ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended March 31, 2020 (Q4-FY20/FY20)

May 7, 2020

MANAGEMENT:

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**Operator remarks**

Good evening ladies and gentlemen and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter ended March 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. Yagnesh Parikh – Chief Digital and Technology Officer, Mr. Vishal Gulechha – Head Retail Equities, Mr. Kedar Deshpande – Head Retail Distribution, Product & Services Group and Mr. Anupam Guha – Head Private Wealth and Equity advisory group.

For the duration of this presentation, all participant lines will be in the listen-only mode. I will be standing-by for the Q&A session. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

The business presentation can be found on the company's corporate website, 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 Earnings Call to
discuss updates on our strategy and the Q4-FY20 financial results.

Before I get into results, I trust all of you and your families are staying safe and healthy & I do hope it remains that way.

It is on this very day a year ago that I embarked on my journey with this great institution and as I complete my first year today, I can’t help but reflect on the year that has gone by before we get into a discussion on the results for the quarter.

It has been an eventful year from many perspectives be it the macro environment, our own industry or our company specifically. It has been an exciting journey and I believe that we have been able to transform into a stronger, more robust, open and agile version of ourselves, ready to capitalise the opportunities that lie ahead.

Let us first take a look at the macros and the markets …
To my mind, FY2020 can best be described as tale of three very distinct phases. In the first phase which lasted till about Sept-2020, we saw global economies facing slowdown fears, we also saw India’s GDP growth slowing down to 5.1% in Q2-FY20, a 26 quarters low. As a result, financial markets remained volatile throughout the first half of FY20.

The second phase spanning Q3-FY2020 and early part of Q4-FY2020 had some green shoots as the fear of slowdown/recession in US had faded and the trade tensions between US and China had started easing. Interest rate regime was turning expansionary, aiding liquidity and driving global financial markets. At the same time, the Indian Government had announced policy reforms for FDI, started releasing funds for recapitalisation of public sector banks, cut corporate tax rate, besides several other measures including for the real estate sector to boost growth. Positive intent demonstrated by the policy measures coupled with benign global liquidity started attracting flows into our capital market despite weak macros. We also started
seeing a broader market participation with mid and small cap companies also joining the party. Indices started hitting lifetime highs with nifty touching levels of 12,430 and Sensex hitting a 42,274 as on January 20, 2020.

**The third phase** of this year commenced in early march with the tide rapidly turning, starting with the crude shock and local events like yes bank which was followed by the rapid proliferation of Covid-19 pandemic. Today, the total number of COVID-19 cases have topped 3 million globally and in order to flatten the curve, many major economies around the world have enforced lockdowns. The disruption caused by COVID-19 is unique as it has an unprecedented impact of supply, demand and markets shocks concurrently. In view of this, we also witnessed a co-ordinated response by central banks and global economies to overcome weakening sentiment and macros due to Covid-19.

Flight to safety has triggered major sell offs in all major global markets and emerging economies also saw huge capital outflows, growing bond spreads and currency depreciations. FPI outflows from emerging economies were close to $59 billion, more than double the outflows in the immediate aftermath of Global financial crisis that we saw in the year 2008. NIFTY recorded one of its biggest quarterly fall, declining by 29% during the quarter, falling 23% alone in the month of march, as FPIs pulled out a record amount of over 6 billion dollars from Indian equity markets during the quarter. This resulted in large-caps giving up all their gains and ending fiscal 2020 with a decline of 26% (Nifty 50) while the Nifty midcap 100 and Nifty small-cap 100 Indices fell by 36% and 46% respectively.

**Now let me now turn to provide our perspective on the impact of the volatility caused by COVID-19 and lockdown on our business**

First a brief update on context to the people who are joining from outside India. The Indian authorities have followed an approach of complete lockdown with both state
governments and Centre working in coordination. The government announced a three-week complete lockdown on March 24 during which only defined essential services were operating with limited capacity and thereafter the government has continued extending the lockdown albeit with modest and gradual relaxations.

Our Company, linked to capital markets, comes under Essential services and has been in operation consistently with minimal permitted staff during the period of lockdown. Our key priorities in this period have been, first, health and safety of all our employees, second ensuring continuity of service to and engagement with our customers, third safeguarding any unfavourable impact on our financials by following our prudent risk management approach, and finally identifying avenues to continue with our longer term agenda of strengthening our business model in the current context. As we have been in the above pursuit, apart from business, in our view, we also felt it is also our duty and a key priority as a responsible Indian corporate citizen to contribute to the fight against COVID-19, in our own modest way we have played our role.

**Employee safety**

We enabled our teams with work from home tools to ensure their safety and took steps like roostering and periodic sanitization /fumigation of our work places for those teams who needed to operate from premises. I take this opportunity to acknowledge the contribution of our employees, partners and associates who have helped maintain continuity during this period.

**Continuity of service and engagement with customers**

During these uncertain times, we observe that customers have a compelling need to reach out to their RMs for advise and/or would want to take actions on their portfolio by taking/altering positions in line with the environment and their risk appetite. I am happy to report that our technology team and infrastructure ensured that during the entire duration we were able to provide unrestricted services, where volumes started
touching unprecedented peaks. We have processed 3.2 million orders plus trades per day up from earlier peak of 2 million, this has crossed one of the leading equity broking house in the US. Simultaneously, our platform has processed around 65k customers transacting concurrently compared to our earlier peak of 48k users.

**Risk management**
Risk management becomes extremely critical in times of high volatility and high volumes. As you are aware, in our businesses, risk may arise due to out of pocket losses when margins assessed earlier may not be sufficient to cover rapid price movements. During this period, proactive and real time risk management backed by robust technology and prudent risk management framework becomes critical and in our case, it is these capabilities and policies that helped us tide over the market volatility without any material impact. Infact, we entered a mitigated risk mode in the month of March and systematically reduced our exposure to products like MTF and ESOP. Our combined book for these two products came down to ₹ 5.8 bn as at March 31, 2020 down from ₹ 11.5 bn as at December 31, 2019.

Similarly, we also adopted a cautious approach in participating in derivatives market in second half of march, in wake of extreme volatility resulting in a decline in derivative trading activity and hence derivative market share, a prudent tactical trade off in our view.

**Business model**
Our predominantly digital business model has held us in good stead in dealing with this scenario. We have a very wide array of products and services available on our platform and our clients consume these electronically. 97% of our equity transactions and 94% of our MF transactions are conducted online by clients themselves. This coupled with prudent risk management approach and real time risk monitoring capabilities compliment the digital capabilities. At an overall level, we believe our business construct has inherent strengths like having low balance sheet
risk from credit risk perspective, we don’t carry any physical inventory, low receivables risk, high RoE and a strong liquidity position. Infact, during the quarter we were able to use this liquidity to buy-back some of the outstanding commercial papers issued by us as we scaled down many products.

Going forward, our focus would be rapidly digitise more products to make them available online without need for a physical presence. One such example is in the area of client sourcing where definitely there is a physical involvement of meeting clients to open their account. We launched Idirect insta investment account which is our end to end digital account opening by client themselves without any need for physical meeting. This process had one last leg of picking up the Power of Attorney. We have recently implemented a digital PoA version with the help of which the client can start transacting on the platform immediately after opening the account. This has helped us in maintaining our new client sourcing run-rates despite the on ground team unable to meet the clients in person. Similar approach is being worked on for converting more and more products to fully online variants.

*Corporate citizen*

Last but not the least, our prayers and wishes are with those who are facing effects of the COVID-19 pandemic wanted to update you that ICICI Group has committed a sum of ₹ 1.00 billion comprising of contribution of ₹ 0.80 billion towards PM cares Fund and ₹ 0.20 billion towards state and local authorities. Towards this, our humble contribution to this sum is ₹ 100 million, part of our CSR initiatives. We have also played a role in local community by Personal Protective Equipment to people who really need it.

*Moving on to the performance for the quarter and an update on the strategic elements that we had articulated in Q1-FY2020*

Our Company registered a consolidated revenue of ₹ 4,819 million for Q4-FY20 as
compared to ₹ 4,283 million for Q4-FY19, a growth of 13% aided by growth in our equities business including brokerage and other allied incomes that grew by 32% during the same period. Our Profit before tax (PBT) for Q4-FY20 increased by 10% to ₹ 2,077 million up from ₹ 1,889 million.

Our total operational expenses (i.e. expenses excluding interest expenses) for Q4-FY20 increased by 7% over Q4-FY19. This increase however need to be viewed in the context of the fact that it includes a one-time contingency provision of ₹ 91 million created for our MTF & ESOP portfolio and also due to increase in variable pay to employees. Our interest expenses increased by over 100% in line with the ramp up of our MTF & ESOP books. Our cost efficiency measures are helping us in rightsizing the organization. Our employee count at March end was 3,790, down 4% sequentially and 6% year on year. We have also reduced our branch count to 172 from 199 a year ago.

Our Profit after tax (PAT) for Q4-FY20 increased by 28% to ₹ 1,559 million compared to ₹ 1,215 million for Q4-FY19, partly helped by lower statutory tax rate.

We are happy to share that the Board has approved a final dividend of ₹6.75 per share, up from ₹5.7 last year, taking our total FY2020 dividend to ₹11 per share up from ₹9.4 per share last year, dividend payout ratio of 66%.

Our Return on Equity (RoE) continued to remain robust at 48% for FY20.

In Q1-FY2020, we had articulated our direction of transforming our business into a comprehensive financial solutions provider catering to investment, protection and asset creation needs of an affluent Indian powered digitally. In order to achieve these, we have embarked on an approach with twin objectives of strengthening the core business model and building for the future as we lay the foundation of new business model by focusing our attention on five focus areas. A detailed progress on all these
focus areas form an integral part of our presentation uploaded on our website, let me take you through outcomes arising out of implementing those strategies.

**Client acquisition**

One of the most important thrust area of our strategy is to ramp up scale and value of clients sourced. Our client acquisition and retention strategy has a three pronged approach, **First**, design product propositions which are relevant to each micro segment of target clients. Our deep understanding of client behavior, their preferences ranging from his risk appetite, frequency, pricing preference, importance of liquidity, which we have gathered over two decades has helped us design unique propositions like Prepaid plans, Margin products, liquidity oriented products like eAtm, Prime plans and more recently Options 20 targeted at derivative customers.

**Second**, we have built a multi-modal customer service architecture comprising of online model and for the very affluent clients supported by relationship manager mode.

**Third** and definitely one of the most important prong is scaling up distribution capacity. Towards this end, we have worked towards increasing both the depth and quality of distribution through multi-channel open architecture customer acquisition channels.

We have worked towards enhancing quality of clients sourced through ICICI bank. A lead indicator of quality of clients is activation ratio i.e. proportion of clients who start giving revenue in the same quarter in which they are acquired. Over the year as a result of this initiative, the activation ratio of ICICI bank sourced clients has consistently kept on improving from 26% in Q4-FY2019 last year to 71% in Q4-FY2020. The impact of improvement of this lead indicator will be visible in the coming quarters as the life time value of customers improves drastically if we are able to attract the right segment of clients coupled with a high retention franchise that we
Then, we have also focused on digital acquisition of clients. Earlier this quarter on February 25, we launched our Insta Idirect accounts, wherein we went open architecture with respect to bank accounts and have very recently also digitized the process of acquiring the POA from customers to do away with in person meetings. The customers can now link their existing bank accounts and other payment modes seamlessly to deal with ICICI Securities without any human intervention. The initial signs are promising and we have opened over 6,000 accounts till the end of the quarter since launch on February, 25 2020. Since the quarter, the recent run-rates have started improving much beyond this and we have started clocking about 1,000 accounts per day. This also includes our sales personnel making use of digital account opening processes to open accounts amidst lockdown.

Another lever of focus is growing through business partners and alliances. Our network increased by 32% in Q4-FY20 over Q4-FY19 to reach 9,400+. The new clients acquired through this network grew by 73% year on year in Q4-FY20, albeit on a lower base.

As a result of all these initiatives we added around 1.1 lakh new clients during the quarter, growing our operational client base to 4.8 million. We were able to grow our bank sourced revenue giving clients (activated new clients) to ~56,000 in this quarter up from ~26,000 in Q4-FY2019.

In our Equities business, we have been successful in increasing penetration of our subscription and prepaid plans to 40% of our total NSE active base as compared to 35% in the previous quarter. Prime proposition which was opened up for all our existing customers from October 1, 2019 continued to generate very decent interest. The total number of subscribers as at March 31, 2020, were over 3.1 lacs, adding ~80,000 net subscribers in this quarter.
Prime has helped us in improving our quality of sourcing and level of activity, as a result of which, despite relatively lower yield, the revenues have increased on account of improvement in volumes. Our blended equity market share increased by 170bps year on year from 7.4% in Q4-FY19 to 9.1% in Q4-FY20. Our NSE active client base has grown to 10.8 lakh clients, a growth of 27% year on year compared to 23% for the industry resulting in a market share gain from 9.6% in Q4 last year to 10.0% in Q4-FY20.

As discussed earlier, due to increased volatility we had proactively taken a conservative risk position in March resulting in a decline in derivative trading activity as compared to January and February, bringing down our derivative market share by 60bps year on year to 8.0%. While, we have been able to recoup some of this market share in early days of April as compared to last 15 days of March as we have started seeing gradual change in level of volatility and we have started gradual opening up of our products on our platform.

Further, we are in the process of launching our trading strategy formulation tool for derivatives in association with a fintech partner to help customers convert their views on stocks or indices into actionable back tested derivative strategies.

Our interest income from ESOP and MTF grew by 78% year on year to ₹ 335 million while our Prime subscription income grew 44% sequentially to ₹79 million. Consequently, our retail equities and allied business revenues increased by 35% year on year to ₹ 2,915 million driven by strong growth in equity brokerage revenues of 28% as well as doubling of allied revenues of interest income and subscription fees. As a result of these, our equity business has become more broad based with allied revenues contributing more revenues than in the past.

On the Institutional equities front, the revenue increased by 13%, aided by increased
traction in block deals.

**Moving to our distribution business**, our engagement initiatives are focused on reaching out to the clients with a hyper personalization approach, digitally and at scale. Towards this end, we have segmented our client base using 400 product combinations and identified 23 clusters for personalization. These have been identified by dipping into their transactions and analyzing their online behavior and preferences. These clusters are being used and would form the basis of forming personalized approach of identifying such clients, reaching out to them, designing propositions customized for them and for engaging them to come on the platform and transact on more line items. This is supplemented by our efforts to expand the product suite to meet various needs.

Our mutual fund revenues were under pressure in Q4-FY20, declining by 4% year on year on account of lower yields and decline in AUM. Our focus is to grow net flows and AUM. Our gross flows grew faster than market thereby increasing gross flows market share marginally, however we faced redemption pressures in March due to the volatility in the markets. A number of steps are proposed in the ensuing fiscal for strengthening the MF business.

In order to offset the impact of regulatory changes in mutual funds, we increased our focus on select non-MF distribution products. Non-MF distribution revenues increased by 13% year on year, mainly driven by growth in fixed income products and Life insurance.

Our Life insurance business revenues increased by 7% year on year to ₹171 million because of increased focus towards protection (term) and traditional products amidst higher volatility and in spite of very less business in last 15 days of March due to lockdown constraints, which is usually the busiest period for the insurance business.
We have also expanded our loan portfolio to distribute 12 Loans product up from 6 products in the last quarter. Total loans disbursed in the quarter of over ₹ 2 billion.

Overall distribution revenues were at ₹ 1,155 million up 3% compared to last year. Further as a result of our initiatives on both equity business and engagement initiatives on distribution business, we were able to increase our overall active clients by 16% to 14.8 lakh in Q4-FY20.

During the I-Sec Day that we had in February, we got a chance to meet some of you, where we discussed about our wealth management business. As stated there, I-Sec’s Wealth management business model is a unique Brand-Platform-RM led business model. What that means is that we have a large set of clients, who have grown to become Wealth clients over a long period of association with us. They value the brand and the platform followed by relationship with RM which is quite different from a traditional wealth management model.

This model has deep strategic advantages for us as it gives us more stickiness as evidenced by the fact that more than 54% of the revenue coming from clients acquired 10 years ago. It builds deeper brand association and relationships and is a scalable and digital wealth management model.

Our wealth management team today comprises 300+ RMs catering to over 32,000 individual wealth clients each having a minimum of ₹ 10 million in assets with us and in aggregate assets of ₹ 832 billion as at March 31, 2020 down from ₹ 990 billion as at March 31, 2019 primarily on account of correction in market values in March.

Of the total assets, transaction assets, i.e. assets on which we earn fee based on a transaction happening e.g. demat assets of our clients, are ₹654 billion (₹ 798 billion in FY19) and recurring assets, i.e. assets on which we earn fee by way of AUM linked commissions e.g. mutual fund assets of our clients, are ₹ 178 billion (192 billion in
Our total revenue from these clients increased by 53% year on year to ₹866 million in Q4-FY20 vs ₹566 million in Q4-FY19 resulting in income for the full year being ₹2,590 million in FY20 vs ₹2,175 million in FY19 on account of various initiatives taken by us during the course of the year.

**Moving on to our corporate finance business**, CF business faced downward pressure on revenues due to subdued market conditions. Revenues declined by 23% year on year to ₹99 million. We executed 4 Investment banking deals in Q4-FY20 and have SEBI approved IPO/FPO/InvIT/REIT pipeline of 12 deals amounting to over ₹378 bn. We are currently ranked 2nd among domestic financial advisors by number of deals in merger market league table. Our aim is to diversify the CF revenues by increasing contribution of non IPO deals.

**Our treasury income was** ₹105 million, down from income of ₹112 million a year ago, negatively impacted by the prevailing market conditions.

**To sum up and to put the year in perspective...**

Many parts of the strategy are playing out in the intended manner, we are fortunate to have an all-weather business model that has low balance sheet risk from credit risk perspective, no physical inventory, low receivables risk, high RoE and a strong liquidity position which will help us stay steadfast in the current phase.

However, as we move into the current year, the strategy remains relevant and intact in the current context, there are four areas which will get special attention. **First**, our attention will be to rapidly increase digitization at all level within the organization, in order to make all feasible products available online. **Secondly**, even higher focus on increasing cost efficiency e.g., due to the current environment, we may explore
moving certain teams to completely work from home thereby further reducing need for branch infrastructure. **Third** would be to invest in technology for upgrading our infrastructure and capabilities like data warehouse capabilities to perform big data analytics through Robotics, Machine learning & Artificial intelligence, implementing best in class CRM tools for Retail and Institutional clients, fortify surveillance tools to reduce cyber security risks resulting from work from home functioning, ensuring business continuity by maintaining salience and speed by capacity enhancements and improve our UI/UX tools to improve customer experience. **Fourth** area of increased attention would be to selectively fortify our talent pool to position us well for future.

We are aware that the situation is very dynamic, we as a management team recognize that we have to remain agile and keep evolving to manage risks and we believe we are well positioned to take advantages of any opportunities that may arise.

Thank you for a very patient hearing 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 Sivakumar from Unifi Capital. Please go ahead.

**Sivakumar:** My first question is regarding this open architecture that we have unveiled in Q4. Now that non-ICICI bank customers can also be onboarded onto the platform. Are you getting into any strategic partnerships with other banks wherein they would also do what ICICI Bank is doing for the platform which is basically the RMs of those banks bringing in customers, are there any plans in that direction?

**Vijay Chandok:** Digital openness will mean that we can acquire any bank customer without need for any specific partnership. But as you correctly
pointed out, the motivation of coming onto the platform is either through digital marketing or through clients’ own motivation to come on our platform. Apart from this, we are also looking to discuss with some other banking partners, who will do exactly what you just said, However, it is still WIP as we speak.

**SivaKumar:** Can you give some sense as to which banks would be interested in doing such a tie up, would it be the private majors or tier-2 banks or someone in the PSU space?

**Vijay Chandok:** If you look at it from a bank’s perspective, any bank would be excited to do this partnership as it gives them two things. First, wherever we attach a broking relationship of the nature that we have, we see an uptick in CASA balances for the bank and second, we see an uptick in customer stickiness for the bank. From a bank’s point of view, these are two very important and big pluses. It is really for us to choose which banking partner we want. While any bank would be interested in this, our endeavor would be to largely focus on non-competing banks to an ICICI franchise. Our focus is keeping in view that ICICI Bank is a principal partner.

**Sivakumar:** When can we see some traction in the direction wherein those partnerships will be sealed and those banks would start pushing ICICI direct platform?

**Vijay Chandok:** I think this year something should be visible.

**Sivakumar:** Just one question on the Prime plus Prepaid Subscriber base. Last time in Q3 call you had mentioned that almost one-third of the active client base has moved to either prime or prepaid. How does it look currently?
Harvinder Jaspal: It was 35% last quarter, it has moved to 40% now.

Sivakumar: What has it done to yields in the broking segment and how should we see them going forward?

Harvinder Jaspal: We are more focused on revenues per customer, because even with a lower yield proposition like for example Prime plans, we have experienced that the volumes from those customers have actually gone up.

Vijay Chandok: Sivakumar, to supplement, the yield is an interesting but not sufficient item to look at because we have added so many products like margin finance, Prime fees and so on and so forth. Yield in isolation would not be a complete way to look at it, we are looking at the total revenue that we can earn from a client and that is the number that we are seeing is helping us grow our business. That is why during this quarter, you would have seen our equity-related income actually up by about 32%.

Sivakumar: Can you give some sense as to how that is panning out in April in terms of active clients and also subscribers to the Prime Plan?

Harvinder Jaspal: Sivakumar, it really depends on the market condition. It will be too early to say, but yes, the initial trends are okay.

Moderator: Thank you. The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Keeping in mind the way the circumstances are currently, if you can help us understand segment-by-segment, which segments do you look at for FY’21 where you will see greater struggle and where do you expect to grow and support our revenues for next
year? The second question, which I have is on the SIP count. So I was looking at the number which is currently at 0.66. This number touched a peak of 1.1, 1.2 in 2Q of FY’19. So I want to understand, was that a peak and we have fallen off and FY’20 has just seen 0.66 through all the four quarters, can you just help me understand that.

Harvinder Jaspal: So let me take the second question first since it is a data hygiene question. Earlier, what we used to measure the number of unique customers who have triggered a SIP in a trailing 12-month period. What we realized was that a more important factor in SIP is continuance of a book. Now, what we measure is that every month end how many SIPs have got triggered, and that is what we have been measuring for the last four quarters at least. That number has been in a very narrow range ranging around 0.66

Coming to your first question “What are the segments we are looking at?”. In such an environment there is huge amount of focus on digital parts of our business which fortunately for us is a very healthy proportion in terms of transactions.

Vijay Chandok: If you really look the way we are structured today, we are a high operating leverage company, where everything is digital, right from customer acquisition to transactions. Our endeavor has been to keep adding as many propositions and products as possible and make them available digitally so that we are able to attract all segments of customers with negligible incremental cost of acquisition. Given that kind of a model, we believe that most of our businesses are ready to capture any upswing that may happen on account of broader market participation, be it the equity market, be it the mutual fund business, be it the institutional
equities business, as all these are possible to do remotely and digitally. Having said that, there are certain businesses in the distribution side like insurance which have a physical leg. In fact, earlier this week we were discussing ways in which that also can be digitized. There are examples available in the industry where tech enabled aggregators already are following a digital model. Our endeavor is that very soon, every aspect of our business should be enabled on our platform. The only area which is going to be impacted is the corporate finance business, which tends to be episodic. Fortunately for us, that is a very small part of our total revenues. That is the way we see the landscape playing out and we are ready to participate in every opportunity out there.

**Shreya Shivani:** What I understand is if there is an upswing say, in the equity market or in general in the economy, you will be there to capture that through your digital business model. But otherwise, I mean, if I look at the distribution revenue from mutual fund and life insurance business, those businesses might itself be struggling in FY’21. If the businesses struggle that will be a drag on FY’21 revenues for you as well, right?

**Vijay Chandok:** You are absolutely right that even today our fortunes are dependent on the way the markets are going to behave. Our endeavor, therefore, has been to broad base ourselves into as many categories of revenues that are possible from a life stage that customer offers to us. That is why we have opened up protection, which is slightly different from investment market. Also, we opened loan distribution where we are started now distributing 12 types of products on open architecture platform which was virtually not there. We have opened up more areas of
revenue pools precisely to, participate in the natural growth that is there as well as to offset declines that may be there on account of muted industry outlook.

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

**Piran Engineer:** I just have a couple of questions. Firstly, in April and May, how is the trend in redemptions or net inflows being for the mutual fund business?

**Harvinder Jaspal:** As Vijay mentioned in his opening remarks, we have had decent growth in gross flows ahead of the industry, but redemption is an area that we are looking at. We are looking at various initiatives in this direction, for example, we are working on mutual fund only App as a specific initiative to engage with a mutual fund customer.

**Vijay Chandok:** We do not look at it from a product segment point, we look at it from a customer viewpoint. If there are redemptions in MF, the redemptions are not disappearing away. It is staying within the network in some other form, either it gets into equities or it gets into fixed income or into some other investment category. In every space for us, the customer is more important than the product.

**Piran Engineer:** In April and May, has trading volumes and equities been as high as March?

**Harvinder Jaspal:** It would be difficult right now to comment on April and May right now.
Vijay Chandok: It is too premature to talk about Q1, we entered into the crisis with the industry already consolidating, I think those consolidation trends are getting stronger and people who are strong will get stronger.

Piran Engineer: Just lastly, one clarification. You mentioned something about opening 1,000 accounts a day. I did not catch that, what exactly was that about?

Vijay Chandok: These are accounts that are getting opened digitally without us meeting any customer. The customer can now open an account and start transacting on our platform without any need for physical meeting. This number has started clocking about 1,000 plus a day currently.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL. Please go ahead.

Haresh Kapoor: First, if you could just help me reconcile this broking and commission line item. Maybe I will just read out some of the numbers. Total broking and commission was 461, out of which your retail equity is 292, institutional equity is 37, MF is 57 and non-MF is 54. So, broadly you are at around ₹ 440 crores there with the gap of ₹ 21 crores. If you could just help me understand first what is that gap in particular? I am looking at your slides 34, 35 and 40.

Harvinder Jaspal: In our segment result, the segment broking and commission, apart from the above line items that you mentioned, also includes revenue sharing from our corporate finance business towards institutional equity business and second, there is interest income
from FDs earned in both retail equity and institutional equity businesses

Haresh Kapoor: Because your corporate finance was just ₹10 crores, so I am assuming there is an advisory line which is also around ₹10 crores, am assuming it is going there, that is what I understood. Largely because interest income, MTF is pretty much part of retail and allied and that is what we have taken. So again, it comes back to that ₹21 crores gap. So, just trying to understand.

Harvinder Jaspal: The interest income which we earn on fixed deposits is over and above the interest income from MTF and ESOP. For the equity business, we need to place fixed deposits as margins with stock exchanges, and we earn FD interest rate on that. That is not a part of a specific product, but it is a part of that particular business. This interest income gets allocated to the segment broking and commission. And for this quarter, revenue share in corporate finance will be a very small portion. Largely these will be the two items.

Haresh Kapoor: Sure. So that is perfect. Okay, thanks. Second, just want to understand the momentum here. You are talking about redemption there, there is an element of MTM fall plus redemption across the market in various parts. So, first, if you could just talk about momentum that you are seeing on the non-broking side, so let us say because the large part is digital, so are you seeing good traction on the life insurance product or is that still to pick-up? Or even on the redemption side is it more private wealth or is this has been the retail clients? Just some broad comments will be helpful on that front.
Vijay Chandok: You are talking about the month of April?

Harish Kapoor: Yes, month of April. So largely the momentum right now because you commented on March previously too, just in terms of the trajectory?

Vijay Chandok: Trajectory is better than last year currently.

Harish Kapoor: So non-broking business trajectory, in terms of business momentum because large part is digital. So are you seeing uptick on the insurance side because there is a lot of talk on protection, are you seeing even in terms of retention, are you seeing that in terms of private wealth channel or retail channel, from where are you seeing that trend? So, just to understand which part is more stable, which part is seeing some challenge? And how should we read through on that?

Vijay Chandok: Yes. So retail is more stable. In Wealth side particularly, wealth credit fund is where the outflows are happening when it comes to mutual fund. You asked specifically for trends that we are seeing in the non-equity, non-mutual fund business those are showing better trends than past year.

Harish Kapoor: Q4 broadly has been a pretty good for broking and good revenues. But in terms of trajectory obviously on the non-broking side, there is some hit in the short-term. So maybe going into next year, a lot do or make though for the revenue impact, a lot of people are talking about cost rationalization. So how do we read that and what pace and when do we finally decide in terms of what decisions we need to make on that front?
Vijay Chandok: Cost like I said, will get heightened attention and focus. We have identified areas which can be digitized and therefore, adding to our efficiency. We also need to be clear that these are times where you have to be empathetic and sensitive to the market environment and we will keep those factors in mind. The way to handle this is that there is a natural attrition which happens, those attritions need not get replaced because we find that we have enough and more within the system to take care. There is also infrastructure rationalization, which need not wait for any changes to happen. Infrastructure rationalization can happen in two ways; one is just giving up certain places which no longer are required. As we explained in our narrative, the reduction in some of the branches, as well as scope to renegotiate infrastructure, fixed infrastructure cost are work in progress. Every element is being looked at very-very closely.

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

Umang Shah: I just wanted to have one clarification. So when we are talking of open architecture in the third-party business, so this would include mutual funds, non-mutual funds, basically open architecture across, right?

Vijay Chandok: Yes, for mutual fund we have always been open architecture.

Harvinder Jaspal: For all the product categories that you mentioned, we are already open architecture, we distribute about 30 different AMCs, around 2,500 schemes. So, we are a fairly open architecture in the third-party distribution product.
Umang Shah: Even on the insurance side?

Vijay Chandok: No, on life, we are not open architecture at this point in time. We are open architecture on health.

Umang Shah: Okay. All right, fair enough. And just I wanted to seek some clarification on the contingency provision, which I am sorry I missed that. So what is this 90 million one-time provision pertaining to?

Harvinder Jaspal: Looking at COVID, and the scenarios that can unfold, we have seen almost 30% to 35% drop in a very short period. We have seen very high VIX levels and are also working from home. What we have assumed is that supposing we were to again, have a shock of say 30% instantaneous drop in market values from here and either because we have operational constraints being in a work-from-home environment or if our technology based risk management systems do not operate satisfactorily the way they have done till now, then there could be an out of pocket expenses. This provision takes into account that aspect.

Umang Shah: All right. Sure. And so, it is fair to assume that there would be no such provisions, which will be recurring in nature, right maybe for one or two quarters? We do not see any recurrence of these…

Harvinder Jaspal: No, this is a management overlay that we decided to put considering the very extreme scenario we just described. It is a stressed scenario that we have assumed and we have assumed that our systems and people are not able to act the way they normally do.
Umang Shah: Perfect. And just one last thing, would we have seen any losses or provisions from the risk management perspective, maybe on our MTF business or maybe on the client side where we would have had to bear the cost?

Vijay Chandok: Yes, we do face out of pocket expenses on our business every quarter. It is quite routine item, but that number is very negligible. It is a non-material number and even this quarter we have seen that number remaining well with our risk appetite.

Moderator: Thank you. The next question is from the line of Bharat from Tata Invesco. Please go ahead.

Bharat: My first question is, what is the utility served by the ICICI Direct branches? You have been saying that you are shifting to digital and the open architecture platform, so how does the utility of the branches change going ahead? And what would be the right size number of branches that we can look at a couple of years down the line?

Vijay Chandok: Yes. I am going to request a Kedar Deshpande to step in. Kedar as you know, Heads our entire Distribution Business.

Kedar Deshpande: If you look at the Idirect client segment, we have wealth management segment, which is an upper crust then there is a large base of mass affluent clients, which are serviced through this branch network. The idea being it helps us in increasing our cross sell penetration of non-equity products and helps us retain the relationship. The longer they stay with us, the higher is the probability that they become wealthier and our lifetime value of the client goes up. As digitization, process automation, robo
advisory and other production services kick-in, there will be lesser and lesser requirement of a physical network or a relationship manager network as a percentage of clients. As we keep growing, we will require relationship network to engage, handhold and guide clients, because not all clients are well versed with all products. The branch network also acts as customer acquisition channel. It also plays a role in in getting the early momentum when we launch any new products and services. Products like bonds, insurance, mutual funds etc. are the foundation revenue lines that have got built over the last 10 years - 15 years because of this network.

**Bharat:**

See, but the thing is that the equity advisory and the equity business, which is mostly a do it yourself kind of business that can be conducted online. Now when you talk about non-equity products to be given to equity customers and increasing the distribution base for mutual funds on your PMS, AIF, etc., you would not need these branches be very essential and you are saying you are servicing mass affluent clients, they would, if somebody has a PMS ticket size is ₹ 50 lakhs and AIF ticket size is ₹ 1 crores, they would necessarily want to interact with people and want to get that comfort before doing the investment. So would not these branches be crucial? So I am just trying to understand the strategy behind closing down the branches at the same time saying that you want to increase the distribution business.

**Vijay Chandok:**

Kedar elaborated historically the construct of the branches and the utility of the branches. And as you correctly pointed out, times have changed quite dramatically. I think as somebody put it in weeks, decades happened and something like that is happening.
Many of the clients who wanted a physical interface and engagement are dramatically changing their own approach. In such a context, we are asking ourselves the question, the need for infrastructure of this nature. Everything is up for question and I had mentioned it a few quarters back when we spoke that there is no holy grail within the company, we are questioning everything as markets are evolving. So, this also is an area of active discussion and debate within the company and we will take judicious call in the course of the time. We have already reduced from 199 about a year ago to 172 and the journey is something that we will keep evaluating.

Bharat: I got it. Just one more question on the risk, since we have just seen some of the because of the oil contract going about, we have seen some risk parameters coming to the fore. I just want to understand, if you would just kindly explain, how your systems are better than let us say some other brokers, assuming they are better. And if risk management is an entirely process based approach or there are calls to be taken by the risk management team as well and in under certain market conditions, I just want to briefly touch upon how that works?

Vishal Gulechha: Right from the beginning our approach has been very clear that no risk should be managed manually. The risk parameters are set by the risk committee and by the business looking at the various market parameters which are very fast changing in an environment like this. We have micro segments of the customer and offer very customized products to them and whenever a leverage position is taken, the cut-off price is set and the moment that price is reached, the position is automatically squared off.
During current times, you change few parameters to manage the volatility, however that is not something which happens on very active basis during the market.

**Bharat:** Do we have commodity as a commodity broking?

**Vishal Gulechha:** Not as of now.

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

**Aditya Jain:** Thank you. I just want to touch upon two aspects. So one, on the non-ICICI Bank account opening, you mentioned 6,000 accounts have been opened. So if we just clarify because over what period also you would have seen few weeks of this data. So what sort of trends you see in this? Do you think the run rate of this acquisition can improve a lot? Is this something on which you are making a concerted push via SEO and so on?

**Vijay Chandok:** Yes, it is an absolutely a focus area. This number of 6,000 is what we saw during the period of 25th of February till 31st of March. Currently, everything has shifted digital, broadly thousand plus accounts are getting opened every day, the split between ICICI, non-ICICI at this point will be about 70% in favor of ICICI. Since its early days, if you look at what the other digital players in this business are doing, we believe that there is a dramatic and a large opportunity for us to scale up as we have pivoted to the larger market opportunity, which is in many ways is 90 plus percent of the total market opportunities outside ICICI Bank. Others have done it; we believe that we will have to work towards growing that base in that similar direction.
Aditya Jain: Got it. Thank you. And sir just to understand, so the only difference, the main difference and experience for a customer who take this product would be that he would have to pull money from his bank account into say a pooled account, which would mean that the funds would lie with you. Whereas with the ICICI bank product, the funds use to be in his savings account in ICICI Bank, is that a right understanding?

Vijay Chandok: Yes, that’s correct.

Aditya Jain: Okay. And secondly on the ESOP plus MTF book, is it right to assume that the decline in the book was predominantly back ended because the income just increased Q-o-Q?

Vijay Chandok: Yes, it is all back ended.

Harvinder Jaspal: It is back ended and proactive, Aditya.

Aditya Jain: Got it. And going forward, what is your stance on this, are we still in that cautious mode and how are we looking at sort of normalizing that?

Vijay Chandok: Honestly this is a business that we are not worried about scaling up when the times are right. We do not believe that it will be a challenge at all. We continue to remain cautious, but we are seeing that some semblance of stability has started returning. So we have also started growing this book again.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara Securities. Please go ahead.
Ritika Dua: Most of my questions are follow-up to what has been asked by people in the forum. One on this account opening, just to close the one thing here, this thousand number that we are seeing on a daily basis on a digital mode. How are these people approached?

Vishal Gulechha: In addition to customers coming on to our platform to open accounts, these numbers are from combination of different channels that we have. This includes our sales personnel making use of digital account opening processes to open accounts amidst lockdown and also the business which is introduced by ICICI Bank is routed through this process in addition to sourcing from our partner network. Also, we have a very powerful digital lead capturing system which helps us in sourcing clients.

Ritika Dua: And these have not changed even in the current lockdown time. So it is a similar strategy which is helping even today?

Vishal Gulechha: Absolutely. There was a very brief intervention, towards the end of the March, when we had to develop our systems to enable this kind of account opening. We opened, around 12th of April and from then the trend has been very secular.

Vijay Chandok: In many ways, the way you should think about it that had we not done what we have just done, there would have been actually a de-growth in our acquisition rate. As I explained earlier, we had to meet clients for the power of attorney and now all that is all eliminated. Everyone, including regulators moved so rapidly and much to the advantage of the customer, that what would have probably taken several quarters has actually happened in a matter of a few days.
Ritika Dua: Sir, another question on related to again accounts here. So on the prime because a great throughput in the prime for this quarter as well. Sir any color on the incremental numbers on the 2.3 to 3.1? Where is this incremental coming more from existing or new how is the color there? I am sorry, if you have not shared that before.

Vishal Gulechha: Yes. I would say that; we remain focused on all three segments. Since the time we opened it up for the existing set of customers in the month of October 2019, a good set of active customers are adopting this. Majority of our new account today are coming with prime. And at the same time, we have used this proposition very effectively to activate our dormant customers. So, these are the three large segments and the contribution is very vibrant from all these three segments.

Ritika Dua: Okay. And on the contingency provision sir, you said that this is more like to take care of any future contingencies? So as of now because of the sharp fall which we have seen for the MTF book, nothing has really been materially been impacting our P&L and the P&L impact has been largely the way it usually is.

Harvinder Jaspal: That is correct.

Ritika Dua: Sir, two small very accounting questions here. One is on the jumping in the yields in the wealth management business, is it because of the income or in the denominator effect at the end of the quarter or why have the yields jumped a little higher for this particular quarter?

Anupam Guha: One, obviously is the fact that the yields are increasing because of the market correction, but we also have had a strong last quarter,
which is visible in the revenue numbers. So, essentially the answer is a combination of both.

**Ritika Dua:** Okay. And sir, if you will not mind, sir just any particular product or something which would have led to such a sharp spike in specifically if I were to not attribute to the denominator effect, what could be the other effect, which I am not getting here?

**Anupam Guha:** Our income grew from ₹ 57 crores in Q4-FY19 to ₹ 87 crores in Q4-FY20, the growth was broad based across equity broking, ESOP, AIF & PMS, Protection and fixed income businesses. We also used ESOP in the last quarter especially January and in the first part of February for client acquisition in a big way.

**Ritika Dua:** And just one last from my end. Sir, similar question on the MF distribution income, so we did not really see much impact with this quarter, would the impact come in the next quarter because of the decline in AUM because the number was quite flattish, absolute distribution income on MF on a quarter-on-quarter basis?

**Harvinder Jaspal:** Yes, that is right. The decline in AUM is back ended. Although, you know that overall the TER impact anyways is there, where the yields have come down to 60-61 basis points, but they are stable over there. But what you are saying is right that the mutual fund AUM is relatively back ended, so average AUM would be higher.

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

**Madhukar Ladha:** Congratulations on a great quarter. Couple of questions, we were trying out this new options pricing and I think, it was ₹ 20 per order
plus ₹ 5 per lot. Have we now offered it to broad customers at large?

**Vishal Gulechha:** Similar to prime, the strategy had been to reach out to the dormant customers and create that chest to enable this to the existing set of customers. So, yes, we have selectively enabled this for the existing set of customers now. It will take some time before this can be made open to each and every one.

**Vijay Chandok:** We are getting gradually more and more broad based not yet 100% open for all, but we will directionally get there.

**Madhukar Ladha:** And can you tell me what sort of percentage of customers are on this new pricing plan and if possible also can you tell me what is your option revenue in broking?

**Vishal Gulechha:** We have not disclosed that as yet

**Madhukar Ladha:** And percentage of people taking the scheme.

**Vishal Gulechha:** This is very early to give you the percentage of customers opting for this plan. NCA as well as existing customers where we have invited them to choose this and the dormant customers to whom we have gone ahead and offered this plan, are finding this a very good proposition.

**Madhukar Ladha:** Got it. And so on this loan distribution platform, can you share some broad numbers as to what the disbursements were and how much fee incomes we have collected and how this platform can scale up over the next couple of months?
Vijay Chandok: I had described in my narrative that for quarter four, we had done the total aggregate disbursement of about ₹ 200 crores, different players offer different commissions, it varies between 50 basis points to some of the products that actually cross even 1%. It is in that range depending on the mix that we do. The market for this distribution business is pretty large. At a time like this when everything is getting digital and if we are able to successfully execute our strategy of becoming a digital open source, loan originator of high quality customers, I think it will certainly be a sustainable long-term large market opportunity for us to harness. We are hoping that in a situation like this only accelerates our ability to get there.

Harvinder Jaspal: Just to add to that and if you imagine the loan portfolio as we discussed maybe a couple of quarters back, for us it is an expansion of the bouquet. We also spoke about our N=1 strategy or a very segmented strategy, the approach that we are trying to take is that how do you harness the potential of our existing customer base and try to meet their need sets. The statement that we are making is that there is an intense focus on a particular product line, looking at it from a product line length and trying to proliferate the customer base on various loan needs, adding also the principle. That adds to the overall breadth of the product line, which is where the difference of approach from the earlier part is there. And Vijay said that, the market is very huge in terms of overall total disbursement.

Madhukar Ladha: Right. And just one last question, the provision of about ₹ 9 odd crores, Vijay, also mentioned in his opening remarks that it was
related to the ESOP and MTF funding book. Is that correct or is there any chance of a sort of NPL being created.

Harvinder Jaspal: Let me just try to explain that Madhukar. One, it is a contingency provision that we have created. It is on all our receivables including MTF and ESOP Funding. If there is an extremely high volatility levels reaching 70% - 80% as we saw in the last 15 days of March, in that kind of a scenario what can happen is the price movement can be higher than the margin computation. In such a context, we have assumed a scenario of an ‘instantaneous’ shock of about 30% drop in asset values coupled with our automated real time risk management system not being able to function effectively because of glitches or because we are working-from-home or because of any other operational constraints due to lockdown. If all those things come together then this could be the out of pocket on ESOP, MTM, or any overnight position. As I was also responding earlier that is not what we have experienced right now. But since we have seen a 37% decline in a matter of very short period, that is the reason why as a contingency we have made this provision.

Moderator: Thank you. The next question is from the line of Manish Poddar from Nippon AIF. Please go ahead.

Manish Poddar: Just wanted to get first bookkeeping question. So when I look at the increase in interest income for this quarter roughly about ₹ 71 odd crores I have compared it to the base quarter of about ₹ 45 odd crores or ₹ 46 odd crores. Can you probably give us the breakup of the ₹ 71 odd crores, what are the larger parts up here?
Harvinder Jaspal: Primarily three large parts over there – first is a steady state income that we get on the fixed deposits that we keep with exchanges. In our balance sheet the fixed deposit under lien, that is a number of about ₹1,800 crores. When we keep those monies with exchanges, we earn FD interest and it will depend on the fixed deposit which is kept.

Manish Poddar: The three parts which are mentioning, can you give the breakup of it let us say in the ₹71 odd crores what is the break-up?

Harvinder Jaspal: One is as I said, there is a FD of around ₹1,800 crore and over the last past couple of quarters it has remained in this narrow range give or take few hundred crores. FD interest is what we are earning on that balance that is one part of the interest income. The second part is the interest on our ESOP and MTM books. We have a book of about ₹5.8 billion at March end where we earn NIMs and the total interest income was ₹33.5 crore as disclosed. These two predominantly would be the more material. The third would be something that we will earn on our proprietary portfolio but that will be a very small portion as compared to these two.

Manish Poddar: I am thinking the distribution part of the business, largely the mutual fund part of the distribution business, if you could highlight any broad set of trends, which are happening in the month of April and May qualitatively not quantitatively probably?

Vijay Chandok: While I think it would be not fair to talk about April and May, in great detail. At trend level, the industry has witnessed outflows from mutual funds. We have seen similar trend which is largely centered around credit funds in wealth segment of the market. Other segments have been relatively more stable and specifically
for us we have been attracting more gross flows than the industry. Our approach is not looking at it as the product level but at the customer level. If money is going out from mutual fund, then we have a range of products to offer like fixed income and other investment avenues. Our endeavor is to look at the wallet share of the customer.

**Moderator:** Thank you very much. The next question is from the line of Kunal Shah from Carnelian Asset Management. Please go ahead.

**Kunal Shah:** First question is if you could help with the SIP book that we have in the MF AUM, I mean, you shared the account details, if you could help with the SIP book amount?

**Harvinder Jaspal:** As I said number of SIPs is about 6.6 lakhs. The SIP book very broadly is about 25% to 30% of our overall AUM.

**Kunal Shah:** Just one question if I understand that correctly. The 1,000 account opening, every day that we are doing out of which 30% is non ICICI. If I understand that correctly, it is through basically our branches, that is the I-Direct branches that we are opening. Is that understanding correct or it is through digital marketing that we have been doing which is enabling us to help us open the accounts online.

**Vijay Chandok:** There are 3 sources and channels of non-ICICI sourcing. Channel #1 is Digital. Channel #2 is our Network Partners, Sub-Brokers, IFAs, etc., that we have. and #3 is our own network of RMs.

**Kunal Shah:** Okay. And as far as the active client addition goes we have done fantastic from 12.73 lakhs to 15 lakhs but I mean that was stated at the start of the year as well, the first idea would be to make the
clients which we have more active on our portal. Now going forward, we have been adding 3.5 lakhs to 4.5 lakhs clients every year and this year also has been around 4 lakhs, so moving about 1,000 accounts every day. So broadly another 3.5-4, how should one look at this number going forward? If you could help your thought process of the same as well?

Vijay Chandok: I can share our intent; we are not giving any guidance. Intent is to increase this number. Clearly, we feel that there is an underpenetrated opportunity and there is a general trend towards digitization & consolidation, both these trends should help us. So, it is really in our hands to take advantage of these two trends and show growth. We have a fairly high ambition and aspiration but no guidance being given.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Sir, firstly, we have announced 3.1 lakhs Prime customers, right? Now, what proportion of our brokerage revenue comes from these clients vis-à-vis the non-Prime segment? I asked this question particularly because I assume lot of non-Prime customers do not trade as much and probably therefore, they do not utilize the Prime subscription. Otherwise Prime clearly adds value to any customer who trades frequently. So just wanted to understand the bifurcation between the broking revenue within that agreements?

Vishal Gulechha: In equity revenue, the spread equal among Prime and non-Prime customers. Close to about say 40% of the revenue would be coming from our Prime customers.
Roshan Chutkey: So, that means that people who are non-Prime haven’t yet realized the value of Prime and therefore overtime we should have lot more of them converting to Prime.

Vishal Gulechha: Yes, possible. For retail customers, you can’t expect the migration to happen in a quarter or so. As and when customer logs in with an intention to trade, if they will see value they will adopt.

Roshan Chutkey: Okay. And second question I have is essentially what kind of trends are we seeing in terms of broking account getting opened in the month of April given the turmoil in markets? March, I recall you mentioning that it has been on an ascent, right? So, what is the kind of improvement or numbers that you have seen in April month also? I joined the call late, if you have answered before.

Harvinder Jaspal: Through our completely digital sourcing, we have now started seeing daily run rates of upwards of 1,000 accounts in addition to our other channels. It has taken some time to build this up but yes, the run rates are improving and with the help of the process simplification which Vijay elaborated and even Vishal spoke about, we expect that this can sustain and improve. I mean, that traction can build up. These are early trends; we will have to keep watching. I think next quarter when we meet, we will be able to have a more informed discussion on this.

Roshan Chutkey: So, basically that means the customers aren’t deterred by the market movements primarily, even in the month of April, not just March?

Harvinder Jaspal: Our experience right now has been that the traction is there. People are joining, wanting to participate and to open accounts.
That has been our experience. As I said it is still early in the quarter.

**Roshan Chutkey:** Sure. Any interesting analytics that you have seen based on the market movements and any customer insight that you can share in terms of how people trade or maybe when do you think a redemption cycle if it were to come will come based on whatever you have seen so far?

**Vijay Chandok:** One of the things we have observed is unprecedented level of participation in the market. If you really dive in and see the texture of this, you can probably think of it in 3 ways. One is you have a bunch of customers who are traditionally regular players in the market. These are I would say bunch of customers who have been active and they continue to be active even in volatile markets. Then you have a bunch of customers who are traditionally investors and they don’t play a very active role in the market on a daily basis or even weekly basis or sometimes even a monthly basis. They sit by the side; they have built a portfolio overtime and they tend to get into market periodically when they think the opportunity and time is right and their researchers advising them to do that. We found that currently even these customers have jumped into the market because all their assumptions and portfolios have gone awry. So they have to correct their positions and revise their positions in the current world and current context. So, they are either buying or selling or doing a bit of both. So that bunch which are generally semi active have become very active and the third insight that we are seeing is, lots of people who are being sort of fence sitters, who always said that, I wanted to invest in the market but now the markets are too high. And if you just go
back a few months into the past, we started seeing quite a smart improvement from November onwards in the market. So, there are a lot of such investors who have been sitting on the sideline. So, after seeing a multi-year correction in the market in the month of March, they have jumped into the market. So we have started seeing very broad based participation from the regular, the guys who are the fence sitters and the guys who are the periodic investors, all of them actually actively jumping into the market and that is what it actually explains the current trend that we are seeing at least with us as a company.

Roshan Chutkey: Sure. But do we have any age-based distribution here, age-based analysis, I mean is it a lot of less than 30-year-old or less than 35-year-old who are doing a lot of this activity, because typically...?

Vijay Chandok: We do these analytics, but honestly that is more for our internal profiling and insights. We have not really gone and shared with the external system.

Roshan Chutkey: Sir, the reason I am asking this question essentially is, typically you should expect retail segment to succumb or rather given at these points in time and typically it is a bottom right, when retail exits the market, it is the bottom of the market. So, from that perspective I am asking this question. It is a very counter intuitive at this point in time as to how retail is embracing the markets in these kind of market conditions. So, trying to understand that. So, is there a changing behavior altogether because of a new set of new age customers, youngsters understanding the behavior or market or is there any historical data that we have?
Harvinder Jaspal: So, Roshan, couple of things. This period has been too short. What we have seen definitely as Vijay said is that with volatility, interesting position getting created and lot of activity starts happening. People churn their portfolio, take positions because they start spotting opportunities.

Kedar Deshpande: To add, in the last couple of years, disproportionate millennial acquisition has happened with I-Direct client base and when the market has thrown opportunity with almost a 30% dip in March and which led to a fairly large surge in client participation. Every segment would have participated, right from people like what Vijay said who participated to balance their portfolios, to asset heavy clients who wanted to sell off the junk and buy quality, millennials who thought this is a beautiful opportunity when the markets have bottomed out.

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

Alpesh Mehta: First question, from the segmental result, I think the investment banking and trading related segment has seen significant increase in the net worth allocation. Any specific reason for that?

Harvinder Jaspal: Net worth allocation is proportionate to the level of position. So significant increase as compared to what you are saying, Alpesh?

Alpesh Mehta: Sir, basically if I see the numbers, if I see the trend, once it was, net worth allocation to investment banking in trading was around ₹ 28 crores which increased to ₹ 83 crores in second quarter, and third quarter was around ₹ 117 and in the last quarter is almost ₹
400 crores. The trend has been going up quite sharply. Anything to read from this?

Harvinder Jaspal: No. Net worth is an internal allocation where we say that what are the kind of resources are required. For example, if overall trading volumes are going up, there is a higher proportion of funds which should be deployed as FDs. If broking and commission activity is going up and that will be supported by an equivalent liability as well. So, no specific trend over here to highlight.

Alpesh Mehta: That is a prop trading related element, right? I am just, because that segment shows investment and trading, not as the... So, I don’t know how to...?

Harvinder Jaspal: We do have a proprietary desk which is where the segment comes in and what we do is for example, if there was an opportunity in the debt segment of G-sec where there was a yield play, there we can take position for interest income. But that is not a very large proportion of the overall position.

Alpesh Mehta: Okay. Second question is on the wealth AUM. I believe last quarter we were around ₹ 1 lakh crores or so and right now it is ₹ 83 thousand crores. What is the bifurcation between the MTM impact and the actual net outflows or the inflows into that segment? Any ballpark number would also do if you don’t disclose it.

Harvinder Jaspal: On a net basis, it is largely the MTM impact. The net flows is a positive number actually.

Anupam Guha: From ₹ 1 trillion to ₹ 83,000 odd crores, has been the fall, and it is largely because of mark-to-market and from a net inflow perspective, broadly it has been close to ₹ 4,000 odd crores.
Alpesh Mehta: And Anupam, one more question. The total revenue that you disclose or around ₹ 260 crores on the wealth segment, would this be largely a distribution revenue or there would be some element of interest income as well. If at all what would be the proportion of that?

Anupam Guha: Yes. So, ₹ 259 crores is largely broking and distribution business income, but it has components of interest income from ESOP and MTF as well. In the overall scheme of things, currently interest income is a smaller income stream, however we want to grow it.

Harvinder Jaspal: Alpesh, just to answer in another way. What you see over here is that ₹ 259 crores broadly broken up into roughly about ₹ 110 crores of what we call are transactional income which could be typically from Demat assets and fixed income assets and about ₹ 150 crores coming from recurring assets which will typically be things like mutual fund, life insurance etc. Having said that, to answer your question about contribution from ESOP, MTF etc., at a company level ESOP, MTF, Prime, all these three-equity allied income contribute to roughly about 14% of our overall equity revenue. In wealth segment also the proportion would be similar. As Vijay mentioned in his opening remarks, that within the equity business we are trying to diversify and as more and more different sources of revenue. The proportion contributed by these non-brokerage sources to the equity business has grown from 8% to 14%. And similarly, wealth also is also expected to have a similar trend.

Alpesh Mehta: So, the way I get it, almost 35% of the distribution income comes from the wealth management. Is my understanding correct, now?
Harvinder Jaspal: Broadly correct.

Moderator: Thank you. The next question is from the line of Mohit Surana from CLSA. Please go ahead.

Mohit Surana: I had a question on your ESOP financing book. You said that you have tied up with several corporates on this book. So, could you share some color or texture in terms of industries or segments where you have a presence as far as ESOP financing is concerned?

Harvinder Jaspal: It will be difficult to comment on the industry or a sector but the largely the approach is a listed player which clears our risk parameters. I will request Vishal to come in and elaborate.

Vishal Gulechha: The list of corporates giving ESOP is available in public domain, you can visit NSE or BSE and you can get the list. Within this universe, we take call based on each and every corporate as well as we look at the volatility in the stocks, the recent price movement etc. and basis that comfort, our risk committee takes a call on particular stock financing.

Vijay Chandok: So, we have a policy, it has to make the cuts of those policy. It has got to be listed company; we don’t do ESOP finance for non-listed. Most of the ESOP comes from amongst the larger companies in India. We added 39 new corporates for ESOP financing in FY20.

Mohit Surana: Okay. Thanks a lot for this and the second question is in terms of the revenue sharing arrangements that you have with the ICICI Bank the arrangement that you disclosed a year back, how is that progressing, any color on that?
Harvinder Jaspal: Just to recap, the revenue share agreement was that 35% of the first-year revenue from a new client and 25% of the second-year revenue from a new client is what we share with the ICICI Bank. This strategy was intended to be able to attract the right set of clients i.e. affluent and wealth segment of clients within ICICI Bank. In our experience of the one year that it has been in existence, the quality of clients has gone up as evidenced by our activation ratios and higher number of revenue giving customers. When we started the year, 26% of the clients acquired started trading in the same quarter. That number has gone to 71% by Q4. Similarly, in terms of absolute quantum as Vishal mentioned, that number has gone up from 26,000 to 56,000. That has been the increase that has happened is just the first year. Our approach is that if we get better-quality customer, the life time revenue of such customers will start building up with vintage as has been our experience till now.

Vishal Gulechha: The basic purpose of revenue sharing is to guide relationship managers of bank branches to approach the right segment and remunerative segment of the customer. So these two dataset which Harvinder just spoke are indicative of the fact that this strategy is moving in the right direction.

Mohit Surana: Thank you. And just lastly in terms of this lockdown etc. and the extension earlier for today then now another till 17th of May. So how is the distribution piece of the business getting impacted by the lockdown scenario in this situation?

Vijay Chandok: Like I was explaining, we have delinked the need for physical presence for either acquisition or transaction. We are only linked with market movement, so lockdown or no lockdown it does not
impact our ability to acquire customers and doesn’t impact our ability to enable transactions of customers. Neither we have a problem of inventory pick up nor inventory delivery like most of the ecommerce companies have because everything is consumed digitally. If the market participation is good, we will be a beneficiary. If market participation is weak, we will to that extent, not be a beneficiary. And generally speaking, we are seeing that there is a trend for consolidation and people who have good brand and good digital capabilities are better positioned. So that consolidation that we sort of entered into this scenario, which was already happening in the industry is only getting sort of hastened in the current situation.

Moderator: Thank you. The next question is from Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: First question is on, the employees count of 3,790 if you could give a breakup of this in terms of client acquisition related employees and I understand RM number is roughly 300, is that the correct number?

Harvinder Jaspal: Let me try to give you a broad break up. 300 are our Wealth RMs. Our distribution segment called Select catering to mass affluent segment through our branch network has roughly about 1,100-1,200 RMs. Further we have an acquisition team which help us in sourcing 3 in 1 accounts comprising 700 odd people. These are the larger teams.

Kashyap Jhaveri: So that totals up to roughly about 1900, right?
Harvinder Jaspal: 300 plus I said about 1200 plus about 600-700 of channel sales, so that is roughly the 2000 count. That is followed by all other teams and business teams and product teams. These are the sales feet on street. We also have a team of about 350 people who are equity advisors who helped the client with a relationship desk.

Kashyap Jhaveri: Okay. And second question is on your, equity yields. Despite the fact that we are gaining actually share in cash and not so much in derivatives and yield continue to still slide downwards, one part of it obviously is pricing but in conjunction with one of the earlier questions also, is it got to do with the demography of the client in the sense probably if you could give some highlight as to you know typically are there like buy and sell today intraday or these sort of clients who hold on the position, if anything you can probably highlight on the holding period of the securities because cash is you know significantly picked up from almost about 100-150 basis points of market share, so if you could help on that?

Harvinder Jaspal: Couple of remarks over here. One, as we were discussing earlier also in the call, we don’t look at yields, it is more of a revenue from a particular customer. Secondly, the biggest determinant of the calculated yield, if I may use that word because you will take revenue and divide it by ADTO, is the product mix. As, derivatives have much lower yields as compared to cash and are growing at much faster rate than cash, the calculated yield will keep coming down. The third point is that, even if the yield or the price per transaction is lower as with the launch of our new plans, then the endeavor is that quantum of transaction that the customer is doing should and the number of active clients should ideally make up for lower yields along with increase in number of active clients.
These are the things that we focus on to get the wallet share of that particular customer.

Vishal Gulechha: It also depends on what kind of opportunity market is providing. There are times when the index is very secular and you see new levels approaching but the volatility is absent, in those kinds of markets we will see good cash volumes but at the same time trading volumes may not be much. There may be times when markets are drifting lower and there are no cash buy/sell opportunities but because of volatility the trading volumes are also very higher. It is very difficult to put finger on just 1 or 2 factors which can conclusively prove that what is the reason of yield going up or going down. Besides the reason, like launch of pricing plans like Prime where the call is very conscious.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead

Nirmal Bari: I just have one clarification question. You said that the tie up with ICICI Bank on revenue sharing. In that the number of active customers has gone up from 26,000 to some numbers. So, what exactly is this 26,000, if you can explain that?

Harvinder Jaspal: In a particular quarter, supposing we acquire 100 customers, of these customers, earlier 26 customers used to start giving revenue within that quarter itself, we call this activation ratio. So, this is one metric. Second metric is the total number of active customers out of new customers who have started giving revenue in that quarter. In both these metrics the numbers have gone up between Q1 and Q4. First metric 26% has become 71% in Q4. On the second metric the total number of customers who got
acquired and started giving revenue also in the same quarter, those were ~26,000 which went up to ~56,000 in Q4.

**Nirmal Bari:** Okay, thanks. And the second one was on the ESOP and MTF book. We have decreased that book till March, but post that we have seen, are we growing that book now?

**Vijay Chandok:** Whenever we feel the environment is safe and conducive and it is right for the clients, we will ramp it up. We do not believe that ramping it up is going to be a challenge at all. Already some ramp up has started taking place.

**Moderator:** Thank you very much. Due to time constraint, we will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

**Vijay Chandok:** Thank you very much for a very patient hearing. It has been a long day and we have had extensive discussion. We will continue to keep this dialogue going, whatever follow up questions you may be having please don’t hesitate to ask us. One again thanks you very much and keep safe and all the best to all of you. Good night.

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