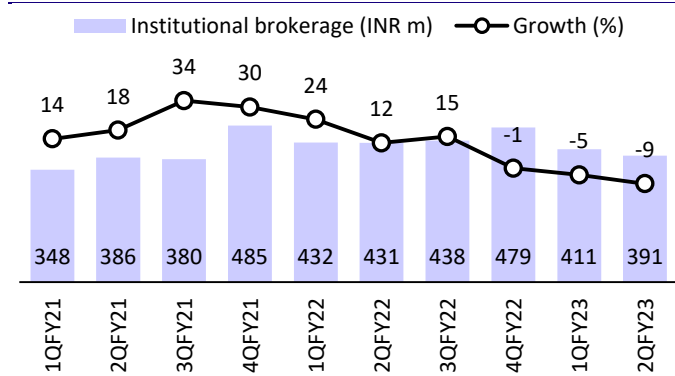
Key exhibits

Exhibit 2: Revenue grew QoQ led by higher revenue from Brokerage in 2QFY23

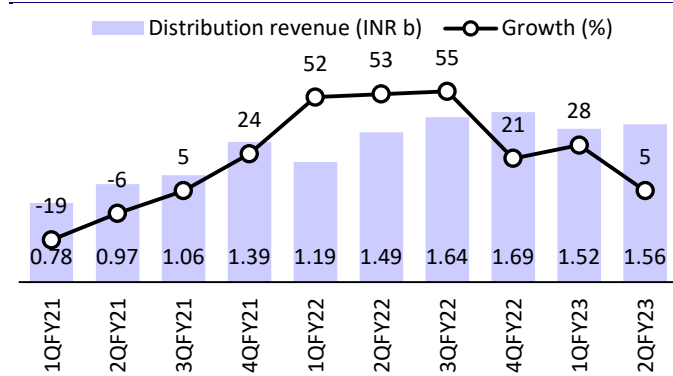
Source: MOFSL, Company

Exhibit 3: Retail Brokerage improves after five quarters of a decline in 2QFY23

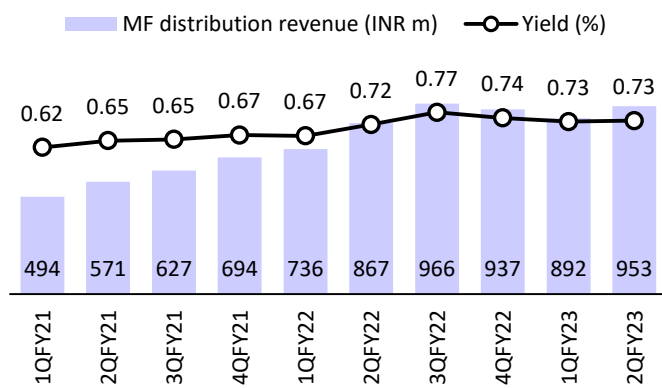
Source: MOFSL, Company

Exhibit 4: Revenue from Institutional Brokerage fell 9% YoY in 2QFY23

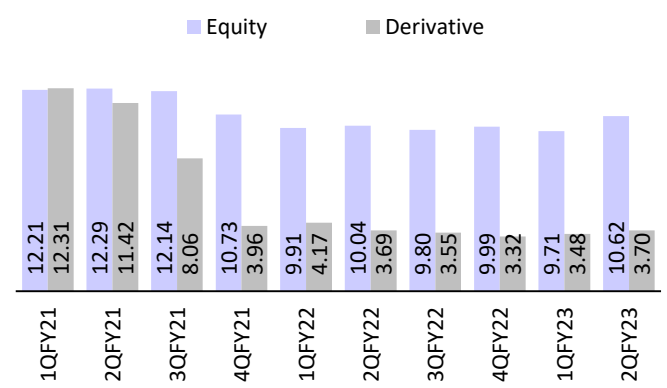
Source: MOFSL, Company

Exhibit 5: Other products drive down growth in the Distribution segment

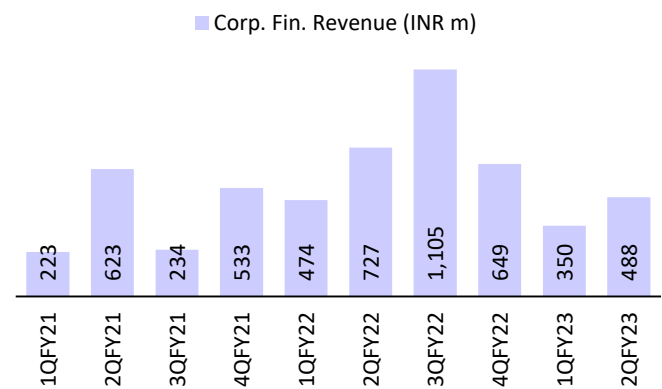
Source: MOFSL, Company

Exhibit 6: Revenue from MF distribution grew 10% YoY; yields steady after two consecutive quarters of a fall

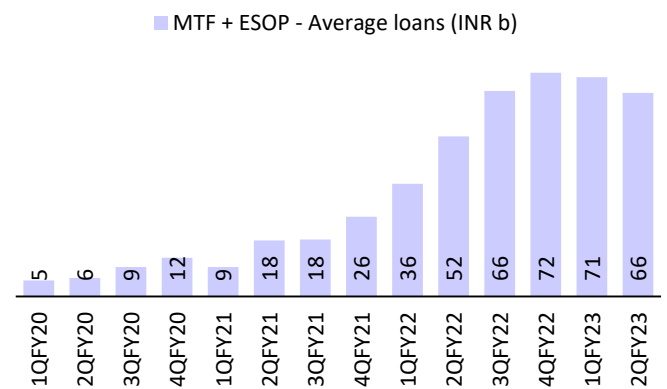
Source: MOFSL, Company

Exhibit 7: Market share improves in the Cash and Derivatives segments

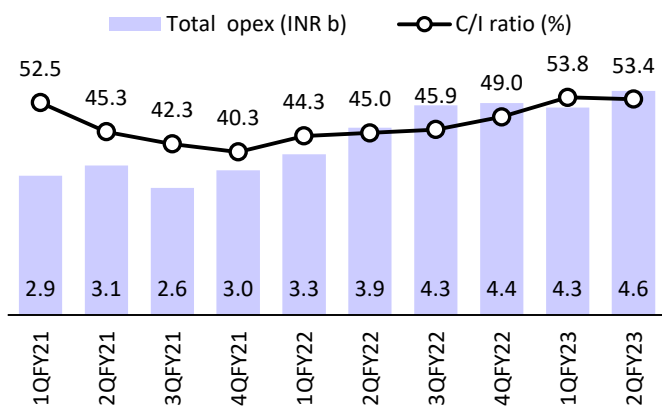
Source: MOFSL, Company

Exhibit 8: Revenue from issuer services and advisory improves on a sequential basis

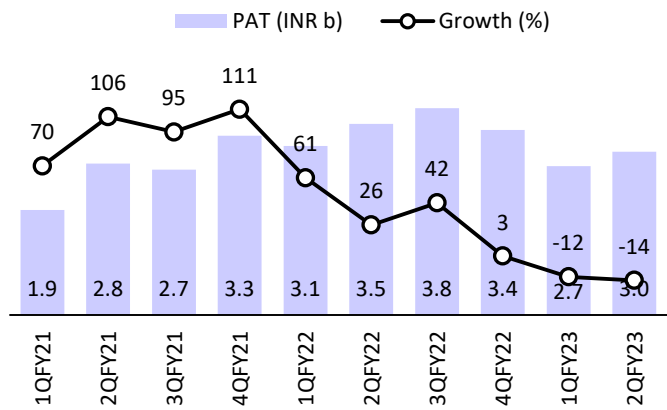
Source: MOFSL, Company

Exhibit 9: ESOP book declines sequentially, whereas the MTF book remains flat

Source: MOFSL, Company

Exhibit 10: C/I ratio improves sequentially

Source: MOFSL, Company

Exhibit 11: Trend in PAT

Source: MOFSL, Company

Financials and valuations

Income Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income	18,610	17,046	17,249	25,862	34,385	34,912	38,209	41,846
Change (%)	32.5	-8.4	1.2	49.9	33.0	1.5	9.4	9.5
Brokerage Income	10,243	9,328	9,920	16,329	17,685	16,287	17,594	19,006
Income from Services	6,552	5,733	4,895	5,815	8,952	8,583	9,743	11,069
Interest Income	1,574	1,792	2,036	3,053	6,840	8,679	9,374	10,124
Other Operating Income	241	193	398	664	908	1,362	1,498	1,648
Other Income	0	0	0	0	0	0	0	0
Operating Expenses	10,086	9,698	9,720	11,554	15,858	18,149	19,805	21,609
Change (%)	14.3	-3.8	0.2	18.9	37.3	14.4	9.1	9.1
Employee expenses	5,504	5,545	5,338	5,880	6,645	7,442	8,186	9,005
Interest expenses	495	423	864	1,073	2,737	4,071	4,397	4,748
Depreciation	153	150	614	542	625	750	780	800
Others	3,935	3,580	2,905	4,060	5,851	5,886	6,442	7,056
Profit Before Tax	8,524	7,348	7,529	14,308	18,527	16,762	18,404	20,237
Change (%)	63.3	-13.8	2.5	90.0	29.5	-9.5	9.8	10.0
Tax	2,989	2,665	2,109	3,631	4,700	4,191	4,601	5,059
Tax Rate (%)	35.1	36.3	28.0	25.4	25.4	25.0	25.0	25.0
PAT	5,535	4,683	5,420	10,677	13,826	12,572	13,803	15,178
Change (%)	63.5	-15.4	15.7	97.0	29.5	-9.1	9.8	10.0
Proposed Dividend	3,646	3,646	3,825	6,940	7,731	8,172	8,972	9,866

Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	1,611	1,611	1,611	1,611	1,613	1,613	1,613	1,613
Reserves & Surplus	6,866	8,862	10,485	16,610	22,692	27,092	31,923	37,235
Net Worth	8,477	10,473	12,095	18,221	24,305	28,705	33,536	38,848
Borrowings	6,771	4,518	14,998	35,238	77,392	83,584	96,121	1,10,539
Other Liabilities	13,491	31,655	17,335	28,350	34,764	38,241	42,065	46,271
Total Liabilities	28,739	46,646	44,428	81,809	1,36,461	1,50,529	1,71,722	1,95,659
Cash and Investments	15,499	31,515	24,139	38,822	56,274	63,722	72,560	82,353
Change (%)	55.7	103.3	-23.4	60.8	45.0	13.2	13.9	13.5
Loans	5,782	4,033	5,709	29,015	68,566	74,051	85,159	97,933
Net Fixed Assets	421	476	2,061	1,688	1,978	2,175	2,393	2,632
Net Current Assets	7,037	10,623	12,520	12,285	9,644	10,581	11,610	12,740
Total Assets	28,739	46,646	44,428	81,809	1,36,461	1,50,529	1,71,722	1,95,659

E: MOFSL Estimates, * Data from FY20 is as per new disclosures

Financials and valuations

Ratios								(%)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
As a percentage of Revenues								
Brokerage Income	55.0	54.7	57.5	63.1	51.4	46.7	46.0	45.4
Income from Services	35.2	33.6	28.4	22.5	26.0	24.6	25.5	26.5
Interest Income	8.5	10.5	11.8	11.8	19.9	24.9	24.5	24.2
Other Income	1.3	1.1	2.3	2.6	2.6	3.9	3.9	3.9
Total cost	54.2	56.9	56.4	44.7	46.1	52.0	51.8	51.6
Employee Cost	29.6	32.5	30.9	22.7	19.3	21.3	21.4	21.5
Opex (ex emp) Cost	24.6	24.4	25.4	21.9	26.8	30.7	30.4	30.1
PBT	45.8	43.1	43.6	55.3	53.9	48.0	48.2	48.4
PAT	29.7	27.5	31.4	41.3	40.2	36.0	36.1	36.3
Profitability Ratios (%)								
RoE	82.0	49.4	48.0	70.4	65.0	47.4	44.4	41.9
Dividend Payout Ratio	65.9	77.9	70.6	65.0	55.9	65.0	65.0	65.0
Valuations								
BVPS (INR)	26.3	32.5	37.5	56.5	75.3	89.0	104.0	120.4
Change (%)	69.0	23.5	15.5	50.6	33.2	18.1	16.8	15.8
Price-BV (x)	19.3	15.6	13.5	9.0	6.7	5.7	4.9	4.2
EPS (INR)	17.2	14.5	16.8	33.1	42.9	39.0	42.8	47.0
Change (%)	63.5	-15.4	15.7	97.0	29.3	-9.1	9.8	10.0
Price-Earnings (x)	29.5	34.9	30.1	15.3	11.8	13.0	11.8	10.8
DPS (INR)	9.4	9.4	11.0	21.5	24.0	25.3	27.8	30.6
Dividend Yield (%)	1.9	1.9	2.2	4.2	4.7	5.0	5.5	6.0

E: MOFSL Estimates * Data from FY20 is as per new disclosures

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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