"Earnings Conference Call – Quarter ended June 30, 2019 (Q1-FY20)"

July 22, 2019

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Moderator: Good day, ladies and gentlemen and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter ended June 30, 2019.

We have with us today on the call, Mr. Vijay Chandok – Managing Director and Chief Executive Officer, Mr. Ajay Saraf – Executive Director, Mr. Harvinder Jaspal – Chief Financial Officer, Mr. Hariharan M – Head Investor Relations and Strategy, Mr. Yagnesh Parikh – Chief Digital and Technology Officer, Mr. Vishal Gulechha – Head Retail Equities and Mr. Anupam Guha – Head Private Wealth and Equity advisory group.

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 this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. The business presentation can be found on the company's corporate website, www.icicisecurities.com under the 'Investor Relations' Tab.

I would now like to hand the conference over to Mr. Chandok for his opening remarks followed by the CFO who will talk about the first quarter results. Thank you and over to you!

Vijay Chandok: Good evening and thank you everyone for joining us. As this is my first interaction with many of you, please allow me to introduce myself. I have been associated with the ICICI Group for over 25 years, and prior to joining ICICI Securities, I was the Executive Director on the Board of ICICI Bank responsible for the International

Business, SME business, Commercial banking business and the Global Market Groups.

It has been about two months since I have taken over this new responsibility and during this time, I have had the opportunity to meet our internal teams, our business partners, some of our investors, leaders of our competition and a few other leaders in the digital and financial services space. I have come to realize and I believe strongly that ICICI Securities has enormous breadth, depth and experience amongst the entire team working here. I find that these professionals have the hunger to keep excelling in whatever they do and the courage to change where required.

As a company, ICICI Securities, I strongly believe has built an enviable franchise over the years and it is indeed my honor and privilege to lead it. ICICI Securities has pioneered the online retail broking through its platform ICICIdirect.com and what is noteworthy is that it has remained a market leader in this space for close to two decades, a no mean achievement by any stretch of imagination. I think ICICI Securities continues even today to be the largest equity broker and the second largest non-bank distributor of mutual funds in the country in terms of revenue.

The company is also ranked first in the IPO InvIT space by value in the first quarter of FY2020 as per Prime Database. We have a very sticky customer franchise and this is reflected in our business where we find that more than 65% of our retail broking revenue comes from customers who have been with us for over five years and this trend is consistent and reflected continuously for the five year period including the recently ended FY2019.

During the two months that I have been with ICICI Securities and meetings with various industry leaders and experts, we have observed that competition is changing continuously and giving rise to more and more different forms of competitors. So, today our competitors range from the traditional broking houses, bank affiliated brokers, discount brokers to a set of emerging players, who effectively are technology companies who have created vibrant ecosystems and are now looking to offer broking and financial products and distribution services to their customers.

Changing regulations are driving down distribution margins and as a strong incumbent player, we at ICICI Securities believe that we need to factor all these developments in the competitive landscape and the regulatory landscape as we think of our future. Further, when we look at the environment, we see that there is material growth in the digital infrastructure in India. Today, we find more and more people are adopting digital modes of financial transactions and a better understanding of customers is possible by using advanced analytical tools supplemented with Artificial Intelligence and Machine Learning. In this backdrop, there clearly are opportunities for us to leverage.

We want to take this opportunity to share with you our preliminary thoughts on key areas of strategic focus for the company. There are five levers of growth that we will focus on and I will highlight them quickly one-by-one. The first is ramping up scale with a sharp focus on quality, the second is monetizing client value, the third is improving engagement across the spectrum of client segment, which includes wealth that we cater to quite actively, the fourth is bringing digital agility into the company, and finally, the fifth is focusing on cost efficiencies and operating leverage.

Now we are going to talk briefly about how we will implement each of these levers. With respect to ramping up scale with quality, we would like to draw your attention to the fact that we had announced a bank led customer acquisition arrangement last quarter. As we had envisaged, this new arrangement with ICICI Bank has helped us target the affluent and investment oriented client segments. This focus is showing some initial encouraging signs. We are seeing an increase of over 40% in the activation rate of the bank acquired customers.

We are now intensifying our focus on acquiring the non-resident Indian or the NRIs who already have an ICICI Bank account. We believe that there is a huge underpenetrated opportunity and limited competition in that segment. We also see a very natural penchant of NRIs to invest in India particularly in the context of the current stable government regime and keeping in view the growth prospects of the Indian economy. Our teams are currently working on making process improvement and taking necessary consents to ramp up this particular segment.

We are also happy to remind you about the launch of our product called 'ICICIdirect Prime', which is an annual subscription plan, earlier this quarter. This launch was in three variants that provide a package of competitive pricing, exclusive curated research and higher eATM limits. You would recollect that eATM is our instant liquidity solution that has limit of ₹10 lakhs per customer per day at the lower variant and goes right up to ₹1 Crores per customer per day. We are now happy to inform you that we have close to one lakh subscribers as on date.

We also see a large number of visitors to our ICICIdirect platform expressing their intent to open broking accounts with our company. The current process of account opening for such customers is time consuming and has physical interfaces. We have modernized and launched the online account opening process for an existing ICICI Bank customer which enables a digital account opening experience comparable with the best in class in the industry. The provision for non-ICICI Bank customers is currently being worked on. We believe this can emerge as an important low-cost sourcing channel for our company and business.

India today has over 1 lakh sub brokers, IFAs and APs who provide investment services to the network of their own customers. Many of these agents span the length and breadth of the country including Tier II and Tier III cities. With the view to increase our penetration in this market in a cost efficient manner, we are working towards providing a digital downloadable platform for these partners to enable them distribute equities, mutual funds and protection products to their customers. We believe each of these initiatives is material and would enable us to scale up our business with the right set of customers.

Moving to the second lever of growth which is to monetize client value by expanding revenue stream and also reducing cyclicality. The first component of monetizing client value is that we plan to open a pool account with ICICI Bank, which will warehouse the allocated funds that are pending deployment by the customer. We are working on enabling new payment option wherein customers can use other bank accounts, to fund their trading and investments on ICICIdirect. This would help in generating float income and also provide ICICI Securities greater flexibility to deal with market development.

The second component of monetizing client value is to provide Digital Loans. This would help us build a new non-cyclical revenue stream and mark our presence in the entire financial planning journey of our customer's lifecycle from investments to protection to lending or distributing assets. In this regard, we are glad to inform you that this service has been made live on July 9, 2019 where we offer personal loans, auto loans, credit cards and home loan top ups through ICICI Bank. In the next phase, we plan to launch home loans and loans on credit cards. Today, over half a million of our customers are already pre-approved and credit cleared and can avail personal loans through ICICIdirect platform and the amount can be swiftly credited into their accounts. For other loan categories like auto and home loan top ups, there is a preapproved offer available to the customer which would be followed by a physical closure by the bank. ICICI Securities will earn distribution commission for selling these products through its ICICIdirect platform.

The third component in the strategy of monetizing client values is to expand product choice and offering. We are constantly evaluating and utilizing our open architecture platform to on-board a number of partners. We are focusing on ramping up digital distribution of health insurance, to begin with. We are currently developing the online proposition for our recently added partners, Religare and Star Health in addition to ICICI Lombard.

The fourth component in monetizing client value is the launch of our own proprietary passive PMS aimed at the HNI or the private banking wealth clients. This allows us to structure products based on client preferences and attitude towards investment and also build a new revenue stream. Going forward we plan to curate active investment strategies under our PMS banner.

We will now talk about the third critical lever - which is enhancing customer engagement.

We broadly classify our customers into three segments; i) - the retail or the emerging affluent segment, ii) the mass affluent and affluent segment, iii) - the wealth and private customers segment. We recognize that each of these three categories of customers would have different requirements on knowledge, research and tools that help them take a trading or an investment decision. Also, as customer wealth and sophistication increases, there is a need to intensify the focus on wealth management solutions that requires assistance of varying degrees.

We currently have a pool of 1,600 investment relationship managers to service amongst them about 1,50,000 affluent and mass affluent customers and about 30,000 wealth and private customers having together an aggregate AUA of about ₹ 1 trillion. Our investment relationship team is supported by about 380 equity advisory and an active trader team to support this relationship pool. For the retail or the emerging affluent segment, we currently offer various “Do It Yourself” options. We are now planning to build a digital model that will be capable of offering basic advice and a portfolio basket based on profiling of customers using advance analytics to micro segmental offer to these personalized solutions through a digital RM and a call center.

For our trading customers, we provide them with tools for derivative and equity trading. We are working on augmenting these tools by providing capabilities to build and test derivative trading strategies and providing them with charting tools for the same. For this we are evaluating various solutions developed by Fintechs.

This now brings me to the fourth lever of growth which is bringing digital agility on our technology platform.

We as a company have always believed that the technology is at the forefront of delivering customer value and have invested in our technology to deliver a stable, secure, robust and reliable system. We will continue to invest in strengthening the robustness of our technology system and simultaneously endeavor to build digital agility to come out with solutions using an API architecture.

Our digital team is actively working with various Fintechs to identify winning solutions which can be offered to our customers through our platform.

We have also set out our technology transformation priorities that include building a big data stack using advanced analytics platform and tools to get meaningful customer insights for effective and personalized engagement. To do this we also plan to infuse new skills in the field of data sciences, artificial intelligence and big data. Keeping in line with the change in customer behavior, we have also built a new web interface which is in the beta version since June 2019. We are also working on a new mobile interface.

Lastly, to be able to run a profitable franchise with strong growth prospect, it is very important to keep a constant check on costs as

we grow to embrace new technologies and new ways of doing business.

We have already commenced a review of our various cost components along with the team and are building a strong focus on inculcating a cost conscious culture. We believe this will enable us to identify areas to cut costs and enhance efficiencies on an ongoing basis. Some of the thoughts in this direction are to migrate to a digital/low touch coverage model, harness synergies within the teams and business groups to optimize manpower and reevaluate the effectiveness of our branch network.

Now we will very briefly focus on our Institutional broking and corporate finance business strategies.

In the Institutional broking business, we will continue to leverage our strong domestic partnerships, enhance overseas market penetration and capitalize further to build on our DMA or the Direct Market Access capabilities.

In the corporate finance area, we plan to increase our focus on block activities; we see a very healthy IPO pipeline and want to capitalize on these areas. We will also endeavor to strengthen our global partner network for cross border deals.

We believe that our strategy of ramping up scale with quality, monetizing client value, enhancing customer engagement, bringing more digital agility to our technology platform and working on cost efficiencies will help us the deliver the objectives that we have committed to our investors.

Further, as a team we remain committed to harnessing all the opportunities that our businesses present on an ongoing basis. We would also like to take this opportunity to thank from our heart all our investors for having reposed their faith in the long-term story of the company.

With this, I would now like to invite Mr. Harvinder Jaspal, our CFO to take you through the financial review of the Q1 of financial year 2020.

Harvinder Jaspal: Thank you, Vijay. Good evening everyone and thank you all for joining us. Let me start with the brief of the market environment in the quarter followed by performance review of this quarter.

General elections were the most significant event during the quarter. High volatility in the run up to the elections and the initial euphoria surrounding a strong electoral mandate was dampened by emergence of weakness on macroeconomic factors as evidenced by several high frequency data points. This coupled with the emerging stress amidst NBFCs adversely impacted the flows into financial markets and performance of the equity markets, in particular. Despite a strong electoral mandate, broader capital markets registered weak performance resulting in narrow participation in the delivery-based investments. Risk aversion theme played out in the mid and small cap stocks, with the respective indices declining 13% and 26% from their peak, a year ago, thereby impacting retail franchise such as ours.

On distribution business, the regulation pertaining to capping of total expense ratio, based on asset size of the scheme, became applicable from April 1, 2019. This, in addition to the regulatory changes introduced last year with respect to adopting a full trail commission model from October 22, 2018 and a few others, will lead to a compression in margin of distributors. This quarter saw the full impact of all the changes with respect to impact on MF commission which registered anticipated decline, and we believe all current regulatory changes are accounted for in our performance for this quarter.

The investment banking activities in the country continued to be tepid as corporate actions and public offers were put on hold due to uncertainties surrounding the election period. Against this background, let us now turn to our performance for the quarter.

Our company registered consolidated revenue of ₹ 4,021 million for Q1 FY2020 as compared to ₹ 4,359 million for Q1 FY2019, a decline of 8%.

Our broking revenues declined by 4%, however, when adjusted for lower number of trading days in a quarter, our revenues were flat.

Our distribution business got impacted by the regulatory change in the mutual fund industry and resulted in anticipated decline in revenue by 15%. We focused on growing our non-MF revenue within the third party financial product suite, which resulted in our aggregate non-MF distribution revenue growing by 9%. Our corporate finance revenue declined by 48% mainly on account of high revenue base and muted primary market conditions due to uncertainty surrounding the elections.

Our consolidated profit after tax for Q1 FY2020 was ₹ 1,138 million as compared to ₹ 1,338 million for Q1 FY2019, a decline of 15%. During the quarter, there were three items, which impacted our profit after tax on a comparative basis apart from the business. One, we got a positive impact on interest income of ₹ 147.5 million on income tax refund pertaining to earlier assessment years. Second, a mark to market loss on account of DHFL bonds in our proprietary book which we marked down by 75% based on our valuation methodology along with providing the entire interest accrued on the books led to an impact of ₹ 107.6 million. Third, Ind-AS 116 the new accounting standard on leases came into effect on April 1, 2019. This led to an expense impact of ₹ 28 million.

We were able to contain our costs. Our costs declined by 3% from ₹ 2,333 million to ₹ 2,261 million in Q1 FY2020. We continue to focus on cost efficiency and some of the steps initiated like rationalizing our expensive offices and branch network, reduction of average headcount for 4,342 to 4,210 etc., will start yielding results in the coming quarters. Most of our fixed expenses have remained largely flat and the variable expenses including variable employee costs have come down on account of lower variable pay provisions commensurate with our assessment of our performance during the quarter.

Coming to key business highlights, as discussed earlier and in line with our strategy to focus on ramping up scale of quality clients, we added about 1 lakh new clients in Q1 FY2020, taking our total operational accounts to 4.5 million. The focus on quality, new tie up with bank and our strong customer proposition of ICICIdirect Prime, has helped us in delivering a much higher growth of about 40% in active new clients amongst bank acquired customers despite almost flat new client acquisition in Q1 FY2020.

ICICIdirect Prime which is a package of exclusive research, reasonable pricing and best in class liquidity, is built on a deep customer insight that we possess with respect to the Indian retail investor. We believe that liquidity is a very important need of our investors and our initiatives eATM and Prime are finding resonance with our customers. We are witnessing strong traction and have now close to 1 lakh subscribers in Prime. This has helped us in enhancing our active client base and as a result, both on the basis of NSE active clients and overall active clients, we have witnessed growth. Count of overall active clients increased by 7% to 9.4 lakhs in Q1 of FY2020 as compared to over Q1 FY2019 and NSE active clients increased by 8% from 8.1 lakh clients in FY2019 to 8.8 lakh clients in Q1 of FY2020.

Our active client share in NSE active client base has been rising for the last six months and is now at 9.8% up from 9.4% in January 2019 and is the highest share of market in the last 18 months. We believe that our strong overall value proposition will continue to hold us in good stead when it comes to client acquisition and engagement.

Coming to broking business, our equity market share gained 70 basis points and was at 8.1% in Q1 FY2020 compared to 7.4% in Q1 of FY2019. However, our blended broking market share for Q1 FY2020 declined and was at 7.4% in Q1 FY2020.This decline was on account of derivatives market share loss in April and May where during election period and in the wake of high volatility, we had taken a conservative risk position and hence the market share on those specific days having high concentration of derivative trading activity came down.

Secondly, this period coincided with the launch of Prime where we used our servicing teams who otherwise engage on derivatives advisory to engage clients on Prime and as a result there was some loss in the market share. We believe that these factors are very specific and our June market share was normalized.

Total brokerage revenue excluding interest income which contributed to 55% of our revenue in Q1 FY2020 decreased by 4% against same period last year from ₹ 2,298 million to ₹ 2,199 million, mainly due to lower number of trading days in this quarter compared to last year same quarter; however, on daily run rate our brokerage largely remained flat.

Retail brokerage revenue declined by 6% from ₹ 2,024 million to ₹ 1,893 million and institutional broking revenue increased by 12% from ₹ 274 million to ₹ 306 million.

Coming to distribution business, the revenue declined to ₹ 986 million in Q1 FY2020 compared to ₹ 1,164 million in Q1 FY2019. Our mutual fund average AUM grew at 7% to ₹ 368 billion in Q1 FY2020 from ₹ 343 billion in Q1-FY2019. Our mutual fund revenue declined by 27% to ₹ 562 million in Q1 FY2020 from ₹ 773 million in Q1 FY2019, the decline was on account of various regulatory changes relating to upfront commission and cut in TER.

SIPs triggered in the period Q1 FY2020 at the last month of the quarter were ₹ 0.66 million.

Our life insurance revenues stood at ₹ 76 million in Q1 FY2020 which was ₹ 87 million in Q1 FY2019.

In a scenario where there have been headwinds in mutual fund or equity oriented financial products, we were able to grow countercyclical products linked to debt, etc., which resulted in offsetting the impact in distribution revenue due to regulatory changes.

Our non-mutual fund distribution revenue grew by 9% and was at ₹ 424 million in Q1 FY2020 against ₹ 391 million in Q1 FY2019.

Moving on to investment banking, given the muted market conditions, the company handled eight investment banking deals in Q1 FY2020 versus six deals in Q1 FY2019. We have strong IPO pipeline of ₹ 180 billion. Our investment banking revenue was ₹ 167 million in Q1 FY2020 which was a decline of 48% from ₹ 323 million in Q1 of FY2019.

We continue to focus on building advisory capabilities and as a result were chosen advisors in various capacities in three deals in Q1 FY2020 compared to two deals in Q1 FY2019 as reported by Merger market. We are ranked third amongst the domestic financial advisors by value and ranked second by number of deals in Merger market league table.

Thank you and we are now open for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Thanks Vijay for the very detailed comments in the opening remarks especially that now our competition is not just a traditional broker but there are a host of other players also. So, in that regard, my first question was that when we launched our Prime plans what was the main objective of those Prime plans? Is it acquiring the new customers completely to the ICICI ecosystem or you want to go back to those 30- 40 lakh customers who are not active with us because maybe they always thought ICICI Securities has high brokerage and does not give all of its products to the very, very small customers. So, that is my first question. Second, about customers that we added in the Prime plan, what is the flavor of that? Is the ₹ 900 plan most popular or have our existing customers lapped up that plan or the new customers have come in, so any insights on that would be highly appreciated. Thanks.

Vijay Chandok: Thank you. The best person to answer would be Vishal, so I am just handing over to Vishal to address the query.

Vishal Gulechha: With respect to your question on objective of launching Prime and kind of customers we are covering, I will briefly take you through the broad contours of the plan once again. As Vijay spoke in his initial remarks that the plan is available in three variants, which is ₹ 900, ₹ 4,500 and ₹ 9,500. The basic objective of the plan is to create a unique proposition for customers which they have not seen in the past and is very different from the way the liquidity has been managed in this market for all these years. So, when the payout is given to the customer on T+2 and if the intermediary is not prompt enough or the customer is not prompt enough then it may take longer. On the weekends, it takes four to five days before you can actually receive your funds in your bank account. Prime gives a unique proposition as it enables customers to receive his funds in his bank account within half an hour. eATM gives ₹ 50,000 limits to each and every customer who is with ICICIdirect, while Prime gives enhanced liquidity limits. The main objective of the Prime is to give three dimensional propositions to customers, which comes in form of research, liquidity and very competitive brokerage. As far as this 1 lakh composition is concerned, we see three key opportunities, using the Prime proposition. One, is that we see people who are really looking forward to this kind of proposition where liquidity can be simply on tap so one of course is an acquisition opportunity. Second, we also see a consolidation of the portfolio. There are customers who are having account with more than one broking entities, and given this kind of proposition, where the research, liquidity and the costs are the key factors, we feel that we have a huge consolidation opportunity. The third yes, we have a customer base which at some point of time due to some reason migrated elsewhere or they stopped trading. Also, there were set of customers we acquired at the early stage of their career when they never had even the investable funds. Now with the Prime kind of proposition we are going back to these customers, we are inviting them to see and to experience this unique proposition and we have seen decent success since it was launched in the month of April. Your question was whether all the existing customers latched on to this offer? So, I would just like to clarify that the first objective was to reach out to those customers who have left us for some reason or who stopped trading with us and offer this plan to them, so the large portion of this 1 lakh comprises that segment of the customers. Recently, we have opened this up for the new set of customers. We see a traction coming from there too. As far as existing active customers are concerned, we are going in a phased manner and over a period of time, we will make it open for everyone who is already there in ICICIdirect. At this point of time, the approach is to go in a phased manner. We are going all out to the non-traders and stop traders. Acquisition, the engine is already on and as far as existing customers are concerned we will take a while before it is made available to all our customers. As far as composition of plan is concerned, I think the ₹ 900 plan is the most popular one and it also depends on the size of the portfolio of the customers as well as the trading frequency, their ability, what kind of liquidity they would need from the system, whether it is for personal use or whether it is for commercial use, so it depends on what are they looking at because the liquidity limits for all three plans are very different. So, yes, the large numbers are coming in from the ₹ 900 plan, but at the same time, ₹ 4,500 and ₹ 9,500 plans are also getting a lot of attraction depending on what actually the customers are looking at.

Digant Haria: My second question is that at the employee level, have we also started changing the incentives as in let us say the last six, seven years, which was an equity bull market, maybe the employees were incentivized or were wanting to do equity brokerage as their main product, but now do we have these employee incentives linked to non-equity products also which would either be the insurance, the mutual funds, the bonds or the gold?

Harvinder Jaspal: By employee incentive you mean the performance related incentives to our front lines sales people? Even earlier it was based on the revenue across product categories and that continues to be our philosophy even now. We being a digital platform, revenue comes from a combination of digital and assisted sales. And our relationship managers in their KPIs, would have things like mutual fund, net AUM growth, new client acquisition, etc. It was always a combination of revenues from various product categories and that continues to be the case.

Digant Haria: Thanks. Last is just one data question that when we say NSE active clients and overall active clients, the difference is NSE plus BSE?

Harvinder Jaspal: NSE active is the number of customers who have done a trade on NSE in the last 12 months whereas overall active is the number of people who have done a trade in the first three months of the quarter. To conclude that 9.4 minus 8.7 is the number of customers, that will not be a comparable metric. NSE Active is the metric which is available for the entire industry and therefore we have published and the other is our own metric which as the year progresses, increases, because as more number of months pass and more number of customers' trade on that. This important distinction has to be borne in mind for any analysis.

Digant Haria: In future if we want to track this number, which is say the products for customers like equity brokerage, I just count it as one product. Would we some day in the future have those metrics available?

Harvinder Jaspal: We keep looking at various disclosures which will add meaning to our results. Earlier we were disclosing NSE active, which we moved to overall active that is in effect giving you a sense of our overall penetration.

Digant Haria: Thank you very much for the detailed response.

Moderator: Thank you. The next question is from the line of Umang Shah from Saif Partners. Please go ahead.

Umang Shah: Thank you so much for the detailed responses. Sir, I would like to know the ADTO number for the quarter?

Harvinder Jaspal: Our ADTO number for the quarter was ₹ 641 billion for I-Sec compared to ₹ 466 billion for same quarter last year.

Umang Shah: Got it. Going forward is this a steady state on the distribution margins or do we expect further compression in the distribution margins going forward?

Harvinder Jaspal: As we broadly alluded to, by distribution margin you mean mutual fund margins, the current state of regulations are factored into Q1 because all the four regulations, which have come into effect in various spaces last year and the last one getting effective from April 1 of this year, the cumulative impact of that is factored into our Q1 results. As of now, this factor also has its impact. Obviously if there are any further changes that will be a different scenario.

Umang Shah: So, because of regulatory reasons we do not expect the MF distribution yields to go down from here?

Harvinder Jaspal: Currently, yes.

Umang Shah: That's it from my end. Thank you.

Moderator: Thank you. The next question is from the line of Shiva Kumar from-Unifi Capital. Please go ahead.

Shiva Kumar: Thank you for the opportunity. Can you give more colour on this ICICI Bank related to customer acquisition arrangement wherein you said you are seeing a 40% uptick in the activation rate, so what was the activation rate earlier and what is it now? Second question is that did I hear it right when you said that you are trying to acquire non-ICICI Bank customers also?

Harvinder Jaspal: That is right Shiva Kumar. Broadly two parts to your question; one is what does activation rates mean? What were those numbers? When we say that 40% is our activated customers increase, activated customers would be the number of customers who are actually trading in the first quarter of their acquisition. If a customer has got acquired in April and he has traded between April, May and June, that will get counted in the activated customer. What we are trying to refer over there is that because of the new arrangement, we have been able to tap into the more affluent segments of the bank and these people are more amenable or looking at more investment kind of products and therefore there is a higher propensity of them to start trading and therefore the quality of customers have improved. Although the total number of customers has not moved up by 40%, the number of customers who have put in trade have moved up by 40%. And answer to your second question as Vijay also referred in his outlook on the strategy that there are various levers that we are trying to push for customer acquisition. Enhancing bank relationship, definitely is one of the levers, growing digital on -boarding is one of the levers where we would want to attract the traffic which comes on our website and it is a healthy traffic by doing process interventions. We are also looking at various other mechanisms to enhance our other than bank sourcing as well.

Shiva Kumar: You mean to say you will reach out to non-ICICI Bank customers, when you say that?

Harvinder Jaspal: Yes, even today, although bulk of our sourcing happens through bank customers, there are non-ICICI Bank customers also that we acquire through one or two channels, one is our website where people reach out to us and there are digital leads which get converted, second is our own branches, which engage at ground level and that also is a source of customer acquisition. We are looking at expanding all these sources to scale up quality customer acquisition.

Shiva Kumar: That's it from my side. Thank you.

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

Madhukar Ladha: My first question is on the Prime plan. So, couple of things, one is how are you booking the revenue? Is it booked upfront or is it amortized over the year?

Harvinder Jaspal: Amortized over the year.

Madhukar Ladha: Great. Second, what will be the additional cost of this Prime plan because you know you are paying customers on the clearing day itself, so I believe there will be an interest cost attached to it, how do you estimate that on this?

Harvinder Jaspal: Madhukar, what you are saying is right. As we have articulated earlier also, our approach is to offer very customized tactical pricing for various needs of customer. In that line, Prime speaks to a customer who is looking at liquidity. In an era where the brokerage rates are going down, there are people who are subscribing and paying a subscription fee to join us. There is a proposition that we have developed combining the subscription fee, the expected input that we want by increased activation, etc., so all that is factored in and obviously there is a cost of the proposition, which we believe that taken together along with the anticipated benefit will far out way and help us in our overall strategy of ramping up.

Madhukar Ladha: Can you put a number to the additional borrowing that will be required or if that is possible to quantify?

Harvinder Jaspal: As I said it is an early launch, we are looking at the trends. I think we have a very healthy internal accrual pipeline and we are overall comfortable. Putting a number would at this stage be difficult.

Madhukar Ladha: You are doing very well on the cost side, and I think this will be one of the key levers for profitability given the extremely competitive environment. Any sense on how much you could do or what the optimization benefits scale before FY2020, FY2021, any guidance on that? You know, you mentioned you are looking at the branch model structure, improving efficiencies, any quantification possible on that?

Harvinder Jaspal: Madhukar two points on that. One we had already laid out certain roadmap to and given some commitments towards FY2022. We obviously as management keep evaluating how we can achieve that or even better that. We are looking at what are the various levers available, how best to optimize etc., in the coming few months and quarters. At an overall level I think we can guide that we remain focused on the commitments we have given, and our endeavor would be to somehow try and exceed that.

Madhukar Ladha: I think you have to do better than that, and I think you can do better than that as well. The last question is if you could help me with your cash and FNO revenue split for FY2019?

Harvinder Jaspal: That is the number that we have not put out as of now, but as we have discussed earlier, broadly in the industry the revenue is estimated to be half and half. We are slightly more on equity. That is a broad guidance.

Madhukar Ladha: Thank you. All the best.

Moderator: Thank you. The next question is from the line Harish Kapoor from IIFL Asset Management. Please go ahead.

Harish Kapoor: In the initial comments that Mr. Chandok made on monetizing client value, you indicated about float income and making some pooled accounts with the ICICI Bank and also enabling other channels. So, first is if you could comment where in discussion are you right now because I believe a large part of the money that is there is in deposit with ICICI Bank currently. So, for you to make float income out of this as that money will really not remain with ICICI Bank as it is in terms of their deposit. So how does that really work for in terms of your discussion right now and by when do we see float income for you via this

Vijay Chandok: Thanks for this question. See the way this whole thing plays out is that the deposit module that I spoke about would enable ICICI Securities to get only part of the float that is sitting there so that is the first point and not the entire float. Second, the option of acquiring a customer who is not an ICICI Bank customer through our digital channel gives access to ICICI Bank to that customer pool, which is otherwise not available to them because he is getting acquired through the digital channel and not through the bank channel. On a balance, the bank is seeing a kind of a win-win situation for itself. In terms of the progress, currently the system has been developed and we are doing UATs. We are expecting to introduce it gradually into the market once we get the results of the UAT. I can tell you it is fairly in the advanced stages. We would however want to pilot it because it does have an impact on customer experience before we look at an all India launch.

Harish Kapoor: How would the split in the float income be between you and ICICI Bank and just to look at the part where you mentioned that some of the new customers will come, which ICICI Bank does not really have right now, taking that in to account because you mentioned that some of the other bank's customers who have other bank accounts could also be channelized to their float income which could actually mean putting it some extent via wallet structure or via in your account. Now where does the three-in-one account sit, is it out of the picture in these cases or how does it work because one of the important parts was that the three-in-one accounts use to help smoothen up the entire process but now if it goes via the wallet structure or maybe via your account how smooth is that going to be? What is the thought there? What is the split in terms of the revenue for the float income on this? What is the discussion?

Vijay Chandok: The way this will play out it is completely in the hands of the customer, not in either the hands of ICICI Securities or in the hands of the Bank. The customer decides where he wants to keep his money, whether he wants to keep it as idle money sitting in his savings account or he wants to keep it available for trade. The amount that is kept available for trade is the amount which is sitting in the wallet. The amount that he keeps in the savings account is sitting into his savings account. The movement of money from the available for trade to the savings account is seamless and it is like click and drag. It is literally real time. The customer experience does not get materially impacted at all. That said, we want to pilot it to see how the customer response is to this proposition before we go on to a wider scale across the country.

Harish Kapoor: So, the split on the float income side if you could give that if there is any?

Vishal Gulechha: Like I mentioned the split is a function of what the client for his priority keeps in available for trading or saving.

Harish Kapoor: No, I am not mentioning in terms of the fund split I am talking more in terms of the float income split. Let us say the money is kept with ICICI Bank, I would believe you would try to get into any agreement with them for using of these funds via this way or that is not really the case?

Vijay Chandok: No, what is kept in a float in ICICI Securities pool account is available for ICICI Securities to use it in a manner that they deem fit.

Harish Kapoor: Any timeline on when do you believe the pilot will be done and when you could monetize this or is it still a couple of quarters away?

Vijay Chandok: We are planning to do a pilot next month.

Moderator: Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Just had one question with respect to distribution. Sir, with the recent TER cut you will obviously be getting lower yield so is there any plan to scale up the insurance business and what is the plan there or any other product apart from mutual fund?

Harvinder Jaspal: Dhruv, as we have mentioned we do plan to scale up our non-mutual fund revenue line slightly for this reason. Our non-mutual fund revenue were up 9% even for this quarter. Definitely, we do plan to scale up insurance. Fixed income products also are an area of focus that we would want to scale up and other basket of products that we have on our side, we would want to increase those to offset the impact.

Dhruv Jain: Sir what was the split? As you mentioned your other product income was up 9% so what was the split of that between insurance and other products like PMS, AIFs?

Harvinder Jaspal: Insurance we have already disclosed that is ₹ 76 million Q1 FY2020. Others would comprise a long tail of products like bonds, deposits, general insurance, AIF, PMS, etc. It will be a long range of products which in aggregate was about ₹ 424 million as compared to about ₹ 391 million.

Dhruv Jain: This helps. Thanks.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: Good evening. On the mix of the 1 lakh clients acquired in the quarter, could you help us get a sense of how much of that was the Prime customers and how much were the non-Prime customers?

Harvinder Jaspal: Aditya, Prime total number of subscribers are at about 1 lakh today. Now we launched this formally this quarter. Although, we did have some pilot last year where we acquired some customers so taken together it is about 1 lakh but it is just important to note that this was a combination of customers who were dormant with us and with a help a Prime proposition we were able to activate them and therefore they subscribed to this plan started trading as well as the new customers who opted to take Prime when they were getting acquired. It is a combination of both which is together at 1 lakh.

Aditya Jain: Then a couple of clarifications on the accounting. One, on the MTM of 107.6 million in the exchange filing, this goes through which line item?

Harvinder Jaspal: It will come under net loss on fair value changes which are under expenses. What happens is that, the accounting standard requires you to classify it as either an income line or an expense line depending on the nature. On a net basis we had a loss this time, so it will get accounted in the expense line item. If you can see the third item which net loss on fair value is changes of ₹ 1.8 million that is after accounting for a charge of ₹ 107.6 million.

Aditya Jain: Understood. And then lastly so now if I understand correctly all customer acquisition through ICICI will be happening under the new arrangement, where there is some amount of revenue sharing on the equity broking revenue, is it right?

Harvinder Jaspal: That is right.

Aditya Jain: The income that we recognize in brokerages, is this net of that sharing or does that appear as an expense in some other line item?

Harvinder Jaspal: The income would be gross. The expense would appear under the operating expenses. Obviously, this being the first quarter, it is not a very material number, but it will come as operating expenses.

Aditya Jain: So, operating expenses for this quarter is ₹ 133.2 million?

Harvinder Jaspal: That is right.

Aditya Jain: Thank you.

Moderator: Thank you. The next question is from the line Manoj Baheti from Carnelian Capital. Please go ahead.

Kunal Shah: Sir, this is Kunal here from Carnelian Capital. Wishing you all the very best for all the new initiatives that you have taken to accelerate the growth for ICICI Securities. The few questions that I had were, the first question being that as far as the distribution income goes, the MF revenue impact as discussed in the last quarter's conference call was to the tune of like 30%, but we have done far better than that. So, one is obviously the increase in the AUM. So my question is how do we see this going forward for mutual fund business per se? The second question being that the distribution of other products of ICICI, I mean, all the loan products, what is the timeframe that you start this to begin from and how do you see that panning out in terms of numbers since you have already had the database of the clients that are preapproved. So how do you see that shaping up in the coming years and then I will probably go ahead with the second question?

Harvinder Jaspal: With respect to your first question, we are focusing on scaling up our non-MF revenue as well as we are focusing on even the mutual fund revenue by focusing on gross flows, etc., through our frontline sales. Our MF AUM was up by 7%. We would endeavor to increase that as well. However, TER based margin reduction is a reality and as a result of that we are focusing on things like insurance and other products that I mentioned sometime back and the revenue from those products were up by 9% for this quarter. With respect to your second question on digital loans, we have just launched it and we have about half a million customers, which are preapproved, we will definitely keep reporting the progress as we go along.

Kunal Shah: Also, the last time we had the number of RMs come down from 1400 to 1200 due to this precise strategy of acquisition of customer's online and increasing productivity and efficiency. How do you see this going forward having an impact on the cost and also, if we are going digital how do we see non-ICICI Bank customers coming onboard with us?

Harvinder Jaspal: It has been our endeavor to enhance productivity, use technology, digital modes, etc. Directionally, cost efficiency is a focus area for the company, we remain committed to that and including all different modes of engagement, using more technology, enhancing productivities, enhancing reach etc., are some of the measures that we will take to keep getting the ratio down. It could be with a stable cost structure and a much higher productivity, it could be a combination of that, those are some of the things that we will keep looking and leveraging as we go ahead. But I think the important point is that we are focused on getting the cost ratios down in the coming quarters.

Kunal Shah: Any absolute numbers you are working with sir is what I was trying to kind of understand?

Harvinder Jaspal: It is difficult to take an absolute number. Cost efficiency is the focus area but absolute cost will be a misnomer because we do not want to leave out any opportunity which is available with us and therefore it has to be a judicious mix of what are the areas in which we will invest, what are the areas where we can bring synergies & scale up efficiencies. So, I think it will be a combination of all that, it will be difficult to put a number. So, for example if revenue growth is there and there are new opportunities available that we want to invest, we will not shy away from doing that, but those are some of the things that we would want to play going forward.

Kunal Shah: Just to go back to the second question, all of these avenues which we have started in engaging with the customers and cross selling the other ICICI Bank products how big as an opportunity size do we see them? I mean, what kind of opportunity size do you believe lies there for ICICI Securities leveraging their customer base that they have right now, a ballpark number which you have in mind?

Harvinder Jaspal: There are two, three levers of opportunity, which are available, first our penetration within the ICICI Bank. There is an opportunity to increase customer segments that we are targeting that is already an area which we have ticked off and it has started to show some early results. Secondly, within our own customer base of about 4.5 million, there is an opportunity to enhance engagement, do cross sell, and those are some of the very specific levers that we will focus on. Third, to enhance this existing pool of customers, we have a strategy of ramping up the customer acquisition itself. We think across all these opportunity levers; we have significant headroom across our various product categories.

Vijay Chandok: See directionally I would just like to add, we want to have a more broad-based and diversified revenue pool, so that the ratios of contribution of the broking income comes lower while the overall revenue pool itself grows and that is what the endeavor is. The endeavor is also to try and make it as delinked from markets if possible by going into areas which are not necessarily linked with market movement.

Kunal Shah: Wishing you all the very best with all the new engagements.

Moderator: Thank you. The next question is from the line of Anubhav Vashist from Sharekhan. Please go ahead.

Anubhav Vashist: My first question was on ADTO. Can you please provide the breakup for ADTO in terms of equity and FNO as until couple of quarters back management maintains the same as industry around 96% and 4%? Can you please clarify that?

Harvinder Jaspal: Our understanding is that ratio for the industry is about 97% now and we would be very close to that give or take a few percentage points so largely an FNO kind of a contribution in overall ADTO.

Anubhav Vashist: Thank you, Sir. Just to clarify sir I think the blended yield has come down to around 0.57% for this quarter. Any remarks on how to arrest falling yields, if you look at from last one year around from 0.77% it has already fallen by 20 basis points, any comments on that?

Harvinder Jaspal: One clarification and then a comment. Yield, the way we calculate typically is, revenue by ADTO. Now ADTO has derivatives as well as equity. What is happening in the industry is that derivatives volume is growing at a substantially faster pace compared to equity and the yield on derivatives ADTO are a fraction of what is there in equity. So, mathematically, just by the shear product mix movement of broader industry and specifically for us as well the calculated yield this way will keep coming down. Broadly on the yield side, we look at it as how we can increase activation of the customer, how can we get more and more customers to trade and if a customer is giving me ₹ 10,000 even at a lower yield versus the customer who is giving me ₹ 200 that is the approach that we follow rather than yield. If you look at some of our initiatives that we have taken, they are with the objective to enhance the active customer base and the quality of customer. We believe if we are able to focus on and scale that up, it will be more than enough to offset the yield.

Anubhav Vashist: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Bank of Baroda Capital. Please go ahead.

Shubhranshu Mishra: Thank you. My questions have been answered.

Moderator: Thank you. We will move to the next question. The next question is from the line of Vijay Karde from Bryanston Investments. Please go ahead.

Vijay Karde: Is it possible to share the trade yields that we will be getting on the mutual fund distribution post the regulatory changes?

Harvinder Jaspal: Vijay we have already disclosed our AUM and our revenues, it will be somewhere around 0.61%.

Vijay Karde: At an overall level**?** But what will it be on the equity side

Harvinder Jaspal: Equity would be slightly higher at about 0.8%.

Vijay Karde: What are the cash yields right now that we get on the brokerage side?

Harvinder Jaspal: Sorry can you repeat your question?

Vijay Karde: What are the cash yields that we get on the brokerage side and the blended yields?

Harvinder Jaspal: We do not publish a blended yield number perse but if you calculate by dividing revenue by our ADTO, both of which are there, it was about 0.57% as was referred to in a question from Anubhav. Although, as we were explaining earlier, we do not look at it with the yield lens, we look at it more as a customer solution lens and that is what we keep focusing on.

Vijay Karde: Thank you so much.

Moderator: Thank you. Next up we have a follow-up question from the line of Umang Shah from Saif Partners. Please go ahead.

Umang Shah: Thanks for taking my question again. My question here is on the arrangement with ICICI Bank on sharing of the revenues. So, is the sharing of the revenue only for the accounts which are acquired after a certain due date or is it on all the trailing accounts which were acquired prior to this arrangement as well?

Harvinder Jaspal: It is only a new accounts acquired after April 1, 2019.

Umang Shah: Got it. And is it like only the first- year revenue was all is it like a recurring practice where the lifetime broking revenues will be shared with ICIC Bank?

Harvinder Jaspal: No. It is not lifetime. We have agreed to share for two years, first year and second year at 35% and 25% of that year's actual generated brokerage revenue from that customer.

Umang Shah: Got it. Thank you so much.

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

Madhukar Ladha: Thanks for taking my question again. Last quarter, the relationship manager count had gone down to 1200 from 1350. So, what will be the count in this quarter and can you also tell me what are the total employee centers are at the end of the quarter?

Harvinder Jaspal: The total count of relationship managers across wealth and other than wealth segment was approximately 1600. The total employee count would be about 4300; however, it includes approximately 250 people who are in the attrition process and therefore there is an attrition backfill. Adjusted for that the number would be flattish compared to March.

Madhukar Ladha: I did not understand the RM count going up again because I thought the RM count went down from 1350 to 1200 and now you just mentioned that going back to 1600 did I understand correctly?

Harvinder Jaspal: Let me clarify that 1200 that we are quoting is the RM count for the premier and select RM, it would be flattish considering the people who are already in the process of attrition. What keeps happening on a quarterly basis is that there will be some attrition and there will be some people joining mostly in batch modes because of campus hiring. Adjusted for both of them it will be flattish however the employee count as on the record will show a slight increase. As I said 4300 is at a company level which after adjusting for this would be flat as compared to March.

Madhukar Ladha: Which will be about 4050, which is flat?

Harvinder Jaspal: Yes, but I would want to point out on the Y-o-Y movement of employee cost. Employee cost is down by about 7% because of the reasons that we mentioned and, on an average, the employee count has come down by about 112 people Y-o-Y.

Madhukar Ladha: Right. Do you think that this number will go down slowly?

Harvinder Jaspal: Madhukar, as I said, we remain focused on our cost to income ratio and that is something that we will try to get down and we remain committed to that. As I was answering one question earlier as well, we would not want to articulate an exact number on costs because we want to play both the levers, enhancing productivity and reducing wasteful cost.

Madhukar Ladha: Thank you, Sir.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for the closing comments.

Vijay Chandok: Once again, this is Vijay here. Thank you all for very active participation, all the questions asked us and thank you for your investments with our company and your coverage of our company. We look forward to keeping you engaged from time-to-time. Thank you very much once again, good day and a good evening to all of you.

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

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