

Issue Highlights

Issue Opens	22nd Mar 2018
Issue Closes	26th Mar 2018
Issue Price (INR)	519-520
Issue Size (INR Cr)	4009.25 - 4016.97
Offer for Sale (Cr)	7.7249
Face Value (INR)	5
Min. Application Lot	28
Listing	NSE, BSE
Max Subscription for Retail Investor (INR)	200,000

Issue Allocation

QIB Category (Cr)	5.5040
Non-Institutional (Cr)	1.1008
Retail Category (Cr)	0.7338

Book Running Lead Managers

BoA Merrill Lynch ,Citi Group Global Markets,CLSA India Pvt. Ltd, Edelweiss, IIFL,SBI Capital Markets.

Registrar to the Offer

Karvy Computershare Pvt. Ltd.

Stock Scan

EPS (Annualized FY17-18)	16.52
P/E at Lower Price Band	31.42
P/E at Upper Price Band	31.47
Rating	Subscribe

Company Overview

ICICI 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. As on September 30, 2017, ICICI Securities retail brokerage and distribution businesses consists of over 200 own branches, over 2,600 branches of ICICI Bank through which electronic brokerage platform is marketed and over 4,600 sub-brokers, authorized persons, independent financial associates and independent associates.

The Company has reported a strong and growing distribution business, where they distribute third-party mutual funds, insurance products, fixed deposits, loans and pension products to their retail customers for commission income. The revenue from the distribution business have increased from INR162.14 crore in fiscal 2013 to INR350.06 crore in fiscal 2017 and were INR 328.05 crore in the nine months ended December 31, 2017. The Company also continues to invest in technology and innovation.

Objects of the Issue

The objects of the Offer for the Company are to:

- 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.

Financial Performance at a Glance

Particulars (INR Cr)	FY15	FY16	FY17	9 M FY18
Revenue from Operations	1,209.46	1,123.56	1,403.90	1,344.69
Growth (%)	-	-7.10%	24.95%	-
EBITDA (Ex OI)	355.56	316.66	456.11	546.41
EBITDA Margins (%)	29.40%	28.18%	32.49%	40.63%
Net Profit	243.96	235.74	337.61	398.31
Net Profit Margin	20.17%	20.98%	24.05%	29.62%
Net Profit Growth (%)	-	-3.37%	43.21%	-
EPS	7.57	7.32	10.48	12.36

Sector View

Indian capital markets have generated healthy returns in the last two to three fiscal years, driven by heightened activity in the primary capital markets and favorable secondary market participation. Benchmark indices like the Nifty 50 and the S&P BSE Sensex have grown at a CAGR of 12.5% and 11.4% respectively, from April 1, 2014 to September 30, 2017. Retail participation has witnessed a significant revival in the past two fiscal years, accounting for 43.8% of the NSE equity derivatives market, by average gross traded value, in fiscal 2017, as compared to 36.7% in fiscal 2013. In the past five years, internet and mobile trading has gained significant traction.

The share of internet trading in the NSE cash equities markets has increased from 21.5% in fiscal 2013 to 24.2% in fiscal 2016. Similarly the share of mobile trading in NSE cash equities market has increased from 0.4% in fiscal 2013 to 3.5% in fiscal 2017. Various Structural reforms like Demonetization, Aadhaar Programme, Goods and Services Tax, Recapitalization Package of PSBs and Insolvency and Bankruptcy Code, 2016 are expected to increase the economic growth and improve the overall business environment in India, enhancing productivity and stimulating higher foreign and domestic investments.

The Indian economy is the fourth largest economy in the world in terms of GDP in PPP terms. India currently has one of the youngest populations in the world, with a median age of 28 years, and an estimated 90% of the Indian population will be below the age of 60 by 2020. According to CRISIL Research, the proportion of urban population has increased steadily from 28.8% in 2004 to an estimated 33.1% in 2016. A high share of working population, coupled with rapid urbanization and rising affluence, is expected to propel the growth of the Indian financial services sector.

Key Strengths

- The return on equity has exceeded 30% for each measured period since fiscal 2013. For fiscal 2017, the return on equity was 69.2%. The Company also has a consistent record for paying dividend and the dividend pay-out ratio was 60.6% in fiscal 2017. The cost ratio has decreased from 84.6% in fiscal 2013 to 62.8% in fiscal 2017. During the same time, the employee productivity has increased from INR18 crore in fiscal 2013 to INR4.3 crore in the nine months ended December 31, 2017.
- Strategically Expand the Financial Product Distribution Business through Cross-Selling.
- Focusing on diversifying the revenue stream and continuing to reduce the revenue volatility as the contribution of brokerage business to overall revenue has decreased from 70.3% in fiscal 2013 to 62.6% in fiscal 2017.

Shareholding Pattern

<u>Pre-Issue</u>	<u>Holding(%)</u>
ICICI Bank	100%
<u>Post-Issue</u>	
Promoter	76%
QIB	17.09%
Non-Institutional	3.42%
Public	2.28%

Source: Company RHP, SMIFS Research

Segment Wise Revenue (9 M FY18)

Broking(Retail & Institutional)	64%
Investment Banking	24%
Distribution	8%
Treasury & Others	4%

Source: Bloomberg

Key Risks

- The Company relies heavily on their relationship with ICICI Bank for many aspects of their business, and their dependence on ICICI Bank leaves them vulnerable to changes in their relationship.
- The Company relies heavily on their brokerage business for a substantial share of their revenue and profitability. Any reduction in the brokerage fees could have a material adverse effect on the business, financial condition, cash flows, results of operations and prospects.
- The Company may not be able to sustain their growth or expand the customer base. Sustained growth may place significant demands on the administrative, operational and financial resources, which they may be unable to handle. Any slowdown in the growth, whether in absolute terms or relative to industry trends could adversely affect the market position and a loss of their market position could adversely affect the ability to sustain the growth.

Outlook and Valuation

As on 31st March, 2017 the net worth of the company was INR482.97 crore and during 9MFY18 its net worth was INR668.81 crore. For FY17, its revenue grew by 24.95% and net profit grew by 43.21%. The Industry P/E stood at 37.1 whereas post issue ICICI Securities P/E stood at 31.47 and ROE at 65.29%, as the Company has been reporting a rise in profits since FY2016. Company's basic EPS was INR12.36 during 9M FY18. For last three fiscals the company has posted an average EPS of INR9.25 and an average RoNW of 76.91%. The stock looks cheaper as compared to its peers, thus we recommend '**Subscribe**' to the issue for long term investment perspective.

Key Financial Ratios (Post Issue Basis)

Company Name	P / E (x)*	P/B (x)*	ROE (%)**	Mcap / Sales (x)*
ICICI Securities Ltd.	31.47	25.05	65.29	9.89

**Nine month figures are annualized.

* As per upper price band.

Peer Comparison

Company	CMP (INR)	Market Cap*	Total Income*	PAT*	Basic EPS (INR)	RoNW(%)	NAV(per share)
Edelweiss financial services	246.7	22512.39	6618.84	609.31	7.26	14.09%	51.95
IIFL Holdings Ltd.	693.75	22777.39	4924.88	686.09	21.64	15.66%	137.82
JM Financial Ltd.	125.05	10325.85	2359.26	470.2	5.93	14.89%	39.74
Motilal Oswal Financial Services Ltd.	1072.2	15488.13	1808.71	359.97	25.14	20.15%	123.64
Geojit Financial Services Ltd.	96.75	2292.13	305.76	56.02	2.37	10.94%	21.74
ICICI Securities Ltd.	-	16751	1403.9	337.61	10.48	70%	15.05

ICICI Securities M.Cap at Upper Band

*Figures:INR crores

Source: Bloomberg, BSE, Company RHP, SMIFS Research

Financial Details
Balance Sheet

Particulars(INR Cr.)	FY 2015	FY 2016	FY 2017	9 M 2018
Non-Current assets				
PPE	25.24	25.06	24.19	26.04
Intangible Assets	9.57	10.32	10.44	10.23
CWIP	0.69	0.38	0.04	3.54
Intangible Assets under Development	3.01	2.03	2.79	2.43
Non Current Investment	13.49	13.49	14.32	14.16
Deferred Tax Assets(net)	38.71	50.86	57.78	65.91
Long-term loans and Advances	110.97	125.56	135.79	122.75
Other Non-Current Assets	16.16	27.01	81.15	4.87
Current Assets				
Current Investments	-	-	0.07	100
Stock-in-Trade	33.81	141.27	31.09	29.11
Trade Receivables	173.13	292.04	709.75	355.86
Cash and Bank balances	843.27	627.16	866.99	1414.72
Short-Term Loans & Advances	30.57	24.91	32.38	678.56
Other Current Assets	62.52	51.93	73.38	89.24
Total Assets	1361.14	1392.02	2040.16	2917.42
Shareholders Fund				
Share Capital	161.07	161.07	161.07	161.07
Reserves & Surplus	191.06	233.16	323.98	508.99
Net Worth	352.13	394.23	485.05	670.06
Non-Current Liabilities				
Other Non-Current Liabilities	50.64	61.82	82.63	84.52
Long Term Provisions	16.07	26.76	33.81	39.78
Current Liabilities				
Short Term Borrowings	226.53	172.86	395.41	860.71
Trade Payables	560.21	595.2	871.36	1043.69
Other Current Liabilities	151.46	136.96	166.8	209.77
Short Term Provisions	4.1	4.19	5.1	8.89
Total Equity and Liability	1361.14	1392.02	2040.16	2917.42

Income Statement				
Particulars(INR Cr.)	FY 2015	FY 2016	FY 2017	9 M 2018
Revenue from Operations	1118.5	1027.87	1295.27	1232.94
Other Income	90.96	95.69	108.63	111.75
Total Income	1209.46	1123.56	1403.9	1344.69
Expenses				
Employee Benefit Expense	384.85	392.44	473.61	406.97
Operating Expenses	119.16	117.17	144.99	121.81
Finance Costs	30.61	25.37	28.3	34.84
Depreciation and Amortization Expense	16.27	15.94	15.46	11.54
Other Expenses	258.93	201.6	220.56	157.75
Total Expenses	809.82	752.52	882.92	732.91
Profit Before Tax	399.64	371.04	520.98	611.78
Total Tax Expense	155.68	135.3	183.37	213.47
Profit After Tax	243.96	235.74	337.61	398.31

Source: Company RHP, SMIFS Research

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating

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