

# ICICI Securities Ltd.

Nifty	10,124
Sensex	32,997

## Issue Details

Offer Price Band	₹519 – 520
Face Value	10
Shares Offered (in mn)	77.2
ICICI Bank Shareholders' Reservation (in mn)	3.8
Net Issue (in mn)	73.3
Issue Size (in Bn)	40.0-40.2
Type	Offer for Sale
Listing (Stock Exchange)	NSE, BSE
Offer Open Date	22 Mar 2018
Offer Close Date	26 Mar 2018
QIB Allocation (of Net)	75.0%
NIB Allocation (of Net)	15.0%
Retail Allocation (of Net)	10.0%
Pre Issue Equity Shares (mn)	322.1
Post Issue Equity Shares (mn)	322.1
Bid Lot	28

## Scrip Estimates

Market Cap (₹Bn)	167.1 – 167.5
PAT- TTM Dec-17 (₹Bn)	4.82
BV – Dec-17 (₹Bn)	6.75
P/E(x)	34.7-34.8
P/B(x)	24.7-24.8

Shareholding Pattern (%)	Pre Offer	Post Offer
Promoter	100%	76.02%
Public & Others	-	23.98%

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

(₹mn)

Financials	FY16	FY17	9MFY18
Total Revenue	11,246	14,042	13,447
Growth (%)	(7)	25	NA
EBITDA	4,159	5,663	6,593
EBITDA (%)	37.0	40.3	49.0
PAT	2,387	3,386	3,991
PAT (%)	21.2	24.1	29.7
ROE (%)	63.6	76.3	91.4*

Source: RHP, Way2Wealth Inst. Equity

\*Annualized

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## Company Background

ICICI Securities Ltd. (ISL) is a leading securities firm in India that offers a wide range of financial services including brokerage, financial product distribution and investment banking. ISL has been the leading equity broker in India since FY14 by brokerage revenue and active customer in equities on the National Stock Exchange, primarily through their significant retail brokerage business, which accounted for ~91% of the revenue from brokerage business in FY17. The retail brokerage and financial product distribution business allows its customers to access the Indian financial capital markets through ICICIdirect platform and provides them with a seamless settlement process through a 3-in-1 account, which links the electronic brokerage platform with customers' savings bank and dematerialised accounts held with ICICI Bank. ISL also provides domestic and foreign institutional investors with brokerage services, corporate access and equity research. It is empanelled with a large cross-section of institutional clients, including foreign institutional investors. The investment banking business offers equity capital markets services and other financial advisory services to corporate clients, the Government and financial sponsors. Equity capital markets services include management of public equity offerings, share buybacks, tender offers and equity private placements. For the period from 1<sup>st</sup> April, 2012 to 30<sup>th</sup> September, 2017, ISL was the leading investment bank in the Indian equity capital markets by number of primary issuances managed. It also provides its clients with financial advisory services in relation to domestic and cross-border mergers and acquisitions, private placements and restructuring.

## Objects Of The Issue

The objects of the offer are to achieve the benefit of listing the Equity Shares on the Stock Exchanges and to carry out the sale of offered shares by ICICI Bank.

## Investment Rationale

- **Largest Equity Broker in India powered by proprietary technology platform: ICICI Direct** – ISL has been the largest equity broker in India since FY14 by brokerage revenue and active customers. Retail customers accounted for 94.3%, 93.2%, 93.0%, 91.9%, 90.5% and 89.0% of the revenue from brokerage business (excluding income earned on funds used in the brokerage business) in FY13, FY14, FY15, FY16, FY17 and the six months ended 30<sup>th</sup> September, 2017 respectively. ISL was also one of the pioneers in the e-brokerage business in India, having started offering online, real-time execution of trades on stock exchanges in FY 2000 through ICICIdirect. ICICIdirect, provides approximately 3.8mn customers (as at 30<sup>th</sup> September, 2017) access to a wide range of products and services. The electronic brokerage platform is backed by robust infrastructure and has processed, at peak usage, over 1.9mn orders & trades in a day.
- **Natural Beneficiary of Fundamental Transformation in Indian Savings Environment** – Household savings are increasingly shifting from physical assets to financial assets. The share of financial savings as a proportion of household savings has increased steadily from 31.1% in FY12 to 41.5% in FY16. The share of financial savings is likely to rise further, as stable inflationary trend is generally expected to diminish the behavior of physical savings such as investments in gold and real estate. ISL's strong brand name, large registered customer base, wide range of products across asset classes and complimentary advisory services position it to be the natural beneficiary of these transformational changes in the Indian savings markets. From 31<sup>st</sup> March 2013 to 30<sup>th</sup> September 2017, the number of brokerage and distribution customers who had operational accounts increased from approximately 2.1mn to 3.8mn, respectively, of whom approximately 0.5 million and 0.7 million, respectively, had traded on NSE in the preceding 12 months. The average daily turnover (ADTO) for cash equity and equity derivatives traded by customers of ISL increased from FY13 to the six months ended September 30, 2017, at a CAGR of 61.4% as compared to the corresponding market ADTO which increased at a CAGR of 38.6%.
- **Strong and growing distribution business** – ISL has a strong and growing distribution business, where it distributes third-party mutual funds, insurance products, fixed deposits, loans and pension products to its retail customers for commission income.

Revenue from the distribution business has increased from ₹1,621mn in FY13 to ₹3,501mn in FY17 and were ₹2,069mn in the six months ended 30<sup>th</sup> September 2017. Revenue from the distribution of third-party mutual funds accounted for 36.7%, 47.3% and 59.2% of the total revenue from distribution business in FY13, FY17 and the six months ended 30<sup>th</sup> September, 2017 respectively. In addition to its strong online presence, the distribution business is supported by nationwide network, consisting of over 200 of its own branches and over 4,600 sub-brokers, authorised persons, IFAs and IAs as at 30<sup>th</sup> September, 2017. The network enables it to augment the reach of its electronic brokerage platform and also provides it with a way to drive trading volume to its electronic brokerage platform.

- **Superior customer experience through product and technology innovation** – ISL delivers the benefits of its innovations to its customers through electronic brokerage platform ICICIdirect. With seamless customer experience in mind, ISL was among the first Indian securities firms to allow customers to link their trading accounts to their savings and demat accounts, providing them with 3-in-1 accounts in partnership with ICICI Bank. In addition to the benefits that these accounts provide their customers in terms of seamless transactions, ISL also collaborated with ICICI Bank to ensure that their customers' accounts get credited around the same time as the amount is transferred from the exchanges, thereby providing them with greater flexibility in the use of their money. It offers its customers products across various asset classes, including products like systematic equity plans, factor-based portfolios and National Pension System policies. As of 30<sup>th</sup> September 2017, ISL offered retail brokerage and distribution customers over 140 different order types. For example, it was amongst the first Indian securities firms to offer customers systematic equity plans and "buy today, sell tomorrow" orders, which allow customers to sell their shares prior to the receipt of shares in their demat account.
- **Leading Institutional platform** – ISL's investment banking business offers equity capital markets services and other financial advisory services to corporate clients, the government and financial sponsors. The revenue from investment banking business has increased from ₹701mn in FY13 to ₹1,195mn in FY17, at a CAGR of 14.2%, and was ₹730mn in the six months ended September 30, 2017. For the period from 1<sup>st</sup> April 2012 to 30<sup>th</sup> September, 2017, ISL was the leading investment bank in the Indian equity capital markets by number of equity capital market issuances managed. The equity capital markets services include management of public equity offerings, rights issues, share buybacks, tender offers, delistings, and equity private placements. It also provides its clients with financial advisory services in relation to domestic and cross-border mergers and acquisitions, private placements and restructuring, and was among the top five domestic investment banks in India in terms of deal size of mergers and acquisitions transactions for the period from 1<sup>st</sup> April 2012 to 30<sup>th</sup> September 2017. In addition to investment banking services, it provides domestic and foreign institutional investors with cash equity and equity derivative brokerage services, corporate access and equity research. It is also empanelled with a large cross-section of institutional clients, including foreign institutional investors.
- **Strong Financial Performance with significant Operating Efficiency** – ISL has an established track record of strong financial performance. Its total revenues and profit after tax increased from ₹7,058mn and ₹717.5mn respectively, in FY13 to ₹14,042mn and ₹3,386mn respectively, in FY17 at a CAGR of 18.8% and 47.4%, respectively. In the six months ended 30<sup>th</sup> September, 2017, the revenues and profit after tax were ₹8,528mn and ₹2,461mn, respectively. ISL's return on equity has exceeded 30% for each measured period since FY13. While revenues have been growing; it has focused on managing its costs by leveraging the efficiencies inherent in its technology-based business model, which is scalable and asset-light. As a result, the cost ratio, has decreased from 84.6% in FY13 to 62.8% in FY17. Its cost ratio was 55.7% in the six months ended 30<sup>th</sup> September 2017. ISL has also not required a capital injection since FY11.
- **Experienced senior management team** – The management team of ISL has extensive experience in the financial services sector. The managing director and chief executive officer has been with the ICICI Group for over 27 years. In particular, the management team has strong cross-functional expertise across business segments, product design and technology.

### Peer Comparison and Relative Valuation

Company	CMP	MCAP (₹Bn)	Total Income TTM-Dec-17 (₹bn)	PAT (TTM- Dec-17) (₹bn)	Sales CAGR (FY14-17)	PAT CAGR (FY14-17)	RoNW (FY17)	P/E (TTM- Dec-17)	P/B (Sep-17)
ICICI Securities Ltd.	290	168	17.3	4.8	20.02%	56.00%	76.30%	34.8	24.8*
Edelweiss Financial Services Ltd.	252	230	79.0	8.1	37.54%	40.38%	13.50%	28.3	4.9
IIFL Holdings Ltd.	729	232	60.7	8.5	20.30%	35.12%	21.21%	27.3	4.9
JM Financial Ltd.	123	103	30.3	5.9	28.83%	30.92%	20.41%	17.4	3.1
Motilal Oswal Financial Services Ltd.	1102	160	25.1	4.8	54.95%	108.84%	20.07%	33.1	8.0
Geojit Financial Services Ltd.	99	24	3.2	0.7	9.53%	NA	12.22%	34.1	4.6

Price as on 20<sup>th</sup> March, 2018. (Source: RHP, Capitaline, Company Reports, BSE, Way2Wealth Inst. Equity); \*As at Dec-17

### Risk

- General economic and market conditions in India and globally could have a material impact on its business, financial condition and result of operations.
- ISL is subject to extensive statutory and regulatory requirements and supervision, which may have material influence on business operations.
- ISL relies heavily on its relationship with ICICI Bank for many aspects of its business.
- ISL depends on its brokerage business for a substantial share of its revenue and profitability. Any reduction in brokerage fees and increasing competition from low-cost brokerages could have a material impact on its business.

### Valuation And Investment Argument

India has historically been and is expected to continue to be a high savings economy, with household savings as a percentage of GDP at 19%, as compared to 9% in USA, 6% in Brazil and a global average of 9% in 2016. Further, RBI has stated its objective of keeping inflation low and range-bound. Lower inflation, coupled with rising GDP is expected to cause the household savings rate to increase gradually. In addition, household savings are increasingly shifting from physical assets to financial assets. The share of financial savings as a proportion of household savings has increased gradually from 31% in FY12 to 41% in FY16. The share of financial savings is likely to rise further, as stable inflationary trends diminish the attractiveness of physical savings. ISL's strong brand name, large registered customer base, wide range of products across asset classes and complimentary advisory services position it to be the natural beneficiary of these transformational changes in the Indian savings markets.

At the price band of ₹519-520 the issue is priced at ~34.8x its TTM-Dec-17 earnings and ~24.8x its book value as on Dec-17. ISL has delivered exceptional sales and PAT CAGR of 20% and 56% over the past 3 years with return on equity ratios in excess of 30% for each year since FY13 and far superior compared to listed peers. **However, as the issue is priced at a premium compared to its peers, we believe it limits the scope of gains in the short term and hence advise investors with a long-term investment horizon to SUBSCRIBE to the issue.**

**Financials**
**Consolidated Statement Of Profit And Loss**

	(₹mn)			
	FY15	FY16	FY17	9MFY18
Revenue from operations				
(a) Brokerage income	7,554	6,607	7,759	7,490
(b) Income from services	3,363	3,499	4,983	4,694
(c) Interest and other operating income	910	957	1,087	1,118
(d) Profit/(loss) on sale of securities (net)	268	182	214	146
<b>Total Revenue</b>	<b>12,095</b>	<b>11,246</b>	<b>14,042</b>	<b>13,447</b>
Growth (%)	48.9%	(7.0)%	24.9%	NA
Expenses:				
(a) Employee benefits expenses	3,921	4,014	4,847	4,148
(b) Operating expenses	1,045	1,015	1,290	1,103
(c) Other expenses	2,158	2,058	2,244	1,603
<b>Total expenses</b>	<b>7,124</b>	<b>7,087</b>	<b>8,381</b>	<b>6,854</b>
<b>EBITDA</b>	<b>4,971</b>	<b>4,159</b>	<b>5,663</b>	<b>6,593</b>
<b>EBITDA (%)</b>	<b>41.1%</b>	<b>37.0%</b>	<b>40.3%</b>	<b>49.0%</b>
Depreciation and amortization expense	163	160	155	116
<b>EBIT</b>	<b>4,808</b>	<b>3,999</b>	<b>5,508</b>	<b>6,477</b>
Finance costs	311	258	287	352
<b>Profit before tax</b>	<b>4,497</b>	<b>3,741</b>	<b>5,220</b>	<b>6,126</b>
Tax expense	1,558	1,354	1,835	2,135
<b>Tax rate (%)</b>	<b>34.6%</b>	<b>36.2%</b>	<b>35.2%</b>	<b>34.9%</b>
<b>Profit after tax</b>	<b>2,939</b>	<b>2,387</b>	<b>3,386</b>	<b>3,991</b>
<b>PAT (%)</b>	<b>24.3%</b>	<b>21.2%</b>	<b>24.1%</b>	<b>29.7%</b>

**Consolidated Balance Sheet**

					(₹mn)
	FY15	FY16	FY17	31 <sup>st</sup> DEC'17	
<b>I EQUITY AND LIABILITIES</b>					
1 Shareholders' funds					
(a) Share capital	1,611	1,611	1,611	1,611	
(b) Reserves and surplus	1,912	2,371	3,285	5,141	
	<b>3,523</b>	<b>3,982</b>	<b>4,896</b>	<b>6,751</b>	
2 Non-current liabilities					
(a) Other long term liabilities	525	628	827	846	
(b) Long-term provisions	161	268	338	398	
	<b>686</b>	<b>895</b>	<b>1,165</b>	<b>1,243</b>	
3 Current liabilities					
(a) Short-term borrowings	2,265	1,729	3,954	8,607	
(b) Trade payables	5,569	5,925	8,699	10,397	
(c) Other current liabilities	1,545	1,402	1,710	2,129	
(d) Short-term provisions	41	42	51	89	
	<b>9,420</b>	<b>9,098</b>	<b>14,414</b>	<b>21,222</b>	
<b>TOTAL</b>	<b>13,629</b>	<b>13,975</b>	<b>20,474</b>	<b>29,217</b>	
<b>II ASSETS</b>					
1 Non-current assets					
(a) Fixed assets					
(i) Tangible assets	253	251	242	261	
(ii) Intangible assets	96	103	104	102	
(iii) Capital work-in-progress	7	4	1	35	
(iv) Intangible assets under development	30	20	28	24	
	<b>385</b>	<b>378</b>	<b>375</b>	<b>423</b>	
(b) Non-current investments	12	12	21	129	
(c) Deferred tax assets	387	509	578	659	
(d) Long-term loans and advances	1,147	1,293	1,362	1,233	
(e) Other non-current assets	162	270	812	49	
	<b>2,093</b>	<b>2,462</b>	<b>3,146</b>	<b>2,383</b>	
2 Current assets					
(a) Current investments	-	-	1	1,000	
(b) Stock-in-trade	338	1,413	311	291	
(c) Trade receivables	1,731	2,933	7,101	3,559	
(d) Cash and bank balances	8,531	6,394	8,824	14,303	
(e) Short-term loans and advances	310	254	359	6,789	
(f) Other current assets	625	519	734	892	
	<b>11,535</b>	<b>11,513</b>	<b>17,328</b>	<b>26,834</b>	
<b>TOTAL</b>	<b>13,629</b>	<b>13,975</b>	<b>20,474</b>	<b>29,217</b>	

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### Disclosure of Interest Statement in ICICI Securities Ltd. as on March 21, 2018

Name of the Security	ICICI Securities Ltd.
Name of the analyst	Chintan Gupta
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / NO	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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