ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended December 31, 2021 (Q3-FY22)

January 18, 2022

Operator remarks

Good evening ladies and gentlemen and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter ended December 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 Digital Client Acquisition & Co-head New Solutions Group, Mr. Prasannan Keshavan – Head Operations and Mr. Nilotpal Gupta – Head, Data Science Unit.

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 third quarter earnings call for fiscal 2022.

I am sure that by now you would have already perused through our quarter three results and the presentation. I am happy to report strong growth across all our business segments. Our headline revenues came in at ₹9,419 mn, marking a YOY growth of 52% and a sequential growth of 10%. Further, our profit after tax grew, 42% YOY and 8% sequentially, to ₹3,803 mn. I would like to share my thoughts on our industry segments and our performance in that context.

The current fiscal has been strong for all our business segments. The retail participation has been strong leading to growth in the market volumes; the flows into mutual fund industry also turned positive this fiscal and on the primary market activities, this has been a year of record fund raising activities. The current quarter continued on this theme, although some signs of moderation are becoming apparent.

The retail client additions for the industry, whether in terms of NSE active clients or total number of Demat accounts as a proxy, were strong in this quarter compared to last year and previous sequential quarter, but within the quarter, trend of sequential month decline was visible for each of the month. Similarly, on trading volumes, the quarter witnessed moderation in equity volumes, more pronounced towards the November and December months. Derivatives trading volumes although continued the growth momentum but there was some moderation in rate of growth relative to previous quarter. We are also seeing that the pricing pressure in the industry is settling down and the focus has shifted to providing better experiences rather than only pricing. The other noticeable trend is clearly the consolidation of clients and volumes with digital players in the industry.

With regards to investments into various financial products like mutual fund, etc., industry witnessed a growing traction. The average monthly flows into mutual funds grew significantly year on year and even registered sequential growth. Within mutual funds, SIPs continue to show increased traction with the industry recording highest ever quarterly flow.

Primary capital markets also witnessed heightened levels of activity with respect to the total funds raised and number of deals.

On the regulatory front some of the noteworthy developments were:

- Directions relating to phase wise implementation of T+1 settlement cycle compared to T+2 settlement cycle earlier. We are gearing up our systems to comply with the regulatory guidelines.
- Deferral of directions requiring brokers to keep minimum 50% margins with exchanges in cash. This does not impact our operations since we have always placed 100% of margins in cash.
- RBI directed banks to align terms of lending products offered by their subsidiaries with those applicable to banks. This impacts us to the extent of ESOP financing product, which now will be capped at ₹2 million per client as applicable to Banks.

Against this back drop, our financial performance for the quarter was strong with growth across all businesses both on sequential and year on year basis. Let me now take you through some of the key highlights of our performance for the period.

During the quarter, our client additions remained strong with additions during the current quarter almost similar to those of the whole of last financial year. While the digital transformation has helped us gain the scale of younger clients with 68% of new clients coming in at an age of 30 or below and over 87% of new clients coming from tier-II and tier-III cities, we are keeping an eye on the quality and do realise that these clients may not have the same monetisation capability initially as our other channels which have access to more affluent base. However, gradually we have been able to build revenue scale of digital channel and now the monthly burn has become negligible on account of direct marketing cost, and includes only some indirect costs. Our focus here is on improving the digital marketing efforts so as to continue to improve the client mix and profile.

In our **equities** business, we were able to grow as well as diversify our revenue. I am happy to report that the allied revenue has started contributing 34% to the equity franchise and continued the strong growth trajectory this quarter as well. Further in the retail equity segment, our market share remained range bound, however our blended equity market share declined primarily on account of institutional equities.

Our market share in derivatives has been stabilizing post implementation of last phase of margin norms in Sept'21. While our blended derivatives' volume growth was broadly in line with the industry, we continue to focus on implementing initiatives to enhance our proposition for investors as well as traders. We believe that these initiatives will help in achieving positive long term outcomes.

Our **distribution business** witnessed a strong growth in revenue, driven by mutual funds. We registered market share gains, both sequentially and YoY, for flows into debt and equity taken together. We also feel satisfied with strong gains at granular level in SIP count and SIP flows market share due to our concerted efforts like the launch of Money APP.

In context of our insurance business, while the premium growth on a sequential basis may show signs of flattening, we are working on multiple prongs to harness the entire insurance opportunity. We are working on creating intuitive customer journeys, enhancing the product suite, integrating with insurers to jointly provide an analytics driven, personalised experience to our customers and leveraging our Money App. Further, we have been focused on scaling up the assets distribution business by making the process phygital and deep integrating the journeys with partners and we have been able to make progress on that front.

Our **Issuer Services & Advisory** revenue registered a strong growth and we became the first Indian lead manager to top the equity deal table. While we have a strong IPO/FPO/InvIT/REIT pipeline, we are cognisant of the fact that the primary markets are quite episodic and that the current activity levels may moderate. We continue our efforts on growing the recurring segments of our issuer services & advisory franchise like QIP, blocks and advisory services.

To **summarise** our approach continues to be to keep investing into fundamental input levers that will help us build sustainable scale business. We remain committed to handholding our clients through their financial journey and improving client experiences throughout the ISEC ecosystem and therefore continue to invest in next gen technology capabilities to stay ahead of the curve.

We are conscious of the elements of our business model being cyclical and could face short term headwinds at times due to the industry level factors, however, we continue to believe that the medium to long term story for the industry remains intact. We continue to focus on building up fundamental levers that would drive de-cyclicality for our franchise and continue doubling down on building granularity in our businesses. We look forward to continuing our momentum and capitalizing on opportunities in the medium to long term.

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

Moderator: Thank you very much, Mr. Chandok. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: You've disclosed in the presentation that market share in incremental demat accounts is 7%. So, what is the market share in the stock of demat accounts?

Harvinder Jaspal: Our market share in stock of demat accounts is about 9%.

Aditya Jain: So the way to see the gap between this versus the market share in stock of NSE active clients is that we broadly have more active client base or a better activation rate. So, that is the bridging metric or is there something else going on?

Harvinder Jaspal: That's right. If you take the NSE active by overall demat, that could be the industry activation rate versus ours would be slightly better.

Aditya Jain: Could you talk about the number of clients who are on NEO now?

Harvinder Jaspal: NEO base now is about 1.8 lakh customers, Aditya.

Aditya Jain: You mentioned that the retail equity market share is largely stable. I think we had a similar comment last quarter also. So, what is the number and how has it moved QoQ, if possible?

Vijay Chandok: If you look at our retail market share, it is similar to what we saw last quarter. There is a slew of efforts that are being introduced, which will help us in our market share, particularly in the intraday side. For example, we don't offer T+5 as a proposition, we are going to bring that out shortly. We are broad-basing shares that can be used as margin. One particular sub-product that we offer to our clients does not have this shares with margin, that's being introduced. Initiatives are planned both on the equities and the derivative side, which will reinforce both these segments of the market. Many of them have started getting implemented and many of them will be coming in Q4 and Q1. So, I think a quarter or two thereon the impact should be visible. In fact, when you look at derivatives, we already are seeing some uptick visible in market share in the month of December on a sequential basis, but it's still early days.

Moderator: Next question is from the line of Madhukar Ladha from Elara Capital. Please go ahead.

Madhukar Ladha: So, a couple of questions from my side. If I look at the quarterly broking revenues, they are flattening out at about ₹392- ₹393 crores. Now, I wanted to understand where is this really happening, in which segment? Is cash not growing or is it options? Broadly, it could be these two because futures is very small is my guess. So, some comment on that. And second, our cash market share is down to about 8.3%. Last quarter, it was 8.8%. So anything to read in over there or any comments over there will be helpful?

Vijay Chandok: When you look at equity broking, if you recollect our strategy, we have said that broking alone as a singular line item is not an area that you should be tracking us because we are deliberately adding a bunch of non-broking equity-related revenue. If you look at the non-broking equity revenue pools combination both on a YoY and sequential basis, you will see a larger number. I would not be singularly looking at broking as a line item on its own because it really doesn't matter if the company is earning with providing a product which is right for the customer, whether it is MTF, whether it is a Prime fee that he pays or some of the other charges that he uses, under certain plans, when he uses shares his margin and so on and so forth. It really should not matter to me that it should necessarily come out of broking. My request would be to look at it in that context and you will see a sequential growth and YoY growth on equities cohort. Having said that, I think specifically to your question on cash, let me just briefly dissect what happened in this quarter. October was a very decent month in terms of both volumes and market share. November and December had shown a moderating impact as far as cash equities were concerned. On that side of the market, I would say that when cash does well, we do well. That is something which was not too favourable in November and December and that to an extent impacted our market share. Otherwise, you would have seen a sequential growth in market share. We are actually beginning to see an uptick already in this current quarter though it is only 15-days thereabout. I would say that the mix in the current quarter was relatively less conducive for our construct of business.

Vishal Gulechha: We introduced two new Prime plans, just 15 days back, and received a warm response from our customers. We also introduced new prepaid plans, which is also a favourite product for the cash and MTF customer. It's still early days for these new plans, we should really see a good participation coming from them in the coming quarters. We have a team which looks at each and every customer who shows a little bit of interest in cash, MTF and other equity products and reaches out to on-board them. Vijay already briefed about the new product, T+5 which is in the making, we will be able to offer better leverage, because it's only a five days product and it doesn't fall in MTF definition, without the hassle of creating pledge. We already have brought shares as margin or collateral in one of our key products. So, keeping in mind all the initiatives and few more which are in pipeline I think everything should play out well in the current quarter.

Madhukar Ladha: Obviously, this business goes through cyclicality and especially the investment banking piece of it. So, can you share some colour on what could you do in case next year is a tougher year? Maybe if you can quantify how much control over cost you could get and what is the reduction scope over there?

Vijay Chandok: I will start and then Harvinder and Ajay can come in and close. You're right in saying that investment banking has an episodic nature, not necessarily cyclical. In that context, first, we have to view that the investment banking cohort is approximately 15% to 20% of our total revenue and profits on an average and historically, that's been the sort of thing, that's point number one. Point number two, when you look at the total cohort of this 20%, you will find that there are broadly elements which are more granular and repeatable, which is the institutional flow business and then there is an element which has got an episodic nature. The split between the two, broadly, a ballpark where 8% is predictable and 10% to 12% has got episodic nature. Within this episodic nature, there are certain more predictable elements, for example, QIP. If you see QIPs, and you look at the BFSI space, you will find that if you have a good coverage of let's say, top 50 BFSI companies in the country, there is a very decent chance that someone or the other is in a capital raise cycle once every three years. So, you will get number of opportunities every year coming out of this BFSI. So, that's a franchise we have consciously strengthened in the last three years, by building coverage, by building research capability there. It is clearly reflected by the fact that we have a market share north of 90% in the BFSI space, when you look at the fund raises that have happened in the last 18 months. So, we have a strong presence there. The presence sort of in a way nullifies or mitigates the impact of episodic businesses being sort of less visible in a particular year. So, that's one element of strategy. The second element of strategy is growing franchise, particularly on advisory side of the business where we are seeing that there is a growing opportunity, particularly in the tech space. So, tech space side we have increased and augmented people as well as we have increased and augmented skills there. If you look at our total cost structure and the flexibility there, maybe Harvinder you can come in and elaborate what percentage of our manpower cost has a fixed nature and what percentage got variable nature, because the variable nature actually ramps down in case of performance being sort of short. So, maybe Harvinder, you can just come in and elaborate.

Harvinder Jaspal: So, at an overall level now we have moved to a cost structure where about 57% of our costs are variable, they depend on some or the other parameters, which could be either market linked or volume linked or customer linked. Within employee cost also, somewhere between 25% to 30% of the cost are in the variable category. That gives us some leeway. I would also just add to Vijay's point, while he spoke about diversification in the investment banking revenue, overall also as a theme, diversification is playing out. Within the equity business, we have put out that consistently from 9% to now 34% of the revenues have started coming from non-brokerage business, our distribution income mix overall is growing to about 17% -18% now. So, we are trying to create more lines, at the same time having more variable component in the cost gives us headroom to manage either an episodic or cyclical turn.

Moderator: Next question is from the line of Vidhi Shah from Antique Stock Broking. Please go ahead.

Vidhi Shah: For the new clients acquired, how many of them will have opened a demat account for the first time? In which product do they typically start off with?

Vishal Gulechha: The newly acquired are customer active in both cash & derivative segments.

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

Prayesh Jain: My first question is on the possibility of our investment banking revenue sizing that you can provide us for say this year at least from a full year perspective. You've seen a very strong traction in Q3 and for Q4. Some clarity there if you can help us understand as to what will be the size of the full year revenues?

Harvinder Jaspal: On the investment banking overall sizing, it's difficult to get overall revenue share. However, we do have a mobilization share, that's at about 68%. On the league tables, we are leading, currently on the ECM basis. Revenue market size is slightly difficult to estimate because it's a bit fragmented industry and there is no formal disclosure.

Prayesh Jain: But from a run rate perspective, do we see Q4 could be higher than what we've seen in Q3 because Q3 was superfluous numbers?

Harvinder Jaspal: The pipeline is pretty strong, but yes, as Vijay also explained that some of these things are episodic, and they do depend on market sentiment in general. We have an ₹850 billion kind of a pipeline right now. We have to keep this in context that it has been almost one and a half years where the fundraising activities have been quite high. However, fundamentally, in terms of our role that we are playing across sectors, product expertise, all those fundamental levers we are investing behind. The outcome obviously will depend on a lot of factors, not all of them would be in our control. But the pipeline is pretty strong, even currently.

Prayesh Jain: On the core broking revenues, as Madhukar also was mentioning about them being flat in the last six to seven quarters now. So is the understanding correct that the mix of customers is shifting from or the mix of the volumes have been shifting from the traditional business model to more fixed fee for ISEC as well?

Vijay Chandok: Again, broking as a singular line item is not an accurate way of understanding the total revenue opportunity from equities business. It's pretty much like saying that there is a flight from Bombay to Delhi and I will only insist on what is the air ticket fare of a passenger, because over time what has happened is that air ticket fare has gotten expanded by saying, pay more if you need a meal, if you want a corner seat, if you want extra luggage, and so on and so forth. It's pretty much similar what is happening here. So, my request would be to look at the total cohort of equity revenue. Earlier it was broking, you pay one broking and everything else comes as a part of the package. The pricing models are now gradually morphing to become more activity-based. Singularly, equity line item is an interesting thing to look at, but that's not what we're driving singularly because that will be not right for the customer, just driving brokerage, when he is indeed looking for a lower brokerage, but willing to pay more by providing you float, by providing you a fee for certain thing that he avails. Let him take that plan and let him pay as per that plan, because that's what is his comfort. So, please look at it as a cohort. So yes, we have seen seven quarters of sequential flatness, but just count the total revenue and you see seven quarters of sequential growth actually, because that's the strategy. The strategy is to deflate broking yield and morph the business model to become a more broad-based, activity-based pricing model.

Prayesh Jain: Where I am coming from is the fact that if let's say we consider the MTF book, which will have much higher cyclicality than possibly than the core brokerage revenues, especially if the markets say go for a steep correction, then your MTF book also sees a sharper correction the way we saw it in Q1 FY'21 - the book has runs down, the prices are down. So, that is more cyclical in nature. So how would you see the MTF book over a medium to longer?

Vijay Chandok: You're absolutely right, that this business has a cyclical nature and that is a risk of this business in the short term. There is no running away from that. As a management team, we are endeavouring to diversify and add more and more product elements, so that you are not singularly dependent on one or two elements for your revenue. That's the direction in which we are pushing the whole company, not just into equity texturization but beyond equities getting into other products. It's a journey and with every passing quarter, we are probably getting more diversified than before. We have put out last 10 years of data and we have looked at in three-year cohorts, we've seen a track record of about 17%-plus CAGR of profit. So there is intra three-year cyclicality that we witnessed in the last 10 years of analysis, but three years as a block, we have seen consistent growth. Our endeavour is to reduce that intra three-year cyclicality by the efforts that we are doing. We are in the middle of that process. Probably this quarter we are better than last quarter and we will hopefully be better in the couple of quarters than may be today.

Prayesh Jain: Last question is on the distribution piece wherein in spite of adding a new partner in HDFC Life, on insurance we've seen a decline in sequential revenues from life insurance business. What could be the trajectory going ahead especially on the insurance side?

Vijay Chandok: It's a very disappointing outcome that sequentially, we have not grown our insurance business. In fact, we were hoping for a very good end of quarter in insurance, and our trajectory was inching very favourably till 20th of December, but the last 10 days, unfortunately, because of this sudden outbreak of infection rates, the whole momentum got broken, both at our end, and also the customer end. So, we just couldn't capitalize on that momentum, and we landed up with a 6% decline, which is very disappointing. But the pipeline is there, those deals are not going anywhere, they will get done in January, people are recovering and closing deals. So, we are hopeful that it's a deferral rather than a loss. The pipeline looks promising from Q4 perspective. So, you should see a clear sequential uptick from here. By the way, in the industry also, particularly with our partners, we noted that it has been a minus 1% scenario, even for our main partner, which is ICICI Life. For the second partner, actually, it is a 2% kind of growth. So they've also had a very tepid period is what I would say, but, the physicality involved in closing these deals, unfortunately, impacted the momentum in the last 10-days.

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

Arash Arethna: You touched upon that regulatory change where the RBI asked you to align your ESOP financing product with the bank. So, any idea on what sort of impact this would have from a revenue perspective in a quarter with this change?

Harvinder Jaspal: So, the revenue impact could be of the order of about ₹15 to ₹ 20 crores on the gross income basis for a quarter. So, this is what we are expecting as an impact if we are not able to build that book.

Arash Arethna: On your total broking revenue around ₹392 crores, I think earlier we said that more than half comes from the cash segment. So, does that still hold true? And also, if you could give any part within cash between intraday and delivery has that changed over time or those things largely stable?

Harvinder Jaspal: Cash delivery in terms of volume mix has been slightly on a higher side over the last one year, although towards the end of this quarter, there we have seen a bit of a moderation on delivery. Our revenue is more tilted towards cash, rather than F&O and that continues to be the scenario even now.

Moderator: Next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Is my understanding correct that the ESOP book which is around ₹ 6,600 crores now, that will remain constant from hereon and this revenue that we have booked of ₹146 crores, you're saying unless we're able to grow this book, it should decline by 15 to 20 crores next quarter?

Harvinder Jaspal: So, two clarifications over here. First of all, this book of ₹6,600 crores is MTF plus ESOP. Both of them are included in this, of which MTF is the larger portion and there is no impact on MTF. The ESOP which is a lesser portion that will wind down. It may not be immediately next quarter, no new exposures can be taken but existing exposure will complete their tenure. Eventually, that would be the impact only arising out of ESOP and not MTF. MTF and that book continues to grow. We have a market share of about 22% over there, and that book, even this quarter has grown sequentially.

Aejas Lakhani: Could you give the revenue split or you're not sharing that from the MTF portion and the ESOP portion separately?

Harvinder Jaspal: So, we have not put this out, but more than 80% is MTF revenue.

Aejas Lakhani: The second one is a bookkeeping question. Actually, in the second quarter result, your other distribution products had a revenue of about ₹61 crores. In this presentation you have reported that number as ₹43 crores. So could you explain that what is the gap? What we're trying to really understand is that your distribution income, this is the portion which is the non-MF distribution, which comprises of how we report it as life insurance and other distribution products, that's correct, right?

Harvinder Jaspal: Actually, if you look at it, there is an additional line of insurance income, which is separately disclosed. So if you add insurance and others you will get to the same ₹61 crores.

Aejas Lakhani: My query is that, gentlemen, our market share, if you look at it from Q1 of '22, that number has been trending downward and it's a little worrisome today. So, I would just like to know, it moved down from give or take 11% to now 8.3% and while the management has kept highlighting what's happened quarter-on-quarter, I am just generally wanting to know how you think we should look at this, because the number has been gradually declining? ISEC's equity share in the ADTO has come down from about 10.7% to 8.3% and if you look at it over the last seven quarters, it's been a gradual decline. So as an investor, this is obviously worrisome, but we'd really like to know how we should be viewing this from your side?

Vijay Chandok: You're seeing a combination of retail plus institutional which is showing a declining trend on a sequential basis. If you were to dissect it, and look at retail, you will find a flattish trend on a sequential basis, which means that the adverse impact of the new margin regime has been fully absorbed and we have started seeing stabilization of market share, which actually improved in the month of October and then sort of moderated in the month of November and December because of the market conditions that I was explaining earlier, leading to an overall flatness in market share. So, looking forward, obviously, our endeavour would be now to, having stabilized it and flattened, show an improvement. So, our efforts going forward is to show an improvement for which there is a bunch of initiatives that are planned within the company.

Moderator: Next question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: My question is on the margin trade funding book. So, I just wanted to know what are the limits of this book like, can this book be ₹10,000 crores, ₹ 15,000 crores someday, are there limits, from say the rating agency or the regulator or the bank or that is possible? And the question number two is what are the levers of excellence in this? We already have a good 22% market share. So, are we working a lot on making it so much easier so that more and more customers use this facility?

Vishal Gulechha: MTF is coupled with the market conditions. So, the endeavour is to get new customers, and also as you rightly said, create journeys in such a way that products can be consumed while transacting. On the journeys, you would have seen one small addition done last month, adding option of buying now and paying later right at the time of placing order. Now, that's a small change, but that has brought a very encouraging output for us.

Secondly, two things are very important for this customer and we continue to play on both the factors; one is the interest rate, because this will leverage position and customer actually pays 25% and takes the remaining amount or borrows the remaining amount to create a position. And second is the brokerage. So, as I said that we introduced two new Prime plans, which not only have better brokerage rates, but also has better interest rates. We saw the initial trend and it is very encouraging and few more initiatives are in the pipeline. So, MTF book will also grow along with cash and it cannot be seen in isolation as those customers are trying to take position in cash and at times in MTF. So, we continue to leverage our existing customer base, simplifying journeys so that product can be consumed by more number of customer, create attraction in interest rates, in brokerage plans and attract new customers for markets. So, efforts would really be to scale up number of customers and also the book size.

Harvinder Jaspal: Also, if I may come in for the limit. The regulatory limit says that up to five times the net worth you can lever. So, today, we are at let's say about ₹21 billion of net worth. As far as the rating, etc., that is not a constraint, it's more of the net worth, and five times the net worth, up to that time is the maximum that we can go.

Digant Haria: In terms of customer on-boarding for MTF, how easy or how well equipped are we versus the other players who are providing this MTF? So, my question is generally, if you look at the F&O volumes in India over last six years, it has been completely counter-cyclical, like there is no cyclicality in each of the last six years, the volumes just keep on going up. Maybe, just because it has been made so convenient for people to do option trading. So, can we do something like that in MTF? How easy would you rate your process for customer to on-boarding, start his journey, versus where you would eventually want to be?

Vishal Gulechha: If you really want to take position, using the MTF product, you don't have to do anything – while in the journey of buying shares, just check this one checkbox. So, there is absolutely no bottleneck, no paperwork, which is required, no additional online declarations to be given, etc., And because it is so simple, Q3 which just ended, was the ever highest in terms of number of customers opting for MTF on month-to-month basis and on quarterly basis also. That is result of the simplification in journey which you rightly pointed out.

Vijay Chandok: So, let me come in and add a couple of points. See, one thing is trying to remove cyclicality by the product like MTF and simplifying MTF. I don't think that's the way we would sort of think about it because there are phases in the market when MTF is not the right product for the customer. It would be not right for us to pursue an MTF opportunity when the markets itself are trending downwards. So, to expect it to be kind of simplify and you will be able to counter the counter-cyclical nature of the market will be stretching it too much. We wouldn't want to do something like that. But we certainly want to provide a good experience. When we say good experience, not just of availing the service, but also making money out of that service, because that is what we believe will give longevity. That is important. That is why in the last two months, we actually cooled off a little bit when we saw that there was some uncertainty in the market. It is one of the elements of ecosystem that we have provided is research inputs and it has to be supplemented by a research inputs.

Moderator: The next question is from the line of Karthik Sahani from Myriad Asset Management. Please go ahead.

Karthik Sahani: I just want to highlight the fees and commission expense which has increased at about 77% year-over-year. Can you help me map this with the increase in your brokerage income? It was 8% and again your distribution income which was around 55% growth.

Harvinder Jaspal: So, this have three or four different types of elements over here. Two of them are those that you already mentioned that we would have revenue share agreements with various partners which depend on partner-specific revenue increases, etc., Secondly, this will also have the investment banking related revenue share. If you'll see the investment banking revenues, there you would see a strong growth. So, bulk of the increases are coming also on account of investment banking where we have pass outs pertaining to distribution of this.

Karthik Sahani: And in terms of your equity, you said that it should be looked at on overall basis, I just want to understand what is your target for the ARPU?

Harvinder Jaspal: So, what we have overall is not a very product-specific target over here. What we try to do is that for a particular customer, across the various product lines, how do you maximize the opportunity. So today, for example, if you take not only equity, but all the retail products taken together, we will be somewhere in the range of about ₹9,000 to ₹10,500 kind of an ARPU. What we try to do is we try to service a customer holistically with the particular need. So, we don't have equity ARPU target per se. The idea is that the client with us should grow and the assets that our clients are keeping with us, they should keep growing. So, as and when that happens, that is a fodder with which we can earn any kind of revenue either as NIM income or broking income or a mutual fund fee or advisory, whatever be the source. But that is how we try to approach it and therefore ARPU is an output of that.

Karthik Sahani: And also, can you give me the number of branches that ISEC is operating currently?

Harvinder Jaspal: Today we are at 145 branches.

Moderator: Next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: First question is on again retail equities and allied revenue. There if I look at the breakup this quarter, we have seen very good growth on the MTF and ESOP part. But Prime and fee income also seems to be moderating despite reasonable customer addition, both on the Prime side as well as on the NEO platform. So, what are the reasons there? How do you see this trend playing out on the Prime and fee income?

Vishal Gulechha: So, as far as Prime is concerned, as I said, we continue to have a robust set of customers coming in. And in fact, Q3 saw the highest number of additions in Prime. So, total Prime book today is a little over nine and a half lakh customers and the heartening factor is more than 75% of the customers have gone for auto renewal. So, they don't want even to come back again and make a renewal request. As I said that two more plans have been launched with some more attraction. So, I think it will be our endeavour to continue to build strength in Prime and the momentum must continue. And NEO also, the daily, monthly run rate, etc., we are maintaining, we have seen some uptick. So, in NEO we have not seen any kind of moderation. We see over 500 new customers opting for NEO on daily basis, give and take few numbers here and there, but largely it is in the order of 500 daily.

Harvinder Jaspal: Just to add to what Vishal said, I think we also have to look at it in a context of what really is Prime. Prime as a proposition is a way to attract high intent customer, because a person has paid a subscription fee and then he is joining a loyalty program like Prime, we have seen much higher ARPUs. Therefore, our endeavour is to maximize the number of customers joining Prime. As a part of that what we did over the last one year as we have introduced tranches of Prime. We introduced something called Chota Prime about three or four quarters back at ₹299. We have recently also introduced some other variants of Prime. The idea is to get these high intent customers, and then actually start seeing the results, not only as subscription fee, which Vishal explained, but also as a high intent customer resulting in higher ARPU.

Vishal Gulechha: Tomorrow, if there is any other parameter which we can identify, where we can assess or measure the potential of the customer, we would rather play out that variable also. So today, Prime is one way of identifying a set of customers who may be doing higher volumes, needing better pricing, etc.

Nidhesh Jain: You talked about some changes in a Prime and Prepaid plan to improve the activity levels of the customer. So, do you expect any revenue impact of those changes or how should we think about from revenue perspective of these changes that we are doing?

Vishal Gulechha: Some impact, I would expect to come from the existing set of customers opting for high value Prime, but at the same time, we have seen attraction from the newly acquired customers and also in our reactivation activities, where we reach out to the older set of customers who have stopped for some reason. So we are reaching out with a newer set of propositions. And net-net I can say, there will be alpha, we are gaining more than what revenue compression we see coming from the existing set of customers.

Nidhesh Jain: You also gave float income on the NEO plan. Where does that appear in P&L?

Harvinder Jaspal: Yes, so float come will come under the interest income, because what we can do for any kind of a client money or float, we can only make fixed deposits and keep it with exchanges. That is the only ring fenced use which is allowed. So that is where it is, under interest income.

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

Sanketh Godha: On ESOP book, which is which is around ₹550 crores at the end of March '21, if it has to run off completely, then within how many quarters it will run off? Just wondering when we do the modelling, should we assume that after FY'23 It will become almost zero for us or how is it?

Vishal Gulechha: A lot depends on the exit which customer gets. If they get a favourable exit, it may wind down very quickly, and many of the customers who are confident about their investment, they continue to pay interest and hold their position and that's the trend which we have seen. So, I would say it should take about four to five quarters in all before this book to come down considerably.

Sanketh Godha: Just wanted to understand that our yields in mutual fund have structurally improved by 10 basis points from 0.65 to 0.67. So, should we attribute largely to the higher contribution of equity or there is something else which is leading to the improvement in the yield?

Harvinder Jaspal: Largely that, Sanketh.

Sanketh Godha: In the excel sheet, which you have disclosed first time in the quarter, just wondering there is a number called other revenue of ₹49.2 crores. Just wondering this is largely the float income what you have will be coming from some of the accounts which were opened outside ICICI Bank which was probably very small number in the past has now grown to 49 crores kind of growth figure or it is made up of many most things in the sense?

Harvinder Jaspal: The 49 crores it is always there as interest income, if you remove the interest that we have earned from MTF and ESOP. MTF and ESOP is clearly a part of allied income, but we also earn interest on fixed deposit that we place with exchanges as margin. That is the most significant portion, maybe more than 95% of that element. Fixed income, we have a total of approximately ₹5,000 crores worth of FD, the interest that is getting earned over there is primarily the contributor of this.

Sanketh Godha: But just wondering given we have now many accounts open outside ICICI Bank. If the activity is increasing means it should become a meaningful source of float for us. So, has it reached that level or it will take a decent amount of time to make it an important marginally total revenue line?

Harvinder Jaspal: It is growing pretty well. We will subsequently also take a call to put that out as a separate line item, maybe let's say crossing ₹1000 crores or whatever, but it is growing well and increasingly becoming more and more relevant.

Vishal Gulechha: The float income, I mean, even the customers are opting for NEO. The count is about 1.8 lakh, they also have to compulsorily come in a float model. So, irrespective of where do they hold their bank account, whether other bank or ICICI Bank account, if they want that proposition, then they will have to come for the deposit model. So, there also we have seen a significant traction.

Sanketh Godha: On the non-mutual fund and non-insurance related distribution income, we see a significant traction in the loan book other than home loans, home loans have actually moderated to 13% but other loan books have grown very strongly almost like 152 percentage year-on-year. So, just wondering which are these products and which are the tie-ups and do you see this this ₹178 crores of disbursements what you have been done in third quarter are sustainable figures or not?

Harvinder Jaspal: Specifically coming to products, we have a total of about 12 products. Apart from home loan, it includes business loan, gold loan, SMEs, even credit card distribution among others. What you're seeing is a traction which is growing because this is a line which we have started focusing on over the last one and a half years. We are also looking at it from overall process revamp point of view, trying to make the process more decongested, seamless for the customer. Some of those things are also helping and we're going behind specific leads. So, you earlier had a scenario where a physical file would need to travel to the manufacturer which could be bank and a clarification will go. So all this was quite physical. It has also become a bit 'phyigital' if I may say. So, closures are becoming a slightly better, lead management is becoming slightly better. So those are some of the structural things we are looking at. It is still WIP. We would not say that it is fully done. And all these products specifically we are running campaigns, we are trying to get leads and that is resulting in increase. We believe actually this number could grow more than being sustainable. I think this number actually could grow because we are trying on various levers on that.

Sanketh Godha: This ₹49.4 crores of other distribution income, other than the mutual fund and the life insurance income is completely related to these loans only, right or...

Harvinder Jaspal: That is not correct, Sanketh. It has a long tail of products. And I'll give you the main product categories also. So, it has a whole range of fixed income products. We earn distribution fee from distribution of gold bonds, corporate bonds, fixed deposits, corporate deposits, that's fixed income category. Then the second category is the alternates or PMS distribution. Then you also earn fee from a plethora of products. So you have NPS, you have general insurance, a lot of products, including home loans, which will fall into the third category. So three or four predominant categories are sitting in that ₹49 crores. In loans, if you have like ₹590 crores, roughly the yield would be in the range of about 80 to 100 bps depending on the product mix.

Sanketh Godha: I think I'm clear but just confirming. In the institutional allied business, ₹25.1 crores figure is part of IB income, right? So, it's already reported in ₹110 crores what you've reported in IB income.

Harvinder Jaspal: No, this is a revenue share. So, IB income is anyways excluding the revenue share. The investment banking revenue plus the revenue share that is there with institutional broking, that is the total fee at a company level that we would have received, but what is allocated to a business segment IB is different and what is allocated to institutional equity is this share.

Sanketh Godha: So, in the older disclosure, in which revenue line item this ₹25.1 crores was sitting?

Harvinder Jaspal: It will be under fees. So, the first line item is brokerage, the other line item is other fees, under that line item, you will have investment banking, you will have a distribution fee. That is where it will be sitting.

Sanketh Godha: Just a clarity, from hygiene point of view, you will incrementally maintain this excel sheet, right so it will help us?

Harvinder Jaspal: That's right. The idea is that this excel sheet provides complete clarity on comparable line items.

Moderator: Next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Just wanted to check on the ESOP financing thing that you mentioned that there'll be a cap of ₹2 million per client. What is the exact date from which this is getting implemented? Is it already implemented or is there a future date? First is that. Second on the ARPU, you mentioned that your ARPUs are in the range of ₹8,000 to ₹10,000. Specifically, can you help us understand for the new customers who were on-boarded last year, what has been the growth in their ARPU? What has been trend with their ARPU? One clarification I wanted is in the beginning you mentioned that there is a new directive which requires brokers to keep 50% of the margin money in cash. You mentioned your percentage on this and how much you made? Can you repeat that a bit as well?

Vijay Chandok: The ESOP part has already been implemented in December. We've started moving to that model. And the third one is, in terms of the cash, we keep 100% of our requirements in form of cash. The other option is to keep it in form of shares. But we keep it in form of cash always. So it doesn't really impact us, because now people who never would keep it in form of cash and keep it in form of shares will have to minimum keep 50% in form of cash. So I hope that clarifies.

Harvinder Jaspal: We have not put out a cohort wise ARPU, if that is what your question is, but I can give you a general direction. We have seen and we have kind of articulated earlier also, that the newer customers which are joining the cohort are much younger, and their ARPUs are expected to be slightly lower as compared to what we have traditionally seen. As a result of that the overall portfolio, ARPU have seen a bit of a decline as compared to last year. However, what we are looking at is that at overall cohort level, if you take retail distribution plus equity, all the products put together, currently, it's at that level. But as some of these customers increase, it is possible that that could see a downward trend.

Shreya Shivani: But the younger customer base which is joining is more of a trend of this year, right? The previous year trend was not as...

Harvinder Jaspal: I would say about one and a half year. So September of last year is where we started getting some traction, so from there is where we have started getting some traction.

Vijay Chandok: But just to clarify, the traditional sources have also increased. It is not like that other traditional source is forgotten. So acquisitions through our conventional sources have also started growing at a faster clip and this cohort is an add-on cohort which never existed for us in the past. So it is not one replacing the other. It is one augmenting the other and the original piece itself is also gaining traction, it is growing at a faster clip, 25,000 to 30,000 is now at 35,000 to 40,000 per month, which is the traditional cohort.

Moderator: Next question is in the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: When you give that NSE active client number, do we remove also clients who haven't traded in terms of activity for the same period as we add the clients in terms of active clients?

Vijay Chandok: Yes, it's in a rolling 12 month number which is not published by us. Actually, that's published by NSE. So, this is an industry data they publish every month. So, for example, if any customer traded in the month of let's say, we are in January, so January of 2021 as the last trade and we are let us say entering the month of February where he did nothing from January 2021 till month of February 2022, it will fall off. Till January it will be included as an active customer, but in February it will fall off from the list of active customer.

Kashyap Javeri: Any of the brokerage income, because of just classification in terms of revenue, would have been part of let's say income, which is classified as Prime or income which is classified as MTF? Client list has gone up by let's say 20% or versus about 2.27 to let's say 2.75. Ideally, there should have been some change in the brokerage income. Retail brokerage income can't be just flattish. I'm saying if you compare YoY, your retail brokerage revenue, if I were to exclude Prime, ESOP, and MTF book, still wouldn't have grown in line with the active client additions? Bit of pricing and migration to Prime or NEO would have happened, but even QoQ, the client addition is fairly aggressive in that sense.

Harvinder Jaspal: Yes, so, there are three factors primarily, which will contribute to the trend. One is exactly the way you said that there will be incrementally movement towards Prime, NEO, prepaid, any of our plans which offer better yields to clients. Number two, on any kind of YoY basis, the contribution of the clients, which are new to us, as a proportion of overall clients that is heavily skewed towards new clients. See, supposing you have 100 clients, and earlier you were acquiring, let's say 10 clients, incrementally, the mix was more skewed towards the existing clients. Now, what has started happening is because of the growth in digital, a lot of clients are still in their zero to 12-month vintage bucket, which will definitely not have the same ARPU or same revenue generating opportunity. That's the second reason. And third reason, which we discussed earlier, is that we should look at allied income. The reason is not only because it's a different source, the reason is that our strategy has been to broad base and as a result of that, we have kind of brought down our yields and all these things have gone up, other charges, it's a fee texture, which is changing. So, therefore more appropriate comparison would be after taking allied also. But even if you don't take that for brokerage, these are the factors which influence that.

Kashyap Javeri: And some of this pricing or yield, which we would be losing probably in terms of retail brokerage revenue. If I understood correctly, a bit of that is compensated because of the allied charges that we earn from the same client?

Harvinder Jaspal: That's right. In NEO, for example, you have a flat brokerage of Rs.20 per order, but you have four or five different types of charges, you have interest income on shares as margin, you have charges for transferring money and so on and so forth. It's a modular pricing so to say.

Kashyap Javeri: And which is why, Mr. Chandok, he keeps referring to total, retail and allied to look at it that fashion

Vijay Chandok: Correct, because now activity-based pricing and not only brokerage.

Moderator: Thank you. Ladies and gentlemen, we will take our last question, which is from the line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: Given that the activation rates for us for the quarter, what is the average wallet size of the digital customers, which we're acquiring, or what is the average trading size? The reason I'm asking is that is wallet size, is really small, now 15,000 and market saw correction, then are these customers loading their guns again and investing, coming again to the market or is it a setback there initially, then, do they turn dormant, what are the trends you're seeing? Second one was a data keeping question, what was the marketing spends for ISEC in Q3 and maybe also for Q2 FY'22?

Vijay Chandok: So, you've articulated some very interesting points around what this behaviour of the new cohort is going to be. For us it's now roughly about eight quarters of experience in this particular space. We are in a way seeing an evolving sort of behaviour from this cohort. And therefore, we have not sort of started putting out details beyond what we have already said. We started saying, what is the kind of patterns we are seeing in terms of age, what are the patterns we are seeing coming from which kind of centre and we also now started putting out total cohort revenue, right, what is the total revenue that we have earned on a monthly run rate basis and how does that stack up with the marketing spends that we do. We have now noticed for the last two months, we are able to kind of offset the marketing expense with the total cohort revenue, which was not there, maybe in the last quarter. So, it's an improving kind of a trend in favour of compensating for the costs. We still have to cover certain fixed allocated costs, which we hope will happen as we enter into the next quarter, because there is an operating leverage behaviour that will eventually kick in. To your second part of the question, as to whether they are coming in with low gunpowder, I think you refer to something to that effect, I agree with you, they come with a relatively lower gunpowder, they are relatively less experienced, but they are young, and they are learning and if they sort of sustain in the market, then there is a long runway of monetization that is possible. At least given our last several years of experience in this space, we have seen long monetization possible of an active surviving customer. So it is really to be seen how many of them eventually survive, how many of them continue to act and stay. Our belief is that even if a percentage of the customers that we are acquiring, turn out to be longevity-oriented customer, I think this is going to be a very compelling business model. There is a reasonably high chance that that will play out. Because the numbers are evolving, we don't want to put out and confuse everyone with numbers, because with every passing quarter, we are seeing that number is improving. We felt let us give ourselves a few more quarters and when we see stability, we push out more data. This cohort stability, we started seeing now in revenue stability for three, four months in a row and that's why we started putting out this data. So really, I would say, this is an interesting story. The hypothesis is that, a section of them will die out, a section of them will survive, and a section which survive will give you enough and more to make up for the cost spend in monetizing. That's the belief. If that plays out, there is a great monetization. We believe there is a great monetization story and we are investing in this space as we speak. Today we have reached the stage where our cash burn does not bother us, because it's a very negligible amount. So I think that hump we have sort of covered now. In terms of marketing spend, Harvinder, you can come in and share some data.

Harvinder Jaspal: Yes, it's about ₹25 to₹ 27 crores for the quarter.

Sahej Mittal: What would be the number of orders being processed under the NEO plan if you could give that number?

Harvinder Jaspal: We have not yet put it out, Sahej.

Vijay Chandok: We'll keep sharing and keep increasing the data that we share as things are becoming more stable with respect to these new digital customers, new plans, and so on and so forth. Our idea is to keep giving you more data than what we have given in the past and we will continue that journey.

Moderator: Ladies and gentlemen, that was our last question for today. I now hand the conference over to the management and Mr. Chandok for closing comments. Over to you, sir.

Vijay Chandok: Thank you so much. I really appreciate all of you having taken so much time and asked all the questions. If there are any questions that might have been left out, please reach out to me, Mr. Harvinder or the Investor Relations team and we will be more than happy to address the issues. Thanks for all the support you've been giving us over the last several years. Thank you for joining again on this call today and please take care and all the best as we move into the new year. Thank you and good day to all of you.

Moderator: Ladies and gentlemen, on behalf of ICICI Securities, that concludes today's conference call.

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