

## Improved performance, sustainability to be seen...

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

- The company has an average daily turnover of ₹ 195600 crore
- IIFL's institutional broking segment has ~850+ domestic and foreign clients

**Q4FY23 Results:** IIFL Sec reported a strong performance.

- Client addition moderates to ~49000; ADTO up 25% QoQ to ₹ 1.9 lakh crore
- Revenue up 16% YoY, 17% QoQ amid increase in brokerage & distribution income
- Overall opex increased 3% QoQ, resulting in 34% increase in PAT QoQ and 9% YoY growth to ₹ 86 crore

**What should investors do?** Led by market cyclicity and continuous regulation brokerage stocks have suffered. Accordingly, IIFL Sec's share price has corrected by 15% in the last six months. The management's change in strategy in the last couple of quarters to focus on affluent customers and not just chase client addition seems to be working well. However, sustainability of volume growth and accordingly revenue growth needs to be seen.

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We expect consolidation to continue. Also, transfer of the IIFL Securities online retail trading business to 5Paisa Capital subject to statutory approvals is awaited. Accordingly, we value IIFL Sec at ~7.2x FY25E EPS and revise our target price to ₹ 65.

**Key triggers for future price performance:**

- Focused client acquisition, insurance and distribution pick-up
- Higher client engagement to improve per client matrix
- Fierce competition from discount brokers remains a challenge
- Exit from real estate assets to offer onetime gains

**Alternate Stock Idea:** Apart from IIFL Sec, in our coverage we also like Motilal Oswal Financial.

- Motilal Oswal Financial is a diversified financial services company, which includes broking, wealth/asset management, housing and PE
- BUY with SoTP target price of ₹ 790

### Key Financial Summary

	FY19	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
ADTO (₹ crore)	17710	20070	29590	78753	154066	97.3%	203800	234370	23.3%
Market Share (%)	1.8	1.4	1.1	1.1	1.1	-6.6%	1.2	1.2	0.9%
Revenue from operation (₹ crore)	835.1	717.5	790.9	1232.3	1352.0	23.5%	1371.5	1473.4	4.4%
Net Profit (₹ crore)	172.1	232.1	220.3	305.8	249.7	2.5%	242.3	276.9	5.3%
EPS (₹)	5.4	7.3	7.3	10.1	8.2		7.9	9.1	
P/E (x)	10.8	8.0	8.0	5.8	7.1		7.4	6.4	
RoE (%)	25.4	28.8	23.9	28.5	19.7		16.5	16.0	

Source: Company, ICICI Direct Research



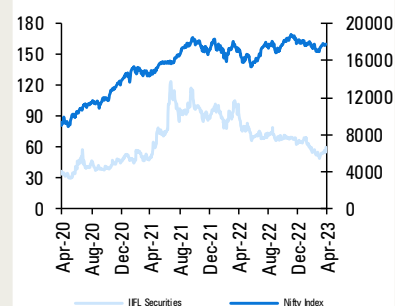
#### Particulars

Particulars	Amount
Market Capitalisation	₹ 1813 crore
Networth	₹ 1350 crore
52 week H/L	₹ 103/48
Face Value	₹ 2

#### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	31.3	31.3	31.3	31.2	31.1
FII	16.6	16.7	16.6	16.5	16.5
DII	3.2	3.2	3.2	3.2	3.2
Others	49.0	48.9	48.9	49.1	49.2

#### Price Chart



#### Recent Event & key risks

- ADTO surged 34% QoQ led by F&O
- Key Risks:** (i) Volatility in capital market (ii) Rising competitive intensity

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## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Strong performance led by volumes

- Revenue from operations increased 18% QoQ to ₹ 402 crore
- The company made a significant investment in technology and marketing. PAT increased 34% QoQ and 9% YoY at ₹ 86.3 crore
- Average daily turnover (ADTO) increased 75% YoY to ₹ 195600 crore
- Mutual fund AUM declined 10% QoQ to ₹ 6850 crore, SIP AUM marginally increased 1% QoQ to ₹ 1810 crore with a monthly average transaction count of ~1.5 lakh
- Client addition was at ~49000 in Q4FY23. Declining client addition was in-line with strategy to target affluent customers

### Q4FY23 Earnings Conference Call highlights

- Admin cost increased 16% due to technology and marketing cost
- Other income declined 34% due to MTM losses
- Brokerage rate on the retail side trending up, super discount rates will be difficult to maintain and decline in rates will stop at the minimum due to compliance cost
- MTF total book at ₹ 600 crore, ₹ 300 crore self-sourced and ₹ 300 crore borrowed funds
- Technology cost and compliance cost has increased over the past two years and will continue to increase
- Interest rate effect on finance cost was only partially passed to the customer due to competition in the broking business
- Dividend yield at 30% is expected to continue as it is company policy and will be maintained as the company is conserving cash for working capital requirements
- Total 7000 franchise/channel partners should double in the next few years
- Client acquisition sourcing mix was 80:20, 80% in-house and 20% brokers. This will now be 70:30 through branches/RMs
- Customer mix largely from tier II and tier III cities

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)				
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Motilal	683	790	Buy	10099	88.0	81.6	88.7	97.4	7.8	8.4	7.7	7.0	1.8	1.8	1.7	1.7	23.1	21.0	22.4	24.0
CAMS	2277	2500	Hold	11036	58.7	58.0	68.8		4.0	4.1	3.4		1.8	1.6	1.4		44.3	38.7	40.4	
IIFL Sec	62	75	Hold	1891	10.1	8.2	7.9	9.1	6.2	7.6	7.8	6.8	1.6	1.4	1.2	1.0	28.5	19.7	16.5	16.0
5 paisa	294	375	Hold	902	4.7	10.8	15.5	14.3	62.6	27.2	19.0	20.6	2.3	2.1	1.9	1.8	5.2	8.2	10.6	8.9
MCX	1386	1700	Buy	7071	28.2	31.1	46.9	59.8	49.2	44.6	29.6	23.2	5.0	4.8	4.1	3.5	10.1	10.8	14.0	15.1

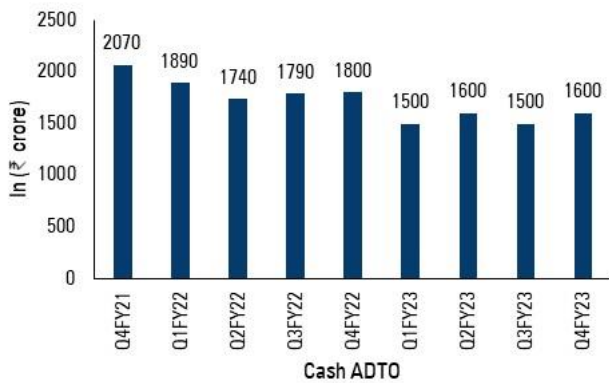
Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

Particulars	Q4FY23	Q4FY22	YoY	Q3FY23	QoQ
Revenue from operation	401.8	346.8	16%	342.0	17%
Retail brokerage	122.0	113.8	7%	118.8	3%
Distribution & related Income	95.0	55.8	70%	48.9	94%
Other Income	3.3	15.3	-78%	5.0	-34%
<b>Total Income</b>	<b>405.1</b>	<b>362.0</b>	<b>12%</b>	<b>347.0</b>	<b>17%</b>
Employee expense	92.3	96.7	-4%	90.3	2%
Finance cost	19.4	18.4	6%	18.4	6%
Depreciation	16.5	16.7	-1%	17.2	-4%
Other expenses	157.8	124.8	26%	136.1	16%
<b>Total Expense</b>	<b>286.1</b>	<b>256.6</b>	<b>12%</b>	<b>261.9</b>	<b>9%</b>
Profit Before Tax	119.0	105.5	13%	85.1	40%
Share of associate	0.0	0.0		0.0	
Tax	32.7	26.6	23%	20.5	60%
<b>PAT</b>	<b>86.3</b>	<b>78.9</b>	<b>9%</b>	<b>64.6</b>	<b>34%</b>

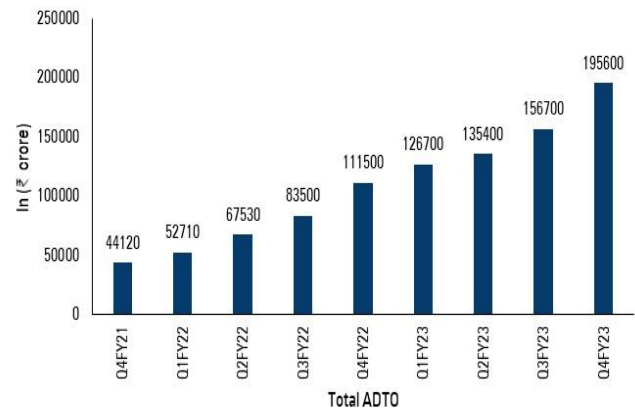
Source: Company, ICICI Direct Research

**Exhibit 3: Cash ADTO increases QoQ**



Source: Company, ICICI Direct Research

**Exhibit 4: Sequential surge in F&O turnover**



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit & Loss		(₹ crore)				
Particulars	FY21	FY22	FY23	FY24E	FY25E	
Revenue from operation	790.9	1232.3	1352.0	1371.5	1473.4	
Other Income	76.93	84.08	18.30	19.95	20.95	
<b>Total Income</b>	<b>867.8</b>	<b>1316.4</b>	<b>1370.3</b>	<b>1391.5</b>	<b>1494.4</b>	
Employee expense	211.3	324.1	358.1	379.6	410.0	
Finance cost	49.6	101.5	75.6	86.7	85.7	
Depreciation	45.9	63.5	66.8	67.8	68.5	
Other expenses	276.2	425.4	529.0	534.3	561.0	
<b>Total Expense</b>	<b>583.0</b>	<b>914.4</b>	<b>1029.5</b>	<b>1068.5</b>	<b>1125.2</b>	
<b>Profit Before Tax</b>	<b>284.7</b>	<b>402.0</b>	<b>340.8</b>	<b>323.0</b>	<b>369.2</b>	
Tax	64.4	96.3	91.1	80.8	92.3	
<b>Profit After Tax</b>	<b>220.3</b>	<b>305.8</b>	<b>249.7</b>	<b>242.3</b>	<b>276.9</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>PAT post excp item</b>	<b>220.3</b>	<b>305.8</b>	<b>249.7</b>	<b>242.3</b>	<b>276.9</b>	
EPS	7.27	10.06	8.17	7.93	9.06	

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios						
Particulars	FY21	FY22	FY23E	FY24E	FY25E	
ADTO (₹ crore)	29590	78753	154066	203800	234370	
Market Share (%)	1.1	1.1	1.1	1.2	1.2	
Yield (%)	0.007	0.004	0.002	0.001	0.001	
ROE (%)	23.9	28.5	19.7	16.5	16.0	
No of Shares (crore)	30.3	30.4	30.6	30.6	30.6	
EPS (₹)	7.3	10.1	8.2	7.9	9.1	
PE (x)	8.0	5.8	7.1	7.4	6.4	
Book Value (₹)	31.9	38.9	44.2	52.1	61.2	
P/BV (x)	1.8	1.5	1.3	1.1	1.0	
Pat margin (%)	25.4	23.2	18.2	17.4	18.5	
CI Ratio (%)	67.2	69.5	75.1	76.8	75.3	
Mcap/Sales (x)	2.1	1.4	1.3	1.3	1.2	

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet		(₹ crore)				
Particulars	FY21	FY22	FY23	FY24E	FY25E	
<b>Source of Funds</b>						
Equity Capital	60.6	60.8	61.1	61.1	61.1	
Reserve& Surplus	907.0	1121.0	1288.6	1530.9	1807.8	
<b>Networth</b>	<b>967.6</b>	<b>1181.8</b>	<b>1349.7</b>	<b>1592.0</b>	<b>1868.9</b>	
Borrowings	291.6	607.0	485.8	510.1	535.6	
Other Liability	2285.0	4252.2	3401.8	3231.7	3070.1	
<b>Total</b>	<b>3544.1</b>	<b>6041.0</b>	<b>5237.4</b>	<b>5333.9</b>	<b>5474.7</b>	
<b>Application of Funds</b>						
Fixed Asset	389.1	380.7	335.2	301.6	271.5	
Investment	73.7	227.5	90.2	99.2	109.1	
Advances	98.0	473.3	490.6	588.7	706.4	
Cash	1677.5	3740.1	2836.8	2978.7	2680.8	
Other Asset	1305.7	1219.3	1484.6	1365.7	1706.9	
<b>Total</b>	<b>3544.1</b>	<b>6041.0</b>	<b>5237.4</b>	<b>5333.9</b>	<b>5474.7</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Growth Ratios						
Growth (%)	FY21	FY22	FY23	FY24E	FY25E	
Total Asset	45.6	70.5	-13.3	1.8	2.6	
Advances	303.1	382.8	3.6	20.0	20.0	
Borrowing	-28.1	108.2	-20.0	5.0	5.0	
Total Income	9.9	51.7	4.1	1.5	7.4	
Operating expense	-1.2	56.8	12.6	3.8	5.3	
Net profit	-5.1	38.8	-18.4	-3.0	14.3	
Book Value	16.0	21.7	13.6	17.9	17.4	
EPS	0.1	38.4	-18.8	-3.0	14.3	

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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