



“IIFL Securities Limited Q2 FY23 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good day and welcome to Q2 FY23 IIFL Securities 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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Managing Director – Mr. R. Venkataraman. Thank you and over to you, Sir.

R. Venkataraman: Thank you. Good afternoon friends. At the outset, I take this opportunity to wish all of you a very Happy Diwali and best wishes for a prosperous New Year. I am R. Venkataraman, the Chairman and Managing Director of IIFL Securities and along with me are my colleagues Ronak Gandhi who is the CFO and Veenashree who looks after Investor Relations for the entire IIFL Group.

Thank you for joining the second quarter FY23 Analyst Call. I hope all your near and dear ones continued to remain safe.

Just as we seem to have come out of the COVID pandemic the world has entered into volatile phase once again this time driven by economic and geopolitical events which are affecting market sentiments. We are also entering into an era of high interest rates which central bankers across the globe are doing to rain in inflation. Though Indian markets has shown resilience still now, external shocks may keep the market volatile.

Broking as a business has started gaining momentum and also IPO activities have picked up as stock markets are stable. Our strategy continues to be built on research, technology and talent. We have edge in capital market because of our research and understanding of economy and corporate that helps our business line since all our business lines are centered around capital markets. We have three revenue streams, retail broking targeted at affluent tech savvy customers where we offer not only broking, but other products like mutual funds, insurance, PMS on an open architecture model. Other line of business is Institutional broking. We are one of the leading domestic institutional brokers and third is Investment banking where we are focused on the equity capital markets.

Coming to the September 30th numbers:

Consolidated revenues for the quarter came in Rs. 323 Crores up 10% Q-o-Q. Brokerage income has increased by 12% on Q-o-Q basis to Rs. 163 Crores. Distribution income again increased by 33% on a Q-o-Q basis to Rs. 54 Crores. Investment banking decline by 16% on Q-o-Q basis to Rs. 24 Crores against Rs. 29 Crores in the previous quarter simply because of the nature of business and income is booked when deals are closed. On a Y-o-Y basis Brokerage income has increased by 14% and Distribution income have increased by 6% whereas Investment banking has decreased because last year quarter was quite good. Other income has increased by 109% on a Q-o-Q basis to Rs 6.8 Crores and it has decreased by 65% on Y-o-Y basis.

Coming to expenses:

I think the expenses was flat which is employee cost was flat on a Q-o-Q basis but has increased 17% on Y-o-Y basis because of increase in headcount as well as increase in normal paying hikes which happened during this year. Finance cost was at Rs. 19 crores flat Q-o-Q and reduced 37% on Y-o-Y basis simply because last year we had borrowed highly for IPO funding this line item was not there. Admin cost was at Rs. 123 crores which had increased 11% Q-o-Q and 23% Y-o-Y primarily because of sub brokerage payout outs as well as increase in technology and marketing cost. Assets under management the custody stood at Rs. 1,18,000 crores, average turnover for the quarter was Rs. 1,35,000 crores BSE/NSE combined which was Rs. 1,700 crores in cash and about Rs. 1,33,000 crores in derivatives. Previous quarter was Rs. 1,26,000 crores which was about Rs. 1,500 in the cash segment and Rs. 1,25,000 crores in the derivative segment.

With this I come to the end of my remarks and I will answer any questions that you may have. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Just a couple of questions firstly it is more on the industry front so firstly what happened at the time of payout that changed the rule change, did you face any challenges out there or how was the thing implemented?

R. Venkataraman: This payout of money which happened I think 7th October. I think this was industry wise phenomenon and it happened smoothly. So, I think that although everybody was saying that the banking system will come under load, but I think even currently almost all brokers have the technology, systems in place and this payout happened smoothly I do not think there is a big challenge.

Prayesh Jain: And within how much time the customers money would have come back to us?

R. Venkataraman: That is a good question I think money is slowly coming back. It took almost three, four days to come back.

Prayesh Jain: So, 80%, 85% would have come back in three to four days?

R. Venkataraman: By now 85% has come back, but in the first 2 days I think the number would have been close to 40%, 50% instead of 80%.

Prayesh Jain: And sir how many of your customers would have chosen one month versus three months payout?

Ronak Gandhi: Most of the clients are on the three months settlement only, very few number are on monthly settlement and after SEBI circular many of the client have updated on a quarterly settlement to keep their money.

- Prayesh Jain:** So, quarterly settlement is somewhere where we would be earning higher float income right, is there a threat that the float income would reduce substantially going ahead?
- R. Venkataraman:** My guess is that what you say is directionally correct. So, there is a probability of reduction of float income for sure.
- Ronak Gandhi:** Earlier the regulation was to do settlement from the trading days, but now you have to do once in a quarter so that money will stay with you for at least 3 months and also Interest rate are rising.
- Prayesh Jain:** And sir this is again a broader industry level question possibly I think you can answer this for me what happens if the broker wise hits and so can you do it on a separate card?
- R. Venkataraman:** I think broker wise limit is linked to the card and not a promoter, but it is a technical question I think I have to check and get back to you. You are talking about broker wise position for F&O being hit. So, this is a technical question I should check and give you a correct answer technically. So, we are saying that if I take multiple card can I increase the market wise limit I think I will have to check back because I do not know it is a technical question.
- Prayesh Jain:** That is the exact question we are looking for because some of the market participants are talking about having a sailing in that term and that is the reason there are some issues on Zerodha, so that is the thing why I wanted to understand whether if they have another group entity which has another card whether they can shift customers there or whether the incremental customers can be brought in on that card and those individual customers can also trade on Zerodha app so those were the broader question which I wanted to understand?
- R. Venkataraman:** It is a good question and actually I do not have an answer for this.
- Moderator:** Thank you. We have a question from the line of Prayesh Jain from Motilal Oswal Financial Services. Please go ahead.
- Prayesh Jain:** So sir just first of all a feedback that conference call invite was not addressable easy even on the exchanges it was just an inclination and we did not have any details out there so first that is the feedback not too many people have received the invite on the conference call?
- R. Venkataraman:** First thank you for this feedback and I thought that we have said this yesterday to night to the mailing we have.
- Prayesh Jain:** And secondly on the F&O options volume they have actually gone really very high and have been sustainably increasing every month-on-month, what is the way you think about this whether is there further room of growth in terms of F&O volumes or possibly going ahead we might see some muted trend or even decline how would you see this?
- R. Venkataraman:** You know Prayesh to be very frank if you had asked me this question 10 years ago when we were together that time I would have thought that the exchange volume are 90-10 and that has

peak derivative now it is 99-1 in favor of derivatives against cash and out of the 99 also like 90% on more that is options. So, that is tremendous, stupendous rise of option volume that really surprised me and so at this point of time like you I am also thinking that you had peaked out and given my past mistake I am afraid to stick my neck out say that it has peaked up so like you I am also concerned. If you ask me to take a guess I would say that it is just peaked up.

Prayesh Jain: And how do you see the primary market behaving from now on so first this half continue second half would be challenging as what you have seen in the first half?

R. Venkataraman: My guess is that if the market remains stable the way they have been in the recent past. So, IPO activity will be good. I think in the month of October was good for IPO activity and November also looks to be good as of now. So, my guess is that I would say it would not be as good as last year because last year was a blow out year, but I think I am optimistic for the next few months.

Prayesh Jain: Sir in a broking business how has been the trend between institutional and retail?

R. Venkataraman: See retail has been growing institution has been growing I think both are growing.

Prayesh Jain: Both have seen a growth in this quarter?

R. Venkataraman: Yes.

Moderator: Thank you. We have a next question from the line of Varship Shah from Envision Capital. Please go ahead.

Varship Shah: If I look at the other expenses they have gone up like significantly Y-o-Y so at least wanted some more information as to the investment you are making in technology and your employee and how is just more details on that?

R. Venkataraman: Bulk of the other expenses growth has been on technology and marketing. So, those are the two items which have seen a growth and so basically going ahead also I would say that now on marketing would not grow so much. Technology it is a wild card and we have to keep on investing.

Varship Shah: One of the slides in the presentation speaks about collaboration with Fintech players like the kind of presentation speaks about it, so just wanted more details on that?

R. Venkataraman: So, basically what has happened is that earlier we wished to be a believer of doing all things in all. In the last one year even we have seen the Fintech partners are there who are doing far better job. So, we have a large number of Fintechs with whom we work. So, I think we work with Trendlyne which is in research and we have WealthDesk for specific goals. So, we have tied up with most of them, is there any specific thing you want to know and I think these were the trend across the industry because amongst most of the industry players one thing is that because of Open API all of them instead of developing features, they are taking Open API and adding

visuals. Thank you so much everybody who joined in and wish all of you a very Happy Diwali and best wishes for a prosperous year if you have any questions then please feel free to reach out to either Ronak or Veenashree and we will be more than glad to answer. Thank you and have a nice day.

Moderator:

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