



“Angel Broking Limited Q2 FY2021 Conference Call”

October 27, 2020



ANALYST: MR. ANSUMAN DEB – ICICI SECURITIES

**MANAGEMENT: MR. DINESH THAKKAR - CHAIRMAN AND MANAGING
DIRECTOR – ANGEL BROKING LIMITED
MR. VINAY AGRAWAL - CHIEF EXECUTIVE OFFICER -
ANGEL BROKING LIMITED
MR. VINEET AGRAWAL - CHIEF FINANCIAL OFFICER -
ANGEL BROKING LIMITED**

Angel Broking
October 27, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Angle Broking Limited Q2 FY2021 earnings conference call hosted by ICICI Securities Limited. This conference call may contain forward-looking statement about the company, which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ansuman Deb from ICICI Securities Limited. Thank you and over to you Sir!

Ansuman Deb: Thank you Faizan. Good morning ladies and gentleman, ICICI Securities is delighted to host Q2 FY2021 results conference call of Angel Broking Limited. We have with us Mr. Dinesh Thakkar, Chairman and Managing Director, Mr. Vinay Agrawal, Chief Executive Officer and Mr. Vineet Agrawal, Chief Financial Officer. Without further ado, I would hand over floor to the management for their initial remarks post which we will open the floor for Q&A. Over to you Sir!

Dinesh Thakkar: Thank you very much. I am Dinesh Thakkar, CMD Angel Broking Limited. Good morning everybody.

On behalf of Angel Broking Limited, I extend a warm welcome to everyone for joining us on this maiden earning call today. I hope you and your near ones are safe and healthy in this unprecedented times of COVID pandemic.

Let me begin by thanking our shareholders for their response to our recent IPO. We continue to strengthen the brand equity of Angel Broking and strongly believe we have a huge opportunity going forward. Since some of you may be hearing us for the first time today, let me give you a brief overview about Angel Broking and then our team will walk you through operational and financial performance.

Angel Broking is one of the largest digital retail broking house in India. Over the last couple of years, we have focused on transforming ourselves into becoming a digital power house of broking industry. We have invested our time and energy to transition from tech savvy and physical branch led model to completely digital player. We are today harnessing the benefit of digitization as we acquire customers across different tiers, cities and gain market share exponentially across segments.

We have overhauled all of our processes right from sourcing and acquiring our customer to servicing then digitally:

- 1) We have seamless and efficient account opening process wherein the customer can open an account and start to trade in less than 10 minutes.
- 2) More than 99% of the order placed by our direct clients are seamlessly executed online.
- 3) We proficiently use artificial intelligence and machine learning analytics to drive customer engagement and service activities.
- 4) Our best in class products and services including proprietary digital advisory services through our flagship product, ARQ, are only some testaments to our endeavor to become fully digital.

We pioneered the concept of Robo-Advisory in India through our flagship product called ARQ. ARQ provides equity advisory service based on alpha generating algorithms that take into account multiple fundamental and quantitative factors.

Our other product Angel Bee, one of our new products will be commercially launched over the next couple of quarters. Through this app, we intend to target clients who are eager to enter market through indirect Investments. This app is suitable product for investors based on their risk appetite and the recommendation would be based on their financial goals.

Using our digital properties successfully, we aim to become market leaders. Having already moved from yield base broking revenue model to a flat fee based broking revenue model, today, we charge Rs.0 for all delivery orders and flat fee of Rs.20 per order for all other segments.

The confluence of robust digital infrastructure and the best pricing model has accelerated our growth with multifold across all parameters. As a result, we had close to 39% of our overall client being active as on September 2020, making us one of the few players outperforming industry on active client basis.

As we move ahead

- 1) We plan to continue our focus on product innovation.
- 2) Provide an open source platform
- 3) Integrate more third party applications
- 4) Augment over Artificial Intelligence and Machine Learning capabilities to provide better than before personalized digital experience to our clients.
- 5) Engage with third party providers to widen our product basket,
- 6) Finally capitalized on the huge opportunity emanating from growing investible wealth in India.

Angel Broking
October 27, 2020

With this I now invite our CEO, Vinay Agrawal to take you through our operational performance.

Vinay Agrawal:

Thank you Dineshbhai. Good morning to everyone present on our first earning call. Q2 FY2021 has been a remarkable quarter for us, as we continue a sustained and high growth trajectory across all our business parameters. We witnessed 1) 59% growth in our new net client addition on quarter-on-quarter basis in Q2 FY2021 to 540,000 new customers as compared to 340,000 additions in Q1 of this year. This addition to our client roster is not a one or two quarter phenomenon, but it is something that we have witnessed and sustained for the last 18 months now. Majority of our customers acquired come from Tier-3 and beyond cities. Since we have been targeting younger, mobile and tech savvy customers, the average age of the customers acquired has steadily declined to 30 years now. 2) The robust client addition translates in a 15.8% market share in incremental Demat account which means that 1 in every 7 Demat accounts that are opened in India are with Angel.

This sustained rate of client addition also helps us to expand our funnel on active clients. Due to this, our overall equity average daily turnover breached Rs.1 lakh Crores mark for the first time in our history on a quarterly basis. Our growth in ADTO over the last 18 months is 7x faster than the industry. We have also gained market share across segments cash, F&O and commodities.

From Q1 FY2020 to Q2 FY2021, our retail turnover based market share grew 3.6x in F&O segment to 12.1% now. It grew 2.3x in commodity segment to 28.4%. It grew 1.4x in the cash segment to now 18.3% market share and it grew 3.3x in our overall retail equity segment to 12.3%.

Using our Artificial Intelligence and Machine Learning capabilities, we have been successful in activating more clients from our overall client pool. Our market share in NSE active client has also steadily increased to 7.1% at the end of Q2 FY2021 up from 4.4% in FY2018.

As Dinesh Bhai mentioned, close to 39% of our overall active client base remains active as of September 2020. This is significantly higher than the industry average of 30.5%. As our client base expanded, so did our overall active client base. We continue to witness the benefits of digital model in our business, which is giving us operating leverage visible in our financial performance, which I will now request Vineet Agrawal, our CFO to give you brief on.

Vineet Agrawal:

Thank you Vinay. Good morning everyone and thank you for joining us today.

I will take you through the financial snapshot for the quarter. As explained earlier, we achieved 59% sequential growth in our gross client additions, 107% sequential growth in our

Angel Broking
October 27, 2020

average daily turnover, 412 basis points expansion in our overall retail equity ADTO market share and strong quarterly average lending book of Rs.826 Crores. This translated into 29% sequential growth in our revenues to Rs.318 Crores, which is further bifurcated as gross booking income which accounted for 70% of revenues, interest income which includes interest on client funding book and fixed deposit interest which accounted for 17%, depository income accounted for 7%, income from distribution of mutual funds, insurance product accounted for 1% and others 5%.

Our gross broking income is further split into brokerage earned from cash and F&O segment, each contributing about 45% followed by commodity and currency at 10% and 1% respectively. After paying commission to our authorized persons, 70% of our net broking income was contributed by direct clients and balance by clients of our authorized persons.

Since we transformed into fully digital company, with majority of the transformation related costs already incurred over the last couple of years, we experienced benefit of operating leverage. As our topline grew, there was less than proportionate increase in our cost. This is seen from a consistent expansion of our earnings before depreciation, amortization and tax EBDAT margin from 30% in Q2 of FY2020 to just over 49% in Q2 of FY2021.

With no major depreciation related impact, our profit from continuing operations too grew by 55% sequentially in Q2 of FY2021 to Rs.74.6 Crores. Our trailing 12 months profit stood at 183.4 Crores translating into EPS of Rs.22.4 per share when calculated on our expanded equity base.

Our H1 FY2021 revenue and profit from continuing operations stood at Rs.565 Crores and Rs.123 Crores respectively. Our H1 FY2021 annualized ROE stood at 31% despite an expanded network owing to our recently concluded IPO.

We continue with our practice of paying dividend regularly and hence announce a second interim dividend of Rs.4.15 per share in the current quarter as well.

With this I conclude the presentation and open the floor for further discussion on our quarterly performance.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha:

Good morning everyone and congratulations for very good results. Basically on the discount broking front, yours is the first company that is organizing such a call, so firstly on the basics if we see there is only Zerodha which is the leader which is able to make good profit margins

and ROE and other smaller discount broking companies are just around breaking even, so if you can throw some light on basics of discount broking dynamics what is the number of customers to required to achieve break even to kind of generate 25%, 30% ROE, what numbers are required and second question is if you can bifurcate this 30%, 31% ROE which you did in H1 if you can bifurcate between traditional and your discount broking, so how much money you made in both the business separately? Thank you.

Vinay Agrawal:

Thank you for your question. First to tell you in discount broking what is really required to become profitable is the scale and size. I do not have a very perfect number what the volume and at what turnover, you start becoming profitable, but clearly we have achieved that scale and size that is why you can clearly see that we are not only highly profitable, but we are also able to maintain the growth momentum. So that is how to answer your first question what is important is that you achieve a scale and size so that you really become profitable, because what you are really doing is you are giving lower brokerage rate to the customers. So once you have achieve a scale and size then your cost does not go up, because you know that customers are served digitally and we have clearly achieved that scale and size and that is why we are profitable. With regards to the second question, you can take it like this bulk of our direct business currently is into the new brokerage plan which is like Re.0 and Rs.20, Re.0 for delivery and Rs.20 for all other trades, so bulk of our direct business is into this new plan.

Jehan Bhadha:

You meant to say that discount broking business is also making as good an ROE as the traditional business?

Vinay Agrawal:

Absolutely.

Jehan Bhadha:

Thank you.

Moderator:

Thank you. The next question is from the line of Atul Mehra from Motilal Oswal AMC. Please go ahead.

Atul Mehra:

Good afternoon. Thanks for the opportunity and congratulations for the good results. Just a couple of questions; one is in terms of large part of business today is coming in from cash intraday and given the stricter, in terms of SEBI norms that we are now getting into, what do you think is the likely impact going to be on the cash intraday volumes, do you see that shifting to F&O henceforth given the upfront margin requirements and so on, so any comments on that firstly? Thank you.

Vinay Agrawal:

If you look at the upfront margin requirement, now it is applicable for both similarly like cash segment and F&O in both cases, you have to give upfront margins. So there is now no

difference, earlier there was an advantage in the cash segment where there was no regulatory requirement of giving upfront margin. Now that also kind have been leveled, so now if you ask me today for future & options as well as cash segment, the margin requirements are absolutely the same that is why we do not believe, we will see shift in the business from one segment to the other segment.

Atul Mehra: How do you see the impact of that so I think in November or sometime we will see another round of phase wise in terms of happening, in terms of margin restrictions, so how do you see the impact on cash volumes, intraday volumes going forward?

Vinay Agrawal: Again as I said, there is no difference between cash and F&O, so I do not believe that there will be difference between cash and F&O going forward also. Secondly I think the new regulation that are coming into play have been kind of spelled out quite long back so I believe most of the broking house and we are fully geared up to implement the new regulations. As regards to the exchange volumes, if you look at the history, SEBI regularly has been coming out with new kind of regulation time to time and this has only helped more retail participation, this has only helped the overall exchange volumes to grow because it brings more transparency and more safety to the customers.

Atul Mehra: Second is more on the competitive landscape in discount broking, I think latest launch have been by PayTM on discount, wherein especially on the pricing, they have little bit in terms of more lenient versus players like us, so how do you see the evolving landscape in terms of discount broking where even some of the other traditional brokers are also now morphing into discount broking, so how do you see this evolving and what would be the impact that we might see on this going forward? Would you at any point in time want to change your pricing of Rs.20 a trade or you are all clear that you all do not want to be playing the pricing game and may be will get other value adds and so on, any comments on this? Thank you.

Vinay Agrawal: I will request Dineshbhai to take this question please.

Dinesh Thakkar: Pricing has never been the only criteria of growing your business in terms of scale and size. The broking industry particularly you require a lots of domain knowledge & using technology and just being a person into multiple businesses is not going to give you a sharp service, what the customer requires. My experience is already we have seen in the market, there are a few players who came with Rs.10 a order or even somewhere near there, they were unable to achieve a scale and size. I believe that the kind of trust that people have on us and the service that we provide to users that helps us to achieve a scale and size which has helped us to achieve operating levers that already we have build in. So now I do not think pricing is a concern for us, but in fact what is important is that one has to look at, this market is going totally digital and we are seeing the big growth on digital side. So given the size and scale

that we have, I think we have been major beneficiary if we get in digital player would be able to expand the market, I see this as a complementing to our expanding market share.

Atul Mehra: One final question in terms of given the traction on new customer acquisition has been very good for us, is there any particular aspirational market share number that we are looking at three years down the line or something of that sort?

Dinesh Thakkar: Our aspirations are to become number one player in digital stock broking and when it comes to digital players I think top four or five would be having more than double digit number and we are already at number four and in terms of incremental client for this H1 we are at number three, so the aspiration is target to be number one in broking industry.

Atul Mehra: Thank you and wish you all the best.

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

Jamil Ansari: Thanks and good morning everyone. Of the total brokerage income, how much of that is coming directly and how much is towards the authorized person?

Vineet Agrawal: On a net brokerage basis, 70% of our income comes from direct clients and 30% comes through our authorized persons.

Jamil Ansari: The income from the authorized person is booked in revenue line and payout is there in the expenses, right? that is the way it is being accounted or only the net is booked?

Vineet Agrawal: The income is booked in the income line and the expenses are part of the expenses. The payout is part of the expenses.

Jamil Ansari: So that negative growth is expenses is what you would have paid out to the sub-brokers?

Vineet Agrawal: Yes.

Jamil Ansari: In terms of our customer acquisition cost, how is that running on the time?

Vinay Agrawal: If you see we have been able to really create a very strong digital platform for ourselves and that is why we are able to really control our customer acquisition cost, so we have been able to really fairly maintain it at a good level which makes us very, very profitable and we are able to really expand our customer as you have seen from our number at a decent price.

- Jamil Ansari:** Even when our customer acquisition has gone up some 2x, 3x on a Y-o-Y period, employee cost broadly is flat, so is that possible that you are acquiring customer without incurring any employee cost?
- Vinay Agrawal:** As I was repeating we have become a fully digital organization, so in fact we have practically closed all our B2C branch offices. So, completely our whole digital acquisition, all of our acquisition is happening digitally, 100% digitally for our direct clients. That is why you will see not a big change in the employee cost as we are growing our customer acquisition numbers. We have become a fully digital Sir, so as we have become fully digital, all our clients we acquire them through digital methods.
- Jamil Ansari:** Given that most of our revenues are linked to numbers of orders to actual turnover in rupees Crores, should it be also start reporting in terms of yields per order basis I think that would be more reflective of the performance?
- Vinay Agrawal:** I take your suggestion Sir. Currently, it is a very, very straight, we charge zero rupees for delivery based order and we charge Rs.20 for all other orders, it is really as simple as that.
- Jamil Ansari:** So there is no change in the yields right, there is no movement in the yields on per order basis?
- Vinay Agrawal:** Yes. There is nothing to really look at it because it is so simple and straight.
- Jamil Ansari:** Finally on the dividend side, you announced a dividend of Rs.4.15 this time, but overall what is the policy like, what kind of payout are you looking at?
- Dinesh Thakkar:** Being into digital business and being into business which is asset light, I think with our strong operating levers and sustainable growth, we will be able to maintain this dividend payout, because we do not require huge cash flow to maintain our business expansion. So growth would be there but in terms of requirement of capital, I think we are fairly capitalized now to take care of this and maintain this dividend payout.
- Jamil Ansari:** Should one expect a 60% or 70% payout in the dividend?
- Dinesh Thakkar:** That we will see as per our business growth, it is after a few quarters that we will take a final call on what is the cash requirement for business to grow. but what I am saying is that to maintain this payout what we have announced, it is possible.
- Jamil Ansari:** Thank you so much and all the best.

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

Nidhesh Jain: Thank you for the opportunity. Congratulations for the quarter. First on the operating expenses, how should we think about operating expenses going forward because you mentioned that you may not be incurring operating expenses to acquire these set of clients, so do you expect the operating expenses will remain broadly flat?

Vinay Agrawal: Thank you for the question. Since we have a fully digital organization, you know, you will not see a significant increase in our costs compared to the growth in the customer base or revenue because now all our customers trade with us digitally. So, you will see a much smaller increment in our costs compared to the growth in the revenue and the customer base. The only costs which will grow in proportion to the customer acquisition would be the customer acquisition cost.

Nidhesh Jain: Sir, can you share the operating expenses in related to the advertisement as well as information technology for the quarter?

Vinay Agrawal: As we have become a complete digital organization, we have moved away from the traditional advertising methods. So, you will not see our advertisement in the traditional methods which is like more around TVs and outdoors, so bulk of our now advertisements would be on the digital side and that is counted primarily as a part of the cost of acquisition. So, you will not necessarily see now decent amount of increment in terms of our advertisement cost. That cost is more or less stable now. With regards to your IT and technology cost, fairly large amount of team working on the digital side, so I can tell you the number of senior, we have more than 250+ senior employees who are working on the technology and the digital and product side to give and create products which gives better customer experience.

Nidhesh Jain: Can you share details from the ARQ platform and mutual fund how is the traction there, what is the percentage or what number of customers are subscribing to these products and what is the AUM outstanding as of this month?

Vinay Agrawal: I do not have the readily data of the number of customers, but what I can tell you is lot of customers use this as the stepping stone to enter into the stock market. So, what we find is lot of customers when they open an account with us and where they need guidance they use this as a channel to understand the markets, to decide which stocks to invest in and then they enter the market and then as they learn it, they then use various channels or their own research to decide where to invest and how to invest. Regarding your second question about the mutual fund AUM, I do not have the latest number, but I believe it was hovering at around Rs 900 Crores a few days back.

- Moderator:** Thank you. We will take the next question from the line of Kajal Gandhi from ICICI Direct. Please go ahead.
- Kajal Gandhi:** Congratulations on good set of numbers. On the customer addition side, the number is quite substantial in Q2 versus Q1. So, what is the colour on the types of customers and in terms of breakup like how much must have authorized channel contributed like?
- Vinay Agrawal:** Thanks for your question. If you look at the demographic breakup bulk of our customers as I shared, are coming from Tier III cities. So, close to 55% of our customers are coming from Tier III Cities. They are young in age so, most of them the average age is around 30 years now. As regards to the breakup out of the approximately 540,000 customers that we have acquired in the Q2, 440,000 customers were acquired directly through our direct customer acquisition channel and approximately 100,000 customers were acquired through our authorized person.
- Kajal Gandhi:** Sir, in that acquisition model also do you provide any commission, authorized channel?
- Vinay Agrawal:** See, in authorized channel as I shared, we share the revenue with our business partners.
- Kajal Gandhi:** Second thing on the rise in the F&O volume quarter-on-quarter is very sharp, so what can be the reason or have we added any ALGO players in that?
- Vinay Agrawal:** Not really. So we are very, very focused retail broking house. We do not do anything other than retail. So, we have zero prop book, zero institution or HNI book. Everything is purely, purely retail. What you can see our market share in the cash segment is already at around 18%. So, I believe that F&O has to catch up. So, at some point in time because we are acquiring, and this market share is only of retail. Since, we are acquiring large number of retail customers, eventually you will find that our market share across cash segment, F&O and commodities is kind of will merge towards a very, very similar number. Since it was low in the past, you are seeing a huge growth there.
- Kajal Gandhi:** One bookkeeping question, quarter-on-quarter your other expenses has gone up, Rs 36 crores to Rs 60 crores?
- Vineet Agrawal:** As you know we have increased our client addition from 340,000 odd to 540,000 in Q2 and bulk of this cost is attributable to this increase in the client base in the client additions.
- Moderator:** Thank you. We will take the next question from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Angel Broking
October 27, 2020

- Madhukar Ladha:** Congratulations on great set of numbers. Couple of questions; I just want to know what actually is the expense that you incurred to acquire clients? What is the cost per add in customers?
- Vinay Agrawal:** Thank you for asking this question, but since this question is very relevant towards the competition, it is a competitive data, that is why we do not really disclose this data.
- Madhukar Ladha:** Next question would be on that are being changes in the upfront margin requirements by SEBI both on cash side and F&O side I think it will become applicable from December 1, of this year. So on the cash side, are we seeing lower volumes and meeting 20% upfront margins, are we seeing impact in intraday volumes, also are we what has happened to our BTST volume, if you could give us some colour on there and also if you can tell us what percentage of the F&O turnover is intraday? So maybe you can give a separate answer for future and separate answer for options?
- Vinay Agrawal:** Just to give you a flavor of the cash segment, since the upfront margins were implemented from September 1, 2020 so you are right there was a small dip in the cash segment volume in that particular month. But if you look at the quarter-on-quarter number, the cash segment, and I am talking about the retail industry volumes, so if you look at the retail industry volumes, in cash segment in Q1, it was around 33000 Crores which in Q2 is around 37900 Crores. So, you are absolutely right from September 1, we saw a small dip which was around, if I am not wrong, it was around 15% to 20% dip in the volumes, but I believe this is the kind of regular ups and downs that happens in the industry. So our industry is not like growth and you see a very, very consistent growth. So, you see some months lower than the previous months, but I think the industry has already adjusted and adopted this new method. We are not seeing any customer queries or complaints around this upfront margin. So we believe the whole retail industry is already kind of accepted this new norm and the customers have used to trading while giving the upfront margins. As regards to your second question about this laws, the regulations which are getting implemented from the December 1, as I have answered previously I believe that most of the industry is geared up for that implementation. At Angel Broking, we are fully geared up to implement those regulations and as I shared earlier we believe that SEBI has regularly been coming out with new regulations, transformational changes which helps to improve the transparency and safety of the retail customers and we are only seeing over period of time that this has only helped for larger retail participation with higher volumes. So, we believe that is the state that we are going to see in future also.
- Madhukar Ladha:** What is the contribution of intraday trading right now or in your futures and options, total volumes, if you can just share that?

- Vinay Agrawal:** I do not have a ready number for the future and options, but fairly decent amount of volumes happen as an intraday volumes.
- Madhukar Ladha:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Pranav Gupta from Aditya Birla Sunlife Insurance. Please go ahead.
- Pranav Gupta:** Just wanted to understand that what is the sustainable long-term kind of acquisition rate that we are looking at or what sort of levels do we feel that this high rate will flatten out on a more medium to long-term perspective. First question is that.
- Vinay Agrawal:** Thank you for asking this question. In the industry, we were adding approximately around 400,000 new Demat accounts, let us say three quarters back, now the industry is adding close to 11,00,000 new Demat accounts every month. So that is the change, and you will see the primary reason for this change is we are seeing a higher participation from a Tier III city. So when you look at the Tier III city, bulk of the customers are coming from Tier III cities and the Tier III city has the lowest penetration in India. So, if you compare a Tier I city equity penetration with a Tier III city equity penetration, you will find that Tier III is highly, highly underpenetrated. So, we believe that with digital broking houses like us who are able to reach out to this Tier III cities gives them a good platform and good advisory mechanism for them to invest in trade through us. We believe that we are going to continuously see higher participation coming from Tier III cities and that is why we believe this trend is quite sustainable.
- Pranav Gupta:** Just as a followup on that, this is acquisition for the industry as a whole is not it a more of a function of partially driven by the current COVID scenario that we are facing. Should we or is it considered stable at a national level as well or should this sort of see some correction as you would be opening up or do you think that this acquisition from the Tier III cities will continue like this?
- Vinay Agrawal:** It is a fair question. Let me give you some statistics. You look at Q1 versus Q2, you will find in Q2 the acquisition has grown versus Q1 whereas if you see the COVID thing the lockdown had kind of opened in Q2. So, most of the places, there was no lockdown. Especially if you look at Tier III cities the impact of lockdown was fairly, fairly low there. So, there could be some advantage of COVID, but if you see the larger advantage or the larger growth from retail is coming from multiple reasons. First these Tier III cities had no way to come into the stock market because of their sheer small size of the city, brokers were not able to open branch offices there. Now we and some other broking house giving complete digital services they are able to participate. Second, thing if you look at it they are youngsters. They are more

connected to the real world, so they are aware about how the stock market behaves, what is the industry earning, how the companies are showing their results, so because of high speed mobile internet and with smart phone connectivity, they are fully connected and they are aware of what is happening around the world and that is why their confidence level to invest into the stock market is fairly, fairly high. The third important factor is if you look at the avenues of investments or wealth generation, so you will find at some point of time, you used to get a fair high interest rate from bank so that is why lot of customers will prefer to put their money into savings accounts or fixed deposits. That now has been going down. So I mean no longer remain attractive. So, if you look at equity as an asset class has become fairly very, very attractive and that is why we believe this trend should continue.

Moderator: Thank you. We will take the next question from the line of Pratik Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Sir, just one small question, just on this other expenses is it possible for you to split between fixed expenses and variable?

Vinay Agrawal: The way I can answer is if you look at the acquisition cost, if you just focus on the acquisition cost that is fairly variable cost because that depends upon how many customers I aspire to acquire. So, tentatively, I can tell you may be around 20% to 25% of our cost is fairly variable in that respect because it depends upon how many customers I want to acquire for the quarter.

Prateek Poddar: In the other expenses right?

Vinay Agrawal: Yes, in the other expenses.

Prateek Poddar: Secondly, I just wanted to check if you have tied up with the third party apps and have you rolled them out? I just wanted to check with you because I think you were supposed to roll it out or is it still under pilot stage?

Vinay Agrawal: Very soon you will be able to see the roll out plan, so it is almost in the final stages of being rolled out.

Prateek Poddar: Any timeline Sir, which you can think of like may be by the quarter end mostly?

Vinay Agrawal: Hopefully before that.

Prateek Poddar: I did not understand you talked about Angel Bee app being commercially launched I did not understand it has already launched right, the Bee app?

- Vinay Agrawal:** What we wanted to say was Bee is already live. We already have decent amount of customers using this app, but for cross sales, we have a huge base of customers now more than 2 million customer base, so there is a huge opportunity for us to do cross sales which we believe is doable through our Angel Bee app it is a complete digital platform which we believe we have not fully exploited and over next few quarters, we want to exploit this Angel Bee app that is what we call it commercially launch to exploit our existing customer base in selling mutual fund and insurance and other products to our existing customer base.
- Prateek Poddar:** Sir if it is possible may be in the next couple of quarters if you could share some details on this Angle Bee app in terms of active users, how many cross sells have happened. What is the cross, I know it is a journey, but some data point would be really helpful and Sir lastly just wanted to check on the MTF book. How should I think about the MTF book now with the fund raise happening? And the IPO proceeds you have got, right?
- Vineet Agrawal:** Thank you for this question. We raised Rs.300 Crores as a primary from the IPO and primarily this was for the working capital requirement. So as the funding book grows, we have enough headroom now to expand the funding book and utilize our own proceeds as well as leverage bank borrowing for the funding book.
- Prateek Poddar:** Any thoughts about this Rs.830 Crores of funding book, how should I think about it in the next couple of quarters or years may be, do you plan to scale this up or limit it because the markets are volatile?
- Vinay Agrawal:** I will try to answer this question. This is a more market phenomenon rather than a broker controlling it. So as you see small and midcap start performing and we deal with retail customers. We do not do HNI funding, we do not do promoters funding and also for us the margin funding book will grow based on how small and midcap start performing because these are the places where retail investors tend to invest and take margin positions.
- Moderator:** Thank you. We will take the next question from the line of Manoj Bahety from Carnelian Asset Management. Please go ahead.
- Manoj Bahety:** My question was on trade payables number on balance sheet Rs 1,542 Crores, is it mainly the float money of clients available with us?
- Vineet Agrawal:** This is the clients funds that they place with us in anticipation of trades so as we grow the client additions and the overall client base grows, this pool will grow.

Manoj Bahety: Just wanted to understand we also have some borrowings on balance sheet of Rs.600 Crores so are you planning to use this money only to take care of our requirement or this will continue going forward?

Vineet Agrawal: The borrowing is linked to our margin trading funding book. So as per the regulations we are required to use a maximum of 50% of our liquid networth towards the margin funding book and the balance we need to borrow and in line with this regulation, we will continue to follow the split between our own fund usage as well as the borrowings from the banks for funding the margin trading funding book.

Manoj Bahety: Thanks for taking my question.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Congratulations on a good set of numbers. So the first question is, this number which you have mentioned on the presentation one out of every seven Demat accounts being opened by you in the Q2 of this financial year that is a very large number, so what is propelling the customers to join you because 80% as you said are direct acquisitions so what is the customer proposition vis-à-vis the other competition which is helping, these customers to decide to join you because this is a very large number almost 14% of incremental clients?

Vinay Agrawal: Thank you for asking this question. You are absolutely right. There is not really one core USP, this has a series of USPs that we have built overtime, which is helping us to gain this kind of market share. Firstly as I said we have become a complete digital organization and also we have really digitized our services so effectively that the customer experiences have improved significantly. I will give you an example if you like to have any, if you try and open an account with Angel Broking versus let us say any other competition, you will find that our KYC journey is far more superior than the competition. In flat anything between 5 and 10 minutes, you will be not to be only able to open the account, you will be able to put your first trade that is how strong mechanism that we have created. This is the fastest available in the industry. Then once the customer opens the account the second important thing handholding the customer, on-boarding customers, helping him choose a specific stock. There again you will see as a digital organization, we are able to be complete on-boarding digitally on a real-time basis. We use all kind of channels, whether notification or business Whatsapp account or an e-mail then again, we use AI and ML to segment the customers and give him the right kind of content or the research so he can understand which stock to invest in. We are the only broking house at this flat brokerage house who is completely digital continue to provide free research and advisory. We are the only broking house, so again, a new customer where he comes in and as I said average age of customer is 30 years, bulk of them are new to the market,

so they really appreciate that they are able to get into the app, they are able to get into the on-boarding journey. They are able to get free research and advisory. The fourth and very unique thing that we have created is this whole digital engagement program. It is very unique to us. Again, we have used lot of machine learning here to create a very unique digital engagement program through which we are able to continuously engage the customer on our app through various channels and are able to guide him so that he can make his first investment. So you see in terms of whole digital journey starting right from the KYC, till the on-boarding, till he put his first trade to then his further research and advisory. All of this journey is so unique, different and engaging the customer tend to like this and then they end up giving you more referrals to us and then whole organic pipeline gets created and that is why you can see the impact on our market share and the growth.

Sarvesh Gupta: Was there in particular marketing program this quarter or something else which helped you gain the market share much more in this quarter was there something that you take this quarter which led to this compare to the previous quarters?

Vinay Agrawal: Nothing specific to answer you but I think you are only looking it Q2 versus Q1. If you look at our Q1 versus Q4 you would have the same question, if you look at Q4 versus Q3, you will have the same question so you see our growth is fairly consistent, quarter-on-quarter we have been growing and increasing our market share.

Sarvesh Gupta: Secondly I was looking at one of your listed discount brokers who is your competition and fairly similar model. I think your customer base is around 2.5x, but your revenues are almost 5x of this competitor. So what explains that a) I think you need to segregate your traditional business if at all, what is that number? If you can give me and b) apart from that if you can comment what leads to almost 2x revenue per customer part of it is obviously traditional business and what is the other part and trying to get to that?

Vinay Agrawal: Thank you for asking this question. Actually, you are right our revenue per customer seems to be much better than counterparts and I am sure you did your math. My calculations shows it is more than 2x so frankly if you ask me we are very, very established broking house, we have been kind of domain expertise for close to two and a half decades or close to 25 years. We are very focused organization who does not just want to show numbers, we are very focused in ensuring that we acquire good quality clients so you will see all our programs, all our processes are designed in a method that our quality of the clients should be always superior. So one very good method is you have the quarterly revenue broking revenue for the competition, you divide it by the NSE active clients, you will always find the Angel Broking number seems to be little better. This is not because of the traditional business alone, in our direct business, bulk of direct business is flat broking plan. To do about two to three things. One is all quality of clients. We are very, very focused. We acquire customers from the

channel where we really get good quality of clients. Second is I was just talking in the previous question, our whole digital engagement program is kind of unheard of, it is very unique, very, very differentiated. None of the competition you will find anywhere close to it, so because of our very, very strong digital engagement program, you will find that our customer tends to be more active with us compared to the let us say the competition.

Moderator: Thank you. We will take the next question from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: Thank you and congrats for a good quarter. Sir I just have one of the question on what percentage of the customers do intraday trades taking margin funding?

Vinay Agrawal: We do not do margin funding for intraday customers. We only to do margin funding for our delivery based customers. As per regulation, we are not allowed to do margin funding to intraday customers.

Piran Engineer: There is a regulation coming from December 1, with proper reduce the margin funding on intraday, I just wanted to understand how that would impact?

Vinay Agrawal: When we say margin funding Sir, when we say do not consider the intraday limits that are given. Margin funding is purely to delivery based clients. It is not given to intraday client, it is not counted. Whatever margin funding numbers that we have declared or that we have spoken about is only margin funding to our delivery clients.

Piran Engineer: None of your intraday clients take any leverage from this?

Vinay Agrawal: Taking leverage is different but margin funding is not given to them. Margin funding is something where we charge interest that is only given delivery clients.

Piran Engineer: Sir another question typically in your experience over the last several years, how does the ARPU per customer trend overtime like does it grow over the first two, three years or does it remain largely stagnant? Do you see new customers generate Rs 100, next year may be Rs 120 and then it grows and then after a few years it will stagnate or is it largely constant from year one itself?

Vinay Agrawal: This is a little more competitive data. So we do not really disclose that but directionally what I can tell you, the activation reduced the ARPU increases as the customer progress from first year to second year to third year.

- Moderator:** Thank you. We will take the next question from the line of Apurva Shah from Phillip Capital. Please go ahead.
- Apurva Shah:** Sir my first question is it possible to bifurcate this broking business into equity, MF and insurance?
- Vinay Agrawal:** Currently bulk of our revenue comes from equity and MF & insurance is contributing almost 1% or less type. Bulk of all the revenues that you see is coming from equity.
- Apurva Shah:** Second question is as we understand discounted or digital broking is all about disruption and your current efforts are really reflecting in your current growth momentum. So question is how do you envisage the future disruption considering enormous potential in the industry where many more players are expected to get aggressive. so, how do envisage future disruption that is question and question number two how we are prepared to in terms of future disruption?
- Dinesh Thakkar:** If you look at India I think we are highly underpenetrated. I do not think that people from tier III and all that have really participated yet and if you look at approaching this rural economy digital is only the way and if you look at this youth, getting their first job, first salary they are the one who are ready to understand this product and ready to participate. So I see India is highly underpenetrated market and entry of the digital players is just going to expand our market. I see a big opportunity in terms of our market growing first of all, industry overall good and digital player will help us to grow this market multifold and Angel being third largest player right now and having aspiration to be number one I think we would be a major beneficiary of this digitization and this youth millennial who are taking having access to the market and participating quite actively.
- Apurva Shah:** Sir I just want to understand in terms of current disruption, what kind of margin sustainability do we envisage and what kind of incremental capex you need to do to compete with other discount brokers?
- Dinesh Thakkar:** Being a digital player, I think cost that we have occurred already has helped us to achieve the scale and size. Now this has led to operating leverage which we are into an advantage position. Like always since last 25 years, we have always disruptor in terms of giving the right solution to a customer at the right price. So I think we have lot of operating levers and is going to go in our favor.
- Apurva Shah:** Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Good afternoon Sir. Congrats for a good set of numbers. Actually, I got disconnected multiple times sorry if I am repeating the question. Sir what I need to understand is the sustainability of current run rates of various line items, maybe the customer addition on a quarterly basis, your employee cost on a quarterly basis and other expenses on a quarterly basis. So do you feel that since you are consistently growing can you maintain these kind of runrate at least in the next few quarters barring any unforeseen circumstances?

Vinay Agrawal: I addressed this question earlier, but I will quickly summarise it. Bulk of the customer acquisitions as I shared earlier is coming from Tier-3 city where there is equity penetration is very, very low. You cannot compare Tier-3 penetration with the Tier-1 penetration so tier-3 is to catch up that is point one that is why we believe will continue to see huge amount of interest from tier-3 customers. The second point is because we have become completely digitalized and there are couple of more people like us would become completely digitalized, we made the whole process of investing into the stock market effortless, very convenient and ease for the customers to open an account to look at our research advisory and then finally to invest because of which again it is kind of helping customers from Tier-3 cities to participate. The third important that I was talking about was since the investment avenues in the other categories, which is like fixed deposits and property is not so attractive that is why equity market have become far more attractive for retail investors to create their wealth so because of this we believe that this trend is sustainable and will grow.

Ankit Babel: Just in continuation with the same questions so first of all, I need to understand what kind of operating leverage you have now in the whole call you did emphasize a lot of times that you are a fully digitized company so I understand from an employee's point of view so do you have any operating leverage from that cost line item plus on your other expenditure also, I mean apart from the client acquisition costs other cost are they fixed in nature? So what I am trying to understand is that if you continue to add these four to five lakh customers every quarter so again, can we have some margin improvement story also, unfolding in the coming few years is what I need to understand what kind of operating leverage you have?

Vineet Agrawal: Thank you for this question. As you are aware that we have completely digitalized our business model over the last two to three years and our operating margin has been consistently increasing from about 30% in Q1 of FY2020 to now closer to 50% in Q2 FY2021, which clearly demonstrates that we have been able to maintain our costs despite the significant increase in volume and we are hopefully going to continue with this trend in the foreseeable future. So we should be maintain our operating margin for the foreseeable future.

- Ankit Babel:** The second and last question is it fair for us to assume that the current run rate of profits of around Rs.70 Crores to Rs.80 Crores in that kind of a range will continue in the near future. I mean, there is no risk to that barring any unforeseen circumstances?
- Vineet Agrawal:** We would not want to give any future guidance per se. The markets are good and we are able to sustain the growth.
- Ankit Babel:** Thank you so much and all the best.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we will take that as a last question. I would now like to hand the conference over to the management for closing comments.
- Dinesh Thakkar:** Thank you. Just to conclude India is a highly underpenetrated economy with equity product forming under 4% of asset. As compared to this equity penetration in other developed economies is more than twice that of us. We believe the current generation that is mobile and technology savvy will lead to growth from here on. Our role in this growth opportunity will be in facilitating them to invest in a right and most appropriate manner. Correct product suite at a simplified and uncomplicated pricing places us competitive in the industry. We continue to penetrate deeper into Tier-3 and beyond cities, where we believe we have only scratched the surface. Our personalized omni-channel digital on-boarding, coupled with best in class product and service will continue to delight customers always. Thank you everyone for joining us today for this earning call. Wish you season's greetings. Be safe. Be healthy.
- Moderator:** Thank you. Ladies and gentlemen on behalf of ICICI Securities limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.