





Technical View by Nooresh

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NITHIN KAMATH – Aryabhata of Stock Broking – Making Money with almost Zero Charges.



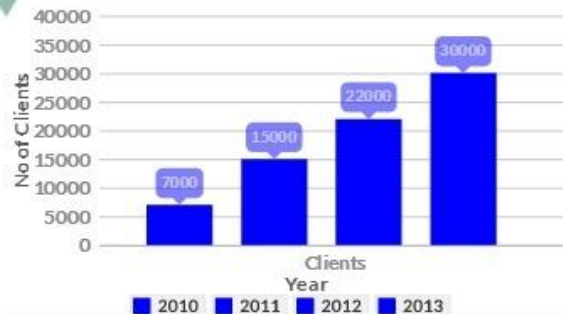
NITHIN KAMATH



Age 33
 Trader for 10 years.
 Entrepreneur for 4 years - Zerodha a unique Discount Broking Firm.
 Interested in Triathlons, guitar, basketball and Poker

Favorite Quote “If you don’t bet, you can’t win. If you lose all your chips, you can’t bet.” – Larry Hite

Number of Clients



Client Growth

The Interesting Part



2000 Referrers



2000 New Accounts every Month



20 Rs Per Trade. Discount Broking

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I was in Bangalore for a training program in the mid of September 2013 over the weekend and had taken a day off on Monday to interact with a couple of interesting people for India Interviews. NITHIN was not there on the pre-planned list but serendipitously, Sushma one of the 80 + employees of Zerodha had come to collect forms from a participant in the course. Taking the chance just quickly I asked her to set up and appointment with NITHIN Kamath.

Within a span of half an hour got a well written sms from Sushma mentioning all the details of the meeting as well as e-mail. This was pretty impressive in the first place about how a team member can communicate with the CEO and arrange a meeting pretty quickly.

So on a Monday morning got myself into an Auto and landed up to the Zerodha Office which was not difficult to find but was surprising that it was not a 1 floor office in a Glass Window Building but a nice bungalow with an Audi parked in the entry.



The meeting lasted a good hour and a half with discussions ranging from growth of zerodha , challenges, competitors, referrals and many things related to the market.

This is how Zerodha works. Until Now every broker would charge an X percent of value of trade which could be like 0.02 – 0.05% for derivative transactions. Zerodha has cut the value of trade and is charging a flat 20 rs per trade which is almost 90% lower than many brokers. Still the company is highly profitable and has 30k clients. Check their brokerage calculator for more on www.zerodha.com also an interesting [contest of 60 day challenge](#).

Below is a brief excerpt of the interview.



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NOORESH MERANI: Everyone now knows about zerodha but tell me how do you afford it ?

NITHIN KAMATH : We have a nice space here in this bungalow and another office nearby which can accommodate the 85 member team. Majority of our employees are freshers or with experience of 2-3 years at best. We do not spend on marketing and its mainly through word of mouth and referrals through our associates and partners. The team is incentivized not by brokerage but by effective account openings. So for example we may give a credit of 100 Rs per account to Sushma and she would be generating more money from her incentives than from her salary.

NOORESH MERANI : Why is it 20 rs per Trade and how does this work ?

NITHIN KAMATH : Being a Nifty trader myself for many years I did understand that a lot of traders would have a break even point at 12-13 points including brokerage and other charges. So many a times a retail trader if has bought Nifty at 5900 he would keep waiting for 5912 and be stuck on to the position. At zerodha the Nifty futures break even comes down to something like 1-2 points. This leads to a huge saving for any trader.

Apart from this we have an associate program where every trader can refer clients and in turn get 2 rs per trade for the referred client for all his life. We get a lot of leads from our existing clients due to our consistent service. Unlike other brokers who would pester the client with research calls we keep it very simple and provide a customized version of NEST .

NOORESH MERANI: So what is new at Zerodha ?

Right now our focus has been technology side. We haven't really done the website but we are soon coming out with a very cool website. There is no Money Play Site. We will be looking at some poll indicators like CNN.

No one on our team is given a target unlike other retail broking firms. If you give a broking target you will do something extra-ordinary to generate brokerage eventually leading to bad business.

NOORESH MERANI : Majority of your revenues come from derivatives?

NITHIN KAMATH : Almost 95-96% business is from derivatives.

NOORESH MERANI : You are one of the few brokers who does not have their own DP ?

NITHIN KAMATH : The problem with the DP is. Exchanges are volatile and busy all the time but NSDL and CDSL job is to transfer shares and if it is only contributing to the revenues why one needs to really worry about it. One could actually have just one DP account and liNITHIN Kamath it to all trading accounts. None of the brokers prefer that way because they may end up losing revenue.

NOORESH MERANI : You add one more step to selling shares?



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NITHIN KAMATH : You have to transfer and then sell it. But it works exactly as it does with any other broker. One more reason we associated with IL and FS is when we started the biggest question was credibility. Now IL and FS is one of the biggest brokers in the DP side in terms of assets. A lot of big guys when they were parking a big amount of shares with us did ask questions and this IL and FS made it very easy for us to convince them.

NOORESH MERANI : Many HNIs prefer to stay offline ?

NITHIN KAMATH : Majority of the clients we have are online around 95% and some could be offline in some far off areas. You would be surprised that my personal account is offline because I don't need easy access to my investments. I have stopped trading but what I have realized is if I have easy access to the account you may end up selling fast. So the instruction for me personally is that I need to sign a slip for selling any shares making it cumbersome. If I had online access would have sold many of our investments pretty early. But given the fact that delivery transactions only comprise 3-4 % of our volumes it may not be important but we have already have a DP licence and will see it in future how to go about it.

NOORESH MERANI : One of the reasons I wanted to meet you is because until now the trade was always the networth of the client but its frequency of the trades from the client for you. Brokerage is no more about Value of the trade. Brokerage prices were decided by the value of trades and your system changes the paradigm of broking. You may actually not prefer a HNI.

NITHIN KAMATH : Yes in terms of brokerage. As long as the HNI does few trades also is fine.

NOORESH MERANI : Some brokers came out with per order basis and that lead to big brokerage charges.

NITHIN KAMATH : There are two things is frequency of trades and two is Number of People. As of today we open around 2000 accounts a month a X broking firm with 200 branches and probably 2000 employes opens as much. Basically what counts today is the number of people. Today at Zerodha we have the highest trading community. It itself gives us a big edge. We give a good front end and a lot of back testing and other tools because we have the strength of the numbers. Many people are trying to copy the model but failing to do so.

NOORESH MERANI: One of the reasons many are not able to copy you is because they have to be new to the field. The existing competition cannot compete because there cannot be a Low Cost Airline and Full Service Airline in the broking industry. If a big broker has to do it then from a size of 2000 accounts a month he may have to grow to 10k/20k accounts a month to go to the previous benchmark brokerage as it's a shift from 20bps to 20 rs. Many brokers are now selling other products to increase revenue or educate them to keep the existing clients.

NITHIN KAMATH : There are a lot of known people who tried copying the model and I mentioned to them in the start the reason Zerodha is in it because I had a headstart with 3000 active traders from my



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previous broking experience which you all don't have it. Now why would a client trading with Zerodha shift to another firm with a lower cost if am giving a better platform and better platform unless you drop the charges drastically. How much more lower can you go from 20 Rs. You make it 10 bucks but how much does a client save from shifting from 20 to 10 in absolute numbers. If another broker gives a free trading account fee of 300 free then he needs 30 trades to just breakeven. Its all about strategy in the business. If I meet you on a street and you don't know me and am selling you this IPHONE for 3k will you buy it.

NOORESH MERANI : Absolutely Not.

NITHIN KAMATH : That's how the Indian Mentality works. You always question who is it. So for us how it helps is we have this Referral System I don't know whether Sushma told you that.

NOORESH MERANI : I got her presentation.

NITHIN KAMATH : Actually we have a better presentation coming you. Let me explain you the process.

(Here he explained the whole process of Associates, Online Partners, Offline Partners using a pen and paper) – For more details on it one can check – www.zerodha.com

Last year we actually had 1600 Form 16 H sent out which implies we had that many clients referring our service. This is the leverage we get. This is not about giving them gifts but actually sending them money every month. Brokers are typically people who take up your money end of the month but we send it to our clients and share our profits from their referrals apart from the good service. This is one of the key things for us.

NOORESH MERANI : So you put the chain across.

NITHIN KAMATH : Yes but it stops at a point.

NOORESH MERANI : Then we have a partner program where we partner with a lot of online and offline partners. We actually have two programs. In online partners we have a lot of online websites.

In offline partners we have a joint setup. Some of our setups are in Kochi, Hyderabad, Ahmedabad, Hubli. We take it offline only when there is enough money being made. One of the things I actually don't want to do is partner and lose someone some money. There are costs of employees , terminals etc.

NOORESH MERANI : Yes you need traction to take ahead.

NITHIN KAMATH : You being in the broking industry would know about the biggest problem a sub broker has. The problem I had when I was sub broker it was two pronged. I was a very aggressive as a sub broker and as a trader because I also used to manage a lot of portfolios.



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For all the 3 years I was with Reliance Money I was generally the top sub broker. The problem I had was I did an activity for 10 days in CISCO which has 15k employees. Many of them do trade and invest. So I got around 400-500 interesting leads but only 5 opened accounts. So I had almost 495 leads who said give me some time. This give me some time guys what they do next is approach Reliance Money guys and open accounts directly and do not really remember NITHIN Kamath. So do I actually get any credit for that 495 ? I DON'T. This essentially is the case with any broker in the country.

Now we come to the second problem. If I have opened some account am giving them good service, co – ordinating with Reliance Money guys for software, margin and other issues. Now if the account is open well the account is going well does the client remember NITHIN Kamath is doing a good job? For them it's Reliance Money. So if someone is referring NITHIN Kamath he is essentially referring to Reliance Money.

So these were the two biggest challenges. Whatever has happened at Zerodha are fixes to the problems I faced as a sub broker and a trader. Whatever I used to hate as a trader is fixed for example the random pop up from the broker giving a tip when am trading is what pissed me. So we do not have any research given to clients.

NOORESH MERANI : Please never provide research 😊 that's my business.

NOORESH MERANI:

That is great to know that you have the right processes in place. Thank you for your time and insights. Wish you the best for the future.

NITHIN KAMATH : Same here.

Editors after Thoughts:

Me being from the similar industry liked the fact Nithin is very focused on two things – Cost and Service. He operates from a bungalow which can sit his whole team at a rent lower than a 3-4 BHK in Mumbai and hires freshers with a drive to work. Also simpler processes like Printing the account form gets you a discount of 100 rs clearly show that every part of the account opening and trading process is place.

There may be many who may copy the model and be profitable but very few would be able to compete. The only concern I have is for other Big Brokers who have been around for many years are going to have a tough time with Zerodha around. Many sub brokers are out of business and shut shop, some smaller broking names may get out of business because the cost of doing business with zerodha is like 50-90% saving.

At the rate Zerodha is growing they will be able to spend significantly on technology. Some of the ideas working under Nithin's mind I would not be surprised to see some seriously cool tools in zerodha by end of the financial year. We cannot discuss the same right now due to confidentiality but keep looking into the [Z connect](#) blog of Zerodha.



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