

### Company Overview

Incorporated in 1995, ICICI Securities (a subsidiary of ICICI Bank) is headquartered in Mumbai and has its operations across India, United States, Singapore and Oman. It operates through its 200 own branches along with 2600 branches of ICICI Bank and also associated with 4600 sub brokers, authorised persons, independent financial associates and independent associates across 500 cities. It is a leading technology-based securities company in India that offers a wide range of financial services such as distributing various 3rd party financial products which includes mutual funds, insurance products, loans, and pension products, the advisory services which includes financial planning, equity portfolio advisory, access to alternate investments, retirement planning and estate planning, brokerage services and also capital markets services which include management of public equity offerings, share buybacks, tender offers and equity private placements. It has also ventured into investment banking business and offers equity capital markets services and other financial advisory services to corporate clients, the government and financial sponsors.

### Objects of the offer:

- ⇒ To achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the sale of up to 77,249,508 equity shares by the selling shareholders.

### Investment rationale

#### Large client base

ICICI Securities have been the largest Indian equity broker since FY14 in terms of brokerage revenue and active clients. with 5.6% of the brokerage revenues in the industry. It generates most of its revenue from servicing the retail clients and the revenue from retail clients held at 89% of the brokerage revenue on FY17. It had 3,800,000 operational accounts out of which 800,000 were active clients as on Dec 31, 2017 on the NSE platform. The top 5 brokers have 33% of the total active clients and the largest of all is ICICI Securities which has 10.1% of the total active clients. Despite having a large client base, ICICI Securities has also shown to provide satisfactory client service with the lowest complaint ratio of 0.01% compared to the overall median of the industry lying at 0.06%. They have the moat in ease of opening trading, demat and savings all together at once. The use of data analytics coupled with innovation helps them operate with better client servicing.

#### Strong distribution network

ICICI Securities distributes third-party mutual funds, insurance products, fixed deposits, loans and pension products to retail customers for commission income. ICICI Securities is one among the top 10 distributors of India and 2<sup>nd</sup> largest non-bank distributor comprising of 3.5% of the market share. Along with its online presence, it also has a distribution network across 500 cities in India. The benefit of having its vast network across nation provides them with meeting the growing demands. Its revenue from the distribution business which makes up 24.9% of the total revenues has grown from Rs. 1621.4 million to Rs.3500.6 million from FY13 to FY17. It was the 2nd largest non-bank distributor of mutual funds in India for the FY17 and the revenues from mutual fund distribution makes up 47% of the revenues generated from distribution income.

#### Strong financial record

The company has good reserves and cash balances of Rs.3240 million and Rs.8670 million with a liquidity ratio of 1.2x for the FY17. The revenues has also grown from Rs.7050 million to Rs.14,039 million at a CAGR of 18.8% from FY13 to FY17 and this increase was primarily due to an increase in brokerage revenue and an increase in commissions from the distribution of 3rd party mutual funds and life insurance products. PAT CAGR stood at 43.2% from FY13 to FY17 and PAT margin for the FY17 had been at 24%. ICICI Securities has consistently paid out dividends and the dividend payout ratio for the last 3 years stood at least at 25%. Cash flows from FY13 to FY17 were also positive with an exceptional positive cash flow of 1053 million at the end of FY17.

### Valuation and Outlook

We see a rising retail participation supported by better capital market returns. The Nifty 50 has given annualized return of 11.2% since inception. The household saving component is also growing and gradually shifting towards financial assets. Improving economic conditions, low interest rates and stable inflation will further improve the flow of funds into the capital markets. Hence, the overall broking industry has a good scope for growth going forward. Though the company has shown to generate consistent and growth in returns YoY, the PAT margin stood lower at 24% than its peers (Motilal Oswal) and has a much higher PE of 51x than the PE's of Motilal Oswal and IIFL at 33.7x and 27.2x. Hence, we recommend our clients to **AVOID** this issue.

### Issue details

Offer period	22nd —26th March 2018
Price band	Rs. 519—Rs. 520
Bid lot	28
Listing	NSE & BSE
Issue size (Rs in mn)	40,170.0
Issue size (no. of share in mn)	77.25
Face value	5

### Issue Structure

QIB	75%
Retail	10%
HNI	15%
	DSP Merrill Lynch Ltd
	Citi Group Global Market India Pvt Ltd
	CLSA India Pvt Ltd
BRLM	Edelweiss Financial Services Ltd
	IIFL Holdings Ltd
	SBI Capitals Market Ltd
Registrar	Karvy Computer-share Pvt Ltd

### Shareholding Pattern (%)

Particulars	Pre-Issue %	Post-Issue %
Promoter	100.0	76.7
Public	0.0	23.3
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(\*Assuming issue subscribed at higher band)

**Research Team**  
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Particulars	FY13	FY14	FY15	FY16	FY17
<b>Revenue</b>					
Revenue from operations	7,058	8,123	12,095	11,246	14,042
<b>Total revenue</b>	<b>7,058</b>	<b>8,123</b>	<b>12,095</b>	<b>11,246</b>	<b>14,042</b>
<b>Expenses</b>					
Operating expense	750	1,010	1,045	1,015	1,290
Employee benefit expenses	2,883	3,346	3,921	4,014	4,847
Finance cost	309	247	311	258	287
Other expenses	1,891	1,988	2,158	2,058	2,244
<b>Total Operating expenses</b>	<b>5,833</b>	<b>6,590</b>	<b>7,435</b>	<b>7,345</b>	<b>8,667</b>
<b>EBITDA</b>	<b>1,226</b>	<b>1,532</b>	<b>4,660</b>	<b>3,901</b>	<b>5,375</b>
Depreciation and amortisation expense	139	135	163	160	155
<b>PBT</b>	<b>1,086</b>	<b>1,397</b>	<b>4,497</b>	<b>3,741</b>	<b>5,220</b>
Current tax	439	568	1,631	1,475	1,904
Deferred tax	(71)	(63)	(73)	(122)	(69)
<b>Total tax</b>	<b>369</b>	<b>506</b>	<b>1,558</b>	<b>1,354</b>	<b>1,835</b>
<b>Profit for the Period/ Year</b>	<b>717.5</b>	<b>891.9</b>	<b>2,938.7</b>	<b>2,387.2</b>	<b>3,385.9</b>
<b>Diluted EPS</b>	<b>2.0</b>	<b>2.6</b>	<b>9.1</b>	<b>7.4</b>	<b>10.5</b>
<b>PE</b>	<b>241</b>	<b>194</b>	<b>59</b>	<b>72</b>	<b>51</b>

Source: Company, BP Equities Research

### Cash Flow Statement (Millions)

Particulars	FY13	FY14	FY15	FY16	FY17
Cash Flow from operating activities	330	1,925	2,213	2,322	1,653
Cash flow from investing activities	(125)	(1,147)	889	(165)	(170)
Cash flow from financing activities	(620)	(43)	(3,315)	(2,715)	(541)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(619.5)</b>	<b>735</b>	<b>(214)</b>	<b>(557)</b>	<b>942</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>714</b>	<b>300</b>	<b>1,035</b>	<b>821</b>	<b>264</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>300</b>	<b>1,035</b>	<b>821</b>	<b>264</b>	<b>1,206</b>

Source: Company, BP Equities Research



## Balance Sheet (Millions)

Particulars	FY13	FY14	FY15	FY16	FY17
<b>Liabilities</b>					
Share Capital	2,110.70	1,610.70	1,610.70	1,610.70	1,610.70
Reserves and surplus	507.00	882.90	1,912.40	2,370.90	3,285.10
Minority Interest					
<b>Net worth</b>	<b>2,617.70</b>	<b>2,493.60</b>	<b>3,523.10</b>	<b>3,981.60</b>	<b>4,895.80</b>
Long-Term Provision	102.90	129.10	160.70	267.60	338.10
Other Liabilities	610.60	431.30	525.00	627.50	826.50
<b>Total liabilities</b>	<b>3,331.20</b>	<b>3,054.00</b>	<b>4,208.80</b>	<b>4,876.70</b>	<b>6,060.40</b>
<b>Assets</b>					
Fixed Assets	176.30	194.00	252.70	250.90	241.90
Non-current investments	25.50	2.80	12.20	12.20	20.50
Intangible Assets	154.70	154.10	95.70	103.20	104.40
Deferred Tax Assets (Net)	251.90	314.50	387.10	508.60	577.80
Long Term Loans & Advances	1,288.60	1,452.50	1,147.00	1,292.70	1,361.80
Other Non-current Assets	147.30	135.50	198.60	294.20	839.90
<b>Total Non-Current Assets</b>	<b>2,044.30</b>	<b>2,253.40</b>	<b>2,093.30</b>	<b>2,461.80</b>	<b>3,146.30</b>
Stock-in-Trade	51.10	277.00	338.10	1,412.70	310.90
Trades receivables	970.90	5,385.50	1,731.30	2,933.30	7,100.50
Cash and Bank Balances	4,729.00	5,966.60	8,530.60	6,394.20	8,823.60
Short Term Loans & Advances	170.80	412.00	310.10	253.60	358.70
Other Current Assets	436.20	1,434.00	625.20	519.30	734.40
<b>Total Current Asset</b>	<b>6,358.00</b>	<b>13,475.10</b>	<b>11,535.30</b>	<b>11,513.10</b>	<b>17,328.10</b>
Less: Current Liabilities	5,071.10	12,674.50	9,419.80	9,098.20	14,414.00
<b>Net Current Assets</b>	<b>1,286.90</b>	<b>800.60</b>	<b>2,115.50</b>	<b>2,414.90</b>	<b>2,914.10</b>
Total assets	3,331.20	3,054.00	4,208.80	4,876.70	6,060.40

Source: Company, BP Equities Research

## Key Risks

- ⇒ General economic and market conditions in India and globally could have an adverse effect on business, prospects. and also on the financial markets.
- ⇒ ICICI Securities relies on the brokerage business and any adverse changes in the regulation, exchange platforms or the brokerage fee may impact the business.
- ⇒ The intense competition in the broking industry may limit the growth of the business.

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