

"Earnings Conference Call – Quarter and Half Year ended September 30, 2018 (Q2 & H1 - FY2019)"

October 19, 2018

MANAGEMENT: Ms. SHILPA KUMAR - MANAGING DIRECTOR & CHIEF

EXECUTIVE **O**FFICER

Mr. Harvinder Jaspal - Chief Financial Officer



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.

Moderator:

Ladies and gentlemen, good evening and welcome to the earnings conference call of ICICI Securities Limited for the quarter and half year ended September 30, 2018. We have with us today on the call, Ms. Shilpa Kumar, Managing Director and Chief Executive Officer and Mr. Harvinder Jaspal, Chief Financial Officer. 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 the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Ms. Shilpa Kumar for her opening remarks. Thank you and over to you Madam!

Shilpa Kumar:

Good evening and best wishes of the season. I appreciate your taking the time for the call today especially it being a festive day and a long weekend. Let me now talk to you through our performance for this quarter and half year ended September 30, 2018.



Before we talk about the performance of the Company, let's take a brief look at the environment in H1-FY2019 which has changed significantly when compared to last fiscal.

As we entered in Q2-FY2019, the macro-economic environment turned adverse with concerns arising from global trade wars, Fed rate hikes and rising crude oil prices. These accompanied by falling rupee, rising inflation and liquidity issues in certain sectors like NBFC adversely impacted the flows into financial markets and performance of the equity markets in particular, leading to stock markets tumbling at the end of Q2-FY2019.

FIIs were net sellers in H1-FY2019 with a net outflow of over ₹ 280 billion compensated by inflow from DIIs of over ₹ 570 billion.

Mutual funds had assets under management of ₹ 22.1 trillion as on September 30, 2018, up by 8% on a Y-o-Y basis from ₹ 20.4 trillion as on September 30, 2017.

Primary market remained subdued in H1-FY2018. There was a 68% Y-o-Y decline in equity raising by Indian companies through IPOs/InvIT, QIPs/IPPs, offer for sale and rights issues from ₹ 817 billion in H1-FY2018 to ₹ 259 billion in H1-FY2019.

Turning now to company performance, we continued to stay focused on our philosophy of leveraging our technology edge, client acquisition and activation and diversifying our revenue streams despite the muted market conditions.

Our Company registered growth in Revenues for H1-FY2019 with our consolidated revenue growing by 4% Y-o-Y from ₹ 8,567



million to ₹ 8,940 million and with Profit after tax (PAT) growing by 8% Y-o-Y from ₹ 2,485 million to ₹ 2,680 million despite muted market conditions.

For H1-FY2019, our company registered revenue growth led primarily by distribution revenues growing by 18% and brokerage and related revenues growing by 5% while corporate finance revenues declined by 17%. Decline in corporate finance business was mainly on account of high revenue base last fiscal, during which three large deals were managed by the company.

We were able to contain our costs. Our total cost was ₹ 4,837 million in H1-FY2019, a growth of 2% from ₹ 4,758 million in H1-FY2018. Our cost to income ratio was 54% in H1-FY2019 as compared to 56% in H1-2018.

Our Return on Equity (RoE) was ~ 59% (annualized).

Let me now turn to some of the business highlights in brief. In our broking business, our blended market share improved from 8.8% in H1-FY2018 to 8.9% in H1-FY2019. The ADTO (ex-prop) was up by 58% compared to market growth of 57% Y-o-Y. This was led by growth in the average daily derivative volumes which were up by 60% Y-o-Y which was in line to market growth of 60% on a Y-o-Y basis. The average daily equity volumes up by 16% Y-o-Y compared to market growth of 11%. The company outperformed the market in terms of volumes in the equity segment.

In line with our strategy to focus on client acquisition and activation, we were able to add \sim 2.2 lakh new clients in H1-



FY2019 and our active clients on NSE grew by 22% from 6.9 lakh clients in H1-FY2018 to 8.4 lakh clients in H1-FY2019.

Total brokerage revenue excluding interest income, which contributed to 53% of our revenues in H1-FY2019, increased marginally against same period last year from ₹ 4,751 million to ₹ 4,771 million with retail forming 88% of total revenue. Brokerage revenue from retail clients stayed almost flat at ₹ 4,218 million in H1-FY2019, compared to ₹ 4,230 million in H1-FY2018.

Interest income from our brokerage business has grown by 34% from ₹ 674 million in H1-FY2018 to ₹ 904 million in H1-FY2019 primarily on account of growth in MTF book and margin funds deployed with exchanges.

Brokerage revenue from institutional clients was ₹ 553 million in H1-FY2019, a growth of 6% from ₹ 521 million in H1-FY2018.

Turning to the distribution business, revenue of our distribution business grew by 18% Y-o-Y from ₹ 2,069 million in H1-FY2018 to ₹ 2,440 million in H1-FY2019 and contribution in total revenues have increased to 27% in H1-FY2019 from 24% in H1-FY2018.

We were the second largest non-bank mutual fund distributor by revenues in the country for fiscal 2018. Structurally our AUM comprises majority contribution from equity which has higher yields. Our Mutual Fund average AUM was ₹ 347 billion in H1-FY2019, a growth of 25% from ₹ 278 billion in H1-FY2018 compared to the market AUM (average) growth of 18% on a Y-o-



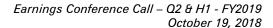
Y basis. Our Mutual Fund revenue was ₹ 1,504 million in H1-FY2019, a growth of 23% from ₹ 1,225 million in H1-FY2018.

Further our strategy of focusing on SIPs as a means to have a sticky annuity income stream has resulted in growing count of MF SIP and stable inflows into SIPs compared to last year. There is a 35% Y-o-Y growth in SIPs triggered in the last month of the period from 0.5 million in H1-FY2018 to 0.7 million in H1-FY2019.

On the regulatory front, SEBI has asked fund houses to follow alltrail model to compensate their distributors and announced a reduction in total expense ratio charged by the mutual funds. This would result in adverse impact on the mutual fund revenues of the Company. The implementation of the proposed changes is subject to gazette notification.

Our Life Insurance revenue was ₹ 210 million in H1-FY2019, a growth of 18% from ₹ 178 million in H1-FY2018.

Turning to investment banking, our Investment Banking revenue was ₹ 606 million in H1-FY2019, a decline of 17% from ₹ 729 million in H1-FY2018 as the equity capital market activities declined significantly. Further, there was a base effect of handling three large equity & InvIT deals in H1-FY2018. The company handled a number of Investment banking transactions in H1-FY2019 which included IPOs, InvIT, OFS and advisory deals. Our focus on scaling up advisory business helped us in reducing the impact of decline in the equity capital market activities.





In summary, we have been able to perform well in spite of the muted market conditions. We are focused on scaling up nascent parts of our businesses and taking them to their full potential. We remain focused on our key strategic priorities leveraging our strengths in identifying and tapping the significant opportunities facing our businesses.

Thank you and we are now open for any questions that you may have.

Moderator:

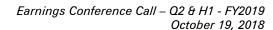
Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nilesh Shetty from Quantum Mutual Fund. Please go ahead.

Nilesh Shetty:

The question is regarding the SEBI notification on completely moving to trail commissions, could you tell us what is the mix right now of the mutual fund commission between upfront commissions and trail commissions in your revenue mix?

Shilpa Kumar:

We have traditionally tried to focus substantially on trail commissions, and because of that we anticipate that though there will be an impact of the SEBI circular, but it will not be as high as you might see it for some other players. Now the extent to which it affects us is a bit work in progress because it is an ongoing discussion that it is happening between mutual funds and distributors. While right now it will be difficult to put a number to, all I can say is as commissions go down, for us as a digital house, the opportunity is to use our digital footprint to keep expanding the market. So we are going to stay fully focused on that front.





Nilesh Shetty:

So just to gauge the impact of that whenever the move is implemented, I am just trying to gauge what is your sense of how much the number could change because of that?

Shilpa Kumar:

In a sense one could do the math at a broad level for the industry as a whole. But for someone like us who had a substantial focus on trail income rather than upfront income, the impact would be less than the general impact in the industry.

Nilesh Shetty:

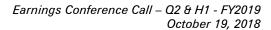
Okay and some very large players have moved to a completely advisory model and sort of charging customers and going completely direct, is that something you have thought of in terms of as a business model?

Shilpa Kumar:

Yes, we certainly look at all kinds of options, not just because of the pressure of SEBI regulation, we always look at these options from point of view of what is it that customers want, and these wants can be different for different people. So there are some clients who would want advise along with option to go direct and that is certainly something which one would look at. There are equally other customers who also want a broader sense of research and advise and handholding from us and for those customers we would actually have a different model. So in short all of this is very much on the drawing table and the biggest thing is opportunity is large. We are a digital player and it's for us to really cease the opportunity, whichever way one participate in the market.

Nilesh Shetty:

Okay and just a data point because you technically stopped reporting that – so what would be life insurance premium in this





quarter of the distribution income or income from selling life insurance? Q1 I think it was about 87 million.

Harvinder Jaspal: In life insurance, at an overall premium level, we had a growth of 5%, H1 over H1. We have not put out the premium number. Last quarter number what you are quoting is not the premium number but income from life insurance distribution.

Nilesh Shetty: The income from distribution of life insurance was about?

Harvinder Jaspal: It was ₹ 210 million for H1-FY2019 compared to ₹ 178 million for the same period last year, so there is a growth of 18% in this income.

Nilesh Shetty: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Kishore Kumar

from Unifi Capital. Please go ahead.

Kishore Kumar: Thank you for the opportunity. Madam, I just want to get a sense

of the entire year how do you look at FY2019 panning out,

because if you look at Q2 we see that the revenues were slightly

higher at 5% on a quarter-on-quarter basis and overall it is a kind of flattish, but if you slice and dice and see in September how

was the quarter on a monthly basis, how bad was September

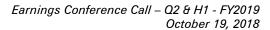
compared to last year September, I am just asking this to get a

sense as to how the entire year will look like if the current market

conditions were to kind of sustain?

Shilpa Kumar: If you look at current market condition – whether it is April or

September, the fact remains that the sentiment has been under





pressure. It is just that probably in September we had a little bit more volatility. So if you look at the market conditions in first half of current fiscal and how we performed, that should give you some sense of how we are responding to conditions such as these. I guess at this stage on the broking front at least, that is what I would like to say, but if I move onto the distribution part, I think the interesting thing over here is not just a contribution of our mutual fund income and the growth in mutual funds AUM, but also the point that as the opportunity presented itself and clients had interest, we were easily able to leverage our distribution for other products as well for example bond issues that happened which we participated in or even the sovereign gold bond which actually ended today. These are some of the different products, which we were able to work with customers, even in times of muted equity conditions.

Kishore Kumar: Right. Madam, and any comments in the slight decline in market share, which you got to see on Q-on-Q basis from 9.2 you have moved to 8.6, would you like to comment on that?

Shilpa Kumar:

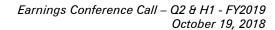
Moderator:

Broadly of course from quarter to quarter there are changes that happen, I think in the big scheme of things – we would kind of look to stay around this range.

Kishore Kumar: Right madam. Thank you madam.

Thank you. The next question is from the line of Rahul Sharma,

Individual Investor. Please go ahead.





Rahul Sharma: Good evening madam. The one question, which I have, is what is

the size of our MTF book currently?

Harvinder Jaspal: The average book ranges from ₹ 500 to ₹ 600 Crores.

Rahul Sharma: And what are the interest incomes on this book?

Harvinder Jaspal: Our rack rate of interest that we charge is about 18%, though the

average rate could be slightly lower and we borrow through

Commercial Paper; the interest income for the first half that we

have generated is about ₹ 40 Crores.

Rahul Sharma: Sorry Sir.

Harvinder Jaspal: ₹ 40 Crores.

Rahul Sharma: ₹ 40 Crores got it. Sir based on the CP market, which is based on

the liquidity conditions in the CP market currently; do we see

pressure on being able to raise funds to be able to fund this

margin funding book?

Shilpa Kumar: Not really. First of all, ICICI Securities is a part of the ICICI group.

Secondly, there could be implications in terms of cost, but the

way we operate is when there is an increase in cost, beyond a

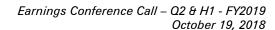
certain band, we would pass that on to our customers, as the rest

of the market also does, and in addition to that, we would also

have bank limits which would support us at times indeed if there

was pressure on the CP market.

Rahul Sharma: Got it. Thank you.





Moderator: Thank you. The next question is from the line of Tanubhav

Vasisht from Sharekhan Limited. Please go ahead.

Tanubhav Vasisht: Good evening. Thank you for taking my questions. My question

is pertaining to the blended yields, we have observed that over the years the blended yield has dropped the consistency, I believe it was around 1.1 at the end of FY2018, so the investor

size and model adopted by the Discount Brokers, do we see

further scope for the blended yields going down and do we have

any plans to tackle that?

Shilpa Kumar: Blended yield might not actually provide a holistic picture

because it does not take into account the product mix. So in any

market where derivatives are higher or non-delivery volumes are

higher, it would look like the yields are under tremendous

pressure. The market we have seen in the last six months, is a

market in which investors or the delivery taking customers has

become a smaller proportion of the mix relatively to the other,

and therefore while our equity yields would have remained the

same, the mix is what has influenced the number that you here

talking about.

Tanubhav Vasisht: All right, Thank you.

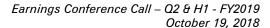
Moderator: Thank you. The next question is from the line of Sneha Ganatra

from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Madam, wanted to know firstly that on Q-on-Q basis, our market

share has declined and this is because of the current market

scenario, what is the outlook for the second half, how do you see



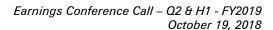


your market share gaining and any chance to increase the new product lines or new products or something?

Shilpa Kumar:

You are right about the quarter on quarter point. Like I said a bit earlier, broadly we are focused on staying in the market share range that we have, which would be tending towards 9%. From time to time, there are aberrations in the market, which can influence one quarter and another but broadly we are focused on retaining market share. Having said that what I would like to really point your attention to our customer acquisition, where we are still continuing to add new customers. We have added 2.2 lakh new customers in the first half of FY2019 talking overall operational accounts to 4.2 million. If you look at NSE active customers, which is a good objective way of looking at our active customers, has shown a 22% growth. So the way we work is, even in conditions like this when there is pressure in the market, we stay focused on customer acquisition, customer engagement, and with that, I will turn to the second part of your question, which is certainly we are looking at various different products, which we will keep rolling out over the next few months, to stay engaged with customers and when I say stay engaged, it means using our insights of what a customer wants, to actually deliver the kind of product that we roll out, so that is something, which we are fully focused on.

Sneha Ganatra: Okay and my second question is on the cost to income, a trajectory of 56 doing a IPO targeting of about 55 to 54 range so are we on track on that trajectory?





Shilpa Kumar:

The first thing is we have not really guided on the cost to income ratio, but certainly to keep that at a good level and to improve that is always the objective. If you look at our revenues for first half, we have grown at 4%, if you look at our cost, we have grown at 2% and with that we have actually shown a 2 percentage point improvement in our cost to income ratio.

Sneha Ganatra: Okay. Got it. Thank you.

Moderator: Thank you. The next question is from the line of Rohit Shimpi

from SBI Mutual Fund. Please go ahead.

Rohit Shimpi: Hi madam. Hi Harvinder. Thanks for taking the question. I just

wanted to check within our wealth management or third party

distribution do we have a significant chunk of considering how

the real estate sector has been under some stress or at least

passive stress recently, is there a significant concentration of

wealth management products being backed by let us say real

estate entities or other structure? Thanks.

Shilpa Kumar: Significant - no, in fact in the last year, we have actually not

focused on this at all. So in our asset allocation model, there was

very reduced kind of emphasis on these products, but some

historical allocation would be there, but no significant allocation.

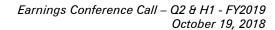
Rohit Shimpi: Okay. Do you perceive any reputational things out of these kinds

of products or any thoughts on that?

Shilpa Kumar: It really depends on how this has been approached with clients,

so that's really for every industry participant to kind of look at, so

it really will depend on case to case for different products.





Rohit Shimpi: Okay. Thank you so much for this.

Moderator: Thank you. The next question is from the line of Madhukar

Laddha from HDFC Securities. Please go ahead.

Madhukar Laddha: Hi, good evening every one. Thank you for the opportunity. I

wanted to get a sense of how much of the yield decline is as a

result of pricing and how much is it as a result of mix? Can we

quantify that?

Shilpa Kumar: Yes, so we are not going to be able to quantify it, but certainly it

is largely on account of mix.

Madhukar Laddha: Okay. Any sort of range?

Harvinder Jaspal: Hi Madhukar, structurally in the market overall - there is a mix

impact happening and Shilpa did refer to what has been the trend

on the blended yields and what had been the main contributors

primarily driven by mix in the way the derivatives have been and

whether that metric on a blended basis is right way to look at it.

Our value proposition led approach has always been there, so for

us it is led by mix in a substantial manner rather than pricing.

Madhukar Laddha: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Rahul Sharma,

an Individual Investor. Please go ahead.

Rahul Sharma: Sir, can you help me with the exact life insurance premiums,

which have been sold by ISEC this quarter?



Harvinder Jaspal: As I said, income we had already discussed earlier. In terms of

the life insurance premium, I mentioned that we had listed a total

growth of about 5%. Here also a mix of the initial and renewal

plays a part. Because of the mix the yields are slightly better off

because of which the income has grown at about 18%, whereas

the premium growth has been around 5%. We did not put out the

premium numbers per se Rahul, but this would give you a sense.

Rahul Sharma: Got it, Sir I mean in Q1 FY2019 the number was reversed in which

the life insurance premiums, I mean the yields were compressed

in FY2018, so what is the reason for the same?

Shilpa Kumar: Yes, actually at that time there were some regulatory changes as

well, so that contributed to compressing yields as well as

degrowth in that business. I think once that is out of the way, we

have actually gone back to the growth rate that we normally

exhibit.

Rahul Sharma: So is this the steady state yield on the life insurance product?

Harvinder Jaspal: See what happens Rahul in life insurance is that there will be an

impact of the book, the renewal book versus the initial book, the

rates could be different. Over a period of time, obviously the mix

changes slowly, so over a longer period of time, it would kind of

change gradually but the bigger impact what Shilpa just alluded

to that is now sitting in the base and therefore on a quarter on

quarter, you would see that it would be similar.

Rahul Sharma: Got it. Thanks.



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Moderator: Thank you. As there are no further questions, I now hand the

conference over to the management for their closing comments.

Shilpa Kumar: Thank you everybody for joining us on this call. Good night.

Moderator: Thank you very much. Ladies and gentlemen on behalf of ICICI

Securities that concludes this conference call for today. Thank

you for joining us. You may now disconnect your lines.