ICICI SECURITIES LIMITED

Earning Conference Call
Quarter ended September 30, 2021 (Q2-FY22)

October 19, 2021

Operator remarks

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

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

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

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

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

Mr. Vijay Chandok

Good evening to all of you and welcome to the ICICI Securities second quarter earnings call for fiscal 2022.

I am sure that by now you would have already perused through our quarter two results and the presentation.

We are happy to report that we have further strengthened our franchise by increasing our client base to 6.3 million and assets of clients with us increased to over ₹5 trillion, driven by all-round growth across businesses. Following our results, our Board of Directors have approved an interim dividend of ₹11.25 per share vs ₹8 per share last year.

The scale up in our digital sourcing coupled with healthy adoption of our product propositions has resulted in our client acquisition becoming 5x in the current quarter, year on year. Subsequently, our NSE active client base grew by 90% YoY with an incremental market share of 12% in Sept 2021. We have always believed and would like to again reiterate that for our industry, NSE active as a sole input variable of relative performance may not be appropriate and a holistic assessment of the competitive strength of a franchise is required. In our view, a broader set of parameters including client assets, level and frequency of activities, Average Revenue Per User (ARPU) and, volume share among others should be examined to assess the franchise quality. In line with this belief, our focus would continue to be on acquiring clients with sustainable quality, even if it results in a moderation of client acquisition numbers in the short term.

We are also enriching the content section of our website with digital educational properties, which has resulted in increase in traffic to our platform and in turn helping us increase acquisition through organic channels.

Our retail equities business registered a revenue growth year on year as well as sequentially despite the decrease in equity ADTOs, aided by the texturization of our equity business. Allied equity revenue now contributes 30% to our total retail equities and allied revenue. We registered a sequential increase in our retail equity market share; however, we are yet to see a similar trend in the retail derivative market share. We are focusing on a lot of initiatives to increase our derivative market share and we believe that these initiatives will help improve our market position. It may take a few quarters to witness the positive impact of these measures to gain volume market share.

Our distribution business witnessed growth across all our major products. In mutual funds, while we gained market share in overall gross flows led by debt gross flows, we lost market share in equity gross flows, especially in the HNI segment, on account of growing traction of direct plans in this segment. We are piloting a direct plan offering for the HNI segment with an intention to attract customers to the platform and then monetise them by cross selling other products. We are working on several other initiatives in this area and are confident of achieving positive long term outcomes, we are already witnessing strong gains at granular level, like increase in SIPs market share.

As we think about the future, we recently did an exercise where about 75 senior members of the company got together and looked at the market, regulatory and technology trends to formulate a strategy for the next few years. We observed that India's demographic opportunity is getting texturized. The market is segmented and sub-segmented ranging from the young GenZ and millennial investors to GenX and the baby boomers & the needs of each segment, sub-segment and micro-segment are different. It was important for us to recognize and harness this opportunity in a format that fits into the sensibilities and preferences through an ecosystem approach with focus on GenZ & Millennials and Mass affluent & HNIs. We are planning differentiated offering for each ecosystem as they have their own distinct behaviour and unique needs and hence they should be served differently in a hyper-personalised manner.

We are making investments to revamp our channel stack, build data driven hyper personalized 'eco-system approach' and in best in class experiences to evolve into a digital "NEO financial services' marketplace.

We believe that financialization of savings will get much stronger over the next few years with our estimate of over 100mn new broking accounts and new Mutual fund folios opened by 2025 along with significant opportunities in other product categories including fixed income, insurance etc. We believe that our loan distribution business could get impetus from the emerging facilitative developments such as the account aggregator framework.

While we are committed to the operating efficiency in the long term, will continue to invest into technology, digital marketing and talent to take advantage of the large market opportunity across the businesses we operate in, through our newly laid out strategy.

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

Moderator: Ladies and gentlemen, we will now begin the question-answer session. First question is from the line of Kashyap Javeri from Emkay Investments. Please go ahead.

Kashyap Javeri: A question again on market share side, both in terms of market share as well as in terms of pricing, it seems that there is a significant pressure which is building up and it's been almost about now four quarters that it continues to build up over there. So, any comments on that side, how do we recoup, this has been almost like four quarters now both on cash as well as F&O side?

Vijay Chandok: While we have not shared the total breakup between retail and institutional market share, sequentially, we have gained market share on retail equity side. However, on the F&O side, while you see a flat blended market share number in the presentation, on the retail F&O side we have not yet gained market share.

Kashyap Javeri: Sorry, I just wanted to make a bit of a point over here, but if I look at the whole market because of the pricing, we have been on flattish number of about 350 crores for almost about five quarters whereas NSE active client base has almost gone up from about 1.2 to almost about twice of that 2.3. Then it seems like market itself is shrinking. Is that the number, is that an assumption correct?

Vijay Chandok: As a conscious strategy, we have said that we will be looking at wider spectrum of revenue that we can earn through various products and not be fixated on a singular line item. We have brought down the yields on broking and texturized it by adding products like float revenue, MTF, Prime fees, other fees and charges associated with NEO, etc., which have a little more sticky nature as opposed to just transactional linked broking. If you look at the total equities revenue, it has not only grown YoY, but also grown sequentially. If you look at cash equities, we are clearly feeling a lot more sure-footed about gains in market share as well as revenue. However, when it comes to derivative, I agree with you, that's what even my commentary said, that we still have a way to go. We believe it is going to take a few quarters before we can start seeing the results of gains on the derivative side. However, that said, we are seeing sequential growth in our overall derivative revenue, but our aspiration is to grow faster than market.

Kashyap Javeri: Should your MTF revenue not be in line with your retail brokerage revenue because that part is growing actually whereas the brokerage is not?

Harvinder Jaspal: The Rs.350 crores run rate that you are talking about, if I were to take you about five quarters back, the steady run rate was about Rs.200 to 250 crores. From that level, brokerage revenue has come up, and we have also texturized equities business by adding many other lines. Overall brokerage is a function of a lot of these things, the yield aspect which Vijay spoke about, growing trades and volume among others. MTF growth is a function of our unique product proposition and we are gaining market share there.

Vishal Gulechha: Kashyap, I will just add one more point on derivatives. There are some core operating influencers for derivative income, and we have an eye on each one of them. If you look at a number of customers', ADTOs, brokerage from derivatives, we have seen growth in these factors, even in Q2, after the implementation of fourth phase of the margin norms. The only thing where we have not participated is a very low premium option trading which doesn't make economic sense for a customer and we have seen a lot of rise in that kind of trading pattern.

Moderator: The next question is from the line of Shreyas Shivani from CLSA. Please go ahead.

Piran: I had a few questions. Firstly, if you all have done the statistic, I am sure you all would have, what percentage of your Rs.350 crores revenue comes from customers acquired in the last 18-months since COVID hit, any ballpark figure or maybe in the last 12-months if that's the number you all track?

Harvinder Jaspal: Customers who are acquired in a particular financial year and are giving revenue in that particular financial year is roughly ~8% to 10% of that year's total brokerage revenue, that's what we have seen last year and this year. It would be an evolving number and will be a function of what kind of growth in clients, etc.

Piran: My next question maybe a bit stupid but we talk about activation rate going up to 70%, 75%. But if you could just give some color on let's say deactivation rate like you acquire a client he trades for one or two quarters and then he stops trading with you all or like how life insurers call persistency rate, can you give some color on what sort of persistency rate you have all seen in this business maybe on a QoQ basis, YoY basis, because going back to Kashyap's question wherein NSE active client acquisition has been strong but it hasn't really translated to revenue growth, so just wanted to get a sense of that?

Harvinder Jaspal: As Vijay mentioned in his opening remarks, there has been a 5x growth on YoY basis in terms of total clients acquired, from ~1.2 lac kind of a run rate for a quarter, it has become about ~5.8 lac kind of a run rate. One of the source of growth for NSE active is that out of the ~5.8 lac clients that got acquired in the current quarter, 4.3 lac clients have become active. They have got about 45-days of transaction opportunity, which is not comparable to a client who has got around 12 months. A high majority of the NSE active are coming from new clients that have not yet seasoned and have not got an opportunity to start giving full revenue. As you quoted insurance, allow me to dip into that parlance, if you look at the new customers in insurance versus a renewal customer, there is a stage where the renewal customers start contributing much more compared to the new customer. As regards your question on persistency, some of the things we look at are overall active customers, ARPU, Demat assets etc.,. We do have clients which are more than 15-years vintage with us. We have given some metrics out in public domain, which says that two-thirds of our revenue come from clients which are 5-year plus vintage.

Piran: How many customers have availed the MTF and ESOP funding out of your 20-odd lakh active customers because our book has grown super strong in the last two years, so if you could just give a rough numerical value?

Vishal Gulechha: We have not declared number of customers availing MTF. The number of ESOP customers is a much smaller universe because only a very handful of senior management and employees would get ESOPs. As far as MTF is concerned, we have registered growth year-on-year. Since 2017, this product is in existence and every single year we have seen a growth in a number of customers and still growing very strong. As you know that this is also a product for slightly matured customers who understand the market very well, so it would be unfair to compare it with the 2 million active customers. Relatively, this is a smaller segment but this segment in terms of ARPUs, in terms of size, is very healthy and they contribute substantially to the overall revenue of the company.

Piran: Why did we do AsknBid innovation?

Vijay Chandok: As I told you that we have been looking at various fintechs to either make partner or buy. In such a context, we have partnered today with close to 20-plus fintechs. Some of which are visible as an experience for a customer on the front end, some of it is powering the backend which is not visible to the customer but experienced as an ICICIDirect service. AsknBid was in a very interesting space. We could resonate with what they are constructing. Keeping that thing in view, we have taken an ~16% stake in the company. We believe, what they are building, will connect quite well with the Millennial and the GenZ segment, which is gamified method of experiencing participation in the markets. There is also an angle of social connectedness, which is also in line with our philosophy. This investment would enable us to fast forward some of the capabilities that this company has got, into ICICIDirect. So, we are working very closely with the tech team of AsknBid.

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

Aejas Lakhani: Just a couple of follow ups. The first is could you explain what is driving the MTF growth?

Vishal Gulechha: We have transformed MTF in last two years. We have created entire ecosystem for MTF customers, right from the proposition (coupled with our Prime & Prepaid), attractive interest & broking rates, supported by our strong research team. If I talk about Q2 itself, there were about 30 MTF related research recommendations which were given by our research team and the strike rate was as high as 96% delivering about 10% return on such calls. All these taken together have led to this kind of growth. We have grown in terms of book size, in terms of number of customers and also in MTF market share.

Aejas Lakhani: Can we expect such growth rates in the MTF book, what is the size of the opportunity with the existing clients that is there still to mine?

Vishal Gulechha: Our aim is to grow number of customers participating in this product and secondly, market has also been supportive for a product like this. When markets get into consolidation, people find it difficult to carry the positions for long-term, Our focus will be to build on market share and to add more number of customers and the market will also be one of the important guiding factors going forward.

Aejas Lakhani: Mr. Chandok, you mentioned at the start of the conversation that ARPU revenues have actually grown and you mentioned you look at the total equity revenue. So, could you explain us how that ARPU revenue is calculated because the way we are looking at it, ARPUs have actually come down, so could you help us with the calculation and how you see it?

Vijay Chandok: I talked about the total stack of revenues & not ARPU. You're absolutely right, ARPU has declined because the ARPUs from new customers is yet to translate into the kind of growth in terms of ARPUs that the stock customers have. We believe that it is going to take longer for getting to those levels of ARPU.

Aejas Lakhani: Could you mention what is the total equity revenue? You mentioned that that is the number you track internally.

Vijay Chandok: If you look at our slide #16, it will talk about the total equity revenue.

Aejas Lakhani: Would you expect the broking revenues for this part of the year to be sub-50%?

Vijay Chandok: Currently, it has come in at about 46%. We have had strong growth in terms of the distribution revenue, which is an area of focus. We have redoubled our efforts on increasing our growth in all other non-equity revenues with as much rigor and vigor as we have been pursuing equity in the past. That effort is only going to intensify. So, in term of input parameters, I can tell you that our efforts will be loaded in the direction of non-equity. We do hope the markets behave in a way that the input parameters translate into an output parameter which is loaded in favor of non-equity even as we grow our equity revenue.

Aejas Lakhani: I just want to get a sense that the recent tie-up with HSBC, what kind of a client profile do you see there and when do you expect that to go onstream?

Vishal Gulechha: It will take some more time before we can go live, we are currently working on integration. We hope to bring better quality customers from our tie-up with HSBC.

Moderator: The next question is from the line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: My first question was on the other distribution income. If you could just give a split of what is the income on distribution of loans, bonds, a ballpark number would help to understand what sort of yields and what will be the growth outlook for the loan book which we are having? The second question would be to understand what is the quality of the customers which we are adding from the digital sources? How different is the payback period for these customers? Are these customers largely opting for a Prime plan or a NEO plan?

Harvinder Jaspal: I will take your questions one-by-one. First is income from loan distribution, typically, we earn around 0.9% to 1% on the loan disbursed. If you look at our disclosure, this quarter we disbursed ~Rs.6.9 billion, which is our ever-highest disbursal till date. Prior to this, highest was about Rs.5.3 billion and earlier that average used to be about Rs.2.5 billion. Second question that you asked was about quality of customers and the payback period in digital sourcing. As we have articulated earlier, that digital sourcing as a group has about five to seven different type of customer acquisition channels. Some of them are called organic which have almost zero cost and pretty high quality, some of them could be advertisement led or referral-led which could have lesser quality as compared to this. So, this mix is something that we are yet to fully optimize, therefore it will be misleading to quote an absolute number right now. What I can tell you is that every month we are seeing cost per acquired for digital going down and we are focused on reducing the payback period. The payback period at an overall portfolio level which includes digital, non-digital everything put together is roughly of the order of 12-to-14 months. By payback period, I mean, whatever you spend and how many months you take in terms of revenue to get it back. Digital is obviously higher right now.

Sahej Mittal: Are these customers opting for a Prime or a NEO plan or are they opting for a iSecure Plan?

Harvinder Jaspal: It will be a combination, there are people who opt for Prime and NEO. A lot of people want to test out the platform, so there will be a lot of sign-ups for iSecure as well. NEO has about 150,000 odd subscribers today. Prime as you know has about 865,000 subscribers. But on incremental basis, it's a combination.

Sahej Mittal: What are the expense line items which we are trying to variabilize for us to better manage our expenses in times of downturn, so what would be the variable part of our staff expenses or other operating expenses?

Harvinder Jaspal: We are focusing on partnerships, we have 15 to 20 different partnerships. So, the way we structure these partnerships, we get clients and the revenue share is variable. Even in our investment banking business, there is variable share. In our sub-broker business also, there is variable revenue share. Some of these lines where the revenue is success-linked, that helps us variabilize the costs as we don't have to invest manpower and cost of acquiring these customers, that's part number one. Part number two, when you take a NIM approach for the loan book, the interest cost is obviously variable. Part three, as you rightly said, the variable component of the employee cost. Our idea is having growth linked to revenue and variable cost line items. We are trying to control fixed cost in all areas, other than marketing and technology. These are the two areas that we have stated, where we are making investments and the spends will go up. Apart from that, on the fixed cost, we are trying to curtail. Variable cost, we don't mind but even there on a per unit basis, we are trying to optimize that as well.

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

Madhukar Ladha: A few quick questions. First, what percentage of our derivative volumes would now be under the NEO Plan, could you sort of give some color on that? And whether our derivative revenues are sort of growing on a QoQ basis? That would be interesting to know. Second, just continuing on the earlier question, what is the activation rate in the digital channel? Can you sort of give us some numbers around what is the cost of acquisition that you are seeing or what is the trading behavior of the newly sourced digital customers? And lastly, I know this is hard to sort of judge, but do smaller NIFTY contracts, I mean, from 75 to 50, the number of NIFTY is sort of reduced, so do smaller contract sizes make any difference in terms of trading and hence revenues?

Vishal Gulechha: I will address the question on what is the NEO's contribution in the overall derivatives volume. NEO is clocking around 40% of overall derivatives volume. As Harvinder shared earlier, we have about 1.5 lakh customers opting for this plan. The daily run rate is also healthy from the existing set of customers, more so from our stock traders and non-traders, and also the set of customers which we identify to be ARPU beneficial to us. On your second question, reducing the size of options from 75 to 50. We don't see that much of impact on the additional liquidity availability with customers. More or less, that is a no event kind of scenario. And we have not seen any significant impact of the reduced contract size on the overall volume or activity.

Harvinder Jaspal: One of your questions is about digital acquisition and some flavor on trading activity, etc., It's a mixed experience I would say. One, for example, from organic channels, etc., we are getting quite a decent mix. In some of the other channels, what our experience is that you do get a pretty decent activation but that is for the first transaction where the customer is trying to learn the platform, or we help him to learn the platform by initiating a transaction. But how far is the second, third, fourth transaction or the subsequent transaction activity, that is something which we are still optimizing. We are trying various ways of engagement. As Vijay mentioned, we are trying to fine tune the sourcing channel mix to invest in sourcing channels with better quality and isolate some of the sourcing channels. Cost per acquire, definitely is going down, it's not yet stabilized. Bear with us for maybe a quarter or two. We will give you more color and disclosures around that as well.

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

Nidhesh Jain: A couple of questions. First is there is a sharp improvement in yield on recurring assets in the private wealth management business. So, what is the driver for that?

Anupam Guha: Our focus has been on both recurring and transactional. Specific to your question on what's been the components of a recurring income, essentially anything that gives us consistent revenue, so it could mean mutual fund, it could mean our AIF III and PMS where we get trail income and it also includes your ESOP funding and the MTF book as well. So, a combination of all of these products comprises of the recurring income. And there our yields have improved given the enhanced focus on all of these products.

Nidhesh Jain: Can you share monthly active users or daily active users on your app, how that is panning out, any absolute number that you can share?

Vijay Chandok: We are yet to give these numbers out, but we can tell you that these numbers are increasing in an encouraging way compared to what they were last year.

Nidhesh Jain: How much you have incurred in acquiring new customers?

Harvinder Jaspal: It will be of the order of about 25-30 in a quarter currently crores.

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

Arash Arethna: I just had a couple of questions; one is on the insurance yield. So, if I do your insurance income premium divided by the amount distributed, so the yield on insurance has increased this time. So, what is driving that? Secondly, could you give some split between ICICI and HDFC Life in the life insurance income? You disclosed Prime and others combined. Could you share what is the Prime fee out of that?

Harvinder Jaspal: First, the reason for insurance yield is higher proportion of the new business premium. So, as you know that new business premium has a higher yield and we have registered a strong growth in new business policies, both on a sequential and on a YoY basis. Second, you asked Prime fee. The that is about Rs.17 crores for the current quarter as compared to about Rs.13 crores same quarter last year. Let me remind you this is the amortized portion for this particular quarter. So, if we have Rs.900 for one full year, you will take Rs.900 divided by four, in one quarter. So, that portion is about Rs.17 crores and that keeps on growing as the quantum keeps on growing.

Arash Arethna: Any sense on how the HDFC Life sort of a tie up is playing out, what contribution of that is in your life insurance revenue?

Harvinder Jaspal: It's just been a quarter. It's starting up well, there has been a lot of training sessions that have already happened. There is a lot of traction in the product. But in terms of overall contribution, I think it will still be early to comment.

Vijay Chandok: It is more in the pipeline building stage than anything meaningful to the numbers.

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

Digant Haria: I think we discussed this that our strategy seems to be really working well in the cash equity but F&O maybe we are still a little away. So, just wanted to check with this new acquisition that we did and I think it was mentioned that the new generation wants this whole future and options in the gamification format. Is this one of the big rein which we can engage the new customers in this whole future and options part, is this the one area where we were lacking and are we plugging it through this?

Vijay Chandok: You are absolutely right. I think we still have a lot more effort and work to be done on the F&O side. We recognize that. We have seen three themes of expectations that a customer has if you really have to make a mark in the F&O space; one is of course the pricing which is very important, I think we have met that expectation pretty clearly. Then, you need propositions and tools to facilitate his trading, that is an area that we still have a way to go. We have identified a bundle of tools which are getting integrated onto our platform one by one. I believe that we are probably 40% there, at best, of where we eventually want to get to. We believe this will take another couple of quarters, because with every passing fortnight we are adding more and more tools, more and more capabilities to facilitate trading based action on our platforms. And the third is access to platform in a very easy and a simple way. So, here, our launch is very new, and many of the tools that are there on our website are yet to be actually integrated onto our markets app. So, if you ask me, it's at least 90 days to 180 days from today. It is a very fierce focus within the company, apart from cross-sell, which I'm monitoring on a weekly basis. We are quite optimistic that once all these initiatives are taken, you will see an impact on market penetration. That said, I can assure you that on derivatives we are growing in revenues, volumes & customers, but the idea is to grow faster than market that is where we have work to do.

Having said that, the new acquisition is not merely limited to derivative and F&O, it is a more wider spectrum the way we see it which is spanning cash equity, F&O and engagement in a social connectedness type, where you could follow, copy, blog, all of those, those capabilities today don't exist in a platform like this in the country today.

Digant Haria: Right. Sir thank you so much. That is such a crystal-clear explanation that unless we get the other two leavers fully on which is the tools for helping the traders and the access to website in a new age way. Comparing ourselves to other derivative only brokers would actually be comparing apples to oranges. So, maybe two quarters or three quarters later, I'll just ask you again, if now you're fully ready and then maybe that comparison will be really logical to make.

Vijay Chandok: Absolutely. And, we don't have to wait for two quarters. We'll keep coming back even sooner than that.

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

Vijay Karpe: My question pertains to the mutual fund business; the AUM has grown upwards of 40% compared to the overall market growth of 80%. What has been the reason for the weak growth, has it been because our focus has been more on insurance and also because of the direct plans coming in for HNIs as you mentioned?

Harvinder Jaspal: If you look at our growth vis-à-vis the market, we have actually grown faster than the market and gained AUM market share in this quarter when compared to the same quarter last year. If you look at the mutual fund business, it's getting more granular, there has been a good growth in SIP, there also the market share has gone up from 3.4% % to 4%. If you look at the number of SIPs, which are live at the quarter end, they have touched almost 9.2 lakh, which is the ever highest, we used to be about 6.5 to 7 lakh sometime back. In terms of flows also there has been a growth of about 47%. Yes, direct plan is also one of the factors which is having an impact in terms of flows, especially in the HNI segment, which is where as Vijay mentioned, we are piloting with proposition based on direct plan for HNIs.

Vijay Chandok: Yes, but much of that number is not visible in this it will probably come in the future, it is a very recent introduction.

Harvinder Jaspal: One more element I want to add is that our new money app that is helping us acquire new to MF category customers so, there the number of customers that we used to get for mutual funds on a monthly basis that has registered a strong growth of about 30% to 40% from our earlier than money app run rates. So, some of these factors are helping in growth.

Vijay Chandok: And the second reason in addition to all these gross flows improvement and share improvement, SIP improvement, we have also been benefited by the market improvement, the AUM because of market growth. So, that also helps.

Vijay Karpe: Got that. I have one more last question. Sir, you talked about the MTF books growth and that was also related to the calls which we had given, somewhere close to 30 number of calls with a strike rate of 96%. So, how does this work, and how do we give calls which includes MTF inside them and is this allowed. Yes, that is my question.

Vishal Gulechha: There is no prohibition in giving such calls. Our research team gives individual stocks calls as well as MTF portfolio calls as part of their research recommendations. We are productizing that as well and in next couple of months, with a single click, customer will be able to execute a set of four, five stocks under MTF portfolio.

Harvinder Jaspal: So, Vijay if I may just add what Vishal was also trying to explain is that there is no one factor which has led to the growth and success of MTF. There are three, four contributing things which are additive with each other, they have come together to create an ecosystem where an investor is choosing this product proposition with us. The research is enabling, the product is fully automated and productized, the interest rates are attractive and all of these are coming together to create a unique proposition which is leading to acceptance and growth by our clients.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian. Please go ahead.

Kunal Shah: I had few questions. First question is, there has been a lot of chatter around the client addition member which has been dragged across the industry. So, just wanted to understand, how do you look at the cost of acquisition for the new customers from Tier-II, Tier-III cities or first-time customers. And the cost of acquisition and the lifetime value of the customer or how does the economies work, and how you guys look at it when you focus on acquiring this new customers?

Harvinder Jaspal: Cost of acquisition is not different in any meaningful manner for first time customers or for customers coming from tier II and tier III cities because our process for the entire company for all channels has become fully digital. Coming to the economics, he equation of CAC by LTV is a key monitorable for our industry and is important for us. At the company level for all channels including digital sourcing, branch sourcing, bank sourcing etc. combined pay back is around 12 to 13 months at a company level. After the 12 to 13 month, whatever revenue we get for lifetime is completely getting contributed to the bottom line. Coming specifically to the digital channel, as I explained earlier, every channel has different economic, customer personas and we are optimizing that. We are investing in the channels which have sustainable quality and trying to optimize channels which have less than sustainable quality. Even within the digital channels also we are seeing that on a month-on-month, the cost per acquisition is coming down and this is going to be our approach.

Kunal Shah: So, basically if I understand correctly, you saying that basically whenever a customer is acquired digitally, you have breakeven so to say of about 12 to 15 months, is that understanding correct?

Harvinder Jaspal: Let me clarify Kunal, our entire customer base right now is getting acquired digitally. Within that there is digital marketing related acquisitions and there will be customers getting acquired through our own branches, through ICICI Bank, through our partners and so on so forth. So, there are multitude of distribution channels which are helping us acquiring customers, if you take all of them together, we do have a break-even period in the range of about 12 to 13 months. Payback period for customers acquired through

Digital marketing would be higher but here also the cost per acquisition is coming down month-on-month as we are trying to optimize. The 12-to-13-month is at overall portfolio level not for digital marketing related acquisitions. .

Kunal Shah: Okay, fair enough. The second question was, the MTF book that has grown for us, any industry color as to how the book has grown for the industry or at a specific to us that we have been able to grow this MTF book, any color on that would also be appreciated.

Vishal Gulechha: As I stated earlier, we have grown year-on-year as far as number of MTF customers are concerned. We have shown growth in our MTF market share as well as number of customers. And today, our MTF market share stands at about 21.8% as compared to just 17% a year ago. So, this has shown a significant growth and that has happened because of the entire ecosystem and also fueled by the support given by market.

Kunal Shah: Okay. So, if I understand correctly, the market has also grown, whereas our market share has improved from 17% to 21% on a year-on-year basis?

Harvinder Jaspal: That's right.

Kunal Shah: Just one last question from my end, the client addition numbers have been very impressive, and congratulations on that part. But even industry for that matter has grown at a rapid pace. So, if you see the market share, I am referring to NSE active client market share, we are still somewhere around 8.5% in that range for quite some time. So, things have been working for us if you could elaborate, what all new initiatives are we taking to kind go to the next level now so that would also help to kind of gain market share now?

Vijay Chandok: I will go back to what I've been saying for a long time. Our request would be to not get too carried away with the NSE active number as the sole number for determining the strength and quality of franchise, that's over simplifying it. Having said that, we've reached the stage where on incremental market share, we are in the ballpark of around 12% in the month of September, when it comes to the new customer acquisition. So, we find that as Harvinder has been explaining, there are multiple channels which are giving you addition to the new customers that we are acquiring. Not all channels have got the same quality, there are some channels where the quality is really nice, and the numbers are much lower. And then there are others where the quality would be questionable as to whether it will sustain or not, but the numbers will be very large. We don't want to get into this whole number game without having any emphasis on quality of franchise. We are more fixated on stuff that you've been asking, which is quality, which is ARPUs, which is longevity, and factors like that. And today, we are yet to reach a stage where we have reached a stability on this. Given the fact that this whole journey is now about six quarters on the outer limit actually, realistically speaking it is four quarters after the scale up has started which started effectively in the December quarter of last year. Give us some more time before we stabilize. Philosophically, I can tell you we will be fixated on quality with growth, but if it comes to growth of numbers and headline items which all of you are tracking, we would not get too carried away with that headline number.

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

Sanketh Godha: Sir, largely the question is on MTF book again, because if you look at the interest income growth it has been 89%, but the financing cost, the interest cost has grown by 104%. And if I do a back calculation, the margin on MTF book which was upwards of 3.5%, maybe four quarters back it has come down to 2.2%. So, do you believe these MTF margins will further come down or they have bottom at 2.2% kind of level, just wanted to understand the thinking here.

Harvinder Jaspal: Let me start by giving a brief rundown of the balance sheet, on the liability side you have borrowing and on the asset side you have MTF as well as you have cash and cash equivalent which is FDs which are created for margins. Therefore, the 104% is not directly related to only MTF, point number one. Point number two, the NIMs are in the same range of about 4%, because in your computation, you would have probably taken the entire interest expense cost but in terms of interest income, you might have taken interest income only of MTF. So, the right way probably to do it would be MTF plus ESOP, plus FD interest income minus the total interest expense, that would be appropriate. So, there if you do these calculation, and maybe I can take that offline also with you it's about 4% which is the range that we have always been guiding.

Sanketh Godha: Okay. Sir, so in simple words there is no pressure in margins with respect to MTF book then?

Harvinder Jaspal: Yes.

Vijay Chandok: Again Sanketh, I'll just step in clarify, we are not fixated on single product, if it means that I have to compromise on margins in future, you can be assured that we will do that. We will remain competitive; we will remain cutting edge and we will keep sharpening ourselves and innovate to remain relevant.

Harvinder Jaspal: MTF as a proposition the way Vishal explained at length is helping us acquire customers as well. So, this is not just diversification, but it is a unique proposition which is helping us acquire customers as well. The MTF customer might be giving us brokerage revenue, he might be giving us margin, we look at ARPU kind of a relationship value and not at a product level. Also, that customer because he is like a MTF customer, is of quite high quality, he will dabble into MF, insurance, assets, etc.

Sanketh Godha: Great, that clears my doubt. And second my question is more on OPEX. So, if I look at the other expenses, I see a very strong growth in second quarter and then also wanted to understand the employee growth, employee cost trajectory going ahead, because if I look at cost to income ratio it is now plateauing or settling around 45% odd. So, just wanted to understand are there levers left over to substantially improve beyond 45. And just wanted to understand the other expense growth, what led to that kind of a growth basically?

Harvinder Jaspal: So, Sanketh I will take the second question first, if you refer to the presentation that we made at the digital day, we have taken a guidance of about trying to reach less than 40% in the next couple of years. So, we do believe that there is operating leverage scope, I would not qualify to say whether it is by reduction of expenses or improvement of top line. We are definitely investing, the growth in other expenses is due to two elements which we have called out as investment areas, one is the tech expense and second is the marketing expense. Both these areas we are investing, these two you should see an expansion. So, overall OPEX, we will go for more variable, that is the direction number one, number two, other than marketing & technology, control of the fixed cost or at least optimization of fixed cost, number three, cost to income ratio of 45% tending to 40% over a couple of years.

Vijay Chandok: I will add that we are in investment mode right now. We are adding customers which is front loading costs. We are adding technology; we are adding people with specific skills which will help again get amplification effect in the times forward. So, we are not shying away from making these investments where there could be front loading. So, while Harvinder mentioned the guidance of about 40% more in the medium term. In the short term, there could be an expansion of these margins before the gains starts flowing in. We are pretty optimistic that the revenue flows which will come from some of the products like loans, insurance are still in a very, very early stage. So, all of this can make a big difference to the breakeven dynamics in the next few quarters.

Sanketh Godha: Got it. And then finally, if you can break down that mutual fund AUM growth broken down into price movement and the net fresh money, not the gross money, the net fresh money, so the 37% growth what you're seeing year-on-year or 10% sequential growth. So, just wanted to understand this is completely driven by the current market growth or market performance, or we are seeing net new money also substantially flowing into our distribution?

Harvinder Jaspal: It's a combination of both market growth as well as net new money, definitely a higher proportion would be the market related growth. One more thing that has happened is that yields have improved a bit because of a better mix of equity and debt for our mutual fund income. So, the gross flow which we have already said that actually our market share has gone up, on an overall basis. If you ask me or push me for a number I'd say maybe 80:20 could be the attribution factor to mark-to-market.

Vijay Chandok: Sanketh, I will just add one more thing, we are quite encouraged with the fabric of this growth because the growth has come through granular means. Net growth is not as good as the gross growth because we are seeing a little bit of HNI lumpy migration towards direct plan. So, obviously the granularity is more difficult to grow, which is fortunately showing good growth and you've seen about 60 basis point improvement in SIP market share, which augurs well from a slightly medium-term perspective. Clearly the gains that will come through granular growth, comes with a little passage of time which will offset the HNI lumpy decline, which in any case we have absorbed and we will continue to absorb it through a direct plan and get revenue through non-mutual fund sources. For which we described that the pilot is on.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Just a couple, firstly a clarification on the MTF book again. So, when you mentioned that wealth business also there is an MTF that is completely separate from the MTF numbers that you mentioned from the retail book, just a clarification there?

Harvinder Jaspal: The wealth revenue and asset is the subset of the respective product lines, it is subsumed in that. For the 61,000 odd clients, that individually have assets of more than 1 crore, which we call as our wealth franchise, whatever activity that they do, we aggregate that and that is the revenue that you see under the wealth franchise. If they're doing MTF, that will be under wealth and aggregated under the overall MTF bucket as well. It will be a customer facing cut of our top 61,000 clients.

Prayesh Jain: Okay. So, when you mentioned MTF book it's a combine of all the customers?

Harvinder Jaspal: Yes, it's a company level MTF book.

Prayesh Jain: Okay, got that. And second, just a view on the institutional brokerage business, are we losing market share there and what's the outlook there?

Harvinder Jaspal: Institutional brokerage business, the market share has been flattish. For the month of September, it has grown handsomely, for July and August, there was a bit of a decline on account of global index rebalancing, which is an event where we lost the market share.

Prayesh Jain: Okay. And lastly, on the employee cost front, do you see the employee cost to income ratio rising from the current levels in the next couple of quarters and then possibly the benefits of operating leverage coming in?

Harvinder Jaspal: It's possible Prayesh, so right now you're looking at 20%, if you refer our earlier conversations, I have guided for maybe a 2% or 3% point expansion. We are investing some of the areas in technology, data analytics, digital marketing, these are some places where we are making people based, skill-based investments. It is possible, although for the last two, three quarters it has been in the range of 20%, 21% but as a guidance I would still consider maybe a 200-basis point expansion possible.

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

Aditya Jain: When on the direct mutual funds for HNIs, could you talk about how it will work, will it be part of some subscription that will be offered to them or on their platform when they log in they will automatically get direct mutual funds?

Vijay Chandok: It is being piloted and made available only to the pre-identified list in two ways, one is on login and on access through RM and there is no subscription fee, it is free.

Harvinder Jaspal: So, the idea is that these HNI client have a preference towards direct plan which they are anyways doing themselves, those AUMs or assets are not coming to us anyways.

Vijay Chandok: Actually most of these are targeted customers who are residually left with very small exposure and they are sitting with multi 10s of crores of rupees outside, we are trying to win them back. These are not small numbers like the customers we are targeting are sitting on portfolios of north of 10s of crores.

Aditya Jain: Got it, understood. Then on the increase in Neo subs, it's been fairly gradual. 100,000 you mentioned the last call to 145000 now. How can we see this change going forward, is the uptake low because just less demand for that product or is it still not a full quarter of clean onboarding journey?

Vishal Gulechha: NEO is a product for the traders, mainly derivatives traders and also equity intraday traders, whereas, for cash customers, we have Prime. Prime is multiple times of Neo and this ratio will always be high because, even in market number of cash customers are much higher than the trading customers. We are focusing a lot on the new acquisition and we want to increase contribution coming from these set of customers we have seen some amount of success in Q2. Almost 30% of the NEO customers are coming from the newly acquired customers and we would want to augment this contribution going forward also. At the same time, we remain very focused on activating our dormant set of customers which we acquired in earlier years. Every such new proposition launch gives us an opportunity to reach back to those set of customers and activating them.

Aditya Jain: Got it, understood. And then on Slide #14, so you commented earlier that cash market share is improving but derivative is yet to see a traction, but if I see slide #14 in September, we've had the phase four come in and yet I see market share improve in both equity and derivative. So, just trying to reconcile that with your statement earlier. It sounds like market share is improving even despite new norms fully going in, is that the right trading?

Vijay Chandok: If you recollect, when we had the new margin norms kicked in last December, we had a big impact in the first phase. And thereafter we said that with every passing phase, the impact will be less and eventually we expected that by the third phase we would have no impact, which is what happened. So, first phase, we had the maximum impact because we provided the highest level of leverage through our platform given our risk management capabilities. The salience of the platform enabled us to take larger risk positions with customers and that is something that got impacted because of the new margin norms. By the end of the second phase, the differential advantage that we had enjoyed got completely nullified. And therefore, from third and fourth phase, it was business as usual because everyone got impacted and there was no differential impact, negative or positive. The numbers that you see on Slide #14, I will remind you once again, it's a combined number and not only retail. If you dissect it, retail has shown a growth in equity and when you dissect derivative, we've not seen a similar trend in the derivative side. As I explained in one of the earlier questions that was asked, derivatives still a lot of work to do. I hope that clarifies.

Aditya Jain: Definitely. And then on the HSBC, Federal partnerships, is it like ICICI in the sense we don't get access to free float or does it work differently?

Vijay Chandok: Absolutely the same Aditya.

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

Manish Poddar: Sir, just one question then. Just on this loan dispersed the 690 odd crores. So, what all other products can be launched under our ambit, or is there a plan let say in the next 12, 18 months to launch other products alongside?

Vijay Chandok: Yes, we have fairly detailed action plan on the loan side. The biggest flagship product is home loan. Apart from that, there are about 11 other loans that we are introducing, which includes personal loans, credit cards, car loans, and so on and so forth. It is coming on through our app called the Money App. We should be beta testing it shortly and coming out with that completely integrated. We had also done a detailed segmentation of our total base with respect to what is the loans that has been taken through our company and what are the loans which are taken outside our company and mapped with CIBIL scores of these customers. There is a massive opportunity to reach out to the customers for balance transfers and so on and so forth and we'll be doing all of that. The opportunity is not small.

Manish Poddar: And just to understand it, so you would be reaching out, let say the mode of acquisition will largely be digital, or will you have let's say a sales force lead which will go across to probably push across the products?

Vijay Chandok: We already have a sale force lead, which we are actually digitizing right now. The 690 crores has got a fair amount of physicality to it. In a quarter or so from today, you will see a lot more phygitality rather than physicality and over a period of time you will see a lot more digitality. Because even today, as we speak loan is still a physical/ phygital process at best. There are only loans like personal loans which have got a complete digital capability, maybe credit cards as well. But apart from that, when it comes to car loans, home loans, various other loans, loans against property, etc., that you provide to self-employed businesses, there is at best, phygitality to it. So, from physical mode, we will be moving in a quarter to a phygital mode and eventually to digital mode in the products which are digitizable.

Moderator: Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment. Please go ahead.

Kashyap Javeri: One question more on the industry point of view. If I look at us today, we have what Rs.5.1 trillion of assets within client accounts, and which would on active client basis will be equivalent to about 2 million per client. On the broking side, if I look at, our ADTO per client, is significantly even lower than what we used to do earlier, might be to do with the margin norms or the new norms which have kicked in. If I look at some of our competitors, their clients are not so wealthy and yet we see ADTO rising quarter-after-quarter from the industry point of view being an insider, do you see this as one of the key risk over here that it's probably that the clients who are not so comfortable in terms of the net-worth are getting into something that they don't properly understand properly?

Harvinder Jaspal: Two broad comments on this observation of yours, one is structure of ADTO for the industry, let me just maybe give you a lowdown. One is that, out of the entire ADTO roughly about 99% of that ADTO belongs to the F&O segment, about 1% of the ADTO belongs to the cash or equity segment.

Kashyap Javeri: Which in a way is worse, I understand what you're saying but in a way, this is worse than what it used to be, at 95% this would be worse than probably derivatives being at probably 50%. 70%?

Harvinder Jaspal: So, within this 99%, again, about 97% of the volume is by options. And in options, the notional value is called turnover. So, that ADTO growth can just be the option turnover. So, it may not be really reflective of the underlying growth of the number of transactions activity. That is why we say that holistically if you look at a couple of things, total assets, total trading activity, revenues, ARPU, you will get a fair idea instead of talking about ADTO as a single metric or NSE active as a single metric. Single metric in isolation has some of these pitfalls.

Kashyap Javeri: And sir, at the end of the day if I'm writing an option, it's as good as a leverage position, it doesn't matter if it's only the contract that I'm including or the contract value that I am including?

Vishal Gulechha: Yes, when we look at the retail space the large contribution in derivatives is in form of buying option. Of course, the selling is also there, but once the peak margin norms kicked in, we see that retail customers are more buyers than sellers. Selling on the other side, is done by Prop traders, the institutional investors, big HNIs, etc. So, this is how the market construct is.

Kashyap Javeri: Okay. And one last clarification, in your wealth management revenue the transactional and recurring, any part of it is included in the other line items like brokerage and distribution and others?

Harvinder Jaspal: Yes, all the parts are included, for example brokerage of a wealth client plus mutual fund income of a wealth client, plus a loan distribution come from a wealth client, all that put together is this number of 232 crores that we have shown. What I was trying to explain earlier is that, we have tried to give you a sense of what level of activity and level of assets the 61,000 wealth customer have done with us. So, at the top end of the pyramid how we have been able to engage this disclosure is about that.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Chandok for closing comments.

Vijay Chandok: Thank you so much, for a very engaging discussion. In case there are a few of the listeners who had some questions which has not yet completed, please feel free to reach out to us separately and we will do our best to answer and respond to all your queries and questions. Take care and have a good evening and a wonderful rest of the week.

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