ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended September 30, 2020 (Q2-FY21)

October 28, 2020

MANAGEMENT:

MR. VIJAY CHANDOK - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - ICICI SECURITIES LIMITED

MR. AJAY SARAF - EXECUTIVE DIRECTOR - ICICI SECURITIES LIMITED

MR. HARVINDER JASPAL - CHIEF FINANCIAL OFFICER - ICICI SECURITIES LIMITED

MR. SUBHASH KELKAR - CHIEF DIGITAL AND TECHNOLOGY OFFICER - ICICI SECURITIES LIMITED

MR. VISHAL GULECHHA - HEAD (RETAIL EQUITIES) - ICICI SECURITIES LIMITED

MR. KETAN KARKHANIS - HEAD (RETAIL DISTRIBUTION BUSINESS) - ICICI SECURITIES LIMITED

MR. ANUPAM GUHA - HEAD (PRIVATE WEALTH AND EQUITY ADVISORY GROUP) - ICICI SECURITIES LIMITED

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.

Operator remarks

Good evening ladies and gentlemen and welcome to the Earnings Conference Call of ICICI Securities Limited for the quarter ended September 30, 2020.

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. Anupam Guha – Head Private Wealth Management, Mr. Subash Kelkar – Chief Technology & Digital Officer and Mr. Ketan Karkhanis – Head Retail Distribution business.

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.

Mr. Vijay Chandok

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

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

I am sure by now you would have already perused through our quarter 2 financials. In this context, we are very happy to report that our company's Q2-FY21 revenue stood at ₹6,805m, a growth of 63% and Profit After Tax (PAT) stood at ₹ 2,782m, a growth of 106%. During this quarter, we continued our journey of furthering digitization and strengthening the franchise. Our overall franchise grew strongly with total assets of our clients growing by 20% YoY to ₹ 2.9 tn and a lot of this growth was led by our equities business. We continued to focus on enhancing operating leverage of the company which resulted in our manpower and branch count coming down by 10% and 17% YoY respectively. We consequently brought down our cost to income ratio to 45% and increased our ROE to 76%.

We are happy to report that following these results, our board of directors have approved an interim dividend of ₹8 per share vs ₹4.25 per share last year.

Anchoring our performance for the quarter has been the equities business, which continued its strong run from the previous quarter. However, we did see some moderation in cash segment turnover for the industry in the month of September by around 13% compared to previous two months of the quarter. This was due to a combination of factors playing out in the economic and regulatory environment. Our efforts of focusing on the five strategic pillars of our company that we have been talking to you about in the past, have indeed stood us in good stead and helped us capitalise on the market opportunity.

As a result, our market share in equities and derivatives improved by 240bps and 150bps respectively YoY. We added around 113,000 new customers in the quarter aided by our open architecture end to end digital account acquisition process. Here, I would like to mention that in the current year we have been able to make a transition from a 100% physical/phygital model of sourcing, requiring face to face interface either using tab or a paper based process, that we had till last year, to about 80% sourcing now coming through our website/app. All our channels are now increasingly using website/app for acquiring customers, which we expect would help all our channels scale up faster and efficiently going forward.

During this quarter, we expanded our business partner network to ~13,600 partners who sourced around 16,000 clients, a growth of 2.5x YoY. We have a dedicated mobile app for our Business Partners to help them serve the customers efficiently and on the go. The app features a powerful dashboard and also allows partners to keep their clients updated on market trends and upcoming investment opportunities. Additionally, through the digital sourcing channel, we acquired around 28,000 customers. Considering the fact that we have just embarked on this journey, coupled with the market opportunity and our own experience of generating leads, we strongly believe that we have a significant headroom for growth through this mode. At present we are in process of implementing a number of initiatives that will help us in this direction. Some of these include building our data analytics capabilities for sharper targeting through digital media, augmenting call center capabilities, improving and easing customer journeys besides others.

The growth in both these channels, viz. Business partner network and digital, has helped us to diversify our client sourcing mix. Our largest sourcing channel viz. ICICI Bank, is now contributing about 55% of the total clients compared to about 80% in FY20. In addition, non ICICI bank linked accounts contributed to ~35% of total accounts opened in the current quarter. So, it would be important to note that we are adding higher number of customers with an increasingly diversified channel and bank mix.

Growth in sourcing coupled with healthy adoption of our prime proposition, taking the total prime subscribers to 4.25 lac, has helped us grow our NSE active client base by 32% YoY and it stood at 1.2mn as on Sept 30, 2020.

Against this backdrop, we recorded highest ever quarterly retail equities revenue in Q2-FY21 and over 50% of it was contributed by Prime customers. Our efforts to granularise and diversify also played out, with allied revenue now contributing ~14% to retail equities and allied revenue. Overall, our equities and allied revenue grew by 88% YoY.

Coming to our distribution business, as you are aware, the flows in the mutual fund industry remained subdued and the industry saw a decline of 29% YoY in gross equity flows along with net outflows in equity segment.

In such a context, our efforts of focusing on input parameters helped us increase our market share on gross flows from 0.08% to 0.27% and SIP flows from 3.23% to 3.44%. On the back of these and improving mix and yield, our MF revenue for the quarter grew by 3% YoY, an increase after a gap of 7 quarters.

As the markets emerged from a lockdown mode in quarter two, our non-MF revenue grew on a sequential basis by 32%. However, this was lower on a YoY basis by 13%. Specifically, during this quarter, we saw encouraging traction in our fixed income business and distribution of loans. The total loans disbursed during the quarter increased to ₹ 3 bn compared to ₹ 2.4 bn YoY.

Our wealth management business registered revenue growth of 86% on the back of strong equity performance. The total assets of our clients in this segment increased to ₹ 1.15 trillion, a growth of 15% YoY. We also scaled up our proprietary PMS where our AUM stood at ₹ 1.6 bn up from ~0.5 bn in Q2-FY20.

During this quarter, we augmented the overall equity franchise by launching a 'Global

Investment Platform' for our customers in alliance with Interactive Brokers Inc. USA. This offering is unique, as it is a completely digital solution, including the outward remittance component which is done in partnership with ICICI bank. The global investment platform facilitates investments in US equities, fixed income, MF products and ETFs for our customers. With no minimum ticket size and fractional ownership of shares permitted, even small retail investors can build a portfolio effectively.

During this quarter, we further expanded our suite of products by introducing Commodity products, where our rates are highly competitive. As these are recent launches, we expect growth to start coming in the course of next few quarters. All these efforts would help us diversify and granularise our revenue mix and business model.

As a result of all our initiatives, our total active client base as at September 30, 2020 stood at 1.56m, a growth of 17% YoY.

Coming to our Institutional and Issuer services business, the Equity Capital Markets witnessed resurgence in activity. The deals that were put on hold in Q1-FY21 owing to the market conditions saw revival in Q2-FY21 and there were 42 ECM transactions with a total deal size of about ₹ 1,085 bn.

Our Issuer Services and Advisory business revenue increased by 93% YoY. We executed 24 Investment banking deals in the quarter and have SEBI approved IPO/FPO/InvIT/REIT pipeline of 7 deals amounting to over ₹ 85 bn. In H1-FY21, we are ranked #1 in IPO/FPO/ InvIT/ ReIT issuances with a market share of 98% and are ranked 2nd amongst domestic financial advisors by number of deals in merger market league table. Our strategy in this business is to broad base and diversify revenue by increasing contribution of non IPO deals.

We at ICICI Securities firmly believe that a sustainable business is one which is sensitive to the needs of all its stakeholders. Our employees are one of our most important assets, and in times of Covid-19 pandemic, we have rolled out a number of initiatives including tie-ups with leading hospitals and quarantine facilities across different cities for our employees & their family members for prompt medical attention. In current times of economic uncertainties, we have rolled out increments to all front line employees and extended ESOPs to all deserving employees beyond the senior management, so that we are able to attract and retain the right talent.

Going forward, we recognise that the future is fraught with uncertainties.
New upfront margin collection regulations for intraday products will be implemented in a phased manner from December 2020. These regulations would require standardised margin to be collected for all products from the customer upfront before entering a trade. As we know, intraday in terms of volumes is dominant part of the industry, these regulations are likely to have impact on market volume and revenue in the short-term and could have an impact on all players including us. However, we believe these changes auger well for the orderly growth of the industry in the medium to longer run.

We at ICICI Securities are strengthening our franchise to take advantage of these trends and working on various strategies to mitigate impact of these changes. Some of these include

(i) launching new competitive propositions to help us increase client base and volume from existing inactive client base as well as new customers from the market
(ii) continue to scale up our various client sourcing channels
(iii) increasing traction in our non-impacted portion of revenue streams like cash delivery, MTF, etc. which contribute significantly to our retail equities revenue
(iv) continuing to scale up our non-equity business through product

categories added in the last few quarters, and

(v) continued emphasis on cost efficiencies.

We would like to reiterate that the recent market disruption has reaffirmed our strategy of providing comprehensive life stage based financial services to a retail Indian investor in an open architecture format delivered digitally and we believe this strategy becomes more relevant than before in the current context.

As already mentioned our detailed performance has been circulated through our presentation and uploaded on our website. I would like to end our commentary and open the call for questions that you may have.

Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of SivaKumar K from Unifi Capital. Please go ahead.

SivaKumar K: Couple of questions from my side. Among the incremental clients that we added in Q2, how many are from the non-ICICI Bank customers?

Harvinder Jaspal: Siva, that number would be approximately 35%.

SivaKumar K: My second question is on the Prime customers. You said you have already reached a 44% of your active client base, right. So incrementally, do you think you are hitting a ceiling in terms of onboarding or converting the existing customers to Prime customers? Do you think the growth rate might not be as high as what we have seen over the last couple of quarters?

Vijay Chandok: I am handing this over to Vishal who is heading the equities business.

Vishal Gulechha: It has been over a year since we launched Prime and penetration of our Prime and Prepaid subscribers in our NSE active customers has now reached around 44%. We re-looked at these propositions to identify pockets through which we can increase our overall customer base and also reactivate existing customers. In order to facilitate that, we introduced our new Prime offering about four days back and the initial response from our existing customers is very encouraging. Also, out of almost 12 lac NSE active customers, we have only about 5.2 lac customers in Prime & Prepaid, so we still have headroom for another 6.8 lac customers. At the same time, we are sitting on inventory of customers who have participated in the past, and for some reason they are not active right now. We are working to make sure that we continue to see a robust inflow as far as Prime is concerned.

Vijay Chandok: One of the interesting features of this Prime, we call it the "Chota Prime", is the ₹ 299 plan with a smaller eATM limit. We saw the opportunity to penetrate into a slightly smaller segment which is what we are looking to address. The channels are extremely excited about this opportunity because they speak to the customers on a regular basis and this insight came from there.

SivaKumar K: Any progress on the mutual fund-based app that we have been working on, any timelines you can share?

Vijay Chandok: Beta testing is going on; we want to improve certain elements of it before we launch. We are hopeful that it could be a matter of a few weeks at best.

SivaKumar K: Sir, we see that the volume market share has increased from 10.7% to 11.1% over the quarter, I am talking about the equity ADTO. This is a very positive sign that we got to see. But in the light of increasing competition from the players in the discount broking segment, are you confident that you will be able to hold on to this market share and even grow it further?

Vijay Chandok: In terms of outlook, I would say we have our strategy, which we have been articulating, we will keep doing that. We are going to be focused on ensuring that we keep our customers happy and we keep refining our approach to acquiring customers and we keep refining our proposition. On the other hand, we see that the trends of digitization, equitization, financialization are there to stay. There could be ups and downs in one quarter, but if we execute it well, I think there will be fruits of this commitment.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: I just have a couple of questions. Firstly, when you said that you acquired 28,000 customers from the digital sourcing platform, you are referring to the open architecture platform that started in April?

Vijay Chandok: Your question is that 28,000 customers, is it open architecture? Yes, it is open architecture. But technically speaking even our business partner channel is open architecture.

Piran Engineer: But then if I look at your traditional platform then, excluding this 28,000, our customer acquisition has been a bit muted. And when I compare with peers, who seem like very strong customer acquisition in the last six months, ours has been largely rangebound at 90,000 to 1,00,000 customers a quarter. So, how do you really see this going forward? And what exactly are we missing that, our other competitors, the discount brokers and even your listed peers are able to do?

Vijay Chandok: So if you are referring to the peers as bank based brokers, then we are probably ahead of them. Having said that, I would say that we have adopted a model of open architecture and digital acquisition only five months back. When you compare this with some of the discount brokers, they have been doing it for a long time now. There is an advantage of the learning curve that they have had. We are seeing improvements on daily basis as we keep picking up insights into this transformation. I will highlight some of the interesting points we came across more as more food for thought. Point number one, if we take NSE active clients as a parameter for acquisition, it is an important number, but take it with some pinch of salt because it is important to understand what quality you are getting and that level of detail is unfortunately never available. We have learnt that not all of them are as meaningful as it may seem. Secondly, it is very easy to run up a very high operating cost for acquiring customers and some of our competitors have acquired multiple times our number incurring high costs of acquisition. This can be very depleting if it’s not sustainable in the long term. We want to be very cautious that we do not go overboard on increasing cost as we are scaling up, and number two, we continue to attract the customers who are right for this segment. We do not want to go and acquire customers just for sake of numbers. Thirdly, the extent of leads that we generate is over 10x the number of accounts that we are sourcing, which suggests that there is headroom for improving conversion ratios. To this end, we are ensuring that we improve our analytics capability, customer journeys, processes, etc. To answer your question on what are we missing, I would say that we are making improvements in customer experience/ customer journey and we still feel that there is a long way to go. We are getting our act together and we will get better and better as we move forward. We want to ensure that we give you a sustainable story of growth.

Piran Engineer: How should we think about your internal targets over the next couple of quarters? From this digital sourcing platform, you are acquiring 10,000 customers a month. Can that potentially go up to maybe 25,000, 30,000 customers a month, I mean, non-I Bank?

Vijay Chandok: People are acquiring much higher numbers than what even you mentioned. They have the benefit of; proposition, the extent of spends that some of them are doing and the experience of having been there done that for a longer period of time. We will certainly crunch that last part which is learning faster. Having said that, I would say that we do not have limited ambition there and we feel that we can do far higher than whatever you have articulated. But we want to do it in a manner that we do not go overboard on cost and we target the right customers. We are totally committed to this.

Piran Engineer: Okay, that is good to know. And sir, you mentioned that you introduced another Prime offering for subscription fee of ₹300. So what are the yields there? Do the other Prime offering also remain status quo or have you tinkered around with the offerings in those also?

Vijay Chandok: Yes, we have actually revised the entire proposition for Prime. Yields of the 299 plan are actually slightly higher. The old ₹900 plan to continue for people who have already availed it.

Revised Prime Plans -

Prime Plan	Scheme Validity (In Days)	Cash %	Margin/ Futures %	Option Per Lot (Rs)	Currency Futures	Currency Options	Special MTF Interest rates/ LPC (% per day)	eATM Limit
299	365	0.27	0.027	40	₹ 20 per order & ₹ 2 per Lot	₹ 20 per order & ₹ 2 per Lot	0.040	2.5 Lac
999	365	0.22	0.022	35			0.035	10 Lac
1999	365	0.18	0.018	25			0.031	25 Lac
2999	365	0.15	0.015	20			0.024	1 Crore

Moderator: Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha: First question, the cash margin requirements increased from September and that seem to have impacted volumes. So, can you tell us a little bit about what your experience has been, and whether clients are now able to do BTST and all the different types of trades, maybe you can you can share some experience and some color over there? And second question would be that from 1st December we have a peak margin requirement in the F&O segment. So maybe you can share what percentage of trades are intraday trades in futures and options segment separately?

Vishal Gulechha: I will go with your first question on cash margin regulation which got implemented on September 1, 2020. These regulations require that for a delivery transaction while buying or selling, a customer needs to give at least 20% margin. We at ICICI Securities have always been collecting 100% margins before the order is placed, so, for us there were no challenges at all. As we understand that the same would also be true for the top-25/30 brokers, having a lion's share in terms of volume, who were already compliant with these regulations. Regulator was also very thoughtful and considered the feedback which came from market participants on a couple of issues like if you sell today, can you buy against that and BTST. As and when a new regulation is introduced, there will be some apprehensions around that, however we believe these regulations will be beneficial for the industry in the long-term.

You also asked whether this impacted the market volumes. It will be very difficult to pinpoint the exact reason for market volume drop in September and whether it pertains only to the new regulations. It could be due to other reasons coming together like reduction in market volatility, uncertainty around US election results etc.

Second question was regarding the peak margin regulations, effective from December and to be introduced in a phased manner. As and when there is a change in regulation there are two factors which one has to look at, how will investors change their behavior to adapt to these regulations and the second part is that as an intermediary, how we recalibrate to get aligned with the new regulations in a manner which is less painful for customers and as well as for us. These regulations will have an impact on the market volume, however the extent of impact will depend on how the customers will respond. We have seen many instances in the past when the behavior of customers was quite contrary to what you would expect. For example, take H1-FY20 in terms of market volume, we all thought that pandemic will cause dampening sentiment, but we saw new investors coming into the market and taking advantage of the market levels. We will watch it very carefully, and at the same time as Vijay mentioned, we are working on different initiatives to be relevant with the right proposition as and when the regulation kicks in.

Madhukar Ladha: Sir, in our ADTO, how much is the current intraday share in futures and options, if you can give that number?

Vishal Gulechha: Madhukar, your question is in the context of the regulatory changes, and hence it would be important to clarify that these changes, getting applicable from December 1, 2020, impact not only F&O intraday products but also equity. In equity also, a client can take an exposure only during the day i.e. square off within the same trading day. Although we have not disclosed the exact volume share but a larger part of the volume in the industry and similarly for us is intraday as Vijay also mentioned in his opening remarks. However, the revenue salience is not commensurate because typically the yields are significantly lower in the intra-day product category. At the end, in the long run, such regulations help in making the industry more robust and investor behavior adapts. For instance, when the contract size was increased in F&O, we all thought that volumes will crash, however, we saw that people shifting to equities as ticket size there was not a constraint. Finally, it's important that customer interest continues to remain in the market. We will have to wait for another six months before we can tell that what all changes we saw in terms of customer behavior and what we could do in terms of response to the changing scenario.

Madhukar Ladha: And last year, I think we had changed our incentive structure for ICICI Bank RMs to sort of sell or get more clients for ICICIDirect. How is that done because it seems that with almost 35% coming from outside channels, is there enough growth happening out there?

Vijay Chandok: If you look at a lot of our market share gains, you need to appreciate that it is all coming from our Prime customers, which is coming from ICICI Bank.

Madhukar Ladha: Yes, that is just the conversion into Prime.

Vijay Chandok: These are not conversions, these are new clients which we are acquiring with Prime, good 65%+ of what ICICI Bank is giving are Prime customers.

Harvinder Jaspal: Madhukar, to add to what Vijay said, in terms of quality we are definitely seeing an uptick. We measure quality by way of activation ratios and there we have seen sequentially for the last four to five quarters, there has been a secular trend of improving conversion ratios in our bank channel and at a company level. A large portion of the customers that we are acquiring are the right fitment of customers. That is a definite advantage that we have got through that kind of arrangement that we started last year.

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

Ritika Dua: In your opening remarks, you had mentioned that you are making some strategic moves to ensure on the growth front and also to arrest maybe some bit of concerns on how business would move after the peak margins get implemented from December. So, if you could maybe elaborate on that? And sir, the second question is on the branch front. So can we say that largely that rationalization is done with or there could be some more. And this rationalization while you have been sharing it for some time, it has pretty much happened in a quarter. So, just want to understand if there is more room and where have we really cut this down? So those are my two questions.

Harvinder Jaspal: Branch rationalization has been a journey. It is a process that we started by identifying branches and then there is a logistical process. It starts coming into numbers with some lag, but consistently over the last four to five quarters, we have seen reductions happening, we started with about 202 branches, today we are at about 156 branches. We started with low hanging fruits and are now looking at things like what are the opportunities that can arise from "work from home" concept, are there any synergies possible to work across teams. If we are able to do something there with increasing digitization, maybe there could be some additional room. As the reduction has happened on a quarter-on-quarter basis, the full annualized impact will keep coming in over the next three, four quarters as well.

On the margin impact, as we discussed earlier, this regulation will have an impact on intraday product segments for the industry. To deal with the impact, the mitigating factors would be the proportion of revenue not impacted by the regulations, we will have to see what is the kind of customer quality that we have. Segments like MTF and delivery are un-impacted and we have a strong franchise of these products along with a strong non-equity franchise. The second aspect is, as we have been anyway focusing on growing the total active customers by using better product proposition, we want to increase that. One case in point is we launched Option 20 last year in October, over the period of last few quarters, we have seen that the number of customers active on options have actually doubled. That has been our experience with actually a lower pricing and our revenues went up. When we launched Prime, it was almost 60% decline in yield. So, one would have expected a 'do nothing' revenue impact, however, we saw a substantial increase in revenue. Also, our NSE active customers for the quarter grew by 32%. We were able to increase our revenue, volume and customers. We keep working on these propositions. Currently, we are working on our competitive propositions to deal with the impact of regulations on intraday products. Our endeavor is to get more customers activated from existing customers and to attract new set of customers by these propositions. Some of those things, we believe, will help us mitigate the immediate term impact. Over the long-term, I don't think there is any debate that any such initiatives that are being taken by the regulator, now and in the past, have enhanced the confidence of the retail investors. They have enhanced the retail franchise and made franchise more granular for the industry. And we being, one of the significant participants of the industry, hope to benefit from our brand and technology strength.

Ritika Dua: Sure. So, if I could just maybe have just one follow-up. On the OPEX side, because your strategy on sourcing from outside ICICI Bank has been working well, can you share something on the cost front, how is that also shaping by having now being also getting more acquisition from the non-ICICI front? So that's one question.

And the second, see, we also have been of the opinion that while your customer additions have been lower than what the peers have been, but you have been gaining market share still on the volume front. Any colour, if you can give to maybe put some clarity on the fact that the kind of customers you are onboarding is actually of a much better quality. So maybe if you could share what is their incremental contribution, etc., so which gives us a confidence that definitely while your customer addition is slower, but your quality onboarding is much better, so that's what we should focus on. So these are my two more questions.

Harvinder Jaspal: Sure Ritika, with respect to your question on impact on operating efficiency, in the wake of the digital sourcing that we have embarked on, I would like to point out a couple of factors. One, transition from a 100% physical/phygital model of sourcing, requiring face to face interface either using tab or a paper based process, to a completely digital model; releases bandwidth and enhances distribution capacity by building up a scalable digital distribution as well as by enhancing capacity of our physical channels (own branches, ICICI Bank branches, sub-partner branches). Secondly, it makes entire process, frontend and backend, more efficient without any logistics issues e.g. document pickup, franking related issues, courier etc. is helping us rethink a lot of our backend processes.

With respect to your second question pertaining to quality of customers being acquired digitally, I would say it’s too early to call out any definitive trend but to whatever extent we have acquired customers digitally, we have not observed a meaningful difference in the quality of these customers compared to earlier in terms of parameters like ARPU etc.

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

Utsav Gogirwar: Congratulations on a great set of numbers. Sir, I just have a couple of questions. Firstly, can you just help me, in how many months the customer acquisition cost is breakeven for us? Is there some color you can give, maybe ICICI Bank channel and non-ICICI Bank channel?

Harvinder Jaspal: Utsav, it will be slightly early to say that, you have to let the mix of the channels settle. But suffice it to say that our payback would be about six months or so.

Utsav Gogirwar: Okay. So actually, the question is related to the customers. So, we are choosing customer selectively, as mentioned in the call, we are just focusing on the profitability. I just want to understand what different the discount broking player are doing, so what will be the breakeven difference for that kind of customer and the customer we want to acquire?

Vijay Chandok: The numbers of discount brokers are not available to us, so difficult to say but from whatever limited numbers available in public domain, it appears that those numbers are comparatively far higher than what we would spend.

Utsav Gogirwar: Okay. Sure. And sir, second question on the employee cost. So, I think we have done a commendable job in this quarter, where sequential growth is just 4%. But if you look at the quarter one employee cost, there was a sharp jump. So just want to understand, how I should look at employee cost for the H2, do we expect a similar kind of numbers or what could be the driver for that?

Vijay Chandok: The reason why you are seeing an employee cost go up in an absolute sense is due with the fact that the variable component of performance pay has been factored in considering the performance. We therefore, do not expect the increases to continue on that front in the subsequent period.

Moderator: Thank you. The next question is from the line of Saurabh Thole from Trivantage Capital Management India Private Limited. Please go ahead.

Saurabh Thole: I have two questions on the institutional broking side. So right now, as a percentage of total revenue, this businesses kind of pretty small. So what plans do you have to scale up this business? And what opportunities do you get to cross-sell to this particular line of customers? That is question number one. And the second question is on the advisory side, is there some structural changes that you have brought in because of which the revenues are probably looking much better than what they were a couple of quarters ago?

Ajay Saraf: On your first question on the institutional broking side being small, if you see last four years, we have been growing at 24% CAGR and we have been increasing our market there consistently year after year for last four years. What we see as an opportunity is to tie-up with local brokers across the globe. Last quarter we tied up with a US based broker to have a deeper penetration among the FPI clients, who we are not servicing right now. Similarly, we are looking at a tie-up in Korea and Japan, and that should happen very shortly this quarter to be followed up with the conversation we are having in Europe. Our equity market share for the domestic clients are very high, a double-digit number. Idea is to grow on partnership model on the FPI side.

On the advisory side, market volume plays a big role. Current year would have been one of the highest in terms of the history of capital market in terms of how much money has been raised. So, some of the fees is a factor of that. Our market share in IPO, FPO, InvIT, REIT is over 90%. Also, we are focusing on M&A private equity transaction, and that's also giving us higher fees. We have been ranked second among the domestic banks for the advisory in the merger market for H1. And we topped the league table for the IPO's among all banks in the country.

Saurabh Thole: Right. And sir just a follow-up. What opportunities of cross selling do you get on the institutional broking side?

Ajay Saraf: Broking helps the investment banking side for doing large QIPs, block, etc. So that's a pretty large cross-selling opportunity. Otherwise, some of these insights which we get from the broking side, can be used to ideate and bake advisory transaction on the M&A side.

Moderator: Thank you. The next question is from the line of Saikiran Pulavarthi from CLSA India Private Limited. Please go ahead.

Saikiran Pulavarthi: Just four questions from my side. Post COVID, I think you guys have seen significant change in terms of customer acquisition process, thanks to digital. But how has been the experience in terms of customer service during this period, that too with the digital kind of a scenario? Do you foresee some more cost benefits kicking in because of this or what has been the experience? That's question number one.

And question number two is, in terms of non-ICICI Bank customers, how can one judge in terms of the revenue potential considering we might not have understood the potential of those customers or what is the kind of wealth or revenue potential what these guys will have, without having much of the bank related data?

And the third question is, overall yields for private wealth customers during this quarter, if I look at on a year-on-year basis, it's a significant sharp up move. Can you just explain what is driving it? It seems like both transactional and non-transactional, both yields are moving up significantly, what is driving that?

And lastly, ESOP and MTF book has seen a very sharp rise. How do you see this going forward? Thanks.

Harvinder Jaspal: On the customer sourcing, the process has been completely digital, non-contactless and our franchise is mostly DIY. Roughly in 99% of our equity transactions, customer punches his order himself on the platform. So we don't have a lot of physical engagement on branches or call centers to place an order. That has been one of the key benefits for us historically and it has helped us in the current scenario where once the customer has gone through the process of opening an account, he has been comfortable in doing the transactions online. You asked whether the process has stabilized? As Vijay mentioned that it's a new arena for us, it's about five months old for us and we have a lot of projects that we have identified that can help us improve this process further. These are on customer journeys, call-center capacity to help if somebody is stuck, sharper digital marketing techniques and capabilities among others. Although the start is satisfactory, we have still long way to go. That is on the process part, and therefore, service is not that big a component because most of our franchise is DIY.

On the second question, you said that how do you assess a revenue potential of a client which is non-ICICI Bank based. Our endeavor is to be able to attract the right client to our platform, one who looks at our proposition say a Prime or eATM and chooses the platform with an intend to invest or trade. That is important to have a higher longevity of the customer. Again, it is too early to comment about revenue potential. It’s a journey and we are learning rapidly every day.

Vijay Chandok: So I think the question is that how do you assess potential, so the way it happens is that potential starts and keeps building over a period of time. To begin with the fact that he enters you, it means he is interested in equities, right, that's the behavior he has demonstrated. He is taking the effort of coming to you, opening an account, putting up whatever is required to be done, sometimes even paying a fee to become your customer. So that's an expression of interest. Thereafter, it is transaction behavior, the type of plans that he chooses. As time progresses and his behavior plays out, it gives us insight as to whether this person needs further sort of uptake or support. It actually grows through the kind of behavior he displays and to analyses that, there are all analytical tools that we use. And then based on a certain behavior, we classify this guy as someone who needs an advisory support or he doesn't need an advisory support at the back end. So that's how the whole journey builds up.

Harvinder Jaspal: Moving on to your next question on wealth yield improvement, both on transactional and recurring. We have seen that the equity franchise, specifically delivery in the market and for us, has shown good growth in terms of volume and therefore revenue. Wealth customers typically have a higher delivery orientation arising from an investment outlook. This has led to growth in equity revenue and therefore transactional revenue. The recurring asset yield has been driven primarily by higher interest income earned in ESOP and MTF, because of book going up in wealth segment.

The last question that you had was, what is driving the MTF and ESOP increase. This has been a focus area for us. If you look at our numbers for the last five quarters, you will see that when we started the journey last year our book was about ₹ 4.6 billion, it has consistently kept going up. We had about ₹ 5.3 billion by the end of Q1 FY20, moving up to ₹ 6.8 billion by the end of Q2 FY20, moving up to ₹ 11.5 billion by the end of by Q3 FY20. It moved up to actually ₹ 15 billion in the March quarter, but due to COVID in the last week or fortnight we proactively brought it down and therefore it was ₹ 5.8 billion, and now we are looking at about ₹ 18.7 billion. It has been a consistent focus area for us, our product proposition has been pretty strong, our networth and our balance sheet gives us the ability to borrow at a relatively decent rate. We are AAA rated or short-term rating A1 rated from CRISIL, as financials are strong. So some of those things we leverage to attract better quality customers. Our wealth focus has helped get customers in the ESOP franchise. So both of these things have helped us grow this book.

Anupam Guha: If I can just add on that wealth bit on the transactional income. We also had a strong growth on the fixed income side, apart from the equity that Harvinder just spoke about. And when we started disclosing on the wealth side, we always had assets, and we said that our yields were relatively lower and we wanted to work closely on our customers and do a better coverage. A lot of analytics has gone in, sharper segmentation has happened, and resultant to that we have been able to activate a whole lot of customers, both on the equity fixed income side and ESOP & MTF side that Harvinder spoke about.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: Sir, firstly, in the appendix, you have given this receivables trend, I was just looking at the receivables trend, how do you explain that movement? That is one. Two, if you can just comment on the PAT of private wealth management business as well, saw some data that you had given. Third question is, the first slide on the business performance section, is ARPU missing there? If you can just mention the ARPU number as well basically.

Harvinder Jaspal: With respect to your first question about trend on receivables, it primarily comprises last T+2 days transaction and it may vary from balance sheet date to balance sheet date, depending on whether the last day was a trading day or non-trading day and what was the quantum of value.

The second element that you mentioned was the PAT of the wealth management business. For wealth management business we have disclosed the revenue contribution, we have not put out the PAT number as of now. Wealth is a customer facing classification and would have customers who engage with RMs for some products and trade online for equity for example. But all our segments, let me assure you, have decent operating margins. There will be a pecking order, our retail online business would be the highest operating leverage business while distribution business would have a bit of physical infrastructure.

Roshan Chutkey: The reason I am asking you for a PAT here is, I can think of a value for the wealth management business per say, in the entire business. That is the reason why I am asking for that. And the third question is, the ARPU number is missing in the business performance slide, the first slide. Was it more than 20%?

Harvinder Jaspal: Yes, ARPU will be higher than that.

Roshan Chutkey: And the final question. December onwards should we expect financing to be provided by a separate arm to ensure that broking volumes do not fade away? As a mitigating factor to the regulation, can we expect some financing to be provided, like you have MTF for the Cash delivery business, for the F&O and intra-day business, can expect some sort of a financing availability?

Harvinder Jaspal: By regulations, we are not allowed to extend any kind of financing other than for MTF and ESOP, these are the only two products where as a broker we can extend financing.

Moderator: Thank you. The next question is from the line of Deepak Kathwani from Girik Capital. Please go ahead.

Deepak Kathwani: Congrats on a good set of numbers. I have a couple of questions. First, if you could comment on the client concentration, is it that a small percentage of clients can contribute to a significant chunk of your revenue? And if that is, then how much percent contributes how much? And also, obviously, if you can also comment on the maturity cycle of the client, so if you onboard a new client today, how does the client mature? When is the time that the client starts contributing a significant chunk to your revenue?

And I have another question on the wealth management. You said that there is ₹ 100 crores of revenue in this quarter from wealth management. So under which head that revenue is? And if you can also kind of comment on the margin profile of this business. Those would be my questions.

Harvinder Jaspal: First is a question on the maturity profile of a client. I will give you two indicators. One, currently 63% of our clients start giving us revenues in the quarter in which they were acquired, we typically measure it as an output for quality. The remaining people, we keep on engaging and they come onboard later. Second, almost 65% of our revenue in any financial year comes from customers which are more than five years' vintage and almost 37% of our customers which were acquired and active 14 years back are still trading with us. All this leads us to believe that it's a very high retention profile. With that, what we have seen is that when we start with a revenue of x, we continue to see improvement over the lifecycle of the customer. Sequentially we keep seeing that their revenue with us keeps growing, as their personal economic profile keeps growing. So that's the way our client cohort matures.

The wealth management business revenue in financials would be subsumed within the respective line items like brokerage, interest income and income from other services. However, the sum total of all that is about ₹ 100 crores of revenue from wealth customers this quarter vis-à-vis the total revenue of the company.

With respect to your query on margin profile, we have not put out PAT number, but all our business segments have decent operating margins. Operating leverage can vary but all our businesses are profit making and have decent PAT margins.

Deepak Kathwani: So, will it not be a good idea to put the wealth management business revenue and maybe put the cost separately as well? Because if there's a broking customer who is contributing specifically from broking, that will not be a wealth customer, right? So, will it not be a good idea to have a separate wealth head in the presentation or also in the income statement?

Vijay Chandok: You would appreciate that we started earmarking our wealth segment in a sharp manner only in the January quarter, that was the first time when we started it. Periodically, we keep increasing our disclosures and we will continue to do that. It's only the third quarter or so where we have started disclosing the wealth as a segment. We will keep seeing what all we need to do to increase disclosures, greater depth and so on and so forth in times to come. It's still early phase of disclosure for as far as wealth is concerned.

I think there was also a question around concentration, if I remember, there was something around concentration you wanted to?

Deepak Kathwani: Yes, so that was one question. So, is it that a small portion of your clients contribute a big chunk of the revenue?

Vijay Chandok: Wealth is a segment where the tendency of revenue is higher, about 36,000 customers that we declared did a revenue of about ₹100 crores, that's a reflection of the fact that there is concentration or absence of concentration. Our revenues tend to be very granular, we don't have any significant worry on concentration. Millions of customers are sort of trading, so the rest of it is all distributed around that million plus customers.

Harvinder Jaspal: And Deepak, it will not be very different from the financial services industry of India. I mean, there will be a concentration of wealth in terms of customers or clients or number of families, but that is reflective of our franchise as well. And there are different segments which have their different strengths, you will have like a lower ARPU customer with huge scale, which is completely granular, and then you will have wealth profile customer where the ARPUs could be high and the numbers could be low. All of those is what we cater to.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bankston Investments. Please go ahead.

Vijay Karpe: I have just one question. Have we seen any pressure on the yields, NIMs of the MTF book? And have our borrowing costs come down? Can you give any numbers year-on-year and quarter-on-quarter? Thank you.

Harvinder Jaspal: On the borrowing cost, we have seen a bit of softening of the borrowing cost. As I mentioned earlier, with our kind of a franchise, we are able to borrow at repo rates or thereabouts. Second is on yield or NIMs, so we enjoy healthy NIMs over there, typically 4% to 5% are our NIMs in these books.

Moderator: Thank you. The next question is from the line of Sanjaya Satpathy from Ampersand Capital. Please go ahead.

Sanjaya Satpathy: My question is very simple, how do we decide that how much we are investing on your IT capability?

Harvinder Jaspal: A part of our strategy is to build our digital capabilities. We expect our CAPEX this year to be 2x or 3x of what we have been spending typically, and you can look at from our financial disclosures, somewhere between ₹ 10 crores to ₹ 15 crores, has been a longer term average of CAPEX. We have identified a few areas like capacity enhancement to cater to substantially higher loads because we have moved up in terms of the utilization in the recent period, analytical capabilities, digital experiences, user interfaces, customer relationship management.

Vijay Chandok: As far as technology is concerned, there is absolutely no constraint on the team to do what it takes. We have enough internal resources to take care of that. So in that sense, I can assure you that our technology spends is not an area which will be put to any kind of a pressure point from our side.

Sanjaya Satpathy: Is it only in CAPEX or there is an element of OPEX there? And if you can just put it in context of, let's say, some of the big brokers globally or in India, how much they would be spending? I am just trying to see or get a sense that how much more, I mean, basically your number seem too less, to just look at it from a top-down basis.

Vijay Chandok: Yes. If I understood you correctly, your question is, how much would the other brokers in India and globally be spending? Our sense is industry in India would be probably spending lower and it would be difficult to comment on and compare global players for instance players like Charles Schwab, etc., are at a very different maturity stage.

Harvinder Jaspal: And Sanjay, just to add to this, one critical difference for us, a large portion of development that happens on our platform is in-house by our team.

Sanjaya Satpathy: So your employee cost also has that cost of IT engineers?

Harvinder Jaspal: Yes, of course, we have in-house teams. The entire platform has been actually developed, upgraded and maintained by our in-house team. One of the levers of our strategy is digital agility, where we have started partnering with other vendors. So that is a phenomenon that we have started. But our historical route has been an in house growth channel. So it will be with employee cost, and whenever they are spending their time on creating capital assets, new application, that is accounted as CAPEX in our books.

Sanjaya Satpathy: And sir, can I ask like what proportion of your employee cost would be on IT engineers?

Harvinder Jaspal: It is not a very significant number, we have a team of about 200 or 250 odd people, which is a combination of our in-house team as well as our partner team.

Vijay Chandok: So it would be fair to say, about 5% to 6% of our total employee cost would be attributable to that segment.

Sanjaya Satpathy: Understood. And lastly, if I can ask, you are having more than ₹ 3,000 crores of cash, I believe. And you are paying pretty well in terms of dividend. But with that level of cash and what all we are seeing in terms of people doing globally in digital spend for enhancing this experience, what we are trying to understand is that, like how can you allow of that competition?

Harvinder Jaspal: Our cash and bank balance of ₹ 30 billion includes our fixed deposits that we place with exchanges. About ₹ 24 billion out of the ₹ 30 billion is FDs which are placed with exchanges, they are placed for the purpose of margin and that helps us get the volume. So that is not cash as a net worth, our net worth is about ₹ 14 billion. Our ROE is about 76% for this period. We have always believed in being a high dividend paying company. We in fact have a dividend policy which prescribes minimum 50% dividend payout ratio, this quarter it has been about 55%.

Moderator: Thank you. Sir, we don't have any more questions in the queue, would you like to add any closing remarks?

Vijay Chandok: Thank you, everyone, for coming on to our call, listening to our commentary as well as asking us all the questions. If there are any follow-up questions, feel free to get in touch with our IR team.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Contact Details:

Investor relations: Kartik Parekh

Email: IR@icicisecurities.com

Registered Office:

ICICI Centre, H.T. Parekh Marg, Church gate, Mumbai,

Maharashtra, 400020

CIN: L67120MH1995PLC086241

Website: www.icicisecurities.com