ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended December 31, 2019 (Q3-FY20/9M-FY20)

January 20, 2020

MANAGEMENT:

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**Moderator:** Good day, ladies and gentlemen, and welcome to the Earnings Call of ICICI Securities Limited for the Quarter-ended December 31, 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. Yagnesh Parikh – Chief Digital and Technology Officer; Mr. Vishal Gulechha – Head, Retail Equities; Mr. Kedar Deshpande – Head, Retail Distribution Products and Services Group and Mr. Anupam Guha – Head, Private Wealth and Equity Advisory Group.

For the duration of this presentation, as a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchstone phone.

Please note that this conference is being recorded. The ‘Business Presentation’ can be found on the company’s corporate website, icicisecurities.com under ‘Investor Relations’. I would now like to hand the conference over to Mr. Vijay Chandok for his opening remarks. Thank you. And over to you, sir.
Thank you and good evening to all of you and welcome to the ICICI Securities Earnings Call to discuss updates on our strategy and the Q3-FY20 financial results.

Let me start by saying that it has been an eventful quarter from the perspective of macro-economic environment, industry and from our perspective as well.

**Let us start with the markets overview.** The theme of polarised buoyancy in the markets despite weakening macros continued. While NIFTY ended the calendar year on a high note, the broader indices were down for most part of the year, recovering only partly in the current quarter, offering the much needed respite to retail investors. If the momentum in the broader market sustains, it will be beneficial for a franchise like ours.

This quarter also witnessed a few important developments on the industry front. SEBI has been consistently working towards creating a framework for protection of interests of the investors. On October 1, 2019, SEBI regulation prescribing norms and time limits for transferring clients’ securities into their demat accounts by brokers, came into effect. As a result of which, practices pertaining to use of clients’ funds and securities came under focus, resulting in actions taken by the Regulator. It appears imminent that the regulatory direction would continue to be one of protection of investor interest, which we believe is conducive to an orderly growth of the industry. In our view, these market events have reiterated the importance of factors such as trust, safety and brand in the mind of the investors, which is positive for the company and for the industry in general.
Further, SEBI recently introduced a regulation regarding margin norms, which, the industry, through a committee, of which we are also a part, is seeking clarifications and engaging with the Regulator.

To sum it up, a slight upturn in the broader market indices as well as a clear flight to brands which invoke trust are some of the key positives and we would continue to watch developments in the competitive and regulatory space. We believe that our five pronged strategy positions us well to exploit the opportunity coming our way.

Against this backdrop, our Company registered a growth in consolidated revenue, after a gap of four quarters, of ₹ 4,227 million for Q3-FY20 as compared to ₹ 4,047 million for Q3-FY20, a growth of 4% aided by growth in our retail equities business including brokerage and other allied incomes.

Our Profit before tax (PBT) increased by 17% from ₹ 1,581 million for Q3-FY2019 to ₹ 1,851 million for Q3-FY2020 resulting from growth in revenue and reduction in overall cost by 4% which in turn was led by 6% reduction in employee expenses as well as 8% reduction in non-interest expenses. Our efficiency measures are helping us in gradually rightsizing and the quarter end employee count was at 3,955 as compared to 4,077 in Q2-FY20, a sequential decline of 3%.

Our Profit after tax (PAT) for Q3-FY2020 increased by 36% to ₹ 1,372 million compared to ₹ 1,012 million for Q3-FY2019, partly helped by lower statutory tax rate.
Our Return on Equity (RoE) continued to remain robust at ~ 51% for Q3-FY20.

Let us now look at our business performance for the quarter.

**Client acquisition**

Our strategy of ramping up scale with quality through our new arrangement with bank along with product propositions like Prime is showing promising trends. We added ~94,000 new clients during the quarter, growing our operational client base to 4.7 million. Our activation rates for bank sourced clients reached 58%, driving our absolute number of active NCA through bank up by 80%.

Another lever that we continue to focus on to ramp up scale is to decongest, simplify and digitize the client onboarding process itself. As a part of this initiative, we developed and launched tab based account opening for our ground staff in Q4-19 which has now started contributing 39% to our sourcing and in the month of December, extended the same to the relationship managers of ICICI Bank who source clients for us, including NRI clients. In Q2-20, we had rolled out an end to end online process for existing ICICI Bank customers where clients can now open an account in 20 minutes without any physical intervention. Although still a minor contributor to the overall sourcing, we saw improvement in the run rates in the current quarter.

We are continuously working towards designing solutions that help us identify and target distinct client segments using our domain expertise and technology edge.
The next lever that we are focusing on is growing through business partners and alliances. Today, our network reached 8,600+ in the quarter, up 33% year on year and the clients sourced through the network were also up by 45%. We entered into an arrangement for sourcing clients with a couple of ecosystem players, who are SEBI registered investment advisors (IA). We are in the process of integrating digitally with them using our open API architecture, which will enable them to bring new customers to our platform and to act as an IA for that customer.

**Moving on to our Equities business.** Our prime proposition, launched in April this year, continued to generate encouraging demand; it has not only helped in attracting new customers but also in activating dormant ones. We opened up this proposition to all our existing customers from October 1, 2019 and the total number of subscribers as on December 31, 2019, were more than 2.3 lac, adding ~70,000 net subscribers in this quarter up from around 60,000 in the last quarter. Towards the end of Q2-2020, we rolled out a pilot of a new derivative pricing plan, “Option 20”, aimed at attracting Options traders which form the majority of the F&O market. We are encouraged by the response that we have seen by way of increase in volume.

As a result of Prime, better quality sourcing and launch of new Option pricing plan, our market shares across equity and derivative segments year on year increased by 80bps and 70bps respectively and was at 8.9% and 8.7% respectively. Our NSE active client base increased by 13% year on year to 9.6 lakh clients with a market share of around 10%.
This increase in active clients and volumes coupled with our focus on growing allied equity product revenues like ESOP funding, MTF and Prime subscription fees have helped us in offsetting the impact of lower yield. We were able to grow our MTF & ESOP books to ₹ 11.53 billion as at December 31, 2019 up from ₹ 6.80 billion as at September 30, 2019. Our interest income from ESOP and MTF grew by 43% year on year to ₹ 261 million while our Prime subscription income grew 37% sequentially to ₹ 55 million. Consequently, our retail equities and allied business revenues increased by 5% year on year to ₹ 2,277 million despite opening up Prime for all our clients.

**On the Institutional equities front**, the revenue declined by 2%, primarily due to reduced traction in block deals.

**In our distribution business**, our aim is to deepen the relationships with clients and maximize the wallet share thereby growing the overall number of active clients. Our mutual fund revenues continued to be under pressure from regulatory changes and declined by 4% as the base got partially reset to the new regulatory regime. Here the focus area is to grow the net flows and AUM where we faced challenges of redemptions and lower growth in gross flows as well. We believe we can do much better and will continue to focus on improving the net flows. To offset the impact due to regulatory changes in mutual funds, we have been focusing on certain non-MF products which have grown 6% this quarter, driven by growth in revenues from life insurance and fixed income products, thereby partially offsetting the decline. In our Life insurance business, we were able to increase our revenues by 16% year on year to ₹ 120 million because of
increased focus towards protection (term) and traditional products amidst higher volatility.

Our approach to deepen relationships with the customers and enhance wallet share is by providing them more and more simple products which an investor can quickly engage in. During the quarter, we introduced new products like ETF Intelligent Portfolios, Automatic Portfolio Evaluation and SIP Protect.

ETF Intelligent portfolios (EIP) is a product designed with a view to provide advisory based capabilities to customers, at scale, for investing in multi asset basket of low cost ETFs based on clients’ risk profile wherein the investments are monitored daily & allocations adjusted based on market conditions. It provides customers an opportunity to invest across different asset classes (Equity-Large cap, Equity-Mid cap, Govt. securities & Gold) through ETFs in a single click. The portfolio consists of ETFs, which have significantly lower expense ratios.

SIP protect is a product that along with SIPs, provides investors free life insurance cover up to 120x of SIP investments with 70 mutual fund schemes. We are amongst the first online distributors to offer SIP protect.

Automatic Portfolio Evaluation is a tool whereby customers can upload all their holding statements across different asset classes and also across different distributors onto this tool which provides clients one view for all their investments even though all the assets may not be with us.
As we continue to build more and more engagement and simpler digitally enabled tools for our clients, we expect to increase the overall level of active clients. In Q3-FY20, we were able to increase our overall active clients by 9% to 13.9 lakh.

Moving to our corporate finance business, this was a slow quarter with revenues declining by 31% year on year to ₹ 176 million due to the market activity being subdued. We executed 7 Investment banking deals in Q3-FY20 and have IPO pipeline (as per SEBI filling) of 7 deals amounting to over ₹ 86 bn. We are ranked 1 by value of deals in IPO (including Invit/ Reit and FPOs) as well as among domestic financial advisors by number of deals in merger market league table.

Our treasury income was ₹ 176 million up from ₹ 27 million a year ago, aided by higher interest income earned arising from debt positions that we have built given the interest rate environment.

To sum it up, we continue to scan the market environment with a sharp focus on execution of our strategy. We believe that the next few quarters would be crucial and will help us prepare the company for the future.

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

**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 Limited. Please go ahead.

**Digant Haria:** I have two questions; one, we have seen a steady improvement in market share both in cash and derivatives. I just wanted to understand this improvement in market share comes out of, is it
new client acquisition or is it activating the inactive clients or more activity within the same set of clients or is it the Prime and Options 20 plans, what are we seeing as a largest driver of this market share gains?

Vijay Chandok: Thanks, Digant. I am requesting Vishal, who is the right person, to answer this.

Vishal Gulechha: Hi Digant! There are multiple factors that contributed to increase in equity market share. 1) Our MTF & ESOP books have grown this quarter. MTF is an active market share tool. 2) Second factor was increase in active customers for which we worked both on acquisition as well as on the activation of dormant customers. 3) As Vijay mentioned earlier, Prime was opened to all the existing customers from October 1st. This has also helped us in ring-fencing the customers’ activity and many customers have consolidated their activities and trading volumes with us after subscribing to Prime. As far as increase in derivatives market share is concerned, the factor which has worked well and led to addition of market share is our new pricing plan “Options 20” which is being piloted.

Digant Haria: Just one follow up to that like are we seeing different levels of activity in the Prime customers versus our other active customers who have not taken Prime. Are our Prime customers naturally more inclined to trade more or have more products or it is too early because it is just like six, nine months of data that we have?

Vishal Gulechha: Initial trends are indicating that the activity levels for Prime customers are better than non-Prime customers because Prime
customers remain committed to the platform and begin to consolidate their activities with us.

Vijay Chandok: Digant, having said that, I will just add, the markets have also helped in the last quarter. So, we will watch for a little more while.

Digant Haria: So, Vijay, that was my second question that you are saying that now Prime is open to anyone and everyone to all the 47 lakhs customers. Do you expect that broking yield in the next six months should show the true picture of where it settles rather than just last quarter?

Vishal Gulechha: Healthy adoption of Prime has already happened in this quarter and our aim is to reach out to each and every customer, whoever is suitable for the Prime plans. Today, ~35% of our NSE active customers are already ring-fenced by either Prime or prepaid. We have about 2.3 lakh Prime and about a lakh of customers in prepaid. So, we have absorbed some impact in this quarter and the remaining will absorb as we move forward.

Moderator: Thank you. The next question is from the line of Avinash Singh from SBICAP. Please go ahead.

Avinash Singh: A couple of questions; the first one is on your SIP protect plan. What kind of arrangements have you made with the insurance company? What is the cost of this product, as a percentage of your revenue from distribution, is this cost meaningful or not? And second question on the yield side. We have made good progress in the client acquisition, activation and market share. And that we have been so far able to outpace the deflation caused by the falling yield. But how is the yield trajectory going to be over the next one
year or so because if at all these clients’ activation start to come in the base and market activities goes a bit low, can there be further pressure on revenues?

Vijay Chandok: Let me take this opportunity to introduce Kedar, who heads the distribution business, and request him to take the question pertaining to SIP Protect and I will request Vishal to answer the second question.

Kedar Deshpande: Hi Avinash! SIP Protect is a product offered by the AMCs and they factor in a few basis points expense out of their own income to provide group term insurance for the client. For the customers there is no hidden cost or incremental cost and it comes as a value added product. It also ensures that the customer stays long and invested with the fund for a longer period. It is a win-win for everyone. It is a very beautifully packaged offering which helps the client, get insurance cover in the duration that his SIP is on and helps the AMC to increase the longevity of the client. So, there are no expenses at ICICI Securities’ end at all.

Avinash Singh: How many AMCs are currently offering this product on your platform? Of course, I can see 79 mutual fund schemes or something. But how many AMCs so far have on boarded?

Kedar Deshpande: There are four AMCs right now. Others are in the process of filing their products and maybe in a year’s time all AMCs will have a product in this area.

Vishal Gulechha: Hi Avinash! Vishal here. I’ll take your second question on yields in the equities business. In terms of the volatility in revenue, yes, this is linked to the market. If markets are subdued, we will see a
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decline in revenue as this is an industry phenomenon, nothing specific to ICICI Securities. Even in weaker markets, the volume depends on two things; one, how the cash market is doing and secondly, how is the volatility in derivatives market. So even with weaker markets, if the volatility is supportive, we continue to generate good volume and hence revenue. Calculated yield is a function of volume mix of cash, intraday and derivatives and hence very difficult to predict how the yield will take shape in future. But in bad market conditions, the factor to focus upon some of the lead indicators like market share which is an indicator of relative activity.

**Harvinder Jaspal:** Hi Avinash! Harvinder here. As we have discussed earlier also, the way we look at our equities business is more of a revenue potential from a client rather than yield. And in that area, what we have seen is that due to propositions like Prime, we have been able to attract the right quality of customers. What we are more excited about is that if the quality of the customers coming in is improving as the retention is similar or improved, then the life time value of the customers should be higher and this will emerge going forward. As a result of that, what you have seen is that we are broad-basing revenue, trying to get more from the customers.

**Moderator:** Thank you. The next question is from the line of Sivakumar from Unifi Capital. Please go ahead.

**Sivakumar:** This year we saw the YTD growth in the number of active clients, they are very strong, number is almost 14% for December ’19. We also notice that there is a consolidation happening in the brokerage business. So are you seeing this traction continuing
subsequently even in 2020 and how long is this runway going to be in terms of grabbing market share from the marginal players?

**Vishal Gulechha:** Vishal here. The Options 20 is at its very early stage. We have not even made it open to all the customers. So far the traction in active customers has largely come from Prime and all activities we are running along with Prime proposition. For Options 20, we have seen uptick in volumes and in market share but in terms of number of customers, I would not say that it has a very significant contribution.

**Sivakumar:** You were commenting on the broking yield going forward. We also notice that some of the discount brokerages have increased their lowest brokerage. Do you think we have bottomed out to in terms of offering the lowest brokerage for various clients, do you think from now on it should either stay stagnant over these levels or maybe increase marginally from here on?

**Vijay Chandok:** Vijay here. Honestly, this is something that we keep watching. Having said that, whether they will bottom out, whether they will increase further, whether they will stop increasing and reduce further, is something which only they can answer. Let me tell you two things: One, for us, discount broking is not a new phenomenon. We have been competing with discount broking players for many years, and with greater intensity probably in last five years. There are numerous discount brokers in India probably more than 100 but you have most likely heard of only three or four. So discount broking is not new and for us it is business as usual. We look at them as competition much in the same way as we view a non-discount broking player as competition. Our job is to ensure that we identify right customers, decongest and simplify
processes, focus on ensuring that the customer gets what he wants and focus on ensuring that we are continuously adding value and helping him do the right investments. We are not worried about one or two quarters, we are more worried about ensuring that the customer is happy with us because that is how we will continue to sustain our business. We clearly see that as a strategy and we want to reduce our dependence on equity market. That is why we are adding a lot of non-equity products for our customers. Our customers are affluent customer and their needs after all are similar. Apart from investments, they also need protection and loan products. All these products are available with us. The idea is to get him more and more diversified, and like Harvinder said, look at not just a single line item of yield, but look at a broader revenue from those areas which is actually relevant to at that stage of this life. There is no point doing business with him just because a company or a firm or an entity want revenue to be earned for a specific quarter. We should do what is right for the customer. That is the culture, that is the philosophy, we will drive and we will not get swayed.

Sivakumar: One last question on the operational efficiency. Is there a more headroom to be achieved over here?

Vijay Chandok: We will continue to do that. It will remain a focus area.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Securities Limited. Please go ahead.

Atul Mehra: This is Atul from AMC team sir. During this quarter, we saw one new player in this space in the form of Bajaj Finserv, where they have launched the plan of ₹ 500 annual subscription for brokerage.
So how do you see competition coming from some of these credible players, so they are not like any other player but maybe a more reputed name and more credible with ability to give financing in a large amount, so how do you think the value proposition changes for some of your clients with a player like Bajaj Finserv?

Vijay Chandok: Certainly, we really respect Bajaj as a very fine company. They have really excelled on use of digital methods of servicing, acquiring, being with customers. Certainly, they have a very credible name, brand, distribution with credible capabilities. There is no question about it. We do believe that they should be watched very carefully. Having said that, we also find that there is a specific nature of our industry and customers, if you provide the right kind of experience to the customer, he sticks with you. As we happen to have been in this business for longer period of time, that is a very big advantage to us. There are merits of incumbency, we have a relationship with our customers who sees us as a first player within the investment oriented DNA. The DNAs are very different, you have to have a very different mindset when you are dealing with investment as compared to dealing with, let's say, the lending side.

We will see how it plays out. We haven't yet seen any material impact in the marketplace. But having said that, because of some of the reasons that I just mentioned, we will certainly watch them very closely. Our endeavor would be also to be nimble in the marketplace. The moment we find that there is a need for us to do something to ensure that our customers continue to get the most
competitive proposition, we will do that. I think at this stage we are okay.

Atul Mehra: And sir, like we have had Prime as a value proposition now, so in that context do you think there will be a time maybe in the future where you would want to adapt to the subscription based model of virtually where there is no brokerage, but there is money to be made in the other financial products that we would cross-sell, be it financing or be it other fee based products. So do you think it will get there in the next one or two years' time in terms of the day the industry is progressing?

Vijay Chandok: Honestly, I find it very difficult to answer that question. Because if you are asking me whether it is that thought in the works as of now, it is not. We will see what needs to be done to ensure that we continue to remain relevant and meaningful in the marketplace and we will do that. But clearly right now the focus is on broad basing and reducing our dependence on one-line or few line items and making it a lot more broad based. We are not thinking of any other areas.

So five points that I have said in my earlier calls, meeting, etc., with all of you, those five things are what we are focused on, the company is focused on, the Board keeps asking us on that and we will continue to focus on those five things.

Atul Mehra: Right. And sir, just one final question. In terms of loan product origination that we are trying to do for our customer base, so what has been the progress on that count, if you are to talk about it a little bit?
Vijay Chandok: Today we have both digital as well as physical, personal loans, credit cards, home loans. We still feel that it is very young today. Is it growing? Yes, it is growing, every month we are seeing an improvement over the previous month. But has it become meaningful, I think still it has got its way to go. Again, like I said that clients will need to start getting more used to us as a lending provider, it's not easy, despite having such a strong brand, presence and penetration, clients don’t automatically see us a natural provider of loans. So, it will take some effort and time from our side and we are focused. But having said that, every month we are seeing an improvement.

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

Madhukar Laddha: Sir, congratulations on a better core operating performance, broking has done well this quarter. I have a couple of questions. First one is that we have seen a sharp rise in the margin funding and ESOP funding books from ₹ 680 crores to ₹ 1,153 crores in just over a quarter. So what do you think is a sustainable level? And how do you see this piece of your business, this book growing over the next two, three years?

Vishal Gulechha: Hi, Madhukar. Vishal here. I believe that this market is not at the complete maturity level, so it will be difficult to say our level of maturity within it. But I definitely see as market does better, both the books will help us in growth, both in terms of lending book as well as in the equity business. Last quarter MTF was made open on National Stock Exchange which has better depth and liquidity, that helps us in getting a better market share and with market doing better, the stock book also naturally performs better. What
is the sustainable level? I think the market will definitely play an important role in this. But having said, the proposition is strong and I feel we should continue to reach out to the customer and they should benefit with these two propositions.

**Madhukar Laddha:** Can you split the book into how much is margin funding and how much is ESOP?

**Harvinder Jaspal:** At this point in time we have not done that. Going forward, we can do that. Both the books have seen reasonable growth, As Vishal mentioned, as a part of our strategy within the equities business is also to diversify into various type of products, and both of them offer us an opportunity to have a NIM income with a ring-fenced end use and a collateralized security. So I think it's a good aspect of our equities business and both of the books are doing that.

**Vijay Chandok:** We are also seeing this actually more as a wealth product, particularly the ESOP. And that helps us get very high quality customers.

**Madhukar Laddha:** Yes, understandable. Sir, second question is, this quarter we also saw Karvy going down. And a lot of problems with smaller brokers who have indulged in not exactly ethical practices. I would want to understand that how do you see this benefiting large brokers such as you? And can you also quantify any substantial benefit that you have already received so far? So, in terms of client additions, in terms of securities getting transferred into your Demat, and how do you see the next two three quarters because of this?
Vijay Chandok: Madhukar, like I said earlier when I spoke, things like these are actually very unfortunate from a customer's point of view, I think it's very unfortunate development. It actually instills a sense of fear, so the immediate reaction is of fear and anxiety. But then when some kind of a normalcy returns to the mind, there is flight towards quality, towards comfort, towards brand. So I think there's a very natural migration of desire to deal with someone who's established, someone whom they are comfortable with, someone whose brand is well known. There is a tendency, because they realize that it is better to deal with somebody who they can trust rather than deal with somebody who's offering a very low service that I cannot trust. Clearly all players with this kind of a vintage and governance will benefit. And I think there are a large number of people to benefit.

Secondly, when it comes to our own business and the kind of specific impact that you are asking? We don't want to look at this one event in isolation, we are focused on our strategy. The strategy helped us gain market share and client share in Q2, when there was no such incident. We continued to show that growth in Q3. So for us it is not an event which is helping us improve, it is an approach that is helping us improve and we will remain fixed to that approach. These events will come and go, it doesn't matter. I mean, beyond a point, we will certainly play a tactical position as and when required. But I don't think we as a company want to get too fixated with this one event and get lost in this. We will focus on our strategy which is helping us improve market share. And that is more important.
**Moderator:** Thank you. The next question is from line of Nischint Chawathe from Kotak. Please go ahead.

**Nischint Chawathe:** Hi, two things. One was on your mutual fund commission yields. Would it be kind of fair to say that these have sort of now stabilized here on?

**Harvinder Jaspal:** Yes, Nischint, that will be a fair statement. If you see last couple of quarters it has been about 61 basis points, so this factors in both the changes, upfront as well as the TER impact. Obviously, we will watch for a couple of quarters, but that will be a fair assumption with whatever is known as of now.

**Nischint Chawathe:** And in terms of your lending book, which is essentially the margin and ESOP. I mean, how do you really see this, is it kind of and sort of a one-off kind of additional line of revenue or is it a client acquisition strategy, or how do you really see this?

**Harvinder Jaspal:** It is a combination of both to some extent. One, obviously, as I said that within equities business, it offers us an opportunity to diversify the sources of income and provides us with a NIM based revenue stream. It also keeps an active client engaged, as Vishal also alluded to earlier in the call. Also, it gives us access to affluent customers. So there are multiple objectives which get fulfilled and hence we like this kind of a book and are happy with the growth.

**Nischint Chawathe:** What kind of a yield we charge on this book?

**Harvinder Jaspal:** NIM would be in the range of 4% to 5% for MTF.

**Nischint Chawathe:** I am just trying to ask in terms of what are you charging the customer, is it like 12%, 14%? Because, I guess, NIM would be
function of leverage on balance sheet and your funding costs, etc., etc.

Vishal Gulechha: There are different plans, and depending on what plan you take, the interest will be charged. In Prime, we have three plans, and on these three plans the interest rate ranges from 8.9% and it goes up to 14%. So finally, it will depend on which card you take.

Moderator: Thank you. Next question is from the line of Piran Engineer from Motilal Oswal Securities Limited. Please go ahead.

Piran Engineer: I am sorry if my question is a bit basic, but out of the 94,000 new customers added this quarter, how many would be through the bank partnership?

Vijay Chandok: So the substantial portion has come from Bank. Close to about 80% of this customers would have been brought by bank to ICICI Securities.

Piran Engineer: And in the past how was it?

Harvinder Jaspal: It will be similar sourcing. If you go back way in to the past, let's say, five, six years, then it could be 90%, 95%. But I think 80:20 would broadly be in this range for last couple of years at least. Going forward, as we have discussed in the last couple of quarters earnings call as well, our strategy is to actually expand the sources of customer acquisition. So, within bank, we are focusing on getting quality customers, getting NRI customers and how do we penetrate deeper.

We are also focusing on getting partnerships and digital acquisitions. We embarked on a completely online process a
A couple of quarters back, that has started seeing some traction. Although it's a small base, but that is something which can scale up. Those are some of the things that we are looking at for growing the different sources of client acquisition. So, going forward, our endeavor would be to see the ratio changing.

**Piran Engineer:** Okay, fair enough. And just on accounting question, the subscription fees that you all charged for Prime, do you amortise or recognize upfront when paid by clients?

**Harvinder Jaspal:** It’s amortized over 12 months.

**Moderator:** Thank you. Next question is from the line of Pratik Poddar from Nippon India Securities. Please go ahead.

**Pratik Poddar:** Hi. Sir, just one question, could you talk a bit about this options 20, what is this product like?

**Vishal Gulechha:** It is at a very early stage and we have not made it public. It is on invitation basis right now. In options, we are charging ₹ 20 per order, and then within that order ₹ 5 per lot. So that’s the broad construct of the scheme. If anyone is placing order of four lots in options, then we will be charging ₹ 20 plus four lots multiplied by ₹ 5, so ₹ 40 will be the brokerage for that particular order.

**Pratik Poddar:** Okay, understood. Sir, could you also, I mean, it's too early I know, but how has been the traction or initial lead indicators for the new initiative which was launched in terms of ETF Intelligent Portfolios? Because that's quite interesting. Is there any traction, and how do you plan to scale this up?
Vijay Chandok: ETF Intelligent Portfolio is a brand new launch actually and very early to comment. We will take a quarter or two and then reassess.

Pratik Poddar: And sir last question. Branch, you have fantastically got down the branch count from 198 to 178, congratulations on that. How much more it is possible for you to get this down to? I am just trying to understand is there a lot of level or cost efficiency is left?

Vijay Chandok: We constantly evaluate, I mean, there is no target that we have said that it should become x or y. We will evaluate, where we see that value is not coming on a sustained basis, then it will have to answer why it’s not coming and what can they do. And I think broadly what we had aspired for in round one, we are more or less there.

Pratik Poddar: Appreciate. Sir, only the question was, what I was trying to understand was, is there more room left for digitization of operations and other areas such that you can bring down the cost further down so that the breakeven points go down.

Vijay Chandok: Clearly our effort on cost, as I said, in one of the earlier questions will continue. We will look at all areas, digitization, synergy, branch network, productivity.

Pratik Poddar: Last question, sir. 35% of your active NSE clients have moved to Prime.

Vijay Chandok: Its Prime and prepaid actually.

Pratik Poddar: Yes, Prime and prepaid. So the question was, once you see this move further up to 50, 60, 70, does that mean market share moved up further? Or it’s a trade-off between market share and yield
wherein market share will move up but the yields would collapse? Is that the way to think about it?

Vijay Chandok: We are not chasing the market share, let me tell you that. We are chasing the right customer. We don't want to get fixated with a number which will make us do incorrect things. We want good customer and we get a sense of that customer through the kind of analytics that is possible today. We are looking at really lifetime value, it is not really about looking at one item or looking at it from a short term perspective or a market share singular number. If there is lifetime value, we will focus on that, because for us it's customer for life, that is what we want ideally.

Moderator: Thank you. Next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain: Just a quick clarification, the yield of 8.9% to 14% that was mentioned earlier, so was that on the MTF product, I assume? And if that's the case, then what is the rough range for the ESOP products?

Vishal Gulechha: That's the range for MTF product. For ESOP, depending on the tenure and the size of the loan, the range differs from one person to another. There, we look at opportunity and then accordingly we go for the rate fixation.

Moderator: Thank you. The next question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar: We have actually reduced the headcount both on a Y-o-Y and sequential basis. Just want to understand, in which part is it a front end, back end? and how much do we plan to cut down the
headcount in the coming quarters? Any color on this will be helpful.

**Harvinder Jaspal:** As Vijay referred to earlier, it's more of a productivity based approach. At times it could be a function, or exploiting synergies within a function, or it could be introducing or using technology to enhance productivity, and it could be getting more productivity or optimizing reach.

**Vijay Chandok:** The mindset is of growth and efficiency. So it is not as we are shrinking. That is not the mindset with which we are approaching, we are approaching with a mindset of efficiency. If we find that we can use digitization to centralize the OPS shop, it automatically reduces the people, this is just an example I am giving. That helps us becoming more efficient, it decongests the process, it brings down cost and it improves customer experience. We are not setting a target, we are focused more on understanding processes, we are focused more on evaluating whether that process makes sense or are we are over capitalised there and can we simplify it. It’s an ongoing journey, we keep discovering this and it's a full time effort, full time job in that direction.

If I put a number we will do a wrong thing, I don't want to do that. I want to look at processes and then approach it through a process. You will find that some of our training programs today, for example, are physical. Can we digitize them? If the answer is yes, then we reduce it. That doesn't mean we are shrinking numbers, we are actually making it more efficient and reducing cost in the process.
Moderator: Thank you. Next question is from the line of Manish Poddar from Nippon Indian Mutual Fund. Please go ahead.

Manish Poddar: Can you give some thoughts on this MTF book. What is the limit you can do to? Because the cash on books as on September end was about ₹ 1,500-odd crores, so is there a thought to leverage the balance sheet or how do you want to go about it?

Harvinder Jaspal: Two things, one, regulation allows us to go to five times of net worth. We have not prescribed an internal limit for that, so we can scale that up.

Vijay Chandok: We have good amount of regulatory headroom.

Moderator: Thank you. Next question is from the line of Deepak Katwani from Girik Capital. Please go ahead.

Deepak Katwani: I have a couple of questions, first is regarding distribution arrangement with ICICI Bank customers, when the customers that comes through ICICI Bank. I understand there is no distribution revenue share, but who pitches to those customers first, is it you who gets the right to pitch to those customers for any distribution product or is it the bank who has the right to pitch to the customer, or both of you are pitching to the customer?

Vijay Chandok: We have a very clear understanding under which any customer that is acquired through the bank arrangement, as far as the distribution is concerned, the coverage will be open to ICICI Securities only after T+24 months. Till T+24 months if the customer digitally comes and trades with us, everything comes to ICICI Securities. However, if he does business with the bank it goes to the bank. After 24 months we have full access to the
customer and it is for our relationship managers' capability to get him completely in ICICI Securities fold.

**Deepak Katwani:** So, till T+24 months you cannot pitch any distribution product?

**Vijay Chandok:** Not through an RM, but digitally if it happens then it is ICICI Securities.

**Deepak Katwani:** So do you pitch the product digitally to the customers through emails or anything like that?

**Harvinder Jaspal:** We have the platform available for him, most of our products are available online and we do see that we are able to generate active interest. That is one of the part of our strategy, on how do we engage customers in a more digital no/low touch manner. As far as customer choice is concerned, if he chooses an online platform or chooses to interact with us on our platform, that portion of distribution revenue is ours.

**Deepak Katwani:** I understood that. I have another question regarding what is the distribution client penetration, for example, whatever clients you have, 4.7 million, how many of them have taken any distribution product from you? What is the kind of penetration?

**Harvinder Jaspal:** The total number of active clients, i.e. clients giving revenue in trailing 12 months, out of the total of 4.7 million clients, is about 1.4 million. These 1.4 million would be a mix of distribution as well as all products that we offer, that's the kind of penetration that we have.

**Deepak Katwani:** So, if I want a number of distribution client in this 1.4 million, how much would that be?
Vijay Chandok: We have not shared that number, but it is fair to say that 9.6 lacs, which is NSE active minus from 14 lacs which is the total number of active customers belong to non-equities. There will be some in the BSE active, you take that out as well. So, the rest of it is pure distribution. Within the 9.6 lacs also there will be a fair share of penetration of distribution product. But we are not disclosing that number.

Deepak Katwani: Okay. And one last thing, what is the kind of hit rate that you get when you go about pitching distribution products to the clients? So, for example, if you pitch to 10 clients, how many of them end up taking your products?

Harvinder Jaspal: Our model is more of an online plus offline kind of a model. We do engage with customers on both the counts. It would be difficult to imagine it like physical only model. There will be clients who would come and trade, on mutual fund transactions a lot of them happen online. It will be difficult to quantify it.

Deepak Katwani: Will it be possible for you to give me a breakup of online/offline clients in distribution? How many of them have come online and how many of them come offline?

Harvinder Jaspal: In terms of equity transactions, 95% of transactions happen online. But in terms of clients, we have not put out that number.

Vijay Chandok: There is another data that we have shared which I will bring out again. Out of the total 1.4 million active clients, what is covered through relationship managers is in the region of around, 2 lacs. So, 2 lacs have a physical RMs providing coverage to them. Nearly 1.2 million customers have a pure digital coverage. These
physically covered customers actually do transactions with us, which also is enabled through a physical engagement of RMs, but 90% or more of those transactions also happen through the digital platform. So there is a physical engagement, but the digital transaction orientation.

**Moderator:** Sir, the line for the participant got disconnected. Ladies and gentlemen, that was the last question for today. I will now on the conference over to Mr. Vijay Chandok for closing comments.

**Vijay Chandok:** Just wanted to thank everyone for going through our investor call as well as the presentation of our quarter. We look forward to continuously engaging with you on an ongoing basis. I do hope you will continue to follow up with us with for whatever questions you may have. We can always do that separately. Thank you very much once again. And good evening and good year to all of you going forward. Thank you.

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

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