

ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended March 31, 2021 (Q4-FY21)

April 21, 2021

Operator remarks

Good evening ladies and gentlemen and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter ended March 31, 2021.

We have with us today on the call Mr. Vijay Chandok – Managing Director and Chief Executive Officer, Mr. Ajay Saraf – Executive Director, Mr. Harvinder Jaspal – Chief Financial Officer, Mr. Vishal Gulechha – Head Retail Equities, Mr. Kedar Deshpande – Head Retail Distribution, Product & Services Group, Mr. Anupam Guha – Head Private Wealth Management, Mr. Subhash Kelkar – Chief Technology & Digital Officer, Mr. Ketan Karkhanis – Head Retail Distribution business and Mr. Prasannan Keshavan – Head Operations.

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

The business presentation can be found on the company's corporate website, icicisecurities.com under Investor Relations.

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

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

Mr. Vijay Chandok

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

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

As we have all experienced, FY21 was an unusual year and at a time like this, I feel it is imperative for us to reassess the opportunity that ISEC has been pursuing. As we do this, we find that the medium term drivers of the opportunity which include increase in financialisation, preference towards equities, increasing formalisation and growing affluence, remain intact. In fact, pandemic seems to have frontloaded the digital aspects of the opportunity as is reflected in growing participation from new comers in the financial markets and increasing penetration of financial products in tier II & III cities.

Having said that let us now shift the attention to our quarterly performance, I am sure by now you would have already perused through our quarter four results. Our company has continued progressing on its strategy and we are very pleased to report that for the current quarter, our company's Q4-FY21 revenue stood at ₹7.4bn, a growth of 53% and Profit After Tax (PAT) stood at ₹3.3bn, a growth of 111%. We continued to focus on enhancing operating leverage, resulting in reduction in branch and employee count, consequently bringing down our cost to income ratio to 40%

and increasing our ROE further to 81%.

We are happy to report that following these results, our Board of Directors have approved a final dividend of ₹13.5 per share vs ₹6.75 per share last year, taking our total FY2021 dividend to ₹21.5 per share up from ₹11 per share last year, resulting in dividend pay-out ratio of 65%.

As we look back at FY21, it will be important to point out that we have further strengthened our franchise and our client base has increased to 5.4mn. Assets of our clients with us grew by 85% to over ₹3.8 trillion, driven by all-round growth across businesses.

Our asset light business model has held us in good stead and has inherent strengths like virtually no inventory and supply chain risk, low credit and receivables risk, strong liquidity position; all of which are very desirable aspects particularly in the current environment.

Further, our business model is highly digital and scalable, with more than 96% of mutual fund transactions and virtually all equity transactions are done online. In addition to this in the current year, our business has become more open architecture with the introduction of digital sourcing, addition of new health insurance partners, new distribution partners like Federal bank. We now distribute more than 50 products and services through our platform. These aspects of our business model has helped us generate a high ROE and also helped a diversified retail revenue stream from our clients.

Our digital sourcing engines have started adding customers at a faster pace and have helped us more than triple our monthly sourcing run rates as we are exiting the fiscal year. It is also interesting to note that ~52% of the customers acquired in FY21 were below 30 years of age and more than 65% came in from tier II & III cities. All in all, in

FY2021 our franchise strengthened, our business become more open architecture and we added more products, helping us diversify our revenues across various retail product revenue streams.

Let us now have a brief look at the market environment along with some important updates and performance of our business segments for the quarter:

Equity markets continued their strong run, benchmark index NIFTY increasing by 5% in the quarter. Over 5.3mn new demat accounts were opened in this quarter and equity and derivative ADTO increased by 70% and 120% YoY respectively. Buoyancy in equity capital markets continued and we saw 45 deals in the current quarter as compared to 13 in Q4-FY20. On the regulatory front, the second phase of new uniform margin norms was implemented across industry from March 2021. Over the years we have witnessed that the regulatory changes have led to an orderly growth of the market. What we have also experienced is in instances where volumes get impacted upon implementation of new norms of regulations; typically, they resume growth after a transitory phase.

In line with this trend, we find that the equity ADTO for the industry declined in March 2021 vs Feb 2021, whereas the ADTO for derivative segment was largely unaffected. It is interesting to note that, equity ADTO for March was at levels similar to that of Nov 2020 and the derivative ADTO was higher than Nov 2020, just before the first phase of these norms were implemented, reflecting the resilience of the market and also the trend that I spoke about.

In the backdrop of these developments in the industry during the quarter, our efforts to invest resources and scale up digital sourcing has started to show results. We added ~3.5 lac customers in the current quarter, our highest ever in a quarter, driven by the digital channel adding ~ 2.25 lac customers in the quarter, up from ~38,000 in Q3-FY21. We have diversified our sourcing mix with our non-ICICI Bank sourcing

channels, i.e. digital sourcing, business partners channel and our own RM network together are now contributing more than 55% of accounts sourced. Our persistent focus on quality has helped us achieve an activation ratio of 84% for the quarter ended Mar 31, 2021.

The scale up in our sourcing coupled with healthy adoption of our product propositions has resulted in our NSE active client base growing by 47% YoY to 1.58 million as at Mar 31, 2021. We added approximately 145k NSE active customers in March, achieving an incremental market share of ~16% in March 2021, up from ~1.5% in April 2020.

In our equities business, as a result of implementation of phase 2 of margin regulations we did see some de growth in equity and derivative turnover for March as compared to February. Our market share in equity increased by 50bps YoY; however, it was down sequentially by 90bps. Our market share in derivatives for the quarter fell by 40 bps from the December 2020 levels.

The reduction in market share is primarily on account of the new margin norms which has impacted one of the key differentiators for us i.e. being able to provide better leverage to our clients on back of our robust technology and risk management systems and also higher contribution of intraday in our product mix as compared to the market.

We are focused on driving market share and have adopted a multi-pronged approach / twin strategy for this important business segment. First we have launched Neo, an extremely competitive plan, targeted at attracting this price sensitive trading segment. Second, we have launched a plethora of tools and solutions like iTrack, iAlert, iLens and Payoff analyser which are important enablers for this segment. Last but not the least, growth in number of active clients by acquiring new clients and activating existing clients. We believe that these initiatives will position us strongly

in this segment. Although, it may take a few quarters to witness the impact of measures to gain volume market share, initial signs are encouraging as we are witnessing traction in customer share.

Our revenue in this business increased by 38% year on year driven by higher equity ADTO which grew by 78% YoY. On a sequential basis, the retail brokerage revenue increased by 7% despite the lesser number of trading days in the current quarter. The growth in revenue, despite a decline in market share, was primarily driven by

- i. growth in number of customers trading
- ii. better volume mix of segments not impacted by margin norms like delivery volumes
- iii. low revenue salience of the volumes impacted by margin norms e.g. decline in derivative revenue in March as compared to February represents just 1% of total equity revenue for March and lastly
- iv. Our focus on non-brokerage streams of income, like interest income from ESOP & MTF books which doubled YOY, NEO subscription fees, Prime fees and other fees and charges has helped us diversify our equities business. These allied sources combined are now contributing 20% to our retail equities and allied revenue vs 15% in Q4-FY20.

In order to augment our monetising capability and to enhance customer experience, we launched a slew of initiatives recently. We launched global investing platform which has attracted ~3,900 customers and remittances of ~\$ 14Mn. Our one click investments are being appreciated by the customers and ~85k equity portfolios have been subscribed till date. We also expanded our portfolio by launching commodities, where we have added 50k customers since its launch. Our partnership with Federal Bank for offering 3-in-1 accounts will add momentum to diversification of new account sourcing going forward.

Our institutional equities revenue grew by 30% YoY aided by consolidating our

position among the top domestic institutions and strengthening FII franchise.

Our Issuer Services and Advisory business revenue increased by 441% YoY as we executed 15 investment banking deals in the current quarter as compared to 2 deals a year ago. For FY2021, we were ranked number 1 in IPO/FPO/ InvIT/ REIT issuance with a market share of 78% and were ranked number 2 amongst domestic financial advisors by number of deals in merger market league table.

Moving to the distribution business, gross flows for the industry into mutual funds remained subdued and were down by 37% YoY. While there were net outflows in the industry; equity mutual funds witnessed net inflows after a gap of 7 months in the month of February and the flows increased further in March. Also, monthly SIP inflows reached record highs of ₹92 billion in March 2021.

Our Mutual fund revenue grew by 22% aided by our sustained focus on the input parameters. Our market share on overall gross flows increased from 0.18% to 0.31% and on SIP flows from 3.29% to 4.05%.

We are pleased to report that we disbursed total loans worth ₹ 5.3 bn, our highest ever quantum of loans for the quarter, as compared to ₹ 2.2 bn during the fourth quarter last year.

Our non-MF revenue grew 29% YoY, aided by strong growth across investment products like PMS, Sovereign Gold Bonds, AIF, life insurance and loan products. As a result of growth in our mutual fund and non-MF distribution income, our overall distribution income registered a growth of 22% YoY.

We are continuously working on improving customer experience and launched various initiatives in this direction. Our one click solution, aimed at simplifying the experience of mutual funds for our customers, now contributes to 16% of new SIPs

and has been a key contributor to strong growth in our SIP market share. We launched our ICICIdirect Money app targeted at mutual fund investors to simplify and decongest their investing journey. We went open architecture on health insurance which helped us scale the number of policies sold by 4x year on year. Our focus on micro-segmenting our client base and providing a personalized experience using analytics, new age tools etc. has helped us improve our NPS scores and cross sell ratio. Our cross sell ratio increased to 1.78 versus 1.64 in Q4 last year. During this quarter, our customers with two or more products increased to more than 1 million, up 10% YoY. The increased engagement was reflected by our overall active customers that increased to 1.91 million, a growth of 29% YoY.

Our wealth management business, registered revenue growth of 82% driven by increase in total assets of our clients to ₹ 1.7 trillion, a growth of 102% YoY and increase in yields to 0.40% from 0.37% a year ago. We added 4,700+ clients to our wealth business segment taking total clients to ~47,400. We also scaled up our proprietary PMS AUM to ₹ 2.2 bn, a growth of ~100% YoY. We introduced Premium portfolio, a curated research backed solution for HNI clients, on boarded over 500 HNI customers.

To sum up, we believe pandemic has frontloaded the digital narrative and accelerated the market opportunity. Digital infrastructure, analytics and behaviour shifts are coming together imaginatively and we at ISEC are very well positioned to take advantage of this opportunity with help of our articulated strategy in a digital and open architecture format.

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

Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Malhar H Manek, an individual investor Please go ahead.

Malhar H Manek: I have a couple of queries. Firstly, I have a fundamental question about our business model. We are into both investment banking as well as full service broking where we publish research report. So, I believe that can be a conflict of interest, because we will not initiate a sell report on your listed investment banking clients irrespective of their business fundamentals or valuation, just to maintain a good client relationship. So, what are your thoughts on this conflict?

Harvinder Jaspal: As you know, we are present across different business segments, Investment banking being one of them. Our research team reports directly to the MD and is governed by best practices around Chinese Walls and various other regulatory requirements to ensure that our research is completely independent. Stock recommendation by analysts is at their discretion and their performance is assessed on the basis of their ranking with investors.

Malhar H Manek: But in that case, will not impact our relationships with the investment banking clients?

Harvinder Jaspal: We enjoy a dominant share in investment banking based on our relationship with corporates and our ability to execute. On research side, the relationships are with the buy side and even there we enjoy pretty decent rankings from our investors due to our ability to service them with our independent research coverage. In fact, it adds as a strength because we are a full

service house and are able to service a broad cross-section of needs across product and business segments.

Malhar H Manek: My second question is that our profit growth in the recent quarters has been largely on account of the increase in the retail investor participation post the COVID crash and the rally in the market. So, to what extent do you think this growth is sustainable?

Harvinder Jaspal: Our revenue for the quarter grew by 53%, registering growth across all the business segments. The retail brokerage revenue grew by 38%, allied broking revenue, which is our diversification initiative, grew by more than 100%. Our distribution revenue grew by 22%, our private wealth revenue grew by 82%, our institutional equity revenue grew by 30%, and our issuers services and advisory services income grew by more than four times. So, growth has been all across business segments and not just driven by retail participation. But, we do acknowledge that retail participation has increased and that has helped us in our retail equity business.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers, please go ahead.

Kashyap Jhaveri: My two questions are first, if I look at your market share in derivatives, the decline seemingly is much, much sharper than probably what our commentary has been for last about two quarters post those regulations were announced. Any strategy in place to recoup that market share? And consequent of that loss of market share if I look at your revenue per client at about ₹9,500 or let us say about 38 to 40 rupees per client per day, it is like a multi-quarter low. So, what are the strategies that we are adopting to

push that number up given the client addition has been very strong? The second question is in terms of our non-mutual fund distribution revenue. There would be some base effect in the same quarter last year because distribution was probably closed for about 15-days in March last year. So, what is the steady state run rate that one could expect in that particular business?

Vijay Chandok: If you look at our commentary from our last earnings call, we specifically gave out the market share of derivatives month wise, compared to our usual disclosure of market share for the quarter, and it showed that our market share in December had come down to about 3.4%. The commentary clearly reflected that derivative has been impacted on volume market share and we also explained that the decline in market share was offset by gains in revenue on non-derivative side. We had also said that the biggest impact had already been factored in and going forward, the impact may not be that high, which is what actually played out. We also said that the revenue salience is not much which has played out both in December as well as in the Q4. We had spelt out a series of initiatives that we are taking to recoup market share and I will just reiterate some of the points quickly. To win in this space, there have been historically three levers; one lever has been leverage; second lever has been pricing; and third lever has been a set of tools. Ideally, you should have all three to be the best player in the market. Most players pick two out of the three. Our choice was on leverage because we have a great risk management system and a strong balance sheet. With the coming of these norms, that lever is no longer relevant to differentiate. So, we very rapidly introduced the plan called the NEO, which is the most attractive trading plan in the Indian market, where we charge

₹20 for an intraday equity, ₹20 for intraday options and zero for futures. Apart from that, you need to improve experiences and provide tools. All of that has been identified and we have started introducing them one-by-one. I gave a list of some of the tools during my opening remarks. Some tools have just been launched and more tools are coming, including algo tools, etc., that are required to gain traction in this segment. Now that we have a good proposition, we have introduced tools, a few other tools in the pipeline, and we have growth in customer base, this triumvirate has to come together in a meaningful manner to start showing volume growth. As I have said that this is not going to happen in a short time, it is going to be a multi-quarter playout before we can start seeing the improvement and impact on market share.

Harvinder Jaspal: To your second question, our ARPU for retail equity and allied business has actually gone up; it was about ₹8,700 for FY'20, it is now at about Rs. 10,100, a growth of about 16%. This takes into account the entire NSE active base and we must recognize the fact that we saw a surge in client acquisition towards the last quarter. Although the huge number of clients have come in in the last quarter, they have really not got a full opportunity to start giving a 12-month revenue, but despite that we have seen a 16% growth in ARPU and not really a decline.

Kashyap Jhaveri: Just one clarification over here on the market share side. If I look at our cash market share also, it was about 11%-plus then went down to about 10.5%, now it is about 9.5%. So, the gains that we did over the first half of FY'21, by the end of the year we were in March '20, plus about 50 basis points versus March '20. So, in cash what is happening? And the second question then was about non-

mutual fund distribution income or let us say non-mutual fund as well as non-insurance, the distribution income, which is there in the presentation.

Vijay Chandok: On the cash equity side, you have intraday and delivery. While you said that the market share gains of the earlier period have been reduced consequent to this, the mix where it has reduced is different. Actually, it reduced in intraday and not really in the cash delivery side. In fact, in cash delivery, although the data does not come out intuitively, one can guess we would have gained. Given that reality, you have seen growth in our equity revenues. This volume is not an amorphous volume, it has got different segments and different segments offer different yields. What we gained is the higher yield, what we lost is the lesser yield. If we look at the headline numbers, you are right in saying that the market share loss is equal to whatever we gained previously, but the revenue impact of the two are not same. That said, I think, we are on a far better wicket today with far more competitive capabilities than we were ever in the past even when we were gaining, which gives us the platform on which we can build. It is just a few months into the launch of our competitive products and we are quite hopeful that these launches will help us gain the market share in the times forward. But, we have to also factor in the point that there has got to be a settling down of the two more stages of norms i.e. phase-III and phase-IV and simultaneous market share growth that we are attempting, both these have to be seen and played out to start seeing the full impact of our market share growth assumptions.

Harvinder Jaspal: On the second part, which is on the non-mutual fund distribution income growth, I will try to address it in two parts. One is, if you

look at last year, by the time the lockdown started, the quarter was almost over. So, for last year also we had registered a sequential growth in terms of premium, income, etc., in life insurance between Q3 and Q4. On that base we have grown both sequentially as well as on a YoY in a strong way in life insurance. We have also been able to improve our yield based on a better product mix, we have more protection, etc. Other than that, we have also been able to grow some of the other lines. For example, we have a very decent market share in SGB now. Our quarterly run rate of loan disbursement is now crossing ₹500 crores, which historically has ranged from about ₹200 to ₹260 crores. That is more structural aspect which has started giving results. Distribution and cross-sell are key areas of focus for us to grow active clients, revenue as well as ARPU.

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

Aadesh Mehta: My questions have already been answered. Beyond that I just wanted to understand that the market share will only be tighter over the next two quarters. Once this settles down, how do we plan to take up our market share in derivatives where we were saying a year back or so?

Vijay Chandok: As I was explaining in response to an earlier question, there are three vectors of competition in the derivative segment, one is the ability to provide leverage, second is the ability to provide tools, and third is pricing. Historically, we have been competing on leverage. We are now competing on a combination of pricing and tools for better experiences. It is going to take a few quarters of effort before both these translate into growth in customers and

eventually growth in market share. It is not one quarter fix when it comes to volume market share growth. The point that I want to reiterate here is that the revenue salience of this market share loss is relatively lower and that is what is reflected in the fact that despite market share loss, despite having lower operating days compared to the sequential previous quarter, we have seen an overall increase in broking revenue on a sequential quarter basis. In fact, as we move forward, our basis of pricing is no longer volume, because we are pricing on number of trade. So, beyond a point volume gain will become less relevant for revenue. What is important is increasing customers & getting more trades, that is what will give us revenue. Increasingly, we are becoming detached with volume market share. Not fully there yet, but in the course of the future.

Aadesh Mehta: And in terms of our performance on client addition has been quite impressive this quarter. And I believe this would be mostly because of the revamped pricing we have done in terms of NEO and your clients. Just wanted to understand that, how do you do the revenue recognition for the fees which you get one on those kind of customers, this would be up fronted fee you would be taking from your customers, right?

Harvinder Jaspal: Any subscription fee gets amortised over 12 months and one time fees is recognized upfront. Neo is an upfront fee and Prime is a subscription fee.

Vijay Chandok: Most of our growth has not come on account of the NEO plan, actually, most of our growth has come because of improvement in customer experiences and customer journey and it comes through digital. In fact, we have not even introduced our NEO plan

on a digital journey seamlessly yet. We are integrating it and we are going to do that shortly. This growth in business has happened simply because we eased up the journey and decongested the whole process. The real impact of this plan will be in the future.

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

Sanketh Godha: My question is on the total retail broking revenue. How much is delivery contributing to our total revenue, because as I see the realization per ADTO has significantly increased by 68% in the current quarter, compared to what we were reporting last couple of quarters, so delivery which usually used to contribute closer to 50-odd percentage of our total retail broking revenue, how much it has been? And I just wanted to know that sustainability because I believe the bulk of that was because of the recent hyper IPO market activity where HNI customers would have taken the delivery, so just wanted to understand the sustainability of the delivery related income in our top line?

Harvinder Jaspal: For delivery revenue contribution, we have not put out the exact number but as we have said in the past, it is more than 50%. Typically, for the market we understand that it is quite equally divided, but for us salience for delivery is higher. Currently, yes, we have seen higher traction in the delivery volumes of investing customer segment. If you look at all the parameters like MTF, a product which is more focused on investing kind of client segment, delivery volumes, all those have shown good improvements. Right now, it is on a higher level of activity, it may moderate in the future, but having said that, it is a substantial

portion of the client share. So, for markets and for us also, a lot of clients are delivery or investing kind of a clients. Our endeavor is to be able to service all of them. Our Prime proposition is a very attractive proposition for an investing kind of a customer, that is getting traction, we now have more than 6,50,000 customers in Prime. Incrementally also, a good portion of the customers are subscribing to prime. So, that is not only a market mix, but the proposition is also attracting its own customer, and we are building on that scale of investing customers. We want to have a strong presence in trading customer segment as well as attract investing customer segment through our propositions.

Vijay Chandok:

I think never before in our history, we have had the best-in-class product for attracting both the investor profile as well the traders. When it comes to traders, they are very conscious of pricing, that is why our plan is the most competitive. When it comes to an investor, we give him liquidity, research and investment guidance. It is very compelling as nobody gives instant liquidity in the market. So, very unique provisioning on both ends of the pipe, that is helping us and we are growing every micro segment of the market by adding newer propositions. For example, to attract investors, we have also got one of the most attractively priced MTF plan at 8.9%, which is very attractive. These are some things unique which we have put for the first time which gives us the strength to keep attracting different segments of the market. We are significantly strong on the delivery side and we are making efforts, which started in December, to accelerate the momentum on the trading side. It will take a few quarters before we become even stronger in the regime of the new margin norms with propositions which are attractive & large enough to offset the

decline in volume helping us become more balanced. Our effort is always to be balanced and be diversified. We do not want to be too much dependent on one revenue stream and that is why so much of emphasis on non-equity products as well. We are texturizing equity revenue along with adding more non-equity revenue.

Sanketh Godha: Why I was asking this question is the realization was too good. So, the delivery probably is substantially higher than 50%-odd in the current quarter. So, that is the reason I was probably asking that question and therefore the sustainability is there or not. But my second question is basically on the MTF book. Last time you indicated that you had a market share of around 20%-odd percentage, that number has gone up again in the current quarter, from 1,800 to 2500-odd crores. So, just wanted to check if you can give the breakdown of MTF and ESOP, because is it a function of ESOP which has led to growth because generally ESOP activity increases in the fourth quarter, or is it led by typical MTF book and what kind of market share we are enjoying right now?

Harvinder Jaspal: We have not given the breakup, but I will just guide you to the fact that MTF is a substantially larger portion of the MTF and ESOP combined book. Our market share in MTF has now moved up to 19.3% from last quarter market share of 18.5%.

Vijay Chandok: Just on your comment on ESOP, what we find is that apart from the quarter-end, I think people also wait for prices to come down before they like to actually exercise. So, people who are at the expiry date of their ESOP vesting period, they are the ones who go for the March bunching. But the people who are not in that

expiry date typically take advantage of lower market. So, that opportunistic segment was actually missing in the market.

Sanketh Godha: One more what I had is that if we look at the fee and commission cost for us, substantially going up; it is almost like 250% growth in the fourth quarter and even from annual point of view, it is almost 200-plus growth. So, just want to understand this cost line, is it completely variable or the volume dip due to some reason in next year, this line can also move along with that number? Also wanted to understand from cost point of view, employee cost trajectory, because if you look at from full year point of view, the employee cost grew just by 10 percentage despite a very strong growth in revenue. Just if you can give a sustainability of that particular number, how it will pan out going ahead?

Harvinder Jaspal: Your first question was on fee and commission. Yes, those are variable expenses. There are three businesses sitting over there and all of them have shown good growth. The first one is our issuer services and advisory business, there depending on the capital market activities, there could be sub-syndication fees, pass outs, etc., that goes up. As Vijay updated earlier, we have seen almost a 4x growth in revenue there resulting in growth in related variable expenses. The second part of variable expense is linked to our revenue sharing arrangement with ICICI Bank. We have seen decent growth in revenue from customers. Last year, we had just started this arrangement, this year broking revenues have also gone up and there is an annualization impact, so that has also gone up and is again completely linked to revenue. The third is we are seeing good traction in our business partner channel with growth on YoY basis and that is a completely variable cost

channel on a percentage of revenue generated. So, these are the three factors which are leading to the growth. Your second question was on employee cost trajectory. I would urge you not to look at quarter-on-quarter, as we explained in the last call, there was more frontloading of variable cost in the first half of the year, but overall we have seen about 23% as employee cost-to-income ratio for the year. Historically we have been at a 30% employee cost-to-income ratio, I would say sustainable guidance would be somewhere in the range of 25% to 27% in the near term. As we are continuing to grow the scale digitally, employee cost will become lesser of a factor going forward.

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

SivaKumar K: My first question is with regards to the market share in the NSE active customers. It was a very good growth that we got to see within the quarter, and you ended at 16% for March. I just wanted to know as to what is driving this digital sourcing. Is it some marketing spend which you did, is it some partnership which you did, which is leading to this kind of growth? And is this sustainable, in the sense, are you seeing the same traction continuing in April?

Harvinder Jaspal: We have taken a lot of initiatives that we have been commenting about over the last two, three quarters. It all started with having a process which helps the customer opens his own account. That itself was a new thing for us vis-à-vis competition. That is one thing that started in the month of April. After that, from April till now, there are a lot of improvements that we have done to make this process very smooth, very easy for the client, and every

month we have kept on growing. Secondly, as you rightly said, digital marketing is a new arena for us. We have started investing into digital marketing. We are trying to attract customers to come and visit our website, and then some of them start opening accounts. We are also doing a lot of partnerships and tie-ups every month. Digital channel has nuance of maybe seven or eight different micro channels. And for every micro channel, we are trying to push the envelope. Of course, the brand pull and the propositions like Prime, NEO that Vijay spoke about, are helping in attracting customers. Specifically, Prime, NEO we are yet to add into the digital journey. Coming to sustainability, we have moved from a run rate of acquiring about 30,000 customers per month to a run rate of about 100,000 per month. We believe we may not be going back to 30,000 or 40,000 a month kind of a run rate, in fact, our initiatives are to actually push the envelope higher.

SivaKumar K: And any new partnerships in the pipeline, sir, like the one you did with Federal Bank?

Vijay Chandok: We are in talks with about four, five more partners, which are in various stages. As and when they get finalized, fructified, integrated, we will keep announcing. It is an ongoing story, we keep engaging, keep finding partners, and it need not even only be banking partners, it could be even be digital partners.

SivaKumar K: Again, harping back to the market share and derivatives segment, you talked about it, but then when that migration happened from 25% to 50%, the understanding was that the subsequent migration should not impact your market share because the clients have already moved to the new regime. So, why are we seeing this decline in market share in the subsequent migrations?

Vijay Chandok: If you see round one, what was the market share impact and round two what is the market share impact, I think it is clearly in a different order. The reason why this sort of impact is there even in round two is simply because the mix of intraday to overnight that exists for us as a company is more in favor of intraday in volume sense, because that is the nature of the proposition. And that is why we are impacted a little more than market albeit by a much lower margin in round two compared to round one. The only way to offset it is increasing the number of customers, increase the number of tools to enable the customers and improve the experience. Increasingly, our focus is moving away from market share because we do not charge you on volume. What is important is to track number of customers and number of trades, because my pricing model itself has undergone a change with the launch of NEO. As the migration gets completed and as the growth comes more on that, I think the derivative market share is, let us say one year from today will be not make any direct revenue impact. It will be an interesting number to track without having consequences on revenue or let me say direct correlation with revenue.

SivaKumar K: Just an add-on to that, as to what is your own sense of Round 3 and Round 4, what can be the impact?

Vijay Chandok: I do not want to double guess going forward on what is going to happen. We are focused on input parameters. Market may be impacted in the short term and I do not think we should get very nervous about it as over the longer horizon, it has grown and in my belief will continue to keep growing. We are here with a solid proposition, solid brand, and solid commitment.

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

Umang Shah: Congratulations on a good quarter. I just have one question and one data point which I need. One is, if you could just help us, how cost effective is our digital sourcing channel vis-à-vis other channels? I mean, is there a bigger arbitrage in terms of the acquisition cost that we spend, which over a period of time, given that we are seeing a sharp shift in terms of the acquisition mix, does it really impact materially or not? That is what I wanted to understand.

Harvinder Jaspal: I will answer the question in two ways. One, it does not adversely impact. If at all, we expect it to be beneficial. And within that, I would want to caveat it by saying that it is early days. As I was just explaining earlier that within digital channel, there are about seven to eight different micro channels. And there are different practices of these micro channels and we are trying to develop the mix and the mix needs to stabilize. For example, if a customer looks up on Google for ICICI Direct and straight away launches into the website and opens an account, the cost of acquisition is zero. Are we on that stage yet right now in the month of April? No. But we are going to get there. Our plan is that more and more digital presence, where people can start opening accounts themselves. I would say, a bit early, but at best it would be additive and not adverse.

Vijay Chandok: In the more medium term we will see that the impact of digital sourcing helps bringing down cost. For that to happen, however, we have to be very good in generating what one calls organic traffic. Organic traffic happens when you pump in a fair amount of data into the internet space. It does not happen overnight, it is a

hard fought effort, sustainable effort that you have to put in and you will start seeing the impact of that. We are in very early days of seeing the impact of that. As the channel mix shifts in the seven micro channels, more sourcing would come from organic sources, and more sourcing would come digitally from partners where we are embedded. For example, we are right now working on embedding ourselves inside ICICI Bank digitally, it does not exist today. Just think of it, ICICI Bank customer on his own comes and starts opening an account with us. It does not happen today; he has to be reached out before the account opening happens.

As we work with our partners, as we grow our organic channel, as we input more data into the internet space, improve our organic traffic flow, the cost will keep coming down. We have virtually started converting our website into a television after 3:30pm. Our property works between 9:15am and 3:30pm when the markets are active, we are making it work from 3:30pm to 9:15am, by providing huge amount of data. We have started creating lots of digital properties which are educative in nature and customers love it. If you go to our website on the non-logged in section, you will see virtually every fortnight you are getting upgraded in terms of content richness that is available, which is attracting customers. There has been a multi-fold increase in traffic to our website, and many of them start opening account. Then the word of mouth starts flowing. That is the best way to reduce your cost of acquisition rather than blowing it up on digital advertisement.

We are doing digital advertisement, but we are also focusing very hard on driving organic traffic. Given our head start in form of the

brand awareness, unlike startups, I think we will probably take far less time than any startup to get the organic channel kicking for us.

Umang Shah: Understood, that is quite helpful. And sir, my second question is, our exit quarter cost to income is obviously the lowest that we have seen in many, many years. How should one look at the cost to income more on a steady state basis?

Harvinder Jaspal: We had given a guidance of 50% for the cost to income ratio for the next year, we are right now substantially lower than that. This 40% number for the quarter should not be seen as a sustainable number, not right now but maybe when the scale builds up at an even higher level. We are thinking that it should be definitely lower than 50%.

Moderator: Thank you. The next question is from the line of Madhukar Laddha from Elara Capital. Please go ahead.

Madhukar Laddha: Congratulations for a fantastic quarter and a year. I think this year you probably beat consistently all analyst expectations. So, my questions are as follows. First, I think to an answer to a previous question you mentioned that cash delivery is about 50% of broking revenues, did I get that right? Or is it both delivery and intraday put together is 50%+ or closer to slightly more than 50% of revenues? I wanted that as a clarification.

Second, what has been the adoption of NEO? I understand you have mentioned it a couple of times that we have not taken it digital as yet. My understanding was that NEO is getting offered to customers and the off-take had increased quite substantially even in January last time when we did the call. But it seems that the impact of NEO will be felt only in FY 2022.

And on a quarter-over-quarter basis are we seeing an increase in derivative revenues? So, given that some portion of our customers have adopted NEO, what has been the experience so far in terms of pricing on a blended pricing basis for futures and options? If you could answer these three questions.

Vijay Chandok: First and foremost, thanks Madhukar for your comments. And coming from you, the compliments mean a lot. I will just request Harvinder to come in and respond to your questions on the mix that you asked.

Harvinder Jaspal: Out of the total equity broking revenue pool, you have equity segment which is made up of delivery and intra-day sub segments and then you have derivative segment. Between these two segments more than majority is tilted towards equity segment, that is the first point. Within the equity segment, which includes delivery plus intra-day, delivery is of higher salience, higher than 50% within this equity segment. Just so that it is clear, I would re-iterate it is not 50%, it is higher than 50% on both counts i.e. between equity and derivative and then again within equity, between delivery and intraday.

Your second question was related to the traction on NEO.

Vijay Chandok: NEO is on offer to all clients, it is just that NEO is not seamlessly integrated into the digital on-boarding journey of a client, the way it should be. It is available once the client becomes a customer. We have been seeing growth in NEO adoption month-on-month. It was launched in first 10 days or so of December, so, it is still early days.

As we move forward, your question on how that would impact, I suppose you are alluding to yield as a specific question. To us, we are beyond that yield point, because if we become slave to yield we will be able to do no action, we have gone beyond yield and we have said let us look at overall product & lifecycle revenue. If Madhukar is my customer, I have to think of how much revenue I can earn off Madhukar over 15 years, not out of a derivative transaction that he does on 22nd of April. The moment you start thinking of it like this, it does not matter too much how much is the yield I am getting on a per product basis, it will be definitely lower than what we are charging. But, the fact that I have the customer, the fact that I have 50 products to sell him, the fact I have him happy, the fact that I have the ability to deliver more and more of these products is what our endeavor is. And that will eventually lead to increase in my overall ARPUs. We will continue to put our focus around that.

Harvinder Jaspal: On derivatives, the question that you asked sequentially how it is trending. Derivative revenues from December to March on a monthly basis, has been pretty stable.

Madhukar Laddha: Okay. So, even after launching NEO we are not seeing any sort of substantial, so the volume growth is being able to offset the pricing impact of NEO so far?

Harvinder Jaspal: NEO is young and fresh, volume contribution will keep increasing and is not yet reached peak or full adoption. Currently, the absolute revenue has been pretty stable for all these four months.

Madhukar Laddha: Can you say what is the adoption of NEO so far in your customer base? And what would be like full adoption? So, if right now

adoption is 7%, 8%, do you see full adoption to be 25% or 30% of your customer base, if you have any thoughts on that? And the market intra-day volumes are about 80%, is that substantially different for us?

Harvinder Jaspal: Currently, we have about 60,000 subscribers on NEO. We will not be very different from market intraday volumes of 80%. But my sense is that the market number of 80% might have got a bit moderated now, with slightly higher growth in delivery. It is very difficult to say, because retail contribution of delivery and intra-day is not really available in public domain. But our sense is that it might have got moderated. From there we might be slightly ahead on intra-day, but not very substantially different.

Moderator: Thank you. The next question is from the line of Amey Chheda from Carnelian Capital. Please go ahead.

Kunal: Actually this is Kunal here. Wishes in the first place for good set of numbers, I do not need to reiterate that. My only question was pertaining to the super client addition that has happened in Q4. So, you did allude that a lot of partners and everything which has kind of resulted in the super number, so just wanted to understand specifically Q4, right, I mean, this digital sourcing has been in place for quite some time. So, anything specific you would want to highlight that has kind of changed in this particular quarter, which would kind of sustain going ahead?

And the second question was pertaining to our partnership with Federal Bank for new accounts. Just wanted to understand how the float work does, because if I understand correctly, earlier when we used to have three-in-one accounts with ICICI Bank, the floats used

to be with ICICI Bank and we used to not earn any amount of floats. So, with this Federal Bank, how does that part work?

Vijay Chandok: Okay, let me take the second one first. Federal Bank arrangement is identical to ICICI Bank arrangement.

Kunal: So, float is basically not going to be there with us in that case as well?

Vijay Chandok: Yes, it is identical to ICICI Bank's arrangement in every which way. We do all our arrangements with any partner on arm's length basis. There is no difference between what we offer at Federal Bank and what we offer at ICICI Bank. So, that's part two of your question.

Part one, I did not really get it you, you wanted to know what was different in quarter four?

Kunal: Basically what I was trying to understand is that this digital sourcing has been there for quite some time now, but Q4 has seen a drastic jump in the digital sourcing. So, is there anything specific you would want to highlight that has worked for us in Q4, and would continue going ahead as well?

Vijay Chandok: Digital sourcing, as I told you, I think I used the phrase that we are babies in this whole business. We are learning the ropes and in a short period of time, we realized that there are many improvements that we need to do if we have to scale up our digital journey. The FinTech players, who are showing enormous growth have got at least three to four years of headway before we launched our digital process. There is a learning curve to fully understand the tricks of the trade that all established players have all gone through taking up to 3-4 years. We do not have time of four years to catch up in

that sense and are trying to learn and improve every month. Coming specifically to key changes made in Q4, around Christmas time, we launched a fully upgraded digital account opening process, which helped simplify and improve customer experience. That has worked well for us and we started seeing the traction picking up immediately after Christmas. We are continuously trying to improve and build on that.

This was just the process and the customer journey part. Now we are in the process of integrating our plans and offers in that journey on one hand and on the other hand we are building various digital properties leveraging content, which has increased traffic to our site. So, I would say it is not just one magical change that has happened which has led to this traction, it has been an effort of, I would say, seven, eight months, starting from April with newer and newer versions. Even today, we find that there are at least 50 odd improvements that we have to do. These are very small improvements. It is an ongoing improvement. The team does not work in a traditional format; we work in a very agile manner. For example, we come out with a campaign at about 8 o'clock in the morning, we test it out into the marketplace, by 3 o'clock we realize that it is working in certain markets, not working in certain markets, we change the campaign, a new revised campaign goes out into the field. So, that is the way it actually works. It is a lot of iterative abilities that we have created, real time understanding of customer sentiment, the impact of the way we are communicating with the customer, taking data, taking input, and then working on it and improving. It is a very iterative process. The whole way of working is very different compared to how we were working in the past.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Sir, most of my question has been answered, just one data keeping question wanted to understand, sir. Is it fair to assume that our subscription revenue now is approximately ₹ 60 crores to ₹ 70 crores per annum? And this is what is sustainable?

Harvinder Jaspal: Yes, that is fair, Anand. It will be about ₹ 60 crores of revenue per, but this is the amortized value. We have about 6.5 lakh Prime subscribers, the subscribers are actually growing, so we would actually hope for an increase in this revenue. Prime subscribers have been growing roughly at the rate of about 60,000 to 1 lakhs clients in a quarter. With growing digital sourcing, we are seeing that Prime adoption also is healthy, so, hopefully it should go up. But it is a sustainable new revenue stream that we have added. Along with this, we have a few other revenue streams in NEO, but they are very small. So, like Prime is an amortized income, NEO charges would be transaction based. That is still to build up, but Prime is I think sustainable and growing.

Moderator: Sir, seems like we lost the connection for the current participant. We move to the next question from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal: So, one question, so I think we have done phenomenal on the digital customer acquisition this quarter. So, can you throw some color on the nature of these customers, more in terms of the ticket size, age profile, trading maturity profile? Because if they are very high value seeking customers, then our ability and our plans where delivery is chargeable might not attract them in that big way. But

we have seen a substantial jump in the digital piece. So, that is the first question.

If I just broadly look at three segments of customers, active traders, passive HNI investors, and maybe mass market youth investor & trader profiles. So, for all these three, can you throw some color on what is our strategy in terms of which product fits into which category? And how do we plan to grow these three pieces where our strength lies and where do we need to work on?

Vijay Chandok: If you look at some of the data that we put out, close to 70% of our customers are coming from millennials category and below. We are also getting more than 65%, from Tier 2 and Tier 3 cities. In terms of ARPU, though it is a very short period of time, the initial trends are that ARPUs are very decent in relation to what we source from ICICI Bank, which was a little bit of a positive surprise to us. However, I do not want to conclude because it is still just about a quarter or a quarter and a half of data. But it was looking certainly reflective of that kind of a trend. But I would say that just take that as an interesting point and not really as a guidance, because we need to watch how this plays out in a more medium term.

Harshit Toshniwal: It is in digital if I am not wrong.

Vijay Chandok: Yes, I am talking about digital only. Today, 100% of our sourcing is digital, even ICICI Bank sourcing is digital, but it is assisted digital. No longer that physical paper moves in our company anymore. Everything is digital, and there are many micro channels of digital now.

Harshit Toshniwal: The reason is because that customer actually overlaps very prominently with many of the discount brokers who can without any assistance open an account. So, there is a very big overlap and that is why I was trying to understand that our strategy which has worked very well in this quarter.

Vijay Chandok: The market is huge and growing and there is under penetration in this market and I think there is space for more than a few players. There could be overlaps in the characteristics of these customers. For instance, the newcomers to the market want guidance, advice, knowledge, information and assistance on where to invest. We have packaged it in form of our one click offering, which is basically themed research e.g. we have branding like 'best of the mid cap portfolio', the 'best of the large cap portfolio', the evergreen 'Dev Anand' portfolio, who have sustained the test of ups and downs. This kind of branding and packaging of portfolio connects with millennials and we are seeing healthy traction. Similarly, for investors, we offer very attractive MTF rates, which is a unique draw for this client set. Secondly, depending on the portfolio size, we offer an RM support / voice support. When it comes to traders, they like cost to be low and they like tools to be very cool, easy and accessible on mobile and we are building many tools, some of which are already launched and some are in the process. A specific app for traders called Markets is also getting launched soon. All in all, we are expanding our range to offer relevant offerings to a wide cross section of equity customers.

Over and above this, and what is probably lesser appreciated about ISec is the fact that we have one of the largest wealth platforms in the country. If you look at individuals having an AUM of ₹ 1 crore

and above, that segment is now more than 47,000 customers and the value of their assets with us is about ₹ 1.7 lakh crore. So, that segment is very fertile and rich for equity, non-equity and protection products, PMS products, fixed income products and so on and so forth. It is a comprehensive coverage of the younger crowd through a different set of plans and product. The senior ones with a combination of multi-product approach and most attractive plans, in fact, for the wealth segment we are very attractive and flexible in the way we charge them on broking. There are customized plans made for them. That is what is helping us remain competitive in the market. We call it micro segmenting.

Moderator: Thank you. Next question is from the line of Arash Arethna from IIFL. Please go ahead.

Arash Arethna: Congrats on the good set of numbers. I just had a question around how you are looking at volume growth going forward. So, I think over the last two quarters with the margin norms coming into effect, the industry volume has continued to grow, but ISec has seen a decline. So, from these levels, how are you looking at volume over the medium term?

Harvinder Jaspal: Harsh, there are two or three aspects we need to understand which will also help understand our approach going forward. First, decline in volumes for us has not resulted in decline in number of active clients, number of orders and also revenues have been stable. Going forward our approach is to grow the overall business by enhancing active clients and vibrancy by leveraging product propositions like NEO and newer tools, engagement interfaces and experiences that we are working on as discussed by Vijay earlier. We believe that going forward those should help us with volume

growth. It is also important to note that incrementally, revenue would be more dependent on the vibrancy of activity i.e. the number of orders etc. and less directly on volume. Our initiatives are therefore in that direction of enhancing vibrancy and for that you need all these advanced tools, a good pricing proposition and a very good mobile interface. Those are all the things we are putting in place.

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

Aditya Jain: Most of my questions are answered, just wanted to clarify on two parts, one on the expenses, there is a fee and commission expense in the BSE filing, which is at ₹ 47 crores versus ₹ 13 crores last year, and there is an operating expense which is ₹ 41 crores versus ₹ 14 crores last year. So, just wanted to understand, what are the factors which drive this to a certain extent?

Harvinder Jaspal: Fee and commission expenses are variable expenses linked to revenue and have grown because of three factors. One is growth in our issuer services and advisory business, where you have variable fees in terms of sub-syndication, pass out, etc. Revenue in this business has grown by more than 4x. The second & third aspect is revenue sharing with our business partner segment and ICICI Bank, that has grown because the equity broking revenue has grown. Similarly, if you come to operating expenses, there are a couple of things. You have charges like transaction, custodian, depository, etc., those charges are growing in line with volume growth. Then there are variable charges which are linked to customer acquisition like documentation, scanning, etc., those are growing in operating expenses. So, both of them have a slightly variable nature. There is

also a one-off in operating expenses which pertains loss that we had taken on our portfolio on behalf of our customers during an exchange connectivity issue.

Aditya Jain: And second thing sir, related to NEO, the fees is one time, right, not recurring, just to confirm.

Harvinder Jaspal: NEO has about six, seven different types of fees, one is a one-time fee, which is ₹299, which is a conversion charge. After that there is, for example, an interest that is levied on keeping shares as margin at the rate of about 9%, then there are charges for transfer request for funds, there are charges for pledge/re-pledge etc. There are a bouquet of charges, they are incurred on a transaction-by-transaction basis. The difference between Prime and NEO is that in Prime it is an annual subscription fee and therefore gets amortized, NEO is a conversion fee and one time, so therefore it is up fronted. The other fees in NEO is as and when the respective transactions occur. We also get float in NEO, because that is how the product proposition works.

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

Pratik Poddar: Sir, just a couple of questions. One is, can you just help me understand the loan disbursement, what are our take rates or how does the business model work over here? And in relation to that, I see a 13% market share in ETF distribution, I did not understand that. ETF is exchange traded, right, so how do you get market share over there?

Harvinder Jaspal: On the loans disbursal portfolio, the way the process works is that we have referrals from our clients who are intending to take any kind of a loan. We offer 12 kind of loan products on our portfolio, it ranges from home loan, car loan, vehicle loan, gold loan, and many more. On some of the loan categories we have tie-up with up to eight different partners. Customers have a referral and then we act as a bridge between the loan provider and the customer and we earn somewhere in the range of about 0.75% to 1.5%, depending on the product.

Pratik Poddar: On the loan amount, right?

Harvinder Jaspal: Yes, your next query was on ETF. For ETF we earn brokerage fee and the market share is the share of AUM under ETF. We are promoting ETF on our website as the passive trend picks up and as an interesting low cost mutual fund.

Pratik Poddar: So, just to clarify, out of say if there are 100 ETFs traded in a day on a particular ETF, you would be 13 of that, right, that is the way to understand? Volumes contributed from ISec platform would be 13?

Harvinder Jaspal: No, this is value i.e. AUM with us versus market.

Pratik Poddar: Okay. And lastly, just I was going back to the question which Sanket asked. Honestly, on the equity side and in this quarter, was there any lumpiness because of these IPOs, or it was business as usual on the delivery side? So, I understand, and I appreciate that the mix has changed and you have articulated that very well in the last quarter as well as this quarter. But I just wanted to understand, has there been some lumpy effect or one-offs because of which there

has been a sudden jump in delivery or it is just in line with the normal market?

Vijay Chandok: No, it is largely in line with the market construct.

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

Aditya Singhanian: Congratulations on great results. I have two questions. One, on the ICICI relationship could you talk about how that's progressing, we see a very steady increase in client additions as well as activation rates. So, could you talk about how that is moving ahead and what we can expect in terms of revenues and operating leverage?

And the second question was, if you could give some flavor on the digital acquisition in terms of the clients, like in terms of revenues, in terms of activation rates, any other metrics that could be different from your ICICI business?

Vijay Chandok: ICICI is our parent, largest shareholder, and the most important business partner for us. For any partnership to grow and sustain, it has to be a win-win for both the partners and should be able to offer together a proposition which is a win for the customer. The reason why we believe that this is a strong partnership, and it has moved from strength to strength is because we very carefully nurture each other's interests, as we are building this partnership. Now, let me elaborate what I mean. They do not do the 3-in-1 accounts just because they just happen to have a shareholding in ICICI Securities, they do it because it feeds into their strategy and it adds value to their shareholders. That is why they want to distribute our products.

So, how does that work? Empirically, we have evidenced to them that whenever you attach a broking account to a savings account, the balance for an active customer, pre and post attachment and after a passage of six months, actually increases on an average by 2.5x. For ICICI Bank the increasing customer float, CASA, is an important part of this core strategy. We have demonstrated to them and they are convinced that this is adding value to their core strategy. That is why it makes sense to ICICI Bank to distribute wholeheartedly ICICI Securities products. If they have to increase penetration, float share, stickiness of their customers, they need a proposition to do that and ICICI Direct very clearly fits into that proposition. They have realized that when they start segmenting it, particularly with the affluent segment, wealthier segment and the NRI segment, it adds even more color, depth and dimensions to this partnership and that is what they have started doing, particularly off late.

In addition to this, we have also incented them in form of broking payout so that they are encouraged immediately through the revenue share that builds up on activating the client, because there is effort in training a team, there is effort that the team has to take in getting the client active by leveraging his relationship and he gets remunerated for the time that he is spends. So, we have taken care of the interest of our partner and the people within the partnership so that they are all motivated to drive it. For us, it makes immense sense because we find that this is a very sticky product, a large proportion of our customers have been around for several years. Once they get used to the platform and they draw comfort from the experience of the brand and the comfort of being backed by an institution, they tend to stick on. And they know, we will keep giving

them value as we move along and help them in their journey for adding wealth. For us it makes a lot of sense, because we are getting lifetime value from that customer. For the customer, obviously, he comes to us only because as a combo product he sees that as something that he is comfortable with and it is meeting his risk appetite and it is also meeting his wealth journey. So, that is how we have looked at and we look at all partnerships very carefully, it has got to be win win.

Even with Federal Bank, it took us agonizing discussions on this for putting this all together. Both the partners are very committed to it. It is an important partnership and we continue to see it grow from strength to strength. Going forward, I think sharper focus is coming now on digitizing and embedding ourselves into ICICI's fold. So, far we have been Relationship Manager led acquisition and we have digitized it through assisted digital. But that is not truly giving you the power of technology that is possible today. In addition to that, it will make a lot of sense if we embed ourselves into their websites, embed ourselves into their mobile app, and allow the customer to choose us as they have a fairly large traffic on their own. That is still WIP and that is something that we are investing on. Going forward, the investments are segment specific and channel specific, while we continue to do what we are doing. So, that is as far as ICICI Bank is concerned. You had a second part of the question, which is?

Aditya Singhanian: No, so the first question was an ICICI, if we see any material operating leverage given that this relationship has strengthened over the last two years, that was relating to ICICI. The second question was on the digital acquisition, if you could give us some flavor on the customer base, or like is the revenue, if your average

ARPU is ₹ 10,000, the new customers coming through digital, is it like substantially lower, higher, how should we see that, some color on trading revenue, etc.

Vijay Chandok: It is only three, four months, where some volumes of digital customers have come on to the company, while we have been sourcing for the last several months. When we looked at early ARPUs, annualized run rate of early ARPUs is actually reflective of what we are getting from an ICICI Bank acquired customers. But again, I would say that this is very early trend, and therefore I would not leave you with that as a takeaway but just as a piece of information which we are watching. We are watching quality and seeing activation trends like a hawk and that is an integral part of our strategy. Early trends are all right and the scale up has been so fast in the last two, three months. However, we have to give a little bit of seasoning, give them at least two, three months of playing in the system before you start understanding the quality, the sustainability, the activation depth, etc. I would say that we will give you a little more clarity on this maybe in a quarter from now, where we would have had at least a little more experience of dealing with customers acquired digitally. Early trends are all right, but let us wait.

Aditya Singhanian: And if I may just ask an additional question on this, would it be fair to assume that this is almost like the same business that is Zerodha or Upstox would be doing in terms of generating float etc.?

Vijay Chandok: Yes, that is right. Digital business model is identical to the way it is structured in a discount broker. The float actually gets captured in ICICI Securities' account.

Aditya Singhania: Any rough number you could share?

Vijay Chandok: It has crossed multi 100 crores already in its first 3-4 months since launch.

Aditya Singhania: Right. And if I can just squeeze in one question, I know a lot has been spoken about the derivatives market share, I just wanted to understand that market volumes have not really sort of fallen, in fact, they were at an all-time high in the fourth quarter. So, obviously, your clients have moved elsewhere, it is not like they stopped trading. So, if you could just explain where have they moved? Why have they moved? Is it just pricing or has your product become inferior because of the sort of change in margin requirements?

Vijay Chandok: First and foremost, the premise that the client moved away is incorrect, because actually the number of clients who are doing trading with us month on month are hitting lifetime high, march being actually higher than prior months and so on.. We have not lost customers, and this irony that volumes have come down but the customers are not lost is because of the following reason. Let us assume that you are a customer trading with us, the extent of leverage that we provide to you, let us say, is ₹ 95, you put ₹ 5 from your side and we have ₹ 100 trade counted in your name as a volume. Now because of the norm, you continue to look for your ₹ 95, but because the norm says that, okay, if you are putting ₹ 5 on the table, I will give you only ₹ 70 from now onwards, because the norms have changed. So, either to do ₹ 100 you have to increase your ₹ 5 to ₹ 10 so that you get ₹ 90 and then we have ₹ 100 trade. Or you say, no, I have only ₹ 5 available, so whatever I can get out of ₹ 5 give me that much. So, you take ₹ 70 and do a trade of ₹ 75.

So, your trade in the pre-regime and the post-regime continues as a customer, volume in the pre-regime was 100 now it is 70. In the next regime we say that now I will give you 45 for ₹ 5, so you say okay give me 45 for ₹ 5, so I am doing a ₹ 50 trade. The volume has fallen in this example in the round one from 100 to 75, 75 to 50. But you as a customer continue.

The reason why a volume fell is because the same customer who was doing 100 is now doing with me 50. Simultaneously, now what we have done is we have started pricing our product on a per trade basis and not on a volume basis. Earlier we were charging ourselves on volume basis. If you see the NEO pricing strategy, it is on a trade basis. I am increasingly becoming immune to volume, for example, if you do 1 lakh with me you will pay me ₹ 20, if you do ₹ 50,000 you will pay me ₹ 20. In the first case, I will say I have got 80% market share, in the second case I will say I have got 2% market share, but in both cases my revenue is ₹ 20. I am increasingly becoming immune to, not right now but over a period. As the traction on NEO and embracement of NEO grows, market activity is more important than market volume for me, increasing.

Moderator: Thank you. The next question is from the line of Utsav Gogirwar from Investec. Please go ahead.

Moderator: We move to the next question from the line of Manish from Vallum Capital. Please go ahead.

Manish: Thank you for this very patient conference call, which runs for two hours usually. Thanks again for giving all this insight to everyone on the call. Sir, I have one question, this is regarding the digital marketing. And you have spoken in length about it, but I have any

specific questions. This is relative to how much is the influencer marketing in terms of your overall digital acquisition. And as I scratch the ground surge, where there is a 70% pass back to the influencers in terms of the revenues, and then I am sure that will go to race to the bottom. So, are you also getting into that game? And how your game is different from what your other competitors are doing? Maybe someone is doing for valuation but maybe not from the earnings perspective. And that is my first question, and what is your broad strategy.

And my second question is, if the revenues are coming from their digital marketing, which is per se spending on Google and everything, so do you think so that this makes a profitable acquisition? If so, or not, maybe how would you respond to that? Thank you. And thanks a lot again.

Vijay Chandok:

I think great questions and very insightful questions. You are right, you can buy market share in this business. There are a number of players who are doing it for the sake of getting numbers. That is why we are very conscious about ensuring that we do not grow for the sake of growing, I want to get quality customers onto the table and there are enough quality customers and we will not get swayed by numbers, even if it means that my number story is not playing out in the course of time, I am okay with that. I do not want to get poor quality on the table and I do not want to land up paying too much of a high cost. I think these are two very strong sentiment and boundary conditions with which we are operating and we are doing this business.

That said, your very specific question on how much is the contribution of influencer marketing, it is almost nothing at this

point in time. We are in discussions with some of them, but I do not think we have started engaging with any one of them with any serious impact on the sourcing so far. And our method of engagement is one time, we are not here as a partnership, our method is that there is a cost of acquisition and unlike other players, we do not payout unless and until the quality parameter that are met, and people really struggle to deal with us on quality parameters. It means that I cut partners of that nature or alliances of that nature. The moment we find that there is any kind of weakness in terms of quality, we will cut out that partner, because it is not number it is quality that we lay out.

Digital cost of acquisition, what is most important is that once you get a right customer and you keep them happy, there is a lifetime of monetization that you can do. I would say that the acquisition cost is inconsequential in the context of the revenue that you can earn from an active customer. It is important to get the active customer and get the right customer and it is okay to pay what we are paying just now. I am happy to even increase my cost of acquisition, because the quality of earnings that I can do in a period of time from that customer will more than offset the cost of acquisition. But there will be problem if you go and acquire a dud customer, that is where it will start hurting us.

Manish: So, what should be a breakeven of a digital customer? How would you model it today?

Harvinder Jaspal: If it is less than a year and the mix is actually improving and becoming more efficient.

Vijay Chandok: Yes, it is much less than a year.

Manish: Sir, my last question is regarding the float income which you said that maybe the float income accrues to the ICICI Bank and in case of digital it accrues to you. So, I just wanted to understand that who gains the interest on float income in terms of overall scheme of things from your consolidated business, where does float income floats in?

Vijay Chandok: In the ICICI Bank partnership model the float remains with the ICICI Bank. So, they are the beneficiaries of the float. In the digital acquisition model, whatever float is there it comes to the broker pool account, so we are the beneficiary of the float.

Manish: And does ICICI pays you anything for the float income what they generate?

Vijay Chandok: No, they have nothing to do with that. If I acquire the customer digitally and the customer parks float with our account, we use that account as a company float and we deploy it in treasury instruments.

Manish: No, I thought maybe there can be some sharing of income from the float income from the ICICI Bank to you guys, which is not the case, not a problem?

Harvinder Jaspal: No, for ICICI Bank customer the float is with ICICI Bank.

Moderator: The next question is from the line of Piran Engineer from Motilal Oswal Financial Services.

Piran Engineer: I just have a couple of ones and not really related to the quarter. Firstly, do you foresee a risk over the next few years of the mutual fund distribution business going in the retail broking way where

with continued pressure on yield with Zerodha offering that coin platform direct mutual funds and same thing with Paytm. And our yield has been stable at 60-65 bps. So, is there any risk of that over the medium term according to you?

Vijay Chandok: It is a great question, Piran. The way we are modeling in our head is, we do believe that it is not an ignorable trend. I would not ignore the impact that the direct funds are having in the marketplace. And therefore, we have put in place an approach or a strategy to counter it. Let me quickly tell you how are we thinking of countering it? There are broadly two vectors to this trend. One vector revolves around differentiating vis-à-vis a direct plan offer in the proposition that we can offer. First we get into a model of offering him through a very cool app which we have recently launched called the Money app. We have seen good downloads, good embracement of customers and we started seeing traction of customers getting acquired through the Money app. Now we are adding an eATM service. Fundamentally, how it will differentiate vis-à-vis let us say a direct plan is that in the middle of the night you have an emergency, and you want ₹ 3 lakhs, you can actually redeem your funds instantly and take ₹ 3 lakhs off your ATM in the middle of the night and use it for whatever emergency you have. That is not possible today in a direct plan. And that is a comfort that we want to offer to our customers at a price. Every time you use it you pay if you do not use it do not pay. But the fact that you have an eATM service is a differentiator. The second is actually increasingly we are moving to creating research baskets. Again, that is something that we find is not really there in direct plan. And third element we are adding is an instant loan facility with our banking partners whoever is willing to tie-up,

right now ICICI Bank has agreed to tie-up for us for offering loan against mutual fund. We have launched it on our website. We are going to launch it on our app. So, instant liquidity, instant loan facility and research basket. That is one vector of this strategy. The second vector of our strategy is that we are looking to promote passive funds, because passive funds are cheaper than direct mutual fund and it is like a direct mutual fund. So, our strategy there is to promote that as a MF type product and not really as an equity type product and mix it up with a combination of passive/active combos which is uniquely available. So basically, we are putting research to work, we are putting access and convenience to work and we are putting liquidity to work to try and differentiate. Whether we will succeed or we will not succeed, I do not know, but this is the approach we are taking.

Piran Engineer: My second question is, I just wanted to understand bottoms up, what is the average DP holding amount a client has in his portfolio? And is it very different for a new customer versus say a vintage customer? And what percentage of your customers also have a Demat account with another broker? Is that something you can track? I mean he has got a trading account with you and let us say Zerodha and probably...

Harvinder Jaspal: There is no organized data to track if the customer has trading account with other brokers. It is quite intuitive, with vintage holding of our customers do go up and revenues go up. Within segments also the average holding is very different. So, for example, if you look at the wealth segment the average would be about 3.5 crores to 4 crores because we have about 1.7 trillion in

assets and have about 47,000 customers. For a new guy it will be low, it will get built up over a period, with vintage.

Piran Engineer: But what I wanted to understand is what is the quantum of DP holdings, is it on an average 3-4 lakhs or is it on an average 20-25 lakhs? Because I am just running some bottom-up math here and for a young customer a millennial to sort of generate the same ARPU of ₹ 10,000 he has to have about 10-12 lakhs in his account. And it is hard for me to imagine a 25–27-year-old having such a large DP holding. So, I just wanted to get from you on a bottom-up basis, say a new customer joins you or has joined one or two years back, what is the average quantum of DP holding?

Vijay Chandok: You are talking about the average quantum for our portfolio or of a segment which has just joined us?

Piran Engineer: Which has just joined you.

Harvinder Jaspal: Just joined would be difficult, Piran.

Vijay Chandok: But if you look at on an average, you can take total assets of our customers worth 3,80,000 crores, from that you take out private wealth customer assets worth 1,70,000 crores with about 47,000 customers. So, that leaves you with about 2 lakh crore divided by even say the active client base of about 2 million that's an approximation of average holding across all assets, demat being the major contributor.

Harvinder Jaspal: And Piran, actually the DP holding will not have one is to one correlation with revenue. So, I will give you an example, if he is a heavy trader, it is quite possible that he has a very high trading volume, but he may not have a lot of DP assets. A long-term

investor may have a lot of DP assets, but he may churn only once in three years. So, it is a combination of all that. I think what is more important for us is that a customer is giving the assets to us and over a period of time consistently there is some sort of revenue that we are able to generate from it. So, if you look at it, we have put out a disclosure, over the last 4-5 years the way the assets have grown if you take all the retail revenues that we have and divide it by assets, broadly in the range of 60 to -70 basis points, that is the kind of earning we are able to get from the assets. Because sometimes the customer will go into mutual funds, sometimes he may choose to churn equity portfolio, sometimes he may take MTF and so on and so forth.

Piran Engineer: That is all from me. Just one suggestion if you do not mind, if you can keep a gap between declaring results and the concall of maybe 2-2 ½ hours that would really help us in sort of putting down the numbers in our model, analyzing, and then just preparing for the concall.

Vijay Chandok: I think today you can take it as one off. Normally we will try to do that.

Moderator: The next question is from the line of Ritika Dua from Ocean Dial.

Ritika Dua: More clarifications than really question, one is that, how do we account for the revenue sharing arrangement which we have with ICICI Bank and what is the revenue share agreement with Federal? I am sorry, I think somebody asked but I missed the answer. And the second bit is, trying to understand that haven't any mitigating strategies that we thought at the start of the margin, when it was to be applicable, about the pledging or maybe in terms of the DP

holdings or some other strategies, how have they fared? So, these are my two questions.

Vijay Chandok: You wanted to understand the sharing model of Federal Bank and ICICI Bank?

Ritika Dua: Model for Federal and the accounting for ICICI Bank.

Vijay Chandok: There is no difference between Federal Bank and the ICICI Bank model. It is identical, in the first year we are sharing 35% of the broking revenue.

Harvinder Jaspal: And Ritika, from the accounting perspective it is as and when the revenue gets accrued, if there is a brokerage revenue for a particular month, 35% of that is what we will account and charge to the expense.

Vijay Chandok: And your second point is with respect to mitigants that we put, I think the mitigants are playing out. It is not compensating for the volume decline, volume growth is not going to happen rapidly. It is going to be a more sort of effort led investment approach to regaining the volume. And while we are doing that increasingly volumes are becoming less revenue connected, it is more activity-based revenue connection.

Moderator: The question is from the line Darshan Engineer from Karma Capital Advisors.

Darshan Engineer: First of all, a suggestion, I mean you come out with detailed presentations and you also come out with detailed results and it would be great if you can cut down on your opening remarks and

directly jump to the Q&A, that will save a lot of time for you as well as everyone else.

Vijay Chandok: Thank you, yes, we will do that. Next time, no narrative, only straight Q&A.

Darshan Engineer: Because everything is given out in the presentation anyway. Most of the questions have been answered by learned colleagues across the industry. So, I would come to one interesting observation which was seen recently. You saw there was a data security breach in case of a prominent digital broker recently and despite that they continue to see robust addition in terms of client additions, and they are doing a lot of heavy advertising. So, where are we placed in terms of security architecture and what can we try to do to ensure that we do not face any such thing? Maybe it will not have an immediate impact, but I think such kind of security incidents can be leveraged positively by us to gain for the market share and new plant additions and other areas.

Vijay Chandok: Absolutely it is a great point, great question, and great suggestions I must say. I think we will certainly take many of what you just said on board, but the point on cyber risk side, we see this as a number one risk for our business. I mean, business continuity, business stability and risk associated with cyber security. I think these are massive areas of investment for us. Here we work very closely with ICICI Bank. Because for us, in addition to SEBI we also in a way are connected with the Reserve Bank of India through the ICICI Bank sort of connectivity and we are so integrated in form of having a 3-in-1 account, etc., that the standards of cyber risks are actually matching with what we have in a bank. It is not now it is historical. We, therefore, invest heavily

and take this subject very-very seriously and whenever there is an incident of this nature anywhere in the world, there is a discussion that we do in our committee to understand what went wrong, what is the learning, what is the correction that we need to take as a company. So, that is how we treat issues of cyber risks. We certainly believe this is a game of trust and cyber breaches are big trust breakers. That said, one needs to also recognize that no one operating in today's world can say that they have completely mitigated the risks associated with cyber. The best of the people are getting impacted by cyber breaches. So, to that extent, it is as good as yesterday, that is how we at least look at it and we have to be on our toes all the time and vigilant all the time. We have to invest in tools, stay cutting edge and employ a bunch of people who do cyber ethical stuff around cyber security. That is an area of importance, it is an area that virtually matches what we do at ICICI Bank which is to meet the RBI expectation and the fact that we do continuous reviews to see whether any learnings are done out of any incident anywhere in the world is the way we look at it. That said, I would say that we have not made any frontal approach whenever there has been such an incident. It has happened more than once. You have seen one incident which happened a few quarters back with one of the industry player and that eventually got sold out through the regulatory process and then the recent incident that happened in the industry. I think these are very unfortunate incidents. For the industry it is not good, specifically not just for the individual player. We believe that we remain safe, we remain good and grow customers in an ethical and a fair manner which is what we are endeavoring to do.

Darshan Engineer: One last question from my side. You have improved on your monthly client addition, but you are also seeing that the industry has also ramped up. For example, one more recently listed entity has done very good client addition, you know whom I am referring to. So, where would we feel that I mean obviously we are also looking at the angle of quality of customer while doing addition, we are not just trying to play the numbers game, but nevertheless where do you think we can go towards? Any aspirational number that you have? I am clearly sure that considering your size and skill 1.45 lakhs say in March is not the run rate that you would be satisfied with. I am sure it can be much more. So, what would be your ideal range, if at all, I may put in that way?

Vijay Chandok: I think to begin with right now we are waiting for things to stabilize. We are constantly juggling with the micro channel mix that we spoke about in the earlier part of the call. The moment we find that somebody is gaming up on quality, we actually mute that micro-channel. We have taken that call let us mute that micro-channel and grow and work the harder way and get the right segment of customers. So, I think, we are getting that configuration stabilized to begin with and then press the pedal from there. In terms of numbers, I think we will be happy if we lead industry growth rather than really talking about a specific number, I think as an aspiration if the industry is growing at 10%, we should be growing at a faster rate than 10% that is what I am trying to say on a month-on-month basis.

Moderator: Next question is from the line of from Harshvardhan Agarwal from Infina Finance.

Harshvardhan Agarwal: On the wealth management part, just had a couple of queries there. One was, wanted to understand AUM that we talk about 1.7 trillion, is this an overlap with the wealth management AUM for the bank? And secondly, the income that we get from the wealth management, which is at 160 crores for the quarter, where is that accounted in our P&L?

Harvinder Jaspal: I will take the second one first, so the revenue of wealth management gets accounted in the respective line items in P&L. P&L is product or income type like representation. Brokerage income from our wealth plan will go and sit in the brokerage income line, income from services will carry distribution income of our wealth management clients. Interest income will again carry the MTF and ESOP, etc., interest that we are generating from the wealth management. So, wealth management is a customer segment representation of our business. So, these 47,000 customers they have given us 158 crores of revenue for the quarter and what has been the traction that is what we want to show, and we manage it very differently. On the first question, whether the assets that we have 1.7 trillion whether there will be an overlap with bank. These assets are of our customers who have an iDirect account and they have given us Demat assets and bought mutual fund. So, for example, it is quite possible that the same customer could have purchased a mutual fund through ICICI Bank as well. That will reflect in the ICICI Bank's kitty, the distribution products, or FDs or loans whatever he has taken and whatever has got distributed through us will appear in our kitty. The DP is technically with ICICI Bank as a service provider. But it is ICICI Securities product which is attracting. The engagements,

the relationships, the portfolio is all with ICICI Securities. So, to that extent it would be different.

Harshvardhan Agarwal: Just one last thing on this part is what is classified as recurring asset and what is a transaction asset under wealth?

Vijay Chandok: Recurring asset would be anything which by having the asset with us we will keep on earning revenue. So mutual fund would be a classic example or a PMS or AIF. So, anything where if assets are lying with you, you will keep on earning income and no transaction is required for you to earn income. Transactional asset on the other side an example could be Demat asset. In Demat asset you may have DP holdings, but when you not transacting, I will not get any revenue. So that revenue basis is a transaction, in recurring income the revenue basis is asset being with us.

Harshvardhan Agarwal: So, any income that we get from MTF or ESOP would be under transactional revenue. Is that understanding is correct?

Vijay Chandok: No, that will be recurring because MTF and ESOP till the time the loan is outstanding we will keep on generating the interest income. So, just to understand an MTF transaction, a customer will take let us say a 10-lakh position as an MTF, so he will pay a brokerage for that 10-lakh position, he will pay interest rate for let us say 1 month if he is keeping it and when he is squaring off the position, he will again pay brokerage. So, the two brokerages will be transactional income, but the interest income is recurring because as long as 10 lakh position is open, I will keep on earning the revenue.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand over to the management for closing comments.

Vijay Chandok: Thank you so much. Thanks a lot for supporting us and thanks a lot for coming in large numbers and asking various questions. We really appreciate the time you have spent with us. Good night.

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