

ICICI SECURITIES LIMITED

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

January 18, 2022

Operator remarks

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

We have with us today on the call Mr. Vijay Chandok - Managing Director and Chief Executive Officer, Mr. Ajay Saraf - Executive Director, Mr. Harvinder Jaspal - Chief Financial Officer, Mr. Vishal Gulechha - Head Retail Equities, Mr. Kedar Deshpande - Head Retail Distribution, Product & Services Group, Mr. Anupam Guha - Head Private Wealth Management, Mr. Subhash Kelkar - Chief Technology & Digital Officer, Mr. Ketan Karkhanis - Head Digital Client Acquisition & Co-head New Solutions Group, Mr. Prasannan Keshavan - Head Operations and Mr. Nilotpal Gupta - Head, Data Science Unit.

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

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

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

Mr. Vijay Chandok

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

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

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

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

With regards to investments into various financial products like mutual fund, etc.,

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

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

On the regulatory front some of the noteworthy developments were:

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

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

During the quarter, our client additions remained strong with additions during the current quarter almost similar to those of the whole of last financial year. While the digital transformation has helped us gain the scale of younger clients with 68% of new clients coming in at an age of 30 or below and over 87% of new clients coming from tier-II and tier-III cities, we are keeping an eye on the quality and do realise that these clients may not have the same monetisation capability initially as our other channels which have access to more affluent base. However, gradually we have been able to

build revenue scale of digital channel and now the monthly burn has become negligible on account of direct marketing cost, and includes only some indirect costs. Our focus here is on improving the digital marketing efforts so as to continue to improve the client mix and profile.

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

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

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

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

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

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

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

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