

October 28, 2021

The Manager, Listing Department, The National Stock Exchange of India Ltd., Exchange Plaza, 5 Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. Tel No.: 2659 8235 NSE Symbol: IIFLSEC	The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai 400 001. Tel no.: 22721233 BSE Scrip Code: 542773
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Dear Sir/Madam,

Sub: - Earnings conference call transcript

Please find attached herewith transcript of the earnings call held on Thursday, October 21, 2021. The same is also made available on the website of the Company i.e. www.iiflsecurities.com

Kindly take the same on record and oblige.

Thanking You,

Yours faithfully,

For **IIFL Securities Limited**



**Meghal Shah
Company Secretary**

IIFL Securities Limited

Corporate Identity Number: **L99999MH1996PLC132983**

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“IIFL Securities Q2 FY-22 Earnings Conference Call”

October 21, 2021

**MANAGEMENT: MR. R. VENKATARAMAN – CHAIRMAN AND
MANAGING DIRECTOR OF IIFL SECURITIES
MR. RONAK GANDHI – CFO, IIFL SECURITIES
MR. ANUP VARGHESE – INVESTOR RELATIONS**

Moderator: Ladies and gentlemen good day and welcome to IIFL Securities Q2 FY22 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 now hand the conference over to the management. Over to you sir.

R. Venkataraman: Thank you and good evening, friends. This is R. Venkataraman. I am the Managing Director and along with me are Ronak Gandhi, who's our CFO and Anup Varghese, who looks after Investor Relations. Thank you for joining for the second quarter FY22 analysts call for IIFL Securities. I also take this opportunity to pray and hope that all your near and dear ones continue to remain safe.

The Indian economy is seeing a swift recovery from the impact of the second wave. We are well placed on the path of recovery, thanks to the rapid vaccination rollout. I think today we completed 100 crores vaccinations. This has enabled our economy to navigate or the second wave of COVID-19 quite successfully. Our industry which is broking has also got a boost due to digitization and the fact that many people from Tier I, II and Tier III locations also get into trading activity and investing activities. This makes me believe that potential for growth for our sector is quite huge. Our markets are also currently in a bull market and every day we expect the ever-elusive correction on the anvil. Liquidity continues to remain strong with participation from all kinds of investors, including foreign, local mutual fund, insurance and last but not the least retail investors and family offices.

As I have articulated our strategy in the past also it continues to remain the same. Our strategy continues to be built on research, technology and talent. We have an edge in capital markets because of our research and understanding of economy and corporates and markets and that helps our business lines directly because all our business lines are focused around the capital markets. We continue to scale up our efforts to acquire customers and aim to give them a better and holistic trading experience.

As you are aware we have broadly three revenue streams; retail, which targets mass market tech savvy customers and we not only offer them broking but also other products like mutual funds, insurance, PMS, AI, etc. on the open architecture model. The other line of business is of course institutional broking. We have the port of call for most investors, thanks to our extremely strong research credentials. We are one of leading domestic institutional brokers and third is investment banking, where again we are focused more on equity capital market, IQ and QIP. In this segment we are uniquely placed because we have another few bankers on street who can fill three buckets of the IPO construct, retail, institution and HNI segment on the strength of our own distribution capabilities.

Now coming to our results for the September quarter; consolidated revenues for the quarter was Rs.318 crores, up 46% year-on-year and up 19% quarter-on-quarter basis. Let us first look at the

numbers on the year-on-year basis; brokerage income has increased 32% on a year-on-year basis, Rs.143 crores versus Rs.108 crores. That is primarily driven by increase in trading activity and rise in our average daily turnover. I'll talk more about that in the later part of my talk. Investment banking again has increased sharply by over 100% to hit Rs.28 crores for this quarter against Rs.12 crores for the last year same quarter. And distribution income which is financial product distribution income, again grown 37% on a year-on-year basis. We are roughly doing a run rate of about Rs.50 crores this quarter and primarily because of higher product sale. If you look at the quarter-on-quarter numbers then brokerage income has increased 10%, Rs.142 cr versus Rs.130 cr, investment banking has increased 22% quarter-on-quarter basis, Rs.29 crores versus Rs.23 crores in the previous quarter of the same year and financial products distribution income is more or less flat at same Rs.50 crores range for the last two quarters. Other income at Rs.20 crores, Rs.19.39 cross to be precise was up 11% on a quarter-on-quarter basis and 19% on year-on-year basis primarily to interest and treasury income.

Coming to the expenses part of it; our employee expenses are up 14% quarter-on-quarter and 57% on a year-on-year basis. That has primarily been driven by increase in headcount as well as increments as well as performance linked variable pay. If you look at our employee count, the employee count was 2376 in this quarter. In the last quarter it was 2136 and the same last year was 1958. Our finance cost was up 127% on the quarter-on-quarter basis, 123% on a year-on-year basis to 30 crores primarily because of increased borrowing for IPO funding. Admin expenses are Rs.100 crores, was up 16% quarter-on-quarter and 35% year-on-year, mainly because of increase sub-broker payouts as well as investments in technology costs as well as marketing and branding costs.

Coming to our assets under management; assets under management and custody crossed Rs.1 lakh crores, we are at about Rs 1,17,993 crores as on September end. Our average daily turnover for last quarter was Rs. 67,564 which was a split at Rs 1,773 crores for cash and Rs. 65,791 crores in the derivative segment. The corresponding figures for Q1 FY22 was Rs. 52,791 crores which was roughly Rs. 1,968 crores in cash and Rs. 50,823 crores in the derivative segment. We have invested quite a lot in technology platforms during the period and account opening is now fully digitized. Large number of accounts have been used opening the EDI's non-PA route and customer service is also digitized quite a lot by using voice and chat bots. New customer acquisitions crossed 200,000 for the last quarter. With this I come to the end of my talk and all of us are available to answer any questions that you may have. Thank you very much for giving me a patient hearing.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain:

Firstly, in terms of customer acquisitions, could you touch about your customer acquisition costs and secondly also you could talk something about the market share trends in retail brokerage for you both in cash in F&O?

- R. Venkataraman:** Now coming specifically to customer acquisition, as you know we have a multi-channel, multi-pronged approach for customer acquisition which is a mix of direct sales force, relationship managers as sub-brokers and we also acquire customers through our gold loan branches. If you look at our cost of acquisition, I think they are roughly in the range of about a Rs.1000 to 1200 for the last quarter. And your second question was related to market share. I'll just give you the numbers, for market share on a consol basis on a total market basis does not retail because we have taken on the total exchange turnover. There our cash market is about 2.69 which was last quarter at about 2.59 and F&O is broadly flat at 1.1.
- Prayesh Jain:** When you talk about your customer acquisition cost being Rs. 1000 to 1200, what is the payback period for this?
- R. Venkataraman:** See actually we believe that these customers give us payback in about 15 to 18 months.
- Prayesh Jain:** And what will be the activation rate?
- R. Venkataraman:** If you look at other activation rate, activation rate has actually improved. The reason for the increase in the activation rate is a combination of I guess a good market sentiment, also we have made changes to our mobile app with a simpler login process. We have also had campaigns to increase downloads and launch new products like WealthDesk and small case. A recent activity in IPO is also helped and we launch an NCD in-house that also helps. So effectively our activation ratio which was hovering at about 20%-25% has gone to about 40%-45%.
- Moderator:** The next question is from the line of Sahej Mittal from HDFC Securities.
- Sahej Mittal:** Just a follow-up question. You mentioned that your customer acquisition cost is in the range of Rs. 1000 to Rs. 1200 and the payback is 15 to 18 odd months. So if I do the calculation with per month brokerage per customer comes out at about Rs. 75, so the activity rate per customer is pretty low. Even add Rs. 20 per trade charge, this will not even translate no more than 4 trades a month. So just wanted to confirm if these were the right numbers or how should we look at it?
- R. Venkataraman:** If you look at the numbers the way we look at it, that is we have a cost of acquisition about Rs. 1300 or Rs. 1000 for the mix for rounding of simplicity and effectively, what happens is that the average brokerage what you're talking about is roughly about Rs. 100 and I've given an estimate of about 18 months for breakeven. What happens typically is that we have if you have a large pool of customers then obviously the averages work out like nthis, but we also hope we can get some big eater, so effectively it works out like that. Your guess is right that this is the average brokerage we make.
- Sahej Mittal:** Are there any initiatives with the company's taking to improve this ARPU or customer which is a significantly lower at about Rs. 80 to Rs. 100?
- R. Venkataraman:** We have been trying to look at a number of measures in which we are hoping to improve our ARPU and see margin funding; once upon a time we had a big product and margin funding

which has come down significantly. So funding products then cross sell products are two ways to improve our ARPU and we are still taking baby steps in that and our aim is to improve that over the days to come.

- Moderator:** The next question is from the line of Akhil from Robo Capital.
- Akhil:** I'm sorry I just missed the market share for the cash segment, could you tell me that number again?
- R. Venkataraman:** It is 2.69 for this quarter, last quarter was 2.59, F&O is broadly at 1.1.
- Akhil:** My next question is related to Karvy acquisition of their demat accounts. What is the potential revenue that could come from this acquisition?
- R. Venkataraman:** Actually, if you look at it the way we are looking at it is that we have converted close to about 100,000 Karvy accounts and we have got close to about Rs 55,000 – 60, 000 crores of assets. So our aim is to make sure that we sweat this effectively in the days to come. So I don't have a number in mind which I can give you talk about as revenue upfront but these are the numbers which I have which I can share with you.
- Moderator:** The next question is from the line of Prayesh Jain from Motilal Oswal.
- Prayesh Jain:** When you talk about Karvy customer acquisition, which quarter do they appear in the customer acquisition trend or they're completely separate? The demat account acquisitions the news you showed up your customer acquisition chart does it reflect in that or are they organic?
- R. Venkataraman:** Yes, 200 include that 50,000 last quarter and 150 also includes 50,000 for the previous quarter. So, if you remove that we were at about 100,000 that is bumped up to 150,000.
- Prayesh Jain:** And secondly on your distribution income, you mention that your distribution income was flattish on a sequential basis, right?
- R. Venkataraman:** Yes.
- Prayesh Jain:** In that sense mutual fund ideally should have gone up because of the AUM predicted that we've seen insurance also in sequentially in life as well as health I believe should have been up so what is the reason for being flattish in terms of distribution income?
- R. Venkataraman:** It is very difficult to say that for one or two products because if you look at it, it was Rs 12 crores which went to Rs 21 crores, so yes life insurance premium went up. But non-life also went up from Rs 16 to 22, mutual funds went up but the other sale of other products came down, so effectively it all offset each other and came to the same figure of 50.

- Prayesh Jain:** So from long-term perspective, what kind of revenue mix you would be looking at and how do you see the distribution income? at the point of time India Infoline was one of the largest distributors of insurance and mutual funds, so how do you see this trajectory going ahead?
- R. Venkataraman:** See, I'll just tell you, historically if you look at FPD you're right once upon a time we are one of the largest distributors but that was 10-15 years ago. In 2008 we did almost 15% of ICSS through first-year premium, but those days are in history now. We are doing at about Rs.200 crores of third party distribution products and our aim is to grow this because we think that there's a stable kind of business unlike capital markets which can be quite volatile which is relatively stable now.
- Prayesh Jain:** And any indication as to whether your retail market share has improved or declined no numbers but any?
- R. Venkataraman:** Look at our F&O market share that is something which is remaining flat, it has not increased and in cash share also decreased in last two quarters but last quarter to this quarter we have managed to hold on.
- Moderator:** The next question is from the line of Sahej Mittal from HDFC Securities.
- Sahej Mittal:** Just a follow-up on the Karvy, this question might sound a bit but I wanted to understand the customers which we are requiring, so are they opening the trading accounts with IIFL Securities and what is the plan? How will be we generating the revenue from those customers, will it be the demat fee, what sort of income will approve to IIFL Securities?
- R. Venkataraman:** I'm not able to give any forward-looking statement but yes, you're right. It can be combinations of both demat account as well as trading accounts. If you look at the retail part of it, we are converting the demat accounts into a broking account, so it will get a mixture of both.
- Sahej Mittal:** What number of customers would have already opened a trading account or converted their trading accounts to IIFL Securities?
- R. Venkataraman:** Roughly the amount we give is 1 lakh, so roughly 1 lakh customers have opened trading accounts.
- Moderator:** The next question is from the line of Ashish Kapadia, an Individual Investor.
- Ashish Kapadia:** Would you be able to shed some light on the new subsidiary that's going to start business from next year the Livelong protection at value solutions. What is the internal revenue target and what are the margins and effectively size, shed some light on the business model?
- R. Venkataraman:** That Livelong which is a subsidiary which is more to do with healthcare and other ancillary type of business. It's a more like a customer engagement tool as a supplement to our insurance distributions business and that was the intention of it. It will be effectively trying to give value

added services to our customers who are buying Life and health insurance with us. As of now it will be a more like customer engagement initiative and the revenue targets are quite minuscule.

Ashish Kapadia: Do you see that as a profit center or a cost center? Because I think it sounds like a cost center as a profit center to me?

R. Venkataraman: We hope that we don't bleed in that but our aim is to improve persistency, health in customer engagement and things like that.

Moderator: The next question is from the line of Pranay Jhaveri from JNJ Holdings.

Pranay Jhaveri: If you can just throw some light on the resale of the properties which we were planning. Is there anything on the drawing board currently?

R. Venkataraman: We have been continuously reducing our exposure to real estate. As we speak right now, we have brought it down to about 6 lakhs square feet of office space. Now the big office space is there in Chennai which is about 2 lakh 50 thousand that is our and Bombay, big offices are there which we hope to retain and all the smaller offices are in plan to sell.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: I just wanted to pick your brains on the overall scenario in the industry where discount broking companies are gaining market share in terms of the client acquisitions as well as in the F&O business where the option trading volumes are causing through the roof for them. In that scenario how does a traditional broker like us compete against them and so how would you stand against them in this kind of a scenario?

R. Venkataraman: It's actually a very interesting question because if you look at it, the entire growth is happening in the discount or the flat brokerage space. But we think that there's an opportunity for both full-service brokerage as well as a discount broker. If you look at these large segments of the population which are the so-called millennials and trading aggressively options and this was one segment actually, we missed out in the past. And if you had asked me whether I could have foreseen that options volumes especially Nifty options will be about 98% of total exchange volumes; I would concede that I never expected such a situation because this entire market if you look at it, is predicated on a huge amount of our derivatives trading. We as an organization, if you remember many years ago or many quarters ago, all of you asked what was the rationale for 5paisa? And that was the precise reason why we did a 5paisa split because that's a discount broking company and world over discount broking activity is done by separate corporate activity and it has not been done by a full-service as an SBU. We also offer a flat brokerage system but we believe that there is a market for full-service broker and although it won't be a game of getting market share at low brokerages. But our aim is to have a loyal set of clients who have some kind of mass affluent service expectations.

- Prayesh Jain:** The question is also coming from the fact that these discount brokers when we talk to them, they indicate that their business model now being a flat fee model is quite protected in terms of cyclicalities, given that even in terms of downturn generally while people will generally reduce the turnover or reduce the volumes that they would be doing but the number of trades might not be impacted materially. So, in that sense their revenue might more or less be protected even in terms of a market fall but if we charge a percentage fee that would be linked to the total value of the transaction. How would you counter that?
- R. Venkataraman:** I think the bulk of the volume which is happening in options, their people are buying and selling because we have had a very sanguine or a very good market for the last 12 months. If the market turns bad and my guess is that, number of orders will also get affected although it's anybody's guess or anybody's word against that. In a situation like that having other products like distribution, I would say, think will help us to cushion a decline in broking volumes but it is as you say it's like unprecedented, uncharted territories. So, it's very difficult for me to make a statement. My guess is that we would see some kind of decline in trading volumes including trading, number of trader orders.
- Moderator:** The next question is from the line of Karthi Keyan from Suyash Advisors.
- Karthi Keyan:** Can you talk a bit about the kind of Fintechs you would be looking to invest in the IIFL Finance through that AIF route there was a proposal that was made, some thoughts on what kind of company we are looking at and how do you see that impacting the business for you?
- R. Venkataraman:** The Fintech fund which we had launched was targeted to invest in companies which is there. We have a role to play in the entire Fintech ecosystem. There we are not only looking at broking related entities but also finance, NBFC kind of entities. We have made one investment in Trendlyne that is more to do with research and content and information providing including, I think they are taking first baby steps to become a global advisory platform. Then we invested in FinBox which was for lending score cards and credit process flows. There was a legality which was into digital signatures. These are the kind of entities we are looking to invest. So, if you have any good ideas, please share with us.
- Karthi Keyan:** The other thing was on the employee cost of Rs 75 crores for the quarter. How much of that would have been variable in the sense, what part of it is fixed and what part of it is variable?
- R. Venkataraman:** My guess is, a big portion of that will be fixed and the variable component will be about, roughly 80-20 rule will be there.
- Moderator:** The next question is from the line of Sahej Mittal from HDFC Securities.
- Sahej Mittal:** Wanted to get a sense from you, recently Upstox has started surging Rs. 20 fees on the delivery trade as well, despite being a discount or Fintech broker. What are your thoughts, going forward given that the prices are already at the rock bottom so what are your thoughts? Can we see a price hike across brokers or given that these are deep pocketed brokers, there has not been given

a price hike, taking a price hike? Also, that 5paise was initially charging Rs. 10 and then they started charging Rs. 20?

R. Venkataraman: Yes, I know that. I just want to tell you that when I started my career as a retail broker many years ago, we started 5paise, when we started 5 basis points. At that time, I thought that 5 basis points is very low and then it became 4-3-2-1 and then I thought okay 1 basis point is there, now we have reached bottom and then I was pleasantly surprised or shocked, when the rates fell even more. To answer your question, to give a short answer to your question is that whether I expect brokerage rates to go up, I will not hazard a guess like that. I think at least for the short-term, rates will remain low. I am not confident that the brokers will unite and there will be an uptick in the brokerage rates.

Moderator: The next question is from the line of Saurabh Dhole from Trivantage Capital.

Saurabh Dhole: Firstly, could you explain exactly what's happened on the distribution side because we are gaining very strong traction on that front?

R. Venkataraman: See on the distribution side what is happening is that our income has now become Rs, 50 crores and that is primarily driven because of sale of AIF, NCDs, because if you see last two quarters, we have two NCDs from the group companies and where we garnered large number of resources. So, it's a mixture of sale of, basically we are trying to cross sell other non-broking related products and we are seeing traction on that.

Saurabh Dhole: On AIF, PAMS also you would have similar kind of fee income when compared to plain vanilla mutual funds?

R. Venkataraman: No, AIF and PAMS have better fees structures than plain vanilla mutual funds.

Saurabh Dhole: This other question was on the interest income. I think there was a very sharp jump, can you give a clarification on that ?

R. Venkataraman: That has happened because of IPO funding. If you see last quarter had a huge number of IPOs.

Saurabh Dhole: How big is the margin funding book today?

R. Venkataraman: Very small. It is Rs. 177 crores to be very precise.

Saurabh Dhole: That doesn't get counted in this IPO funding book.

R. Venkataraman: No that is separate. IPO is episodic.

R. Venkataraman: If nobody has any questions thank you so much for joining us on the call today and wish all of you very Happy Diwali and best wishes for a glorious New Year and may all the bulls be with



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us. If you have any follow-up questions, please feel free to reach out to Anup. And we will be more than glad to answer any question that you have. Thank you so much.

Moderator:

Thank you very much sir. Ladies and gentlemen on behalf of IIFL Securities that concludes this conference. We thank you all for joining us and you may now disconnect your lines.