

IIFL Securities Limited

Q1FY21 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the IIFL Securities Limited Q1 FY2021 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. Thank you and over to you.

R Venkataraman: Thank you and good afternoon friends. Thank you for joining the analyst call for IIFL Securities. I hope you and your near and dear ones are safe and healthy in these unprecedented times of the Covid pandemic. There are a number of media articles highlighting the return of retail investor not only in India, but also in other markets like USA and China. Most of them give credit to the work from home situation due to COVID pandemic. We have reasons to believe that this is the trend which is here to stay. In the 90s we had three institutions NSE, NSDL and SEBI which triggered the increased retail participation in broking especially retail. In the early part of this century we had internet and that also democratized retail booking and increased the reach. This time around we have mobile phones, payment gateways and lower interest rates, and we expect that these three factors will drive retail participation. On top you have higher awareness of financial products and also ease of consummation. On most financial products in India from demat accounts to mutual funds to insurance, India is hugely under penetrated market and this makes us optimistic about the long-term prospects of our business. As you are aware we have three revenue streams, retail which is targeted at mass-affluent, tech savvy customers and we offer them not only broking but also other products like mutual funds, insurance, PMS, AIF on an open architecture model. The other line of business is institutional broking. We are one of the leading domestic institutional broker and we are the port of first call for many domestic and foreign institutions, based on our research credentials and ability to execute block deals. Third is Investment Banking, here we are focused on the equity capital markets- IPO and QIP, and in this segment, we are uniquely placed because of our ability to garner subscription in each of the buckets, be it retail, HNI or institution. Post the restructure of the IIFL Group we have focused on the agency business on an open architecture distribution model. Our target is to build a high ROE business with inbuilt prudent risk management systems and processes.

Coming to the results for this quarter June 30, 2020 consolidated revenues for the quarter came in at Rs.178 Crores which was down 15% on quarter-on-quarter basis and 4% on year-on-year basis. The major reason for the decline in quarter-on-quarter revenue is there was a degrowth in our institutional broking business by about Rs.14 Crores. There was lower financial product distribution income primarily because of lower insurance broking due to seasonal factors. If you remember Q4 which is January, February, March quarter typically the peak quarter, especially in the retail segment. The other thing was that because of lockdown our sales of high yielding products like AIF and PMS which typically involves face-to-face meetings as well as have longer sales cycles were also adversely affected. These two are offset by increase in retail broking business.

Coming to the cost, employee costs came down by about 8% to about Rs.46 Crores primarily because of rationalization of manpower and also due to rationalization of variable pay. Last quarter also saw higher finance costs because of SBI Cards IPO, admin costs rose to Rs.52 Crores on a year-on-year basis because of

the increase in technology spend and marketing spends and we have seen a decline in the admin cost on a quarter-on-quarter basis because in Q4FY20 we had the Enterprising India Conference and also our own internal conferences and then this quarter we saw decline in office expenses, travel, etc., because of the lockdown effect.

In spite of this COVID lockdown our technology platform works successfully, our staff managed to service customers from home effectively leveraging the technology. IIFL markets app and the IIFL sub broker app i.e. AAA was used extensively by RM partners and customers for interrupted service. We were able to open accounts successfully using a completely digital mode. Also a large number of customers were serviced using chat bot ask IIFL. With this I come to the end on my remarks and will be happy to answer any questions that you will have.

Moderator: Thank you so much. We will now begin the question and answer session. The first question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: Thanks. I just wanted to understand like you have divergent trends between retail and institutional in terms of your revenue. If you throw some color on that and also secondly, I just wanted to understand while your average daily turnover is down for Q1, but your average cash turnover is up so what is the business mix that is driving the difference overall also if you can explain?

R Venkataraman: If you look at our first quarter average turnover which was roughly about Rs.17175 Crores which was split in cash about Rs.1566 Crores and about Rs.15609 Crores is derivative segment and typically if you look at our business, coming to the institution part of the business, we have seen some degrowth simply because there are large amount of promoters sakes sales which are typically under return deal and we were not present in the segment so to that effect we had seen some impact because of that factor. Second thing is that in the institutional segment again, they are not active in the F&O derivative segment again, so we are seeing some amount of loss in that. Our retail segment grew because we saw a large amount of retail participation coming back not only in cash as well as F&O.

Anita Rangan: So just to understand between your business mix, I mean your major volume comes from the cash segment, I am assuming you should be derivative segment, only right? So I am just trying to understand?

R Venkataraman: Both are coming from derivative segment.

Anita Rangan: Yes so in that sense just trying to understand the retail are predominantly cash only is it retail are mostly cash and institutional are mostly derivatives how do I understand cash going up and average volume coming down which retail going for institutional going up I am not able to put that together?

R Venkataraman: Typically, actually it is misconception that retail is only present in cash. Retail are present in derivatives also because in the recent past we have seen the growth of discount broker as well as intraday option traders, so

there a large amount of retail people who also participate in the intraday retail segment, so to answer your question broadly speaking there are two to three big categories of players in the market. One is prop which is effectively by if I am correct, then it will be roughly about 30% of the market then you have FII, DI and the bank then you have retail so these are the broad segments of the market in the F&O there is a big segment also called the arbitrage players, so it is very difficult to say whether arbitrage players is an institution person or retail but in the recent past we have seen a return of the retail investor in the derivative segment also.

Anita Rangan:

Okay. Thank you.

Moderator:

Thank you. The next question is from the line of Rajiv Agarwal from Doordarshi Advisors. Please go ahead.

Rajiv Agarwal:

Hi, my first question is regarding your retail performance and when I look at the retail performance it seems like they have done quite well, in terms of this amount of volume that they have traded through their platforms so can you compare your performance versus that of the industry in Q1 on the retail side?

R Venkataraman:

If you look at our performance, as I told you in the earlier part of the previous conference also, see there is a big trend about this discount broking and intraday option traders and they are with low fee and they have emerged as a segment, so we are not present in that segment so to that effect, as I said in my earlier comment, there is a prop segment, arbitrage segment which we are not present and also this new breed of intraday option traders are low fee which we are not present however, having said we are cognizant of this trend, we are also launching algo platform to attract option traders last quarter because of heightened market volatility we have been conservative by giving limits and funding to client and this was also one reason why we lost out so hopefully we should address all this in the days to come.

Rajiv Agarwal:

So you are saying may be margin was one of the reasons or while you were being conservative in that may be one of the reason?

R Venkataraman:

I would say it is mix of both because of volatility being more conservative not being present in the algo segment, not present in the low fee option setting segment so it is combination of both and as I said we will take steps to address that.

Rajiv Agarwal:

In the low fee segment we have a sister concern which 5paisa so would you also be growing in that segment or you will let that segment be taking care of by your sister concern?

R Venkataraman:

So we have our sister company called 5paisa. 5paisa is a discount booking company and we understand that world over discount broking activities done by separate corporate entity not like an SBU so given this experience we had ourselves voluntarily demerged the business two to three years ago so IIFL as a full-service broker positioning it has a loyal client base which is serviced by research and it also has multiple touch points including RM. 5paisa has no RM, no branch, no advisor, no research so this entire segment which you are

talking about is completely different so at this point in time, we believe that there are two addressable markets and we are using two entities to address those two markets.

Rajiv Agarwal: When I look at your financial product distribution and it has come down significantly from Q4 but even from Q1 last year, so what do you characterize that more from a lockdown issue?

R Venkataraman: So actually if you look at the Q4 number the Q4 number has anomaly because insurance sales in fourth quarter typically quite high so obviously Q1 to Q4 comparison is not correct, however if you compare Q1 on a year-on-year basis as you pointed out lockdown had an impact so if you look at the product which are conducive for selling digitally we have done well but products like PMS and AIF were typically face-to-face selling and longer case cycle it was affected so it is a combination of these two factors which have led to degrowth in the year-on-year basis.

Rajiv Agarwal: And then just from a steady state perspective would you say that our numbers in Q1, of course, ranking was depressed, but would you say that this is a sort of steady state sort of number we should look at some the company because of this last year there was quite a few things that were moving around but what is the steady state, if you can give some sense on that?

R Venkataraman: If you ask me it is very difficult to pinpoint a number for the steady state because see this quarter we did not see any investment banking income also institutional broking we did not do well, and we have the advantage of retail booking so I would say that we should do better than this on a steady state business, but this all depends on the market cycle volatility everything, so please keep all the disclaimers around.

Rajiv Agarwal: So okay great. Thank you.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: Sir very basic question first I do not know if the number should be seen in the slide but 7% Y-o-Y growth in the retail broking looking at how the volumes have been both on quarter-on-quarter and on Y-o-Y basis is it right to see there are much lower or how to really qualify this growth number and like how previous gentleman was asking even when I see the similar numbers for other brokers the ones would reported so far, the numbers look very high so is there something to read more into beyond 7% number?

R Venkataraman: I will just quickly give you our perspective about this entire thing so if you look at the overall exchange volume then overall exchange volumes on combined BSE and NSE cash future everything was roughly about Rs.15 lakh Crores in the previous quarter which has come down to about Rs.14 lakh Crores whereas the growth in the cash segment has been from Rs.43000 Crores roughly to Rs.58000 so growth in cash segment has been quite high so if you look at our own performance we have done okay in the cash segment, but as I said earlier also that there were two to three things which we missed out, one is because of conservative I would say positioning so we have been conservative while giving limits and funding to clients and that is why we could

not do as well as in the cash segment. The second thing is that we were not present in the low cost option spending segment, which is the algo segment so which we have now launched an algo product and hopefully in the day to come that will also scale up so basically, we have lost some amount of market share in this quarter and we hope to get that market share in the days to come.

Ritika Dua: Sure Sir and Sir you stated in the opening remarks saying that retail participation is yet to stay some more color in terms of what are we seeing in terms of more additions what color is there how much are the newer addition, what is the nature of the holding some color of their because obviously everybody is trying to understand if this trend is there to stay so some more color if you could share?

R Venkataraman: See if you look at the entire evolution of the retail broking space in the country I would say the first inflection point came in the 90s, when is NSE, NSDL, CDSL and SEBI came, so that give a flip. Then in early 2000 we had the internet that gave one more flip and now as I said because of mobile, payment gateways, and low interest rate, that is the third. So because everybody has a mobile in the hand awareness is quite high so people are trading so there are certain good things also there and there are bad things also. The good thing is that obviously because of awareness people are aware of the product and they are trading and the negative thing about this that bulk of the people are trading in the F&O segment for this I would say that overall knowledge literacy and awareness is quite low, but history has taught us every time there is a inflection point, it is shifted by what in engineering terms is called the delta shift. So I am quite optimistic about the delta shift that is happening people will trade in options. I used to see a lot of media articles about people trading in options I myself have written two articles on the option of trading, but the people will learn and hopefully at least a cult of the equity or the investment cult of India will come.

Ritika Dua: Sir just for a followup on that any color on this customer acquisition which was shown on slide #9 any color on quantum of investment something but some more color on the size of the acquisition and what is our mode of acquisition?

R Venkataraman: See if you look at our customer acquisition number in the decent past it has seen steady uptake so in the last one year on quarter-on-quarter basis we have increased our customer acquisition so now if you look at customer base I do not have the exact socio-demographic but that is a good point so maybe I will try to analyze that, but that the mode of acquisition of customer is very simple so earlier the mode is to be much more face-to-face and physical now the entire mode of customer acquisition has become a digital so it is online boarding and basically starting from call center to fulfillment everything is happening on the digital mode.

Ritika Dua: Perfect Sir I will come back in the queue.

Moderator: Thank you. The next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

- Saurabh Dhole:** Just a couple of data from that I need from see on the equity option side would you give me some volume that you are geared this quarter and the income that we generated?
- R Venkataraman:** I will give the volumes which we have done in this quarter. This quarter average turnover was 17175 which is BSE and NSE combined, cash was 1566 and F&O was 15609.
- Saurabh Dhole:** Within 15,000 odd in the derivative what is the contribution of options?
- R Venkataraman:** Option will be 97.
- Saurabh Dhole:** 97%.
- R Venkataraman:** Yes.
- Saurabh Dhole:** Okay, and in terms of income, what was that absolute amount be for optional?
- R Venkataraman:** Income I do not have the exact number, but I think it will be about 55-45 between cash and F&O.
- Saurabh Dhole:** Okay. Got it and Sir just one more data point which is on your cash market volumes what was the yield roughly there in this?
- R Venkataraman:** So I do not have the data right now, but if you can send an e-mail and I will answer that.
- Saurabh Dhole:** Sure I will do that.
- Moderator:** Thank you. The next question is from the line of Shagun, an Individual Investor. Please go ahead.
- Shagun:** Hi I wanted to know what has been the growth in the retail broking segment exclusive because I was not able to get that because on the presentation on a year-on-year basis and on Q-on-Q basis exclusively retail broking segment?
- R Venkataraman:** Retail broking segment grew from Rs.84 Crores to Rs.92 Crores from fourth quarter and this quarter it was Rs.86 Crores one year back.
- Shagun:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.
- Ashish Kumar:** Thank you. Couple of questions one was this investment in treasury income. Is this related to the core business or are there any one timer that we have booked in this income? How do we read that number of Rs.27 Crores?

- R Venkataraman:** Treasury investment income comprises interest, IPO funding, MTM gains and losses on investment etc., so this can vary due to MTM losses and profits.
- Ashish Kumar:** Second one was in relation to the financial product distribution this quarter lot of people have given guidance in terms of how the June was compared to April so vis-à-vis June compared to this year compared to last year as things opened up what are the trend lines looking like are you still seeing the dip what I am trying to understand is that what is my longer term growth plan on the FPD revenue free, what should we can understand that April would have been a wipeout?
- R Venkataraman:** Actually if you look at FPD business it has sales of multiple products so it is not exactly one product, it has mutual fund, PMS, fixed deposit, bonds, IPO funding ,insurance etc., so if you look at it, products which are very conducive for digital selling like mutual funds and bonds we could do well, but products like PMS , AIF were adversely affected and June is also something similar only. So all these retail oriented products are doing well, anything which may be a big ticket size product or involves a longer billing cycle, that has been affected. The second thing which is there about insurance, insurance has been doing well, but in insurance the business mix has changed, so non-life especially health has picked up significantly.
- Ashish Kumar:** Right, and but year-on-year degrowth in life insurance is that again because of the selling cycle or do we expect it to normalize?
- R Venkataraman:** Actually if you look at our insurance business than we are seeing a growth in the sales but the business mix has changed as I said, net sales has increased but because of the higher nonlife the income has been affected.
- Ashish Kumar:** So my question was in relation to life insurance business per se that after a long time you have seen a negative number on life insurance. Is it because life insurance requires more personal selling is that the reason why the drop is there?
- R Venkataraman:** I think it is a mix of both personal selling as well as April and May were not such a good months
- Ashish Kumar:** So let us say as economy opens we would expect to come back?
- R Venkataraman:** As things to come back normalize and the trends would pick up.
- Ashish Kumar:** Thanks a lot Sir and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.
- Kajal Gandhi:** Sir this on the cost side how are the cost so low quarter-on-quarter so what is the broad breakup and what can continue in further quarters also?

- R Venkataraman:** If you look at the element of the cost, the employee cost has come down since simply because we have seen absolute reduction in the number of employees. So the number of employees I give the exact numbers which was roughly about 1940 as on March has come down to 1882 and on year-on-year basis is come down from 2267 to 1882 and plus there have been some reduction in the variable pay also the interest cost has come down because of SBI IPO is not there, that is the reason why it has come down plus on that absolute level also debt has come down by roughly Rs.200 Crores then your depreciation of account which is broadly in line and admin cost has come down because in the last quarter if you remember I told you that we had Enterprise in India conference and plus outside conference so because of these two effect, we have seen an increase in there and this quarter because of reduction is office, basically office is shut down so the travel office communication everything else seems some kind of rationalization and to answer your question on the first quarter admin cost to this quarter admin cost it was marginal increase about 8% that is primarily because of the increase tech spent as well as marketing spend as we increase our marketing budget to acquire more customers.
- Kajal Gandhi:** What kind of run rate we can see in upcoming quarters?
- R Venkataraman:** I think this trend should be maintained.
- Kajal Gandhi:** And on the rental side what have we seen as the impact because the property that we hold are their impacts on that or what about the future plans that we can postpone now?
- R Venkataraman:** Because of lockdown their plans to monetize these assets has stopped, but long term plan is there we should look to sell these assets.
- Kajal Gandhi:** Any impact on the rental agreement that you had...
- R Venkataraman:** There is no impact just to give you clarity for April, May, June quarter almost 85% of the rental have been collected.
- Kajal Gandhi:** Okay fine. Thank you.
- Moderator:** Thank you. The next question is from the line of Manan Patel from Equirus PMS. Please go ahead.
- Manan Patel:** Sir my first question is regarding can you give me your market share for cash as well as total turnover?
- R Venkataraman:** I have given total turnover, the total turnover was Rs.17175 Crores 1566 Crores were average turnover in cash and derivatives are 15609.
- Manan Patel:** Right, so I got that number I wanted your market share total turnover?
- R Venkataraman:** Market share total basis on a combined market basis in cash we have about 2.66% and F&O is about 1.12%.

- Manan Patel:** Sir that has seen a dramatic reduction we were around 3.6% now it is almost 2.6% so what are the steps were taking to improve that?
- R Venkataraman:** So as I said again, I will repeat discount broking, intraday option trader have emerged as large segment so this is one segment which we are present in our sister company, but we are present directly so we are cognizant of this trend, we are launching algo platform, also in the institutional segments there are large transactions which underrated promoter sales which we are present so that is the one reason why we lost the market share, prop was very active and so we are present there then because of heightened market volatility we have been conservative while giving limit so hopefully in this quarter we should address all these things and get back of market share.
- Manan Patel:** Understood so my second question is you mentioned there is heightened add technologies spend in your admin expenses so would that be any one off number that we can see and that can be reducing in coming quarter?
- R Venkataraman:** See marketing is under control, technology I do not think will be a controllable variable because technology spend will continue, marketing we can play around with...
- Manan Patel:** And can you throw some light on any traction that you are getting on AAA segment?
- R Venkataraman:** AAA is targeted at the subbrokers of IIFL network and we believe that this can help us reach out in the smaller towns and cities so we have leverage and offered a platform where subbrokers can not only do broking but also some other products like mutual funds, bonds, insurance etc., as of now we have onboarded close to about 1500 AAAs but this is running in parallel to our normal subbroker acquisition mode also, so this is the long-term strategy and I think this is still too early to comment on but we are quite optimistic over the long-term prospect.
- Manan Patel:** Understood Sir my next question is on investment banking piece so while like lot of capital raising activity has been there in the market but the name IIFL Securities has been rarely seen in any of these activities so what is your pipeline like for the coming quarters?
- R Venkataraman:** If you look at our investment banking credentials we are present in the ECM, which is IPO and the QIP segment, unfortunately in this quarter we could not consummate any transaction, this was tough quarter for us given the lockdown as well as market volatility because of which a number of deals were pushed out, so as you rightly pointed out our capital raising activities will happen and we hope to participate in the capital raising activities by the Indian corporates.
- Manan Patel:** Sir we mentioned that we were also like starting the DCM desk so is there any progress on that?

- R Venkataraman:** No we already had it, anytime a deal happens a paper advertisement will come...
- Manan Patel:** I understood and Sir my last question is on the recent SEBI regulation regarding the separation of advisor and execution fees so will there be any impact on our financial product distribution from that?
- R Venkataraman:** See actually the new SEBI guidelines has come and said that customer can be either a distribution customer or an advisory customer, so as of now bulk of the business happens on our distribution platform so we are also evaluating the guidelines and seeing the impact of that on our business and I think we have three more months so hopefully before that we should take a call and decide what route to follow.
- Manan Patel:** Sir our FP360 will be purely advisory based is this understanding correct?
- R Venkataraman:** See as of now yes but the size is very small so we have to take a call on whether to do this under the advisory route or the distribution route, so we have a sister company called IIFL Wealth where there is a lot of industry knowledge and experience so we will exchange notes with them and conclude which route to choose.
- Manan Patel:** Understood Sir. Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Prajesh Maroo. Please go ahead.
- Moderator:** Thank you. The next question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.
- Anitha Rangan:** Thanks I had a couple of followup questions here. One in this quarter like because of the market volatility did you have to have any write off or take provision on your loans, which you get on your margin funding book?
- R Venkataraman:** Zero.
- Anitha Rangan:** Zero okay and my second question is when you said that you have become more conservative in terms of giving limits and all can you just elaborate us to what do you mean by conservative and what extent you have changed and going forward like will you maintain this for a longer period of time or will you like change this very quickly and revert back to your old method?
- R Venkataraman:** See when you say conservative basically effectively it means that the loan against products we become much more conservative when it comes to client funding so that is it, if you remember in March markets are very volatile, people are scared because of COVID and lockdown we became conservative, so now we believe the things are normal, so our risk management committee will take a call on our funding parameters.
- Anitha Rangan:** Okay fair enough, thanks.
- Moderator:** Thank you. The next question is from the line of Nitin Ashwath. Please go ahead.

- Nitin Ashwath:** Yes, I just wanted a question on what is the kind of clientele that you have in terms of day traders versus the delivery?
- R Venkataraman:** We have mix of both day traders as well as delivery customers, roughly about I think bulk of the customers trading most of them doing F&O trading I do not have that, I will do one thing analytics on a customer database and get back to you with more color. I am sorry I cannot answer this question.
- Nitin Ashwath:** Yes, this question was more in relation to what you are saying actually that your customer base is actually different from the discount brokers.
- R Venkataraman:** No, the context was there is a rising breed of customers who take options aggressively so either using algo or whatever and in the recent past you have seen many new people who are coming new to the market burning their fingers on this options trading, so my comments have to be interpreted in that context.
- Nitin Ashwath:** Right and one more question I wanted to understand properties that you own and the rental income that you get what is that actually if you can throw some color on that and your cash balance at the end of the quarter?
- R Venkataraman:** Sorry?
- Nitin Ashwath:** Basically the properties that you own I just wanted some details on that because you get rental income as well as what is the cash balance at the end of this quarter?
- R Venkataraman:** Cash and cash equivalent at the end of this quarter is about Rs.1100 Crores.
- Nitin Ashwath:** Okay and the rental income that you get, what are the properties?
- R Venkataraman:** We have properties, which is carried in the book at about Rs.305 Crores, which includes office based roughly about 330000 square feet of office premises, we have a big office in Chennai, which is about 250000 square feet and then we have offices in Mumbai, which is Andheri and Thane then we have an office in Ahmedabad then we have an office in Hyderabad, and Pune, so this roughly gives you a flavor of that.
- Nitin Ashwath:** Just to understand the rental income?
- R Venkataraman:** Annual rental is about Rs.55 Crores, roughly about Rs.55 Crores, 55% comes from groups and 45% comes from outside.
- Nitin Ashwath:** Okay thanks, that is useful.
- Moderator:** Thank you. The next question is from the line of Pawandeep Singh Bhatia from Phoenix Capital. Please go ahead.

- Pawandeep Bhatia:** Just wanted to inquire about if I heard that number correctly our market share has severely dropped from 3.8% to 2.6% cash plus F&O combined right?
- R Venkataraman:** See in cash it has come from 3.2 to 2.7.
- Pawandeep Bhatia:** 3.2 to 2.7 right and in F&O Sir?
- R Venkataraman:** 1.3 to 1.1.
- Pawandeep Bhatia:** Sir sorry to ask this question again because this comes across as a big concern the cash market, you are talking about the option trading product, which is a new option traders are coming in and using that product so we can gain some market share in the next quarter, but even the cash market share has dropped are we confident that we get it back to the previous level in coming quarters?
- R Venkataraman:** See actually what has happened in the cash segment is that this is combined turnover to the retail, institution, prop as well as others, so in the institutional segment we have lost some shares because of there were large numbers of underwritten deals, which happened with some of those hold on, so which we do not have a presence there, so we think that in the days to come based upon our customer activation, customer acquisition we hope to get back our market share.
- Pawandeep Bhatia:** Sure Sir. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Arpit Agrawal from Electrum Investment Managers. Please go ahead.
- Arpit Agrawal:** Sir I just wanted to understand how are you positioning this business because you said that in the retail side especially on discount broking side you have 5paisa and then on the advisory side you have IIFL Wealth has its own broking investment clients so what is the strategy how do you think that this will grow going forward because it seems that we have been losing market share, you said that some of the clients, which have been trading options, you have launched algos that means you will eventually compete with your own 5paisa so how do you differentiate and where will this business be say three years down the line?
- R Venkataraman:** See we actually believe that there is a market for mass affluent broking and financial services. So if you look at our IIFL Securities then we have a pedigree in research, we have a base of clients, we have brand which is known across the country, we also have a branch network all over the country, so we have invested in the platform and we think as the customer goes up on the affluence chain then there is a requirement for mass affluent financial services provider , a broker you can talk to. If you look at 5paisa, 5paisa is absolute discount broking company and world over discount broking is done separately and that is the reason why we separated

out the entity so 5paisa has no RM, no branches and no advisors and both are very different and effectively targets additionally for the customer who works with everything on the road and they are going to pay the least brokerage and that is why the full service broking for mass affluent as well as discount broking are separate. To answer a question whether IIFL Securities will also offer flat brokerage the answer is yes, we have a base of customers who do not want any support of RM or research and for those customers we will offer flat brokerage as a retention tool, but the difference is very simple. The difference is of core business model, which is not a flat brokerage or discount , it is a full service in affluent market.

Arpit Agrawal: In terms of technology do you think your technology is at par the best discount brokerage because if you see in beginning of this quarter you are from 5paisa added about 175000 odd customers about or maybe and you have added about 75000 customers, so you are like kind of half addition this quarter with such a large network into the large RM fleet wherein a 5paisa does not have back so how do you explain that difference even in customer additions?

R Venkataraman: See actually if you look at it , our pace of customer acquisition was slow and it has started gaining momentum in the last two quarters, so we have also set up capacities and earlier we have not focused on customer acquisition so we didn't have the capacity in place so now we have set up the capacity and hopefully in the days to come we should see improved customer acquisition.

Arpit Agrawal: Okay and Sir lastly what is the plan with the real estate I remember a few quarters back in the presentation you were mentioned that you plan to demerge it and create a REIT out of it, so what is the plan?

R Venkataraman: As you rightly pointed out we have plans to monetize it so either through REIT or sale, last quarter we have sold one RE asset and after that things seem to have hit a roadblock because of a variety of reasons then COVID happened, but the agenda is very clear that we have to either do REIT and monetize or sell.

Arpit Agrawal: Rs.1100 Crores you mentioned in the last question is it all or client money also lying in the balance sheet?

R Venkataraman: Including client money.

Arpit Agrawal: What would be the net cash, which belongs to IIFL Securities?

R Venkataraman: It will be about Rs.50, Rs.60 Crores.

Arpit Agrawal: Okay, thank you so much.

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

Utsav Gogirwar: I joined this call a little late so I am not sure if I am repeating the question, but I just want to understand if I look at the run rate of customer acquisition from Q4 to Q1 that is split addition, but if look at the discount brokers they are gaining market share drastically and I just want to understand how we will be able to

compete with them, you have talked about the research platform and various other platforms just now, but do you think so that really matters in terms of acquisition or it is just pricing, which is differentiating right now for the customer?

R Venkataraman: Actually there is no doubt that the discount brokers are getting large number of customers, but the customers, which we are targeting are different, we are targeting the mass affluent segments and not this heavy trader on a discount model, so we think that this is like a mass affluent financial advisory kind of model where the customer needs not only RM as well as research and competitive price so we think there is a demand for both these things and we are targeting that segment.

Utsav Gogirwar: So what is the average age of our customers?

R Venkataraman: Somebody has asked me this question, so I do not have the social demographics right in front of me, but for the next call I will configure the social demographics.

Utsav Gogirwar: Second question on this I just wanted to understand what is your sense on the quality of customers who are on-boarded in the last three months especially can you give some color on this anything, so my sense is that the customers who are added those are like below 30, which even some of the discount broker are mentioned so I just wanted to understand how sticky this customer in your view, is there any some metric we can look at it I just wanted to understand on that part?

R Venkataraman: Three months is too early to comment upon the customer quality, so but anyway on the age part of it I will run the demographic next time.

Utsav Gogirwar: Okay, sure Sir. Thank you.

Moderator: Thank you. The next question is from the line of Nath Balakrishnan from Spark Fund. Please go ahead.

Nath Balakrishnan: I have two questions. The first one is on your number of clients that you have acquired in your retail business and essentially an extension of the question that was posed by the previous gentleman what is your sense in terms of the stickiness of this client going forward and also in the context of the fact that we have seen a complete collapse in interest rates on alternative asset classes so do you believe that a large part of the attrition is attributable to that and this is likely to reverse again once rates start picking up?

R Venkataraman: As I said earlier there are combination of factors, which is like a mobile phone penetration, payment gateway penetration, ease of credit and lower interest rates, which has led to this explosion in the number of customers as well as the increase in retail trading volumes and that is obviously no doubt helped our financial product awareness and availability. Now three months is too early a time to comment about the stickiness of the lifecycle of the customer so we think that this customer also comes and trade the options and does intraday trading but over a period of time they will evolve and become conducive for buying and selling other

financial products also, so historically if you go back in time and see from 1990s and SEBI, NSE NSDL started then you had internet boom so the market finds what was engineering terms called the higher delta so we expect that the base level will change and awareness, interest, everything will change dramatically.

Nath Balakrishnan: Understood. Sir my second question was on the comment that you made in response to an earlier question on your real estate rental business and how you articulated that the intent was always to monetize either through an outright sale or setting up an REIT structure, you also mentioned that these properties have been carried on your balance sheet at Rs.305 Crores did I get that number correct and what will be the market value of these properties?

R Venkataraman: It will be Rs.700 to Rs.750 Crores.

Nath Balakrishnan: Sure, no problem, which is why I said ballpark and finally my one last question I had was this if I have to look at your P&L what explains the really sharp fall in finance cost both sequentially and Y-o-Y?

R Venkataraman: From year-on-year as well as quarter-on-quarter can be explained because we borrowed short term for the SBI IPO, the year-on-year decline is because overall level of that in the balance sheet has come down.

Nath Balakrishnan: Okay and what is your gross debt number as of June 30, 2020?

R Venkataraman: Rs.250 Crores.

Nath Balakrishnan: In response to another query you said that your unencumbered cash on your balance sheet is Rs.60 Crores right did I hear that correctly?

R Venkataraman: About Rs.50 to 60 Crores.

Nath Balakrishnan: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Jamil Ansari from Bajaj Allianz Life Insurance. Please go ahead.

Jamil Ansari: Sir you said that to address that option trading segment you can enter into the segment in which 5paisa which also has low output, but at the time of the growth restructuring into various entities would not you have noncompete agreements in entities that 5paisa would not enter into full service and you would enter into discount booking?

R Venkataraman: Actually if you look at I will just go back in time and give you the rationale for 5paisa as well. 5paisa was a discount booking company and world over discount booking activity is done by a separate corporate entity and not done within the full service broker as SBU. So IIFL Securities has had a full service broker positioning and whereas 5paisa had no RM, no branches, no advisors and both are very different, we tried doing it like SBU within IIFL and we realize that it makes more businesses to separate into separate entity where they have

new millennials, distant savvy who want to do everything on their own and they want to pay the least amount of brokerage, IIFL has a base of customers who out of which certain online customers do not want to have the support of RM and resource, so for these customers as a part of customer retention I offered flat brokerage, so it is not that I am going to change my business model and become a flat brokerage customer.

Jamil Ansari: Okay so there is nothing contractual that would stop you from offering a flat brokerage sort of structure?

R Venkataraman: Yes.

Jamil Ansari: Okay I understood. Thank you.

Moderator: Thank you. The next question is from the line of Jigar Shah from Financial Research. Please go ahead.

Jigar Shah: Thank you. My questions are answered.

Moderator: Thank you. The next question is from the line of Nitin Ashwath. Please go ahead.

Nitin Ashwath: Most of your mechanism in terms of the mutual fund moves to trail right?

R Venkataraman: Yes, yes mutual fund is trail I thought you said insurance.

Nitin Ashwath: No mutual fund.

R Venkataraman: Mutual fund is 100% trail model.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

R Venkataraman: Thank you so much and if you have any further followup queries please send an e-mail to investor.relations@iifl.com and then we will address them soon. Thank you so much and have a nice day.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.