October 25, 2023

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Dear Sir/Madam,

Sub: - Earnings conference call transcript

Please find attached herewith transcript of the earnings call held on Wednesday, October 18, 2023. The same is also made available on the website of the Company i.e. https://www.indiainfoline.com/securities/reports/IIFL_Sec-Earnings_call_transcript-Q2FY24-final.pdf

Kindly take the same on record and oblige.

Thanking You,

Yours faithfully,

For **IIFL Securities Limited**

Meghal Abhishek Shah

Digitally signed by Meghal Abhishek Shah
Date: 2023.10.25 22:03:56 +05'30'

Meghal Shah
Company Secretary

Encl: As above

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"IIFL Securities Limited Q2 FY24 Earnings Conference Call"

October 18, 2023

MANAGEMENT: MR. R VENKATARAMAN – CHAIRMAN & MANAGING DIRECTOR
MR. RONAK GANDHI – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Securities Limited Q2 FY24 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 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 Mr. R Venkataraman. Thank you and over to you, sir.

R Venkataraman: Thank you and good afternoon, everybody. Welcome to the Q2 FY24 Analyst Call for IIFL Securities.

The global economy has proven to be more resilient than what was expected, but the outlook continues to remain weak. Most organizations, global think tanks, continue to say that Asia is a driver with India leading the way.

India's macroeconomic situation continues to remain sanguine. However, geopolitics continues to cast its shadow earlier we had Ukraine and Russia. Now we have Israel and Hamas, that is one that cloud on the horizon which refuses to go away.

Coming to our business:

We are optimistic about the India growth story. We are optimistic of capitalizing on the India growth story, and we continue to make investments in talent technology to make sure that we fortify our competitive positioning. We have put a good performance in Q2 with all business segments gaining more traction.

Our investment banking especially completed 17 transactions, including one M&A transaction, deal pipeline and outlook remains strong. Specifically, to September 30 results, consolidated revenues for the quarter 534 crores up 65% year-on-year, 30% quarter-on-quarter.

The reason for this year-on-year change is because of brokerage income that has risen 66% - 271 crores versus 163 crores for Q2 FY23. Distribution of financial product distribution has increased by 57% - 85 crores in Q2 FY24 versus 54 crores in Q2 FY23 due to sale of high yield products like AIF, PMS, health, wellness products and insurance. Investment banking also increased 52% - 38 crores versus 25 crores in Q2 FY23.

On a quarter-on-quarter basis again brokerage income has increased – 271 crores versus 177 crores and that was primarily driven by large transactions in institutional broking. FPD income was flat at 85 crores and investment banking has reduced - 38 crores against 55 crores in the 1st Quarter FY24.

Other income has increased significantly, which you can see as 27 crores, primarily due to the mark-to-market gain in BSE shares.

Coming to expenses:

Employee costs have increased 41% quarter-on-quarter, 43% year-on-year and mainly because of bonus provisions for the institutional broking and banking business.

Finance costs were up 44% quarter-on-quarter, 58% year-on-year because of the increase in our borrowing lines and borrowing limits, primarily because of growth of MTF as well as margin requirements.

Admin cost has increased 22% quarter-on-quarter, 78% year-on-year mainly because of increase in sub-brokerage passed out, legal and professional expenses, technology and provisions. Marketing expenses also increased because of increased activity and sale of livlong wellness products.

Our Asset under Management and Custody stood at 1,69,822 crores. Our average daily turnover was 2,49,979 crores, broken into 2,445 crores in cash and 2,47,533 crores in derivatives. The corresponding figure for the last quarter was 2,30,816 crores, 1,655 in cash and 2,29,161 in the derivative segment.

We have 4.23 lakh active customers in NSE and as we had already told earlier our pace of customer acquisition has slowed down, we have acquired about 50,000 customers in the quarter and primarily because we want to focus on the segment which is affluent.

With this I come to the end of my talk, and we are more than happy to answer any questions that you want. Thank you so much.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Narendra from RoboCap. Please go ahead.

Narendra: So, my first question is regarding your average daily turnover. So, yes, it has been a drastic increase over the past quarter and over the past year also. So, what do you think, how much of it is sustainable and what is your outlook for the next couple of years?

R Venkataraman: This is a question for which it is very difficult to give a very scientific answer. But let me try and articulate my thoughts to the best of my ability. So, if you see the exchange turnover, then bulk of the volume is happening in options and within options also now there are big players who have come in the what I call as the Algo trading platform. In the past our Algo offerings were not very strong and in the last two quarters we have made significant investments in our Algo platforms and hopefully we are able to see some benefits of that.

So, these are the typical customers who are what we call high-volume customers who keep on trading aggressively in the options segment. This is one segment which we continue to invest and acquire customers who trade options significantly.

But having said that, this is one segment which is very competitive, and customers lean for lower and lower brokerages and there's a race to bottom happening.

So, it is very difficult to say how much of this growth will happen going ahead also and as I said that our agenda is to focus more on the affluent segment and make sure that we get into "Financial Planning Model" so that we try to increase our cash segment and try selling more and more of financial products.

Narendra: And what kind of pipeline are you seeing in the investment banking business, so what kind of growth will we see in the next couple of years space?

R Venkataraman: We are very optimistic about our investment banking business and this is one business we have done -- we have continued to invest in the last 5 / 6 / 7 years and given the fact that macro economically speaking India is in a sweet spot and as the economy recovers and CAPEX cycle starts then there will be a big opportunity in the small and mid-cap space, especially in the ECM segment.

And there we think our positioning is quite strong and the reason for our strong positioning is three-fold. I would say one we have a very good research. We have good corporate contacts and third, last, but not least, is that all the three buckets of the IPO construct, we are able to fulfill on our own strength.

Deal pipeline is also good, and I think overall I'm optimistic about it, although it's very difficult for me to give a number, last two quarters have been good because we saw actual closure of transactions. So this is lumpy income and as and when transactions close, it will come. But overall, directionally speaking, we are very optimistic.

Narendra: And one question regarding that BSE has launched its option derivatives segment. So, are you seeing any kind of traction over there, has it also contributed a little bit?

R Venkataraman: Yes, actually that's a very valid point you have raised. BSE has started Sensex options and so we have also benefited from that, so yes.

Narendra: Because we are seeing a humongous growth there?

R Venkataraman: Yes, we are seeing growth there.

Narendra: And my final question would be a ballpark growth that you can give on your top line and your margins if it's possible for the next couple of years?

R Venkataraman: This is something which is very difficult for me to hazard a guess and also forward-looking statements are generally difficult to make. So, I would skip this question if you don't mind.

Narendra: So, overall, we are optimistic about the growth I mean because one of the brokers I attended he said that the next couple of months or next couple of quarters could be a little bit down due to the elections and stuff. So, are we on the same line or we are more optimistic?

R Venkataraman: Actually, I'll answer that question very differently. What happens is that it is very difficult to give a quarter-on-quarter outlook and because obviously our business is quite linked to the state of the market for lack of a better word.

So, my suggestion is that don't look on a quarter-on-quarter basis but look up on a longer trend. So, longer trend all the indicators for our business are sanguine simply because I would say economy will move from 3.5 trillion to 7 trillion.

The total amount of assets in the mutual fund will increase. Life insurance penetration will increase, and I would say sale of PMS and AIF products will increase. The number of demat account holders will increase and people I would think that financialization of savings is also real trend.

So, given these factors, I would say, look at a longer run and or maybe a year-on-year or a larger time frame because shorter time frames tend to distort the picture.

Narendra: So, one question what are our top focuses I mean what are the top segments that we are focusing on for the medium term?

R Venkataraman: No, I would answer that question differently. We have three segments which are targeting. One is institutional broking where our team continues to do well. We are known for our research.

Investment banking again in the mid-market space we're trying to build capacities and last, but not the least is I would say instead of derivatives broking or chasing market share in broking we were more focused on the financial planning on the affluent segment.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: So, firstly on this option volumes when we talk to investors, I think there are two concerns which are always cited and would seek your responses to those two concerns. One is whether we have reached the -- what will be the best way to judge whether the option volumes can continue to rise from the levels that we've already seen whether the market goes up or down. We've always seen option volumes in the last 3 - 4 years just heading north barring a few months where we could see, we would have seen some flattish trends. So, how do we kind of take this call whether the option volumes will continue to see a upward trajectory?

Second is whether how the activity of these customers, especially the likes of discount brokers who have acquired very young customers in the lower tier cities with a very lower ticket size. What kind of behavior would these customers entail in case of a bear market and possibly I'll just add one more - the regulator, whether the regulator will intervene and kind of restrict retail activity participation in the market we would like your responses to these three concerns and whether these are any real concerns for the industry?

R Venkataraman: It is a very complicated and I would say very interesting question and I will give you my perspective in the sense that I always thought that when derivatives volume became 90 and cash segment became 10, I thought this was the peak then 90 became 95:5 then 95:5 became 99:1 then 99.6 to 0.4.

So, this entire growth and growth of derivatives has I would say for a lack of a better word surprised me because the way this entire growth has happened has really got people by surprise and even if you look at the options volume, the bulk of the volume is also happening in NIFTY.

Now SENSEX has come again and has formed a new, I would say, NIFTY, Bank NIFTY FIN NIFTY then you have SENSEX, then BANKEX and all those things. So, these are I would say triggers which are happening and then they are ordering what is called the “Mini Lot” also.

I think Axis Bank Mutual Fund has written a report which is called “Gamification of India.” So, they have raised some real concerns in the sense that people are looking at this more like a I would say a game rather than serious investment.

So, this growth is happening for sure and more and more new people are coming and trading options. So, this is a trend. So, I'm sure that regulators will look into it and curb whatever unhealthy practices are there. So, I think it's for the regulators to decide, but my guess is that frankly speaking every time in the analyst call you ask you this question, I think it is over and I'm like proven wrong. So, this is something which I would now decide not to opine or give any opinion.

Prayesh Jain: Sir, secondly, on your client acquisition strategy now you spoke that we will be focusing on affluent client acquisition. So, what are the channels that these acquisitions of clients and how do we see this further scaling up from here, if you could just give some numbers on the acquisition that you would have made in the first half, where are these customers - from lower tier cities, what age cohorts these are from and what income cohorts these are from that would be helpful?

R Venkataraman: No, I don't have these like age and income cohort.We have two, three channels to acquire. One we have a sub-broker channel from which we are acquiring, and we have our own RM base to acquire and the pace of acquisitions slow. So, this is not something where I can talk saying that I'm going to acquire lakhs and lakhs of customers.

So, we are more focused as you said on the affluent segment and the quality of customer rather than getting customer for the sake of customers and that that's the process. So, as we said we have articulated this strategy sometimes two, three quarters ago and hopefully over a period of time we will gain traction.

Prayesh Jain: And recently we have seen one of the traditional brokers which is bank-based broker and HDFC Securities in particular, they have launched a proposition for a discount broker. While I understand we already have a group entity which is 5paisa is that is the strategy that everything will go to 5paisa in terms of discount broking and IIFL securities would be primarily running in the traditional format and looking at the brick-and-mortar business, is that the right way to think about it?

R Venkataraman: Sorry can you repeat this question because I missed you.

Prayesh Jain: No, so basically what happened was HDFC Securities, they've recently launched an app - discount broking model where they will be focusing on and competing against Zerodha, Upstox, Groww those kinds of companies. But we already have a good company called 5paisa with this focus.

So, that approach will continue to be in that formal discount broking will be in the 5paisa and the main business will be or the traditional broking business will continue to be in the IIFL securities that is the right approach that we continue?

R Venkataraman: Yes, we are very clear that no touch, tech savvy, do-it-yourself customers will be focused on by 5paisa. IIFL Securities will have more financial planning kind of customers where there is a human intervention and human assistance because of the cost to serve by humans, we need to target a more affluent customer.

Prayesh Jain: So, last couple of question on the distribution side where would the focus be. Life insurance we've seen there are some changes in the taxation rates which has impacted some business and in one of the key competitors have shown a very muted performance in life insurance and even for you guys I think the life insurance business was kind of muted in this year?

R Venkataraman: Actually, our focus in this segment will be all products CMS, AIF, mutual fund bonds, insurance, general insurance, wellness. So, we are focused on that and my opinion is that because of tax changes this has been affected. But over time people adjust and normalize.

So, my feeling is that because everybody had a bumper fourth quarter. So, now people attacked for relax for a better word, I would say going slow, but too soon it will catch up. So, it will be all kinds of advisory products.

Prayesh Jain: And so lastly your take on the MCX transition that has happened on whether for us it has been smooth and whether are we facing any issues with regards to the software transition which has happened day before yesterday, are we facing any challenges or some form of transition?

R Venkataraman: Actually, to answer your question they were teething problems, but more or less smooth, but I think it's a non-issue because the transition has happened.

Moderator: Thank you. The next question is from the line of Sumit Jankar, who's an individual investor. Please go ahead.

Sumit Jankar: I wanted to know the current cash market share derivatives and commodities market share. And my second question also is on the brokerage sharing for the cash and derivatives, and my other question will be regarding the MTF, so how much percentage of MTF is outsourced?

R Venkataraman: No, I didn't understand the last question MTF is outsourced.

Sumit Jankar: I mean your MTF book size is around 895 crores, so out of 895 how much it is outsourced?

Ronak Gandhi: So, as per regulator we can do 50% from own fund and 50% from the borrowed fund.

Sumit Jankar: I mean how much of MTF is taken from bank like that?

R Venkataraman: So, how do we fund it – okay - funding is 50% own and 50% borrowing borrowed amount. And as you know our own balance sheet is about 1,300 crores so that we can manage. Coming to market here I would say our cash market is approximately 3%, F&O market is about 0.8%, but there we have divided by total. We have not separated retail and prop. The denominator is total exchange volume and commodity is about 0.5.

Sumit Jankar: And what is the sharing of derivatives in total brokerage - cash and derivative sharing?

R Venkataraman: It will be about 60-40. 40 cash, 60 derivatives.

Sumit Jankar: I have one general question regarding the derivatives plan, so currently the derivatives retention is very important I guess, so what can be the true reasons so that the retention can be increased and also the client can make few losses because the client accounts are growing and they face heavy margin, so what client should do and also for retention of the company what are the few main reasons which can help?

R Venkataraman: First of all, my guess is that the client should become educated and know about how to trade options rather than coming and doing what I call as "Blind Satta" or I would say just "Khelo India Khelo." So, the client has to be educated. So, basically they should put stop loss or be careful and here we as a broker we spend a lot of time and energy educating customer and telling people that derivatives is for sophisticated people and it's better to put money in mutual fund and cash segment and take delivery and hold for the long term because the entire option is for one month only and in one month the market can go anywhere. So, my guess is that people trade, learn, make mistakes, learn and then become I would say more intelligent investors.

Moderator: Thank you. The next question is from Mahesh Awate from Poddar Diamond Private Limited. Please go ahead.

Mahesh Awate: Going forward that we are actually growing on top line and bottom line. So, going for the next two to three years horizon, are we going to maintain the same trend first of all and whether these margins will be maintained going ahead?

R Venkataraman: I think going forward, on a three year forward, I think growth trend should continue although as I said earlier it is also difficult to predict on a quarter-on-quarter basis. So, given overall I would say financial savings trend I'm quite optimistic. Regarding margin I think we should be able to protect the margin.

Mahesh Awate: There is also an increase in employee cost and finance cost this quarter?

R Venkataraman: Yes, employee cost has increased because of bonus provisions, finance costs has increased because of increase in borrowings as the margin trading book has increased.

Mahesh Awate: But any plans going forward to get out of this debt burden?

R Venkataraman: Our debt is not a "debt burden" because as the margin trading book comes down, debt will reduce and other components of usage of funds is because of exchange margins. Because of tightening of SEBI regulations, our funds are getting blocked in exchange.

So, these are two uses of capital. So, theoretically speaking we have not borrowed and put money in plant and machinery to that extent. So, effectively they are just working capital and can come back fast.

Moderator: Thank you. The next question is from Varun from Abakkus Asset Manager. Please go ahead.

Varun: Just one question why the other income is so high 26 crores as compared to…

R Venkataraman: Other income is very high because of mark-to-market gain in BSE shares. As you know we have BSE shares in our investment so that had a mark-to-market gain.

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

Pranay: What is the status of basically that 5paisa transaction and when do we expect the shares?

R Venkataraman: See actually this 5paisa transaction is pending for regulatory approval. NSE, BSE, SEBI has been asking queries and we have answered all the queries. So, hopefully, we should get approval.

Pranay: And sir seeing our cash flows and the requirement of cash basically is there any thought process of doing a buyback and basically rewarding the shareholders as well as the promoter basically, is there any thought process on that?

R Venkataraman: The board will decide on this at an opportune time and as of now it is not proper for me to comment on that. So, I would guess that depending upon what the full year looks like, the board will decide. But having said that, I think we should be cognizant of the fact that because of new regulations, margin requirements have gone up. So, the company might like to retain cash. So, that it can fund its exchange margins for business growth as well as margin trading book. So, it has to be a balanced decision and I would guess the board will take a call.

Pranay: And last question from my side - has there been any real estate sale which was going to happen, or which was planned?

R Venkataraman: Last quarter we sold one property in Ahmadabad.

Pranay: And basically, going forward by this year end, any target?

R Venkataraman: Actually, I made this comment in the call also. So, I don't want to repeat it. We are trying to sell and as and when we get a good deal, we'll exit.

Moderator: Thank you. The next question is from Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Sir, on this upstreaming of funds to the clearing corporation did we have any impact of additional interest costs where we had to replace bank guarantees with some borrowings?

R Venkataraman: Sorry what?

Prayesh Jain: This upstreaming of funds to clearing corporation, the bank guarantee was removed; instead of bank guarantees there are mutual funds that could have been placed. But one of the competitors has cited that they would have additional burden of an interest cost because of this, so whether we are facing any such issues?

Ronak Gandhi: No, basically exchanges are taking fixed deposit and overnight mutual funds and only the working capital requirement is put in the form of cash. The bank guarantee was anyway allowed, but you have to now create it with your own funds. So, there is no linkage with the upstreaming of funds with the bank guarantee.

Prayesh Jain: And secondly on the mutual fund side we see the SIP count to be kind of plateauing in the last two to half two years, is mutual fund distribution facing some challenges because we are focusing on other products and secondly also on this trajectory whether it is in the affluent category or there is more shift towards AIF and PMS and that's the reason the mutual fund AUM for mutual fund account or folio account is not that not in line?

R Venkataraman: Actually, to be honest we are focusing on mutual funds. Yes, you're right that we are not seeing significant traction. One year ago, it was 152,000, now it's 160,000. So, obviously growth could have been bigger, but it's not been so much, and mutual fund assets are at about 8,587 crores. So, we will continue to grow this.

Moderator: Thank you. The next question is from Sumit Jankar, who's an individual investor. Please go ahead.

Sumit Jankar: Sir, my question is regarding the Algo trading you mentioned about the Algo trading. So, how much is the growth quarter-on-quarter growth in turnover?

R Venkataraman: I don't have this exact data on how quarter-on-on-quarter growth of Algo has taken place, but it has grown.

Sumit Jankar: Do you have numbers of market share of Algo separately?

R Venkataraman: No, I don't have a market share of Algo.

Moderator: That was the last question in the queue.

Management: Dear friends. Thank you so much for joining the analyst call. If you have any other questions, you can send an e-mail to our investor relations email id, and we will be more than happy to answer. Thank you so much once again and have a nice day.

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