

Subscribe for Long Term

Issue Details

Price Band (Rs)	519 - 520
Face Value(Rs)	5
Issue Size(Rs)	4,017 Cr
Issue Type	Book Building
Minimum lot	28 Shares
Issue Opens	March 22, 2018
Issue Closes	March 26, 2018
Listing on	BSE, NSE

Indicative Timeline

Indicative Timeline	On or before
Finalization of Basis of Allotment	April 2, 2018
Unblocking of Funds	April 3, 2018
Credit of shares to Demat Account	April 4, 2018
Listing on exchange	April 5, 2018

Other Detail

Book Running Lead Managers	DSP Merrill Lynch Limited, Citigroup Global Markets India Private Limited, CLSA India Private Limited, Edelweiss Financial Services Limited, IIFL Holdings Limited, SBI Capital Markets Limited
Registrar	Karvy Computershare Private Limited

ICICI Securities Limited

Company Background

Incorporated in 1995, ICICI Securities is a leading broking house known for its technology-based wide range of financial services including investment banking, institutional broking, retail broking, private wealth management, and financial product distribution to financial institutions, corporates, retail investors, and high net-worth individuals. Headquartered in Mumbai, ICICI Securities operates out of 75 cities in India and wholly-owned indirect subsidiaries in Singapore, Oman, and New York. ICICI Securities Inc., the step down wholly-owned US subsidiary of the company is a member of the Financial Industry Regulatory Authority (FINRA), Securities Investors Protection Corporation (SIPC). It is also registered with the Monetary Authority of Singapore (MAS) for operating a branch office in Singapore. ICICI Securities is part of ICICI group conglomerate and is promoted by ICICI Bank.

Issue Details

ICICI Securities is offering 7,72,49,508 share of face value of Rs.5 each under the OFS. At the upper price band of Rs.520, issue will raise Rs.4,017Cr, which will be received by ICICI Bank Limited, the promoter selling shareholder. There is a reservation of upto 38,62,475 equity shares for the ICICI Bank shareholders. Issue would constitute 23.98% of post offer paid up capital.

Objective of the issue is to enhance its visibility and brand image and provide liquidity to existing shareholders. For Anchor investors, the issue will open on March 21, 2018.

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 519)	Upper Band (Rs.520)
QIB	75%	5,50,40,276	2857	2862
Non-Institutional	15%	1,10,08,054	571	572
Retail	10%	73,38,703	381	382
ICICI Bank Shareholders		38,62,475	200	201
Total	100%	7,72,49,508	4009	4017

Source: Company RHP, ACMIL

Outlook and Valuations

ICICI Securities is one of the leading broking houses with highly integrated technology based platform, ICICIdirect. They offer diversified range of financial products and services and have forte in retail broking services, which have ample growth opportunities with increasing investments from the households. At an upper price band of Rs.520, the asking price of ICICI Securities' stock is at a P/E of 31.55x on FY18E EPS of Rs.16.48 making it fully valued. We recommend to SUBSCRIBE the issue with a long-term perspective.

Business Overview

ICICI Securities is the largest equity broker since FY14 in terms of brokerage revenue and active customers in equity segment on NSE. Since inception, they have acquired total 4.6 mn customers through their ICICIdirect platform serving a large retail client base. The company provides a wide bouquet of services to diverse clientele.

- Retail Services: Company offers a wide range of products and services in equities, derivatives, currency, and research to retail clients. Moreover, they distribute various third-party products including mutual funds, insurance products, fixed deposits, loans, tax services, and pension

Distribution Team

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products. They also offer advisory services including financial planning, equity portfolio advisory, retirement planning, and estate planning.

- **Investment Banking:** Under investment business, equity capital markets services, and other financial advisory services to corporate clients, the government and financial sponsors are offered. Equity capital markets services include management of public equity offerings, share buybacks, tender offers and equity private placements.

The M&A team is proficient in domestic and international transactions including acquisitions, divestitures, joint ventures, private placement, corporate restructuring, recapitalizations, spin-offs, mergers and exchange offers. The team also works closely with the financial sponsors or private equity houses in India.

- **Institutional Equities:** The equity group leverages research and distribution reach to domestic and foreign institutional investors. The research team tracks over 15 key sectors of the Indian economy and publishes in-depth research reports every year.

Investment Rationale

Largest distributor of third party products with a strong team

ICICI Securities distribute third-party mutual funds, insurance products, fixed deposits, loans and pension products to retail customers for commission income and have a strong and growing distribution business. Revenue from the distribution of third party mutual funds accounted for 47.3% and 60.7% of revenue from the distribution business in FY17 and 9MFY18 respectively making them second largest non-bank distributor of mutual funds in India. Revenues from the distribution business have been Rs. 3,500.6mn in FY17 and Rs. 3,280.5mn in 9MFY18. They have adopted an "open-source" distribution model with respect to all distribution products, except insurance products, pursuant to which they do not distinguish between the third-party partners based on affiliation. In addition to strong online presence, distribution business is supported by nationwide network, consisting of over own 200 branches, over 2,600 branches of ICICI Bank and ~ 4,600 sub-brokers, authorised persons, IFAs and IAs as at December 31, 2017.

ICICIdirect: Proprietary Technology Platform

According to CRISIL, they have been the largest equity broker in India since FY14 in terms of brokerage revenue and active customers in equities on the National Stock Exchange. Their retail brokerage business accounted for 90.5% and 89.1% of the revenue from brokerage business (excluding income earned on funds used in the brokerage business) in FY17 and 9MFY18 respectively. As of December 31, 2017, they had 0.8mn active customers who traded on the National Stock Exchange in the preceding 12 months as per NSE data. They are also one of the pioneers in the e-brokerage business having started offering online, real-time execution of trades on stock exchanges in FY2000 through ICICIdirect which is an award-winning proprietary electronic brokerage platform, providing access to a wide range of products and services to approximately 3.9mn customers as on December 31, 2017. ICICIdirect is backed by robust infrastructure and has processed, at peak usage, over 1.9mn orders and trades in a day. The IT infrastructure underlying electronic brokerage platform is designed with redundancy in mind and company has a three-tier disaster recovery process for it. Electronic brokerage platform has been build using a plug-and-play architecture so that platform can be easily integrated with internal systems and the systems of third parties whose products they distribute. As of December 31, 2017, platform was integrated with the systems of over 25 third-party product providers, including depositories, exchanges and credit bureaus and it also enabled them to offer emerging products, such as National Pension System policies online at competitive prices and with better features.

Innovative Products and Technology

ICICI Securities have a streak for innovative products and technology to stand apart from its peers. They were among 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. It led to seamless transactions and customers' accounts are credited around the same time as the amount is transferred from the exchanges, thereby providing them with greater flexibility in the use of their money. Over the years, innovation capabilities, coupled with data analytics, have enabled company to provide clients with new products and order types with an aim of becoming a "one-stop shop" for their customers' evolving financial product needs. They offer products across various asset classes, including products like systematic equity plans, factor-based portfolios and National Pension System policies. They were amongst the first Indian securities firms to offer customers systematic equity plans and "buy today, sell tomorrow" orders, and as of December 31, 2017, they have offered retail brokerage and distribution customers over 140 different order types.

Leading Institutional Platform

Under the investment banking business, they offer equity capital markets services and other financial advisory services to corporate clients, the government and financial sponsors. Revenue from investment banking business has increased by a CAGR of 14.2% in last five years to Rs. 1,194.8mn in FY17 and was Rs. 1,134.4mn for 9MFY18. They provide variety of services such as management of public equity offerings, rights issues, share buybacks, tender offers, delisting, and equity private placements. Some of the notable equity capital markets transactions in India that ICICI Securities have managed include the first life insurance IPO, the first non-life insurance IPO, the IPO of a leading integrated business service provider, the first amusement park IPO, the first rights issue of shares with differential voting rights and the first IPO of an infrastructure investment trust. They also provide clients with financial advisory services in relation to domestic and cross-border mergers and acquisitions, private placements, and restructuring and the advisory team also works closely with leading financial sponsors and private equity houses in India to facilitate and advise on promoter financing and private equity exits. They have a large cross-section of institutional clients, including foreign institutional investors, whom they service

through dedicated sales teams across India, Asia Pacific and the United States. As of December 31, 2017, institutional research team has covered over 220 Indian stocks across sectors, and also provided macroeconomic and industry-related research.

Risk and Concern

Third party risk: For some services, ICICI Securities rely on third-party intermediaries, contractors and service providers and their dependence on them expose to third party risk.

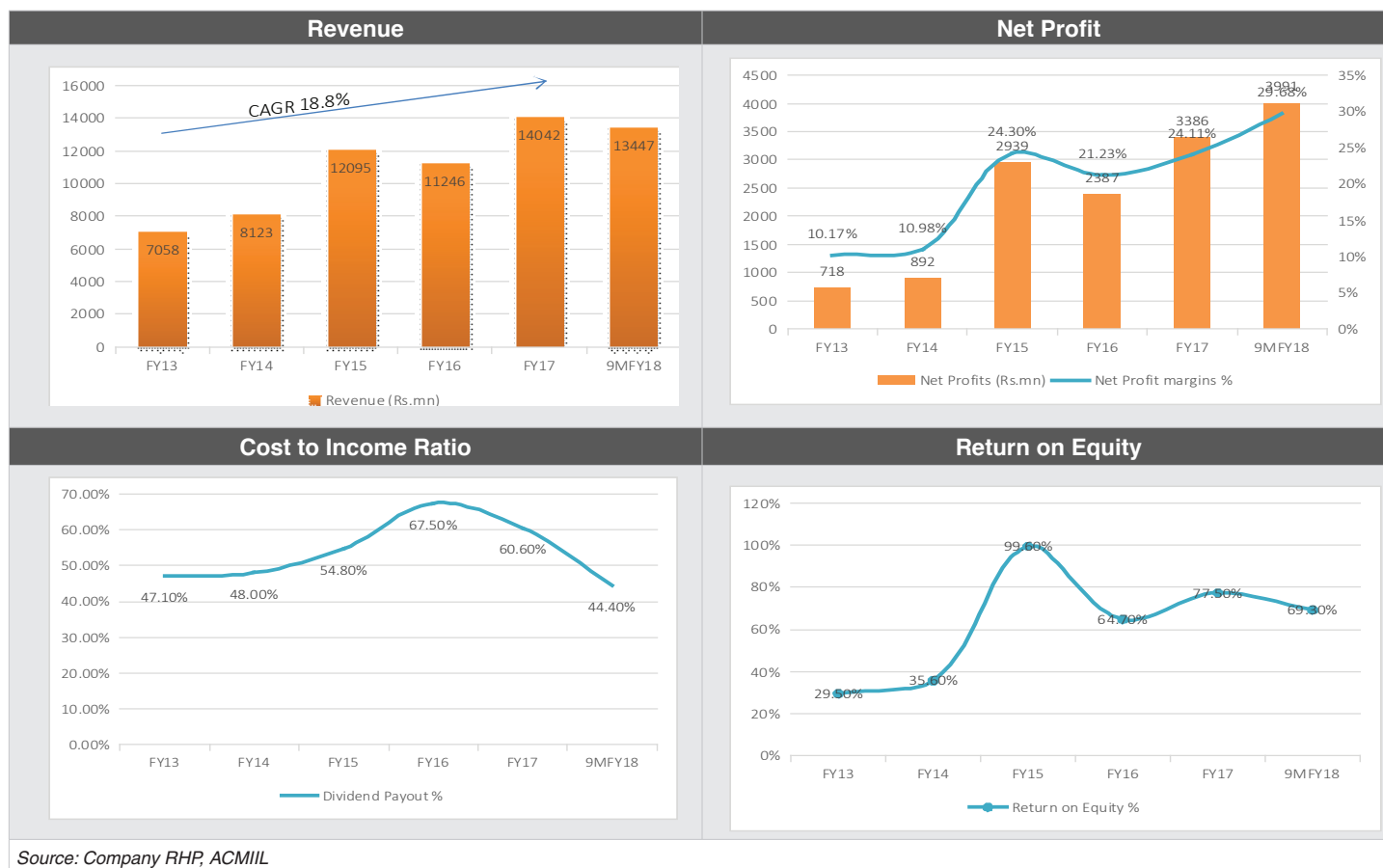
Regulatory Compliances: Being a broking institution, they are subject to extensive statutory and regulatory requirements and supervision, which have material influence on business operations and kind of non-compliance or complexity might impact adversely.

General economic and financial market conditions: Any kind of changes or volatility in geopolitical conditions and financial markets could have a material adverse effect on business operations and profitability.

Peer Comparison

Particulars	Face Value (Rs)	EPS (Rs)*	P/E	RoNW %*	NAV per share (Rs)*
ICICI Securities	5	10.51	49.48	69.16	14.99
Edelweiss Financial Services Limited	1	7.26	36.50	14.08	51.95
IIFL Holdings Limited	2	40.84	18.90	15.65	137.82
JM Financial Limited	1	5.93	22.26	14.10	39.74
Motilal Oswal Financial Services Limited	1	25.14	45.58	20.15	123.64
Geojit Financial Services Limited	1	2.38	42.44	10.93	21.74

Source: Company RHP, ACMIIL
*Note: Data based on FY17



Financials

Income statement (Consolidated)

Particulars (Rs mn)	FY13	FY14	FY15	FY16	FY17	9MFY18
Revenue from operations						
Brokerage income	4,471	4,961	7,554	6,607	7,759	7,490
Income from services	2,334	2,541	3,363	3,499	4,983	4,694
Interest and other operating	583	588	910	957	1,087	1,118
Profit/(loss) on sale of securities	-329	34	268	182	214	146
Total Revenue	7,058	8,123	12,095	11,246	14,042	13,447
Expenses						
Employee benefits expenses	2,883	3,346	3,921	4,014	4,847	4,148
Operating expenses	750	1,010	1,045	1,015	1,290	1,103
Finance costs	309	247	311	258	287	352
Depreciation and amortization	139	135	163	160	155	116
Other expenses	1,891	1,988	2,158	2,058	2,244	1,603
Total expenses	5,972	6,725	7,598	7,505	8,822	7,321
Profit before tax	1,086	1,397	4,497	3,741	5,220	6,126
Tax expense:						
Current tax	439	568	1,631	1,475	1,904	2,216
Deferred tax	-71	-63	-73	-122	-69	-81
Total tax expense	369	506	1,558	1,354	1,835	2,135
Profit after tax	718	892	2,939	2,387	3,386	3,991
Profit after tax margin %	10.17%	10.98%	24.30%	21.23%	24.11%	29.68%
Earnings per equity share						
Equity Shares (FV Rs.5 each)	422	322	322	322	322	322
Basic & diluted EPS	1.70	2.77	9.12	7.41	10.51	12.39

Source: Company RHP, ACMIIL

Balance sheet (Consolidated)

Particulars (Rs mn)	FY13	FY14	FY15	FY16	FY17	9MFY18
EQUITY AND LIABILITIES						
Share capital	2,111	1,611	1,611	1,611	1,611	1,611
Reserves and surplus	507	883	1,912	2,371	3,285	5,141
Shareholders' funds	2,618	2,494	3,523	3,982	4,896	6,751
Non-current liabilities						
Other long term liabilities	611	431	525	628	827	846
Long term provisions	103	129	161	268	338	398
Total Non current liabilities	714	560	686	895	1,165	1,243
Current liabilities						
Short term borrowings	2,199	3,171	2,265	1,729	3,954	8,607
Trade payables	2195	8367	5569	5925	8,699	10,397
Other current liabilities	648	1,110	1,545	1,402	1,710	2,129
Short term provisions	29	26.5	41	42	51	89
Total Current liabilities	5,071	12,675	9,420	9,098	14,414	21,222
Total Equity and Liabilities	8,402	15,729	13,629	13,975	20,474	29,217
ASSETS						
Non-current assets						
Fixed assets						
Tangible assets	176	194	253	251	242	261
Intangible assets	155	154	96	103	104	102
Capital work-in-progress	2	6	7	4	1	35
Intangible assets under development	24	10	30	20	28	24
Non-current investments	26	3	12	12	21	19
Deferred tax assets	252	315	387	509	578	659
Long term loans and advances	1,289	1,453	1,147	1,293	1,362	1233
Other non-current assets	122	120	162	270	812	49
Total Non current assets	2,044	2,253	2,093	2,462	3,146	2,383
Current assets						
Current investments	0	1,000	0	0	1	1,000
Stock-in-trade	51	277	338	1,413	311	291
Trade receivables	971	5,386	1,731	2,933	7,101	3,559
Cash and bank balances	4,729	5,967	8,531	6,394	8,824	14,303
Short-term loans and advances	171	412	310	254	359	6,789
Other current assets	436	434	625	519	734	892
Total Current assets	6,358	13,475	11,535	11,513	17,328	26,834
Total Assets	8,402	15,729	13,629	13,975	20,474	29,217

Source: Company RHP, ACMIL

Asit C. Mehta

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