

January 31, 2022

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 Tuesday, January 25, 2022. 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 Limited
Q3 FY2022 Earnings Conference Call”

January 25, 2022



**MANAGEMENT: MR. R. VENKATARAMAN - MANAGING DIRECTOR &
CO-FOUNDER – IIFL SECURITIES LIMITED
MR. RONAK GANDHI – CHIEF FINANCIAL OFFICER -
IIFL SECURITIES LIMITED
MR. ANUP VARGHESE – GROUP IR IN-CHARGE - IIFL
SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to IIFL Securities Limited Q3 FY2022 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 Mr. Venkataraman. Thank you and over to you Sir!

R. Venkataraman: Good afternoon friends. Thank you for joining the Q3 analyst call for IIFL Securities. I am R. Venkataraman, Managing Director and Co-Founder of the Group. Along with me, are Ronak Gandhi, CFO of IIFL Securities and Anup Varghese who is the Group IR In-Charge.

I also take this opportunity to wish all of you a very Happy New Year and hope that all your near and dear ones continue to remain safe.

We are seeing a spike because of the third wave of COVID, but hopefully this risk is getting subside due to huge vaccination drive achieved by the government. Broking industry continues to get a boost from significant customer acquisition, not only in tier 1, but also in tier 2, tier 3 and smaller locations driven primarily by technology.

As a country, looking client penetration is very low compared to 10% double-digit plus in developed countries indicating a huge potential and runway for growth. Stock markets in January 2022 started with volatility and decline because of fears of ongoing lingering pandemic as well as interest rates hikes not only in India, but across the globe especially in USA.

Our strategy as I have articulated in the past continuous we built on research, technology and people, because of research we are emerged in capital markets and that helps our business lines primarily because all our business lines are centered around capital market. We continue to scale our efforts, acquire customers and give them a better trading experience. We are integrating best products and services on our platform as a digital Fintech ecosystem to ensure best in class experience for our customers.

We have three revenues streams, retail, targeted and mass market tech savvy and we offer not only broking, but also distribution of products in mutual funds, insurance, PMF on an open architecture model. We have the other line which is institutional broking where we are one of the leading domestic institutional broker, known for our research and ability to execute block deal and third is investment banking where, we are uniquely placed because of our ability to garner subscription in all the three buckets of the IPO construct, be it retail, HNI or institutional and leveraging our strong research credentials. We are focused on the agency business on an open architecture distribution model.

Coming to our results specifically for the December quarter, consolidated revenues came at Rs.368 Crores up 71% year-on-year and 16% quarter-on-quarter, brokerage income has increased 47% year-on-year from Rs.99 Crores to about Rs.135 Crores, investment banking has increased 44%, Rs.32 Crores for this quarter versus Rs.22 Crores for the previous year's quarter and distribution income which has increased to Rs.56 Crores in this quarter versus Rs.39 Crores in the previous year same quarter and that is primarily driven because of higher yield product range.

On a quarter-on-quarter basis, brokerage income has remained flat at Rs.145 Crores, investment banking has grown 16%, 32% versus 28% in the previous quarter and distribution income has increased to almost 12%, 56% versus 49% in the last quarter. Other income was Rs.32 Crores up 67% on a quarter-on-quarter basis primarily because of treasury income and investment gains.

Coming to expenses, employee cost was up 13% quarter-on-quarter and 61% year-on-year because of increase in headcount and incentives. Employee count, we ended this quarter at about 2460 employees which was 2300 employees in the previous quarter and the same was closed to 1976 in the last year.

Coming to finance cost finance cost is up 30% quarter-on-quarter and massive and more than doubled year-on-year basis and primarily because of borrowings due to IPF finance. Admin cost is at Rs.113 Crores up 12% quarter-on-quarter, 58% year-on-year because of sub brokerage increase in sub brokerage payout and also because of increased spend in technology and marketing.

Our assets under custody stood at Rs.1,32,000 Crores. Our average daily turnover for this quarter was Rs.83,546 Crores which is roughly about Rs.1,850 Crores in cash and Rs.81,000 Crores in derivative segment, corresponding figures for the previous quarter about Rs.67,564 Crores, which was Rs.1,770 Crores in cash and Rs.65,000 Crores in derivative and basically our IIFL market in the AAA app are being used excessively by not only clients, but also a partner, 95% of our accounts are opened digitally and we have also this time our customer service using the ChatBot significantly.

We acquired 2,23,000 Crores accounts for the last quarter. With this I come to the end of my opening remarks and key data point and the floor is now open to answer any question that you may have. Thank you so much for giving me a patient hearing.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza:

Sir, my first question is how many customers are we planning to acquire in FY2023?

R. Venkataraman: See actually we have been acquiring roughly about 2 lakh accounts, in last quarter that was roughly about 2 lakh and in the previous quarter to that it was 1,50,000. So my guess is that for the going ahead, although it is difficult for me to make a forward looking statement, my guess is that our pace of customer acquisition will be ballpark in this range only 2 – 3 lakhs per quarter.

Rishikesh Oza: The second question is if we see all almost all of our competitors are growing very fast and you know some competitors are somewhere around doing Rs.600 Crores to Rs.700 Crores revenues per year, so in this backdrop where the competition is growing very fast, do we have any internal revenue growth target, any indicative number will be very useful?

R. Venkataraman: Actually to be very honest if you look at it although we have also internal targets as unfortunately I will not be in a position to share with them but roughly let me tell you the element of our strategy so that you get an idea of what we are doing. First element is that we want to acquire customers and if you see we are acquiring about 2 lakh customers in a quarter and that that will remain at similar levels or maybe go elevated also as in when we streamline the entire acquisition engine properly. The second is we also have a subbroker network so our pace of acquiring brokers has increased. We are acquiring about 300 partners every month so that will also be an element going ahead because we think that we have our opening that distribution reach and which these subbrokers enable us to go out and acquire the customers. At the same time, we also have a channel called premiere which is targeted at mass affluent HNI segment. So that will be focusing on servicing the HNI segment. Our aim is that we will continue to make investment in technology and making our app better so that this new millennial, which is the so-called DIY segment or do it yourself segment also improves and if you see yes we have seen some amount of marginal market share gain in the derivative segment and this was one segment which we had ignored in the past and we will continue to invest and grow this segment. So effectively our aim is to increase customers and increase our market share and revenue is a derived number.

Rishikesh Oza: That is great Sir but if I see in last one and a half years, like quarter-on-quarter we will be maintaining many times you know 20% growth quarter-on-quarter maybe around 15% at least, so is it fair to assume that you know quarter-on-quarter somewhere these kind of growth rates we will be maintaining?

R. Venkataraman: On the ceteris paribus but normal state I think that that is a good number, but you have to remember that there is also beneficiary of the state of the overall market. So we see if you see the last quarter itself investment banking grew we had about almost Rs.32 Crores of investment banking and that is a direct outcome of the state of capital markets and the entire fundraising economy. So my guess is that, whatever assumption you make it has to be overlaid into one broad unknown variable which is the state of the market. So on a precisely

quarter-on-quarter whether these numbers will match or not, it is your guess as well as mine but on a longer term perspective I think we are confident that we are on the right track.

Rishikesh Oza: One last question sir could you please give a broad breakup of your 2,375 employees around by department-wise so like we are looking to understand how many are related to the clients, you know our client speaking?

R. Venkataraman: Roughly about 75% will be in sales or customer service and then others are all support. So it will be 75:25.

Rishikesh Oza: Okay, got it. That was helpful. Thank you very much.

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

Sahej Mittal: Good afternoon Sir. My first question was around activity which we have seen on the derivative side, so could you throw some color around what are your customers doing in terms of options trading figures, where they have the large positions building around the call side because if market turns one side, if the market sees any sharp correction then do we expect these customers only some sharp losses and these customer can move out of the market or is it fairly distributed or the customers also writing call options or put options that was my first question and the second one was around what percentage of your customers view your research trade basis using your research provided by IIFL Securities, these are my first two questions.

R. Venkataraman: If I can understand your first question correct, you want to get some color on the options customer and the second was the leveraging or research?

Sahej Mittal: Right.

R. Venkataraman: Let me answer the first question first. Now, if you look at our total turnover, rough number is that we do roughly about Rs.81000 Crores- Rs.82000 Crores of turnover out of which bulk may be 97%, 98% is the options trading and if you look at the entire options trading we also have complete mix of people who get option, so our institutional presence in options is quite less, so bulk is retail and within retail also there are two broad categories, One is the sophisticated customer who uses algorithms and trade, I would put in that category who is so-called sophisticated customer, the other is for the lack of better word called retail customers, so our retail customers also like in a normal market sense they keep on buying and selling options and to answer your question what will happen if they see losses as of now we have seen one side market going up post March 2021, the market hit a low for the last two quarters, I think we have been having one market which has been quite

good, so huge generation of people would not have seen sharp losses, so your guess is as good as mine what will happen if they see losses, but let me give you my historical perspective. So what happens is that whenever there is a market crash happens which is like a significant nature which happen in 2001 when the internet boom the crash happens or the Ketan Parekh happened or 2008 when global financial crashes happened or 2013 when the data tantrum happen, so large number of loose hands get out of the market, but what happens is the market that level of activities of market settles at a higher level, so it will be like yes, number of active customers fall, but it will be higher than the level which we saw in 2013-2014 and plus the other thing is that the retail customers also becoming sophisticated or may be knowledgeable because of the entire financial little exercise which has been done by everybody so what happens most of them do step also, they invest in mutual funds also, they invest in IPOs also and that is what IPO has done well in the last two years, so my guess is that some of them will obviously exit because of leverage positions and huge losses, but most of them will stay because I would say wiser investor. Coming to your second question about research, we leverage our research, large number of customers use our research, we also give so-called head strategies and calls on nifty, most of the customers use it, but many of the customers read it, but they do not use it also, so we track and I think about 20%, 25% of our customers use our research and bulk of them do not use it. I do not have a scientific basis, this is the sense we get after looking a data.

Sahej Mittal: Could you quantify this customer base like you highlighted that sophisticated and other customers, on the other side, you have filter option buying and selling customer, so what would this mix look like?

R. Venkataraman: I do not have the data right now in front of me. I will get this answered.

Sahej Mittal: Sure and just on the option base, are you seeing these new customers who have been coming to the market in the last six months, so are the customers also writing call options or put options, they do not understand writing and they just do the buying or calling the put option?

R. Venkataraman: It is a mix of both. I do not have a scientific answer for that. People write also, people buy also.

Sahej Mittal: Just one data keeping question, what was your retail broking revenue for the first quarter of FY2022?

R. Venkataraman: First quarter or last quarter?

Sahej Mittal: First quarter, I have a number for the first half at Rs.189 Crores, so if you could give me?

- R. Venkataraman:** I will give you some numbers, nine months I have right in front of me. Nine month is Rs. 505 Crores.
- Sahej Mittal:** Actually in your investor presentation, the retail brokerage income is for the nine months shows at Rs.297 Crores on printed page #7.
- R. Venkataraman:** For the nine month Rs.300 Crores and I have given you Rs.500 Crores, because it includes demat charges with DPD charges for retail customers and everything etc.
- Sahej Mittal:** Got it. On the staff cost side, given that we have institutional equity business as well, so what would the staff cost for the retail business look like?
- R. Venkataraman:** Staff cost, I do not have the number upfront with me. I will get back to you on this.
- Sahej Mittal:** No problem.
- Moderator:** Thank you. The next question is from the line of Parin Jhaveri from JNJ Holdings. Please go ahead.
- Parin Jhaveri:** Good afternoon. Thank you for giving this opportunity. Many congratulations on good set of numbers and great dividend. Thank you so much. I just wanted to understand this facility and that line item which is quarter on quarter gone from Rs.18 Crores to Rs.30 Crores if you can just throw some light on that?
- R. Venkataraman:** I will just give you one simple line answer for that, this is business two income, line one is interest income and the other is rental income. Interest income is primarily on because of some amount of IPO income which is booked on this. IPO financing income part of it gets booked into this.
- Parin Jhaveri:** IPO financing. So what is your net cash position?
- R. Venkataraman:** Net cash position is that if we have a loan of about 195 Crores, cash about 350 Crores so net cash is about 160 Crores.
- Parin Jhaveri:** Sir what is the progress on our real estate asset? We were planning to sell?
- R. Venkataraman:** This last quarter they could not sell anything and as I said earlier also it is a long drawn process and we are slowly and certainly trying to sell everything.
- Parin Jhaveri:** The valuation as in earlier calls you have pointed out it is in the range of about Rs.550 Crores Rs.600 Crores right?

- R. Venkataraman:** Property value actually 600 Crores. I think you said a figure of 550 Crores. So i just want to tell you that it will be around 600 Crores.
- Parin Jhaveri:** Any color on this other income part which has rose quarter-on-quarter and year-on-year?
- R. Venkataraman:** See, the other income which has grown up as I said in the opening remarks has gone up to Rs. 32 Crores primarily because of treasury income and investment gains.
- Parin Jhaveri:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ray from BCP Securities. Please go ahead.
- Ray:** Thanks again for accepting the invitation. Now just quick one here, we are actually just started to cover IIFL now. I am just kind of, it is just kind of very vague here for me. Now I know that they there are three listed companies, IIFL Securities as I see the numbers consolidated with the IIFL Finance Limited, just share some light on that please?
- R. Venkataraman:** Actually just to give you a background what had happened was the IIFL Holding was a holding company which had three broad lines of business which was IIFL Wealth, IIFL Finance and IIFL Securities. So IIFL Finance was the consumer finance business, IIFL Wealth was the wealth management business and IIFL Securities was the securities arm. Somewhere in 2018-2019 we had a court demerger in which the shareholders of the holding company got shares of the of the subsidiaries on a pro-rata basis so now we have three listed companies IIFL Finance, IIFL Wealth and IIFL Securities. So the profits for this IIFL Securities have absolutely nothing to do with the profits of IIFL Finance or IIFL Wealth. IIFL Finance and IIFL Wealth will announce their results separately, I think IIFL has a board meeting on 27 and IIFL Wealth is in the first week of February. So these are completely separate.
- Ray:** Good because I just want to make sure because I know that there is a call on Friday and it is good that you clarify on that, I just want to make sure. That is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Kajal from ICICI Securities. Please go ahead.
- Kajal:** Congratulations and good set of numbers. Can we get a breakup on broadly revenue, cash and options because liability cash is safe right?
- R. Venkataraman:** I think it would be roughly about 50:50 or 45:55, it will be like this, derivatives and cash.
- Kajal:** In institutions we would not be having so much?

- R. Venkataraman:** it may be 90 to 95% in cash
- Kajal:** What will be incrementally, now we are also spending on technology and upgradation so technology as a cost in total cost any colour?
- R. Venkataraman:** Actually in the entire admin cost, technology cost is the biggest line item. So if you look at your technology cost is 25-30%/
- Kajal:** Any colour on type of customers now that we are acquiring has gone up in last two quarters so is it just the new plan like you have also offered?
- R. Venkataraman:** Actually if you look at it the bulk of the customers which are which are getting acquired is in different plan, so roughly if you look at it I think 70% will be on the discounted level.
- Kajal:** When we say it is on a discounted plan, are we exactly matching with the type somewhere in these pure discount brokers, in terms of planning?
- R. Venkataraman:** All these pure brokers have this plan, so everybody is now in the same boat roughly speaking. So we are also there.
- Kajal:** But then incrementally if we get 70% of customers in this plan, do we see then revenue current that is possible, correct as you may be having a higher revenue in the oldest customers?
- R. Venkataraman:** So as I said the new customers are contributing little to the brokerage so it is just a customization tool and we see the benefits of this customer acquisition in the days to come.
- Kajal:** What will be the average cost of acquisition like?
- R. Venkataraman:** The average cost of acquisition is roughly about Rs.1200 to Rs.1300.
- Kajal:** But these new customers who have acquired digitally are also are falling on this bracket?
- R. Venkataraman:** Yes so this is the cost of acquiring customers digitally and plus whatever so it is a weighted average. I cannot say which is it but this is the cost of customer acquisition on the online channel.
- Kajal:** Again Sir you have also customers in your retail or no?
- R. Venkataraman:** We have also customers but we do not call them retail because they are reasonably more sophisticated.

- Kajal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vijay Karpe from Ransom investment. Please go ahead.
- Vijay Karpe:** Thank you for the opportunity and very happy New Year to the entire team of IIFL Securities. My first question is what proportion of our revenues do we derive from pledged sales and how much from the percentage? The second question is what kind of growth in the number of orders did we see on a quarter on quarter basis?
- R. Venkataraman:** We saw the order increase by 14%.
- Vijay Karpe:** We saw a growth of 8% on the retail broking side?
- R. Venkataraman:** Yes. My guess is that bulk of the new orders growth which has happened in the flat book is seen.
- Vijay Karpe:** How much do you derive from pledged sales in terms of revenues for this quarter?
- R. Venkataraman:** Sorry from the flagship?
- Vijay Karpe:** Yes?
- R. Venkataraman:** I do not have that data right now. My guess will be about 10% but I will reconfirm and check.
- Vijay Karpe:** Also how much is our MTF book in Q3 and how much was it in Q2 on an average base and also at the end of period?
- R. Venkataraman:** MTF at quarter end was Rs.225 Crore
- Vijay Karpe:** how much was it in Q2?
- R. Venkataraman:** Rs.175 Crore has become Rs.225 Crore.
- Vijay Karpe:** Great, so we also talked about the technology investments, so on absolute basis how much was it and how will it help us in our broking business and also in our distribution business?
- R. Venkataraman:** If you look at our absolute cost, I do not have, but technology investment is very important because in this entire world for our distribution business or for broking business, user interface, user experience, speed of order execution, and stability of platform all of them are

very important so we have no choice but to continue to invest and upgrade our tech infrastructure.

Vijay Karpe: This was mentioned to be 25%, so this 25% of the other expenses, which were at Rs.58 Crores?

R. Venkataraman: 25% to 30% will be there.

Vijay Karpe: One last question, did you see any interest of third wave on the distribution and also how is it looking for Q4?

R. Venkataraman: As of now it is very difficult for us to comment on the impact of distribution business on the third wave because it is too early and we are seeing the third wave coming in the last week of December to may be two weeks of January so my guess is that because of customer meetings getting postponed sale of high yielded products will get affected but as I said it is too early for me to comment.

Vijay Karpe: Thank you so much.

Moderator: Thank you. The next question is from the line of Bhuvneshwar from Investec Capital. Please go ahead.

Bhuvneshwar: Thank you for the opportunity. Sir can you please provide the breakup of broking revenue into pure retail broking institution broking and institutional IB shared revenue?

R. Venkataraman: Brokerage and leverage income is about Rs.172 Crores for this quarter out of which IB is about Rs.32 Crores.

Bhuvneshwar: IB Rs.30 Crores so that institutional?

R. Venkataraman: When I say broker institutional income, broking will be about out of this Rs.170 Crores, Rs.140 Crores will be broking and investment banking is Rs.32 Crores.

Bhuvneshwar: This Rs.140 Crores includes both retail and institutional, is it?

R. Venkataraman: It will be about 60:40 placed between retail and institutional,

Bhuvneshwar: Thank you.

Moderator: Thank you.

R. Venkataraman: I think if there are no further questions, we will end the call. As I said Anup is always there to answer all the questions. Thank you so much for participating and investor.relations@iifl.com is Anup's email and whatever queries you have, please send it so that we can look into it and reply. Thank you so much.

Moderator: Thank you very much. On behalf of IIFL Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.