

Front runner in digital initiatives

Key focus remains on digitalization, Artificial Intelligence and open architecture

To get an update on the business and sectoral trends, we interacted with Mr. Vijay Chandok, Managing Director and CEO, and Mr. Harvinder Jaspal, CFO, of ICICI Securities (ISEC). Here are the key insights from that discussion:

Targeting multiple channels for customer acquisition

In FY20, incremental NSE active client market share for ISEC increased by ~225bp to 11.5%. However, the same has seen some moderation in FY21 YTD. FY20 MS gain was aided by a higher focus on ICICIBC's affluent, privilege and higher-end customer engagement initiatives, including new terms with the bank for activation. **While over 95% of the customer onboarding process was 'phygital' (physical + digital) prior to the COVID-19 outbreak, the sudden lockdown impacted customer acquisition, where discount brokers were better placed. ISEC has corrected this now with a digital end-to-end customer acquisition process.** The management is focusing on: a) open architecture, b) tie-up with newer banks similar to its arrangement with ICICIBC, c) increasing sub-brokers and IFA network, and d) faster processing of digital leads. The management remains confident of regaining MS in incremental customer acquisition. With the open architecture in place, non-ICICIBC customers now constitute one-third of new acquisitions. Also, share of sourcing from non-ICICI Bank segments (branches, sub-brokers, etc.) has increased from 15-20% to 45%.

Limited impact of new regulations so far

Higher margin requirement for intraday, a key concern for the industry, has not impacted meaningfully. Like its peers, ISEC has seen some moderation in low-yielding futures and intraday volumes. However, delivery volumes in the higher yielding cash segment have picked up as of now. The lower volumes are likely to be compensated by higher commission rates, leading to not much of an impact on Brokerage revenues. After the initial teething issues, the pledge/re-pledge system has stabilized now. The company has not seen any impact related to the same.

New product launches to take on competition

ISEC recently launched NEO plan specifically targeted at customers with a higher churn or trading volumes. This plan has free futures trading and a fixed rate for intraday equity trading. It also launched a 'Chotta Prime' plan with a lower annual commitment of INR299 (vs INR999 in Prime), but with a slightly higher brokerage rate for cash delivery (27bp v/s 25bp earlier). It has also undertaken a soft launch of the ICICIdirect Money app (focused on MF investments) with features like immediate liquidity, research-based recommendations, etc. All product launches are keeping in mind increasing volumes MS and ARPU from customers. The management is considering a new brand for its discount broking initiatives.

Initiatives in the last 12-18 months are showing strong results

Customer engagement with ISEC has gone up in the last few years, despite rising competition from discount brokers, led by products like Options 20, Prime plan, instant liquidity, etc. In the last one year, the company saw its volumes MS increase by 240bp/150bp in the cash market/F&O segment to 11.1%/8.8%. Under the Options 20 plan, the number of transacting customers increased by 2x, with a spurt in the number of trades carried out. The rise in volumes helped arrest the impact of lower commission rates on revenue. The new arrangement with ICICIBC has helped it increase the activation rate (customer transacting with ISEC in the first 90 days) to 65-70% v/s 30-35% earlier. Based on the experience of Options 20, the management remains confident that the impact on commission rates under the NEO plan would be compensated by volumes.

ICICI Securities



Mr. Vijay Chandok
Managing Director and
CEO, ICICI Securities

Mr. Chandok is a member of the advisory committee of NSE and BSE, besides being a member of the secondary markets advisory committee constituted by Sebi. He is also the co-chair of the capital markets committee of Ficci. Mr. Chandok holds a master's degree in management studies and a bachelor's degree in mechanical engineering

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Digitalization, ARPU increase and cost containment are key priorities

The management is aggressively filling gaps in its talent pool and offered ESOPs to its frontline staff. It is also focusing on cost containment via its digital initiatives and by reducing the number of branches.

Strong pool of customers; AUM/AUA of INR3t

The company has a total pool of 5m customers, of which 2.9m are ever-active. It is acquiring 30-35k customer on a monthly basis. It has a total AUA/AUM of INR3t, of which Wealth Management accounts for (INR20-250m ticket size) INR1.1t. Between 2017 and 2020, it acquired 1m customers, of which, ~70% are below 30 years of age. Also, 70% of the active clients acquired in the past three years are millennials. ISEC is very strong in the 30-50 years age bracket. About 37% of the customers acquired 15 years back (2001-06) are active even today. Over 65% of Brokerage revenue contribution accrues from customers acquired five years back.

Valuation and view

ISEC is a classic play on increasing financialization of savings and retail participation in the equity market. Its business and profitability is cyclical. Initiatives such as the tie-up with ICICIBC, Prime, and Options 20 have yielded results. The Brokerage segment is benefitting from tailwinds of increased trading activity from retail customers. While there could be some moderation due to the new margin funding regulations that came into effect from 1 December 2020, we expect its strong growth to continue. Distribution income has been weak over the past two years, but seems to have bottomed out. With increased capital market activity, IB revenue is likely to remain robust, although they could vary significantly on a QoQ basis. We expect the company to deliver 22% PAT CAGR over FY20-23E. Maintain Buy with a TP of INR625 per share (23x FY22E EPS).

Story in charts

Exhibit 1: Neo plan – Nil brokerage on futures trading and flat fee on intraday equity

INTRODUCING
ICICI direct Neo
₹0
BROKERAGE PLAN.

Neo Brokerage Plan:

₹0	₹20	₹20
for Futures Trading	for Options Trading (unlimited per order)	for Intraday Equity (unlimited per order)

Get More From ICICIdirect:

Cash in 30 minutes:	8.9% P.A.†	Research for all:
Get money in 30 minutes on selling stocks. ^	Avail Margin Funding at interest rate as low as 8.9% P.A. to buy stocks.	Access to our award-winning research team.

Source: MOFSL, Company

Exhibit 2: Revised Prime Brokerage – Annual subscription plans starting at INR299

30
Get your funds within 30 minutes of selling shares.

Avail Margin Funding at 8.9% P.A.

Access to our award-winning research.

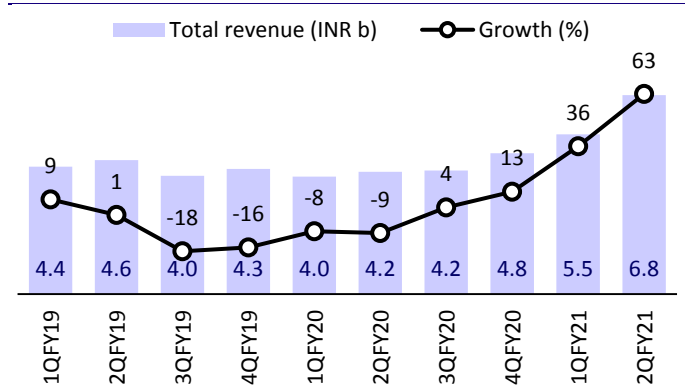
Choose from any of our ICICIdirect Prime Plans and reduce your brokerage by upto 72%

Prime Plan (₹)	Cash %	Margin / Futures %	Options (Per Lot) (₹)	Special MTF Interest rates/LPC (% per annum)
299.00	0.27	0.027%	40	14.9
999.00	0.22	0.022%	35	12.9
1,999.00	0.18	0.018%	25	10.4
2,999.00	0.15	0.015%	20	8.9

Brokerage charged in Currency Futures, Currency Options and Commodity Futures will be charged at ₹20 per order across all the plans

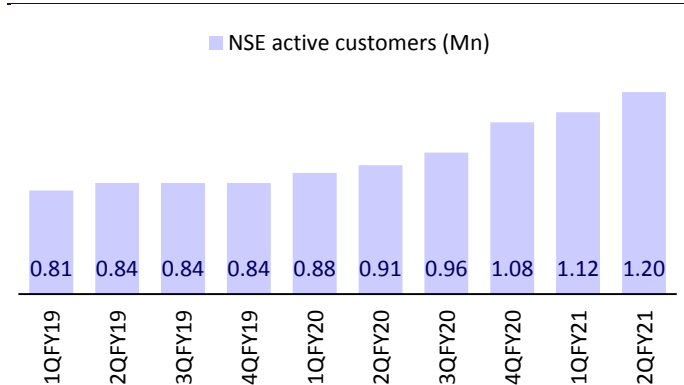
Source: MOFSL, Company

Exhibit 3: Sharp uptick in revenue growth due to elevated retail brokerage volumes



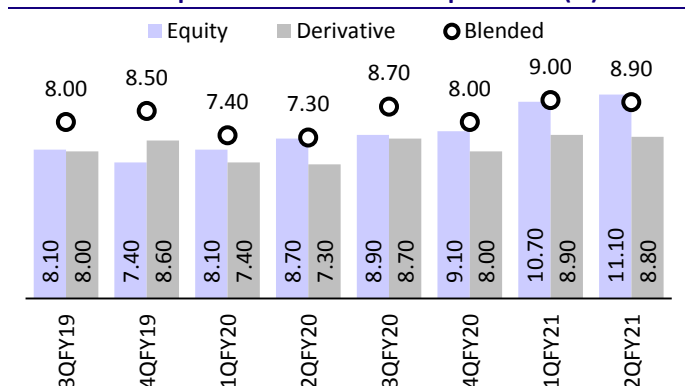
Source: MOFSL, Company

Exhibit 4: NSE active clients on the rise



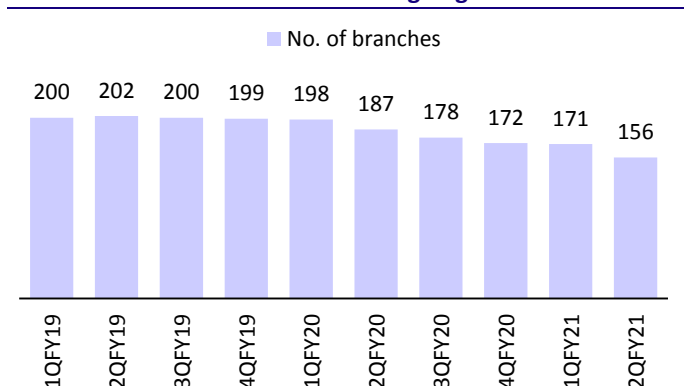
Source: MOFSL, Company

Exhibit 5: 240bp YoY increase in cash equities MS (%)



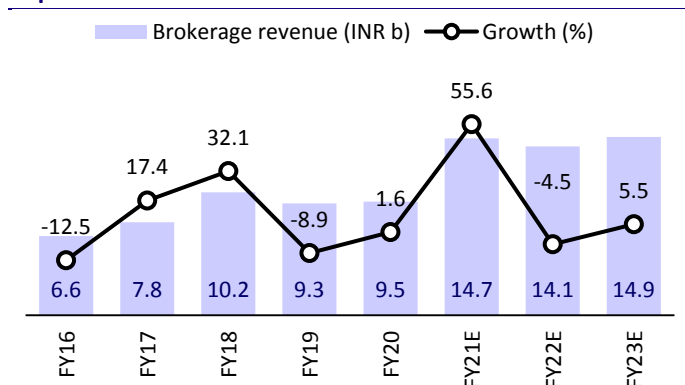
Source: MOFSL, Company

Exhibit 6: Branch rationalization on going



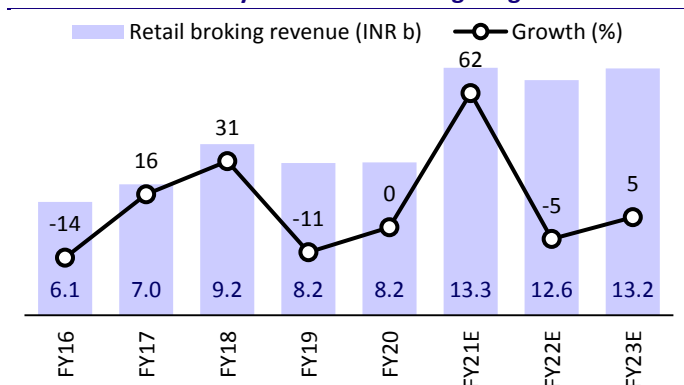
Source: MOFSL, Company

Exhibit 7: Normalization of brokerage revenues in FY22 expected...



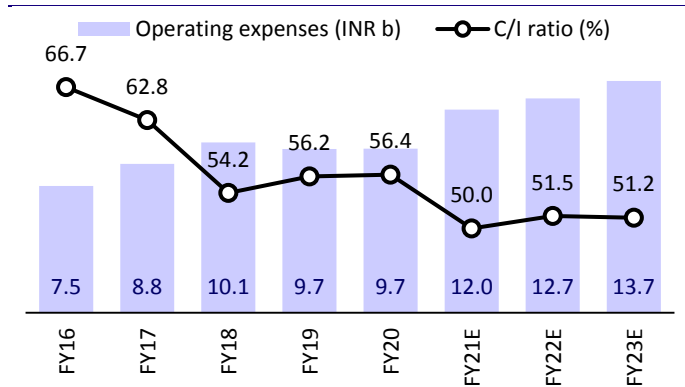
Source: MOFSL, Company

Exhibit 8: ... driven by the retail Brokerage segment



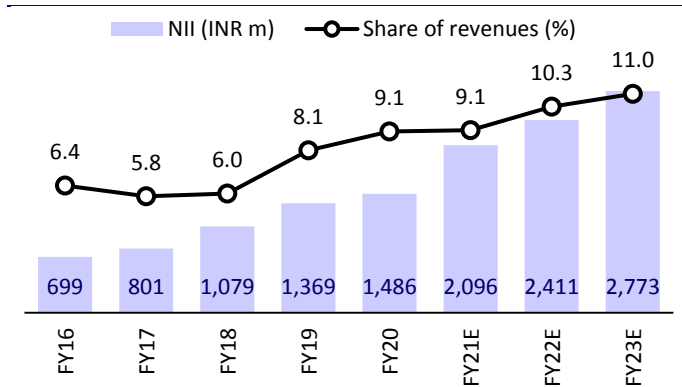
Source: MOFSL, Company

Exhibit 9: Target C/I ratio closer to ~50% in the medium term



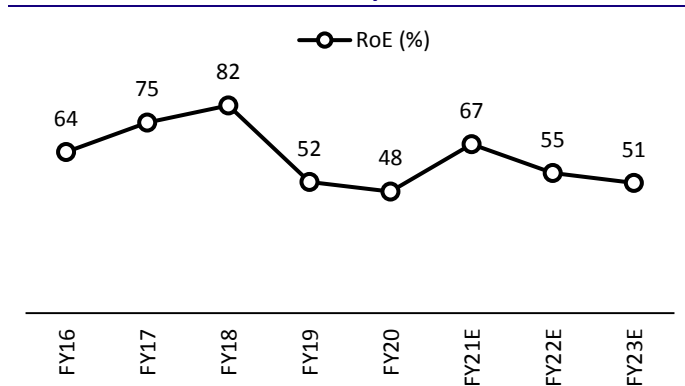
Source: MOFSL, Company

Exhibit 10: Expect share of NII to increase 190bp over FY20-23E



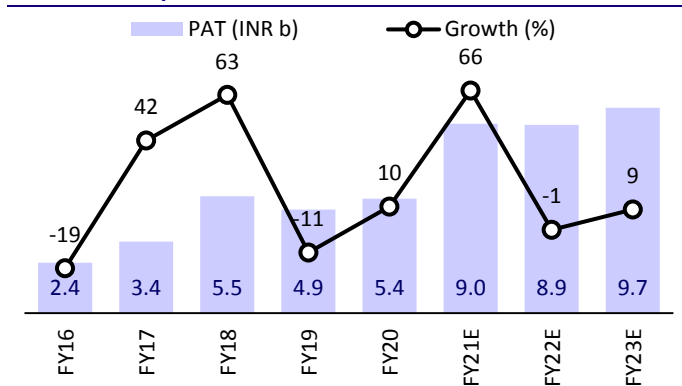
Source: MOFSL, Company

Exhibit 11: RoE to remain healthy



Source: MOFSL, Company

Exhibit 12: Expect 22% CAGR in PAT over FY20-23E



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income	11,246	14,042	18,610	17,270	17,249	24,073	24,676	26,800
Change (%)	-7.0	24.9	32.5	-7.2	-0.1	39.6	2.5	8.6
Brokerage Income	6,607	7,756	10,243	9,328	9,476	14,747	14,084	14,862
Income from Services	3,499	4,982	6,552	5,733	5,218	5,766	6,436	7,111
Interest Income	957	1,091	1,574	1,792	2,350	3,220	3,702	4,258
Other Operating Income	182	214	241	193	19	321	431	541
Other Income	0	0	0	225	187	20	24	29
Operating Expenses	7,505	8,822	10,086	9,698	9,720	12,032	12,698	13,734
Change (%)	-1.2	17.6	14.3	-3.8	0.2	23.8	5.5	8.2
Employee expense	4,014	4,847	5,504	5,545	5,338	6,992	7,552	8,156
Interest expense	258	289	495	423	864	1,123	1,292	1,485
Depreciation	160	155	153	150	614	540	565	590
Others	3,073	3,531	3,935	3,580	2,905	3,376	3,290	3,503
Profit Before Tax	3,741	5,220	8,524	7,572	7,529	12,042	11,978	13,066
Change (%)	-16.8	39.5	63.3	-11.2	-0.6	59.9	-0.5	9.1
Tax	1,354	1,835	2,989	2,665	2,109	3,071	3,054	3,332
Tax Rate (%)	36.2	35.1	35.1	35.2	28.0	25.5	25.5	25.5
PAT	2,387	3,386	5,535	4,907	5,420	8,971	8,924	9,735
Change (%)	-18.8	41.8	63.5	-11.3	10.4	65.5	-0.5	9.1
Proposed Dividend	1,939	2,468	3,646	3,646	3,825	6,280	6,247	6,814

Balance Sheet						(INR m)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Reserves and Surplus	2,371	3,404	6,866	8,862	10,485	13,176	15,853	18,773
Net Worth	3,982	5,015	8,477	10,473	12,095	14,787	17,464	20,384
Borrowings	2,356	3,987	6,771	4,518	14,998	13,498	14,848	17,075
Other Liabilities	7,637	11,423	13,491	31,655	17,335	19,069	20,976	23,073
Total Liabilities	13,975	20,424	28,739	46,646	44,428	47,353	53,287	60,532
Cash and Investments	6,406	9,952	15,499	31,515	24,139	23,367	26,149	29,768
Change (%)	-25.0	55.3	55.7	103.3	-23.4	-3.2	11.9	13.8
Loans	1,546	50	5,782	4,033	5,709	7,992	9,591	11,509
Net Fixed Assets	378	375	421	476	2,061	2,267	2,494	2,743
Net Current Assets	5,644	10,048	7,037	10,623	12,520	13,727	15,054	16,512
Total Assets	13,975	20,424	28,739	46,646	44,428	47,353	53,287	60,532

E: MOFSL estimates

Financials and valuations

Ratios	(%)							
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	2022E	2023E
As a percentage of Revenue								
Brokerage Income	58.8	55.2	55.0	54.0	54.9	61.3	57.1	55.5
Income from Services	31.1	35.5	35.2	33.2	30.2	24.0	26.1	26.5
Interest Income	8.5	7.8	8.5	10.4	13.6	13.4	15.0	15.9
Other Income	1.6	1.5	1.3	2.4	1.2	1.4	1.8	2.1
Total cost	66.7	62.8	54.2	56.2	56.4	50.0	51.5	51.2
Employee Cost	35.7	34.5	29.6	32.1	30.9	29.0	30.6	30.4
Opex (ex-emp.) Cost	31.0	28.3	24.6	24.0	25.4	20.9	20.9	20.8
PBT	33.3	37.2	45.8	43.8	43.6	50.0	48.5	48.8
PAT	21.2	24.1	29.7	28.4	31.4	37.3	36.2	36.3
Profitability Ratios (%)								
RoE	63.6	75.3	82.0	51.8	48.0	66.7	55.3	51.4
Dividend Payout Ratio	81.2	72.9	65.9	74.3	70.6	70.0	70.0	70.0
Valuations								
BVPS (INR)	12.4	15.6	26.3	32.5	37.5	45.9	54.2	63.3
Change (%)	13.0	25.9	69.0	23.5	15.5	22.3	18.1	16.7
Price-to-BV (x)					12.0	9.8	8.3	7.1
EPS (INR)	7.4	10.5	17.2	15.2	16.8	27.8	27.7	30.2
Change (%)	-18.8	41.8	63.5	-11.3	10.4	65.5	-0.5	9.1
Price-to-Earnings (x)					26.8	16.2	16.3	14.9
DPS (INR)	5.0	6.4	9.4	9.4	11.0	19.5	19.4	21.2
Dividend Yield (%)					2.4	4.3	4.3	4.7

E: MOFSL estimates

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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