“Earnings Conference Call – Quarter and Financial year ended March 31, 2019 (Q4 & FY2019)”

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Moderator: Ladies & gentlemen, good evening and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter and financial year ended March 31, 2019. We have with us today on the call Ms. Shilpa Kumar – Managing Director and Chief Executive Officer, Mr. Harvinder Jaspal – Chief Financial Officer, Mr. Hariharn M – Head Investor Relations and Strategy.

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.

I am now glad to hand the conference over to Ms. Shilpa Kumar. Thank you and over to you, ma’am.

Shilpa Kumar: Thanks, Ali. Good evening. It is my pleasure to welcome all of you to our discussion on the performance of ICICI Securities for the quarter and the year ended March 31, 2019. Our business presentation is available on our website for your easy reference.

Let’s first start by talking about the market environment in FY2019. FY2019 certainly presented a sharp contrast to FY2018 which was a year of strong growth for all our business segments, be it equity broking, corporate finance or distribution. Against this backdrop, FY2019 saw muted market conditions due to global and political developments for most part of the year. Local factors also adversely impacted the flows into the financial markets and performance of equity markets in particular. As a result, broader capital markets registered weak performance resulting in narrow participation in delivery-based investments being made and risk aversion to mid and small-cap stocks which is very relevant for a retail franchise such as ours.
Towards the second half of the year our investment banking and distribution businesses got impacted by significant events affecting primary markets and by regulatory changes with respect to mutual fund business. The primary market activity witnessed a sharp drop in both the numbers of transactions and capital raised with the volumes in the second half drying up, triggered by liquidity issues arising out of NBFC related developments.

On the mutual fund front regulatory changes focused on improving customer returns got implemented during the year. Significant changes were to do with shifting of upfront commission to trail based commission and reduction of total expense ratios. All of this resulted in significant headwinds in FY2019.

Against this backdrop let me take you through the headline numbers. Our company registered consolidated revenue of ₹17,270 million for FY2019 as compared to ₹18,610 million for FY2018. Consolidate PAT for FY2019 was ₹4,907 million compared to ₹5,535 million for FY2018. I would like to point out that against a tough backdrop it is the second highest profit year in the history of the company.

Our cost declined by 4% from ₹10,086 million to ₹9,698 million in FY2019. Our return on equity continued to remain robust at 52%. We have declared equity dividend including a proposed final dividend for FY2019 of ₹9.4 per equity share of ₹5 each for FY2019. The dividend payout ratio will be 62% for FY2019.

Let me now turn to our long-term outlook and our strategy:

The broader trend in financialization and formalization of savings we believe will continue to play out as more customers will transact in every product category, be it equity, IPO, MF, SIP, etc. We believe that the important pillars of the long-term strategy which we have put in place will be a good platform for the company for more customer acquisition and customer engagement, revenue growth and better
cost management. We have used this challenging year to move in a strategic direction and have taken several initiatives towards our twin strategy of more customers and more engagement.

Let me give you a quick update on these initiatives undertaken this fiscal year. On the client acquisition front, our four pillars of client acquisition strategy have been increasing our reach by strengthening our successful partnership with ICICI Bank. Secondly, creating a digital pull and delivery using e-infrastructure. Thirdly, focusing on self-employed across the country i.e. our Bharat focus. And fourthly, improving our reach to affluent customers.

I am happy to share that substantial rollout of these new initiatives has happened and is expected to result in increased productivity and cost efficiency.

1. Revenue sharing arrangement with bank: Based on the strategy for client acquisition we are further strengthening our partnership with the bank by way of revenue sharing arrangement whereby both the company and the bank are able to scale up our new customer acquisition including especially by way of increasing penetration amongst existing bank customers for our broking business. It is expected that the new arrangement will be beneficial to the company in terms of our ability to increase penetration through higher-number and quality customers, and it will benefit the bank by adding to their revenue as well as liability pool.

2. Secondly, we launched T20, which was our digital acquisition engine with the objective of faster client on-boarding post Aadhar development. We have deployed a redesigned digital process of client acquisition resulting in customers being able to trade within 20 minutes in equity and mutual fund as compared to two days through physical mode. We believe this will help us improve productivity triggered through more
acquisition as well as more activation and business generation.

3. Thirdly, Direct2U, we launched this unique offering for our private wealth clients under our investment advisory services. It leverages the power of technology advisory and transparent pricing to enable clients to invest digitally in direct schemes of mutual funds through the ICICI Direct platform for a fee. Direct2U brings to client process-based risk assessment defined asset allocation strategy and active investment advisory. It also provides integrated portfolio reporting, analytics on investments and capital gains statements on the digital platform through a steered AUM linked fee structure with zero compensation from manufacturers.

4. Fourth, the new website, keeping in line with changes in customer behavior, our new web interface contains salient features, especially a focus on asset allocation and tools to assist in decision making.

5. Fifth, the mobile application for our business partners. We launched a mobile app for our business partners which will assist them to initiate mutual fund transactions on behalf of their customers, provide information on customer transactions, analytics and track receivables. It will help in better service delivery by partners to clients and improved scalability.

Let me move on to the second part of our retail strategy, which is client engagement. The four pillars of this strategy that we had outlined were providing product choice, better pricing proposition, a personalized offering and a loyalty program for our loyal clients. We believe that client engagement initiative undertaken during the year is expected to provide cross-sell and up-sell opportunities.
1. The first of such initiatives is our proprietary PMS. The company under its PMS license has launched its own proprietary PMS product aimed at its HNI clientele. This marks a move into manufacturing of products and will add a new revenue stream for the company.

2. Second, health insurance. We have completed our insurance suite of products by adding health insurance to the existing portfolio of life and general insurance and have tied up with Religare Health Insurance and Star Health Insurance.

3. Third, e-ATM. This product which we launched in quarter three is a revolutionary new product which will allow customers to get payout into their linked bank accounts within 30 minutes of their trade which otherwise takes over two days. Like we mentioned earlier, this facility comes at no additional cost and has a daily limit of ₹ 50,000. Over 650 stocks on the BSE accounting for over 95% of market-cap are covered under this facility.

4. Fourth, in terms of pricing proposition we have introduced two new things, a new prepaid plan and a new prime brokerage plan. In continuation with our pricing strategy, with respect to increasing customer engagement and rewarding loyal customers we continuously evaluate and reprise our prepaid card based on customer feedback and pricing opportunities. We have now introduced new prepaid plans for customers who are highly active and prime is an annual subscription based plan for customers who wish to avail of low brokerage along with additional services.

5. And fifth, an analytics based product push, we are focusing on enhancing engagement by using advanced analytics for
understanding client journeys which will help us in our cross-sell and up-sell journey going forward.

Let me now turn to our detailed financial performance for the year ended March 2019 and go through some of the company highlights.

Our company registered a consolidated revenue of ₹ 17,270 million for FY2019 as compared to ₹ 18,610 market for FY2018, a decline of 7%. Sequentially we registered a consolidated revenue of ₹ 4,283 million for Q4-FY2019 compared to ₹ 4,048 million for Q3-FY2019, an increase of 6%.

We continue to focus on our diversification strategy with overall non-broking revenues, including interest income contributing 46% of overall revenues. Our broking revenues declined by 9%, mainly on account of decline in delivery based volumes while our distribution business remained flat despite disruption in distribution business and significant regulatory changes related to mutual fund commissions. Our corporate finance revenue declined by 31% mainly on account of high revenue base in the last fiscal, and muted market conditions where primary market dried up for most part of the second part of the year with a decline of 70% in terms of funds mobilized.

Our consolidated PAT for FY2019 was ₹ 4,907 million compared to ₹ 5,535 million for FY2018, a decline of 11%. Against a tough backdrop it is still the second highest profit year in the history of the company. Sequentially, our consolidated PAT for Q4-FY2019 was ₹ 1,215 million compared to ₹ 1,012 million for Q3-FY2019, an increase of 20%. Our cost declined by 4% from ₹ 10,086 million to ₹ 9,698 million in FY2019. Our return on equity continued to remain robust at 52%. We have declared and paid an interim dividend of ₹ 3.7 per equity share and have proposed a final dividend of ₹ 5.7, aggregating to a total dividend of ₹ 9.4 per equity share of ₹ 5 each for FY2019. This if approved by the shareholders, would translate to a dividend payout
of ₹ 3,028 million, excluding dividend-distribution tax and would mean a payout ratio of 62% for FY2019.

**Let me elaborate on some business highlights:**

We added 4.5 lakh new clients in FY2019 taking our total operational accounts to 4.4 million. The overall active clients increased by 3% to 12.7 lakhs in FY2019 over FY2018. NSE active clients increased by 6% from 8 lakh clients in FY2018 to 8.4 lakh clients in FY2019.

**Broking business:**

Our market share for Q4-FY2019 increased to 8.5% from 8% in Q3-FY2019. We ended the year with a market share of 8.5% as compared to 9% in FY2018. Total brokerage revenue, excluding interest income which contributed to 54% of our revenues in FY2019 decreased by 9% against same period last year from ₹ 10,243 million to ₹ 9,328 million, mainly on account of a decline in delivery based volume. Retail brokerage revenue declined by 11% from ₹ 9,174 million to ₹ 8,154 million, and institutional broking revenue increased by 10% from ₹ 1,069 million to ₹ 1,174 million. Interest income from our brokerage business has grown by 13% from ₹ 1,531 million in FY2018 to ₹ 1,736 million in FY2019, primarily on account of margin funds deployed with exchanges.

**Distribution business:**

The contribution of this business in total revenues increased from 25% in FY2018 to 27% in FY2019. The revenue was largely flat year-on-year at ₹ 4,635 million in FY2019 compared to ₹ 4,665 million in FY2018. While the market AUM average grew at 12% on a year-on-year basis, our mutual fund average AUM grew at 15% to ₹ 347 billion in FY2019 from ₹ 302 billion in FY2018. Our mutual fund revenue declined by 5% to ₹ 2,695 million in FY2019 from ₹ 2,847 million in FY2018. The decline was on account of various regulatory changes.
relating to upfront commission and cut in fees. SIPs triggered in the last month of the period FY2019 was 0.67 million. Our life insurance revenue stood at ₹ 474 million in FY2019 which was ₹ 483 million in FY2018.

In a scenario where there have been headwinds in mutual funds or equity oriented financial products, we were able to grow counter cyclical products linked to debt, etc, which resulted in offsetting the impact in distribution revenue due to regulatory changes. Our non-mutual fund distribution revenue grew by 7% at ₹ 1,940 million in FY2019 which was ₹ 1,818 million in FY2018.

**Investment banking:**

Given the muted market conditions where the primary market dried up for most part of the year with a decline of 70% in terms of funds mobilized or raised for the industry, the company handled 34 investment banking deals in FY2019 versus 36 deals in FY2018. We have a strong IPO pipeline as per SEBI filing of over ₹ 25,000 crores. Our investment banking revenue was ₹ 991 million in FY2019, a decline of 31% from ₹ 1,440 million in FY2018.

We continue to focus on building up advisory capabilities and as a result were chosen advisors in various capacities in 12 deals in FY2019, compared to five deals in FY2018, as reported by merger markets. In terms of number of deals and by value we rank third amongst domestic financial advisors in merger market league table. The major transactions handled by the company during FY2019 includes India Private Trust (InvIT), HDFC AMC (IPO), Credit Access Grameen (IPO), Aavas Financiers, ICICI PruLife Insurance OFS, Sheela Foam OFS, Coal India OFS, Axis Bank OFS, IDBI Bank open offer, Mersk SQS India and LKP Finance, Exon Mobil, BuyBack and also Jagran Prakashan, LIC-IDBI Bank (advisory), REC PFC (advisory), as well as advisory in other deals.
Let me now summarize:

I would first of all like to take this opportunity to thank all our investors for having reposed their faith in the long-term story of the company as we mark the completion of one year of listing. We continue to remain focused on the lifecycle approach and our two-pronged strategy of more customer acquisition and engagement. For institutional businesses we continue to cater to the needs of corporate clients by offering them the full range of solutions.

We believe that the initiatives undertaken during this year will help the company in this strategy of more customers, more engagement, translating into better revenue growth, more diversification of revenues and better cost management and productivity.

Thank you. And we are now open for question-and-answers.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Subranshu Mishra from BoB Capital Markets. Please go ahead.

Subranshu Mishra: First question is with regards to the mutual fund revenue, what are the kinds of pressures you are facing from AMCs with regards to the expenses? And the second would be, how do we look at institutional brokerage going forward? I see there is a traction due to blocks but then what is the future outlook, at least for the next one year?

Harvinder Jaspal: In your question on the mutual fund revenue and expenses from the AMC, I believe you are referring to the TER?

Subranshu Mishra: Correct, that’s right.

Harvinder Jaspal: Yes. So, there are two parts to the whole set of TER regulations. A part of it is already factored into our results for FY2019 and a part of it is going to be effective April 1, 2019. So, for FY2019 we already
have the reduction in upfront commission which is where Shilpa made a reference that towards the second half we saw that there was a decline in our mutual fund revenues. At an overall level if you see our results the mutual fund revenues declined by 5%, although the average equity assets increased by about 18% year-on-year. So therefore, that factors in the effect of TER to some extent. Next year also there would be some impact arising out of reduction in TER. Obviously it will depend on the discussions with the AMCs. As we have said earlier also that the overall impact of all the TER reductions taken together, including the ones which were implemented in FY2019, we believe there could be a potential on a completely like-to-like basis about 30% decline on that revenue line. The factors such as the improved participation, because of lower TER for the retail investors could provide an upward volume movement which could offset some of this impact.

Subranshu Mishra: Right, sir. And what is the quantum of the commissions which are yet to be amortized in the coming financial year?

Harvinder Jaspal: The upfront reduction regulation was effective from 22nd October, means that Q4FY2019 fully builds in the impact of one full quarter of upfront reduction. For next year there would be an incremental approx. 6.5 months of impact on the upfront reduction as well as the TER reduction, which is now is dependent on the scheme size.

Subranshu Mishra: Right, that is what I am asking that 6.5 month of asset what is the absolute number for that, that would get amortized over the next six months, so what is the number for that particular upfront commission?

Harvinder Jaspal: We have not actually put out a separate number for a particular impact, what we are saying is that all these impact, if you look at the Feb circular, the October circular and the June circular of FY2019 and
the April circular of FY2020, that impact we are expecting around on a like-to-like basis a 30% reduction.

**Subranshu Mishra:** Sure. And with respect to the institutional brokerage business, how do we look at it going forward?

**Shilpa Kumar:** For our Institutional broking business, actually we do believe that while ICICI has a good footprint domestically, we do believe there is a lot more we can do in terms of growing our FII footprint and we are quite focused on that. We do believe that there is a lot of opportunity indeed in terms of secondary markets, for instance with the number of IPOs that have happened people will still need to achieve their minimum promoter shareholding. Secondly as valuations in some parts of the market are good, there is also opportunity where both buyers and sellers are interested to do large size trade. So we do believe that there is room for us to grow our footprint, both in terms of FIIs and also both in terms of block, and larger secondary market trades.

**Subranshu Mishra:** So, we should expect a larger revenue traction from FII flows and blocks, that’s what you are alluding to, ma’am?

**Shilpa Kumar:** Yes, I mean, we will continue to grow this business translating to higher revenues.

**Subranshu Mishra:** Sure. And one small observation, the call was at 6:30 and the results came in at around 6:08 or 6:09, the presentation was even later. My sincere request, if it can be preponed going forward, ma’am.

**Shilpa Kumar:** Certainly. I think that point is very well taken. I absolutely agree with you and I am sure the team will take care going forward.

**Moderator:** Thank you. Our next question is from the line of Umang Shah from Saif Partners. Please go ahead.
Umang Shah: So one data keeping question, what is the size of the MTF book currently?

Harvinder Jaspal: It is about ₹ 500 crores.

Umang Shah: Got it. And what is the difference between the distribution revenue, mutual fund revenue and the life insurance revenue, it looks like a ₹ 130 crores line item, so what does that constitute of?

Harvinder Jaspal: Distribution revenue would be sum total of all the revenue from all the third-party products, the biggest component of that would be mutual fund which will be roughly about 60% 65% of the overall distribution revenue. And the second line item would be life insurance. We disclose the overall distribution revenue and the top two products.

Umang Shah: So what is the balance, I mean, what are the balance products?

Harvinder Jaspal: After that we have an array of products which contribute to the remaining ₹ 130 crores, primarily PMS, AIFs, we have some income from IPO distribution, loans, corporate deposits and bonds etc. We have been pretty active on some of these product categories, as Shilpa also referred to.

Umang Shah: Got it. Now you mentioned about the DTU product which you have in place for the wealth clients, so just wanted to understand the difference which it would cause on the mutual fund distribution yields growth.

Harvinder Jaspal: So, Direct2U is our offering for our HNI clients. Two, three things which I would like to clarify with respect to that, one is that it is an invite only kind of an offering for our HNI clients. This was our strategy to engage the HNI client and to take care of the trend towards direct plan in this segment. There are eligibility thresholds for example if a client has let’s say a total relationship value of ₹ 5 crores
within all products of ICICI Securities, be it DEMAT, equity or any other product, that is where this product is offered on a direct plan. It is an advisory offering to the price sensitive kind of customer. We don’t expect that to have a material impact on the normal retail business given the thresholds.

Shilpa Kumar: Let me also answer a different part of your question, you asked what is the impact on yield? So Direct2U actually is an advisory product, so it will not actually qualify as an AUM, it will go straight into the AUA pool. And therefore the mutual fund yield will not be impacted, what you see is actually a revenue stream of advisory and it will actually contribute to a growth of AUA as against AUM, and therefore mutual fund yield.

Umang Shah: Got it. So ma’am, let me ask the question in another way. If this customer were to come directly versus if he were to subscribe to the mutual fund scheme via our platform, what would be more remunerative for us?

Shilpa Kumar: Sorry, come directly to our platform you mean?

Umang Shah: So, there is an HNI customer, if he were to subscribe to the same 100 units of the mutual funds via our platform versus subscribe to 100 units of mutual fund directly, but using an advisory fee, which would be more remunerative to us?

Shilpa Kumar: If he goes directly to the mutual fund then there is no question of remuneration to our platform.

Umang Shah: Nobody gives the fee, right?

Shilpa Kumar: If he is coming to our platform, investing directly in mutual funds through our platform, then he in turn is paying us an advisory fee which is linked to and hence grows with AUA So that’s how it works really.
Moderator: Thank you. Our next question is from the line of Madhukar Laddha from HDFC Securities. Please go ahead.

Madhukar Laddha: A couple of questions from my side. Number one, I see this other income line item of ₹ 22.4 crores for the year, can you just explain what that is?

Harvinder Jaspal: Yes. Madhukar, this is an interest that we have received on one of the income tax refund pertaining to assessment years 2007-2008 and 2008-2009. In that sense, it is a one off and not related to any particular business and therefore shown as other income. So out of that ₹ 224 million, ₹ 207 million to be precise, pertains to this interest on income tax refund that we have received in this quarter.

Madhukar Laddha: Okay, got it. I also see a line item impairment on financial instruments, so for the year this is at about ₹ 26.9 million, it is a small number but is this something to do with the change to IndAS?

Harvinder Jaspal: That’s right. So if you look at this line item in our format, so this is basically in compliance with the format as issued by MCA for all the NBFCs who are adopting IndAS. Under IndAS you are supposed to take in an Expected credit loss provision for any kind of financial asset, irrespective of a default event or not. For that we follow an internal ECL competition on all our receivables as well as loan products, the sum total of all that based on our ECL methodology is a P&L impact of about ₹ 2.7 crores as of reporting date.

Madhukar Laddha: Got it. But for the financial instrument it is kind of a mark-to-market?

Harvinder Jaspal: No, the mark-to-market impact for financial instruments is disclosed in line called fair-value. This line item deals with ECL impact on financial instruments which are not under mark to market.

Madhukar Laddha: Understood. So the second thing I noticed is that brokering yields continue to fall, so this quarter again we are about 64 bps and from
1st April we have seen Angel and Axis go towards a fix broking or a subscription model. So what are your thoughts on that? It seems that the competitive intensity of the industry is increasing and I also think that in your opening remarks you mentioned that you launched a prepaid plan, so can you also comment a little bit on that as to how does that change pricing? And is that also a fixed price subscription-based kind of a plan?

**Harvinder Jaspal:** There are three parts to your question, Madhukar, I will attempt to take one-by-one. The first is with respect to your query regarding the trend of reduction in yield last year to this year. As we have been guiding in the past as well, one of the biggest reason for the calculated yield i.e. retail brokerage divided by the ADTO, to fall is the product mix. For FY2019 the market, the derivatives ADTO continues to grow at upwards of 55% whereas on the equity side the volumes were flat to slightly down on a YoY basis at minus 1 to be precise. As a result of that the calculated yield appears to be coming down. Internally we look at the average revenue per user and not really yield per say. That’s the first part. Second part, yes, competitive intensity is there in the market, more so for customer acquisition. We have always had a bouquet of tactical pricing products available, e.g. prepaid being case in point, which is a way of catering to a more price sensitive customer. It is a win-win in a sense that the customer gets the superior value proposition of our platform coupled with a very competitive pricing and we get a price sensitive customer who is retained With the new Prepaid plan which Shilpa spoke about, we have further made the product pricing more competitive in order to attract a wider canvas of the same price sensitive customer. This has been our strategy to offer very sharp differentiated product/pricing propositions which is relevant to a particular customer class. So we continue in that direction and we believe that this will help us in further improving our overall client engagement going forward.
Madhukar Laddha: Sir, just a follow-up. One, can you explain the yield, differentiate the yield in terms of how much is it because of mix and how much of that is because of pricing? Second, can you give a little bit of actual details of the prepaid plan as to how much additional money, is it life time prepaid? And what are the actual rates that a customer is getting, is it like now gone to a per order sort of a pricing or do we sell at a percentage of value driven pricing, how’s the latest plan?

Harvinder Jaspal: Sure. Our prepaid book is roughly about ₹ 260 crores as on balance sheet date. Here there are prepaid card denominations ranging from ₹ 10,000 right up to ₹ 3 lakh. At the ₹ 3 lakh denomination earlier the pricing that was offered was up to 12 basis points which now in the revised competitive offering is up to 9 basis points. The manner of charging still continues to be ad-valorem. The reduction has happened on a slab-by-slab basis.

Moderator: Thank you. Our next question is from the line of Ravikiran Surana from Infina Finance. Please go ahead.

Ravikiran Surana: My question is on this revenue sharing arrangement which you are talking with ICICI Bank. So firstly, is it applicable to only the customer which you are going to acquire henceforth or to the existing pool of customers? And what is the nature of this arrangement, is it for a particular time period of in perpetuity?

Shilpa Kumar: First of all let me explain, this is for clients who I-Sec will acquire newly. I think one of the question which we used to always get from analysts was what are you doing to increase your market share with existing bank customers. And I think this revenue sharing arrangement addresses that aspect because this would encourage the bank team to go out as well as to also look for existing customers of theirs to become customers of ICICI Securities.

Ravikiran Surana: But your current pool of customer, you don’t have any revenue sharing arrangement with ICICI Bank?
Shilpa Kumar: That’s right, and as we would have explained earlier that’s because of the three-in-one arrangement where we actually get the brokerage while bank gets the benefit of deposit and DEMAT. But also let me explain that we had another arrangement with bank which will also continue which is that when bank and us jointly source clients we also have certain products which we jointly kind of go out and offer to customers. And those have been very helpful in actually adding new clients to both bank and to ICICI Securities. I think what this does is actually directly talk also to existing clients of the bank which can now we can look to acquire for ICICI Securities.

Ravikiran Surana: And this arrangement is only for the broking customer, it has nothing to do with basically mutual fund product which you will be selling to your clients?

Shilpa Kumar: You are absolutely right. This revenue sharing arrangement is clearly only for broking. Further as you would be aware that for bank customers, we have a seasoning period during which we would not actually offer mutual fund products and other kind of distribution products to bank customers.

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

Prakhar: Hi Shilpa, Harvinder, this is Prakhar. Thanks for clarifying on this previous question on the arrangement, on that part just can you clarify, is it on an acquisition basis or is it on the business being done, so it will be like variable base from the business originated?

Shilpa Kumar: No, revenue shared would be on business generated.

Prakhar: Sure. The other thing I wanted to check is, one, in terms of your relationship manager numbers it has declined from about what was like 1,450-odd now to about 1,200-odd. So what is the thought
process there? Second, I don’t see a mention of initiative like e-ATM, etc, so could you just give us a little bit color on that part?

Shilpa Kumar: Yes. One of the important element of our strategy is that there has been a lot of focus on automation and simplification across our processes like acquisition, etc. Now the direct implication of that is greater productivity which in-turn really means that the number of people we would need in the company need not grow. Further to the extent, there were people who were engaged in things which were, what would I say, taking a lot more time earlier in terms of acquisition. There is an enormous opportunity to upscale and rescale teams to actually work on I would say even more important things to the company from a productivity and revenue perspective. With respect to eATM, I would say, as of now, we offer it only on BSE. At the time of launch, other exchanges also reached out to us looking at launching it there. We have seen a good pickup of this product in our client base. This along with our new prime product to some element also, which has this liquidity feature also resulted in good pickup amongst our newly acquired clients.

Prakhar: And lastly, Harvinder had clarified on this impact of TER on a blended basis next year, just wanted to get a clarity, whether the 30% like to like Y-o-Y ballpark, is it based on the FY2019 full year run rate or Q4-FY2019 run rate?

Harvinder Jaspal: One way to think about it, Prakhar would be FY2018 which did not have any regulation and FY2020 which will have all four regulation setting in, so you have done a like to like comparison, let us say of FY2018 to FY2020 and that is where we are guiding a 30% decline on a revenue basis.

Prakhar: So ideally like first half when there was no regulatory change versus the new run rate, is that correct?
Harvinder Jaspal: Our first half also had a bit of an impact Prakhar, although relatively lower. The first circular came into effect in February, that was followed by second circular in June and the third one was October. Therefore it is very difficult and it may not give the appropriate guidance if we take any of the quarters because it will all be mixed. It will not be another 30% from Q4 of this year.

Moderator: Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Maa’m, I wanted to know that I see there is a significant amount of cash that has been put on your balance sheet, which is I think double of last year, any reason for that?

Harvinder Jaspal: Dhruv, that is actually our payable with respect to one of our OFS transactions. On balance sheet date, we still had a payable, which subsequently got cleared on 5th of April if you see cash and cash equivalent, there was a ₹17 billion or ₹1,700 crores increase which was the deal value. Similarly on the payables, you will see an equal and opposite impact of payables going up by same ₹17 billion.

Dhruv Jain: And on this agreement that you guys has signed with ICICI Bank, I just wanted you to know that you guys mentioned that the 3-in-1 that we used to do earlier, now you are going to do it through this revenue sharing agreement and this is only for the broking business?

Shilpa Kumar: These are two different things, so the revenue share is simply a mechanism for actually helping with in a sense much greater client connect between I-Sec and ICICI Bank, so these are two separate things that we are talking about.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.


**Amit Premchandani:** On this new arrangement that ICICI what happens to the revenue share if any with the existing client of ICICI Securities, is there any sharing mechanism for that also?

**Shilpa Kumar:** No. That is not envisaged, the arrangement will only have prospective implications.

**Amit Premchandani:** And all the 3-in-1 accounts which you will open in future will have the same terms like the existing 3-in-1 accounts, right?

**Shilpa Kumar:** Yes, like I just answered in the earlier question, these are two separate things that we are talking about.

**Harvinder Jaspal:** To clarify, 3-in-1 is the product which remains the same. The revenue share does not impact the product preposition. It is our arrangement with ICICI Bank for acquiring new customers.

**Amit Premchandani:** So going forward, if 50% of accounts are acquired through say, 3-in-1 and 50% through the existing ICICI Bank account converting to 3-in-1, what is the revenue share between the first and the second business? How does the revenue share move between these two mechanisms?

**Shilpa Kumar:** No, let us just clarify, if there is a customer who already has 3-in-1, is already an I-Sec customer, so there is no revenue share there. We are talking about revenue share where customer who may have had a bank account, but did not have a demat or a broking account and now converts into a 3-in-1.

**Amit Premchandani:** And going forward, if you open a 3-in-1 account, nothing changes?

**Shilpa Kumar:** If ICICI Bank opens a new 3-in-1 account it merits the revenue share.

**Amit Premchandani:** And if ICICI Securities opens a 3-in-1 account?
Shilpa Kumar: In this scenario, it is not a client sourced through bank and since this agreement is only for a client sourced through ICICI Bank, there won’t be any revenue shared.

Amit Premchandani: And say, one quarter back, there was a 3-in-1 account which was opened through ICICI Bank, what was the revenue share at that point of time?

Shilpa Kumar: No, there was actually no revenue share on that and which is why I would point out that one of the questions we were often asked was why market share within bank customer base is not growing and what we figured after thinking through about how an ICICI Bank employee thinks on the ground was that for our market share with ICICI Bank to increase. It would be important to have a product proposition which really spoke directly to the employee.

Amit Premchandani: And what percentage of the 3-in-1 account has sourced through ICICI Bank?

Shilpa Kumar: Currently, bulk of our account are sourced from ICICI Bank.

Amit Premchandani: Which means incrementally bulk of the accounts, which are sourced even through 3-in-1 will have this revenue share which was not there earlier?

Shilpa Kumar: No, let me explain this to you. If you remember the second pillar on our acquisition strategy was the whole digital acquisition process which we have launched and which will help our own sourcing of customers digitally to go up because we have also architected our processes differently from what we were doing earlier in terms of online acquisition. So that is the first point. The second point is obviously with bank, this is to actually get a much greater push in terms of client acquisition from bank and again I would say to you that one of the questions we always got asked was, the market share
that we have of existing ICICI Bank customers and this revenue share is really meant to address that in a very direct way.

**Amit Premchandani:** Profitability of a customer of ICICI Bank 3-in-1 which was say ex one quarter back, how does it change after this arrangement?

**Shilpa Kumar:** I think the important thing will be that while there will be a revenue share over here, the fact of the matter is the increase in customer acquisition that we expect will in a sense far outweigh the cost of this arrangement.

**Moderator:** Thank you. The next question is from the line of Pratik Poddar from Reliance Mutual Fund. Please go ahead.

**Pratik Poddar:** Ma’am, just continuing, sorry, with this revenue sharing arrangement, essentially what you are saying is, just correct me if I am wrong, out of 4 million dormant I think 1.2 million are active customers, 4 million are total customers which we have, so there is a pool of dormant customers whom now ICICI Bank will target to convert them into say, active broking, right?

**Shilpa Kumar:** No, let me pause you here, 4.4 million are ICICI Securities’ customers, we don’t need to pay anyone anything to activate them and that is very much a part of our strategy of client engagement. There are multiple other things we will be doing to engage with customers, across products, across pricing options, to get that activation up. What we are talking about with respect to the revenue share arrangement is the total number of ICICI Bank customers and how we can energise the conversion of those customers into ICICI Securities customers.

**Pratik Poddar:** You also talked about AUA. Is that AUA number as of now is very small and is that is the reason why it is not disclosed in the PPT or you will incrementally go ahead and start building AUA?
Shilpa Kumar: Let me put it this way, (A) the kind of growth we have seen, we are encouraged by the AUA number. I would say that of course there are two things which we have so far not disclosed, one is the wealth AUM as well as AUA and I guess what we are doing is waiting for this to kind of stabilize a bit and then of course report it to you, in fact, like I explained earlier, all the initiatives which we had rolled out, this should give us momentum, not just in AUA or AUM terms, but also in terms of our client acquisition, client engagement, so I think may be in the course of the next 6 to 12 months, I-Sec would be in a much better position to share some of these numbers with you.

Pratik Poddar: Ma’am, just one question on the MF average AUM which we have given, if I were to look at Q3 versus Q4 and this is equity AUM which I am referring to, it is from ₹ 25,400 crores to ₹ 26,000 crores. If I were to assume quarter-on-quarter, Nifty or the Index has gone up by 10%, so is it fair to assume that there is a net redemption in this number? That is the reason why ₹ 25,400 is not broadly closer to ₹ 27,500, it is closer to ₹ 26,000?

Harvinder Jaspal: Yes, redemptions would be a factor for the quarter to quarter movement and that has been one of the themes for this year i.e. slowdown in the net inflows for the industry in FY2019 slow down compared to last year.

Pratik Poddar: Just two questions, one is on prime plan ma’am, I think that got missed. Could you just talk about what is this prime plan, I mean there is one fixed element which you pay whatever would be a subscription, after that how are the broking yields, if you could talk about that?

Shilpa Kumar: I think the idea behind prime is first of all to offer a subscription plan. The plans range from ₹ 900 to ₹ 9,500. Second thing is, it gives you a lower brokerage and that lower brokerage ranges between 15 to 25 basis points, but more importantly, it also gives you liquidity of
up to ₹ 25 lakh in a 30-minute cycle. So what we are doing is it is actually a package, it is a package of certain brokerage, it is a package of liquidity and in return for that also, there are something like currency trading for free, may be some exclusive research recommendations, so it is a full package deal which will be fairly attractive to customers and it stays with our philosophy that what the customer wants is not just price, but the customer wants is a mixture, of course, he is sensitive to price and I think that is really taken into account in the whole brokerage rate that are there but also what he is sensitive to is his other needs, it could be liquidity, ₹ 25 lakhs is not a insubstantial amount, which you can get in your hands in 30 minutes, so all of this is put together and offered as part of the prime package.

**Pratik Poddar:** And how much is the true cash and bank balance ex of this OFS around ₹ 1,300 crores, is that a fair understanding?

**Shilpa Kumar:** Yes, approximately that.

**Pratik Poddar:** And ma’am you have launched your own PMS right?

**Shilpa Kumar:** Yes, that is correct.

**Pratik Poddar:** So you would be basically selling in-house as in we will be the manufacturer of this product?

**Shilpa Kumar:** Yes. So we have a PMS license and this product is offered under our PMS license. Why we feel excited by it is because it is a move into advisory or manufacturing as you could call it, but also the second thing I would like to point out is it is an ability to really offer different product propositions within this PMS wrapper and different pricing and revenue streams for ourselves. So the product we have launched currently, it is a passive two-factor model and we think it is a very interesting option targeted towards our HNI clients.
Pratik Poddar: But would you move into active management or it is the only factor that is what your focuses as of now or can you manufacture active if you want?

Shilpa Kumar: So the way we are looking at it is actually two-fold. One is we think there is a very exciting space in the passive area. We also think it is a useful platform for curating active fund managers and that is something which we will look to do. The first product which we wanted to launch was the passive one, but the other thing that we could do is actually curate under our PMS wrapper with chosen and curated fund managers for active PMS management.

Pratik Poddar: So you would launch active PMS right if at all you want to or you will?

Shilpa Kumar: So let me put it this way. Yes, we can. Yes, we will consider doing so. If your direct question is at this point, for us more than fund manager of our own we think it is an exciting opportunity for us to collaborate with fund managers to put together PMS products.

Pratik Poddar: Ma’am just one last question. On the RM declines, you talked about automation, but I did not understand, RMs and automation, could you just explain this a bit sorry?

Shilpa Kumar: So you mean our employee base right?

Pratik Poddar: There was a reduction of around 200 RMs, relationship managers right and is it purely because of automation that you have reduced to 100 RMs or?

Shilpa Kumar: No, so I may be answered the question differently. While you might have asked this specific question, I gave you more answer in totality. So the larger answer is really that because of automation and productivity, I think the company would largely be moving towards a much linear organization. At the same time, I think I want to also
admit that the employee base we have, we have invested a lot in training our people in skilling them and therefore even if let us say one part of our business actually saw greater automation and maybe kind of a change in process, I think the way we looked to handle our workforce is to actually reskill them and maybe move them up the value chain so that there is overall greater productivity for the company as well. So I answered your question actually at a company wise level. Of course at an individual team level, there could be attrition, but the point of the matter given a broader approach and given the fact that a lot of what we are doing is also going digital, maybe at some point we might choose not to refill some of the positions that get vacated.

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

Siva Kumar: Just one question with regards to the 4.5 lakhs accounts which have been added this fiscal. Ma’am how much of this 4.5 lakhs accounts have been sourced from ICICI Bank? If you have launched this revenue arrangement last year, how many of this account should have qualified for the revenue arrangement?

Harvinder Jaspal: So as Shilpa referred to, I mean a substantial portion of the 4.5 lakhs comes from ICICI Bank in terms of our overall offering. So out of the 4.5 lakhs, about 75%-80% would come from ICICI Bank.

Siva Kumar: And please correct me if I am wrong. So incrementally any account which has been sourced from ICICI Bank you would be sharing the brokerage revenue with the Bank, right, across the life time of that client?

Harvinder Jaspal: No, it is not life time of the client. We have kind of a specific arrangement which is for a limited period, not life time of the client for new customers which are required.
Siva Kumar: I See. Because ICICI Bank already is being incentivized by making it the DP for all the accounts, right? So why this specific incremental revenue sharing which you are bringing into the equation?

Shilpa Kumar: Yes. So you will appreciate that as one of the things we discussed on the call is that calculated brokerage yields have come down. When that happens the overall payment that happens across even depositary etc. all of that would also get impacted and specifically, when it comes to new customer activation and acquisition, given the franchise that someone like ICICI Bank has and the potential of an existing revenue giving customer to be offered what is indeed a powerful product in terms of ICICI Direct, we put all of these things together and we tested it for the kind of growth that we could get in terms of client acquisition if we entered into such a revenue share agreement. So obviously, the entire result of this discussion to us was that we think it could give us a pretty significant increase in customer acquisition for which we would end up sharing revenue.

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

Harish Kapoor: So just one thing. Sir you mentioned that, you know you kind of measuring your client base based on ARPU, was that for the brokerage fees?

Harvinder Jaspal: Yes, we did make a reference to the question on yields, that internally we look at ARPU and in context of the yield movement, we were trying to say that a derivative yield obviously is much lower on a calculated basis compared to equity and it doesn’t discourage us as management to engage with the customer who is interested in derivatives. Our portfolio has both of them and the net result is average revenue from that customer and that is what is meaningful for us.
Harish Kapoor: Just to put some numbers to that. So technically for this quarter for example, you would be taking the brokerage and you would be kind of dividing it with overall active clients or just the NSE clients?

Harvinder Jaspal: NSE active and Retail brokerage would be comparable two numbers.

Harish Kapoor: Sir, it was basically if we divide it by 1.2?

Harvinder Jaspal: No 1.27 million is our overall active, our NSE active number is 8.44 lakhs as of March 31st. For FY2019 retail brokerage divided by 8.44 lakhs NSE active will give you a sense of the average revenue per customer.

Harish Kapoor: Yes. So just wanted to understand, if I start looking at last year the revenue start looking at Q-o-Q few months back, now you mentioned that you are kind of monitoring this number and you know not for us to look at it from a yield perspective but from an ARPU. So now where do you see that number settling because if I start looking at it just from the NSE active client number parameter, so you know you kind of had last year obviously good year it was at 3,450 and Q2 was at 2,930 and now you are at 2,711. So where do you see this number actually settling down on a consistent basis considering you are kind of monitoring this number very closely?

Harvinder Jaspal: So let me clarify on that. One, it will be slightly difficult to predict a number on average revenue per user. So one of the impact as Shilpa also mentioned in her opening remarks is that, this year has seen a decline in terms of delivery kind of a volume and therefore that larger customer base shying away which gives us delivery volume. So, on a year-on-year basis it will be difficult to put guidance on the ARPU number. What we are trying to say was that supposing this number, the way you have said that it is 2,700 for this particular quarter, internally we would not say that if this 2,700 were to come from a derivative kind of a product or from an equity kind of a product for a customer, we will not differentiate and therefore we will not be
worried about the fact that the overall yield is looking like falling because as long as this ₹ 2,700 is either remaining intact or growing, whether it is coming from let us say a 100% derivative product or a 100% equity product, internally that is not a management metric that we are looking at. We recognize that, there are customers who would have different needs and we should have products for both of them as long as they are giving us the average revenue and they are engaged with us. These are the two most important parameters that our customers should be growing and they should be engaged with us. If they are with us over a long period of time and they are engaged, since we don’t have a lot of cost of carry, the average revenue eventually keeps on going up.

**Harish Kapoor:** Okay. I just want to clarify one thing, just on the Wealth Managers side we are still 300 plus, right, that is basically where we are? We have not seen downsizing in terms of that number?

**Harvinder Jaspal:** So the term downsizing I would slightly clarify. I don’t think that even in the other, the non-wealth side there is any kind of a downsizing per se which is being planned...

**Harish Kapoor:** So, what I mean is that what is the attrition there, technical, that is what I mean. So what is the attrition in that pool of 300 to 350, I think you had that number last quarter and you were trying to build that team over the last 2-3 quarters. So what has generally been the attrition in that employee base?

**Shilpa Kumar:** So I would say at this point we are broadly pretty much around same numbers that you had mentioned. I think for us right now the idea is to really get ARPU per customer up even in that space and if you see the interventions we have done for the HNI customer whether it is a Direct2U product, whether it is the PMS that we have launched, we believe all of this things will help us actually improve our overall yield and help us to increase our overall revenues out of the wealth
segment. Just in response to the earlier question, I also want to point out that all the interventions we have done this year, whether the interventions in terms of the partnership with bank, whether the intervention in terms of business partners, intervention in terms of our digital acquisition, I think what is going to happen is that at the first level we are indeed going to see hopefully improvement in the active client base and at a second level if you see what we have done in terms of product profile, the increase in products, the greater engagement I think will also attempt to increase revenue across all of these customers. Actually it is a dual play that we will focus on.

Harish Kapoor: Yes. So, last question from my end. You know this 330 plus Wealth Manager pool that you have, would you please quantify the MF AUM or Life Insurance premium attributable to these pool of employees because they seem to be managing certainly a large pool of HNI clients and 330 is a very strong number. So could you just help me understand from the 35,000 MF AUM and also the premium that is there, what could kind of be the number attributable to them?

Harvinder Jaspal: Let me just put these two numbers in context. The ₹ 350 billion that you are quoting in terms of our AUM is a product AUM on one of the product lines which is mutual funds. Apart from that and specifically with respect to Wealth, the most common or the most popular product line would be things like PMS, AIF, etc. where they are able to generate an alpha given the HNI kind of a clientele that we have over there. They do have a bit of mutual fund but that may not be the most important product for that business as a whole. It is more of a customer facing view of the distribution and our Wealth team is focused on an HNI kind of a clientele across all products. Their objective would be to try and increase the relationship value with ICICI Securities across all products be through cross sell, up sell etc. and mutual fund is just one of the products for that.
Harish Kapoor: Sir, basically the answer was, I was trying to understand is not that if you could just quantify or talk about some of the efficiency parameter for these pool of employee base, you know because a lot is not spoken about it till now and they seem to be very critical in terms of the overall scheme of things. So some measurable number, something that you talk about which kind of gives us a measurable sense on this?

Harvinder Jaspal: Shilpa did make a reference to disclosures around our wealth business. Once some trends in some of these numbers, e.g. assets under advice under our D2U product, wealth AUM etc., stabilize, we will keep evolving our disclosures. It is a continuous process e.g. in December we did add a few points to our disclosure. We will keep looking at it but as of now, we just want to look at it for a bit longer internally and will come back to you.

Moderator: Thank you. We will take the last question from the line of Jahnvi Goradia from Motilal Oswal Asset Management. Please go ahead ma’am.

Jahnvi Goradia: Just wanted to understand, so apart from just account origination in terms of 3 in 1 account, today how does the ICICI Bank RM or BM help engage with the customer in terms of broking revenues for us?

Shilpa Kumar: In fact that is Jahnvi the whole point which we were discussing earlier that our current arrangement was very much focused on actually acquiring a client for ICICI Securities and not really focused on improving the clients, let’s say, broking wallet share. And that is why one of the questions which we constantly got asked by analyst is what are you doing to increase your market share of existing ICICI Bank customers and indeed you would appreciate it is a big opportunity and the point you made actually is a very pertinent point that not only is it about just acquiring a customer for our business but also how can ICICI Bank be incentivized, when we talk about ICICI
Bank of course we mean the person on the ground, how can he be incentivized to help with our broking business and exactly the point you made, with the revenue share there will be also an incentive to make sure that not just is the client of ICICI Securities but also is he giving his broking business or her broking business to ICICI Securities.

Jahnvi Goradia: Okay. So will that mean that at the ground level the KRAs of the banks employees will be tweaked for this?

Shilpa Kumar: See, generally we cannot speak for the KRA of bank employees, but presumably most entities including maybe bank will have fee as an important part of every person's operating person's job and certainly this arrangement will talk to that.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Shilpa Kumar: Yes. Thank you. I think we have had a really long and I hope fruitful discussion today. Wish all of you Good Evening or Good Night given the time. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.