



“Earning Conference Call - Quarter ended June 30,
2018 (Q1-FY2019)”

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Moderator: Ladies and Gentlemen, Good evening and welcome to the first quarter fiscal 2019 Earnings Conference Call of ICICI Securities Limited. We have with us today Ms. Shilpa Kumar – Managing Director and Chief Executive Officer and Mr. Harvinder Jaspal – Chief Financial Officer.

For the duration of this presentation, all participant lines will be in the listen-only mode. I will be standing by for the Q&A session. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now would like to invite Ms. Shilpa Kumar to make her opening remarks. Thank you and over to you.

Shilpa Kumar: Good evening. It is my pleasure to welcome all of you to a discussion on the performance the ICICI Securities Limited for the quarter ended June 30, 2018. Our business presentation is available on our website for an easy reference. You can access it as we take you through the performance for the quarter.

Before we talk about the performance of the Company, let’s take a brief look at the environment in Q1-FY2019 which has changed significantly when compared to FY2018 which was

arguably one of the best years for the financial markets facing businesses.

As we entered Q1-FY2019, the macro-economic environment turned cautious with concerns arising from rising crude oil prices, falling rupee, global geo-political uncertainty, strengthening of the US economy, Fed rate hikes and fears of trade wars. These factors impacted the flows into financial markets and performance of the equity markets in general and the Midcap/Smallcap space in particular.

FIs were net sellers in Q1-FY2019 with a net outflow of over ₹ 180 billion compensated by strong inflow from DIIs of over ₹ 700 billion. In Q1-FY2019, the average daily market turnover (ex-prop) was up by 50% compared to Q1-FY2018. Within this, the mix of ADTO shifted towards derivatives and within equity also towards non delivery trades as active traders continued to participate in the market much more than the retail investors. The contribution of derivative volumes in overall volumes was 92.8% and 94.7% respectively in Q1-FY2018 and Q1-FY2019.

Mutual funds had assets under management of ₹ 22.9 trillion as on June 30, 2018, up by 21% on a Y-o-Y basis from ₹ 19.0 trillion as on June 30, 2017. In last 6 month, the monthly SIP inflows have however remained stable and have been in the range of ₹ 65 billion - ₹ 70 billion even in volatile markets.

Equity Capital Market deal activity also slowed down considerably in Q1-FY2019 in terms of volume and value of deals. Indian companies raised equity of ₹ 124 billion in Q1-FY2019 through IPOs/InvIT, QIPs/IPPs, offer for sale and rights

issues compared to ₹ 416 billion in Q1-FY2019 - a decrease of 70% Y-o-Y.

We continued our focus on market leadership leveraging our technology edge and retail customer franchise, despite muted market conditions.

So few financial highlights which you would have seen already, our Company registered growth in Revenues for Q1-FY2019 with our consolidated revenue growing by 9% Y-o-Y from ₹ 4,014 million to ₹ 4,359 million and with Profit after tax (PAT) growing by 13% from ₹ 1,184 million to ₹ 1,338 million.

We were able to contain our costs. Our total cost was ₹ 2,333 million in Q1-FY2019, a growth of 5% from ₹ 2,215 million in Q1-FY2018. Our cost to income ratio was 54% in Q1-FY2019 as compared to 55% same quarter last year.

Our Return on Net Worth annualized is around 59%.

Some business highlights that we would like to point out. So, for Q1-FY2019, our company registered revenue growth led primarily by non-brokerage revenues growing by 14% Y-o-Y and brokerage and related revenues growing by 6% Y-o-Y in context of current muted markets. Within non-brokerage revenues distribution and corporate finance revenues grew by 17% and 19% Y-o-Y respectively. We were able to add ~ 1.1 lakh clients which was a 6% growth over same quarter last year. Within the overall number of customers acquired, the quality of sourcing has improved in terms of number of customers bringing in an initial margin deposit.

Moving to some comments about each of our businesses, first broking business. In our broking business, we continue to gain market share which improved from 8.8% in Q1-FY2018 to 9.2% in Q1-FY2019. The ADTO (ex-prop) was up by 57 % compared to market growth of 50 % Y-o-Y. This was led by growth in the average daily derivative volumes were up by 60% Y-o-Y compared to market growth of 53% on a Y-o-Y basis. The average daily equity volumes up by 14% Y-o-Y compared to market growth of 10%. The company outperformed the market in terms of volumes in both the equity and derivative segments.

In line with our strategy to focus on activation, we were able to grow our active clients on NSE by 24% from 6.5 lakh clients in Q1-FY2018 to 8.1 lakh clients in Q1-FY2019. We have been consistently able to maintain the leadership in number of NSE active clients.

Total brokerage revenue excluding interest income, which contributed to 53% of our revenues in Q1-FY2019, increased marginally against same quarter last year from ₹ 2,268 million to ₹ 2,298 million with retail forming 88% of total revenue. Brokerage revenue from retail clients stayed almost flat at ₹ 2,024 million in Q1-FY2019, compared to ₹ 2,044 million in Q1-FY2018. This was mainly on account of decrease in equity delivery volumes and gradual shift of mix towards derivatives in line with the market. Retail investors muted participation resulted in decline in retail delivery volumes during the quarter. Our experience is that in a volatile market environment, especially in the current scenario where small cap and mid cap scrips have under-performed and the Nifty returns have also been concentrated in few scrips, cash

equity transactions and within that delivery transactions reduce whereas derivatives and intra-day transactions go up. The overall blended yield get impacted because of change in the product mix as well as increase in notional value of options contracts however the unit yields within the three distinct segments of cash equity delivery, cash equity intra-day and derivatives have remained largely stable.

Interest income from our brokerage business has grown by 34% from ₹ 338 million in Q1-FY2018 to ₹ 453 million in Q1-FY2019 primarily on account of growth in MTF book and margin funds deployed with exchanges. MTF book is stable despite current market environment and is expected to scale up with improved market conditions.

Brokerage revenue from institutional clients was ₹ 274 million in Q1-FY2019, a growth of 22% from ₹ 224 million in Q1-FY2018. Our institutional broking business has dedicated sales teams across India, Asia Pacific and the United States. We have executed several block deals during the quarter which demonstrates our strong execution capabilities. We also have a 40 member strong institutional research team covering 240 plus Indian stocks across sectors supplementing growth of our institutional broking business.

Turning to the distribution part of our business revenue here grew by 17% Y-o-Y from ₹ 993 million in Q1-FY2018 to ₹ 1,164 million in Q1-FY2019 and contribution in total revenues have increased to 27% from 25% Y-o-Y.

We were the second largest non-bank mutual fund distributor by revenues in the country for fiscal 2018. Structurally our

AUM comprises majority contribution from equity which have higher yields. Our Mutual Fund average AUM was ₹ 348 billion in Q1-FY2019, a growth of 31% from ₹ 266 billion in Q1-FY2018 compared to the market AUM (average) growth of 20% on a Y-o-Y basis. Our Mutual Fund revenue was ₹ 773 million in Q1-FY2019, a growth of 28% from ₹ 606 million in Q1-FY2018. Our Mutual Fund revenue contribution in total revenue increased to 18% from 15% Y-o-Y.

Further our strategy of focusing on SIPs as a means to have a sticky annuity income stream has resulted in growing count of MF SIP and stable inflows into SIPs compared to last year. The total number of unique SIPs triggered in the trailing 12 month increased by 55% Y-o-Y from 0.7 million as of Q1-FY2018 to 1.1 million as of Q1-FY2019.

In our life insurance business, the total premium garnered grew by 6% Y-o-Y. Our Life Insurance revenue was ₹ 87 million in Q1-FY2019, a growth of 30% from ₹ 67 million in Q1-FY2018.

Turning to investment banking, the revenue from this segment was ₹ 323 million in Q1-FY2019, a growth of 19% from ₹ 272 million in Q1-FY2018. The major transactions handled by the company in Q1-FY2019 includes IndInfravit private placement, ICICI Prudential Life Insurance offer for sale, advised Federal Bank and KIMS Hospitals.

Our diversification efforts towards scaling up of our non-brokerage businesses have helped reducing the volatility. Our

contribution from non-brokerage business increased from 35% in Q1-FY2018 to 37% in Q1-FY2019.

I will therefore summarize to say that we are well positioned to gain from transformational changes unfolding in financial savings and digitization landscape of the economy. We believe there is significant headroom available to grow all our businesses and we remain focused on our key strategic priorities leveraging our strengths in tapping the significant opportunities facing our businesses.

Thank you and we are now open for any questions that you may have.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Narottam Garg from Chanakya Wealth Creation. Please go ahead.

Narottam Garg: Shilpa could you share some data regarding what has been the kind of churn or the kind of persistency that you have seen in your SIP book if you could share some data on that?

Shilpa Kumar: While we have not put out specific disclosures pertaining to churn or persistency, I think by its very nature, SIPs are very sticky. We continued to see our SIPs grow both in terms of numbers of unique SIPs triggered in trailing 12 month period as well as quantum. We are currently at 1.1 million unique triggered SIPs which is a growth both on year on year basis as well as from last quarter of FY2018.

Narottam Garg: What was the opening SIP account number for the first quarter and how many SIP account have you added in this quarter if you could give the data?

Shilpa Kumar: For Q1-FY2018 we were at 0.7 million SIPs which has seen a 55% growth to 1.1 million now as of Q1-FY2019. At the end of Q4-FY2018 we were at 1 million SIP, which is a 7% growth quarter-on-quarter. Even in terms of gross MF purchases at an overall level, while market as a whole has actually seen 38% decline Q-o-Q in terms of gross purchases, we have done better than that.

Narottam Garg: Shilpa if you could share from Q1 2018 to Q1 2019 how many total SIP accounts would have added gross number?

Shilpa Kumar: As we just discussed the number of SIPs triggered in trailing 12 months was at 0.7 million in Q1-FY2018 which currently we are at 1.1 million. This is the net number of triggered SIPs and not the gross number.

Moderator: The next question is from the line of Mitesh Jain from Investec. Please go ahead.

Mitesh Jain: So on market share we are seeing on an overall basis the market share have been going up steadily for last three, four years, so how is the segment wise market shares especially in the cash delivery and cash intraday how is your market share have moved in last two, three years and specifically in this quarter?

Shilpa Kumar: While of course we report the blended market share, our focus is to look at the market shares individually on equity and derivatives basis and to that extent I would say broadly over Q1-FY2018, we have seen increase in market shares in both equity as well as derivatives segment. We cater to all kinds of customers and our effort is not only to work with the active set that do derivatives and intraday equity, but also to

work with people who may not be so active but who actually take delivery of whatever they buy. So our effort is really to grow market share in both and over Q1-FY2018 we have done that.

Mitesh Jain: And in terms of concentration of your brokerage revenue is it still the same that 5% of your clients account for almost 60% of revenue or is there any change there and how is the traction between the remaining 95% of the client base?

Shilpa Kumar: Let me explain how we think about this. Clearly like in most financial services' agency houses, this kind of concentration of customers is there and naturally that is there with us as well. Now in terms of what are we doing going forward, while this number will not change dramatically quarter-on-quarter, clearly, the efforts of the company, as articulated earlier in terms of increasing cross-sell and very focused acquisition and activation, will result in progress in terms of substantial movement in that number over the period of a few quarters.

Mitesh Jain: And lastly on capital allocation you have around ₹ 1500 crores of cash sitting on your balance sheet and I think the company is generating almost (+100) crore cash on a quarterly basis, how one should think about capital allocation specifically to buyback and dividends?

Shilpa Kumar: You are right that as a company we are very conscious that our business being a full spectrum financial services agency business, by its very nature does not need capital. As management we do not think we need to sit on cash that stays in the company and hence we have been handling it so far by way of dividends. You would have observed that we

have been consistently paying 40% to 60% of our PAT as dividend (excluding dividend distribution tax) in the past few years. Including dividend distribution tax, you will see we pretty much pay out almost 70% - 75% of what we earn every year. Although our Dividend policy does not specify an exact quantum of dividend payout ratio, the fact is we are conscious that we are a low capital, high ROE cash generating business and we like to give it back to shareholders through dividends.

Mitesh Jain: Any plans for buyback, even the share price has corrected quite a bit?

Shilpa Kumar: At this point there is nothing concrete, but from time-to-time one does evaluate what are the various uses of cash specifically with respect to investors. Naturally that is something which we kind of look at fairly actively.

Harvinder Jaspal: Mitesh just one clarification the ₹ 15 billion number that you are seeing in the balance sheet as cash and cash equivalent primarily is on account of fixed deposits which are placed with exchanges from margin on which we earn interest income.

Moderator: The next question is from the line of Pranav Bhavsar from ASA Capital. Please go ahead.

Pranav Bhavsar: I wanted to know do you foresee any impact from MiFID II regulation for your institutional business in the next year or so?

Shilpa Kumar: MiFID is having an impact across all research and institutional businesses. However, we think the way we are organized as a

large India player, there are various ways in which we can still continue to grow in spite of MiFID. As a matter of fact, in the last few years we have actually invested in both, research capabilities filling in gaps that we had and also invested in resources which are a focused outwards towards the FII community. I think the combination of A) research, B) reach through our sales people and C) I would say the increasing liquidity is helping us bring investor through block deals and other such transactions. I think this combination of all three forces and the ecosystem required, is something we are ramping up and we feel in spite of MiFID, we would be able to grow. If you look at the financials for this year our institutional business year-on-year has actually grown around 22% for this quarter that is something we will stay focused on.

Pranav Bhavsar: But your European clients have started demanding any MiFID related compliances or not yet demanding?

Shilpa Kumar: Yes of course, that is a conversation which certainly goes on and we are responding to it both in terms of how others are looking at rate cards and things like that and also like I said providing liquidity, which is also very important. The fact that we are building our capabilities to do large size blocks and have delivered on some of these in the course of even this quarter, I think that helps our business.

Moderator: The next question is from the line of Kamal Verma from CLSA. Please go ahead.

Kamal Verma: Just a couple of clarifications if you would provide, one in your initial remarks you did discuss on the lending book, but

could you clarify what is the size of the book right now and how is it Y-o-Y?

Shilpa Kumar: The size of our book has remained broadly flat over the last quarter. Currently our exit book is about ₹ 589 crores. However, our average book for Q1-FY2018 was about ₹ 583 crores compared to that it is around ₹ 619 crore average book size for this quarter. As you will be aware, as there is interest in the market the book also responds. So I would say that currently we have seen a 6% growth Y-o-Y and opportunistically of course we would continue to grow this book.

Pranav Bhavsar: On Page #12 of your presentation there is a discussion on this current asset decline. Is it primarily because of low trading volumes and lower float you have to keep or is there something more?

Harvinder Jaspal: It is primarily due to decrease in receivables on account of broking transactions. Receivables on broking transactions generally pertains to client transactions of last 2 days and it varies on each balance sheet date.

Pranav Bhavsar: On account of the lower float?

Harvinder Jaspal: If you look at our total cash and cash equivalent that has declined marginally from about ₹ 15.4 billion to about ₹ 15.0 billion between March and June and in terms of short-term loans and advances, which is what we were discussing sometime back, there is a decline of about ₹ 800 million.

Pranav Bhavsar: Just wanted to clarify this on the life insurance fee part you mentioned that the fees are up quite a lot, vis-à-vis the

premium originated, I had the numbers that the new premium origination is up 6%, but the total fees is up some 30% is that right?

Harvinder Jaspal: Yes, what has happened is that in the life insurance business there was a change in the commission rates last year so for the first two months of the first quarter last year the commission rates were slightly lower which have gone up because there was a regulatory change in the life insurance industry which kind of brought down some of the restrictions on the marketing fee and other income that we earn. As a result of that you would see this impact in Q1-FY2019. We believe that over the next three quarters it will normalize. However, in life insurance what also happens is as the mix gradually changes towards the longer-term renewal book, the flow is relatively more sticky, but the reason for increase in income by 30% is primarily that the former. Please also note that our total premium is up by 6% not new business premium.

Pranav Bhavsar: And can you clarify what proportion of your distribution fees both mutual fund and life are trail and what proportion is new just ballpark numbers?

Harvinder Jaspal: Majority of our mutual fund fees are trail based. If you recall about couple of years back upfront fees was restricted to 1% so after that current composition is largely, or majority trail. Mutual fund revenues form almost two thirds of our distribution revenues.

Pranav Bhavsar: Last thing in this P&L what is this other comprehensive income and why is it down 41%?

Harvinder Jaspal: Actually, from April 1, 2018 we have moved to IndAS and what IndAS requires is that if there are any gains and losses which are accruing on account of actuarial valuations changes or mark-to-market of planned assets, they have to be reflected in other comprehensive income which is an element of statement of equity. Earlier such changes were part of employee cost. Total Comprehensive Income, which is reflected as a line item after profit after tax on a like-to-like basis, is on account of this change comparable to the number which could be there in Indian GAAP. Earlier in Indian GAAP the mark-to-market changes in actuarial gains used to be routed through P&L which is now separated into OCI, that is why we have given a comparison of profit after tax growth which is at 13% whereas the total comprehensive income which now includes the impact of this is up by 14% and the reason for the variance between the two is nothing but actuarial gains and losses between these two periods.

Moderator: The next question is from the line of Madhukar Ladha from HDFC. Please go ahead.

Madhukar Ladha: My first question on the retail broking side, can you roughly tell us how much is the brokerage coming from cash and how much is it from derivatives?

Shilpa Kumar: Broadly we can be guided by industry numbers and I think the directionality of how the industry has moved, one can kind of also use that directionality in relation to us.

Harvinder Jaspal: So Madhukar if you look at the industry volumes, it is estimated that roughly half and half is the revenue split

between cash and derivatives and for us it could be slightly more tilted towards cash, but not very different.

Madhukar Ladha: In your opening remarks you had mentioned that derivatives share in ADTO went up from 92.8% in Q1-FY2018 to 94% something I guess can you just repeat that number?

Harvinder Jaspal: Yes so it is 94.7% this is what has happened in the market in the derivative space, it used to be about 93% last year same quarter and now it is moved to 95%. The point that Shilpa was making was that there is a shift towards derivative volume which is happening in the market and we have seen our mix slightly move towards derivative as well.

Madhukar Ladha: In your presentation I also see a line which says market delivery turnover contribution to equity turnover decreased from 32% to 28% now this would be assuming 94.7%, so delivery turnover is 28% of the 5.3% basically which is left over right?

Shilpa Kumar: These are market numbers, so you are absolutely right. I guess that is how the market is looking.

Madhukar Ladha: No, the derivatives numbers, was that for the market or was that for you, I thought it was for you?

Harvinder Jaspal: This is for the market.

Madhukar Ladha: I understood, and you are all in-line with that basically.

Harvinder Jaspal: In the market also, there is a shift.

Madhukar Ladha: I got disconnected in between I think you mentioned the size of your lending book or the margin funding book what was that size?

Harvinder Jaspal: Our exit lending book is ₹ 589 crore, average is about ₹ 620 crore for Q1-FY2019. On average it is up by 6% from last year same quarter which was at ₹ 583 crores.

Madhukar Ladha: And the yield on this average has been about?

Harvinder Jaspal: So if you look at the rack rate that we offer is roughly about 18% and average would be slightly lower than that and actually the source of funding is commercial paper borrowing so roughly about 7% to 8% over there.

Madhukar Ladha: So, you get that spread basically.

Harvinder Jaspal: Yes we do earn a healthy spread over there.

Madhukar Ladha: Finally, on the mutual fund side the performance looks pretty good especially in the face of direct schemes gaining traction or direct investing kind of gaining traction, so can you kind of share with us what your view is and whether you are seeing any churn as a result of that?

Shilpa Kumar: I think right now while direct mutual fund in the industry has grown very well, infact outgrown the general market movement in mutual funds, the way we see it is, that it's still a growing distribution market. I think that currently the number of mutual fund customers is still so low which is a huge opportunity as a distribution company to keep growing customers and to also take mutual fund to existing customers of ours. That is something we are focused on. I think the

whole acceptance of mutual fund as an investment product is a very positive development. I think the way all of us in distribution have worked towards making a SIP a very meaningful kind of investment tool has worked in our favor and I think it is really a combination of these things that have worked well. Like I said earlier, a lead indicator is the number of SIPs that we run. I think MF Direct is an important area of, I would say competition, but would that result in lot of churn? I think that not really. And I would also add that one of the things we bring to the table is really a lot of information for customers to make their choices and I think that is also valued by number of customers who work with us.

Madhukar Ladha: Can you give me some color on the granularity of this mutual fund AUM, so how many folios make up the ` 348 billion what is the average size of the customer and the concentration that we are seeing currently.

Shilpa Kumar: We have not really put that out however I can tell you that largely the way ICICI Direct works in the whole mass affluent space with a high number of customers, the average ticket size would actually not be very high. It would be fairly granular across our customer base.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Shilpa Kumar: Thank you I think it is quite late in the night India time. So, thanks to everybody who was on the call and I guess we look forward to a continued dialogue. Thank you and good night.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.