

ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended December 31, 2020 (Q3-FY21)

January 25, 2021

MANAGEMENT:

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MR. SUBHASH KELKAR - CHIEF DIGITAL AND TECHNOLOGY OFFICER - ICICI SECURITIES LIMITED

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MR. ANUPAM GUHA - HEAD (PRIVATE WEALTH AND EQUITY ADVISORY GROUP) - ICICI SECURITIES LIMITED

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Please note that the transcript has been edited for the purpose of clarity and accuracy. Certain statements in this call are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors.

Operator remarks

Good evening ladies and gentlemen and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter ended December 31, 2020.

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. Vishal Gulechha – Head Retail Equities, Mr. Kedar Deshpande – Head Retail Distribution, Product & Services Group, Mr. Anupam Guha – Head Private Wealth Management, Mr. Subhash Kelkar – Chief Technology & Digital Officer, Mr. Ketan Karkhanis – Head Retail Distribution business and Mr. Prasannan Keshavan – Head Operations.

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, icicisecurities.com under Investor Relations.

I would now like to call Mr. Chandok to take over the proceedings.

Mr. Vijay Chandok

Good evening to all of you and welcome to the ICICI Securities third quarter earnings Call for fiscal 2021.

I trust that you and your near and dear ones are safe and healthy & I hope it remains that way.

As I had mentioned during our earlier interactions, all digitally centred businesses have done well ever since the pandemic broke out, led by certain customer behavioural shifts with increasing number of people adopting digital methods of transacting. ISEC has been a natural beneficiary of this trend since 99% of our equity transactions and 95% of our mutual fund transactions are performed online.

Our company continued progressing on its strategy to leverage this opportunity and we are very happy to report that for the current quarter, as you would have already noted from our published results, our company's Q3-FY21 revenue stood at ₹6.2bn, a growth of 47% and Profit After Tax (PAT) stood at ₹2.67 bn, a growth of 95%. Our continued focus on enhancing our operating leverage is yielding results with our branch count and employee cost coming down by 15% and 2% YoY, consequently bringing down our cost to income ratio to 42% and increasing our ROE (annualised) to 71%. Also, assets of our clients with us grew by 38% to over ₹3.4 trillion, driven by all-round growth across businesses that we operate in.

Let us now have a brief look at the market environment for the quarter ended Dec 31, 2020.

Equity markets continued their strong momentum from the last quarter and over 3.2mn new demat accounts were opened in the quarter. Equity and derivative ADTO increased by 53% and 76% YoY respectively. Equity capital markets saw 27 deals in the current quarter as compared to 12 in Q3-FY20. On the other hand, mutual funds

witnessed subdued flows with gross flows for the industry down by 44% YoY. While, net inflows in the industry increased by 2% YoY driven by debt mutual funds, equity mutual funds witnessed net outflow for sixth straight month in December. Also, SIP flows for the industry fell to ₹73 billion in November, lowest since April 2018, before recovering to ₹84 billion in December. On the regulatory front, the new uniform margin norms implemented across industry resulted in reduction of volume for the intraday equity products; however, there was an upsurge in the cash delivery volumes. Also, the growth in derivative products moderated on a month on month basis.

In such an environment, your company has been steadfastly focusing on executing our strategy articulated last year and I would like to take you through some important updates:

First, with respect to ramping up scale with quality – During the quarter, we furthered our digitization journey and strengthened the overall franchise. Our client base crossed 5 million as we added ~1.4 lac customers, our highest in a quarter. This was aided by our open architecture digital sourcing. Through this channel we acquired around 38,000 customers in the quarter, up from ~28,000 in Q2-FY21 and ~20,000 in Q1-FY21. We continue to invest resources and efforts in further scaling up digital sourcing in the coming quarters. This initiative has helped us diversify our sourcing mix with all our non-ICICI Bank sourcing channels, i.e. digital sourcing, along with business partners channel and our own RM network, now contributing ~41% of accounts sourced. Approximately 30% of total accounts opened in the current quarter were linked to banks other than ICICI bank. Our focus on quality, while scaling up has ensured that the activation ratio continued its upward trend and stood at 67% for the quarter ended Dec 31, 2020.

Additionally, healthy adoption of our product propositions along with growth in sourcing has helped us grow our NSE active client base by 34% YoY and it stood at 1.29 million as at Dec 31, 2020. Our NSE active customers increased by over 50k in December, our highest in last 9 months and our incremental market share in NSE active customers increased to ~7% in December 2020, up from ~1.5% in April 2020.

Second, to monetise client value, we have been adding new product lines and are happy to report that home loans disbursed during the quarter increased to ₹ 3.6 bn as compared to ₹ 2.4 bn during the quarter last year, which is the highest ever quantum for the quarter till date. Our average MTF and ESOP book for the quarter almost doubled year on year which is helping us diversify our equities revenue. Non-brokerage streams of income, like ESOP & MTF interest income, depository charges, NEO subscription fees and Prime fees in our equities business, are now contributing 17% to our retail equities and allied revenue. We have also scaled up our proprietary PMS where our AUM stood at ₹ 1.7 bn up from ₹ 1.1 bn last year.

Our next lever is **improving customer experience**. With an objective of increasing engagement, we made available products like one click investments, trading strategy formulation tool for derivatives besides other ongoing simplifications. We also increased cross selling and our customers with two or more products increased to ~1 million, up 9% YoY. This has also helped us increase our cross sell ratio which now stands at 1.7 products per client. As we increase our cross sell ratios, I would like to reiterate it is of utmost importance to keep in mind customer's risk appetite and preferences to ensure sustainable lifetime relationship, towards this we have heightened our focus on Net Promoter Scores (NPS). All these initiatives have helped in increasing our total active client base to 1.63 million, a growth of 17% YoY.

For building up on our **digital agility**, our API architecture helps us quickly

integrate with a diverse set of fintech players. We have evaluated 140 fintechs and have on-boarded 9 projects which are under various stages of implementation. Further, in order to declutter and simplify investing in mutual funds for first time investors, we launched ICICIdirect Money application for which the initial response has been encouraging.

Finally, for **cost efficiency**, we continue to rationalize our branch count which has resulted in higher operating efficiency.

We will now discuss the operating details of our various business segments.

In our equities business during the quarter, the new margin regulations came into force from December 2020. As a result of these norms, we did see some decline in turnover of derivative and intraday cash segment for us in the month of December. Our market share in derivatives for the quarter fell by 240 bps YoY primarily attributed to the decline in market share for the month of December. However, we would like to reiterate that volume loss did not translate into equivalent revenue loss as the decrease in volumes was majorly driven by our intraday low yielding intraday products. The decline in derivative revenue in December compared to November represents only 7.6% of total retail brokerage revenue. In fact, our total retail equities revenue actually increased by 9% in December vs November despite this development and on a run-rate basis has been adequately offset on account of better yielding product in the month of December. Going forward, the recently launched NEO plan, targeted at price sensitive trading segment, is expected to help grow the derivative trading business. In this context, we have already seen active growth in derivative customers in December as compared to November despite the margin norms. Given our past positive experience in Options 20 plan, we remain optimistic about positive outcome arising out of NEO plans.

With respect to equity business, our market share increased by 160 bps on a YoY basis from 8.9% to 10.5%, however, sequentially declined by 60bps, primarily due

to decline in market share in December to 9.9% because of new margin norms. However, this did not impact the equity revenue because of higher delivery volume and higher active client base. We expect that the scale up of NEO customers would result in increase in intraday volumes of our company.

Consequently, for the entire quarter, our revenue in this business increased by 65% YoY driven, as already mentioned, by enhanced base of active customers, higher proportion of cash delivery volume and growth in ADTOs.

On a sequential basis the retail brokerage revenue declined by 8% primarily on account of lesser number of trading days.

Our institutional equities revenue grew by 34% YoY aided by established traction in DII space and growing traction in the FII space. We are adopting a partnership framework to enhance our presence globally and in the quarter partnered with a US firm to enhance access to and service global clients.

Moving to the distribution business, our sustained efforts of focusing on input parameters in mutual funds has helped us gain market share on overall gross flows from 15 bps to 28 bps and on SIP flows from 3.22% to 3.66%. Aided by our improvement in market share, improving yield and market appreciation, our MF revenue for the quarter grew by 9% YoY.

Our non-MF revenue grew by 5% YoY, aided by growth in distribution of wealth and bond products. Non-MF products continued their strong sequential run by growing 13%, supported by Life insurance revenue that was up 20%. As a result of growth in our mutual fund and non-MF distribution income, our overall distribution income registered a growth after 3 quarters.

Also, in order to cater to the borrowing needs of our customers, we have recently

launched loan against mutual funds on our platform.

Our wealth management business, registered revenue growth of 86% on the back of strong equity performance. The total assets of our clients in this segment increased to ₹ 1.47 trillion, a growth of 45% YoY.

Our Issuer Services and Advisory business revenue increased by 33% YoY.

To sum it all up, we are moving purposefully towards the articulated strategy.

Our new client acquisition scale is gathering momentum. Our sourcing run rates are improving, mix is getting diversified and on an incremental basis we have started gaining market share on NSE active clients.

We continue to deal with significant business model shifts including the latest regulatory changes in an agile manner by launching relevant product propositions and focusing on maximizing emerging opportunities.

Our distribution business has registered growth on a YoY basis and strong traction on sequential basis where our focus on input activities and levers is showing encouraging early results.

It is our endeavour to continue pursuing our long term strategy and will specifically focus on these areas. **First**, digitise and decongest processes and products to enhance customer experience. **Secondly**, higher focus on increasing cost efficiency by variabilisation of expenses. **Third**, invest in next generation technology for upgrading our infrastructure and capabilities. **Fourth**, fortify our talent pool to position us well for future.

I would like to end our commentary and open the call for questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sivakumar K from Unifi Capital. Please go ahead.

Sivakumar K: Sir, a couple of questions from my side, to start with the cost structure, we see that the employee expenses are down sharply on a sequential basis, you have explained that this is because of lower provisions for a variable pay, so how sustainable is this number and how should we rate this for the coming quarter?

Vijay Chandok: We have two components of the employee cost, one is fixed, the other is variable. The variable cost is linked with performance of the company, however, is subject to an upper cap as per our Board approved framework. For the last quarter, it would be fair to expect that the trajectory of moderated employee cost that we have seen in quarter 3 would be similarly reflected in quarter 4.

Sivakumar K: Just to clarify, you are saying even if the ADTO and the improvement in active client base, the traction continues in both those categories, the employee expenses wouldn't flare up, right?

Vijay Chandok: Indeed.

Sivakumar K: Sir, my next question is with regards to the market share in the derivative side, it is a bit unnerving to see the market share come down so sharply from 8% to 3.4% in December, can you throw more light as to why we lost market share, because the regulatory change is uniform across players, so why would the client move from one player to another player now?

Vijay Chandok: The decline in market share is on leveraged products. Given the fact that we have a very agile real-time risk management platform to handle market positions, we offered customers a fair amount of leverage to trade. As a consequence of leverage becoming normalized, the customers who were trading with us had to bring down the volume of trade that they were doing with. However, it is interesting to note that the total number of customers who did business with us actually went up. In other words, we have not lost customers who were trading with us but have lost on account of volume from those customers coming down given the fact that the leverage that was being offered on the product has come down.

Sivakumar K: Sir, but that brings to question the fact that this should be a phenomenon which should be observed even in the other brokerages, right?

Vijay Chandok: This would be reflected wherever the brokers offered higher level of leverage. The brokers who did not have offer higher level of leverage would have a relatively lesser impact.

Sivakumar K: Sir, can one say that this has stabilized at the current level, you haven't seen any more decrease in the market share subsequently?

Vijay Chandok: Two aspects to consider in a development like this, one is the salience that this volume has got to the revenue and second, the extent of growth that we can bring about for the company. The volume decline had relatively muted impact on revenue and in fact the revenue for that entire pack of business has been more than offset in the same month. Our endeavor is to offset the decline in

our derivative volume by growth in number of customers and by getting existing customers to trade more. The launch of NEO, one of our most competitive plans in the market for traders, more competitive than even the plans offered by discount brokers having a charge of zero brokerage on futures and ₹ 20 on option, throws open our ability to attract more customers, particularly traders in large measures. Our endeavor is to offset the decline that we had seen in our derivative volume by growth in number of customers. Secondly, with NEO, we have changed the model of charging the customers on volume basis to per order basis which also gives our clients ability to trade more. We expect revenue salience to return on account of more customers getting added which we have already started seeing within the 20 days of the launch. In fact, even for the month of December the decline in revenue from the entire pack of business has been more than offset in the same month itself. In the more medium term our efforts are directed to regaining market share by increasing number of customers and deepening value from existing customers.

Sivakumar K: Sir, but in the interim, should we expect a shift on the retail brokerage revenue due to the role out of that plan?

Vijay Chandok: Between November and December, despite the market share reduction, we have already seen that our revenue has actually increased. This happened because one, the areas in which we have lost market share is relatively low salience on revenue and two, we have seen healthy growth in number of customers and in our cash business. In the quarters to come, if the market continues

to remain favorable, I think we have a fair footing to continue the kind of trend that we have seen in the month of December.

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

Aditya Jain: Really good to see the traction in new client acquisition, just wanted to touch upon one point, which is the key part is the salience of the various components in revenue, could you may be help us understand the share of the intraday trading in leveraged products on equity and derivative side in revenue, so that would just help how important is that shift to the overall revenue pool?

Harvinder Jaspal: Intraday is the pre-dominant part of volumes. For example, in equity, intraday contribution estimates for the market vary from 75-80 percent. For us, it is similar, it is the dominant part of volumes and relatively modest in terms of its contribution to the total revenue pool. We have not put out the exact number between these two, but from revenue perspective, it is overnight which is higher.

Aditya Jain: And behaviorally, what has been your observation on customer when the intraday margin increased, I don't know if this sort of analysis is possible to do, but did you see customers migrate to derivative or migrate to cash or where do you just see the volume go down from those products, I don't know if such analysis is possible, but if it is there then that would be great?

Vijay Chandok: We have done some analysis, but it is just about a month since this event has broken out. I am going to request Vishal, the Head of our Equities to come in.

Vishal Gulechha: Customers in different segments have taken a different approach. Some of them that we noticed were; Customers who were options sellers have adopted options buying given the margin requirements. Similarly, when it comes to futures, many of the intraday future customers pulled in more money and used their existing assets to support their margin requirements, while some customers started taking exposure in intraday equity where the ticket size is not a limitation compared to futures where minimum trade size is specified. The behavior of clients for core future and option products i.e. without leverage remained largely unaffected.

Vijay Chandok: I will just add one more point to what Vishal said, the total number of customers have actually increased even while leverage as a proposition has been reduced.

Aditya Jain: And just last thing, I would just quickly squeeze in, you mentioned a 7.6% number in the beginning, I couldn't understand what it was, so could you just explain?

Vijay Chandok: Because of the reduction in market share of derivative from November to December, the reduction that we have seen in our retail derivative revenue, that reduction as a percentage of total brokerage revenue of December is only 7.6% and the point being made was that although the volume salience was high, the revenue salience is much lower.

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

Madhukar Ladha: Just to get my understanding right on this, right now the peak margin requirement is only 25% and our market share is actually

down in December and going forward in March, this is going to increase to 50 and then so on and so forth, so what additional sort of impact do you see? Are we now checking for 100% margin requirement or right now, the norms are just going to get implemented in the gradual manner and therefore there will be future impact on this, so that will be my first question? Second, can you help us with the split on what cash and derivative revenues are broadly for third quarter and let us say for 9 months in total? And third, on NEO, what has been the adoption so far and how do you see that progressing. NEO will also have the impact at the 100% adoption level as your future's revenue practically go to 0, your intraday revenue also gets impacted dramatically, so wanted to understand how do you think about this?

Vijay Chandok: Thanks Madhukar for your comments and I think some great questions, let me go one by one. The first point that you asked was in terms of the implementation of the margin norm from SEBI. In March there is going to be next round and then subsequently in stages it will increase right up to 100%. In December, we got impacted more than others because we offered relatively more leverage on the back of our very robust platform that enabled us to handle risks much better. Now with the implementation of these norms, the extent of leverage that we provide stands shoulder to shoulder with any other broker in the market. Any further increase therefore will not negatively impact us relative to the others. It would be fair to say from a headline market share perspective, perhaps the worst is already absorbed. Going forward, with introduction of our NEO plan, we should start seeing an improvement in our penetration and share. Coming to the second point, the split between derivatives and equities. We are yet to

disclose that specific split and you would appreciate that with every passing quarter, our disclosures are only increasing. We will take this input and see as and when we can share those numbers. Directionally, equity is more material part of the total split between derivatives and equity and clearly, cash is the largest part of our revenue contribution which has not been impacted by new margin norms. There was a third component in terms of the adoption of NEO. Adoption of NEO has been very encouraging, we are already at ~ 20,000 subscriptions as of today and we have a healthy run rate of adoption. Interestingly the subscription is coming from new customers as well as some of our past customers who don't trade with us anymore who are showing interest in subscribing to NEO and getting re-activated. On an overall basis, we believe that we will grow the business rather than think of any adverse impact of NEO. The reason why I'm saying this is because when we actually came out with Options 20 which was about one year back we landed up growing our derivative revenue. And the reason for this are, one, is a plan of this nature helps us increase our customers, so we have more customers to derive revenue from. Two, it also rides on the fact that an existing customer who migrate to this trade more because this is far more attractive for him to do more trading and number three, there is a natural growth in the market itself that takes place. The other sub-text to this I think it will be relevant to know that a product like futures is actually taken by some of the highest quality customers, so they land up actually providing large margins for us on which we make good float revenue. In fact, the float revenue that we have started getting is pretty encouraging and that is why when you stack up our entire allied brokerage revenue stack is that is inching up on a quarter to quarter basis and we expect that stack to continue to

inch up. It has got some dependence on trading activity, but it tends to have its own stability given the fact that it tends to stay with you irrespective of trading activity. Overall, we believe that NEO should help us grow our revenue.

Moderator: The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Firstly, if you could just give us an indicative sense of what is your average ticket size in intraday trading, on the cash side, not FNO?

Harvinder Jaspal: That number would be over a lakh in terms of trade size.

Piran Engineer: My second question is I just want to get a sense preferably quantitatively on ARPU from customers in the last nine months versus customers who are on our books about a year back. Just want to get a sense of whether it is similar or is it much lower and also similarly the ARPU of clients coming from our open architecture business that we have started in May versus the one we used to get from ICICI Bank.

Harvinder Jaspal: Right now given the way the business mix etc. is we have seen that the ARPUs are higher by about 20% in 3Q versus last year. Secondly for the new clients getting acquired through digital channels, although it's a bit early since its only been months and ARPU takes some time to settle down, but we have not seen any significant difference between the ICICI Bank sourced or erstwhile sourced client and the new channel sourced client.

Vijay Chandok: Whatever ARPUs we get from ICICI Bank, we get slightly higher than that actually from a digital customer. But like Harvinder said it's only nine months since we have started digital sourcing and

typically you need to give at least 2-3 months of seasoning before you start getting a sense.

Piran Engineer: But this is quite counterintuitive because the new customers are largely from Tier II-III towns and cities and the erstwhile customers would have had a higher share of them coming from Tier I cities, so I would have expected actually incremental ARPU to be much lower than on book ARPU, if I can just broadly use those words.

Vijay Chandok: Prima facie what you're saying is probably what one would expect but having seen is closely what really is happening here is when we acquire a customer from an ICICI Bank, there is always a meeting, a conversation, an interest expressed and then a sale. So there is an element of starting inertia. A customer who is digitally acquired is actually looking to do business and has do it yourself kind of a mindset and has an immediate need to do stuff and that's probably the ARPUs are what it is.

Piran Engineer: That explains it perfectly.

Moderator: The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: I have just one question. You mentioned in your opening remarks that about retail brokerage and low number of trading days during the quarter. While I understand that in terms of ADTO, it clearly reflecting that additional 4-5 trading days which were available in Q2 versus Q3 but in terms of brokerage the decline has been slightly higher. So has it got anything to do with any changes that we would have done during the quarter?

Vijay Chandok: Approximately, 65% of the decline is actually attributable different trading days and around 35% of the sequential decline is attributable to greater penetration that we are having of prime prepaid customers in relation to the non-prime prepaid customers. So that has an impact on yield but the lifetime value of the prime prepaid customers is better.

Kashyap Jhaveri: And the prime revenue that you report in the presentation, so that is the amortized value of the prepaid amount or what revenues is that in that case?

Harvinder Jaspal: Yes, that's the amortized value of the subscription fee.

Kashyap Jhaveri: We would have sold more cards but because those cards have lower brokerage it would have reflected in the brokerage part of the revenue.

Harvinder Jaspal: That's right. The line item called brokerage income in our PnL statement would carry the brokerage earned from even Prime customers. The prime fee is just the subscription fee which is amortised over a year.

Kashyap Jhaveri: In terms of our distribution revenue now, the base has set in and on quarter-on-quarter basis we have started growing there and this is equally for mutual fund as well as non-MF distribution both and if I look at our active client growth, revenues have actually grown faster than the active client growth versus Quarter 1 where we formed the base effect, so what's the driving that number? It seems like there is more revenue per client that we have started mining now, so what's driving that number?

Harvinder Jaspal: We have taken a lot of initiatives over the last two quarters to get in more number of clients and with the help of that we have seen higher activity levels. Our approach is to work on the input parameters so that we maximize the number of clients and therefore the products that they are taking. On the mutual fund side, we have seen growth in our SIP market share that's a more sustainable market share. We launched about two-three quarters back one click portfolio of mutual fund which makes investments very easy and simple to understand. Very recently we have launched I-Direct money app which is targeted at the investor who just wants to buy a mutual fund via a very simplistic journey. A lot of these initiatives have started showing results and we are getting more traction over there. We are also looking at improving our cross-sell ratio, so on one side there are equity products propositions, on the other side there are product propositions on non-equity side. We are building up a loan distribution network where, in this quarter we have helped disburse 3.6 billion worth of loans. We are also building on the fixed income portfolio so we were able to distribute significant chunk of sovereign gold bonds. We believe there is headroom here and we are taking a lot of initiatives to grow this pie and to increase our overall client value.

Kashyap Jhaveri: So, one last question. I don't have presentation right now in front of me. But what would be the number of prime customers within these 1.29 million active customers?

Harvinder Jaspal: About 5.3 lakhs.

Kashyap Jhaveri: So about half of them now?

Harvinder Jaspal: Yeah.

Kashyap Jhaveri: And what was this number and Quarter 2?

Harvinder Jaspal: Quarter 2 would be 4.25 and 5.3 now and if I include prepaid also then customer base for prime and prepaid together would be about 6.2 lakh customers.

Kashyap Jhaveri: 6.2 is what number?

Vijay Chandok: Prime plus prepaid.

Moderator: The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Basically, our intraday market share in the cash segment didn't get impacted despite the new margin rules coming in whereas derivatives got impacted, why is that so? Second is there was a chatter about clients adopting pledging as a mechanism to get over the margin requirement. Did we see any uptick from the month of December? Thirdly we have launched of product MF Direct2U, could you just talk about it and how does it impact if at your revenues in the longer term and lastly on net flows on the distribution side, especially on the MFs? I think you have mentioned about the industry, if you could mention it about ISEC that would be really helpful.

Harvinder Jaspal: Your first question was intraday market share; we did see some impact of intraday on equity market share. We have put out that number as well.

Prateek Poddar: For example, 8 became 3 for derivatives, for equity it was 11.1 to 10.5, it's not a material shift. I'm just trying to understand why it didn't happen. It happened in the derivatives but not in the equity.

- Vijay Chandok:** In equities the leverage is relatively lower.
- Prateek Poddar:** So like in derivatives you were offering higher leverage products, in equity intraday we were not offering.
- Vijay Chandok:** Relatively lower, yes correct. Secondly please also note that in equity the volumes under product segments like cash delivery and MTF etc. have helped in offsetting the impact.
- Prateek Poddar:** Secondly, the chatter was that clients will pledge their existing equity holdings to get extra margin which we can compensate for the peak margin requirements. So if you have 25% peak margin requirements and if a client has a very high asset book or equity book like our clients have, they could have pledged that and use the margins from there to get into derivatives segments so for the volumes to not get impacted.
- Vishal Gulechha:** There are customers who are making use of their Demat asset and pulling off more money for trading. However, all the customers may not have the asset in proportion to the kind of volume which they do. So they have then adopted a different strategy like as I said earlier that buying options or making use of cash intraday products where the size compulsion is not there.
- Vijay Chandok:** The point Vishal is making is that there has been an extent of cushioning on account of Demat assets available with the customers with respect to reduction of leverage products.
- Prateek Poddar:** But have all clients adopted this or whoever wanted to adopt have adopted and the guys who have not adopted will not adopt. I'm just trying to understand the penetration of this product amongst clients because it was new.

Vishal Gulechha: Providing shares as margin as a concept is not new in the market. However, the manner in which this margin was being given by clients to their brokers have undergone a change. Instead of giving shares to the broker or creating a lien in favor of the broker, now there is a more systematic and uniform method across market and people are creating pledge.

Prateek Poddar: And question on MF Direct to You, the new product which you have launched and net flows for the MF.

Anupam Guha: Direct as a category in the mutual funds is gaining prominence. We now have a slew of product offerings to capture that segment of customers. We always had the mutual fund advisory business but that is largely focused on the ultra HNI customers given how the advisory regulations are. For clients who are typically between say 2 crores to 10 crores what we have thought is that we would launch a subscription-based direct plan which is called as the Direct2U subscription plan. It has been just launched as a pilot as an introductory offer to certain select few customers and these are early days. We have had some 50-60 clients who have subscribed to it and largely the offering is that you get the ICICI Direct platform; you get an active private banking relationship manager to have an oversight and support. Besides this the other features of ICICI Direct. These are early days but we feel that this will grow as we strengthen the proposition.

Prateek Poddar: You are seeing increased acceptance from clients on this product?

Anupam Guha: There are clients who are comfortable with the regular mutual fund and for that we have a strategy like the One Click and the mutual fund app that Harvinder just spoke about and for the ultra

HNI clients we have the mutual fund advisory, product or a subscription-based plan.

Harvinder Jaspal: Lastly Prateek on your question of net flows; yes, we have witnessed net outflows however on gross flows which is the input parameter that we are focusing on there our market share has gone up.

Prateek Poddar: Could you also talk about how many of your customers are using the mobile platform for trading and are you offering NBFC service in margin if it all like the NBFC sponsoring margins for intraday like some other brokerages are doing?

Harvinder Jaspal: About 45% of our volumes are coming from the mobile app. On NBFC tie ups and services for offering margins to clients, there are no active discussions like that on right now Prateek.

Moderator: The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: Firstly, some smaller questions and then I will again come back to the upfront margin because still little want some more clarity there. Firstly, on the other OPEX so while employee you provided in the first half like you had guided it come off in the second half again you have shared, on the other OPEX we have not seen too much of movement so that was one question wanted to understand how to really read that number? Secondly, second insight I want from you is that how are the trends on MTF? Thirdly is that which is actually clubbed with the new subscriptions or rather the Prime which is today, how much is coming that from conversions and how much is from new? So that is the third

question and the last one is I would still again want some more clarity on the upfront margins, like one of the callers had asked the similar question. Firstly, the impact which had happened in December is because the person did not want to put in that much of leverage and that's how or rather did not have that much to may be provide for upfront and earlier was okay to do it because the leverage was provided and thus not trading anymore. How are the trends in January, the caller also asked that it's 25% in December, 50% will come by March so how are the trends that you are seeing in January? How are similar clients behaving now with the norms getting more stringent and again if you could also explain that how do you look to bridge this gap by new acquisition because the new customer who would be coming, I am assuming that we are testing waters, there might not be very seasoned investors or traders. How do you look to bridge that gap with somebody who has been existent, taking leverage and doing a business and now with somebody who is very new to investing? So broadly these four questions.

Vijay Chandok: Your first question was with respect to the OPEX. We are guiding that the future quarter on the employee cost, we should be doing a similar trend as the quarter that has just gone by. With respect to our commitment to giving you operating leverage we are steadfast on that. As and when we see opportunity for growth we will invest in resources for growth and where we feel that it is requiring a squeeze of OPEX we will do that. We do not want to become committed to an OPEX item in isolation, you should see OPEX as a percentage of revenue. We still see that there are areas where we can squeeze it. We also see there are areas for investments that we need to do to harness all the opportunities

and ensure that we are all the time able to maximize the revenue potential.

Ritika Dua: On this point where is the incremental expenditure being put in like how is that number.

Vijay Chandok: It's actually more on technology areas. Our volumes have gone up, we are investing in the platform, there would be certain cost as a consequence of that. Digital marketing is another area where we are scaling up. We had guided on a 50% cost to income ratio in FY22; we have delivered one year ahead of it and we will remain committed to our direction.

There was a question then around MTF trends. MTF business is actually gone up quite a bit particularly after the margin implementation. It is appearing that a lot of customers who were intraday equity guys have probably shifted to MTF overnight. We are seeing an increase in the MTF both in terms of number of customers as well as in terms of book. With respect to your query on Prime, for the month of December we added approximately 60,000 new customers to the platform, which is a record for us, of which more than half subscribed for Prime. In addition, existing non-trading customers were also activated taking the total new Prime subscribers from new and existing customers to 50,000.

Vijay Chandok: Prime launch is now almost two years old. So whoever had to take Prime would have taken Prime. Most of our growth in Prime is coming from new customers.

Ritika Dua: And sir on Prime can we say is it more towards the 299 plan or even people are even going for the higher plans?

Vijay Chandok: While in the old stack of plan, we found that it was heavily skewed in favor of the ₹ 900 plans, that skew has become a lot more balanced. Though the 299 plan has got a very high adoption, but it is also with other plans being adopted and the total of this is far higher than the earlier stack.

Ritika Dua: How was the behavior been in January after may be whatever we have seen in December and the fact that somebody who has been a seasoned investor and does not want to may be take up leverage and do may be more volume somebody who is a new entrant which we think as a strategy to some extent make up for the lower leverage for existing customer, so how do we bridge that gap actually?

Vijay Chandok: When you say bridge the gap, I presume you are talking of bridging the gap in volumes because bridging the gap in revenue has happened in December itself. Bridging the volume gap will happen only from addition of new customers. We find that we have a very compelling and a competitive proposition, probably the best proposition in the market, to attract new customers. The offsetting of volume impact post new margin norms will happen as we acquire more customers, convert past customers who have become inactive overtime and both these pools are showing good traction. On a daily basis as I said we are seeing more than 500 customers coming on the NEO plan alone, so that is how we will offset it. The trends in customer trading in January from December is not very different because there is no difference in the margin regime between December and January but because customers are growing revenue and volumes will grow.

Moderator: Thank you. The next question is from the line of Sanketh Godha from Spark Capital Advisors. Please go ahead.

Sanketh Godha: Just again harping on the point of market share loss, sir just wanted to understand that probably we provided higher leverage completed intraday cash and so we have seen a market share fall to 3.4% in December, but this is still 25% compliance right now. So, if the compliance steadily increases then how you are looking this market share to play out in derivative market, so anything we have in our mind the 3.4% is a kind of market share we are okay with to live with because anyhow the touch in contribute significantly to our revenue lines that is the way or you think that incrementally you launched NEO and it is more targeted to deliver the market rather than the cash delivery market. So that will compensate for the growth and then just wanted to understand probably like you give the data of prime for 0.53 million customers are in Prime platform, if you can give a broader indication how many are on NEO and whether NEO is still offered only to the existing clients or even the newer guys can take Neo the way we can take Prime in that sense so these are broadly two questions I have one more may be after you answer these I will come back to you on that?

Vijay Chandok: Our aspiration is to grow market share even though the fall in market share has had relatively muted impact on revenue. We want to grow market share and grow our revenue as a consequence of that increase in business. To do that, we launched the NEO plan and a series of new initiatives to grow market share and revenue in the derivative side. These includes certain features that are shortly going to be introduced in the app, integrations

with Algo traders on the app, some new tools that are coming out on our app and website. So, for enabling traders' growth, a combination of very attractive proposition, easy access and simple interfaces are required. All these areas are WIP and on a weekly/fortnightly basis we will keep launching these propositions. Typically, every Friday there is a new launch that we plan. We believe that over a period of time that should start giving us traction and we do not need to wait for too long to start seeing traction, that is how we are thinking about the growth in NEO. I already mentioned that we have a 500 odd run rate per day. The NEO plan is open to all customers. Most of our growth has come from new customers and from our old customers who did not trade with us in a long time and have come back and started trading with us. We have crossed some 18,000 NEO subscribers in less than a month.

Sanketh Godha: Two questions I had one is that MTF book on sequential basis if I see it has not significantly increased I mean from ₹ 18.1 billion to may be ₹ 18.4 billion it is not a significant growth what we have seen in the past, so just want to understand a color there and second thing just other thing was that this loan disbursement opportunity is how big it could be for us because we have done around 360 crores, so just wanted to understand anything which you have in your mind this is the size which we can probably achieve it two or three years down the line or five years down the line and which could be a significant contributor to the total top line?

Vijay Chandok: On a sequential quarter basis as you have pointed out the book the outstanding book has had a relatively more muted increase.

You use the word MTF book, I just want to correct the understanding, it is not MTF it is MTF plus ESOP. We have not individually shared the split between the two. This quarter too we actually saw a continued growth on the MTF book on a sequential basis, but on the other hand ESOP book came off, understandably because a lot of clients who had taken ESOP saw a very historic hike for their shares and they decided to encash the ESOP and pay off the loan. Now, the ESOP book has stabilized and MTF continues to show growing trend. We do believe that MTF opportunity will continue to grow in line with market, but we need to understand that MTF is largely a product which gets used by customers when they are optimistic about the future of the market and there is a belief that the gains from holding a position would be more than interest expense incurred. As long as that belief is there, I think the book could keep increasing. We already have a fairly sizable market share, our estimate being ballpark of about 20%. It is a decent market share which we have achieved in a short of time and we will continue to put our attention behind MTF because not only it is a good source of NII for us, but also eventually leads to good cash brokerage.

Sanketh Godha: And on that loan disbursement opportunity from fee income point of view?

Vijay Chandok: The home loan you are referring to?

Sanketh Godha: Yeah because just wanted to understand do you have any number in the mind like 360 crores what we have done in the current quarter disbursement, so you have any figure in your mind may be four or five years down the line or this fees will be a structural growth driver from making us less cyclical relying completely on

broking income to report top line this source of income could be a steady ship to growing business line in that sense?

Vijay Chandok: You are right, the reason why we chose to invest in this area is exactly because of the reason that you mentioned. It tends to be delinked from markets and has a steady source of revenue for the company. It is with that thinking that we have started investing in both insurance and loan distribution in a more serious way. We are not really thinking about one, two, three quarters here, but we are thinking of more medium term and as you rightly pointed out a more three to five year horizon is what we are focused on. We are investing quite a bit in this area. The investments are taking place around getting the right skill first. We are also wanting to do this through a digital model. So, the digital acquisition and pipes to our lending partners are getting all laid out and we are trying to translate more to a digital method of approval and disbursements. We are still phygital in this at this point in time. In the ensuing calendar year, we should start seeing lot more elements of digitalization creep in to this business because it is not only us digitizing, even processes at our lending partners have to be digitized. Simultaneously we have opened up our pipes with other lenders. So it is not just ICICI Bank we have also piped in with HDFC Limited, Bank of Baroda etc. The idea is to create a very smooth revenue pool. Now to talk about the size we have we feel that whatever business we take in the more medium term we should get at least 10% market share. If we do not get 10% market share, we feel that we are under powering ourselves. To give you a sense how big is this market, for a typical large private sector bank you can assess from the amount of payout that to give their partners, it is in the ballpark of about 1,000 crores a year. If you

extrapolate to others, you will get a sense of how large this can be and our ambition is to at least get 10% market share over a medium term. We will invest in digital and in making it a multichannel architecture for acquisition.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

Alpesh Mehta: Just two questions one is on the equity market share part, what would be our delivery market share just a qualitative statement if you are not quantifying that would that have increased in October, November, December?

Vijay Chandok: Short answer is yes it has increased because we have offset the decline in intraday equity with increase in equity cash delivery.

Alpesh Mehta: And what would be the magnitude of that, and would that be sustainable that is first and secondly even if it is sustainable with this Neo plan would be revenues come under pressure in that particular segment?

Vijay Chandok: Cash delivery is un-impacted by NEO. In fact, it is in a way going to feed it because on intraday you take the Neo plan and for cash delivery you take the regular plan or you take the Prime plan. Customer who are cash delivery heavy tend to prefer Prime because of our unique liquidity feature. One of the reasons why the growth is also happening is because of Prime proposition. We are not only seeing growth in cash delivery volume which is reflected in the revenue growth, but also the eATM utilizations are increasing. Increase in eATM service facility means that customers are using it, liking it and when that happens it gives you

less reasons to migrate because you have a unique feature attached with your need.

Alpesh Mehta: And directionally would that be what 150 basis points the cash delivery market share?

Harvinder Jaspal: We do not get the retail delivery volume split and therefore it is very difficult to estimate the market share. As you asked directionally, we believe that the volumes are up.

Alpesh Mehta: Secondly in case of a transactional assets in the wealth management piece, can you just give some qualitative idea about what kind of assets which are contributing this to this because the growth has been extremely strong on that particular line item?

Vijay Chandok: Growth has come on account of equities, most of the HNI have done churning of equities and increased participation in buying of equities. So less oriented towards non-equity business during this period.

Alpesh Mehta: And sorry to harp on this point again in terms of the operating expenses, employee expenses so far at least way looks our policy was around 28%, 30% of the top line used to be like employee expenses now in this quarter suddenly that ratio has dropped quite sharply, so would that be the absolute number that would be the driving force going forward and this ratio still holds true?

Harvinder Jaspal: This year has been bit different, over a long period as you rightly said it has hovered between approximately 25 to 30 percent. Our endeavor is to keep improving operating leverage and keep bringing it down sustainably, but this quarter should not be taken as an average. You can take 9M number which is around 26%. As

Vijay explained we have a pretty robust board governance framework which puts a cap on the variable expenses. So, variable cannot keep on increasing and a higher revenue has therefore resulted in a drop in ratio for this quarter.

Alpesh Mehta: Last question are in the case of network partners that you are onboarding, is there any upfront cost related to that and it is completely variable model and what is the number that you are looking at as far as the network partners are concerned?

Kedar Deshpande: The business partner network earn variable fee based on the clients they acquire. So there is no upfront payment done to them so it is a more beneficial model to us and to them as well.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bryanston Investments. Please go ahead.

Vijay Karpe: My question is on the cash delivery side of the business, so sir as you said that the cash delivery revenues for us helped us during the quarter, so do you think because of and this might be for the industry as well, so do you see any increased composition on the cash delivery side and hence lower yields?

Harvinder Jaspal: So just to understand your question you are saying do you see any increase in the composition of cash delivery and hence lower yield is that what you think?

Vijay Karpe: Correct.

Vijay Chandok: No cash delivery amongst the various business segment will be having relatively higher yield rather than lower yields. Right now, we have seen an increase in cash delivery contribution for us and

also for the industry. For the industry, the contribution of delivery was around 24% in December, up from a low of about 18%.

Vijay Karpe: My last question is on the loans against mutual funds, so what are the yields that we get on this product?

Vijay Chandok: We are only a distributor, we do not get any yield. The yield is taken by the lender, we sourced the business and therefore we make a commission for sourcing.

Vijay Karpe: So what are these yields which lender charge to the customer?

Harvinder Jaspal: It would be around 10% to 12%.

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

Sivakumar K: Sir only two questions from my side my first question is are you getting into any exclusive deals with any bank out of the ICICI Bank ecosystem wherein you have a similar arrangement with respect to sharing the revenue generated from the clients, any timeline and what was the number of banks you are working with?

Vijay Chandok: Yes. These kind of arrangements take time in terms of integration and understanding. Currently, we are in process of deliberations with the couple of banks and more opportunities are being explored. We are expecting to introduce something shortly.

Sivakumar K: Sir my second question is on employee expenses so in Q1 and Q2 what we saw the pump up in employee expenses is more of a provision for variable pay right?

Harvinder Jaspal: That is right Siva.

Sivakumar K: And you do it over the course of the year, and you pay it after the year right or do you pay from a quarterly point of view?

Harvinder Jaspal: No, it would be paid out after the board assesses performance for the year. On a quarterly basis there is no payout.

Moderator: Thank you. Ladies and gentlemen as there are no further questions, I would now like to hand the conference over to Mr. Chandok for closing comments.

Vijay Chandok: Thank you for a very healthy participation and thank you for all the questions appreciate the interest taken. In case there are any follow up questions we will be very happy to take them up separately. Good night and take care.

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