

ICICI Securities Limited
IPO Note
(CAUTIOUS)

Analyst:
Rohit Rai

21 March 2018

IPO details

Key Data	
Issue Opens	22-Mar-18
Issue Closes	26-Mar-18
Equity Shares Offered (in mn.)	77.25
QIB	Up to 75%
NIB	Min 15%
Retail	Min 10%
Face Value (Rs.)	5
Price Band (Rs.)	519-520
Max. Issue Size (Rs. mn)	40,170
Lot Size (Eq. Shares)	28 and multiple thereof

Valuation	@ Rs. 519 per share	@ Rs.520 per share
Market Cap (₹ mn)	167,191	167,514
Net Debt (₹ mn)	0	0
Enterprise Value (₹ mn)	167,191	167,514
EV/ Sales	11.9	11.9
EV/ EBIDTA	29.5	29.6
P/B	34.1	34.2
P/E	49.4	49.5

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	322.1	100.0%	244.9	76.0%
Public	0.0	0.0%	0.0	0.0%
Offer for sale			77.2	24.0%
Total	322.1	100.00%	322.1	100.0%

Object of the issue

- Achieve the benefit of listing the Equity Shares on the Stock Exchanges and for the sale of Equity Shares by the Promoter Selling Shareholder
- Listing of Equity Shares will enhance its visibility and brand image and provide liquidity to its existing shareholders.

Recommendation

ICICI Securities Ltd is largest player in equity broking in India. It has a strong revenue growth of over 19% CAGR in the last 5 years. It also has delivered ROE of more than 60% consistently. It has a high brand value among investors.

On valuation front, at upper issue price P/E works out to be 49.5x of FY17 earnings which is among the highest in its peers. Thus the issue is fully subscribed and there is limited potential for listing gains. One can look to invest for a long term horizon. Therefore we are **Cautious** over the issue.

Source: Red Herring Prospectus, Dealmoney Research

Leading Equity Broker in India

- ❑ ICICI (Isec) Securities is a leading technology-based securities firm in India that offers a wide range of financial services including brokerage, financial product distribution and investment banking and focuses on both retail and institutional clients.
- ❑ ISec has been the largest equity broker in India since fiscal 2014 by brokerage revenue and active customers in equities on the National Stock Exchange, powered by its significant retail brokerage business, which accounted for 90.5% of the revenue from its brokerage business (excluding income earned on its funds used in the brokerage business) in fiscal 2017.
- ❑ As of September 30, 2017, ICICIdirect, its award winning proprietary electronic brokerage platform, had approximately 3.8 million operational accounts of whom 0.7 million had traded on NSE in the preceding 12 months. Since inception, it has acquired a total of 4.4 million customers through this platform as of September 30, 2017.
- ❑ Isec's retail brokerage and financial product distribution businesses empowers its customers to access the Indian financial capital markets through its ICICIdirect platform and provide them with a seamless settlement process through a 3-in-1 account, which links its electronic brokerage platform with customers' savings bank and dematerialised accounts held with ICICI Bank.
- ❑ It offers its retail customers a wide range of products and services in equities, derivatives and research, and it also distribute various third-party products including mutual funds, insurance products, fixed deposits, loans, tax services and pension products.
- ❑ Its retail brokerage and distribution businesses are supported by its nationwide network, consisting of over 200 of its own branches, over 2,600 branches of ICICI Bank through which its electronic brokerage platform is marketed and over 4,600 sub-brokers, authorised persons, independent financial associates and independent associates as at September 30, 2017.
- ❑ Its investment banking business offers equity capital markets services and other financial advisory services to corporate clients, the government and financial sponsors. Its equity capital markets services include management of public equity offerings, share buybacks, tender offers and equity private placements.
- ❑ Its profit after tax was Rs 717.5 million, Rs 891.9 million, Rs 2,938.7 million, Rs 2,387.2 million, Rs 3,385.9 million and Rs 3,990.9 million in fiscals 2013, 2014, 2015, 2016 and 2017 and the nine months ended December 31, 2017, respectively, and its return on equity has exceeded 30.0% for each measured period since fiscal 2013. For fiscal 2017, its return on equity was 69.2%.

Source: Red Herring Prospectus, Dealmoney research

Strengths

- ❑ **Largest Equity Broker in India Powered by its Proprietary Technology Platform: ICICIdirect:** Isec has been the largest equity broker in India since fiscal 2014 by brokerage revenue and active customers in equities on the National Stock Exchange (Source: CRISIL), powered by its significant retail brokerage business. Its retail customers accounted for 94.3%, 93.2%, 93.0%, 91.9%, 90.5% and 89.1% of the revenue from its brokerage business (excluding income earned on its funds used in the brokerage business) in fiscals 2013, 2014, 2015, 2016 and 2017 and the nine months ended December 31, 2017, respectively.
- ❑ **Natural Beneficiary of Fundamental Transformation in the Indian Savings Environment:** Its 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.
- ❑ **Strong and Growing Distribution Business with an “Open-Source” Distribution Model:** It 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. It has adopted an “open-source” distribution model with respect to all its distribution products, except insurance products, pursuant to which we do not distinguish between the third-party partners whose products it distribute based on affiliation.
- ❑ **Superior Customer Experience through Product and Technology Innovation:** It delivers the benefits of these innovations to its customers through its electronic brokerage platform, ICICIdirect. It is 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.
- ❑ **Strategic Component of the ICICI Ecosystem:** As a strategic component of the ICICI Group ecosystem, it has mutually beneficial agreements with various companies in the ICICI Group. In addition to its access to ICICI Bank branches for the purposes of customer acquisition, it believes that it a key partner of ICICI Bank since it is currently the only broker that allows the customers of ICICI Bank to trade in equity securities using a “3-in-1 account” facility linked to their existing savings and demat accounts held with ICICI Bank.
- ❑ **Leading Institutional Platform:** Its growing investment banking business offers equity capital markets services and other financial advisory services to corporate clients, the government and financial sponsors. The revenue from its investment banking business has increased from Rs.701.4 million in fiscal 2013 to Rs.1,194.8 million in fiscal 2017, at a CAGR of 14.2%, and was Rs.1,134.4 million in the nine months ended December 31, 2017.

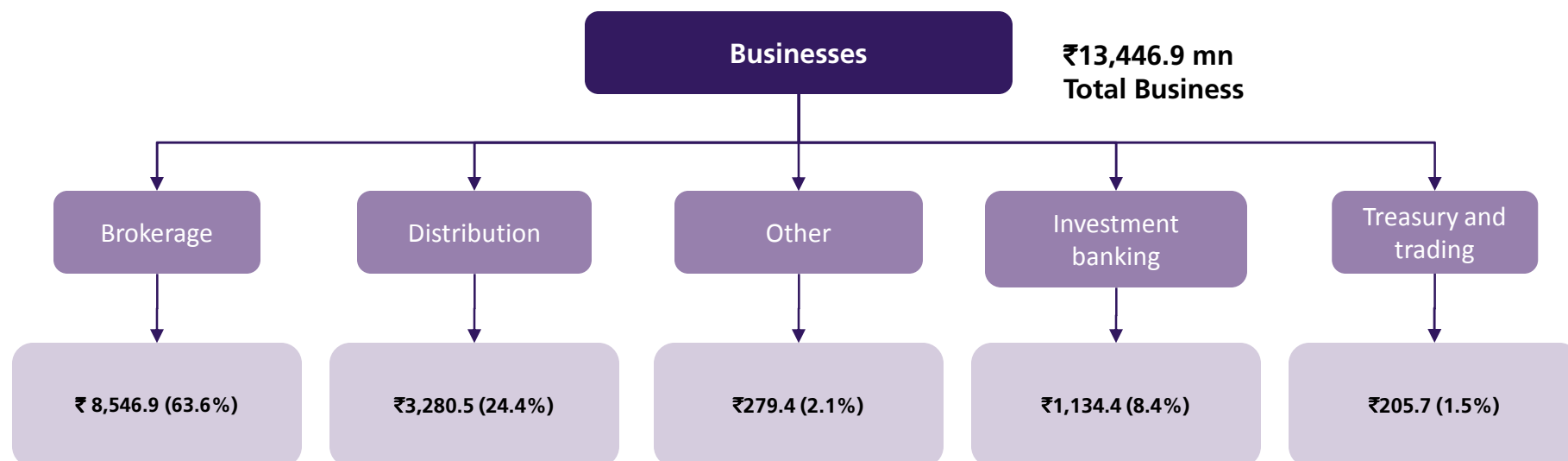
Source: Red Herring Prospectus, Dealmoney research

Future road ahead

- ❑ **Strengthen Its Leadership Position in the Brokerage Business:** It intends to strengthen its leadership position as the largest equity broker in India by brokerage revenue and active customers in equities on the NSE. In particular, it aims to enhance its market position in the growing retail brokerage segment while continuing to focus on increasing its market share in the institutional brokerage business.
- ❑ **Continue Investing in Technology and Innovation:** As one of the pioneers in the e-brokerage business and given that a large majority of its customers interact with it through its electronic brokerage platform, it needs to continuously invest in technology to ensure that it provides its customers with a fast, seamless and secure experience.
- ❑ **Strategically Expand its Financial Product Distribution Business Through Cross-Selling:** It believes that its significant retail brokerage customer base presents it with significant potential to cross-sell third-party financial products. Certain asset classes are underpenetrated among its customer base and it seeks to leverage its analytics capabilities to selectively target customers based on their likelihood to purchase such products. It also intends to continue working with third-party providers to increase the number of products available to its customers.
- ❑ **Leverage its Leadership in Equity Capital Markets to Strengthen its Financial Advisory Businesses:** It intends to maintain its leadership position in the equity capital markets business in terms of number of primary market issuances by acquiring new clients who will also strengthen its advisory business and increase the number of advisory transactions.
- ❑ **Diversify its Revenue Streams and Continue Reducing Revenue Volatility:** It has been working on diversifying its revenue streams to reduce volatility in revenues associated with its brokerage business by increasing the contribution from its distribution and investment banking businesses. As a result, the contribution of its brokerage business to its overall revenue has decreased from 70.3% in fiscal 2013 to 62.6% in fiscal 2017.

Source: Red Herring Prospectus, Dealmoney research

Types of Businesses



Description	2013		2014		2015		2016		2017		Dec'2017	
	₹ (in mn)	%	₹ (in mn)	%	₹ (in mn)	%	₹ (in mn)	%	₹ (in mn)	%	₹ (in mn)	%
Brokerage	4,967.10	70.3	5,446.50	67.1	8,346.10	69	7,369.60	65.6	8,781.50	62.6	8,546.90	63.6
Distribution	1,621.40	23	1,866.90	23	2,668.80	22.1	2,540.90	22.6	3,500.60	24.9	3,280.50	24.4
Other	21	0.3	76.1	0.9	56.3	0.5	130.1	1.2	288.2	2.1	279.4	2.1
Investment banking	701.4	9.9	593.3	7.3	638.4	5.2	833.6	7.3	1,194.80	8.4	1,134.40	8.4
Treasury and trading	-252.5	-3.5	139.8	1.7	385.5	3.2	371.6	3.3	277.2	2	205.7	1.5
Total	7,058.40	100	8,122.60	100	12,095.10	100	11,245.80	100	14,042.30	100	13,446.90	100

Source: Red Herring Prospectus

Peer Comparison

Company	FY17 Revenue (₹ cr)	EBIDTA Margin (%)	PAT Margin (%)	ROE (%)	EV/Sales	EV/EBIDTA	Market Cap (₹ cr)	P/E
ICICI Securities Ltd.	1404	40.30	24.10	69.00	11.90	29.60	16751.35	49.50
Edelweiss Financial Services Ltd.	450	63.08	28.64	7.78	30.89	48.49	23020.61	36.37
Geojit Financial Services Ltd.	244	26.43	15.68	10.21	4.99	14.02	2349.19	41.64
IIFL Holdings Ltd.	192	92.44	81.63	10.54	66.35	71.54	23106.84	33.59
JM Financial Ltd.	47	308.75	224.87	6.38	152.68	49.23	10335.25	20.92
Motilal Oswal Financial Services Ltd.	141	86.31	61.01	13.67	77.54	89.36	16056.85	44.67

Consolidated Summary Financials

Income Statement

₹ mn	Sept'FY18	FY17	FY16	FY15
Total Income	52,770	185,549	171,586	156,480
Operating Expense	49,979	159,068	150,266	152,746
EBIDTA	2,791	26,481	21,320	3,734
Depreciation	2,575	7,129	8,628	8,832
Other Income	3,889	10,420	15,962	17,140
Finance Costs	12	102	-	83
PBT	4,093	29,670	28,654	11,959
Add / Deduct: Expenses relating to Capital and Other Accounts	(1,990)	(6,080)	(3,360)	(4,775)
Profit before exceptional items and tax	6,083	35,750	32,014	16,734
Share of Profit / (Loss) of Joint Ventures accounted using Equity Method	13	167	119	(7)
Profit before tax	6,096	35,917	32,133	16,727
Total Tax expense	2,186	9,670	12,090	6,786
Profit for the year	3,910	26,247	20,043	9,941

₹ mn	Sept'FY18	FY17	FY16	FY15
EBIDTA Margin	4.9%	13.5%	11.4%	2.2%
Net Margin	6.9%	13.4%	10.7%	5.7%
ROE	3.0%	20.9%	18.2%	6.7%
ROCE	1.5%	11.5%	12.0%	4.5%

Balance Sheet

₹ mn	Sept'FY18	FY17	FY16	FY15
Liabilities				
Share capital	3,615	3,615	3,615	4,820
Reserves and surplus	125,821	121,976	106,709	143,619
Borrowings	-	-	-	-
Trade payables	1,926	1,926	-	34
Other financial liabilities	3,692	3,716	3,973	3,732
Provisions	19,208	20,298	24,825	25,728
Deferred tax liabilities (Net)	9,601	9,599	8,148	6,608
Other non-current liabilities	108,356	98,472	91,546	87,513
Current Liabilities				
Short term Borrowings	-	9,500	-	-
Trade payables	18,980	16,047	21,512	22,676
Other financial liabilities	9,279	10,976	9,769	11,170
Other current liabilities	207,341	190,614	267,874	293,585
Provisions	30,612	28,784	26,376	24,718
Current Tax Liabilities (Net)	-	-	972	-
Total Liabilities	538,431	515,523	565,319	624,203
Assets				
Net Block	60,022	58,398	54,444	50,359
Intangible assets	13,927	14,136	14,808	16,370
Capital work in progress	5,358	6,211	3,754	2,270
Intangible Assets under Development	9,474	8,663	6,500	4,411
Investments -Joint Ventures/ Subsidiaries	2,044	2,046	1,901	1,949
Investments-Others	8,144	7,894	7,257	5,699
Trade receivables	102	102	-	155
Loans	569	589	520	523
Others	3,632	3,675	4,014	3,733
Other Non-Current Assets	15,080	12,107	14,862	13,566
Inventories	221,844	213,213	239,817	249,528
Trade receivables	42,549	42,103	48,369	60,354
Cash and cash equivalents	116,992	111,533	133,034	176,714
(v) Loans	1,065	987	981	1,760
(vi) Others	24,741	25,816	22,088	19,868
(c) Current Tax Assets (Net)	2,843	1,149	-	1,004
(d) Other current assets	10,045	6,901	12,970	15,940
Total Assets	538,431	515,523	565,319	624,203

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- ❑ General economic and market conditions in India and globally could have a material adverse effect on its business, financial condition, cash flows, results of operations and prospects.
- ❑ It is subject to extensive statutory and regulatory requirements and supervision, which have material influence on, and consequences for, its business operations.
- ❑ It relies heavily on its relationship with ICICI Bank for many aspects of its business, and its dependence on ICICI Bank leaves it vulnerable to changes in its relationship.
- ❑ It relies on its brokerage business for a substantial share of its revenue and profitability. Any reduction in its brokerage fees could have material adverse effect on its business, financial condition, cash flows, results of operations and prospects.

Source: Red Herring Prospectus, Dealmoney research

Dealmoney Securities Private Limited

Plot No. A356/357, Road No.26,Wagle Industrial Estate, Thane (West), Maharashtra - 400 604.

Disclaimer:

Dealmoney Securities Private Limited (hereinafter referred to as "Dealmoney") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney's Equity Research Analysis. Dealmoney or its associates/analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analyst including its relatives may hold financial interest in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analyst or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as "Report") or from a third party in connection with preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney or its associates are engaged in various financial services business, thus, it might have, received any compensation / managed or co-managed public offering of securities of the subject company/ies / received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / received compensation or other benefits from the subject company/ies or third party in connection with the Report of subject company/ies during the past twelve months engaged in market making activity for the subject company/ies.

In the preparation of the material contained in the Report, Dealmoney has used information that is publicly available, as also data developed in-house. Some of the material used in the document may have been obtained from members/persons other than Dealmoney and which may have been made available to Dealmoney. Information gathered & material used in the Report is believed to be from reliable sources. Dealmoney has not independently verified all the information and opinions given in this material/document/Report. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, authenticity, completeness or fairness of the information and opinions contained in this material/document/Report. For data reference to any third party in this material no such party will assume any liability for the same.

Dealmoney group companies provides finance related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning etc. mentioned in this brochure. And hence, Dealmoney do not warranty / guarantee about performance of any products and customer servicing w.r.t third party products per se.

Third party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The recipient alone shall be fully responsible, and/or liable for any decision taken on the basis of this material/document/Report. Dealmoney does not in any way through this material solicit or offer for purchase or sale of any financial services, commodities, products dealt in this material/document/Report. Dealmoney/its affiliates/associates/directors shall not be in any way responsible for any loss or damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, and consequential, as also any loss of profit that may arise to any person/entity from or in connection with the use of information contained in this material/document/Report. All recipients of this material/document/Report before dealing and/or transacting in any of the products advised, opined or referred to in this material shall make their own investigation, seek appropriate professional advice and make their own independent decision. Noting contained in this material/document/Report should be construed as investment or financial advice. Clients are advised to assess their risk profile/ appetite before acting on any information contained in this material/document/Report. Investors should also refer to risk tag and compare it with its own risk appetite before taking any investment decision.

Reports on technical and derivative analysis are based on studying charts of a stock's price movement, outstanding positions and trading volume as opposed to focussing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. The opinions expressed in the Report are our current opinions as of the date of this report and may be subject to change from time to time without notice. Dealmoney or any persons connected with it do not accept any liability arising from use of this material/document/Report.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

For any grievance mail at compliance@Dealmoney.com

A graph of daily closing prices of securities available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, www.bseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart). Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.

For Company details, please visit our website www.Dealmoneyonline.com
For research related query, write to us at research@Dealmoney.com