

HDFC SECURITIES LIMITED

EXECUTIVE SUMMARY

COMPANY HIGHLIGHTS

ISIN Number: INE700G01014
Face Value (INR) : 10
Authorised Share Capital: INR 20 Cr
Paid Up Capital: INR 15.83 Cr
Outstanding Shares : 15,828,975
Status : Unlisted
Industry: Financial Services
Business Divisions: Stock Broking and related products
Parent Company: HDFC Bank Limited
HQ: Mumbai, Maharashtra
CEO & MD: Dhiraj Relli

KEY FINANCIAL METRICS

Particulars	FY22	FY21	FY20
Brokerage & Fee Income (in ₹ cr.)	1,409	1,140	688
EBITDA	77%	76%	66%
PBT	67%	69%	59%
PAT	50%	51%	45%
EPS (in ₹)	623	447	246
Dividend per share (in ₹)	547	318	135

SHAREHOLDING PATTERN AS ON 31 MAR 2022

Entity	%
HDFC Bank Limited	95.96%
Others	4.04%

HDFC Securities Limited (the “Company”) is a public company listed in the Debt Market in BSE that is majorly owned subsidiary of HDFC Bank Limited (the “Parent”). The Company is registered as a “Stockbroker” with the Securities and Exchange Board of India (“SEBI”) and as a “Corporate Agent” with the Insurance Regulatory and Development Authority (“IRDA”).

The Company has emerged as a strong player in the financial services space offering a bouquet of savings and investment products along with the core broking product. The Company had 215 branches across 147 cities in the country as on 31st March 2022 and also has multiple digital platforms to enable its customers have easy access to its products.

HDFC securities offers investments and direct trading services through buying and selling of equities, along with currency derivatives, mutual funds, NCDs, fixed deposits, bonds, basket investing, global investing, PMS/AIF and more- to suit the diverse investment needs of Indians. With robust understanding of the personal finance space, HDFC securities specializes in asset allocation, portfolio structuring and realignment, and goal-based investing.

Major highlights during the year Financial year 2021-22

- 91% out of 1.2+ Million active customers rely on HDFC securities’ seamless digital services. 86% of brokerage income originates from digital sources.
- The company saw more than 1.2 million (12.33 lakh) actively transacting customers in the FY 2021-22
- The company has a widespread distribution network with 200+ branches extended across 147 cities with 10 digital centres in India
- HDFC securities generated ₹585.67 Cr. brokerage from the mobile application, 15% higher than the previous year’s aggregate ₹508.67 Cr.
- With a rise in customer base to 38.30 lakh, HDFC securities now caters its wide range of financial products to a 41% larger crowd
- 26% of the total workforce as of the end of FY 2022 has been working with the company for 5 or more years.
- For FY 2021-22, there were 54 IPOs with 1.66 Crore transactions amounting to ₹463.88 Cr.
- Revenue per employee rose to ₹68.54 lakh, 5% higher than the previous year’s ₹65.49 lacs
- The average book size for the year under Margin Trade Funding (MTF) stood at ₹2,992 Cr, higher by 221% compared to previous financial year’s ₹932 Cr. The book size as of 31 March 2022 is positioned at ₹3,288 Cr.

Financial Highlights

₹ (in crores)

Particulars	Financial Year					CAGR
	2019-20	2020-21	Y-o-Y Growth	2021-22	Y-o-Y Growth	
Brokerage and Fee Income	687.79	1,140.24	65.78%	1,409.37	23.60%	27.02%
Interest Income	146.43	211.10	44.16%	528.04	150.14%	53.35%
Total Revenue from Operations	857.47	1,368.16	59.56%	1,975.57	44.40%	32.08%
Other income	4.79	31.27	552.82%	14.74	-52.86%	45.45%
Total Income	862.26	1,399.43	62.30%	1,990.31	42.22%	32.16%
Finance Cost	28.78	53.07	0.00%	156.34	194.59%	75.79%
Depreciation & Amortization	30.36	36.29	19.53%	42.30	16.56%	11.69%
Total Expenses	353.25	453.82	28.47%	670.00	47.64%	23.78%
EBITDA	568.15	1,034.97	82.16%	1,518.95	46.76%	38.79%
PAT	384.15	703.22	83.06%	984.34	39.98%	36.84%
No. of Eq. Shares Outstanding	15,729,975	15,766,575	0.23%	15,828,975	0.40%	0.21%
Equity Share Capital	15.73	15.77	0.25%	15.83	0.38%	0.21%
Total Net Worth	1,247.60	1,480.31	18.65%	1,657.91	12.00%	9.94%
Total Assets	2,770.54	4,758.91	71.77%	7,922.54	66.48%	41.94%

Valuation Ratios

Particulars	FY22	FY21	FY20
BVPS (in ₹)	1,047.39	938.89	793.14
BV Growth (%)	11.56%	18.38%	3.74%
Price (in ₹)	15,800	9,200	7,300
Price Growth (%)	71.74%	26.03%	21.06%
Price -BV (x)	15.09	9.80	9.20
EPS (in ₹)	623.21	446.64	245.86
EPS Growth %	40%	82%	16%
Price- Earnings (x)	25.35	20.60	29.69
Dividend	547	318	135
Dividend yield (%)	3%	3%	2%

WEEKLY PRICE MOVEMENT



ECONOMIC OUTLOOK

OUTPUT

The RBI has projected real GDP growth at 7.2% for 2022-23 with Q1: 2022-23 at 16.2%, Q2 at 6.2%, Q3 at 4.1% and Q4 at 4.0%. As per RBI governor, the recovery in domestic economic activity remains firm, with growth impulses getting increasingly broad-based. Manufacturing and services purchasing managers' indices (PMIs) for May point towards further expansion of activity. This is also corroborated by the movements in railway freight and port traffic, domestic air traffic, GST collections, steel consumption, cement production and bank credit. Fitch Ratings upgraded the outlook on India's sovereign rating to 'stable' from 'negative' after two years citing, citing diminishing downside risks to medium term growth on rapid economic recovery. The announcement in the union budget 2022-23 on boosting public infrastructure through enhanced capital expenditure are expected to augment growth and crowd in private investment through large multiplier effects. The pick-up in non-food bank credit, supportive monetary and liquidity conditions, sustained buoyancy in merchandise exports, improving capacity utilization and stable business outlook augur well for aggregate demand.

INFLATION

India's retail inflation has eased from a near eight year high of 7.79% in previous month to 7.04% in May. But it still remained above RBI's comfort level of 6 percent. The RBI has projected Inflation for 2021-22 at 6.7%, with Q1 at 7.5%; Q2 at 7.4%; Q3 at 6.2% and Q4 at 5.8. The upside pressure on inflation is on account of high global crude oil prices, Impact on commodities price across the globe due to Russia-Ukraine war and supply chain disruptions. As per RBI Governor, normal south-west monsoon would boost kharif sowing and Agri output, but global geo-political situations remains fluid and commodity market remains on the edge.

THE FISCAL AND EXTERNAL SITUATION

India's gross tax collection has increased by 33.5% as compared to previous year. Improved revenue buoyancy was also reflected in the tax-GDP ratio of 11.7 %. Net tax mop-up also increased by 27.8% over previous year. Direct tax collections, net of refunds, rose by 49 percent to ₹14.10 lakh crore last fiscal while indirect taxes posted a growth of 20 percent to ₹12.9 lakh crore. The GST collection has increased on the back of rate rationalization and anti-evasion steps.

India's trade deficit rose 87.5% to USD 192.41 billion in 2021-22 as against USD 102.63 Billion in the previous year. While total exports during last fiscal year increased to a record high of USD 417.81, imports too soared to USD 610.22 billion. India's foreign direct investment of USD 60.3 billion during April to December 2021 which is 10.6 percent lower compared to the USD 67.5 Billion of FDI received in the same period of 2020-21.

CAPITAL MARKETS.

India's economic recovery gained some traction, and a cautious revival was seen in the contact-intensive sectors promoted by rising vaccine coverage. High frequency indicators present a mixed picture – while industrial production and vehicle sales have been sluggish, exports, rail freight traffic and goods and service tax e-way bills have shown robust growth. The Indian equity gave solid returns in FY22 despite geopolitical turmoil playing spoilsport in the FY22Q4.

India's 10 year bond yield rose to 7.424% on account of expectation of sustained high inflation, rising borrowings by the Indian Government and strong US economic growth. The ongoing crisis in Ukraine is set to push the country's import bills, given India's import dependence on crude oil, natural gas, gems and jewelry, edible oils and fertilizers, which can lead to a spike in inflation and current account deficit, and a falling rupee. India's sovereign bonds look among the most vulnerable to an oil-price shock emerging debt markets across Asia. Any move to facilitate inclusion of Indian sovereign bonds in global indices could ease the pressure on bond yields.

BUSINESS STRATEGIES

STRONG FOCUS ON RESEARCH

The HDFC securities Research Team undertakes exhaustive technical and fundamental analysis to keep clients informed about market movements. With this, clients can identify opportunities, decide on asset selection and enhance risk management. They also offer periodic reports on assets, with analysis and market commentary from research team, along with detailed reports on companies (under coverage) after their quarterly results. Their aim is to provide investment ideas to clients, based on their investment style, future goals and risk profiles.

SPREADING WINGS – B2B CHANNEL

The company has entered into B2B business September 2021 onwards and in FY21-22, they have successfully onboarded 5700+ referral partners who are freelancers, students, brokers and influencers across 700+ locations/towns. Simultaneously, the team started working on launching partner portal to smoothen up the partner on-boarding experience and give them access to a platform where they can view their performance, data analytics and incentives.

ENABLING RESILIENT DIGITAL TRANSACTIONS

HDFC securities has focused extensively on enhancing information security and disaster recovery resilience to protect clients. They have leveraged Amazon Web Services (AWS) to meaningfully engage with clients on online platforms.

PROVIDING THE RIGHT TRADING ECOSYSTEM TO MILLIONS

They are at the forefront of adopting new technologies to ensure that clients are well equipped to survive in the VUCA world while continuously investing in state of the art execution platforms.

ACTIVE ENGAGEMENT THROUGH DIGITAL CENTRES

Keeping up with the changing landscape, HDFC securities has launched an aggressive digital expansion strategy, with plans to open 13 digital centres across India (out of which 10 are operational). They have 600+ relationship managers mapped to our digital centres, most of whom belong to 25-28 age group. The RMs are also equipped with an extensive product and process training and have the skills to support customer through latest technology solutions.

FINANCIALS

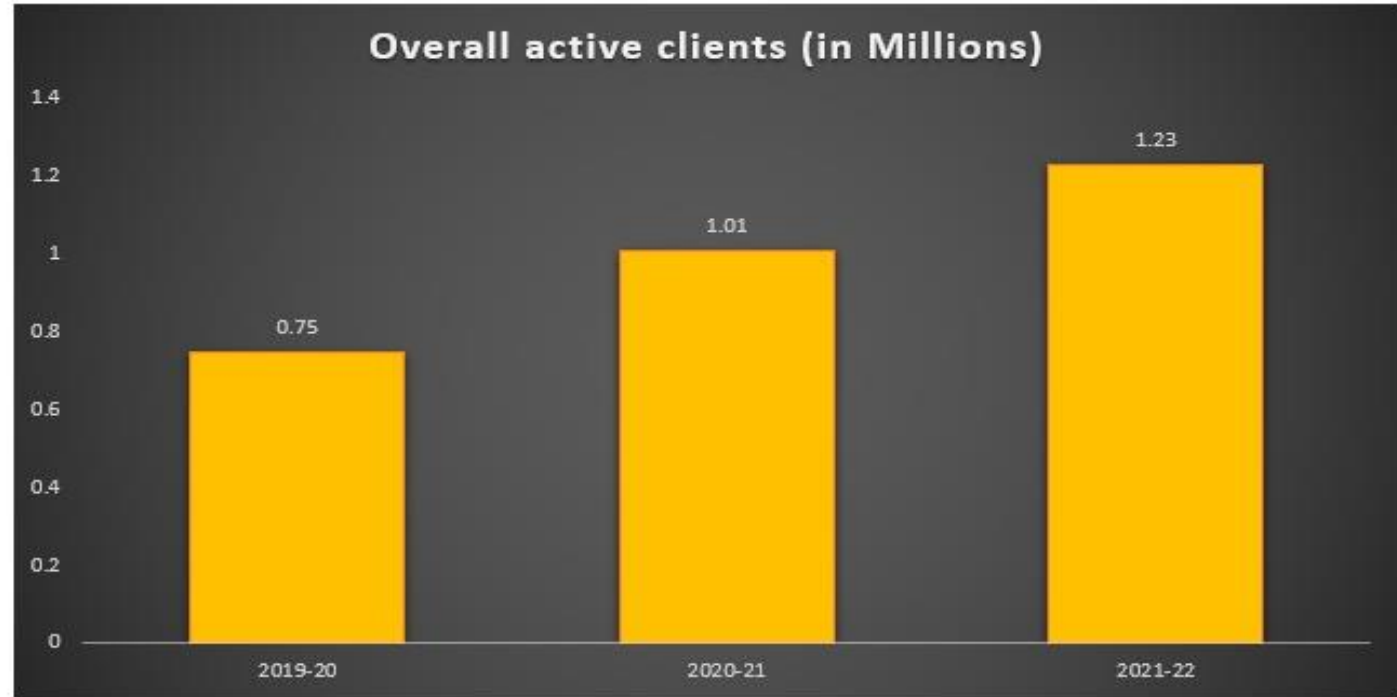
BALANCE SHEET

Balance Sheet as at 31 March 2022

(₹ in lacs)

Particulars	Note	As at	
		31 March 2022	31 March 2021
ASSETS			
Financial Assets			
Cash and cash equivalents	4	96,792	59,854
Bank Balance other than (4) above	5	263,091	157,981
Receivables			
Trade Receivables	6	50,586	43,961
Loans	7	328,348	167,415
Investments	8	24,377	23,595
Other Financial Assets	9	6,102	4,385
		769,296	457,191
Non-Financial Assets			
Current tax assets (Net)		3,049	2,232
Deferred tax Assets (Net)	34	-	61
Investment Property	10	1,397	1,424
Property, Plant and Equipment	11	7,584	6,015
Right-of-use assets	12	6,147	5,285
Capital work-in-progress	11	319	494
Intangible assets under development	11	1,151	585
Other Intangible assets	11	1,968	1,638
Other non-financial assets	13	1,343	966
		22,958	18,700
TOTAL ASSETS		792,254	475,891
LIABILITIES AND EQUITY			
LIABILITIES			
Financial Liabilities			
Payables	14		
Trade Payables			
- total outstanding dues of micro enterprises and small enterprises		11	28
- total outstanding dues of creditors other than micro enterprises and small enterprises		142,057	103,959
Borrowings	15	461,914	204,043
Lease Liabilities	16	6,936	5,990
Other financial liabilities	17	469	291
		611,387	314,311
Non-Financial Liabilities			
Current tax liabilities (Net)		179	179
Provisions	18	11,733	8,747
Deferred tax liabilities (Net)	34	280	-
Other non-financial liabilities	19	2,884	4,623
		15,075	13,549
Equity			
Equity Share capital	20	1,583	1,577
Other Equity	21	164,208	146,454
		165,791	148,031
TOTAL LIABILITIES AND EQUITY		792,254	475,891

Exhibit 1: Overall Active clients



FINANCIALS

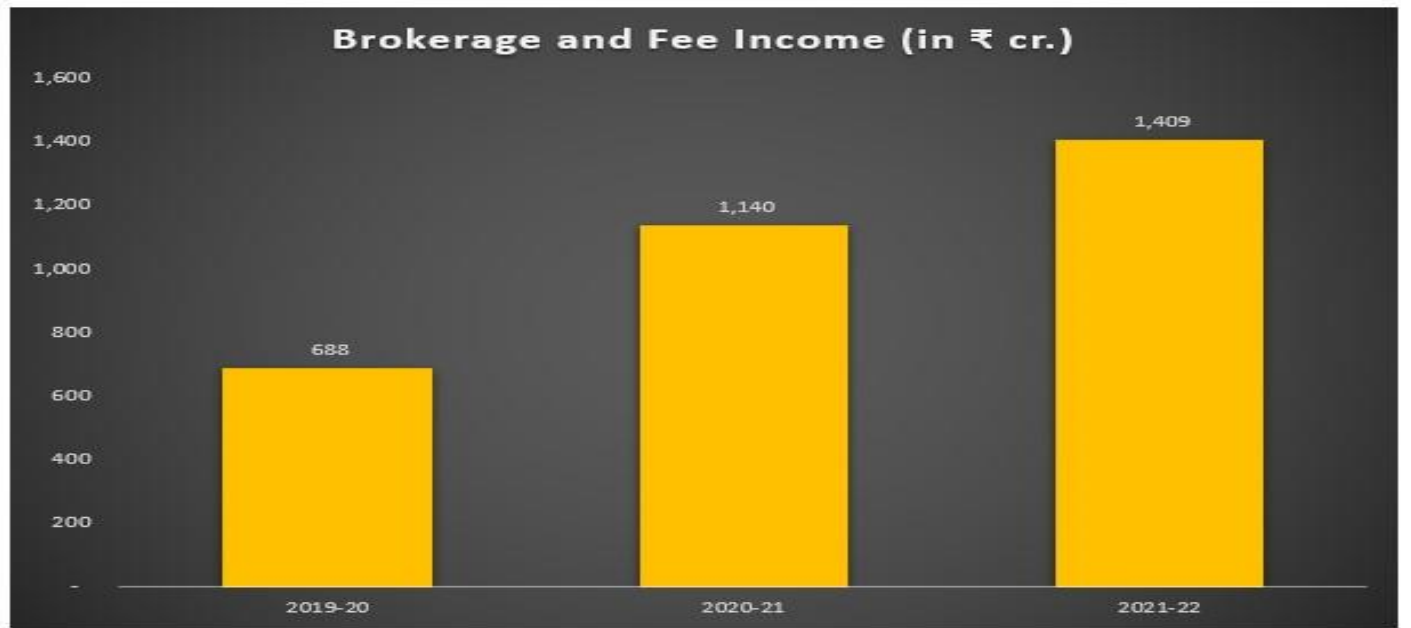
PROFIT & LOSS ACCOUNT

Statement of Profit and Loss for the year ended 31 March 2022

(₹ in lacs)

Particulars	Note	As at	
		31 March 2022	31 March 2021
Revenue from operations			
Brokerage and Fee Income	22	140,937	114,024
Interest Income	23	52,804	21,110
Sale of Services	24	1,466	560
Net gain on fair value changes	25	2,132	907
Rental Income	26	207	207
Dividend Income	27	11	8
Total Revenue from operations		197,557	136,816
Other Income	28	1,474	3,127
Total Income		199,031	139,943
Expenses			
Finance Costs	29	15,634	5,307
Impairment on financial instruments	30	590	705
Employee Benefits Expenses	31	25,740	23,357
Depreciation, amortization and impairment	10,11,12	4,230	3,629
Other expenses	32	20,806	12,385
Total Expenses		67,000	45,382
Profit before tax		132,031	94,561
Tax expense	34		
Current Tax		33,217	24,074
Deferred Tax		380	165
Total tax expense		33,597	24,239
Profit for the year		98,434	70,323
Other comprehensive income :			
Items that will not be reclassified to profit or loss:			
Re-measurement gains / (losses) on defined benefit plans		(155)	3
Income tax effect		39	(1)
Other comprehensive income for the year, net of tax		(116)	2
Total comprehensive income for the period, net of tax		98,318	70,325
Earnings per equity share - [Nominal value of the shares Rs 10]			
Basic		623.21	446.64
Diluted		621.78	446.54

Exhibit 2: Brokerage and Fee Income



FINANCIALS

CASH FLOW STATEMENT

Cash Flow Statement for the year ended 31 March 2022 (₹ in lacs)

	Year Ended	
	31 March 2022	31 March 2021
Cash Flow from operating activities		
Profit before tax	132,031	94,561
Adjustments		
Depreciation & Amortization	4,230	3,629
Share based payments to employees	2,775	1,807
Impairment on financial instruments	590	705
Loss on sale / w/off of Property, Plant & Equipment	(4)	(8)
Rental income from investment property	(207)	(207)
Gain on sale of investment	(2,132)	(907)
Finance Costs	15,634	5,307
Interest Income	-	(5)
Dividend Income	(11)	(8)
	152,905	104,874
Working capital adjustments:		
Decrease / (Increase) In Other Bank Balance	(105,110)	(59,446)
Decrease / (Increase) in trade receivables	(7,215)	(28,128)
Decrease / (Increase) in loans	(160,933)	(144,572)
Decrease / (Increase) in Other financial assets	(1,717)	18,050
Decrease / (Increase) in Other non-financial assets	(378)	(424)
Increase/ (Decrease) in trade and other payables	38,081	38,749
Increase/ (Decrease) in lease liability	946	(30)
Increase/ (Decrease) in other financial liabilities	178	(389)
Increase/ (Decrease) in Provisions	2,831	1,618
Increase/ (Decrease) in Other non-financial liabilities	(1,739)	670
	(82,151)	(69,029)
Income tax paid	(34,034)	(24,684)
Net Cash Flow (used in) / from operating activities (A)	(116,185)	(93,713)
Investing activities		
Purchase of property, plant and equipment	(7,351)	(5,871)
Purchase of Investment Property	0	(0)
Rental income received	207	207
Purchase of investments	(3,347)	(21,004)
Proceeds from sale of current investments	4,696	1,178
Dividend received	11	8
Interest received	-	5
Net cash flows (used in) / from investing activities (B)	(5,782)	(25,477)
Financing activities:		
Proceeds from Issuance of equity share capital	3,130	1,236
Proceeds from Issuance of Commercial Papers	1,681,914	418,996
Redemption of Commercial Papers	(1,425,000)	(285,000)
Finance Costs	(14,677)	(4,350)
Dividend paid, including dividend tax	(86,462)	(50,098)
Net cash flows from financing activities (C)	158,905	80,784
Net increase in cash and cash equivalents (A+B+C)	36,937	(38,406)
Cash and Cash equivalents at the beginning of the year	59,854	98,260
Cash and Cash equivalents at the end of the year	96,791	59,854
Components of cash and cash equivalents		
Cash in hand*	0	0
Balances with Banks - In current accounts	96,792	59,854
Cash and Cash equivalents at the end of the year (Refer Note # 4)	96,792	59,854

* Amount less than ₹ 50000
Cash flow statement is being prepared using indirect method

Exhibit 3: Dividend per share



FINANCIALS

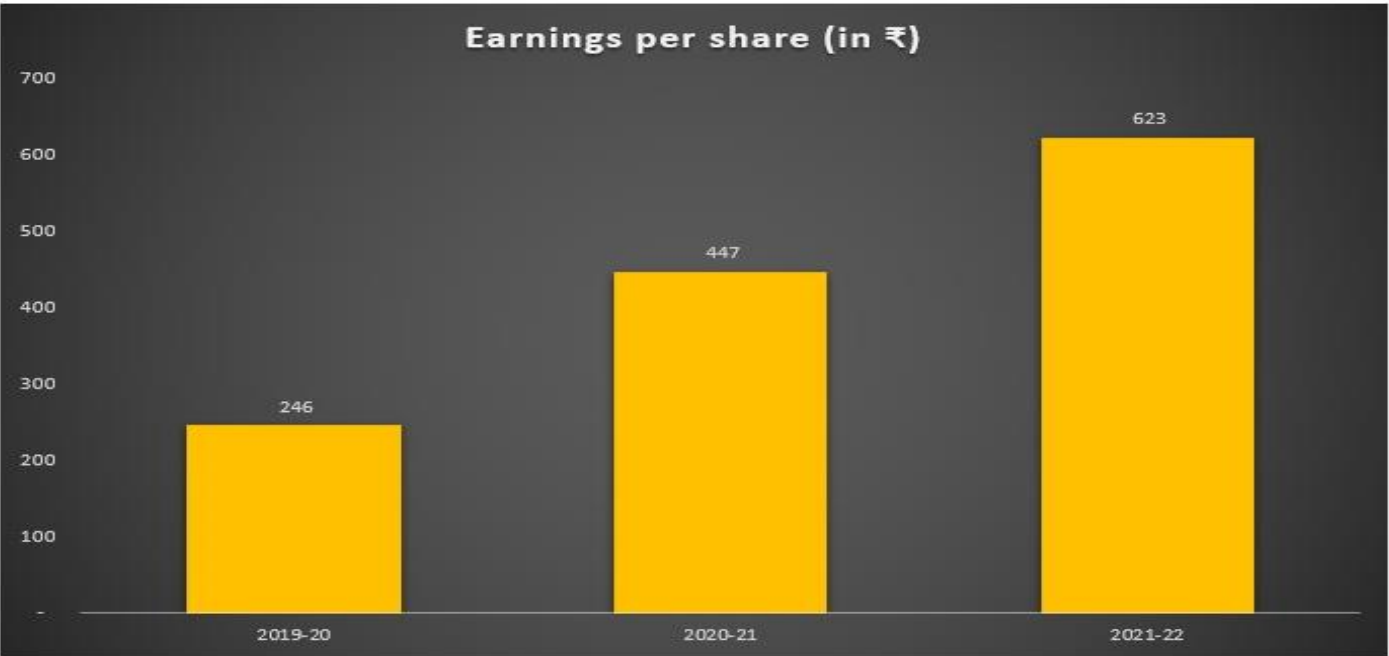
Financial Metrics

Particulars	FY22	FY21	FY20
Cash flow metrics (in ₹ cr.)			
Operating cash flow	-1,161.85	-937.13	143.21
Investing cash flow	-57.82	-254.77	327.55
Financing cash flow	1,589.05	807.84	316.45
Net cash flow	369.38	-384.06	787.21
Growth ratios (in %)			
Sales Growth	44.40%	59.56%	11.28%
EBITDA Growth	46.76%	82.16%	10.54%
Net profit growth	39.97%	83.06%	16.47%
EPS Growth	39.53%	81.66%	15.97%
Common size ratios -as a % of sales			
EBITDA margin	76.89%	75.65%	66.26%
EBIT Margin	74.75%	72.99%	62.72%
PAT margin	49.83%	51.40%	44.80%
Employee cost	13.03%	17.07%	22.96%
Operating expenses	10.53%	9.05%	11.19%
Return ratios			
RoNW	59.37%	47.51%	30.79%
RoA	12.42%	14.78%	13.87%

- ❖ The Company's total income amounted to ₹1,990.30 cr. as against ₹1,399.40 cr. in the previous year, an increase of 40%.
- ❖ The operations have resulted in a net profit after tax of ₹984.30 as against ₹703.20 in the previous year, an increase of 40%.
- ❖ Cost to income ratio is 34%, one of the best in industry
- ❖ Increase in D/E ratio from 1.38 times to 2.79 times
- ❖ Decrease in current ratio from 1.41 to 1.23 times
- ❖ Interest services coverage ratio reduced from 18.82 times to 9.45 times

Cashflow Statement: There was negative cashflows from operating and Investing activities but positive cashflow from financing activities resulting in **cash and cash Equivalents to rise from ₹598.54 Cr in FY 21 to ₹ 967.91 Cr in FY 22.**

Exhibit 1: Earnings per share

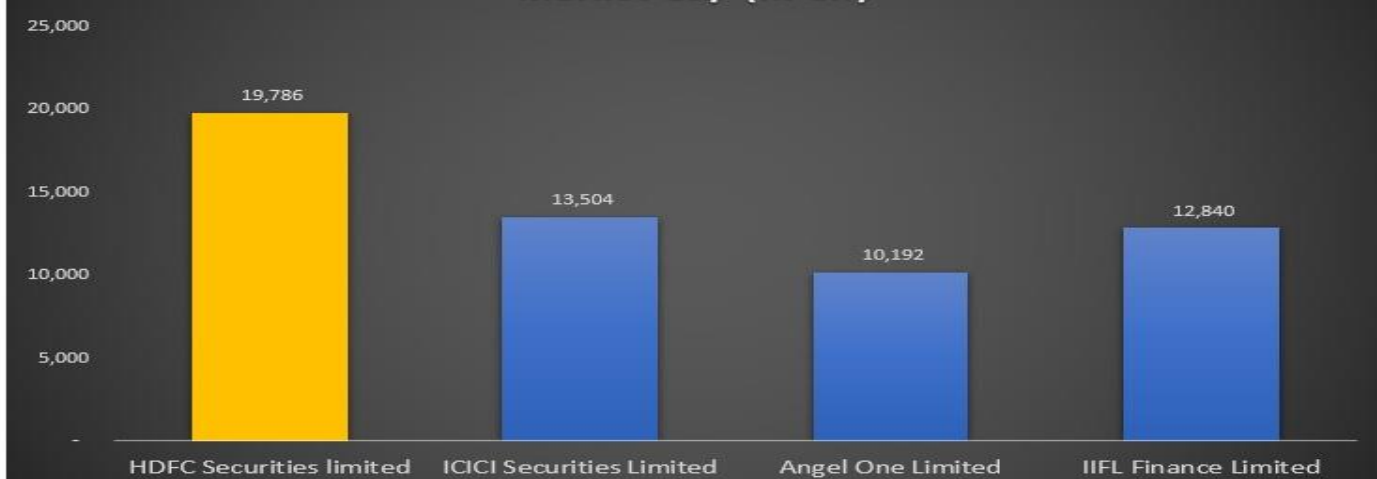




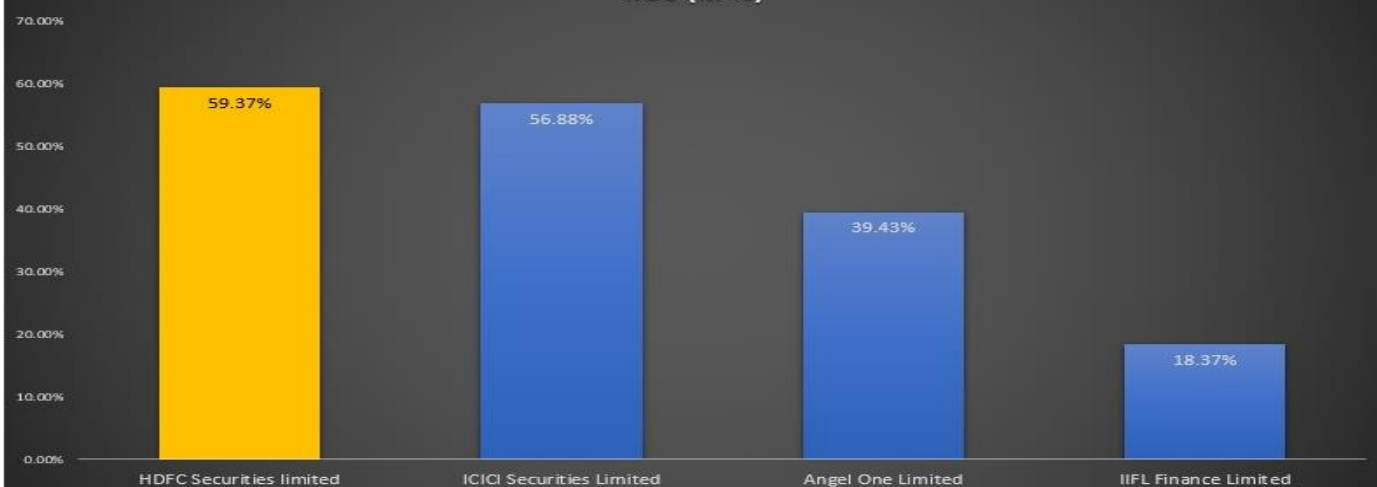
PEER COMPARISON (CMP Dated July 6, 2022)

Particulars	HDFC Securities limited	ICICI Securities Limited	Angel One Limited	IIFL Finance Limited
CMP* (in ₹)	12,500	419	1,249	338
Market Cap (In Cr.)	19,786.22	13,504.10	10,191.62	12,840
EPS (Earnings Per Share) (in ₹)	623.21	42.86	75.72	31.33
BVPS (Book Value Per Share) (in ₹)	1,047.39	75.32	191.22	170.44
P/E	20.06	9.76	16.49	10.80
P/BV	11.93	5.56	6.53	1.98
ROE	59.37%	56.88%	39.43%	18.37%
3 year CAGR Sales	27.02%	41.96%	72.62%	17.19%
3 year CAGR Net profit	36.84%	67.85%	173.76%	22.20%
Operating Margin	74.75%	53.94%	40.23%	66.21%
Asset Turnover ratio	0.25	0.25	0.23	0.15
Current ratio	1.23	1.25	1.26	1.54

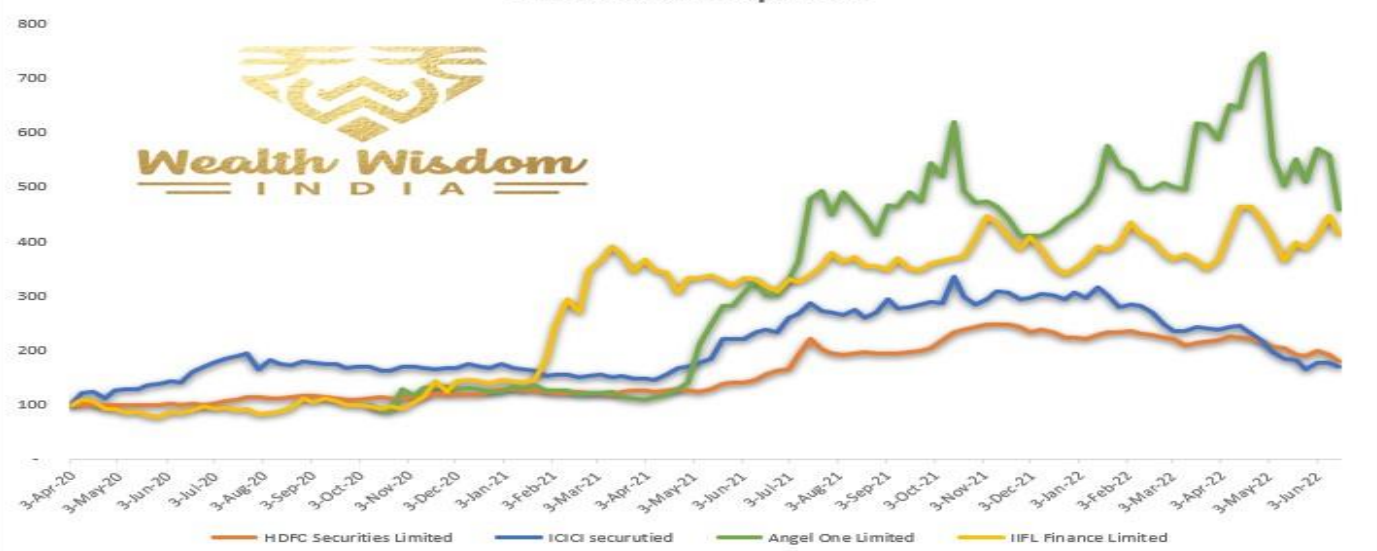
Market Cap (In Cr.)



ROE (in %)



Price movement pattern



FORMULAE USED

$$\text{EBITDA Margin} = \frac{\text{EBITDA}}{\text{Sales}}$$

$$\text{PBT Margin} = \frac{\text{PBT}}{\text{Sales}}$$

$$\text{EBIT Margin} = \frac{\text{EBIT}}{\text{Sales}}$$

$$\text{ROE/RoNW} = \frac{\text{PAT}}{\text{Shareholders' funds}}$$

$$\text{PAT MARGIN} = \frac{\text{PAT}}{\text{Sales}}$$

$$\text{RoA} = \frac{\text{PAT}}{\text{Total Assets}}$$

$$\text{BVPS} = \frac{\text{Shareholders' Funds}}{\text{Total no. of equity shares}}$$

$$\text{Total assets turnover} = \frac{\text{Turnover}}{\text{Total assets}}$$

$$\text{Dividend yield} = \frac{\text{Dividend}}{\text{Price}}$$

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{EPS} = \frac{\text{Earnings per share}}{\text{Total no. of equity share}}$$

$$\text{P/E} = \frac{\text{Price}}{\text{Earnings}}$$

DISCLAIMER

The figures as on 31 March 2022 has been taken from the Company's annual report.

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