



“ICICI Securities Limited Q3FY23 Earnings Conference
Call”

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MANAGEMENT: **MR. VIJAY CHANDOK – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, ICICI SECURITIES LIMITED**
MR. AJAY SARAF – EXECUTIVE DIRECTOR, ICICI SECURITIES LIMITED, ICICI SECURITIES LIMITED
MR. HARVINDER JASPAL – CHIEF FINANCIAL OFFICER, ICICI SECURITIES LIMITED
MR. VISHAL GULECHHA – HEAD, RETAIL EQUITIES, ICICI SECURITIES LIMITED
MR. KEDAR DESHPANDE – HEAD, RETAIL DISTRIBUTION, PRODUCTS & SERVICES GROUP, ICICI SECURITIES LIMITED
MR. ANUPAM GUHA – HEAD, PRIVATE WEALTH MANAGEMENT, ICICI SECURITIES LIMITED
MR. SUBHASH KELKAR – CHIEF TECHNOLOGY & DIGITAL OFFICER, ICICI SECURITIES LIMITED
MR. KETAN KARKHANIS – HEAD, DIGITAL CLIENT ACQUISITION & CO-HEAD, NEW SOLUTIONS GROUP, ICICI SECURITIES LIMITED
MR. NILOTPAL GUPTA – HEAD, DATA SCIENCE UNIT, ICICI SECURITIES LIMITED
MS. NIDHI KAJARIA – HEAD, HUMAN RESOURCES, ICICI SECURITIES LIMITED

Moderator: Good evening, ladies and gentlemen, and welcome to the Earnings Conference Call of ICICI Securities Limited for the Quarter-ended December 31, '22.

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, Products and Services Group); Mr. Anupam Guha – Head (Private Wealth Management); Mr. Subhash Kelkar – Chief Technology and Digital Officer; Mr. Ketan Karkhanis – Head (Digital Client Acquisition and Co-Head New Solutions Group); Mr. Nilotpal Gupta – Head (Data Science Unit) and Ms. Nidhi Kajaria – Head (Human Resources).

For the duration of this presentation, all participant lines will be in the listen-only mode. I will be standing by for the Q&A Session. Should you need assistance during this conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. The business presentation can be found on the company's corporate website www.icicisecurities.com under Investor Relations.

I now hand the conference over to Mr. Vijay Chandok – M.D. and CEO, ICICI Securities. Thank you and over to you, sir.

Vijay Chandok: Thank you very much. A very good evening to all of you and welcome to ICICI Securities Q3 Earnings Call for Fiscal 2023.

First of all, let me take this opportunity to wish you all and your families a very Happy New Year. I'm sure that by now you would have already perused our “Investor Presentation,” which has been uploaded as was mentioned on our website.

Let me start my narrative with sharing a few highlights of the industry performance in the quarter that has gone by and take you through some of the key aspects of the performance of the company. In the previous quarter, I'm referring to the Q2 of this fiscal year, we had witnessed some encouraging signs on most matrices. However, in comparison, this quarter, I'm talking Q3 now, was in some sense a mixed bag as far as some of these parameters are concerned. Some of them saw an improvement on a sequential basis, while some others saw moderation. So, let me just bring out the aspects that actually saw an improvement.

The first item that saw an improvement in this quarter sequentially was the F&O trading activities where the ADTO grew by about 18%.

The second was the systematic investment plans and mutual funds continue to show an increasing trend, growing at a 6% clip sequentially. Gross flows into equity mutual funds also increased by about 1% sequentially. Equity capital markets fundraise activities picked up as the primary market saw some activity and some issuances coming back on the back of slightly more supportive market conditions. These were on the positive.

On the flip side, cash volumes declined 5% on sequential basis, new Demat accounts continue to witness a moderation and they declined actually 7% on a sequential quarter basis. NSE active clients continue to show a declining trend for the second straight quarter and it declined by about 5% sequentially. Gross flows into debt mutual funds declined by 15% on a sequential basis.

So, against this backdrop, you would have seen that our Q3 revenues increased by 2% on sequential basis to Rs.880 crores almost. It, however, declined by 7% on a YoY basis owing to a 24% decline in the retail cash ADTO, that is on the YoY basis. And the second reason was a muted capital market activity compared to the corresponding period of last year.

As far as the profit after tax is concerned, it declined 6% sequentially to Rs.281 crores. And this decline was mainly on account of the finance cost, which was the cause of increase in interest rates and the hikes in the interest rates that we witnessed. It declined on a YoY basis by about 26% as we continue to emphasize on franchise enhancing spends to harness medium-term growth prospects of the company.

During the quarter, there were four key focus areas for us. We focused on all the input parameters: The #1 focus was improving market share across various areas of business. #2, our focus on diversifying our revenue mix and intensifying the focus on the wealth franchise, because we clearly are seeing, this reduces cyclicality in our business model, which is an important focus for us. Cost efficiencies continue to be an area of attention, but it was done in a manner that we don't compromise on medium-term growth prospects. So, cost efficiency has been a key. And simultaneously, the fourth area of focus was building a product proposition, so that we are future-ready and ready to take on all market opportunities.

So, I'll just quickly take you through what all happened with respect to those four focus areas:

- The first one, with respect to market share, we saw continuing improvement in retail derivative market share; it inched up sequentially to about 3.8%. And there has been growth not just in market share, but I think the fabric of growth has been peppered with increase in number of customers, number of orders, number of lots and so on and so forth, it's been a granular growth. We maintained our retail cash market share at about approximately 10.5%. And this is just to remind you that this increase was after a 90 basis points increase that we saw in the previous quarter.
- We continue to remain in a leadership position in the margin trade finance business. Our market share remain broadly steady at about 23%. Commodity has been an area of recent addition to our portfolio. Our commodity trading segment continue to show positive traction and market share increase sequentially from 5.5% to 5.6%. As far as mutual funds is concerned, market share was stable at about 1.7%.
- So, while we gained and maintain market share in the above parameters, I must just highlight that our NSE active market share and incremental Demat market share declined. And this was in some sense due to a conscious reduction in the new client acquisition as we continue to focus on acquiring quality clients. And due to this

focused acquisition strategy, we were able to gain and maintain market share across most of the parameters as I just highlighted about and we also saw revenue increase on a sequential basis. This is despite the fact that the new client acquisition and NSE Active, both of them actually declined. So, quality has really played out and helped us increase our market share as well as the revenue that I spoke about.

Coming to the second area of focus, which is diversification, reducing cyclicity continues to be an important part of the strategy. This quarter, despite the fact that cash ADTO fell by 24% on a YoY basis and capital markets had been muted on a comparative corresponding in this specific quarter of last year. Our revenues in Q3 declined by just 7% as compared to Q3 of FY22

This is a result of the focus on diversification, externalization of revenue base as well as focusing on scaling up the margin trade finance proposition as well as the Prime plan that we brought out about two and a half years back. Generating revenue from multiple products has been another cause for this kind of diversification. We've also, I think, gained by strengthening our derivative proposition and sharpened our focus on the wealth franchise.

Going forward, we will continue this journey of diversification and focus on generating multiple sources of revenue and not just multiple sources of revenue, but meaningfully getting these different sources to contribute to further reduce the cyclicity component. So, we are really focused on trying to reduce that cyclicity, which has brought about due to the cash broking and capital markets business as a part of our business model.

I mentioned about our wealth business; our wealth assets increased 15% on a YoY basis and 5% on a sequential quarter basis, and as at 31st December, it was at about INR3.2 trillion. The revenues from the wealth franchise remain approximately flat at about Rs.259 crores for the quarter that ended in Q3 of FY23.

With regards to cost, the cost for the quarter increased sequentially by about 9% and 16% on a YoY basis. This increase on a sequential basis is mainly on account of finance cost, which is actually all linked with margin trade finance, while the increase on a yearly basis on account of finance cost, employee cost and tech cost. As we move forward, we continue to look at costs in a judicious manner so that we optimize the cost impact on our P&L even as we press on our growth levers.

Finally, on the last aspect of focus, talking about product launches, initiatives to be future-ready we made, we brought out few into very interesting products like Cash Trade, the integrated Watch List, and we brought "I-Alert," which is basically a risk-based alert system, which is now being made available to our customers on WhatsApp.

As far as our apps are concerned, the total downloads of all our apps combined crossed 9 million. As far as our issuer in advisory business is concerned, we have a strong IPO pipeline; the pipeline stacks up to about Rs.41,000 crores across 21 deals. In addition to this, we have 16 deals where

the amount is yet to be decided. We are optimistic that as and when the market supports these IPOs, the deals are near-state of readiness so they can be quickly executed given the state of readiness as and when markets give the opportunity.

As we move forward, I would like to specifically bring attention to what we will focus on growth. There are five key focus areas to propel growth that I would like to list out: The first one is Wealth Management; the second is Derivatives; the third is Insurance; the fourth is Loans and we're going to be using personalization and analytics to drive all of this business.

As far as the wealth management business is concerned, we are seeing increasing number of HNIs and these are across entrepreneurs, professional CXOs. We find that this customer is underserved and there is a need for bespoke wealth management products. Our key strengths here as we've been highlighting in the past is our ability to give the much needed trust that this segment requires, supporting it with very strong relationship and product and platform proposition so that we have a holistic offering for our customers, very strongly supported digitally.

I spoke to you at length on our wealth franchise during the last quarter call. I would just like to reiterate that what is unique about our value proposition is that it is brand-led, it is proposition and RM-supported, and this really makes it much easier for us to scale this business. And all this what I'm saying is demonstrated by the fact that we've emerged as one of the largest wealth franchises in the country with about 76,000 clients now, where each client has at least a crore of rupees with us and the aggregate wealth is now as I mentioned Rs.3.2 trillion, and from just three years back, this number has grown from Rs.33,000 and less than one lakh crore to the numbers that I just described. What we also find is that this customer segment demonstrates high persistency and revenue salience and more details of this you will find in our investor presentation. Going forward, as we think about this business as a growth lever for us, we have identified certain pockets of growth in terms of geographical locations. And to harness this, we will be strengthening our RM footprint and couple it with our tech investments and analytical capabilities so that we are able to do a very efficient coverage of our clients and drive growth out of this business.

Coming to a derivative segment, we feel that it has relatively more structural sort of support in terms of growth. We made investments on areas like pricing, customer experience, various kinds of tools and the API architecture to gain market share. As I already highlighted, we've started seeing some gains in market share for three consecutive quarters, and we are seeing improvement in various parameters as already explained. Derivative revenues has been increasing by now for six consecutive quarters and therefore its share in the retail broking is also on an uptick.

Most of our new product launches in space, whether it is cash trade, different types of algos, APIs, products like OptionPLUS, are all seeing increasing traction since we have launched it. We are redoubling our efforts to communicate all these launches to our customers. Above the line television campaigns are now visible, you can see them on CNBC and some of the other

channels. And we have also significantly pumped up our social media engagements and some green shoots in terms of results are visible in this particular space.

As far as the insurance segment is concerned, it's again a big opportunity. We've already scaled up the life insurance business. We've enhanced on the General Insurance & Health Insurance side. We've recently partnered with Aditya Birla Health Insurance and Manipal Cigna Health Insurance and we will soon be adding more partners both in the health and general insurance side given the recent IRDA guidelines.

General insurance to some extent and I would say even health insurance is very amenable to digital way of engaging. And in order to provide customers with digital journeys and seamless experiences here, we've announced our partnership with CoverStack which has already been integrated onto our platform now. And we believe that this partnership and enhancement in partners will help us scale up general insurance in the near future.

In order to grow our life insurance, we are using more of the analytical tools, (PASA), the Pre-Approved Sum Assured, methodology to improve the quality of our leads. As a result of all this, our life insurance revenue has grown from about Rs.49 crores in FY20 to about Rs.70 crores in FY22, and we've already achieved about Rs.53 crores in the nine months of this current year.

General Insurance is something that we are optimistic about growth as we move into the current quarter and the year to follow.

As far as loans are concerned, we aspire to emerge as a digital consumer lending distribution powerhouse. We offer the entire suite of products and services with a tie up with various partners, lending partners that is, and we have enabled end-to-end digital processes in unsecured consumer lending products.

We recently started credit card distribution, and we will be soon launching personal loans on our platform. We are clearly seeing a very strong demand, and we also find that from a distribution margin point of view, the margin for personal loans are higher.

We launched loan against mutual fund with Tata Capital, and loan against securities is expected to go live very soon in the current quarter.

Our loan against securities with Bajaj has already been made live in the last quarter.

Also, to just to give you an update, we had tied up after the changes in the Reserve Bank of India guidelines with respect to ESOP funding with a partner, Cholamandalam Finance for ESOP finance. And we have now seen that the total disbursements since that tie up about roughly two quarters back has crossed Rs.100 crores. All this would be of course, sitting in Chola's books.

Our account aggregator framework has gone live. And as a consequence, we've sort of identified the first use case, not really for loans, but for F&O. And we are using this account aggregator

framework for identifying customers through F&O customers for a very simple process, and there are multiple other use cases which are getting explored with the AA framework there. This quarter, we distributed for the first time in our history 1,000 crores of loans. What we disbursed in this quarter was the entire year disbursement in FY'20. So, we are fairly optimistic with the digital initiatives and emphasis and focus on loans, we will continue to see this going trajectory.

Finally, coming to personalization, we are deploying various martech tools to offer products to customers in a hyper-personalized fashion by developing synergies between the data models and various modes of engagement. The Adobe project that we had introduced, has been completed in Q3. And as a result of this, we have started seeing some improvement in our strike rates with customers. This has resulted in better crops and numbers, as our customers with two or more products is actually witnessing a steady uptick, and this number now stands at about 1.2 million customers with at least two products as at December 2022.

To sort of conclude, I would just say that we have strong medium-term prospects for our industry. I think we are very, very strategically placed to harness this opportunity. We are making relevant investments in key focus areas and we are optimistic of growth as we move into the coming few quarters.

I'd like to end and throw it open for questions that you may have. Thank you very much for a very patient hearing.

Moderator: We will now begin the question-and-answer session. First question is from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee: So, two, three questions here. First, on your customer acquisition. So, you mentioned that you have focused on acquiring quality of customers. I think that is the reason what I see in numbers that your customers from non-ICICI Bank channel has gone down in share significantly; it is now I think 58% of the 3.4 lakhs customers you have acquired this time. While I see that the run rate for ICICI Bank remains steady, the non-ICICI Bank hence have gone down drastically. So, two questions here. Then, what would be the strategy going ahead, are we going to focus more on ICICI Bank customers? And if that is the case, then, are we again reorienting ourselves to more cash-focused customers and not derivatives? That is the first part. The second part is, what kind of challenges you are seeing say in the quality of customers who are outside the ICICI Bank channel? And would that mean that we should continue to see an impact on our active clients as we go ahead as those customers complete maybe reasonable trading cycle post will they turn inactive?

Vijay Chandok: Thanks a lot for your questions. So, to say that we are moving back into ICICI and aborting the non-ICICI will not be accurate. We have been guiding that, we have grown our digital acquisition engine, and there are at least four or five different sub-channels in the digital side, each sub-channel leading to a certain quality of customer. For first five or six quarters, we just increased the number of customers, but with an experience of about five, six quarters and experience of the behavior of these customers, we identified which channels are worthwhile in

terms of serious customers... once again, this is not about investors or traders, it's about anyone who's interested in investing in equities, whether as a trader or as an investor, we are completely neutral to that. We found that there are certain channels which are more conducive. Our investment of effort, time and money has been towards that channel. Those channels are tougher to acquire, they are time consuming to build up sort of a brand and a name to get more and more of those customers, which is what we've been focusing on, it's a relatively more hardworking method of getting the quality customers. And therefore, the number of customers who are less serious about investing, we have sort of started muting. That is why this mix has changed. As we increase our, I would say, ability to attract and scale up these quality customer from digital channels, this should only increase. We are still, I would say, four, five quarters or six quarters young in this space of digital acquisition. Some of the people who have done extremely well in this space have been around for several years. I think we are catching up at a reasonably fast rate, and we'll continue to do that. So, I don't want you to think of it that there's a pivot back to ICICI and there's a pivot to the cash customer. We are completely neutral. We want a good quality customer, whether it is cash or whether it is derivative. I think a couple of other notable points I'd just highlight is that apart from ICICI Bank, we have also tied up with, just to remind you HSBC, some time back IDFC, and both these channels have also started contributing quality customers now, I think the numbers have started coming from both these channels. So, for us, it's a multi-channel strategy. ICICI Bank is an important partner, it will continue to remain an important partner. Completely neutral to whether cash or F&O, we want quality customer. So, I hope I kind of responded to your question the way you expected.

Swarnabh Mukherjee:

Sir, coming to my second question, so, the various categories of customers that you mentioned in your disclosure, so one is Prime, one is Prepaid, and the third is Neo, about which you give some numbers. So, two things which I wanted some comments from your side. One is that the share of Prime and Prepaid, the broking revenue mix have started to go down. So, I was a bit curious there, what is happening because it's only a function of a better rate or has there been some contraction in the trading activity also, if you could throw some light on that? And secondly, sequentially in third quarter, the number of Neo customers have gone down slightly. Now, I'm not sure what could be the reason for a delinquency out here, if you could maybe throw some light on that, what happened to that, although the number is small, but since you have started to build out on this side of the business very recently, and also the fact that I think this is one of the key levers of growth, you're expecting. So, if you could throw some light on this.

Vishal Gulechha:

So, as far as Prime and Prepaid plans are concerned, so these two plans continue to contribute majority of our revenue, if I go back about three, four quarters, these two plans were contributing about 65% of our revenue, and even in the present quarter, the picture is not very different. So, that is one part of the Prime revenue. The second part of the Prime is how many new customers are we getting into prime, and what is the renewal fee, which we are getting. So, I would like to state that on the Neo prime enrollment, where the focus is very high on the high value plans, the numbers continue to be robust even in Q3 and even when we compare those numbers with the Q1 and Q2. Secondly, on the renewal part, we have made only the high value Prime as a lifetime proposition. However, our base plan, which was 299 and the Rs.900 plan, those plans continue

to be in the renewal state, and we continue to get the revenue from the renewal on month-to-month basis, and that run rate also continue to maintain. So, as far as prime and prepaid business fabric is concerned, I think there is no disturbance, both the plans are continuing to do as expected. As far as Neo enrollment is concerned, in Q3, two things have happened: One, the market sentiments were slightly muted. So, the activity levels as far as new customers acquisition was concerned, were not that high. And second thing, even as you know, there were a few compliance level things which were implemented in October, November and December. So, that caused a little bit of disturbance in terms of getting this plan activated at the time of acquisition itself. Now, things are settling down as we entered Q4, and we expect that run rate will be able to gain back. And even those customers which we acquired in Q3, we are reaching back to these customers and getting them now enrolled for the plan. As there was some delay in activation, that is why numbers took some beating.

Vijay Chandok: Just one added point I want to remind you that this has been a quarter where the activity levels in the market itself has been muted, which is reflected in a slightly lower industry level number. So, whatever you're seeing with us in some sense is a reflection of the industry also. So, you have to view it in that context.

Swarnabh Mukherjee: I just wanted to understand in the sense of the Neo numbers that this is a stock number, right, so it is a number of customers. I could not visualize a scenario where that could go down, I mean, even if they're inactive for a period, they will still be in the base, so that's why I wanted to know.

Vijay Chandok: It refers to active numbers, not stock numbers, stock numbers, you're right, would be up, the active numbers would have gone down because some of the Neo customers in that particular quarter given the market would be not trading.

Swarnabh Mukherjee: If you could give your comments on what would be the impact of a) this SEBI circular which came yesterday on blocking of funds for trading in secondary market, because you have got this Neo plan where there would be some float income, so some quantum of that would be helpful? Any impact of the T+1 settlement that is also going to come?

Vijay Chandok: Thanks. These are great questions. So, as you know that bulk of our business operates on the block model and that's the way we have been operating historically. I think from customers point of view, this is a great step from SEBI, in a way ensures that the funds are secured in a banking set up and not sitting with the market participants. We have always operated in that model historically and it's actually rest of the markets which doesn't operate there. So, this question of the impact will be more on people who operate with that model. All the discount brokers operate on that model. So, there would be a significant impact there. As far as we are concerned, the impact of this on our recently launched business would be a very, very small fraction of the total revenue. Our dependence on float for the purpose of revenue which could potentially get depleted because of this new circular is a very minor part of our total sort of story. So, I would say, a negligible impact only for us as far as this is concerned, but certainly, lots of operational investments will be required by all of us to make it work. I also understand, though it is still

early days, that this would be given as an option to the customer. So, the customer can continue to choose the option of being in the current model or he could switch to a block model. So, some customers may choose to remain in the current model. So, to that extent, there could be some kind of a moderation of the impact. But it's to be seen. As far as industry is concerned, more impact, as far as we are concerned, it's going to be negligible impact. T+1 seems to have passed without much fanfare and without much noise. The last tranche, but an important tranche is coming on the 25th of January. We are not anticipating any significant impact either at the industry level nor certainly not at the company level. So, I think things have settled down. This is the last but an important part of the market moving to T+1 settlement.

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

Piran Engineer: Just a couple of questions. Firstly, on wealth, now we've added about 5,000 new wealth clients this quarter. Just want to understand, how many of them are actually new to I-Sec and how many of them are just that they crossed the one crore threshold, and hence they converted from like a normal client to a wealth client?

Anupam Guha: Hi, Piran. This is Anupam here. So, of the clients that we add, our strategy are broadly two-fold. One is to really look at our existing customers and really through data analytics and through better engagement, we are able to really increase the share of the wallet. That continues to be bulk of it and that's core to our strategy given the large base of clients that we are working on, that typically is broadly closer to 90% of the acquisitions that we do, and through the open market sourcing is typically 10%.

Piran Engineer: So, in that case, is the open market thing, do you think you need to like rebrand yourself out there in the market to be perceived as a wealth manager? I think IIFL Wealth has also done some rebranding exercise, in order to sort of step up this open market number?

Anupam Guha: Probably, too premature to talk about it, at the right time we will probably talk about it, but it is a very interesting thought which we also are discussing internally, we leave it there for now.

Piran Engineer: And just the second question is on F&O, so ADTO has doubled Y-o-Y but the revenue is up about 25% or so, so how do I really correlate that because we have been on a fixed pricing model largely even in the pace quarter a year ago, so what really explains this?

Harvinder Jaspal: Piran, it is option of Neo, so Neo incrementally, the fixed pricing model as well as ad-valorem model, both are there and fixed pricing model adoption has been increasing quarter-on-quarter, so when you see Y-o-Y that is the key impact.

Piran Engineer: So, if you can just share broadly ballpark, what percentage of our revenue or trading comes from Neo customers in F&O?

Harvinder Jaspal: So, today we have reached about 65% in terms of volume coming from Neo, about 65% to 70%, if I may just give a ballpark number, so 65% to 70% of our trading volume have started now coming from Neo. Just a year could have been in the range of let us say about 25% to 35%.

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

Prayesh Jain: I had a couple of questions, firstly on the margin trade funding book, how do you see this business because it has been kind of growing at a very strong pace and to me, I understood it to be a cyclical business, but can you help me understand how are you thinking with respect to this business model and do you think that the growth here is sustainable and this is the 23% market share, do you think it can further increase, do you want to increase this further and also some granularity on the costs and how the funding cost has panned out and how much have you transmitted it to the customer, that is question number one? Second is on the mutual fund business, that SIP has recovered after 2-3 quarters of consistent decline, but still your market share on the SIP book seems to be declining consistently, what are your thoughts there as to why is it happening and how do you think you can regain some of the lost market share, I understand some of the digital customers have increased digitally, the platforms have taken up their market share in terms of numbers, but ours is like value market share loss, so could you explain those two elements for me?

Vijay Chandok: Let me start by responding to your first one, which is on the MTF. So, first and foremost I think we look upon MTF as very strategic and at the same time, we want to grow this in a responsible manner because we want to only deal with the type of customers who are amenable to MTF. We are systematically identifying such potential customers and then offering this to them and we find that over the quarters, we have not only increased the book, but we have also increased the number of customers doing this business with us, so it is being built in a granular way. Secondly, I would say that we should look upon MTF as a product which works very well when the outlook is positive. When the market outlook is buoyant and constructive, obviously there is lot more interest for this product rather than when this kind of a sentiment is not present. So, the velocity of growth of this book is dependent on the market outlook sentiment that the investors have from time to time. In the recent past, the third point is how does it behave, I just thought that I have to share some practical experience. In the recent past, we have seen that headline numbers of Nifty moved from, in the ballpark of about 18,500 down to 16,000 briefly, so we did see a swing of about 13%-14% when that market correction had taken place before it started rebounding again. We did not witness a dramatic reduction in our book and while the market moved back, we actually saw growth. So, I think there is a tendency for when market corrects sharply for the book to come down, but it is not in the same correlation as the market declines. It is much smoother in decline than actually the indices indicate. We find that the MTF customers are very valuable in terms of the revenue that they give. There is a very high level of stickiness as well. We also find that the MTF customer tends to typically have multiple product relationships, which is something that we really like. So, as our cost of funds has gone up, we have been passing on this in a judicious manner because the spike in the cost of funds has been fairly fast in the context

of interest rate hikes. We did not want to sort of mirror that kind of increase back to our customers. Approximately, 25-30% of our cost increase is what we have transmitted yet, probably all of it may not have been captured in the revenue numbers that you would have seen in this quarter because the large hike was done only I think 15 days or thereabout before the quarter ended, less than 15 days actually before the quarter ended, that impact you might not have seen in the quarter. So, we keep looking at opportunities to keep in a calibrated manner passing on the increase. We do not want to give it a complete shock because this is a valuable customer. So, that is how we are looking at the MTF business, we have 23% market share, I think it is a fairly decent market share to hold, we will be happy to hold that market share, it is certainly not very easy to grow from this number. The market itself, as volumes increase, as participation increases over time, I think should also start increasing, so that is how broadly we are thinking about our MTF strategy. I am just going to swing this call to Vishal, he may want to add a few more points.

Vishal Gulechha:

Yes, so I mean just to give some comfort on numbers, whether we are getting new to MTF customers still because last time around the same time, we had similar questions whether this book will continue to grow and whether there is a headroom for this book to grow, so the last year number of unique customers were traded. In the entire 12 months, we have done 20% more than that number by quarter 3 end and we have one quarter to go, so I think comfortably we will register growth in terms of unique customers, trading in MTF in this financial year. The second part is the seasonality of the MTF products, I will say, there are two benefits which comes out of MTF, one is in the form of interest and second is in the form of brokerage when the new positions are created and churn happens. In a muted period like this, in a consolidation phase or market is trending down as Vijay just said that the book doesn't unwind in the same proportion, but the interest income continues to accrue. So, I mean these are two components, one, of course is the seasonal which will get impacted with the market condition, but the second part is the interest which continue to accrue even when the volumes in the markets are not too high.

Harvinder Jaspal:

And Prayesh, moving to the second is, Harvinder here, so yes, as you rightly noted, the SIP flow has gone up, but the share is still lagging, cognizant of that what we are doing is that we are actually also strengthening the team over there and we have taken a couple of more initiatives to kind of get the SIP on a market share basis up to grow at a higher clip. The growth momentum is there; however, it is for this quarter was lower than the market growth. Also, what we have also been doing is that after the launch of the money market, there has been a lower ticket size volume which has also gone up. So, in terms of the number of folios, there we have seen increase, but yes on the flow basis, we have lost a bit of market share. We are kind of correcting that in terms of two initiatives, one, a bit of strengthening of the proposition over there, in terms of team and the way you we are engaging and secondly also by a low touch digital reach out plan that we have put together. So, these are the two initiatives and we are hopeful that we should start seeing incrementally the growth.

Prayesh Jain:

Harvinder, what was the reason for the fall?

Vishal Gulechha: Folios and the gross value the market share is up, the unit SIP count is down, we believe that is because I think more customers are still going on the low-ticket direct plans and we will be working on how to tackle them. We hope by next quarter we will be able to catch upon that market share.

Prayesh Jain: Just wanted to check, what was the reasons for the fall in the market shares? it has been for a year now that while the industry has really seen a lot of traction on the SIP book, but we first of all saw some decline in absolute terms on the forefront and then we are also losing market share, so what was the reason that you would ascribe this to?

Harvinder Jaspal: Prayesh, if you look at the broader industry level, there is definitely a trend of tech-based lower ticket size direct plan as well. So, that have gained traction and that have contributed to a fair share of SIP volume, so the trend is that the ticket size could be lower, the volume of such folios is higher the number of customers are higher and the choice is more direct. So, that has been an industry trend which has led to a bit of a market share fall in our case, but these are the initiatives that we are putting in place to counter that, but primarily that would be one of the reasons.

Prayesh Jain: Just on the wealth business brand, like if I look at the yields they have been declining, sequentially they have declined for whole transaction and recurring assets, so what is the reason for that and how much of our assets are actually brokerage assets, basically the brokerage or the Demat account AUM that could be sitting there?

Anupam Guha: So, from a yield perspective, if you see our recurring revenue yields have actually gone up. It is only on the transactional side that there has been a decline because the growth of AUM has been sharper than the growth in the revenue in the transactional assets. Now, just to also kind of elaborate of what all transactional assets would mean, transactional assets would largely mean Demat which is the equity broking asset, you will have fixed income or the bonds which are all transactional in nature and you will have any other products which typically does not give trade. So, currently, the transactional AUM is almost 85-86% of the overall book out of which I would say large part of it is the equity Demat because given that our customers are all first generation HNI, there is penchant, there is affinity for growth assets which typically in this case is equity.

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

Aejas Lakhani: My first question is on prime charges, so you mentioned that you had only moved a certain set of very valuable customers to the lifetime 999 plan, so are the 1.16 million customers you have in prime, could you just share how many have moved to, has this migration to the 999 for the valuable customer already taken place or is it yet happening, that is one? Within that the balance people they were being the 299, the 999, 1999, so do those still continue and if you could quantify roughly what is the share that is coming from this recurring portion and what is the nonrecurring portion? And third on the prime bit is that how do you expect to migrate the customer more towards prime because you have seen that number being constant for two quarters, so could you just clarify it?

- Vishal Gulechha:** So, as far as prime customer, high value prime customer market share is concerned in the overall 11.6 lakh subscribers, I would say about 30% customers are in our high value prime which are 999 or above till 4999. As far as migration is concerned, I would say that these plans are available and we are aggressively marketing it also to the existing set of customers also. So, more or less, I would say that the customers with good awareness have already migrated to the Neo plans, however, the small portion of the customers in the existing 299 plan or in a traditional life secure plan will continue, but I would say that largely that phase is over where the exiting movement of customers from a lower value prime or a non-prime segment to prime happen. So, that period, almost aggressive period is over.
- Aejas Lakhani:** So, essentially the prime charges revenue are 70% of the 11.6 lakh customers which will keep giving us some recurring plus any new prime customer addition, is that understanding correct?
- Vishal Gulechha:** Yes, absolutely.
- Aejas Lakhani:** The other thing is, Mr. Chandok if you could mention that we have been working on this Neo product for the more youth oriented which is similar to the discount offer, so how is that product and platform tracking and when do you expect to launch that?
- Vijay Chandok:** I think the teams that are working on that, Ketan is the first to move that, he is driving that. That products proposition have come up pretty well, we have seen demos of this. We hope sometimes during the course of this calendar year, we will be doing a soft launch of it and then making a formal scale-up through a formal launch this year.
- Aejas Lakhani:** Sir, this will be in the same brand or it will be a sub brand saying powered by ICICI or something to that extent or you hold it in the same other brand?
- Vijay Chandok:** No, it is going to be a new brand with power by ICICI Direct kind of approach.
- Aejas Lakhani:** And Mr. Chandok, you mentioned in your opening remarks that you disbursed Rs. 1,000 crores of loans for this quarter, you mentioned this was higher than Rs. 1,000 crores you have done in which period?
- Vijay Chandok:** Rs. 1,000 crores we did in the entire FY20 which we have done in this quarter.
- Aejas Lakhani:** And sir, could you also mention that the MTF book, your colleague mentioned that you have seen 20% more customers in this year in the MTF book, unique customers when you did last year, but is it being driven more by increase in number of customers or the value per borrowing has gone up?
- Vishal Gulechha:** No, I am not talking about value, I am talking about unique customers trading in MTF, but that unique customers trading in MTF that number has gone up by 20% in comparison to the whole FY last year.

- Aejas Lakhani:** Is there also an increase in the book size that each of these customers is taking or is it broadly constant?
- Vishal Gulechha:** No, the book size you see, today we stand at about 23% market share, so we have seen the percentage gain also in the book. Our interest is to have more number of customer than having...
- Vijay Chandok:** I think your question is whether the book is concentrated or whether it is granular, the answer is that it is granular.
- Moderator:** Thank you. The next question is from the line of Madhukar Ladha from Nuvama Wealth and Management Limited. Please go ahead.
- Madhukar Ladha:** Just a couple of questions from my side, first, have I got this correctly, derivative broking is 37% of your total broking revenue, so cash is still about 63%, right?
- Harvinder Jaspal:** That is correct Madhukar.
- Madhukar Ladha:** And one thing that was surprising is that the Neo clients are not growing, so I wanted some comment around given that our total active customer base right now is about 2.7 million customers, how many of them is really trade derivatives and is 0.28 million customers that are Neo customers, what percentage of the derivative trading customers have actually already taken neo, what is your expectation, how much would you grow or how much would you grow within the current customer basis?
- Harvinder Jaspal:** So, Madhukar, I will give you a sense. Today, the Neo adoption in terms of volume can be gaged from the fact of their contribution to the trading ADTOs. Today we have grown to about 65% to 70% of our portfolio, now coming through Neo. If you go by the benchmark of let us say prime/prepaid, that was our first pricing proposition that we had launched about 3 years back. It took about 2 years and it has now stabilized at about 70% coming from that portfolio and 30% coming from non-prime portfolio. So, today the volumes have been 60% or 70% in Neo, so at best, 30% is left in the non-Neo customer base, it may travel the whole distance every quarter because we are seeing incremental adoption even now. This 65-70% was lower last quarter and so and so forth or may be there could be a few customers at the end of one or two quarters down the line which could continue in the non-Neo manner, so broadly about 70%. That is the mix today in terms of volume.
- Vishal Gulechha:** So, even the prime proposition, it has been made for derivative status also. There are certain benefits which we give in prime and pre-paid are not given to Neo without charge whereas prime is a full package. If you take prime, then there are many benefits which you get along with the proposition. So, I mean, we have kept both the plans equally attractive and there are certain customers who will continue to love to be in prime and prepaid.
- Madhukar Ladha:** And prime and prepaid is about 66% of the revenue and derivatives is about 37% of the revenue, now this would Neo also form some part of the prime and prepaid, I am guessing it would, right?

- Harvinder Jaspal:** So, Neo, Madhukar is the plan for traders. Prime, prepaid are essentially targeted as investors for equity customers, so for an equity broking revenue perspective, prime is more relevant. It is possible that the customer may have a prime membership as well as for trading he is resorting to Neo, it is possible, but the prime revenue is primarily on equity and Neo.
- Madhukar Ladha:** You don't considered derivative revenue when you compute prime revenue, is it?
- Vijay Chandok:** No, we do consider, I am just saying that the larger proportion of prime, it is centered around equity investors. It is quite possible that our customer is taking equity in prime, he is also taking derivative, continue to be in prime or he has opted for Neo which is even better. So, it is possible, but the main target of a prime customer is an equity investor, the main target of the Neo proposition is the trading customer.
- Moderator:** Thank you. The next question is from the line of Sahej Mittal from HDFC Securities. Please go ahead.
- Sahej Mittal:** Couple of questions, so what percentage of your customers you are acquiring in Tier-2 and Tier-3 cities are directly starting off with derivatives trading and what is the wallet size that is one and how has this panned out given that you are acquiring customers from Tier-2, Tier-3 cities in the last 12 months? So, that is one, second is around what was the tech spends for the quarter versus last quarter and what is the outlook on this front, have you done in the near to medium term in terms of tech spends on our app other than the spends which we are incurring on the Neo app which is about to get launched?
- Ketan Karkhanis:** This is Ketan here, so on the tier acquisition happening from Tier-2 and Tier-3, I would say two thirds of acquisitions are happening from Tier-2 and Tier-3 cities. Roughly, as the behavior of the equity customers are, I would say, most of the customers would start with cash equity as the first transaction. Over a period of time, we see customers getting into more riskier transactions including intraday equity and also derivatives, but the customers starting as derivative as their first transaction, we don't really track it in that fashion, we will look at the customer's progress over a period of time and roughly our experience is that roughly 10% of the equity traders move to derivatives over a period of time.
- Sahej Mittal:** And on the tech spends?
- Harvinder Jaspal:** So, on the tech spends as such, this quarter we had a sequential growth of about Rs. 12 to Rs. 14 crores. The overall quantum was about Rs. 30 crores in terms of operating expenses. Your other question was whether we are completely through with larger tech spends. No, there are some areas which we actually are going to invest in going forward as well. We suspect that it will be another 4 quarters at least and these are largely in the area of capital expenditure that is pertaining to some of the new data center migrations that we are doing owing to cloud and some of those initiatives which will give us agility and modernize our tech stack as well. So, we expect another 3 to 4 quarters of higher CAPEX spends going forward.

Sahej Mittal: Sir, can you quantify these spends?

Harvinder Jaspal: We are looking in the range of about Rs. 100 odd crores in CAPEX.

Sahej Mittal: This is for FY24?

Harvinder Jaspal: So, we have not put out exact numbers financial year wise, it is just directional.

Sahej Mittal: And some color on the customer drop off, so also for the overall industry the drop offs have started in the last 3-4 months, so for I-Sec, what has been the case because the drop offs has been taking place in both the segment including I-Secure plan and Neo plan, so if you can share the details on the quality of these customers who are dropping off whether these were derivatives traders or investors and also whether these were ICICI Bank customers or non-ICICI bank customers, so just wanted to understand what was their AUM for I-Sec?

Harvinder Jaspal: So, let me just break down the answer in two parts, one is the industry specific issue which also obviously will impact us and second is something that we are consciously also trying to do. In the industry, we have seen that the activity level has come off. We had seen a lot of exuberance last year which saw a lot of retail customers come in, new retail customers. The markets were also quite supportive, conducive and that level of activity has definitely come off. There is a bit of sentiment as well. So, the industry as a whole, as you rightly pointed out, have seen a drop in activity level, the NSE activity if that were to be taken as a parameter, although as we have stated in the past, we don't look at that alone as a measure. That has come off, and it has been declining for the last two quarters. So, that definitely is one of the portions. So, the number of people and the amount of activity that they were doing last year in the kind of environment that was there last year are definitely lower. This is one phenomena.

Secondly, as Vijay alluded to at the start of the call-in response to a question, that within our digital client base, there are multiple channels, and we are concentrating on channels which now with the experience of 6 quarters of acquiring customers are more prone to a longevity experience with us. That is what our focus is, we are muting consciously some of the channels which are not having a higher level of repeat transaction or investing activity. So, that is something that we have taken as a path, which is also impacting the level of active customers.

So, broadly I will classify this into these two parameters. It is agnostic. The first parameter is it's agnostic to a channel. All across we have seen a bit of moderation in activity. However, these customers, the second initiative by definition link to more digital channel.

You also spoke about Europe. My sense is I don't have the number on top of my head right now, but my sense is the numbers were -- the customers were dropping off, and they are not doing their second, third transaction and were transacting earlier would be more of younger customers newer to market and lower or maybe no AUM as well, because they would be the first transacting customers. That is what our sense is.

Our franchise both if you look at our wealth franchise in terms of AUM or the overall franchise in terms of AUM, they have consistently been registering growth in terms of assets over the last, if I remember correctly, last 7 to 8 quarters with more.

Sahej Mittal: But were these derivative traders or I mean, cash investors who are turning inactive for you guys?

Vijay Chandok: So, derivative traders in our platform have been showing sequential increase actually. So, as Ketan said, most of the people who join us start off on the cash side, and over a period of time, a percentage of them turn into F&O traders, because most of the people who are dropping off tend to be the, you know, the recently acquired, relatively less interested channel customers, which is what we have started muting, most of our dropouts are low/no AUM customers who have probably done one or two, you know, minor cash transactions. Derivatives, on the other hand, is continuing to show growing number. We are seeing every month the numbers increasing compared to the previous month.

Sahej Mittal: So, the persistence for these derivative customers is quite high is what I understand.

Vijay Chandok: Actually, I don't think we can conclude that yet. It is a combination of, you know, ability to increase the derivative customers at a higher pace than the attrition. I think one should look at it like that rather than to say that the persistency is high or low. I think we will wait to watch before we conclude that.

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

Prateek Poddar: Sir, could you just give us a break up of the insurance products which you have sold this quarter in terms of par, non-par protection, if it's possible?

Harvinder Jaspal: Yes. Hi, Prateek. So, I don't have the exact numbers, but I will try to give you a sense. Roughly about 60 to 70% could be ULIPs. Of the remaining 30, it will be primarily non-par followed by a smaller par. The exact breakup of 30% maybe I can get back to you.

Prateek Poddar: No, no, this is very helpful. Sir, secondly, just a clarification. Prime customers, what would be the renewal rates in the sense next year or the persistency of this renewal rate?

Harvinder Jaspal: So, Prateek, I will just clarify one thing. As Vishal explained a while back, we have launched some of the plans which are Lifetime Prime plans. Today in our bouquet, we have two plans, which is a 299 and 900 plan, which are the only renewal plans which are there. In those plans, the renewal rates have been upwards of 85%.

Prateek Poddar: And of the 66% which you called out, was Prime plus the prepaid ones, how much would be these lifetime customers, sir, over there? Is it possible?

- Vishal Gulechha:** So, the overall count which we have given, you know, that about 30% of our customers in the total Prime base are high value clients. And going by the activity level, I don't have the number right now, but I can say that, you know, definitely, the share of high value Prime customers or the Lifetime Prime customers would be higher and the ticket size would also be much higher.
- Harvinder Jaspal:** So, our sense, Prateek, just to add is that of the Prime revenue, let's say, majority, more than the majority, 75 to 80% of the revenue would be coming from the higher ticket Prime customers. In terms of the number of subscribers, the concentration will be more towards the entry plan, 299 plan. Number of customers skewed towards 299, the revenue skewed towards the higher end of the plan.
- Prateek Poddar:** Got it. And how do you recognize the 999? Is it recognized upfront? Or you amortize it over four quarters? Or how is it?
- Harvinder Jaspal:** Amortize over four.
- Prateek Poddar:** Four quarters, okay. Sir, last two questions. 1.62% yield on the recurring part of the revenue on the wealth management outfit, which products are these, sir, if you may help us understand?
- Anupam Guha:** So, these would be largely all trail giving products like trail from AIF, CAT-III, CAT-II, trail from PMS, trail from mutual funds, and from MTF, which is the Margin Trade Finance book.
- Prateek Poddar:** Got it. And sir, we have our own PMS, right, which has done wonderfully well in terms of AUM, the data which we have disclosed. Is there a conflict of interest here? Or that's not applicable?
- Anupam Guha:** No, not really, you know, because the way we have looked at this PMS is largely from growing our trail giving AUM only. And there are broadly two broad components the way we have envisaged in terms of growth of our PMS business. Currently also of the PMS book, we have almost 47% of our book which is through multi-asset, right, which is nothing but an asset allocation model where you are able to offer different kinds of products including direct mutual funds, ETFs etc., and you are able to charge the customer. And the second is given that we have a large book of direct stocks or a Demat book and lot of it is passive, you know, there are customers who are seeking active management and which is the other strategy. So, both are very integral to the entire wealth management business, and hence we do not see it as conflicting.
- Also, from a wealth management perspective, you know, when we go out to our clients, it's an open architecture model, which means that when we position, we have third-party PMSs as well, and while we haven't disclosed our AIF, PMS book, but it is large. And I would say that this number would be, you know, lesser than 10% are in-house in context of the overall thereabouts. Yes.
- Prateek Poddar:** Got it. And could you talk about your average ticket size on the MTF book, sir? How much is it this quarter?

- Harvinder Jaspal:** MTF, so we have about 6,500 crores of the book, and the total number of customers would be of the order of about 80,000 to 90,000.
- Prateek Poddar:** So, that is quite a high number, isn't it, sir? In the sense, this is not the industry average, right? Like Rs. 8 lakh of average ticket price per customer, is this within the industry norms or this is slightly higher?
- Vishal Gulechha:** Customers have open position as we speak, and the book size there Harvinder spoke, I mean, the funding size is about 6,500. So, we can calculate it back as per it.
- Harvinder Jaspal:** So, it will be a bit higher, Prateek. That's correct. For our customers, the average book size would be higher. See, if you go by the total, I mean, the affluent base on whatever parameter you look at it, we do have a slightly higher asset, overall asset at 6 trillion, I mean, in terms of industry comparable even within wealth, I think we will be one of the largest. We are, and similarly on the MTF as well. So, we do have the ticket size which could be slightly higher. I mean, not everyone discloses the number of active customer.
- Vijay Chandok:** So, I think it would be fair to say that we would have a higher, we have more affluent customers than other players who offer MTF.
- Prateek Poddar:** So, it's a fair assumption of your customer mix which is driving this number.
- Vijay Chandok:** Yes. I think it's a fair conclusion to say that we are likely to be higher. I don't think any other player has got 6 lakh crore of assets though they don't disclose it, but your sort of comment may be reasonably correct.
- Harvinder Jaspal:** And also, Prateek, if I may add to the comment that you made a conclusion that you do that it's a function of the customer base. I think I will just add to that by saying that see, this is also a proposition which helps us acquiring HNI customers. So, it is also relevant to get new to ISec customers because people value the ecosystem that we have created around this particular product, and by ecosystem what we mean is that you, first of all, have a very promising and competitive product on the strength of our balance sheet, credit rating etc.
- The second is that you supported actively by research which is customized or specific also to MTF. So, that's the second thing that we have started doing.
- Third, it's a very online risk managed product which also augurs well for scale. So, some of these things help us actually get new customers as well. So, we acquire new customers on the strength of this proposition.
- Prateek Poddar:** And your net yield on this product is, sir, how much, if I may ask?
- Harvinder Jaspal:** Sir, it hovers plus minus something from 3%. That's what we tried to kind of --

- Prateek Poddar:** Quarterly, right?
- Harvinder Jaspal:** Sorry.
- Prateek Poddar:** 3% quarterly, right?
- Harvinder Jaspal:** No, no, NIM is what I am talking about. Annual.
- Prateek Poddar:** Annual. Okay.
- Moderator:** Thank you. The next question is from the line of Deepak Sonawane from Haitong Securities. Please go ahead.
- Deepak Sonawane:** Sir, earlier in your remark that you mentioned that we have seen incremental growth in the number of customers trading in F&O, right? And as of December, if we calculate that our NSE active client base, the percentage is around 31%, right? So, will it be safe to assume that are Neo plan customers will be having some kind of higher activation rate than as compared to the overall portfolio activation rate?
- Harvinder Jaspal:** Sorry. I am not sure, Deepak, I followed. So, what you are saying is that we have seen growth in total number of derivative customers. Yes. That's correct. We have kind of also disclosed that in terms of normalized number. So, that is correct.
- Vijay Chandok:** Can you just repeat your second part of the question? What was your question?
- Deepak Sonawane:** My question is our entire portfolio is operating around 31% activation rate, right? So, do we see that, I mean, can you confer that the Neo customer base activation rate, I mean, those customers, the activation rate is slightly higher than, I mean, it would be upwards of 35% as compared to the overall 31%, right?
- Harvinder Jaspal:** Normally, that would be correct, Deepak, that the activation rate within the Neo customer base because see, Neo is a proposition which are a trader or a customer is specifically opting for carrying out his trading activity. So, we do experience of the people who have looked at Neo. This is a higher activation rate. I can maybe come back to you with numbers. I don't have with the Neo activation rates right now.
- Deepak Sonawane:** And if you can just give us color on the Prime customer activation data? So, the data at least?
- Harvinder Jaspal:** So, Prime, we have about 1.2 million customers, and yes, the rate over there would be very high actually, because they are very high indent customers. My sense is it will be upwards of 70% on this at least.
- Vijay Chandok:** I just want to make one observation. I think this activation definition which we are following is a four quarter or a 12 trailing month definition. We find the number of customers by definition

become inactive, but they reactivate themselves, you know, when they have to trade. There are enough and more situations of reactivation. So, you know, to simply consign an inactive customer is dead and gone may not be a very correct representation. I just want you to keep that in the back of your mind.

Deepak Sonawane: Thank you so much, sir. And my second question is regarding our employee expenses for the quarter. Are we seeing around 100 crore growth in employee expense on quarter-on-quarter basis in Q3? So, it will be kind of an aberration for a particular quarter or else that trend will be continued, I mean, even in next few quarters as well.

Harvinder Jaspal: Sorry. Just to correct the numbers, Deepak, we are not seeing a 100 crore increase quarter-on-quarter.

Deepak Sonawane: No, degrowth. I am saying degrowth. Sorry.

Harvinder Jaspal: Yes. So, as we have highlighted over there, if you look at the exact numbers, the last quarter it was about 186 crores. This quarter it is about 176 crores, but there is a one off in that of about 7.2 crores, which is revaluation of retirement benefits. So, if we normalize it, it is almost flattish. I mean, 186 to about 184.

Moderator: Thank you. The next question is from the line of Dipanjan Ghosh from Citicorp. Please go ahead.

Dipanjan Ghosh: Good evening. Just two questions from my side. First is on the mutual fund yields, if you can give some color on how the negotiations on fresh yields are shaping up for flows into existing schemes versus let's say how they were two to three quarters back obviously adjusted for the AUM size of any particular scheme? And also, in this regard if you can give the NFO, if you have done the NFO flows during the quarter?

Second question is more from a cost perspective. You highlighted that you are sourcing strategy in a non-ICICI Bank or other channels. On the digital side, it has changed a bit towards acquiring customers with a higher lifetime value or higher overall revenues over a period of time. Now if my understanding is correct, this entails higher upfront acquisition cost and may be also higher retention cost. So, in this regard, can you give some color on the course trajectory of the company with regards to customer retention, more specifically?

And last one data keeping question, if you can just give some color on how the incremental new business yields on the insurance side are shaping up given that now the expense of management guidelines have been kind of mentioned by the regulator?

Vijay Chandok: So, we will go one by one. The first one is on the mutual fund I think that you had asked.

Dipanjan Ghosh: Yes.

Harvinder Jaspal: So, the mutual fund yields, so there were two questions in mutual fund. One is the mutual fund yields and whether we have seen or distributed any new NFOs for the quarter. So, I will take the first one. The yields have been relatively stable. They were slightly inched up, but they are stable at about between 60 to 65, 66 bps. That's the mutual fund yield that we are looking at. The growth in mutual fund AUM is the reason why the revenue has grown. For the new NFO question that you asked, I will just hand over the dais to my colleague, Kedar Deshpande.

Kedar Deshpande: Yes. So, after SEBI had put a ban for the first quarter, after that last two quarters we have had a lot of NFOs and especially the NFOs which came in quarter 2, they have been supported because the market went up. So, this quarter NFOs are doing well. Even as we speak, there are two or three NFOs running of big entities. And NFOs do help us acquire a higher order AUM at a higher ticket size, and it effectively helps us in adding yields. You also asked the question on the insurance yields, that circular is yet to come. They have just noted an idea on revenue share metrics to change.

Harvinder Jaspal: Yes. It's in the conservation still, Dipanjan. It's not yet a circular.

Kedar Deshpande : So, the circular that has come has allowed us now to go on 9 plus 9 plus 9 partners in general insurance, health insurance, and life insurance, but the revenue share, and that will be very helpful for us because we hope we will get incremental revenues coming with the realignment of commissions.

Vijay Chandok: But none of that is actually reflected in the current quarter revenues.

Harvinder Jaspal: Dipanjan, you also had a question on our digital strategy and related to that the cost of acquisition and cost of retaining customers.

Vishal Gulechha: So, obviously, the efforts are towards acquiring a customer who is high on lifetime value and also consistently transacting and active. So, this cohort of customers also will have various sub-cohorts I would say or sub-cohorts like there will be an app download campaign, which will be also acquiring customers. Some customers will be coming from Ad Word campaigns of Google, discovery campaigns of Google, and also organic client acquisition.

So, obviously, the cost of acquisition of individually each of these channels are very different. Like organic customer would come at zero cost practically, and some customers would obviously come at a higher cost, but we look at the customer acquisition cost from the lifetime value that we get from the client. And if the lifetime value is high, the acquisition cost even if it is high, it is okay. There is no real problem with that.

The second part of your question was where we spent high on the retention of these customers, if I am correct. So, I don't think there is any specific spend on retaining a customer. Once they are on the platform, largely, most of these digital customers are on their own. They transact on their own. Many do their own research and make their transactions, make their investment or

trading decisions. So, I don't think there is any cost involved specifically for digital customers on retention side.

Dipanjani Ghosh: Just one follow-up, if I may, on the first question?

Vijay Chandok: Yes. Go ahead.

Dipanjani Ghosh: You mentioned on the NFO piece that it is a high ticket and yield accretive. So, just wanted to get a sense, are you able to lock in the NFO yields for a quantum of time, let's say two or three years? Or is it like it keeps on changing?

Vishal Gulechha: The yields on NFO are same as investment in any other normal mutual fund scheme as well. And however, because NFO gets marketed well by the manufacturer, it helps us attract more clients to us, and people who apply in bulk come to us and apply. So, it helps us in the realization of higher order yields with these clients. But yields are the same for a NFO and for old schemes. There is no difference.

Harvinder Jaspal: Dipanjani, in NFO or anywhere in mutual fund, the commissions or remuneration is completely trailing. So, there is no either any portion of upfronting or any portion of lock in. So, it's completely trail.

Dipanjani Ghosh: I was just trying to understand if the quantum differential between NFO yields versus let's say yields in your existing schemes are significantly different, and hence it can be beneficial if your NFO flows are significantly higher over a period of time.

Harvinder Jaspal: Yes. So, yield is not different, but Yes, the quantum could be different, and therefore the absolute revenue could be added.

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

Sanketh Godha: Thank you for the opportunity. Sir, in the presentation we have disclosed that the Prime contributes around 66% - 67% of the total retail revenue. So, if you want to know the same percentage for the Neo customer, how much they contribute to the total revenue because you said that the derivate contract, they contribute around 60% to 70% of ADTO. So, just if you want to quantify that number for the revenue that will be useful.

And second, to extension of this question, out of the 0.25 million customers of Neo, what is the overlap in Prime customer or they are predominantly I-Secure customers?

Harvinder Jaspal: So, I will take the first question, Sanketh. This the revenue contribution would be roughly of Neo would be roughly about 28% within the derivative. As I said, Neo is a trading product. So, the denominator you cannot take the entire equity and cash base as well. Within the derivative portfolio, the revenue contribution is now about 30%. Volume contribution we have already discussed earlier roughly about 70%. That was the first question.

The second question that you had was what is the common base between Prime and Neo? We would not have a lot of customers common, because as I was responding to a question earlier, Prime is more targeted at equity investor, and Neo for traders. But I can come back to you with the exact number, but my sense is it might not be more than 25 to 30%.

Sanketh Godha: And second question was that with respect to the wealth number of clients, which increased from 71,000 to 76,000, so one would be because of the natural increase in 1 crore number. So, the organic growth which is by adding number of new customers which last quarter was 1,500 people. So, that number in the current quarter would be what?

Anupam Guha: Sorry. I didn't get the last part of the question.

Sanketh Godha: See, I was saying that the growth in the number of people in the wealth has been from 71 to 76,000. So, out of which the people who got added organically, which means they became a customer of I-Sec in the wealth, which I believe that number was 1,500 last quarter in second quarter FY '23. That number in the current quarter would be what?

Anupam Guha: So, Sanketh, as I had explained earlier as well, the way we onboard a customer, there are two broad engines of onboarding. One is from deeper mining the existing client. And the second is from the acquisition of a new client. With the acquisition of a new client also, there are two parts to it. One is that the customer comes with a 1 crore plus check. Those customers are broadly 250 of them in this quarter, but there are lot of other customers who may have got onboarded, but they do not come because the definition of an HNI customer is a customer who crosses 1 crore with I-Sec which means that we may have onboarded them, but they do not reflect in this number. And those clients with deeper mining gets upgraded in subsequent quarters. And these two companies really combine to make the growth from 7,100 to 7,500.

Harvinder Jaspal: So, Sanketh, if I may just paint the slightly larger term trend, it would be fair to say that in a year, in a financial year, we are able to acquire anywhere between 1,100 to 1,500 customers in one year who will start a new I-Sec relationship with more than 1 crore of starting value. Actually, the average is higher, but at least 1 crore. So, that's roughly about 1,000 to 1,500. And on a quarterly basis, there will be roughly about 2,500 customers who have kept on getting upgraded. So, broadly the run rate is what Anupam was saying in an earlier question as well about 10,000 to 11,000 odd customers through let's say what we call investment going up or upgrade or internal moving and about 1,000 to 1,500 from new to I-Sec customers. I hope that clarifies your question

Sanketh Godha: Yes. Perfect. This answers the question. And Harvinder, one small data keeping question. So, if I want to ask you the NIM what you made in FY '22 and second quarter FY '23, and what you are making today in MTF book, if you can means I just wanted to see how much compression it has happened, and by what time you expect that to recover in subsequent quarters?

Harvinder Jaspal: Yes. So, Sanketh, exact numbers we have not put out, but I will give you a directional sense. We try to get around 3% NIM. Today we would be slightly lower than that. A year back we would

be about 100 bps higher than that. Of the compression, we have had cost increases or the borrowing cost increases of roughly about 150 to 200 basis points. And we have been able to kind of pass on roughly about 30% to 40% of that, and the remaining is, you know, as Vijay said earlier also in a calibrated manner we are looking at taking actions to pass this on.

Sanketh Godha: The reason why I am asking this question, Harvinder, is that given our ticket size is little higher in MTF, so how sensitive these customers are to absolute interest rate what you charge? I believe that the number today calculated is 9.6. So, suppose if you want to increase it to 10, 10.5 to improve your NIM, whether the growth in the MTF book would take a backseat or not?

Harvinder Jaspal: Yes. I got your question. I got your question, Sanketh. So, just to give you that sense in the last two quarters, we have taken five corrective actions on NIM. Each corrective action has been at least a 15 to 20 bps corrective action. That's what we have tried to do. The book has held. It's a very conscious part of our monitoring strategy. Vijay elaborately explained that.

Vijay Chandok: Sanketh, more than the amount, it is a shock factor. You know, you try and do it in one jerk. You will probably get a adverse reaction, but doing it in a more gradient manner that we have done, we have seen book actually not only hold, but actually steadily increase. Conscious is that you cannot do a transmission of a back-to-back mirror shock.

Sanketh Godha: Perfect. Got it. This answers my question. Thank you.

Moderator: Thank you very much. That was the last question for today. I would now like to hand the conference over to management for closing comments.

Vijay Chandok: Thank you very much for a very active participation. Really appreciate all your questions. While some of you asked questions, I think there were some data points which we said that we will, you know, probably give you an indicator of an approximate response to it. We will circle back separately through our IR team and you know, give you a very specific responses to that. If there are any specific questions that you may have as an afterthought, please feel free. We will love to engage with you, love to spend time with you, and respond to whatever questions you may have. Really, really appreciate all the support you have been giving us. Thank you very much, and good night.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.