ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended June 30, 2021 (Q1-FY22)

July 21, 2021

Operator remarks

Good morning ladies and gentlemen and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter ended June 30, 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 morning to all of you and welcome to the ICICI Securities first quarter earnings call for fiscal 2022.

I trust that you and your near and dear ones are safe and healthy & I hope it remains that way as we emerge from the impact of the second wave of the pandemic.

I am sure that by now you would have already perused through our quarter one results and the presentation. Before we get into the Q&A, I would share some of my observations and insights relevant to our industry.

1) Pandemic has frontloaded the opportunity for our industry
2) Market is consolidating in favour of larger and digital players
3) Pricing is increasingly becoming commoditized and experiences, features, personalisation, relationships, and value added services which facilitate the customer in his wealth creation and preservation journey are becoming important differentiators.
4) One has observed that market is segmented and sub-segmented ranging from the young GenZ and millennial investor to GenX and the baby boomers & the needs of each segment, sub-segment and micro-segment are different. Most companies are treating all customers alike by focusing on low cost execution. What these customers need is low cost personalisation. Emerging winning companies would need to increasingly demonstrate these capabilities.

5) Behaviour shifts are visible across age segments towards use of digital methods of account opening and transacting.
6) We are increasingly getting convinced that the growth in new demat accounts is not merely triggered by a combination of factors arising out of pandemic related developments but signals a structural shift of emergence of a new generation of investors-the GenZ. These investors who are digital natives are coming into the market in large numbers. Demographic data suggests that the population of this segment of newcomers is going to be significant for the next several years. It is important for companies to recognise and harness this opportunity in a format that fits into the sensibilities and preferences of the segment.
7) Value creation in our industry will require demonstration of operating leverage and ability to monetise lifetime value of customers through a full range of products and services delivered digitally at low cost in a personalised manner rather than having a narrow focus on products and product related yields.
8) Our business has demonstrated a secular growth trend over the last decade if viewed from a window of three year blocks.
9) It is important to not just focus on the visible part of technology. This is the technology that faces the customer in the form of easy journeys and interfaces; but also on the invisible technology which provides cyber security, privacy, flexibility, scalability, salience and response time, reliability and uptime in a business like ours which is a business of trust and winning companies will have to invest in both these aspects of technology actively.

We, as a company, have focussed on all aspects and continue to focus on all these aspects that I spoke about as we are in the process of transforming ICICI direct into a digital platform play straddling three important segments of the financial services landscape namely savings and investments, insurance services and distribution of loan products thereby enabling us to monetise value across the customer's life-stage.

I'm going to conclude my opening comments and throw it open for Q&A. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: I have got few questions: The first one is more of an observation is that in our presentation, in terms of revenue breakup which is given business segment wise, I do keep seeing numbers changing for the preceding quarters in subsequent quarters, for example this quarter where we have given breakup of Retail Broking, Prime, the ESOP and MTF-related book, the same breakup in Q1 of last year was slightly different. So, any reason or any reclassification which would have happened for the same quarter last year and this is an observation across last two, three quarters actually it keeps changing? Second question is also more like a clarification, when you say that Wealth Management income is about Rs.182 crores, which segment is it included and is it net of expenses? The third question is that in terms of declining distribution revenue, is that purely seasonal in nature or was there any one-off also in the fourth quarter of last year? The fourth question is we have seen sharp dip in average revenue per client. Would this be more like a quarter end phenomenon because we have added significant number of clients, so opening and closing number of clients has got almost about 16%, 17% difference on quarter-on-quarter basis, otherwise what could be daily average or let's say based on the number that you would have on daily basis, revenue per client versus fourth quarter of last year?

Harvinder Jaspal: Hi, Kashyap. First is about reclassification. Earlier our allied income included Prime fees and MTF + ESOP interest income. During the year, we launched our NEO proposition, where there are other few other fees and charges . So, we have not differentiated that and clubbed the Prime and other charges into one. Also, depository charges which were previously netted off in expenses and now reclassified as gross revenue. I'll be happy to connect offline and give you any clarification that you have on a quarter-on-quarter basis. The second question that you asked was that private wealth management revenue of Rs.182 crores, is it revenue or PAT. It is revenue, from all our clients that have more than ₹10 million of assets through us. These are about 55,000 clients. The aggregate of revenue from these clients including equity broking, mutual fund, PMS, or any other products they consume from our platform, is 182 crores and in our . P&L, it is covered under respective line items e.g. brokerage from our wealth clients is a part of brokerage income etc.This disclosure is to say that at the top end of our pyramid, there are about 55,000 clients who in aggregate are giving this kind of revenue and what is the traction there. The third question that you asked about distribution income and you are seeing a seasonal dip on distribution versus Q4. Yes, there are a few elements which have a bit of a seasonality, insurance, as we know is more seasonal towards Q4. Our loan and wealth management products have had good business in the last quarter, however, they were impacted in the current quarter due to lockdown. On a YoY basis, as you've noticed, there is a growth of about 51% in our distribution revenue. One more question that you also asked was that average revenue. From last year to this year, there has been a 3x scale up in the number of clients that we have started acquiring. As part of our strategy, we are acquiring younger clients from tier two and three cities and these clients have not yet got their full 12 months to give revenue. So it is due to combination of facts that, yes, clients have grown, and they have not got the full 12 months. Last question was daily average revenue, we have not put out any specific disclosure on daily average revenue. You can calculate it from a product line, for example, ₹352 crores of broking income in the current quarter and there were 61 days in the quarter.

Kashyap Javeri: Actually, let me put it differently. When I'm saying that there is a dip in the average revenue per client. What we as an analyst would do is that we would divide that Rs.352 crores divided by the average of 1.58 and 1.85 which is the opening and closing active clients which might give a slightly distorted figure because you wouldn't have...

Harvinder Jaspal: That would not be the correct way. The way you are doing is you're taking revenue for three months but you're taking the active clients of 12-months. So, somebody would have given us a revenue let's say Q4, Q3 and Q2 of last year, that revenue is not there in the denominator, but all those clients have come into this. Ideally, we should do it at March end or take last 4 quarters revenue, because then the numerator and denominator would be consistent.

Moderator: The next question is from the line of Aditya Kondawar from JST Investment. Please go ahead.

Aditya Kondawar: I just have one question and it's a qualitative one. So, in recent times, we have heard about the Paytm IPO, right, and Paytm has close to 115 million annual transacting users, they have 21 million merchants and they have spoken about insure tech, wealth tech and broking in a big way with the DRHP. So, not just Paytm but other content that has come up in the landscape in the last five to ten years. So, given all of that, what are your thoughts on the competitive landscape right now and how it will pan out and how is ICICI Securities navigating all of this?

Vijay Chandok: Yes, indeed, this is a competitive industry. It has been competitive in the past there are more than hundreds of brokers in the industry and it's just that the nature of the industry is shifting from physical to digital. We have been facing digital competition and we are bracing up to continue to face the digital competition going forward. It is really for us to keep differentiating and adding value to customers life to stay ahead. We are very cognizant of the fact that there is no ticket to win unless and until you are adding value to customers' life and that is our endeavor. As an incumbent player, we share deep insights and understanding of what is required by the customer to feel satisfied and it is that insight and knowledge that we are putting to use in a cost-effective manner and we will continue to keep doing this. Not to wish away competition at all, competition has been there and it will probably continue to intensify going forward.

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

Alpesh: I just have three questions: First is after the implementation of margin Phase-III norms, what was the impact to the revenues in the June? Last time you gave some qualitative comments related to what was the impact in March. So, the same thing if you can just throw some light for the June month on July? Secondly, how do we see employee expenses to the top line for this year? Last year it was at around 23% and in this quarter I see it is around 20%. Any ballpark number that you would like to work with for FY'22? And lastly, are you seeing any change in the customer acquisition cost because one of the competitors mentioned that there has been a drastic reduction in the new customer acquisition because of the digital initiatives. So, are we also seeing that and is it leading to a lower break-even period for the new customers that are being acquired, one of the competitors is talking about three, four months, so where are we standing on that front?

Vijay Chandok: Our retail broking revenue for June'21 was higher than average for the quarter.

Harvinder Jaspal: The margin norms even in the first phase impacted volume, but did not impact revenue significantly, the same trend continues for the Phase-II and Phase-III.

Vijay Chandok: Actually, market share impact was negligible in Phase-III.

Harvinder Jaspal: In fact, in derivatives, there is a slight uptick.

Vijay Chandok: We are all at the level playing field, going forward, relative market share will be a factor of what you do.

Alpesh: There is some chatter in the market related to SEBI relaxing these margin norms. Are you also of that camp or is there any discussion with the regulators on this front?

Vijay Chandok: To the best of my understanding, till we hear from the regulators this is what it is, and we are gearing up for this regime.

Vishal Gulechha: Just to add on the impact of Phase-III margin norms in the month of June. There are two ways of looking at it; one is the impact on market share and second is impact on number of customers because now the focus is entirely on how many more customers do you have, who can give you full margin. In June, when the Phase-III was implemented, the number of active derivative customers exceeded any previous month right from November 2020 which was the last month of earlier regime.

Harvinder Jaspal: Your second question, Alpesh, was with respect to employee cost. As we had guided last time that between H1 and H2 there was a front loading of employee variable expenses last year. The way to look at it is to take the full year wage cost-to-income ratio as you rightly said. My guidance would continue to be about 23% to 25% down from about 31% for FY'20.

Alpesh: I was a bit confused, because this quarter the last time you did front loading of employee expenses, this time around the employee expenses to top line is around 20%. So, would that number of 23% for FY21 will come down to 20% / 21% for FY22, I am just trying to understand that?

Harvinder Jaspal: While it's true that 23% for FY21 has come down to 20% this year on back of continuing growth in revenue but I would still keep the guidance between 23%-25% on a conservative side. This is not to say that we have any change in focus from operating leverage stand point but because, we expect some investments into specific talent in the field of technology, analytics and digital marketing. Your third question was customer acquisition cost. We are also seeing the benefit of scale, so the cost of acquisition overall is coming down. We are not there at a three-to-four-month payback period that you are talking about for competitors, but we are getting better and reaching there.

Alpesh: And would you be comfortable sharing the absolute number of customer acquisition costs, the competition is between 800, 900 bucks, so would you be way off or…?

Vijay Chandok: Alpesh, kindly bear with us, we are roughly six months into the journey of effective scale up as you would have observed. We will just let it stabilize to a point before we start sharing.

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

Nidhesh Jain: Firstly, on the Neo platform, how many customers do we have today?

Vishal Gulechha: We have crossed 1 lakh NEO subscriptions.

Vijay Chandok: NEO customers are 1 lakh plus and 7.5 lakhs Prime customers.

Nidhesh Jain: We have added almost 4 lakh customers in this quarter, but it seems like most of the customers are being acquired on the old pricing only, Neo is a very-very small sub-segment of this 4 lakh customers, why is that the case because I believe that Neo is a much better acquisition tool or much better pricing, so customer ideally should choose Neo when he's opening an account?

Harvinder Jaspal: Two quick reasons on that. First, NEO is a proposition for trading clients. If you look at the way the number of customers in the market are split, between investing clients and trading clients. There is no formal number, but the split could be roughly 80:20 or

85:15. So, you have one trading client for about five to six investing clients. That would be one reason.

Vijay Chandok: Secondly, just a few weeks back we added NEO in the account opening journey. Earlier, the journey was that the customer opts for it after becoming a customer. There was always a lag, which has now become real-time. NEO traction through digital sourcing at the time of acquisition is already picking up.

Nidhesh Jain: Secondly, if you look at our broking revenue, more than 50% of the revenue comes from equity delivery or cash intraday. While if we look at the way the sector has been adding that sort of revenue pool has been completely disrupted. Since we have a very sticky client base, we have been able to demonstrate that more than 60% of revenue has been coming from the client which we have originated five years back. But on an incremental basis, what give us confidence that we will be able to hold on to that revenue pool?

Vijay Chandok: We have given out directional guidance that we want to move to a life-time value and move away from a product-centric or yield centric focus. And as guidance therefore, we had also given that we will get the proportion of broking revenue as a percentage of our total revenue to below 50%. We remain resolute in that task. And as we are doing this, you will notice that the equity revenue itself is getting texturized. In addition to broking, we have allied equity revenue which comes in form of Prime fees, different types of fees and charges associated with the Neo plan, interest income which is consequent to our growth in MTF business which you would have noticed has grown quite a bit, the ESOP business which has also grown quite a bit. The nature of relationship with customers changes with these products and propositions and we have seen that there is stickiness even in the phase of disruption and we have demonstrated market share gains. We have to ensure that we remain cutting edge with the customers and as we do that we broad base our offerings, which is what we are endeavoring to do, so that we don't have a single product, client or business segment dependence.

Nidhesh Jain: On the Prime customer that we have added, how much of the broking revenue is coming from them? I just want to understand whether those clients are more engaged similarly to what we see with Amazon Prime Plans where the Prime customers' frequency of order is much higher. Are we also seeing similar behavior from the customer and if you can share what percentage of broking revenue is coming from Prime customer that will help understand that? And also, in addition to that in the distribution revenue, how much of the distribution revenue we are able to get from end-to-end complete digital sales without any human intervention?

Vishal Gulechha: In Prime plus Prepaid plans, we have about 8.5 lakh customers. Both put together account for about 65% of our total equity brokerage revenue which includes equity as well as derivatives.

Harvinder Jaspal: With respect to your second question on distribution revenue, about 95% of our mutual fund revenue comes in a format where customer enters the transaction himself. But of this 95%, somewhere around 20% of the clients would be probably seeking assistance on call or some kind of a low touch engagement format before inputting the order on the platform.

Nidhesh Jain: What about the other revenue in the distribution?

Harvinder Jaspal: It varies from category-to-category, some fixed income products would have similar attributes, some of the wealth products may be more physical and some of the insurance products especially in the non-protection category could be slightly more physical. We are one of the most digital delivery capable companies across product categories. A lot of products that we have been able to digitize are still sold physically in the larger industry. For example, to name a few, NPS is digital on our platform, our global investment platform is completely digital including remittance leg. This has been an approach for product design from the very beginning.

Vijay Chandok: Distribution products, the three products which have some element of physicality involved would be loans, insurance and wealth products. All the three are work in progress for digitizing, as much as we can. Rest of them are completely digital, as Harvinder said maybe 20% is in the nature of low touch assisted digital.

Moderator: The next question is from the line of Devvrat Mohta from Capital Group. Please go ahead.

Devvrat Mohta: I have one question. Over the last two quarters, we've seen very strong new client addition traction; however, the cross-sell ratio kind of remains in that 1.75 to 1.8 range. Why isn't that being going up because with just the sheer pace of client addition I would have thought that starts kind of going up faster?

Harvinder Jaspal: First, the way we define cross-sell ratio is number of products per active client. The base of active clients itself is going up at a much faster pace. Our endeavor is to grow cross-sell at an increasingly higher pace. What we have been able to do is to grow cross-sell ratio to 1.79 at a base which has already grown at 45% vs last year. Second, we are investing behind a lot of analytics-based technologies as well as marketing stack, etc., to propel the journey at an even faster clip. I just wanted to underline the fact that at client base which is increasing at 45%, even maintaining cross-sell ratio requires a huge amount of effort, but we have been able to grow it although by a small margin.

Vijay Chandok: Just to augment, this is the area of significant focus and it's a great point indeed that you picked up. While we have increased it to 1.79, we believe there's a lot of runway to go. Towards this journey, we have taken two steps, one, quite recently we've strengthened our digital team by adding people who have significant experience of dealing with digital cross-sell in other fin tech companies and second, we have availed the services of a high quality consultant to deliver the project for increasing cross-sell. We've just about kicked off that project. The same consultant worked with us to scale up our digital sourcing, you've seen the results there.

Devvrat Mohta: To an earlier question, you mentioned that the revenue per client was lower because one is obviously client growth has been very strong, but you mentioned that your newer customers are younger and from tier-two, tier-three cities. Is this a headwind to cross-sell, I mean; is it harder to cross-sell products to these customers versus your traditional cohort of customers?

Vijay Chandok: These customers are far more amenable to do things themselves, they don't necessarily need to be called and assisted and they would prefer to be digitally connected with information and data. They are economically less endowed compared to the traditional customers. To that extent, as their economic growth happens, their own capability will improve and we've seen that in the past. The younger customer becomes very valuable in three, four years. They are no different from a younger customer of the past in terms of preferences but the nature of engagement is very different. The old format young customer was more physical, the new format person is do-it-yourself digital, they like to get influenced by friends and third-party validations, etc. You have to cross-sell it in a different format.

Devvrat Mohta: Slightly shorter term, but your activation rate went down from 84% in Q4 to 71% in Q1. Reason for that?

Vijay Chandok: If you notice between sequential quarters, Q4 to Q1, you would have seen that the proportion of ICICI Bank source customers have actually come down. The total number of customers has gone up and the ICICI Bank customers' proportion has come down. With ICICI Bank customers, we've attained very high level of activation because of the nature of that connection that we have with them. Since that proportion has come down and the digital customer activation rates are comparatively lower than the ICICI Bank, that mix change is what is reflected in the overall number.

Devvrat Mohta: A decline in ICICI Bank was because due to lockdown they were…?

Vijay Chandok: Yes April, May was all lockdown. Despite the lockdown, if you see, how it was in April of last year versus April of this year, you will see a dramatic difference and that's because we were able to do remote digitizing despite lockdown.

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

Madhukar Ladha: I have a couple of questions. Number one, see the NIFTY lot size has reduced from July. Can you sort of elaborate on any early trends that you're seeing? I would suppose that should be beneficial for derivative trading volumes and revenue; any comment over there would be helpful? I'm not sure whether you've answered this earlier, but we've lost some market share on the cash side. So, what is exactly happening over there and any comments on why that is and what can we do to recover it?

Vishal Gulechha: In derivatives, we now have two kind of plans; the one is our traditional Prime plan, where the brokerage is ad valorem and there is NEO, where it is per order. As far as NEO is concerned, we charge a flat brokerage irrespective of the number of lots. As far as traditional Prime and Prepaid are concerned, it all depends on what is that quantity, which customer is dealing in and accordingly the revenue generation happens. So, it's not very significant change per se and we are more or less aligned with the market in this.

Madhukar Ladha: I would have thought that maybe lot size changing would more people trading or the number of trades increasing or orders?

Vishal Gulechha: Too early to comment on that, the trend will be clearer in the coming months.

Vijay Chandok: On the market share, we've given out month-on-month details in the chart. You will find that change in market share is principally reflective of the mix change. Retail market share has actually not gone down after third round of margin change. It is the mix between institutional and retail that led to this change. The way you should read it and interpret this is that there has been no impact on the retail side of market share, and we continue to hold market share.

Madhukar Ladha: Within retail market share, you are still there?

Vijay Chandok: Yes, we are holding market share.

Moderator: The next question is from the line of Abhijit from Sundaram Mutual Fund. Please go ahead.

Abhijit: I have two questions: First question is on the MF distribution revenue. Can you clarify how much is the trail commission and when the customer comes in how much is in the book? MF AUM has improved year-on-year or sequentially. How much has been benefited because of market action and how much is because of the flow?

Harvinder Jaspal: Mutual fund revenue would be only trail commission, that's point number one. To your second question, impact is because of the market as well as the flows, if you look at our SIP market share that has gone up, our gross flows market share has also gone up. Obviously, the AUM has also gone up because of market movement and combined impact us that total income on YoY basis is up 49%.

Vijay Chandok: Actually, the impact of flows will be felt in the later part of the year. Most of our flows, where we have gained market share you would have seen is in form of Systematic Investment Plan. So, it's a commitment and that keeps sort of coming over the months.

Abhijit: Is there any seasonality in life insurance distribution? You explained this a bit earlier, but I wanted to clarify again unfortunately.

Vijay Chandok: Yes, certainly, there is a seasonality which is typically loaded in the second half of the year and even within the second half, it is Q4 actually.

Abhijit: So, the Q1 FY'22 revenue, how much would have been impacted because of lockdown and how much is seasonality, just want to see where it is settling this life insurance distribution revenue on a run rate basis?

Harvinder Jaspal: It will be difficult to give run rate in life insurance revenue because typically in life insurance your Q4 revenue contributes to roughly one-third.

Vijay Chandok: On the insurance business since you asked, there has been an important development which happened during this period. We have actually gone open architecture there. So, apart from ICICI Life, we have added HDFC Life. We are expecting good growth over last year, because now we have variety as well and there are a lot of efforts going on to digitize the processes to minimize the human contact. One should anticipate good growth there. You would have seen the build-up of momentum already in Q1.

Abhijit: Yeah, I saw that, which is why I am asking. Was there any impact felt from the lockdown or…?

Vijay Chandok: Yeah, there was some slowdown because of lockdown. Typically, what happens in such scenarios is that medical gets delayed. You have the customer who is interested and committed in some sense but he's not doing his medical just yet.

Abhijit: Do you also distribute alternate investment products?

Anupam Guha: Yes, we do alternate, we also do PMS. From a customer engagement perspective, we are a fairly broad-based client engagement platform. On one side while you've seen numbers on equity, etc., from a client engagement perspective we have a fairly robust bouquet on the fixed income side. On equities, we've curated a host of new solutions. In fact, I'm happy to announce that we've launched "Masters of the Street", targeted at customers who would want to invest into the equity market but at the same time want some level of hand holding and research. There we've come out with curated offerings for our clients and we are seeing a good level of success. Also, since you asked the alternate bit, we've also seen some success in the unlisted space as well. We do AIF Cat-2 as well as AIF Cat-3 which is largely on the listed side. On the PMS, we have fairly large bouquet of services. In fact, apart from the third-party PMS that we do, we also have our own in-house proprietary PMS. If I spend two minutes to explain what we do there, largely given that as you're aware we have a large clientele who are interested in equity and have large DEMAT base as well. In PMS we have both discretionary PMS as well as non-discretionary PMS. And as you are aware, non-discretionary PMS is something where it's a consultative approach to portfolio building. So, there our belief if we will see a lot of traction going forward because the clients can build portfolio in consultation. We have also launched something called as a Multi-Asset PMS which are typically risk-based PMS strategies which gives the diversity to a client both across equity, debt and alternate which is gold in this case.

Vijay Chandok: So, the short point is we are quite strongly there.

Abhijit: How many of your clients are moving from the regular pricing to flat fee, the new structure? And is there any poaching of your clients by the discount brokers if you can give it will be very helpful?

Vijay Chandok: First of all, the clients have got the complete freedom to choose what they want, and they just click and avail. We have seen continuous gains in client addition. Even when we went back to time in the early 2010-11 and we compare it with the current period, we haven't noticed any kind of a significant change in our attrition rates. Nothing really at a portfolio level that one can sight, I'm sure there would be individuals who might have shifted their portfolios, but at an overall portfolio level it has broadly held on. Total number of people who have opted for the flat plan is in a way reflected in the Neo subscription, which we have reported has crossed 100,000, rest of them got the option of taking it, whoever wants can take it. Every day we find X number of people keep opting for it, it will be a combination of the new customers as well as non-traders & stopped traders and some active traders.

Vishal Gulechha: The majority of the customers in NEO are from new acquisitions and activation of the inactive customers, active customer forms a small part of the overall subscription base.

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

Sivakumar K: Sir, I just want to refer to the Federal Bank partnership which was done about last quarter. I know the traction might be lower on account of the lockdown situation, but you had also mentioned that you were also getting into similar partnerships with four, five other partners. Any progress on that front sir?

Vijay Chandok: Yes, progress is happening, we have signed up NDA with another three of them and digital integration work is underway as we speak. Through the course of the next few months or so, three more should start being visible.

Sivakumar K: How has been the experience with the Federal Bank partnership because this is the first time you partner with a third-party, so has the process been seamless and all the bottlenecks have been ironed out?

Vijay Chandok: Unfortunately, the moment we launched it, we got into phase-2 of the pandemic. We had very little practical time to really test it. We have started seeing numbers picking up only from June. Actually, we can see good growth in June, and in July we've seen growth over June. We used that time actually to socialize, to familiarize, process, clean-ups, etc., To my knowledge, Vishal, you can confirm, I don't think there is any ongoing project for improving, I think we have something which is good to fly.

Vishal Gulechha: It's more about socializing and bottom-up approach now, how do we create that awareness; reach out to each and every one.

Vijay Chandok: Specifically, with the Federal Bank, they have a very large NRI segment. That is a segment which requires development because that has a different compliance structure and that is an area where we are putting in efforts, but for the resident Indian segment, it's up and running.

Sivakumar K: With respect to the loan product distribution, we see that we were doing very good run rate over the last one year, but unfortunately in Q1 we had fallen from 5.3 billion to 3.2 billion on a sequential basis, I know the lockdown would have some effect. But are there any other challenges apart from that which led to this decline?

Vijay Chandok: No, purely lockdown and to some extent even risk appetite came down a little bit from the banking side. So, it's a combination of physical inabilities as well as the risk appetite playing out.

Sivakumar K: Currently, how many banks are we partnering with?

Vijay Chandok: Total number of banks and NBFCs combined is seven.

Sivakumar K: With regard to the MTF plus ESOP book, which has been seeing good traction over the last two quarters, is it a fallout of the recent changes in the peak margin norms which SEBI has brought in because client would need your support for the funding, right, or are there any one of ESOP funding which led to this kind of an increase over the last two quarters?

Vijay Chandok: First and foremost, our growth is granular, it is not lumpy. Second point, I would say that MTF as a proposition requires a certain market condition and that market condition is playing out very well today. That is what pulls people to use this facility. It is being propelled by that kind of a sentiment prevailing in the market. They are two different products; one is an intraday product where the norms of SEBI are applied, and MTF is an overnight product, so, they are not comparable in that sense. Now whether that this change in the norms has prompted a behavior shift is a possibility, but to say that, because of this that has happened, may not be exactly accurate. The categories of customers opting for intraday and the categories of customers opting for an overnight there is a different persona of these two customers.

Vishal Gulechha: Just to add on MTF, it is a complete ecosystem. From outside it looks like as if it is a one product, but as we look at it there are some five to seven different things which makes this proposition useful for customer. Right from the transaction process, how do you make use of existing demat in taking exposures in MTF, how seamless is your pledge process, how can you close the position without any hiccups as well what is the brokerage and the variable cost component demanded by customers depending on their own risk appetite. We have improved each and every parameters and the result is evident. Apart from ecosystem, how do we help customer navigating the market? Our research team is doing a great job. In last 15 months, 100-odd portfolio recommendations have come from them and giving about 20% returns, 60 portfolios have been closed, 38 recommendations were on a technical opportunities and about 62 recommendations were on fundamental opportunities. It augers well with MTF customers because technical portfolio recommendation ranges from 15 days to 2 months and fundamental portfolio recommendation ranges from about 2 months to 6 months' time & will comprise of 3 to 5 stocks. This fits in the life of MTF customers who not only want to take advantage of the system, but they also want to take a very conscious decision, which is in line with the market moment.

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

Piran Engineer: I had a couple of questions and one or two clarifications on some of your comments so firstly I am kind of repeating this question, but I want to understand it well for our active client based is up 65% YoY, but the retail broking revenues of only 10% or so. Now do we attribute this to the margins norms that came in the interim leading to loss of market share in future of few months back, do we attribute this to migrations to the Neo plans or do we just simply say that the new customers have a much smaller ARPU so while customer addition may be strong the revenue addition may not be as strong. So, how do we think about this because if we have to project revenue trend, but it is so divergent from customer count trend it just becomes a bit hard to project, so if you could help me on that bit?

Harvinder Jaspal: I think most of the factors that I would have answered, you kind of ticked off in your question. It is a combination of these three. Number one, definitely there would be an impact of migration to Prime, Neo etcetera. Some impact is because in the active customers, larger portion are new customers, because that is where the huge scale up is happening. These customers are younger and they have got limited opportunities in Q1. I will help with the help of an example, supposing you have 100 active customers in Q1 of last year, but maybe about 70 of them were existing customers who are seasoned guys, and this is their fourth year, fifth year of investment and 30 was made up from the new customers who have got acquired in that quarter itself. One year later, scale up has happened which is huge the 70 has remained may be 70 or it has become 85, but the 30 which was from new customers has exploded to 70. One would not expect new customers give the same level of ARPU as the seasoned customer in the first 90 days, which is a combination of the second and third factor. As we have earlier discussed the new customers are younger they are at an earlier stage so combination of those two or three things.

Piran Engineer: But then tomorrow if the market goes down and this 70 old vintage customers start trading less that will wipe-off all the positive impact of the new 70 customers simply because of the sheer size of the vintage customers versus the Neo customer?

Harvinder Jaspal: If you look at the trend over the last maybe 10 years, we have seen about two or three market cycles. What we have witnessed is that platform activity level has a very secular trend. So, if we had let us say 100 customers transacting on a platform 5 years back today we could have 500 customers or 1,000 customers that level keeps going. We are consistently able to engage customers over 15-20 years that is something which we have already seen and demonstrated. Now we are going younger, so our endeavor is to start customer interaction at maybe even 20 years of age and go right up to 70 so it is a 50-year runaway which is theoretically possible and that is our way. One quarter to another quarter there could be some impact of a high market activity, but over a longer-term, we have seen across cycle the trend is very secular.

Vijay Chandok: If you refer to Slide #14 of our presentation it kind of depicts what Harvinder just said we did an analysis for the last decade and what we found is that through this period if you look at it in a block of let us say three years, you will find that growth in profit has consistently been above at least CAGR of 17% or higher. Your point whether it can have quarter-to-quarter impact, it is possible, but if you look at it from a more medium-term which is a three-year window we have seen consistent decadal growth.

Piran Engineer: Just to Harvinder's point, what is the client lifecycle now, I am assuming at the start the client has an ARPU of 2,000 to 2,500 per year and your average is closer to 8,000, 10,000 so how long does a client take to really scale up from that 2,000, 3,000 to maybe 8,000, 10,000, is it more like it takes a decade or so or is it a much faster process in your experience?

Harvinder Jaspal: We have not put that out specifically, but it is not the decade it will be maybe a year or two years. So, one is that 2,500 or whatever you are assuming you have to factor in the fact that the customer in the year that he gets acquired on an average some clients will get only one month or some clients will get 11 months. So, it will be a weighted average period runaway of only 6 months. The first year ARPU is lower, but yes it does get build up. So, over a period of let us say 5 years, 10 years, 15 years we have seen 5x, 10x that kind of a growth in ARPU.

Piran Engineer: In your opening comments you mentioned that part of the contribution of other income came from some other charges under the Neo plan. So, what are these charges could you please remind us? These are one-time migration charges is it or is it a recurring?

Vishal Gulechha: It has a subscription fee which is one time and subsequently there are other charges. If you give shares as collateral, there is interest component on that, there is a fund transfer charge, there is a system square off charge, there is a call-in-trade charge so all put together, this forms an income stream from Neo proposition.

Piran Engineer: And just the other clarification on Madhukar question where you said that with this Nifty contract size going down it would not have much impact, but then you all also have an option 20 plan right which has been in place for quite a long time so do you not have a lot of people using it?

Vishal Gulechha: Option 20 still is a significant part and it is important proposition for us, however, lot size from 75 to 50 it is not very small. When we look at Nifty the contract size still Rs. 7.5 lakh so it is not that it has come to Rs. 2.5 or Rs. 3 lakh. For retail customer, it is kind of a long shot. I mean it is just about 14 trading sessions since this change has happened we will see more impact as we move forward.

Moderator: Thank you. The next question is from the line of Arash Arethna from India Infoline. Please go ahead.

Arash Arethna: I just had a couple of questions one is on the mix of ADTO between equity and derivatives, I think last year we had a slightly higher mix in the previous two years, and we were building that there would be some decline, but I think this quarter also the share of equity ADTO has been relatively higher, just want to know it is around 6% of your ADTO mix. So, just want to see how you are looking at this going forward because the way we look at blended yields that has an impact and my second question is I think my broking revenue on a quarterly basis range from 230 to 250 close to a quarter over FY18 to FY20 now this went to around 375 crores in FY21 so this year while we would have anticipated maybe some bit of moderation you still manage again an increase, so it is at 395 crores. So, just want to know how you are looking at broking income on a quarterly basis what is the new benchmark it is 390, 350 is a new benchmark and how should we look at versus the prior periods

Harvinder Jaspal: So, on the second question that you asked, in broking we have seen a structural uptake. Five quarter back, even we were of the view that it could moderate down and it could still moderate down depending on capital markets. We have seen in the past, some events have led to a slight structure lifting. Even if it moderates now what we have seen is that it is much higher than the earlier baseline so it is a baseline shift. Very difficult to project a number unless you put a number to how capital markets will behave which is difficult. We were at about 1 million active clients not so long ago we are 2 million active clients, that is something that we have seen is a structural trend and it is here to stay is what we believe. There could be, as Vijay elaborated in the last question, quarter-on-quarter slight variations, but otherwise underlying it is a structural trend a very secular one. You had one more question I missed that you talk about the mix of derivative and equity ADTO. It's not 6% equity but more like 3-4% in the industry. Increasingly, as we have said earlier that in derivative or in trading products our shift is more towards order based pricing rather than volume and therefore volume or ADTO will keep on becoming less relevant going ahead.

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

Sanketh Godha: Sir I have two, three questions one is that we have seen the balance sheet trade payables going up by 28% year-on-year, how much do you contribute these two of our Neo customers coming from open architecture and therefore because the pool was never with us in the past because it went to ICICI Bank, so is this increase in 28% is largely contributed to the open architecture which we have opted last year and therefore we are seeing a steady source of interest income in our numbers or is this growth is largely contributed to increase in margin itself and therefore should not be read much into it, just wanted to understand the nuances there?

Harvinder Jaspal: Indeed, the increase in trade payables has three components. First we have started getting client float under Neo open architecture format. Second factor is that the margins that customers now pay to us have also gone up after new margin norms coming in. So, for the same level of trade people need to give more margins to us, and third factor is the float that stays for all T+2 transactions, which ranges from 200 crores at the end of the quarter to around 500 crores.

Sanketh Godha: But do you see because of the open architecture incrementally contributing, we become like other brokers where they make a huge amount of money from the float? Do you see that structurally playing out for us going ahead given we are acquiring more customers digitally? So just wanted to understand this thought process around this how it will pan up going ahead?

Harvinder Jaspal: I will just give you a bit of directional inputs over here. What you are saying is right, this is something which is new and was not a part of our business model earlier. We do believe that this will start becoming part of a business model. However, there is a difference, our approach has been to make it very seamless to our customer. The way we have designed this open architecture system is that at a click of a button, customer can sweep the funds back to their accounts as compared to some of the places where it would be quite an effort and not a seamless journey. In our mind, this that is also equally important. We have seen a build-up in float, going forward we believe that NEO is a good proposition to attract trading clients.

Vijay Chandok: I will just add one element just to clarify, it is not just the NEO plan which is float centric. Any customer acquired digitally is float centric. So, he could be taking even a Prime plan and he will still contribute float. Any bank customer outside of ICICI Bank will provide float to us and that segment is growing actually.

Sanketh Godha: And the second question which I had was if I look at the activation level of last two quarters it is broadly in the range of 70%, 80% and bulk of the customers what we recently added in last two quarters is digitally sourced customers and the other digitally discount brokers where we see the activation levels what they claim is around 30%, 35% and for us it is 2x or maybe 2.2x of the numbers what they report. Just wanted to understand what is leading to such a high activation levels, when customers are sourced digitally and the experience for others is different and the experience what we are experiencing will be a little different from this. If you can give a color on it, it should be useful?

Vijay Chandok: We are relatively new to this and it might not be right to compare our activation levels to other players who are in this space have been doing this for 3 to 5 years Eventually, as and when it reaches scale in a consistent way I do not expect it to be very different from what the other industry players are expecting.

Sanketh Godha: So, over a period of time, you assume it should be very similar to what industry average is?

Vijay Chandok: At scale I think it should settle down that is the anticipation. Currently, do not go by the current sort of a cohort that you are seeing because it varies month-on-month, and we need to have some more runway of experience before we come to settling down on this.

Sanketh Godha: And the third one is that the strong growth in the MTF book, what we have seen even in the quarter-on-quarter basis. Just wanted to understand, is it driven by the industry and the demand for this product has gone up or if it is because of the market share gains. Is it because our ability to offer low interest rate is playing a significant role for us to gain market share. Just want to understand the dynamics there whether it is a market share story or more of a demand and classically it is a good cycle products and our dependence on the product is growing little higher if due to some reason market remains even if it remains range bound how do you see risk of revenue not picking up from this line of business?

Vishal Gulechha: As I briefed earlier, there is a complete ecosystem which we have put in place now. There are gains in absolute amount of MTF book and there has been a market share gain also. Our research team also has played a very critical role and market has favored this kind of product. The endeavor will always be that we stick to market share and as and when such opportunity is available in market we are not left behind and leverage that.

Sanketh Godha: Sir what is our current market share, I think in the past we said it is around 20 odd percentage, has it substantially increased from those levels sir in MTF book?

Harvinder Jaspal: I will let you judge whether it is substantial or not, but it is 22% now.

Sanketh Godha: Finally one on this question was partially addressed, but just wanted to understand in Neo customers what we added is 1 lakh in the current quarter, so just wanted to understand bulk of this 1 lakh is existing inactive guys getting converted into an active Neo plans so he anyhow he was not contributing to the revenue so he is probably now thinking of contributing to a revenue or still Neo is largely acquiring maybe it is part of the digital acquisition of 2.7 lakh so just wanted to understand the overlap of Neo in 2.7 lakh accounts got are they in the current quarter through digital?

Vishal Gulechha: NEO is just about 6 months old proposition. We started in month of December in small way and in January we started offering this to the new set of customers who are coming in system now and also customers who have shown diminishing trend or completely stopped trade behavior. I would say the bulk of this 1 lakh customers are from reactivation of stop traders and as well as from NCA. As far as the active customers are concerned, that forms a very small portion of the overall 1 lakh.

Sanketh Godha: Sir it is safe to assume that the customers who was never contributing revenue in the past is started contributing to a revenue because anyhow the inactive one got active because of the new offerings?

Harvinder Jaspal: Yes, out of 1 lakh high portion would be that.

Sanketh Godha: And finally on investment banking pipeline or growth trajectory because this year seems to be a hyper year sir just wanted to understand our deals and what kind of trajectory we could see given we made around 47 odd crores in the current quarters how do you see this trajectory to play out in subsequent three quarters at least?

Ajay Saraf: Compared to the last year, as you said we are seeing a lot more activity. We expect the overall market volumes to be higher by at least 50% than last year. All of that depends on obviously the market factors over the next 3 months, 6 months, 9 months. If all of the pipelines go through, ISEC will play a very pivotal role there given that we have good market share in all these issues. Pipeline is very strong for the year.

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

Vijay Chandok: Thank you very much. Thank you for patiently going through this call and participating actively in your questions. I hope we have been able to respond to all your points and in case there are after thoughts or after questions please feel free to reach out to Harvinder, our IR team or me and we will be more than happy to clarify these points. Please do take care and all the best to all of you. Thank you very much. Good day.

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

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