



## “ICICI Securities Limited Q4FY23 Earnings Conference Call”

**April 19, 2023**



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**Moderator:** Good evening, ladies and gentlemen, and welcome to the Earnings Conference Call of ICICI Securities Limited for the Quarter-ended March 31, '2023.

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. 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) and Mr. Sangeet Sinha – SVP (Business Technology).

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](http://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. A very good evening to all of you and welcome to the ICICI Securities Q4 as well as the Full Year Earning Call for Fiscal 2023. I'm sure, and I certainly hope that by now you would have seen through our Investor Presentation, which was as mentioned uploaded on our website.

Let me start with the Industry Highlights and then take you through some of the Key Aspects of our Performance. I'm going to keep this whole commentary very brief.

When I look at the financial performance of FY'23, I think it's fair to say that after a strong FY21 and FY22 across parameters, FY'23 was a mixed bag, because the industry experienced headwinds led by the increase in interest rates globally on account of high inflation and also geopolitical issues that we are all aware of. The positives of FY'23 as far as the industry is concerned, were fundamentally too I would say continued growth in the derivative volume and continued momentum on systematic investment plan flows in the mutual fund. On the flip side, three standout points: the euphoria in the retail market participation as well as activities moderated, new client additions, NSE active, all of these numbers declined in the industry. Cash volumes were also in a downward trajectory throughout the year and equity capital markets, the fundraising markets were all muted in FY'23 as compared to FY'22. As far as Q4 is concerned, the environment of the business remained very similar to the full year trends that I just explained above.

In addition to all these developments in the industry, there were several new regulations that were announced during the year which we believe will eventually benefit the industry in the medium-term, because behind the skin of all these regulations, you are basically safeguarding

retail investors interests as well as ensuring that you reduce systemic risk. So, all these we believe are very good for the industry in the medium-term.

In the backdrop of this operating environment, I'm going to focus on the key high points of the performance for the quarter that just ended.

The first point I want to highlight is that our efforts towards diversification of revenue continued, and this diversification has helped us reduce dependence on cyclical components, which essentially is cash equity broking. Now, when you look at the quarter, the proportion of cash equity broking in the overall revenue decreased to 20%, and if you recollect a few years back, this was more than 50% of our total revenue. Derivative broking revenue has now been increasing for the last seven quarters and currently stands at about 15% of the total revenue stack. Allied revenue stands at about 26%, distribution revenue has crossed 20%, now at 22%. So, overall, the revenue has diversified and as a result of this diversification, despite a very weak cash equity market, our retail revenue actually grew by about 5% on a YoY basis and 4% on a QoQ basis. Revenue for the quarter, however, remains flat, primarily because of a weak institutional side of the business.

The second high point I want to bring to your attention is the story on market share. I think we witnessed a steady growth in retail market share; 1% on the cash equity side during the year; it stood at nearly about 11%. The retail derivative market share increased by 30 basis points on a YoY basis standing in the region of around 3.6%. The commodity market share increased by 200 basis points on a YoY basis and crossed 6% and it's at about 6.1%. MTF and mutual fund market shares remained broadly stable at about 23% and 1.7% respectively. We continue to focus on quality clients and that is what has helped us either grow or maintain our market share on all parameters which are actually revenue impacting. This is despite all the headwinds that we have seen in the industry during the year that has ended and the quarter that has ended.

The third standout point for us was that the customer assets continued to witness growth. And this is again a testimony of our relationship and ability to get clients to commit funds into the market. The AUM as a result of this grew by about 4% on a YoY basis to about ₹5.9 trillion.

We spoke in the last call about the growth levers of the company. So, I will now talk about each one of these growth levers that we had highlighted in brief.

- **The first growth lever was the wealth management business.** Here, I would bring out the fact that the total number of clients now has increased, stands at about 78,000 customers, who qualify in the wealth segment, which means that at least a crore of rupees of AUM is being placed with us. During the quarter, we added 2,000 new clients and during the whole year we added 10,000 new clients. The assets of these customers now stand at about ₹3.2 trillion, increasing by about 13% on a YoY basis. Revenue from this segment during the quarter grew by a percentage on a YoY basis to about ₹255 crores and revenue for the full year now crossed ₹1,000 crores and stood at about ₹10.1 billion, increasing by about 9%. What was also noteworthy is that in the wealth

segment, the proportion of recurring income now has become 2/3<sup>rd</sup> as against 60% compared to the Q4 of last year.

- Growth lever, #2, was derivatives. Now the derivatives, as I just mentioned, segment has seen a revenue increase now for seven continuous quarters and for this quarter the revenue came in at about ₹117 crores, registering a growth of 37% on a YoY basis. The market share increased by about 30 basis points and this was accompanied by an improvement in the underlying parameters of number of customers, number of orders and number of lots. Some of the new launches in the segment, which includes Flash Trade, Algos, APIs, Option Plus, all these products and tools that we launched during the course of the year are clearly seeing traction since their launch, and we do believe that as we increase communication and promotion of these products, we will continue to see greater traction in times forward.
- The third growth lever was identified as the distribution of loans. We distributed a total of about ₹3,750 crores of loans for FY'23, recording a 66% growth on a YoY basis. Loans distributed in Q4 alone stood at about ₹1,250 crores, which is the highest that we have done in any quarter so far. During this quarter, we forged and executed the partnership with Tata Capital and this arrangement with Tata Capital went live for loan against shares as well as personal loans towards the last part of the quarter. So, we should start seeing some traction on loan against shares and securities as well as personal loans in the current quarter onwards.

As far as the fourth growth lever is concerned, it was identified as Distribution of Insurance. In this insurance business, the revenue for the full year crossed ₹100 crores for the first time and it came in at about ₹101.8 crores, this was up 45% on a YoY basis and Q4 revenue was up by about 85%, coming in at about ₹48.2 crores. During the quarter, the premium, number of policies, all of them grew. Premium grew by 46%, number of policies by 60%. We've seen growth across not just the life business but also the non-life business. With the general insurance business now getting digitized and gaining traction, we expect further growth specifically in this segment in the year that has just started. The recent regulatory developments from the IRDA side, which you might have been aware of, will be favorable to us, increasing the revenue.

So, I would say that as a result of the diversification that I spoke about, as a result of the market share gains I spoke about, as a result of increase in customer assets that I spoke about, and also as a result of traction on the growth levers that we had identified and I just spoke about, our revenue for the quarter remained stable at about ₹885 crores. This is despite a decline in the cash equity segment, which used to be a major proportion of our revenue traditionally and historically, as well as in the specific quarter, there was a decline in the ECM business both in the quarter as well as the year. And therefore, for the quarter, the PAT came in lower at about ₹263 crores for the quarter.

Despite a flat revenue, decrease in PAT is attributable to three fundamental reasons:

Reason #1 is that there is a one-time ₹16.1 crores cost pertaining to a provision made towards the penalties which were passed on to the clients from October '21 to November '22 on account of margin shortfall.

The second reason is that the cost of funds for our margin finance book went up and we decided not to pass on entirely the cost increase. So, that to an extent had an impact on the PAT.

And the third reason is that there was some increase in spends on what we believe our franchise enhancing spends specifically in the domain of technology to harness the growth opportunity. When I look at the full year, revenue remained stable at ₹3,430 crores and PAT came in at lower than last year at about ₹1,118 crores.

The reasons for the decline is already explained precisely for the same reason. The return on equity came in at about 42%.

The Board of Directors also approved a final dividend of ₹9.25 per share for taking the full year dividend to about ₹19 per share. The dividend payout ratio came in at about 55% for the full year.

So, in conclusion, I would reiterate the continued diversification that we've been driving, which has now taken root in the company's business model. As this is happening, we are becoming more of a structural play on the India opportunity, and as we look back and look ahead, we see that we are on track to achieve our stated aspirations that we have shared with you in the past. We continue to strongly believe that the medium and the long-term story of the industry remains intact and we are very well placed to harness this opportunity and we continue to make relevant investments in key focus areas for growth.

I'm going to end my commentary and throw it open for questions that you may have. Thank you very much.

**Moderator:**

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

**Swarnabh Mukherjee:**

Hi, sir. Thank you for the opportunity. So, 2-3 questions from my side. First one, I wanted to understand on the derivatives market share. So, sequentially, there has been a slight decrease. What led to that and you know what would be the steps that we take to get that back in the subsequent quarters? That would be the first question, Sir, and my second question would be in terms of the client acquisition side of the story. So, basically this quarter we haven't seen client acquisition rate go up very materially, and still the OPEX number looks has gone up actually quite a bit. So, what would be the reason for that and also the prime customer number is very marginally down. So, what has happened there? So, these are the first two questions, Sir. And I also have a couple more, so maybe I'll ask you after you answer this question.

- Harvinder Jaspal:** Hi, this is Harvinder here so let me take the first question. The first question was pertaining to derivatives market share. So, there are two parts to this. One is for the quarter. Yes, we did see a bit of a decline that was primarily attributable to some outages that we faced in the month of February and they have been fixed and we've seen a recoup in the month of March. But yes, we did see a impact for a couple of days which did impact our market share in Feb and for the quarter on an overall basis, if you would follow what we are trying to do over here is that we have worked as Vijay also explained in his opening remarks on a variety of products and experiences for the customer. We believe that we have a product which is comparable and even better than what is available in the street. What we are now wanting to do and you will see that more of in the coming quarters is a more communication drive towards these features and bringing more familiarity. We expect that with that we should be we should be able to increase traction, although even in the current phase over the last seven quarters we have seen revenues going up over the last six quarters we have seen the number of customers and the activity levels when measured by way of either the number of orders, lots or whatever metric you put at it, they have been going up every sequential quarter. We have to start growing at the rate ahead of the market and these are the things which we believe will help us. That was the first part.
- Vishal Gulechha:** So, I'll just add to what Harvinder stated. When we look at the Q4 market share, the few important parameters which are guiding factors in terms of number of orders, number of active customers, volume, revenue, I think all parameters were better than the last month, The only exception was the Feb month market share. Otherwise for Jan and Feb we were almost at par with what we did previously. So, we have seized all those issues and going forward we see much more stability on the platform side also.
- Swarnabh Mukherjee:** A follow up on that sir. So, if I understand correctly, then in the month of March, our market share in the derivatives space would be better than what we have done in Jan or say in the Q3, would that be a right assumption sir?
- Management:** Yes, we were kind of at par with what we did in Q3 because we were regaining some grounds which we lost in the month of Feb. However, we are pretty comfortable in terms of number of orders, the revenue, unique customers participating. So, it's a little drag, but we are very much in line with what we did in Q3, any of the month. Now, coming to the Prime, I think the overall count we sit at is about 11.5 lakh customers. Your observation is correct that there are fewer subscriptions in Q4 and that is largely because of the dropouts which are happening in "299 Plan". The company's focus has been to promote with high intensity the high value prime and I'm happy to share that we clocked ever highest high value prime subscription in a quarter and it's a considerably higher than what we have done previously. This number is of tremendous significance now, because in high value prime, which is a life-time prime, the re-subscriptions are not happening, it's only the new customers which we are bringing in the system or a few of the old customers who still were in the older plan, they have now subscribed to the new plan. However, the large part of the lifetime subscription has now come from the new customers. So, that way even the prime fee which we collected is very much in line with what we have been doing for the previous quarter and before that. Life-time benefit is, we see the quality of the

customer and there are many other opportunities beyond collecting time fee from customers. So, that is what our objective is.

**Swarnabh Mukherjee** Just to clarify, 299 plan customers have renewed to higher value plan. If that was the case, then the number should have been the same or even with new customers signing up should increase slightly. I just wanted to understand the very marginal dropout that has happened. So, where have those customers gone?

**Vishal Gulechha:** Not many have moved from 299 to high value prime. So, largely the focus is to get life-time customers or the high value prime customers from a newer set of customers. Few dropouts, I mean in a retail business, few customers will take a pause, because it has a re-subscription condition. But I mean, they come back eventually. We keep track of such dropouts and we reach out to them, and in most of the cases, we find that customers they come back as and when they start taking interest in the market.

**Harvinder Jaspal:** Just quickly to answer the third question, if I understand correctly, you're asking that the client additions have been slow, but the operating expenses have gone up sequentially. The increase in operating expense is what Vijay explained, it is not because of increase or on account of client addition, it is on account of for the one-time provision of about ₹16 crores that we have taken on margin, it's an operating expense. So, that is the reason of ₹84 crores. The marketing expenses which are pertaining to client addition, that has been flattish quarter-on-quarter.

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

**Prayesh Jain:** Couple of questions. Firstly, is on the wealth management business. The 250 crores revenue run rate in the quarter or the full year basis whatever, if you can split it up for us in terms of how much is from broking, how much is from mutual fund distribution, how much is from interest income and what of these are recurring in nature and how much of these are transactional? Second is on the insurance premium, could you break it down between how much is from life and how much is from general? And generally, if you also could highlight the procedure in terms of getting this insurance premium, how do you about doing this, whether you call up the customer, so just the entire process, how does the sale of insurance products happen at your end?

**Anupam Guha:** This is Anupam here. So, in terms of overall new numbers, we clock ₹255 crores for the quarter and for the year, for the first time we've crossed the ₹1,000 crores mark. So, that's been a big milestone for us. On the split of revenue, it is currently 66% on recurring income and 34% of the revenue is from transactional income, equity broking would be a sub-part of this 34%. I'll just bring some more granularity in terms of what is recurring income and transactional income. So, the transactional income would include equity broking, it would have fixed income, it would have products which do not give trail income like some part of AIF CAT-II, and some other unlisted transactions that one typically does in private banking. On the recurring side, we would have all the trail-giving AUM which would include mutual funds, it would include hopefully management services, AIF CAT-III which are trail-giving ESOP, MTF. So, this is basically

recurring. Our focus has been to kind of continue to grow the recurring pie more which over quarter-on-quarter we've been able to demonstrate.

**Harvinder Jaspal:**

I'll just comment for the insurance piece. So, insurance, largely the premium pertains to life insurance. General Insurance is relatively new but picking up. In terms of the number of policies, it will be almost half. But in terms of premium, it will be predominantly life insurance. Also, the manner of sourcing insurance, so we have primarily two modes where we source. One is our relationship managers, wealth managers they have a deep engagement with clients. And as a part of their financial portfolio, insurance, whether be it on the protection side or retirement planning side or saving side, is a fundamental part of their overall portfolio. That's point number one. We have about 1300 odd RMS on ground. They engage with the customer, so that's method number one. Method number two is specifically for general insurance and health insurance. We have launched a fully digital journey where we do digital end to end fulfillment with the help of a technical partner as well that has started seeing traction. Method number three, we also have a low touch model whereby with the help of a calling setup we do reach out to our customers based on an analytics-driven profile. We have a base of about 8,000,000 customers. With the help of our analytics, we reach out to customers who have a high propensity of buying any of these insurance products and those are channelizing to let's say yield or a low touch relationship manager over call for digitally enabled products. So, these are predominantly the three methods that we follow.

**Moderator:**

The next question is from the line of Bhuvnesh Garg from Investec Capital. Please go ahead.

**Bhuvnesh Garg:**

Sir, in your loan distribution revenue, what would be the yield that you earn on home loans and what would be the yield on non-home loans that you earn?

**Anupam Guha:**

So, on the loans bit, we act as a referrer and we work on an open architecture model. Currently, the way our loans are distributed, we have almost 65% of loans which are mortgages, and typically in mortgages you have two parts; one is home loans, the other is LRD or loan against property. Mortgages, typically in the market is broadly close to 1% and LAP, etc., is at 1.4%. And then the other part of business will constitute two parts. One would be business loan where we engage with promoters, MSME owners, etc., on their borrowing need. And it also has a component of digital loans, which is typically on loan against shares, loan against mutual funds, and we are now setting up the entire stack on personal loan, etc., which has really not yet started. So, on a blended basis, because personal loan has not kicked in, our average would be close to 65-odd basis point.

**Bhuvnesh Garg:**

65 bps on other loans, right, other than home loans?

**Anupam Guha:**

On the overall piece. And once personal loan kicks in, the yields will improve further.

**Moderator:**

The next question is from the line of Sahej Mittal from HDFC Securities. Please go ahead.



- Sahej Mittal:** So, firstly, on the upstreaming of client funds, so the impact of lower margin availability to a broker on bank guarantees, so will this also impact our finance costs again for bank based broker, the finance cost is expected to shoot up once these regulations kick in?
- Harvinder Jaspal:** Not for us, we don't do bank guarantees. So, this regulation largely is not expected to have any material impact on us.
- Sahej Mittal:** So, employee expense looks a bit lower in the last quarter. So, have we already recorded variable pay provisions in fourth quarter or is it expected to be recorded in Q1, because Q4FY'20 and Q4FY'21 fourth quarter was a soft quarter, whereas in Q1 employee cost generally shoot up, so how are you expecting this time the run rate?
- Harvinder Jaspal:** We have recorded variable pay for the year. Normally in Q4 it always gets screwed up to whatever is the year-end assessment. So, it's not in Q1, it will be in Q4. Q1 sometimes is relatively high because obviously you will have increments, etc., which will come through, and therefore Q1 is slightly higher than Q4, but right now we have recorded it in Q4 as always, and it is also lower on account of lower variable pay provision.
- Sahej Mittal:** And the run rate for the next year would be maybe 5% to 10% higher, fair assumption?
- Harvinder Jaspal:** We do expect some bit of expansion next year. As we have been continuously guiding that we do want to invest in some opportunities that we are seeing, specifically –
- Sahej Mittal:** Will we be expanding our digital team on the employee side I'm trying to understand?
- Harvinder Jaspal:** So, there are a couple of areas that we are investing in. One is in our relationship management teams wealth feet-on-street, etc., Second is technology and digital, yes, that's another area that we're looking at. And third is the low touch connect that I spoke about whereby a combination of analytics, cross-sell and a calling kind of a relationship manager is helping us deep mine our customer base. So, these are the three areas of investments.
- Moderator:** The next question is from the line of Zenia Garg from Nevat Investments. Please go ahead.
- Zenia Garg:** My first question is what is your perspective on the interest rate hike and its impact on the finance cost? The second question would be like what is the projected MTF growth perspective for the five years?
- Harvinder Jaspal:** Interest cost, it's a call that we'll have to together kind of conjecture. If you believe that we are at a peak of interest rate hikes, let's say, if I take last four, five quarter journey, we have had an increase of about 272 bps, that's the increase in cost of funding that we have witnessed, of which going forward, if it is flat, then this is where from this year's base, this is where it is expected to be. We have passed on about 1/3<sup>rd</sup> of that to our customers consciously. Going forward on MTF, we do enjoy a healthy market share of upwards of 22%. Our network, balance sheet and financial capability allows us to grow this book. We do not have any target in mind, but we do

have capacity to go up to at least 15,000 crores from a financial capability and borrowing limit perspective that our shareholders have approved for us. Not giving a target number, but we do want to increase penetration because it's a great pull product that we have seen and our customers like it.

**Moderator:** We have the next question from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

**Aejas Lakhani:** I have three questions. My first one is on brokerage rates, both retail and institutional. So, the question is really that, compliance costs given all the new regulations in FY'23 have really gone up significantly especially on the retail side. So, the question is that is there scope for increasing rates from where they are because we're at rock bottom? And also on the institutional side, the SEBI regulation states that the brokerage charges can be inserted into TER. So, if that regulation comes through, could that put pressure on institutional yields?

**Vijay Chandok:** This is Vijay. So, on the first part whether there is scope? We certainly believe that there is scope, but the question is whether the people who are supposed to increase rates will increase or no. So, we do believe that there is a scope because it is going to certainly put pressure on margins, as you correctly said, given the regulatory development as well as the fact that many of them are dependent on PE funding, which is also becoming difficult to come by. So, you have dual pressure. So, there are every indications or every I would say the fabric is reset for sort of a potential rate increase. But whether it will happen or no, is anybody sort of guess and the right people would be the people who would hike the rate. The second part of your question was on the institutional side, right, the TER. TER is still in the discussion stage. So, we don't know in what formulations, shape and amount it will come out. But we have seen that whenever there is a TER increase, it does have a near term impact in terms of impairing or depressing the revenue flow. But there is an experience and over a period of time this tends to sort of catch up as volumes go up. So, there could be a near term impact. How much is the impact? We don't know, because it will depend on, finally what the regulations and extent of it comes because there are still ongoing discussions. So, we don't know whether it will come, not come, if it will come, in what shape and form. So, we'll have to keep watching.

**Aejas Lakhani:** My second question is on the Prime fees and other charges and this is more from a reflective standpoint of how we should look at it in the year ahead. One of the pivots we have made in the prime fees during the year is from charging it on an annual basis to a lifetime fee basis and there would be some customers who are transitioning. So, how should we be thinking about the entire cohort of prime fees going forward, and how should we also think about the block of other fees and charges which you've really been able to hold up very well in FY'23?

**Vishal Gulecha:** As far as prime fee is concerned, as I said there are two components. The two plans where the renewals are still happening and more than 50% customers are there in those plans, right, where on every year basis they come and pay the fee. So, largely, we would see the stability in this book, we don't see a much reduction. However, on the high value prime as I stated earlier, the focus is largely on getting new customers. So, as far as the migration from the lower value plan to higher value plan is concerned, I would say that largely, it has happened. Now the proportion

is much lesser than the new customers who are joining and taking the higher value plan. So, the focus will continue to be on getting new customers and keeping the existing set of customers in a lower value plan intact, so that re-subscription can happen every quarter.

**Vijay Chandok:**

Just to just to add to what Vishal has said, if the base is stable the extent of growth will depend on how the market is going to move. We've seen a very weak market last year. If we believe that the market will sort of start getting better from here and participation in equities from the retail segment and the HNI segment is going to increase, then of course we will be a beneficiary there. But if it continues to remain similar, then it will be more stable with marginal improvement directionally. It will really depend on how the newcomer participation is playing out in the coming year.

**Aejas Lakhani:**

You mentioned that last quarter we didn't pass on the interest rate increase to clients to cushion them from the impact and we were probably considering to defer it a little slightly and ensure that there's no knee-jerk reaction so that the book doesn't run off. But the pass-through seems to be much lower. I just wanted to know your thoughts regarding the same element. And also I appreciate the additional information that you started to disclose on the NIMs. So, the NIMs at 3% for the quarter. I think historically you had slightly higher NIMs. So, how should we really be thinking about NIMs for '24?

**Vijay Chandok:**

So, two things have happened in Q4 as far as the MTF book is concerned. There have been two rate hikes that we have passed on. And this is together about 50 basis points. Because it's happened in Q4, you would appreciate that the financial impact doesn't really get visible in a matter of days, it needs that period of time to play out in a quarter. So, that is one development of Q4. The second development again towards the fag end of Q4 is that our cost of funds started showing the kind of a flattening to a declining trend. As we enter into Q1, we are entering with two sort of actions of Q4, reducing cost of funds and then 50 basis points increase in the yield which was implemented in Q4. Because of the approach we have taken, we are ending this quarter with a higher number of clients than what we had at the beginning of the year and beginning of the quarter. So, the base is bigger, rates have gone up on the lending side, and the cost has flattened to start coming down in the sort of borrowing side. That's the color with which we have entered Q1.

**Aejas Lakhani:**

On the NIM side for '24?

**Harvinder Jaspal:**

This kind of gives you direction. It's already stabilizing at 3% that we have seen now. Our strategy has been to give a bit of cushion and not pass on volatility to our clients, I think that is working. And we are expecting a stabler regime on the factors that Vijay spoke about. Difficult to give a number. We'll be pretty agile in our thinking as we have been. But our feeling is that it's stabilizing right now at 3% and with the possible upward bias.

**Aejas Lakhani:**

The provisioning on the penalty, is that going to be like collected from the clients in the subsequent quarters?

- Harvinder Jaspal:** No, it's already collected and it's an industry-wide aspect which is getting discussed at regulatory level of whether any kind of a refund is required. We have right now on a conservative basis made a provision, should a refund be required in future. But engagement is on. And the events of either regulatory clarification, etc., would need to be watched to see how would the provision materialize. We do not have to have any more collection from the customers.
- Aejas Lakhani:** When does the new sub brand go live of ours?
- Vijay Chandok:** Sometime during this year, Aejas.
- Moderator:** The next question is from the line of Piran Engineer from CLSA. Please go ahead.
- Piran Engineer:** Firstly, 65% of our retail revenues are coming from Prime. Is it fair to say that bulk of the others is coming from NEO or is there a significant proportion of revenue still coming from non-prime, non-NEO customers?
- Harvinder Jaspal:** Just clarifying, this 65% is within the broking setup that they are coming from prime customers.
- Vijay Chandok:** Piran, I'll just place it in context. It's not the total revenue, it is only the broking revenue and broking revenue is ₹265 crores, which is about 35%, of which straight away. 15% can be taken out for F&O. So, you are effectively left with 20%. So, 20% of our income is what we are having a discussion. So, with that context, Harvinder will elaborate.
- Harvinder Jaspal:** So, Piran, the remaining within equity, I hope that is clear, 35% of the overall company's revenue is coming from any kind of retail brokerage, of which 15% is coming from F&O brokerage, 20% is coming from cash brokerage. Prime is a product which is relevant for cash brokerage. So, of that 20%, 2/3<sup>rd</sup> is coming from prime customers and the remaining 1/3<sup>rd</sup> is coming from non-prime regular plan. That has been the mix which is quite stable for the last at least four quarters. NEO is sitting on the other side which is the F&O segment. There again in terms of volume, it's about 75% contribution, and in terms of revenue, it's about 30% contribution of the 15%. I hope that's clear.
- Piran Engineer:** But then if I just do the math, the non-prime customers are paying a meaningful amount, will come to like ₹500 to ₹600 per quarter in broking charges. Why don't they just switch to the prime plan and lower their own charges?
- Vijay Chandok:** So, we keep sending them messages to do that, but they still choose to stick on. There is a tendency to remain sticky. It's a customer sort of a trait. There are a bunch of customers who just don't want to change anything. They just say that we are okay with whatever we are doing. We keep sending them periodic sort of nudges to change, upgrade, etc., but they remain where they are.
- Piran Engineer:** So, then it's fair to say that if they remain where they are, next year our revenue growth will largely be in line with the cash and F&O, ADTO growth, because this year while ADTO growth

has been better, our revenue growth has lagged in both cash and F&O due to lower yield. And last time we spoke, it was due to migration to NEO and Prime plans. Now when that is over or hopefully over. Would we see both revenue and ADTO growth similar?

**Vijay Chandok:**

So, from Company's approach to putting focus on growth drivers, we have said that there are four growth drivers. One important growth driver is F&O. So, clearly F&O is an engine that we will press the pedal both from a market share point of view as well as the market growth in ADTO, which has been happening virtually on a secular basis for the last decade now or probably even longer. So, that is growth engine, number one. The second growth engine would be all distribution pack of revenue, which we've spoken about the insurance loans specifically. The fourth growth engine would be the wealth management growth engine. As far as cash equity is concerned, I think we've sort of in a sense hitting the market share of about 11%. Our endeavor and attempt would be to ride the market swing as and when and if it happens. I think we will definitely get an advantage. Whether the market swing will happen, not happen? I cannot speculate. We'll have to wait and watch. But I think the firm is very well positioned and we have historically seen whenever the swing happens in terms of market growth we become beneficiary because we are revenue salient on volume. Some of the other discount players are indifferent, but that's not the case for us, we are revenue salient on volume. So, if there is an improvement, certainly that will be an added swing. But from our mind, those are things we cannot control. So, we focus on what we can control, which is market share and growing the businesses which I just mentioned about. Our management focus will be on these four areas.

**Piran Engineer:**

My second question is on risk to the MTF book. Now the indices have been largely range-bound in the last 1.5 years. And I'm sure customers who are borrowing at 10%, 12%, 15% are losing money on their investments. What sort of risk do you foresee for this ₹6,500 - ₹7,000 crore MTF book, assuming the market stays where it is?

**Vijay Chandok:**

If you really see what has happened, the whole of this last year market has been actually quite weak. But when you look at what happened to the MTF book, it has actually increased from I think ₹4,500 crores at the beginning of the year to about ₹6,400 crores currently. It is one of the reasons why that has happened. Some improvements are there in market share and the second I would say it has also been our considered strategy not to insulate the customers from interest rate movements, because anyway there are uncertainties with the capital markets. We didn't want to add another dimension of uncertainty and pain in form of rates. It was a very deliberate. As a result of it, two things we have played out. In the most difficult last quarter, we did not lose volume, means 6,400 remain 6,400 that was one. And number of customers actually increased. So, the story is becoming broad-based because penetration is still very, very low in terms of the number of customers who are doing this. So, if you ask me as a strategy, we do not pursue a target on MTF, it is not a push product, it is a pull product. We do not believe that it should be aggressively pushed. It is dependent on the customer's view on the market. We fortunately have not received a single mis-selling complaint on this, which I think we value a lot. We want customers to be happy and eventually make money because that's the way everyone wins in the market. So, what are the risks? I think we have been very conscious about the risks and therefore

not used it as a push product. We'll continue to keep it that way and we are backing our MTF book with research support, so that customers are actually taking considered calls to try and minimize the risk. Will it sort of come down? I think the answer in some sense, if you could impute to what happened in Q4 despite tough quarter, it didn't come down. It is to be seen. The recent behavior seems to suggest otherwise.

**Piran Engineer:** The other revenue which used to be ₹40 to ₹50 crores has like in the last gone up to ₹90 crores. Just wondering if there are one-off simply because overall volume activity has not really increased. Why would margin money and consequently interest income on fixed deposits go up so much?

**Harvinder Jaspal:** So, if I have got your question right, you're talking about other fees and charges right within allied, you're talking about that?

**Piran Engineer:** I'm talking about the ₹92.4 crores other revenue number which a year back was just. ₹52.7 crores, it's almost doubled.

**Harvinder Jaspal:** So, this is largely pertaining to only the fixed deposits and what we have with exchanges and the interest on that. So, one of this is also yield expansion because one year back we were having FDs at about 4.75%, now we are having FDs at 7%. So, that also is one of the factors. And second is obviously the volume, etc., has also gone up. So, it's a mix of all in that. There are no one-offs over here. It's primarily yield increase and FD quantum increase.

**Moderator:** The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

**Dipanjan Ghosh:** Just two questions from my side. First, on the cost bit, if you can give some color on how prolong do you think this period of elevated investments or investments in franchise expansion some of these things will continue? From what I understand, some of the other players in the market, your competitors are also focusing on expanding their product bouquet or client acquisition. So, in terms of how do you see the competitive dynamic shaping up and your own cost ratios or investments shaping or move from a medium-term perspective? Second, if I look at your cross-sell ratio number, that seems to be in a declining trend. So, if I look at it on let's say 4 to 8 quarter lagged basis, just wanted to get some sense of how the lifetime value of customer quality of the new customers that have been acquired in let's say the last 12-24 months or 30 months really looking like since you're trying to gradually scale up the product distribution and the wealth business, so from a three to five-year perspective, how do you see this new client acquisitions really shaping up? And lastly, if you can just mention why the yields in the insurance business for 4Q were high, some color on the mix maybe within the life segment?

**Harvinder Jaspal:** Let me attempt to answer one-by-one. Your first question was on the cost bit. The expenses and the color of that right, how long is the expense on investment going to last? So, we have guided that we need about a year, which is four quarters more. So, FY'24, we expect it to be elevated and we have guided that over a period of FY'25 we do want to come to a lower cost-to-income ratio. In fact, there is a slide that we have included in our presentation on our aspiration. These

are very conscious investments and it has been our continuous guidance for almost about 5-6 quarters now that we expect about eight quarters then and now four quarters, that's the answer. Competitive landscape, yes, it is a slightly difficult market right now with what Vijay made a reference to declining customer additions.

**Vijay Chandok:**

Actually, more than competition it is actually market conditions. Competition in a way I think is probably peaked off. In fact, competition is under relative pressure compared to the past. So, it is more the market condition that one is watching rather than competition right now.

**Harvinder Jaspal:**

On the second one you spoke about cross-sell ratio and why is that declining? So, I'll just give you two separate metrics. One is the cross-sell ratio, which is the number of customers holding two products. This is a function of growth of new client add. So, the proportion of new client adds has been higher as compared to, let's say, three years back. So, the proportion of clients which are still in their first and second year is relatively higher as compared to what it was about two years back. And it is a bit difficult to kind of engage the clients in the first few years, but over a period of time we have seen that with the vintage, the cross-sell ratio improve to almost three with let's say a 10-year vintage. That's the kind of improvement that we have experienced in the past. We'll have to see how do we engage these customers and get to that. I would also point you to another metric that we do measure internally, which is basically how many customers from our base of let's say 8-9 million customers, how many customers are holding two or more product relationships. And when we say product relationships, it's not product variants, it's a fundamentally new product category. So, if an equity investing customer has taken a mutual fund or an insurance, he has engaged with us for a new need of his financial needs. So, if we take all of these as distinct product categories, then we have about 1.22 million customers who have two and more. And when I say more, actually there is a cohort of customers will go up to even three or four such relationships and that also keeps on increasing with vintage. This number, which is a more representative number on the entire base, has been growing, although at a lower rate because it's on the entire base and it stands at about 1.22 million customers.

**Anupam Guha:**

On the question on NCA or acquisition of customers on the wealth management side, see, our fundamental model is that we believe that this entire business of private wealth is all about getting good quality clients and growing their AUM. And these are the two metrics where we believe that we will continue to grow significantly. This financial year we've added some 10,000 odd customers and we believe that we will intensify this with more focus on wealth, as Vijay also mentioned, being a focus area. In terms of acquisition, we have two broad models of acquisition. One is we have our existing base of customers of ICICIDirect and through smart data analytics today, we are able to kind of find out through what we call it as wealth markers, who are customers with high potential and there we are able to target sharply through smarter data analytics and the team that we have. And a large part of our client acquisition happens through this base which are high potential but haven't really given us the AUM or do business with us. And the second bit of clients is through open market sourcing. So, both in terms of AUM and in terms of clients, we would see kind of acceleration and more effort.

- Dipanjan Ghosh:** Last was on the insurance yields.
- Harvinder Jaspal:** That answer is basically, a higher proportion of new business premium in Q4 that we have got, and as you would know that new business premium has higher yield compared to renewal. So, the proportion of new business was higher in Q4, partly because of also some of the income tax changes that were announced, there was relatively higher traction that we witnessed in Q4, ramping up the new business for insurance and therefore the yield.
- Moderator:** The next question is from the line of Vinodchandra Agrawal, an individual investor. Please go ahead.
- Vinodchandra Agrawal:** My question is with regards to the F&O brokerage side. Can you share some sort of the insight like how many percentage of the customers are profitable year-on-year wise, I mean I just want to get a sense of how long they will be able to stick and give the continuous revenue for the F&O segment?
- Vijay Chandok:** You will have to refer to the SEBI report on that. I'm sorry, we will not be able to share any further data beyond what is reported by the SEBI report.
- Moderator:** Next question is from the line of Pallavi Deshpande from Sameeksha Capital, please go ahead.
- Pallavi Deshpande:** Just wanted to again know on the MTF book. I understand about the market share, but what would be our targets for next year on this book?
- Vijay Chandok:** As I mentioned, you should not run with an MTF target because you land up mis-selling it. It is a pull product. Customers have an idea, we make MTF available to them. We make it very simple, we make it available literally while he's buying the stock, and that's how we've grown the business, that's how we've gained market share. So, like I said earlier, I'm saying again, there is no real target we have set for MTF.
- Pallavi Deshpande:** Would there be a target of a percentage of the total clients, how many can be brought to MTF on that side?
- Harvinder Jaspal:** No, we are not running with a target in mind.
- Vijay Chandok:** Again and again, I'm saying there is no target on MTF, there is no target on number of customers, it is a consequence of what customers want. We are focused more on making products available, making it easy and getting more customers onto our platform.
- Pallavi Deshpande:** Secondly, on the wealth management side, like you mentioned about the increase in RMs and the one to five crore bucket is what you're targeting. Would that be a cross sell to some ICICI Bank customers, how does that work?



- Anupam Guha:** If I were to just give you our model, our model on wealth management is really targeting the grown rich Indian. And if you see the opportunity, there are some 800,000 Indians with more than \$1,000,000. And for us, we believe that if we build a strong proposition and a platform with a strong brand that we are, supported by the relationship team, we can build a business of scale. So, from our perspective, the definition of an HNI customer for us is any customer who's given Rs.1 crore and above. While our sweet spot is typically between 5 to 25 crores client. But we have the entire spectrum of products and services to really cater to HNI including the family offices
- Moderator:** The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.
- Sanketh Godha:** Most of my questions are answered. Actually, I just need a data keeping question given you clearly highlighted that the growth is within the number of MTF customers, it will be great if you can quantify that number, I believe that number last quarter was somewhere between 80,000 to 90,000 people taking MTF loans. So, that number, what it would be currently?
- Vijay Chandok:** Approximately, 3% - 4% growth on that.
- Moderator:** Ladies and gentlemen, we will be taking two more questions. The first from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.
- Swarnabh Mukherjee:** I just had one question on the borrowing side. So, while our MTF side of the business has remained stable, the book size, but borrowing has increased and it also mentions that the borrowing has been done from other than debt securities. If you could provide some color on what was the reason for this borrowing and the choice of instruments?
- Harvinder Jaspal:** So, our borrowing is primarily only on account of commercial paper and from the balance sheet perspective it goes to two things. One is the growth in MTF, which as you rightly said has been flatish. The second is with the increasing trading volume, we need to keep higher FDs with exchanges. So, part of that gets funded through borrowing. So, these are primarily the two reasons. So, on a balance sheet to balance sheet, you will see 1,000 crores entries from 7,900 crores to 8800 crores. This is broadly the reason.
- Moderator:** The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.
- Prayesh Jain:** Just a couple of questions. First, could you react as to how do you kind of amortize the lifetime plan prime in terms of revenue?
- Harvinder Jaspal:** It's not amortized, it's on cash, it is accounted as income because it is lifetime.
- Prayesh Jain:** The quarter in which kind of give you the lifetime fees subscribe.
- Harvinder Jaspal:** That's right.

- Prayesh Jain:** Could you also give some insight on what is the share of variable pay in the employee benefit expenses?
- Harvinder Jaspal:** Roughly 70:30.
- Prayesh Jain:** So, 70 will be fixed and. 30 will be variable.
- Harvinder Jaspal:** Yes, that's right.
- Moderator:** I would now like to hand the conference over to the management for closing comments. Over to you sir.
- Vijay Chandok:** Thank you, gentlemen, for taking the time and asking us questions. I'm sure there could be follow up and after thoughts and after questions. Please don't hesitate. Call in and we'll be happy to respond to all your questions. Looking forward to continued interaction and support. Good night and good luck.
- Moderator:** On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.