



“IIFL Securities Q1FY22 Earnings Conference Call
hosted by IIFL Securities Limited”

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MR. ANUP VARGHESE – INVESTOR RELATION**

Moderator: Ladies and Gentlemen, Good Day and welcome to the IIFL Securities Q1 FY22 Earnings Conference Call hosted by IIFL Securities Limited.

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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to the management. Thank you and over to you, sir.

R Venkataraman: Thank you and good afternoon everybody. I am R Venkataraman – the Chairman and Managing Director of IIFL Securities. Along with me are my colleague, Ronak Gandhi who is Chief Financial Officer and Anup Varghese who heads an Investor Relationship in our groups.

Thank you for joining us on Q1 FY22 Analyst Call. I also take this opportunity to wish all of you a very good health and I hope that all your near and dear ones continued to remain safe.

The Indian economy is seeing a recovery from the impact of the second wave, and we hope that the pandemic situation is soon brought under control and as we see faster vaccination roll outs across the country. The Indian broking industry has seen a big transformation last 12 months. We have rapidly moved from ‘Call and Order’ to ‘Click and Order’. Our trade volumes have increased. Tech savvy brokers offering smooth experience to the retail customers have boosted retail participation.

The Indian stock market is in midst of its one of the biggest bull runs till date and over a year from the pandemic lows in March of last year the indices have more than doubled and many stocks, Blue-Chips included have seen the price jumped very sharply in the last one year.

Our strategy continues to be built on research and technology, we have edge in capital market because of our research and understanding of economy and corporate and that is a big help to our business line because the business line has centered around capital markets. We continue to scale up our efforts to acquire customers and we also continue to invest in technology to make sure that the retail customers especially have a seamless trading experience.

Just a quick recap:

As you are aware we are three revenue streams one is retail broking which is targeted mass affluent. We offer them not only broking but also other products like what we call as ‘Financial Product Distribution’, like Mutual Funds, Insurance, PMS, and we have an open architecture model.

The other line of business of course institutional broking. We have the **trust of** all leading domestic and foreign institutional investors and that is primary on the back of our research

capabilities and trade execution capabilities especially in block deals and the third of course is investment banking where we are focused on equity capital markets which is IPO and QIP and this segment we are quite uniquely placed before of our ability to garner subscription, be it retail, HNI or institution.

Post the restructuring of the group we are now focused on the agency business, and we believe in open architecture distribution model and our focus is on the fee-based income.

Coming to our results for the June quarter:

Consolidated revenues came at Rs.268 crores which is up 50% year-on-year and 5% quarter-on-quarter. Year-on-year we have seen an increase in the brokerage income, brokerage income has gone up almost 40% to Rs.129.24 crores in this quarter versus Rs.91 odd crores in the quarter last year.

Investment banking again has increased manifold. We have seen a sharp jump in investment banking revenues from virtually very insignificant, negligible in the first quarter of FY21 to Rs.23 crores in this quarter.

Distribution income has increased almost 131% from Rs.21 crores in the previous year to Rs.49 crores this quarter and that is primarily driven by a combination of sale of high-yielding products like PMA CSR, etc., and also distribution of fixed income products like LCDs, MLDs, etc.

Quarter-on-quarter basis brokerage income has increased 4% which is basically Rs.124 crores to Rs.129 crores. Investment banking has decreased 37% which was almost Rs.36 crores in the previous quarter to Rs.23 crores in this quarter. If you remember Q4 of last fiscal were extremely good for IPOs and we have seen a big spread of IPO in the last quarter.

Now coming to FPD income:

Again FPD income also have seen a big growth as I mentioned earlier because that was Rs.27 crores for the previous quarter that is Q4 FY21 which has become close to Rs.50 crores in this quarter.

The other income was virtually flat on a quarter-on-quarter basis, and it is down on a year-on-year basis and that is primarily because if you remember last year first quarter we had mark-to-market gains in some investment products.

Coming to expenses:

Our employee cost was up 5% quarter-on-quarter to Rs.66 crores because of increase in headcount. We have seen an increase in headcount to 2,136 from 1,928 and which was 1,886 in the first quarter of FY21 and that was also in this quarter we have seen salary increments taking place so expenses went up on combination of these two factors.

Finance cost is flat, admin cost was up 13% on quarter-on-quarter basis at Rs.27 crores primarily on the back of sub brokerage payout. Year-on-year the increase has been sharper to 63% that is a combination of not only sub-brokerage payout as I spoke, but also due to increased spent in marketing as well as technology.

Asset under management and custody stood at about Rs, 55,141 crores.

Coming to some other data:

Average daily turnover for the first quarter was Rs. 52,791 crores BSE-NSE combined, which was broken into now Rs. 1,968 crores in the cash segment and Rs. 50,823 crores of derivative segments. The corresponding figure for the Q4 FY21 was Rs.44,153 crores of which Rs.2,100 crores in the cash segment and Rs.42,049 in the derivative segment.

With this I come to the end of my talk and the floor is open for any questions 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 Kajal from ISEC. Please go ahead.

Kajal: Sir just wanted to understand expenses has gone up sequentially so what will be the reason for that, and have we seen cash volume recovering post the decline that we had seen?

R Venkataraman: No, if you see on a quarter-on-quarter basis the items were employee cost which went up from Rs.63 crores to Rs.66 crores which I explained was a combination of both increase or number of employees as well as that increment cycle which took place in the last quarter. Finance cost is virtually flat, and fees and commission expenses were also Rs.34 became Rs.45 because of increase sub broker payout and admin cost was more or less flat at Rs.40 crores.

Kajal: Have we done anything on the sub-broker channel like increasing the number or anything?

R Venkataraman: Yes, actually we are focused on increasing the number of sub broker and also cater to the sub brokers who are actually big. So both in terms of number of sub brokers as well as quality of sub brokers we are working on it and also if you remember we are developing this AAA platform. So hopefully with a combination of all these three things we should see an increase in the B2B segment.

Kajal: And on the cash volume what is the trend?

R Venkataraman: See, cash volume if you see just some rough number, the average daily turnover for cash in the previous quarter was Rs.2,100 odd crore which fell to Rs.1,969 crores. So, if you look at it we have seen some increase in the retail market share, but in the institutional segment because of higher passive flows where we do not have a significant presence, we have lost the market share.

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

Sahej Mittal: So sir first question is a broad question around the nature of customers which we are acquiring so could you brief me with the customers which we have acquired about a year ago during the pandemic, so what was the nature of those customers? were they day traders or were they long term investors and is there any shift in the nature of trading in our customers and secondly so there is an increase in the number of customers which we have seen in the recent month, so what is the nature of these customers that will by first question?

R Venkataraman: If you see our customer acquisition trend for the last may be four quarters, we are roughly hovering at about 1 lakh customers and this quarter which went by we have seen a spike to 1,50,000 customers and if you see we were a full-service brokerage and in the recent past you have seen a state of media articles which talk about the rise of the do-it-yourself customer with a discount broking kind of pricing structure. So we have multiple channels we have a relationship manager channel, we have sub broker channel, we have direct and we also have a DIY channel and in the previous call if you remember I have spoken about offering a flat brokerage scheme which our family targeted at the do-it-yourself customers. So we are seeing a healthy mix of all the three segments and to answer your second question the nature of these customers are that most of them are I do not know how to explain, but trading in the derivative segment and that is primarily a reflection of what happening to the overall market also because if you see the overall market also close to about 97%, 98% of trade is actually happening in the derivative segment, but we also have a healthy base of customers who trade with a long term perspective and the cash segment. So, the short answer to your question is that we are seeing a mix of all kind of customers and it is very difficult to take a call whether we are getting specific type of customer, but the broad nature of the customer is that most of them want to trade in derivative segment.

Sahej Mittal: Second question would be around your customer acquisition cost so we have seen a spike so as you rightly mentioned your marketing cost have gone up in this quarter so can you give us some color on what is your customer acquisition cost look like and if you would give some related versus discount broker or a full-time bank broker like ICICI.

R Venkataraman: I do not data about what is the approximate cost of customer acquisition for bank broker or other brokers, but my guess is that we are roughly in the Rs. 1,500 crore acquisition cost.

Sahej Mittal: Is there any economies of scale playing out if the number of customer acquisition go up or is this the broad range which will remain that is 1,500 crore?

R Venkataraman: We have ambitions to grow this numbers so obviously we would not stay at this level so these number should increase in days to come.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

- Rishikesh Oza:** Sir my first question is how much are you looking to act from Karvy in revenue terms?
- R Venkataraman:** See actually to be very honest as we speak we are in the process of migrating customers of Karvy to us and last quarter was a first quarter that we are trying to migrate so it is still early hopefully in end of this quarter the next analyst call we are able to share more data on the actual conversions and all that, initial trends has been quite optimistic although brokerage income from this set of customers will not be anything to know about.
- Rishikesh Oza:** Sir the customers that we have acquired this quarter around 150,000 so does it also include the karvy ones that we have acquired or like they have opened the?
- R Venkataraman:** No this will include some Karvy customers also although I do not have the exact breakup of what exact percentage of this is Karvy.
- Rishikesh Oza:** And sir any update on the property sales?
- R Venkataraman:** So as you know that we have been selling properties and last quarter also we sold one property. So as of now we are roughly about 6 lakh square feet and as we said in the call also that we are in the process of selling. So last year we had sold one synergy which was a big property other are small ones. So, we are continuing our efforts to exit real estate as we can.
- Moderator:** Thank you. The next question is from the line of Kajal from ISEC. Please go ahead.
- Kajal:** Sir what will be in your technology expense that we may be having in our total cost largely?
- R Venkataraman:** See I think roughly last quarter technology cost could be about 12 to 15 crores per quarter on a basis.
- Kajal:** Sir and apart from that the Rs. 1,500 crore cost of acquisition which you mentioned what will be the breakeven period that we will be seeing there generally for a customer?
- R Venkataraman:** On a historical basis the breakeven is about 12 to 15 months.
- Kajal:** Now also it is the same?
- R Venkataraman:** Earlier it have been 18 months now it is down to 15 months because of increased activities.
- Moderator:** Thank you. The next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.
- Rishikesh Oza:** Sir I just wanted to ask what would be your market share in cash and F&O?
- R Venkataraman:** See actually if you see our market share on combined on a full denominator not only retail. cash is about 2.59% and F&O is about 1.12%. The same figure for the last quarter was 1.02% in

derivative and cash was 2.8% and as I said in the opening remarks we have seen some drop in the institutional market because of passive flows.

Moderator: Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings. Please go ahead.

Pranay Jhaveri: So I just wanted to know sir sequentially our broking income is down by about 10 crores any particular reason about that in spite of volumes been higher sequentially?

R Venkataraman: The brokerage income has increased 4% on a quarter-on-quarter basis from 124 crores to 129 crores.

Pranay Jhaveri: Sir I am referring to that segmental result on the console level?

R Venkataraman: Which is a figure you are looking at.

Pranay Jhaveri: I am referring to the console segmental revenue breakup?

R Venkataraman: Which segment you are referring to because if you see brokerage income has actually increase, are you looking at insurance broking that is insurance broking? So that is because of the Q4 effect because if you see in insurance fourth quarter is always a peak quarter and the first quarter is generally a slag quarter that is the reason why the insurance broking business they are seeing some amount of degrowth.

Moderator: Thank you. The next question is from the line of Ankit Mehta from Wellworth PMS. Please go ahead.

Ankit Mehta: Sir in the press release you have mentioned that we will be forming a subsidiary that will be focusing on solving healthcare, so what is the plan in that sir?

R Venkataraman: See the new line is adjunct to our existing insurance distribution business. So as you are aware that we have a insurance distribution business where we sell life and non-life products including health. So you want to offer value added services like fitness counseling, nutrition counseling, etc., which improves customer engagement in our distribution business so this was the intent behind that and this will be primary driven by tech integration with various service providers.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: Sir if I look at your financial product distribution revenue it has been quite higher 49 crores, 50 crores, so any particular reason to that and is it sustainable going ahead?

R Venkataraman: See actually if you see as I said in the opening remarks the financial product distribution income has risen sharply from roughly about Rs.20 crores to Rs.50 crores on a year-on-year basis and

the previous quarter also it was about Rs.30 crores, so if you look at sequentially we are trying to improve our financial products distribution business, last quarter we have seen the increased activities in PMS, AI which are high commission products plus also we sold MLDS and NCDs so it is a combination of all that and we hope that and we continue to work hard to make sure that this trend continues.

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

Sahej Mittal: Sir just a follow up question what was the properly value which we have right now?

R Venkataraman: I am just giving rough and ready numbers so we have about 6,16,000 square feet or property spread across many places Ahmadabad, Mumbai, Pune, Gurgaon, Hyderabad, Chennai, and we are carrying it at a cost of Rs.224 crores and the market value will be about Rs.600 crores.

Sahej Mittal: Okay, Thank you sir.

R Venkataraman: I take this opportunity to thank everybody who participated on this call should you have any follow-on questions please feel free to reach out to Anup Varghese or our CFO Ronak and we will be more than happy to answer. Thank you so much and have a nice day and again as a concluding remark I wish all of you good health and in these difficult times. Thank you so much.

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