

CMP: ₹ 113

Target: ₹ 115 (2%)

Period: 12 months

HOLD

July 25, 2021

## Robust client acquisition; healthy business growth

**About the stock:** IIFL Securities (IIFL Sec) is engaged in retail and institutional broking, distribution of financial products and investment banking.

- The company caters to an active retail client base of ~3.24 lakh
- IIFL's institutional broking segment has ~740 domestic and foreign clients

**Q1FY22 Results:** IIFL Sec reported a healthy performance.

- Client acquisition robust at ~1.5 lakh; ADTO up 19.5% QoQ to ₹ 52710 crore
- Revenue up 50% YoY amid 41% YoY growth in brokerage revenue
- PAT growth at 66% YoY to ₹ 68.8 crore; though decline of 11% QoQ

**What should investors do?** IIFL Sec's share price has grown by ~5x over the past two years (from ~₹ 23 in September 2019 to ~₹ 113 levels in July 2021).

- We downgrade rating from BUY to HOLD rating on the stock

**Target Price and Valuation:** We value IIFL Sec at 12.2x FY23E EPS with a revised target price of ₹ 115

**Key triggers for future price performance:**

- Focus on client acquisition & increased market activity to act as key catalyst
- Shift to stability in cyclical business through building of AUM led model
- Anticipated exit from real estate investment could lighten balance sheet and act as medium term catalyst
- Fierce competition from discount broker could act as a deterrent

**Alternate Stock Idea:** Apart from IIFL Sec, in our coverage we also like 5Paisa.

- It is a leading discount broker and offers a play on new age fintech financial intermediary with robust client addition
- BUY with a target price of ₹ 600



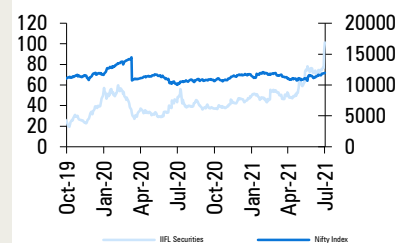
### Particulars

	Amount
Market Capitalisation	₹ 3453 crore
Networth	₹ 968 crore
52 week H/L	₹ 129/36
Face Value	₹ 2

### Shareholding pattern

	Jun-21
DII Holding (%)	4.3
FII Holding (%)	16.1
Promoter Holding (%)	31.4
Others (%)	48.3

### Price Chart



### Recent Event & key risks

- Strong client acquisition at 1.5 lakh & 20% QoQ growth in ADTO
- Key Risks:** (i) Additional margin requirement, (ii) rising competitive intensity

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### Key Financial Summary

	FY18	FY19	FY20	FY21E	3 year CAGR (FY19-FY21)	FY22E	FY23E	CAGR (FY22E-23E)
ADTO (₹ crore)	13990	17710	20070	29590	28.4%	53841	49881	29.8%
Market Share (%)	2.0	1.8	1.4	1.1		1.2	1.2	
Revenue from operation (₹ crore)	834.7	835.1	717.5	790.9	-1.8%	933.4	961.8	10.3%
Net Profit (₹ crore)	180.6	172.1	232.1	220.3	6.8%	273.9	285.5	13.8%
EPS (₹)	5.7	5.4	7.3	7.3		9.0	9.4	
P/E (x)	19.9	20.9	15.6	15.5		12.5	12.0	
RoE (%)	29.0	25.4	28.8	23.9		24.8	20.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Continued healthy client accretion supports performance

- Highest quarterly client addition at 1.5 lakh in Q1FY22
- Average daily turnover (ADTO) increased 19.5% QoQ to ₹ 52710 crore, with market share steady at ~1.1%
- Focus on client acquisition, upgradation of technology and new product addition to continue ahead

### Q1FY22 Earnings Conference Call highlights

- Strategy was to continue to build on research and technology. Continue to scale up efforts with focus on customer acquisition
- Three business lines – retail broking, institutional broking and IB
- Brokerage income up ₹ 91 crore in Q1FY21 to ₹ 129 crore (₹ 124 crore in Q4FY21)
- IB income at ₹ 23 crore in Q1FY22
- Increase in headcount to 2136 and salary hike led to sequential increase in employee cost
- Sub brokerage payout and increase in marketing and tech spends led to increase in other expense in Q1FY22
- Lost market share in institutional broking business due to higher passive flows
- Acquisition cost per customer is in the range of ₹ 1500 with break even at 12-15 months (down from earlier 18 months)
- Process to migrate customers of Karvy undertaken. New customer acquisition of 1.5 lakh includes Karvy customers
- Currently has 6.16 lakh sq ft – book value ₹ 224 crore, market value at ₹ 600 crore

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Motilal	1056	800	Buy	15493	75.5	89.0	98.4	14.0	11.9	10.7	3.7	2.8	2.3	9.1	7.5	21.6
IIFL Sec	122	115	Hold	3438	7.3	9.0	9.4	16.7	13.5	12.9	3.0	2.4	2.5	23.9	24.8	20.6
5 paisa	515	600	Buy	1514	6.8	12.6	20.6	75.7	40.9	25.0	8.3	3.5	3.1	11.7	12.7	13.2
Geojit	92	62	Hold	2200	5.0	5.5	6.2	18.5	16.8	14.9	3.2	2.7	2.3	18.9	17.5	16.6

Source: Company, ICICI Direct Research

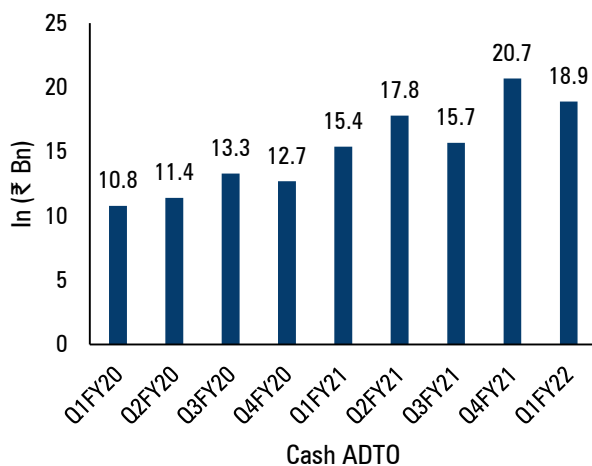
We believe IIFL Sec remains a beneficiary of healthy client accretion and increased market activity.

Exhibit 2: Variance Analysis

Particulars	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ	Comments
Revenue from operation	250.6	149.8	67%	238.1	5%	Healthy client accretion and 20% QoQ increase in ADTO aided topline
Other Income	17.43	28.52	-39%	18.06	-3%	
<b>Total Income</b>	<b>268.1</b>	<b>178.3</b>	<b>50%</b>	<b>256.2</b>	<b>5%</b>	
Employee expense	66.3	46.7	42%	63.3	5%	Increase in headcount & salary hike led to QoQ rise
Finance cost	13.4	11.9	12%	13.6	-2%	
Depreciation	15.2	11.3	34%	11.4	33%	
Other expenses	86.6	52.9	64%	76.4	13%	Marketing & technology spends led to QoQ rise
<b>Total Expense</b>	<b>181.4</b>	<b>122.9</b>	<b>48%</b>	<b>164.7</b>	<b>10%</b>	
Profit Before Tax	86.7	55.4	56%	91.5	-5%	
Share of associate	0.0	0.0		0.1		
Tax	17.8	13.9	28%	14.3	25%	
<b>PAT</b>	<b>68.8</b>	<b>41.5</b>	<b>66%</b>	<b>77.3</b>	<b>-11%</b>	Healthy topline growth aided PAT

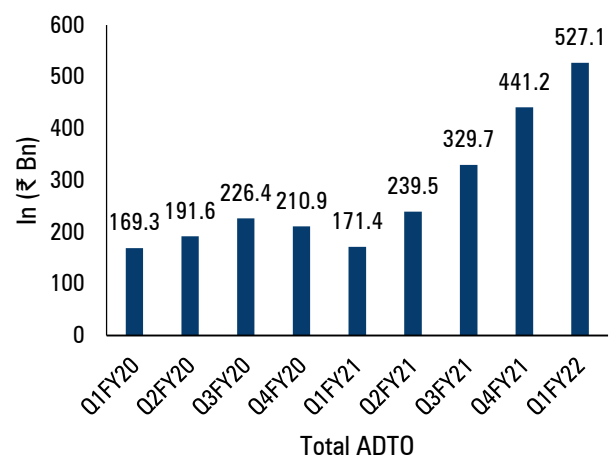
Source: Company, ICICI Direct Research

Exhibit 3: Cash ADTO witnessed QoQ decline



Source: Company, ICICI Direct Research

Exhibit 4: Derivatives segment continued to propel ADTO



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit & Loss						
(₹ crore)						
Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue from operation	834.7	835.1	717.5	790.9	933.4	961.8
Other Income	112.40	40.40	72.50	76.93	92.32	110.78
<b>Total Income</b>	<b>947.1</b>	<b>875.5</b>	<b>790.0</b>	<b>867.8</b>	<b>1025.7</b>	<b>1072.6</b>
Employee expense	210.9	256.6	221.1	211.3	253.6	273.9
Finance cost	144.5	114.5	102.1	49.6	54.6	59.0
Depreciation	36.5	41.9	55.3	45.9	46.3	46.8
Other expenses	275.9	204.5	211.5	276.2	301.1	307.1
<b>Total Expense</b>	<b>667.8</b>	<b>617.5</b>	<b>590.1</b>	<b>583.0</b>	<b>655.6</b>	<b>686.7</b>
<b>Profit Before Tax</b>	<b>279.3</b>	<b>258.0</b>	<b>199.9</b>	<b>284.7</b>	<b>370.2</b>	<b>385.9</b>
Tax	92.9	86.6	53.0	64.4	96.2	100.3
<b>Profit After Tax</b>	<b>180.6</b>	<b>172.1</b>	<b>232.1</b>	<b>220.3</b>	<b>273.9</b>	<b>285.5</b>
<b>Exceptional Item</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>PAT post excp item</b>	<b>180.6</b>	<b>172.1</b>	<b>232.1</b>	<b>220.3</b>	<b>273.9</b>	<b>285.5</b>
EPS	5.67	5.39	7.26	7.27	9.04	9.43

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios						
Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E
ADTO (₹ crore)	13990	17710	20070	29590	53841	49881
Market Share (%)	2.0	1.8	1.4	1.1	1.2	1.2
Yield (%)	0.015	0.012	0.008	0.006	0.004	0.004
ROE (%)	29.0	25.4	28.8	23.9	24.8	20.6
No of Shares (crore)	31.9	31.9	32.0	30.3	30.3	30.3
EPS (₹)	5.7	5.4	7.3	7.3	9.0	9.4
PE (x)	19.9	20.9	15.6	15.5	12.5	12.0
Book Value (₹)	19.6	22.9	27.5	31.9	41.0	50.4
P/BV (x)	5.8	4.9	4.1	3.5	2.8	2.2
Pat margin (%)	19.1	19.7	29.4	25.4	26.7	26.6
CI Ratio (%)	70.5	70.5	74.7	67.2	63.9	64.0
Mcap/Sales (x)	3.6	3.9	4.4	4.0	3.4	3.2

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet						
(₹ crore)						
Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Source of Funds</b>						
Equity Capital	63.7	63.8	63.9	60.6	60.6	60.6
Reserve& Surplus	559.5	667.1	815.9	907.0	1180.9	1466.4
<b>Networth</b>	<b>623.2</b>	<b>730.9</b>	<b>879.8</b>	<b>967.6</b>	<b>1241.5</b>	<b>1527.0</b>
Borrowings	1012.8	660.5	405.6	291.6	306.2	321.5
Other Liability	1225.8	1658.5	1148.2	2285.0	2399.2	2519.2
<b>Total</b>	<b>2861.8</b>	<b>3049.9</b>	<b>2433.6</b>	<b>3544.1</b>	<b>3946.9</b>	<b>4367.7</b>
<b>Application of Funds</b>						
Fixed Asset	583.9	469.8	497.2	389.1	350.2	315.2
Investment	159.5	139.6	230.9	73.7	81.1	89.2
Advances	81.6	433.2	24.3	98.0	147.1	220.6
Cash	855.3	1065.0	1027.2	1677.5	1509.8	1358.8
Other Asset	1181.6	942.3	654.0	1305.7	1858.7	2383.9
<b>Total</b>	<b>2861.8</b>	<b>3049.9</b>	<b>2433.6</b>	<b>3544.1</b>	<b>3946.9</b>	<b>4367.7</b>

Source: Company, ICICI Direct Research

Exhibit 6: Growth Ratios					
(%)					
Growth (%)	FY19	FY20	FY21	FY22E	FY23E
Total Asset	7	-20	46	11	11
Advances	431	-94	303	50	50
Borrowing	-35	-39	-28	5	5
Total Income	-8	-10	10	18	5
Operating expense	-8	-4	-1	12	5
Net profit	-5	35	-5	24	4
Book Value	17	20	16	28	23
EPS	-5	35	0	24	4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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