

Stock Update IIFL Securities Ltd.

March 28, 2024





| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|----------|--------|---|----------------------|----------------------|--------------|
| Broking | Rs 120 | Buy in Rs 119-122 band and add on dips in Rs 104-106 band | Rs 134 | Rs 145 | 2-3 quarters |

| | |
|------------------------|-------------|
| HDFC Scrip Code | IIFLSECEQNR |
| BSE Code | 542773 |
| NSE Code | IIFLSEC |
| Bloomberg | IIFLSEC IN |
| CMP Mar 27, 2024 | 119.9 |
| Equity Capital (Rs cr) | 61.5 |
| Face Value (Rs) | 2.0 |
| Equity Share O/S (cr) | 30.8 |
| Market Cap (Rs cr) | 3688 |
| Book Value (Rs) | 55.0 |
| Avg. 52 Wk Volumes | 15,02,000 |
| 52 Week High (Rs) | 180.5 |
| 52 Week Low (Rs) | 48.2 |

| Share holding Pattern % (Dec, 2023) | |
|-------------------------------------|-------|
| Promoters | 31.0 |
| Institutions | 18.8 |
| Non Institutions | 50.2 |
| Total | 100.0 |



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Our Take:

IIFL Securities Ltd (IIFLSEC) is one of the key capital market players in the Indian financial services space. The company provides a full suite of products and services. It offers equities (both cash and derivatives), commodities, and currency broking for both retail/HNI and institutional clients. Its financial products distribution (FPD) division offers a wide range of products like mutual funds, insurance, IPOs, bonds, AIF, and others, targeting retail & HNI clients. It also has an investment banking (IB) division. The company is also constantly investing in technology and launching new innovative products to remain competitive with discount brokerages.

The buoyant equity markets have resulted in strong growth in Investment Banking and financial products distribution revenue. Sale of its real estate assets could bring in further capital to invest in the financial services business. We believe the equity markets are likely to remain strong in the near term driving higher revenues and profitability for IIFLSEC.

We had issued Stock Update report ([Link](#)) on IIFL Securities Ltd. on Oct 9, 2023, and recommended to Buy in Rs 88-90 band & add on dips in Rs 79-81 band for base case target of Rs 97 and bull case target of Rs 108 over 2-3 quarters. The targets were achieved within the given timeframe. The stock price after rising much higher post the above target prices, have corrected lately partly due to the correction in markets and also due to adverse publicity of RBI action on group company IIFL Finance. The stock also offers an attractive dividend yield of ~3% at the CMP.

Financial Summary

| Particulars (Rs cr) | Q3FY24 | Q3FY23 | YoY (%) | Q2FY23 | QoQ (%) | FY23 | FY24E | FY25E | FY26E |
|---------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|
| Revenues | 559 | 342 | 63.4 | 507 | 10.2 | 1,352 | 1,944 | 2,247 | 2,573 |
| EBITDA | 240 | 116 | 107.9 | 159 | 51.0 | 465 | 680 | 813 | 965 |
| APAT | 150 | 65 | 132.4 | 108 | 39.2 | 250 | 410 | 499 | 609 |
| Diluted EPS (Rs) | 4.9 | 2.1 | 130.6 | 3.5 | 38.5 | 8.2 | 13.4 | 16.3 | 19.9 |
| RoE (%) | | | | | | 19.8 | 27.7 | 28.0 | 28.3 |
| P/E (x) | | | | | | 14.6 | 8.9 | 7.3 | 6.0 |
| EV/EBITDA (x) | | | | | | 7.5 | 5.4 | 4.0 | 3.1 |

(Source: Company, HDFC sec)



Valuation & Recommendation:

We remain bullish about the near to mid-term prospects of the company owing to strong tailwinds across all capital market businesses. The stock is trading at a lower valuation as compared to its peers which we expect to narrow over time. We think the impact of the latest RBI action on its group company on the stock price of IIFLSEC could be temporary. We have envisaged 24% CAGR in topline and 35% in bottomline over FY23-FY26E. We believe investors can buy the stock in the band of Rs 119-122 and add on dips in Rs 104-106 band (5.25x FY26E EPS) for a base case fair value of Rs 134 (6.75x FY26E EPS) and bull case fair value of Rs 145 (7.25x FY26E EPS) over the next 2-3 quarters.

Q3FY24 Result Update

IIFLSEC reported a strong quarter of results with consolidated revenue increasing 63% YoY and 10% QoQ to Rs 559cr driven by sharp jump in retail broking and financial products distribution income. Retail broking revenue increased by 36% YoY to Rs 162cr as average daily turnover (ADTO) for cash/derivatives market increased 67%/73% YoY to Rs 2500cr/2688cr. Distribution income jumped 87% YoY to Rs 100cr resulting from increased sale of AIF, PMS and insurance products. Investment banking division reported revenue of Rs 55cr, a growth of 33% YoY as it completed 17 deals during the quarter across capital markets, debt and private equity. Finance cost has gone up 42% QoQ and 68% YoY basically because of increase in the overall borrowing for its margin funding book. Net profit for the quarter stood at Rs 150cr, up 132% YoY and 39% QoQ. AUM and custody assets increased to 1.82 lakh crore as compared to Rs 1.24 lakh crore in Q3FY23.

Key Triggers

SEBI order set aside by SAT

In Jun'23, SEBI had prohibited the company from on-boarding new clients for two years as a stockbroker. This is pertaining to inspections carried out for different periods from April 2011 to 2017. However, the company appealed against the ruling and Securities Appellate Tribunal (SAT) has stayed this order.

In the latest order in Dec'23, SAT has said there has been no misuse of client funds and "since there is no failure on the part of the appellant to segregate monies of the client nor monies of the client have been misused by the appellant for its own purposes, no penalty could be imposed." However, it added that IIFL Securities failed to change the nomenclature of the bank accounts of the client as required to be done under the 1993 circular. "Considering the aforesaid that it is only a technical breach, we are of the opinion that in the given circumstances for the two show cause notices, a penalty of Rs 20 lakh in total would be sufficient for the purpose of this case," it concluded. The issue pertaining to the nomenclature of the client accounts has been rectified by the company.



New investors continue to throng equity markets

In a resilient move amidst market volatility, investors have flooded the Indian stock market with demat additions, crossing 46.84 lakh in January and 43 lakhs in February 2024. Despite the wild swings after a major bull run, the number of new demat accounts surpassed the previous high set in December, showcasing unwavering confidence in the market. Over 46.84 lakh/43.0 lakh demat accounts were added in January/February, taking the total demat accounts to 14.80 crore vs 11.3 cr in February 2023. As new investors start investing in equities, cash and derivatives turnover is expected to increase, resulting in higher revenue from brokerage and later higher income from financial products distribution.

Buoyant markets to drive higher IB revenue

We have seen in the past that in time of bullish markets, the number of IPOs and M&A deals increase. Public equity fund-raising jumped 59 per cent to Rs 1.44 -lakh crore in calendar year 2023, led by 57 mainboard initial public offerings (IPOs) that collectively injected Rs 49,434 crore into markets, and 45 qualified institutional placements (QIPs) that raised Rs 54,350 crore. IIFL completed 17 transactions in Q3FY24 which includes 4 IPOs, 8 QIPs, 1 OFS and a number of private placements / advisory transactions. Additionally, it has also won a number of mandates in capital markets and private equity. The strong momentum in equity markets is likely to result in surge of IPOs, buybacks and PE deals in the coming years driving higher investment banking revenue for the company.

The forthcoming general elections could result in heightened activity in equity markets for the next 4-5 months. This could mean higher revenue and profits for players like IIFLSEC.

Focus on affluent customers

IIFLSEC is diversifying revenues with a greater focus on the distribution business, building an AUM-led model and acquiring more clients (particularly in the HNI/affluent segment). The Company has revised its strategy to concentrate on affluent customers in accordance with the re-organisation plan approved by its Board of Directors. Under the reorganising scheme, the Board of Directors approved the transfer of IIFL Securities' Online Retail Trading Business to 5paisa Capital Limited. Going ahead, clients that need help of RMs or retail clients operating through sub brokers will remain in IIFLSEC while the rest could go to 5Paisa.

Risk & Concerns

Market volatility

Capital market has an inherent risk of volatility. Market volatility (especially downward) has a high correlation with volume growth for the broking business. Hence, any prolonged period of negative returns from equity market can hit the company's revenues hard.



Competition

The broking industry is increasingly becoming competitive and technology-driven, with new format players giving rise to technology and pricing-based disruptions. It is currently facing significant pressure on account of increased competition from discount brokers. While the capital market cycle has been positive and volumes have compensated for declining yields, a reversal of investments in financial assets will have a significantly negative impact on both asset prices and trading volumes, which in turn will significantly impair broking revenues and earnings. IIFLSEC got limited benefits of client rise and volume rise in Covid times unlike its peers.

Adverse regulatory change

For the broking business, new regulatory changes could result in lower volumes in the short to medium term. Further, any adverse change of regulation or non-compliance of rules might impact the company's brand/growth.

Market share loss

IIFLSEC has witnessed a decline in the overall market share from 2% in FY19 to 1.1% in FY23, due to high volatility, sharp rise in passive flows, competition from discount brokers and underwritten blocks. If the trend continues, there could be a negative impact on the company's stock price. Hiving off of retail online clients could result in further loss of share (especially in active customers). However, the company has decided not to focus on market share but on enhancing revenues and profitability.



Company Background:

IIFL Securities Ltd (IIFLSEC) is one of the key capital market players in the Indian financial services space. Along with its subsidiaries, IIFLSEC offers advisory and broking services, financial products distribution, institutional research, and investment banking services. The company caters to over 3 mn customers through a network that is present at 2,500 points, covering branches and business partners across 500+ locations through own and franchisee offices. On the institutional side, it has over 890 foreign and domestic customers. It has ~0.5mn active retail clients and total 2.5mn clients. IIFLSEC has ~450 RMs.

IIFLSEC, the erstwhile flagship company of the India Infoline group, was set up as Probity Research and Services in October 1995; its name was changed to India Infoline Ltd in March 2000. The company is a trading member of the BSE and NSE. IIFL Finance (erstwhile IIFL Holdings Ltd) was the holding company for the entire IIFL group. As a part of corporate restructuring, the securities and wealth businesses of IIFL Holdings Ltd were demerged into IIFL Securities Ltd and IIFL Wealth Management Ltd respectively. In September 2019, IIFL Securities was listed on the stock exchanges.

IIFLSEC completed buyback of 1.7cr shares through open market at an average price of ~Rs 51 per share in Feb'21. The company emerged a successful bidder for demat accounts of Karvy Stock Broking with NSDL and CDSL in Feb'21 and nearly 1.1 mn demat accounts from Karvy were acquired in a formal bidding process organised by stock exchanges and depositories. The company has an average SIP transactions of ~1.7 lakh transactions per month with total SIP AUM of ~Rs 2600cr. Promoters own 31.1% stake in the company, Fairfax has 27.7% stake and other institutions hold 19.6%.

Peer Comparison:

| | CMP | Mcap (Rs Cr) | FY23 | | | | EPS | | | P/E | | |
|------------------|------|-----------------|-------|-------|--------|------|-------|-------|-------|-------|-------|-------|
| | | | Sales | NP | Margin | RoE | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| ICICI Securities | 742 | 23,983 | 3,416 | 1,118 | 32.7 | 42.3 | 47.6 | 54.7 | 61.5 | 15.6 | 13.6 | 12.1 |
| IIFL Securities | 120 | 3,688 | 1352 | 250 | 18.5 | 19.8 | 13.4 | 16.3 | 19.9 | 8.9 | 7.3 | 6.0 |
| Angel One | 2973 | 24,976 | 3,021 | 890 | 29.5 | 47.5 | 130.7 | 154.2 | 183.1 | 22.7 | 19.3 | 16.2 |



Financials

Income Statement

| (Rs cr) | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------------|-------------|--------------|-------------|-------------|-------------|
| Net Revenues | 1232 | 1352 | 1944 | 2247 | 2573 |
| <i>Growth (%)</i> | <i>55.8</i> | <i>9.7</i> | <i>43.8</i> | <i>15.6</i> | <i>14.5</i> |
| Operating Expenses | 749 | 887 | 1263 | 1434 | 1608 |
| EBITDA | 483 | 465 | 680 | 813 | 965 |
| <i>Growth (%)</i> | <i>59.2</i> | <i>-3.7</i> | <i>46.3</i> | <i>19.6</i> | <i>18.6</i> |
| <i>EBITDA Margin (%)</i> | <i>39.2</i> | <i>34.4</i> | <i>35.0</i> | <i>36.2</i> | <i>37.5</i> |
| Depreciation | 63 | 67 | 68 | 64 | 63 |
| Other Income | 84 | 18 | 68 | 74 | 77 |
| EBIT | 503 | 416 | 681 | 823 | 979 |
| Interest expenses | 102 | 76 | 124 | 149 | 162 |
| PBT | 402 | 341 | 556 | 675 | 817 |
| Tax | 96 | 91 | 146 | 176 | 208 |
| PAT | 306 | 250 | 410 | 499 | 609 |
| Share of Asso./Minority Int. | 0 | 0 | 0 | 0 | 0 |
| Adj. PAT | 306 | 250 | 410 | 499 | 609 |
| <i>Growth (%)</i> | <i>38.9</i> | <i>-18.2</i> | <i>64.1</i> | <i>21.6</i> | <i>22.1</i> |
| EPS | 10.1 | 8.2 | 13.4 | 16.3 | 19.9 |

Balance Sheet

| As at March (Rs cr) | FY22 | FY23 | FY24E | FY25E | FY26E |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| SOURCE OF FUNDS | | | | | |
| Share Capital | 61 | 61 | 61 | 61 | 61 |
| Reserves & Surplus | 1121 | 1289 | 1556 | 1887 | 2291 |
| Shareholders' Funds | 1182 | 1350 | 1617 | 1948 | 2353 |
| Minority Interest | 0 | -1 | -1 | -1 | -2 |
| Total Debt | 607 | 486 | 976 | 1036 | 1096 |
| Net Deferred Taxes | -24 | -30 | -30 | -30 | -30 |
| Other Non-curr. Liab. | 0 | 0 | 0 | 0 | 0 |
| Total Sources of Funds | 1765 | 1805 | 2562 | 2952 | 3416 |
| APPLICATION OF FUNDS | | | | | |
| Net Block & Goodwill | 406 | 363 | 315 | 273 | 236 |
| CWIP | 3 | 1 | 1 | 0 | 0 |
| Investments | 304 | 167 | 267 | 367 | 867 |
| Other Non-Curr. Assets | 1463 | 1719 | 2640 | 2940 | 3366 |
| Total Non Current Assets | 2175 | 2249 | 3223 | 3580 | 4469 |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Debtors | 28 | 22 | 54 | 50 | 57 |
| Cash & Equivalents | 3740 | 2837 | 3925 | 4419 | 4710 |
| Other Current Assets | 74 | 99 | 182 | 170 | 208 |
| Total Current Assets | 3842 | 2958 | 4161 | 4639 | 4975 |
| Creditors | 2 | 3 | 6 | 5 | 6 |
| Other Current Liab & Provisions | 4251 | 3399 | 4816 | 5262 | 6021 |
| Total Current Liabilities | 4252 | 3402 | 4822 | 5267 | 6027 |
| Net Current Assets | -410 | -444 | -661 | -628 | -1052 |
| Total Application of Funds | 1765 | 1805 | 2562 | 2952 | 3416 |



Cash Flow Statement

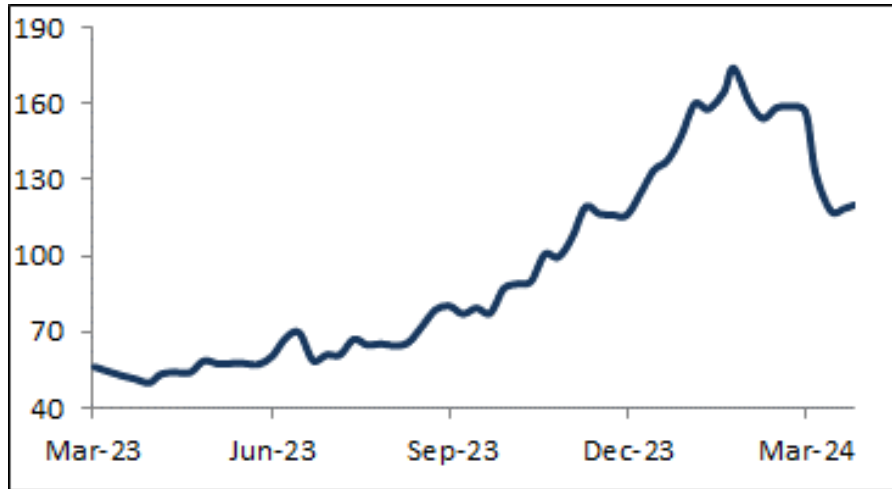
| (Rs cr) | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------------------|------------|-------------|--------------|-------------|--------------|
| Reported PBT | 402 | 341 | 556 | 675 | 817 |
| Non-operating & EO items | 43 | 90 | -921 | -300 | -426 |
| Interest Expenses | 85 | 73 | 124 | 149 | 162 |
| Depreciation | 63 | 67 | 68 | 64 | 63 |
| Working Capital Change | 283 | -1,266 | 1,305 | 461 | 716 |
| Tax Paid | -82 | -98 | -146 | -176 | -208 |
| OPERATING CASH FLOW (a) | 795 | -793 | 986 | 873 | 1,123 |
| Capex | 27 | -5 | -20 | -22 | -25 |
| Free Cash Flow | 822 | -798 | 966 | 851 | 1,098 |
| Investments | -102 | 143 | -100 | -100 | -500 |
| Non-operating income | -11 | 26 | 0 | 0 | 0 |
| INVESTING CASH FLOW (b) | -86 | 163 | -120 | -122 | -525 |
| Debt Issuance / (Repaid) | 315 | -121 | 490 | 60 | 60 |
| Interest Expenses | -98 | -73 | -124 | -149 | -162 |
| FCFE | 926 | -824 | 1,232 | 662 | 496 |
| Share Capital Issuance | 4 | 6 | 0 | 0 | 0 |
| Dividend | -91 | -91 | -144 | -168 | -205 |
| Others | -21 | -16 | 0 | 0 | 0 |
| FINANCING CASH FLOW (c) | 129 | -280 | 222 | -257 | -307 |
| NET CASH FLOW (a+b+c) | 838 | -910 | 1,088 | 494 | 292 |

Key Ratios

| | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|------|------|-------|-------|-------|
| Profitability Ratios (%) | | | | | |
| EBITDA Margin | 39.2 | 34.4 | 35.0 | 36.2 | 37.5 |
| EBIT Margin | 40.9 | 30.8 | 35.0 | 36.6 | 38.1 |
| APAT Margin | 24.8 | 18.5 | 21.1 | 22.2 | 23.7 |
| RoE | 28.5 | 19.8 | 27.7 | 28.0 | 28.3 |
| RoCE | 33.0 | 23.0 | 30.7 | 29.5 | 30.4 |
| Solvency Ratio (x) | | | | | |
| Net Debt/EBITDA | -6.5 | -5.1 | -4.3 | -4.2 | -3.7 |
| Net D/E | -2.7 | -1.7 | -1.8 | -1.7 | -1.5 |
| Per Share Data (Rs) | | | | | |
| EPS | 10.1 | 8.2 | 13.4 | 16.3 | 19.9 |
| CEPS | 12.2 | 10.4 | 15.6 | 18.4 | 22.0 |
| BV | 38.9 | 44.2 | 52.9 | 63.8 | 77.0 |
| Dividend | 3.0 | 3.0 | 4.7 | 5.5 | 6.7 |
| Turnover Ratios (days) | | | | | |
| Debtor days | 9 | 7 | 7 | 8 | 8 |
| Creditors days | 1 | 1 | 1 | 1 | 1 |
| Valuation (x) | | | | | |
| P/E | 11.9 | 14.6 | 8.9 | 7.3 | 6.0 |
| P/BV | 3.1 | 2.7 | 2.3 | 1.9 | 1.6 |
| EV/EBITDA | 7.8 | 7.5 | 5.4 | 4.0 | 3.1 |
| EV/Revenues | 3.1 | 2.6 | 1.9 | 1.5 | 1.2 |
| Dividend Yield (%) | 2.5 | 2.5 | 3.9 | 4.6 | 5.6 |
| Dividend Payout (%) | 29.8 | 36.6 | 35.0 | 33.7 | 33.6 |



Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

**Disclosure:**

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