

ZERODHA CASE STUDY

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PROBLEMS FACED BY INDIAN STOCKBROKING INDUSTRY - INTRODUCTION

Lack of investor education and awareness.

As of 2021, the percentage of Indian population invested in the stock market is estimated to be around 2-3%.

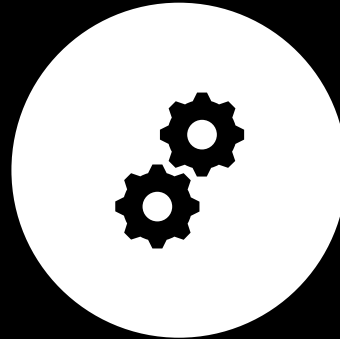


High brokerage fees and charges.

Most brokerage firms in India charge a percentage-based brokerage fee for equity delivery trades, which can range from 0.1% to 0.5% of the transaction value.

Limited access to financial products and services

According to a survey conducted by the Reserve Bank of India in 2019, only about 11% of Indian households owned financial assets such as stocks, bonds, and mutual funds. This suggests that a relatively small percentage of the Indian population has direct access to the stock market.



Inadequate technology and infrastructure.

AS of 2020, only about 25% of Indian stock trades were conducted electronically, compared to 70-80% in developed markets. This suggests that there is still significant room for improvement in terms of technological infrastructure for stock trading in India.

Limited market liquidity and depth.

According to a report by the National Stock Exchange of India, as of June 2021, the top 10 listed companies accounted for more than 40% of the total market capitalization of the Indian stock market. This suggests that there is still a relatively small number of large and liquid companies in the market, which can limit market depth and liquidity.



Complex regulatory framework and compliance requirements.

There are several regulatory challenges that can make it difficult for companies to list on Indian stock exchanges, including compliance requirements and lengthy approval processes.

Technological challenges: The Indian stockbroking industry has been slow to adopt new technologies, which has put it at a disadvantage compared to other markets. For example, while mobile trading has become popular in other countries, it is still not widely used in India.

Lack of financial literacy: Indian stockbroking industry faces a lack of financial literacy among potential investors. Many people don't understand the stock market and how investing in it works. Educating people about the benefits of investing and dispelling myths, such as needing a lot of money to start, can help address this issue .

High brokerage cost: Historically, brokerage fees have been expensive as they offer a wide range of services most of which contribute to the generation of wealth. High transaction cost has reduced market depth and liquidity, increased volatility and made Indian markets less competitive than its global peers.

Confidence, transparency and trust: Client trust is essential for the success of the Indian stockbroking industry. Stockbrokers are relied on to help clients make informed investment decisions and achieve financial goals. Unethical practices or a lack of transparency can damage a firm's reputation and result in the loss of clients.



KITE

- Designed to be fast, reliable, and user-friendly, and it offers a range of features and tools to help investors make informed investment decisions
- The platform offers trading in multiple asset classes including stocks, commodities, currencies.
- Has a flat fee structure with no brokerage charges for equity investments and a maximum brokerage of 0.03% for intraday and futures trading.
- Has resolved the traditional high brokerage costs and facilitated higher retail participation through use of automated technology.



VARSITY

- Designed to provide a comprehensive education in finance and investing, and it offers a range of courses, tutorials, and articles to help users learn about the financial markets and how to invest successfully.
- Among the top 20 investing related websites in the world, Varsity is among the top 3 in the world on capital market education.
- The platform has helped resolve lack of financial literacy in retail investors.



COIN

- A direct mutual fund investment platform that allows users to invest in mutual funds online, without the need for intermediaries.
- Designed to be simple, accessible, and affordable, and it offers a range of features to help users manage their investments.
- The largest direct mutual fund platform in India, has transacted over Rs 7500 crores.
- As intermediary has resolved the limited access to variety of financial products and services at a relatively low cost and has scaled through technology.

CONDITIONS THAT ALLOWED ZERODHA TO REVOLUTIONIZE THE INDUSTRY – INTERNAL ELEMENTS

1

Zerodha's **technological superiority** has helped to revolutionize the stockbroking industry in India by providing its clients with **efficient and user-friendly platforms such as Kite Web, Kite App, and PIE**. These platforms leverage cutting-edge technologies and data analytics to provide advanced features such as real-time market data, smart order routing, and algorithmic trading. This has **made trading faster, cheaper, and more accessible** to a wider audience, enabling Zerodha to become the **largest retail brokerage in India in terms of active clients**.

Zerodha has revolutionized the stockbroking industry in India by **introducing a flat fee of ₹20 per trade** instead of charging a percentage-based brokerage fee. Zerodha **offers equity investments at zero commission**, a move that has forced traditional brokers to re-evaluate their pricing strategies. This disruptive pricing model has **made trading more accessible and affordable to retail investors**, who were earlier discouraged by high brokerage fees. By focusing on technology, Zerodha has **maintained a low-cost structure**, enabling it to provide brokerage services at a fraction of the cost of traditional brokers

2

3

Zerodha's **customer-centric approach** puts the needs and satisfaction of its clients at the forefront of its operations. The company offers a range of tools and resources, **including educational materials and customer support**, to help clients make informed decisions and navigate the complexities of the stock market. Zerodha also takes customer feedback seriously, regularly seeking input to improve its products and services. By prioritizing customer satisfaction, Zerodha **has built a loyal customer base**, enabling it to become **the largest retail brokerage in India**.

Zerodha's success in revolutionizing the stock market industry can be attributed to its **strong leadership and clear vision, combined with its ability to adapt to changing market conditions and customer needs**. The company's founders, Nithin Kamath and Nikhil Kamath, have been instrumental in shaping Zerodha's vision and driving its growth

4

CONDITIONS THAT ALLOWED ZERODHA TO REVOLUTIONIZE THE INDUSTRY – EXTERNAL ELEMENTS



Major customer acquisition during COVID lockdown period.

The COVID-19 pandemic has accelerated the adoption of online stock trading, as people have increasingly turned to digital platforms for their financial needs. This has further boosted Zerodha's growth and cemented its position as a pioneer in the industry.

Regulatory changes that enabled the introduction of low-cost brokerage models



The regulatory environment in India has become more conducive to online stockbroking, with the introduction of eKYC and other digital authentication processes. This has made it easier for Zerodha to onboard new clients and offer a seamless trading experience.



Increase in internet penetration and smartphone usage in India.

The rise of the internet and mobile technologies has enabled Zerodha to leverage technology to provide efficient and user-friendly platforms, such as Kite Web, Kite App, and PIE. These platforms have made trading more accessible and affordable for retail investors.



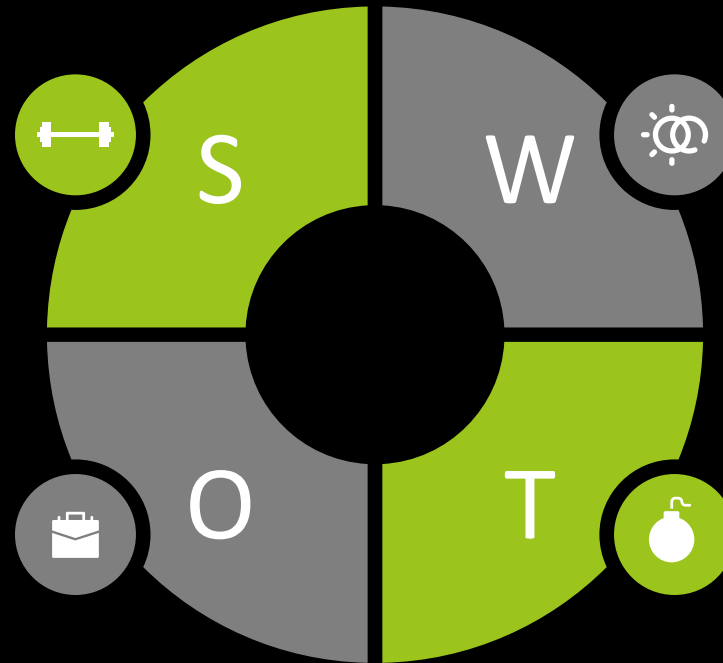
Increase in Investor Awareness



The increasing popularity of equity investments among retail investors in India has created a large market opportunity for Zerodha. The company's disruptive pricing model and customer-centric approach have enabled it to capture a significant share of this market and become the largest retail brokerage in India.

- ❖ Innovative business model with a focus on low-cost and transparency.
- ❖ Emphasis on technology and creating a seamless user experience.
- ❖ Culture of innovation and experimentation

- ❖ Availability of advanced technology and tools for trading and investing.
- ❖ Disillusionment with traditional brokerage firms due to high brokerage fees and charges.
- ❖ Growing interest in financial markets and investing among young Indians.



- ❖ Software is user-friendly but frequently requires maintenance and has several technical issues.
- ❖ No physical branches, which may be inconvenient for some investors.
- ❖ Some users have reported difficulties with order execution and trade settlement.

- ❖ Economic downturns or market volatility that may impact trading volumes and revenues.
- ❖ Technological disruption and the emergence of new trading platforms or technologies.
- ❖ Competition from established brokers and new entrants in the market.

RS. 20 TRADE

- First Indian stockbroker to offer trades at a flat fee of Rs. 20, regardless of the value of the trade.
- Made it possible for more people to invest in the stock markets at an affordable cost.
- This disrupted the traditional pricing model in the stockbroking industry, which was based on a percentage of the trade value

DIY TRADING

- Encouraged a do-it-yourself approach to trading by providing users with the tools and resources they need to make informed investment decisions
- Has helped to empower investors, and it has made it possible for more people to take control of their financial future.

FINANCIAL LITERACY

- Has made a major contribution to financial literacy in India through its educational platform, Zerodha Varsity.
- Platform provides a comprehensive education in finance and investing, and it has helped to increase awareness about the stock markets and investment options.

MULTIPLE PLATFORMS

- Has developed a range of platforms to meet the needs of its diverse user base, including the Zerodha Kite platform for active traders, and the Zerodha Coin platform for passive investors.
- Designed to be user-friendly and accessible, and they provide users with the tools and resources they need to invest successfully.

EASY TO INTEGRATE APIs

- Has made it easy for third-party developers to integrate its platforms and services into their own applications and websites.
- This has helped to increase the reach of the company and its services, and it has made it possible for more people to access the stock markets through a range of channels.

After Zerodha entered the market with its **flat fee-based pricing model**, it quickly gained popularity **among retail investors**, who were attracted by **its low commission rates**. This led to a surge in the number of retail investors in India and a **significant increase in trading volumes**. According to data from the National Stock Exchange of India, the daily average turnover of cash equities on the exchange **increased from around Rs. 20,000 crore in 2010 to around Rs. 75,000 crore in 2020**.

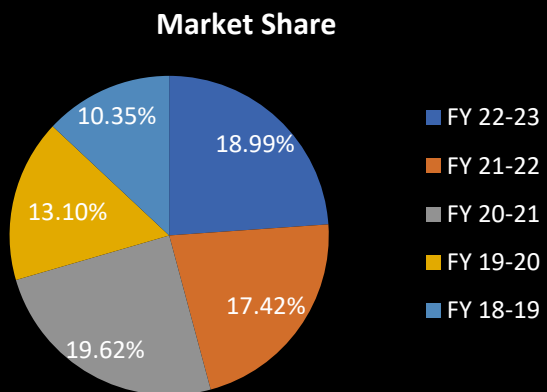
Revenue: Zerodha's revenue has been **growing rapidly over the years**. In the financial year 2019-20, the company's revenue was **around Rs. 1,093 crore, up from Rs. 800 crore in the previous year**.

Profitability: Zerodha has **been consistently profitable since its inception** in 2010, thanks in part to its **low-cost pricing model and the growing popularity of online trading in India**. According to media reports, the **company's net profit** for the financial year 2019-20 was **around Rs. 442 crore**.

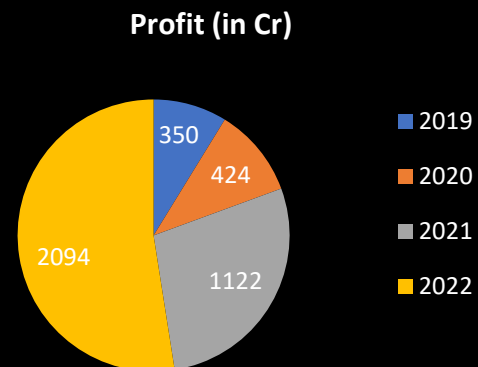
Market Share: Zerodha has been **growing rapidly in terms of market share**, thanks to its **low-cost pricing model and user-friendly trading platform**. According to a report by the **National Stock Exchange of India**, Zerodha had a **market share of around 18% in terms of the number of active clients as of January 2022**, making it the largest brokerage firm in India in terms of the number of clients.

Product Expansion: The **launch of its mutual fund platform, coin**, which has seen significant growth in terms of assets under management (AUM). **As of January 2022, the platform had over Rs. 5,000 crore in AUM**.

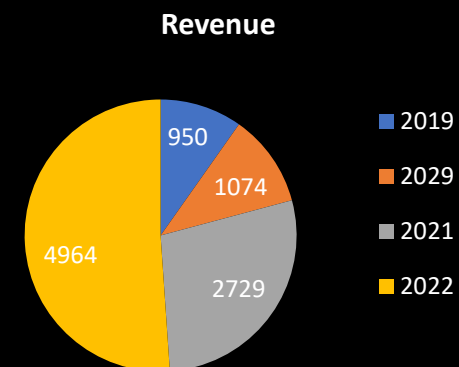
Market Share



Profitability

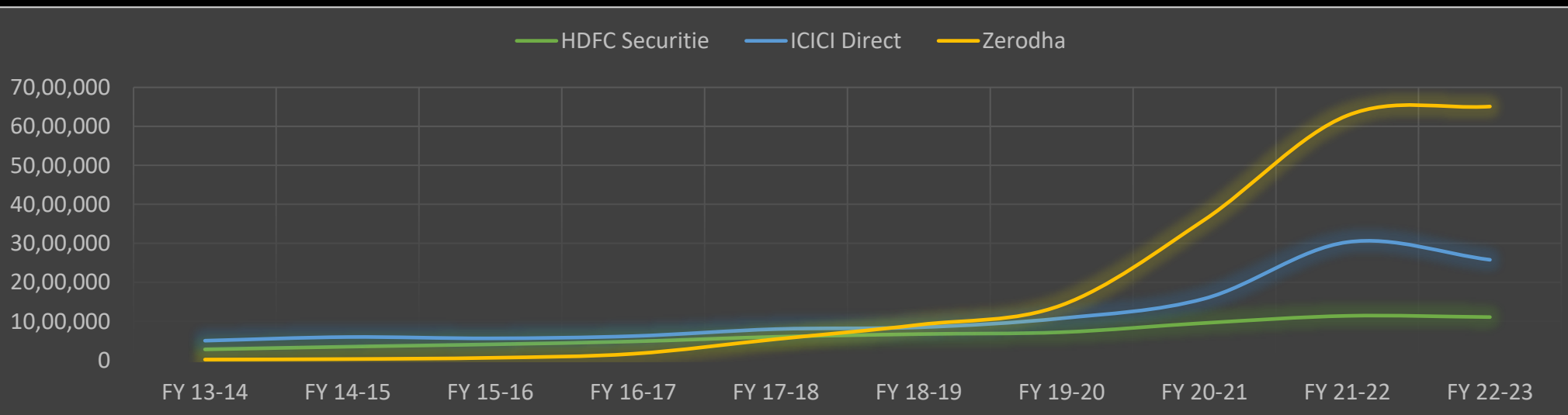


Revenue

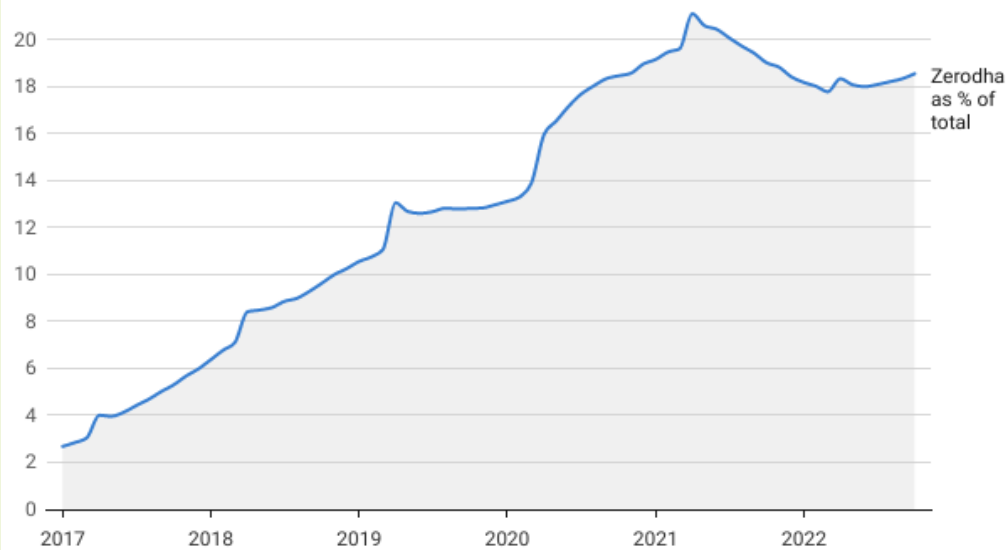


Competitor Analysis

Active Clients



Zerodha's active clients as a % of NSE's total active clients



Source: Based on NSE active client data • Created with Datawrapper

Monthly accounts opened

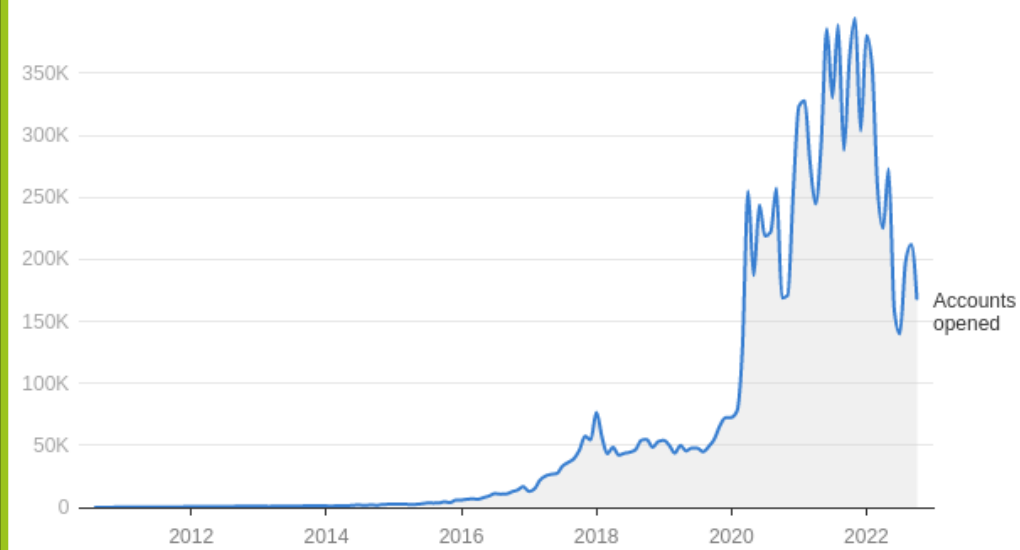
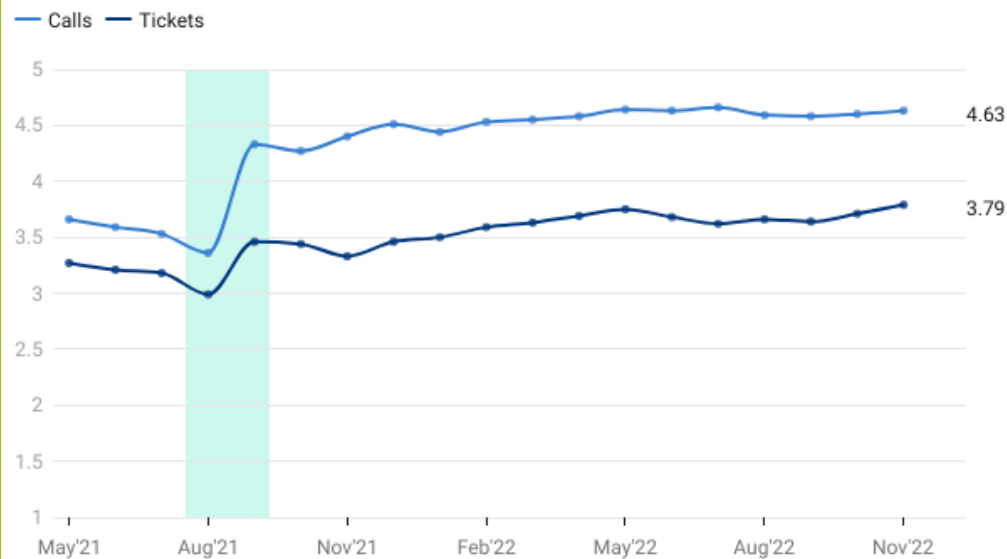


Chart: Zerodha • Created with Datawrapper

Average support call & ticket ratings



Created with Datawrapper

Revenue & PAT (in Rs. crores)

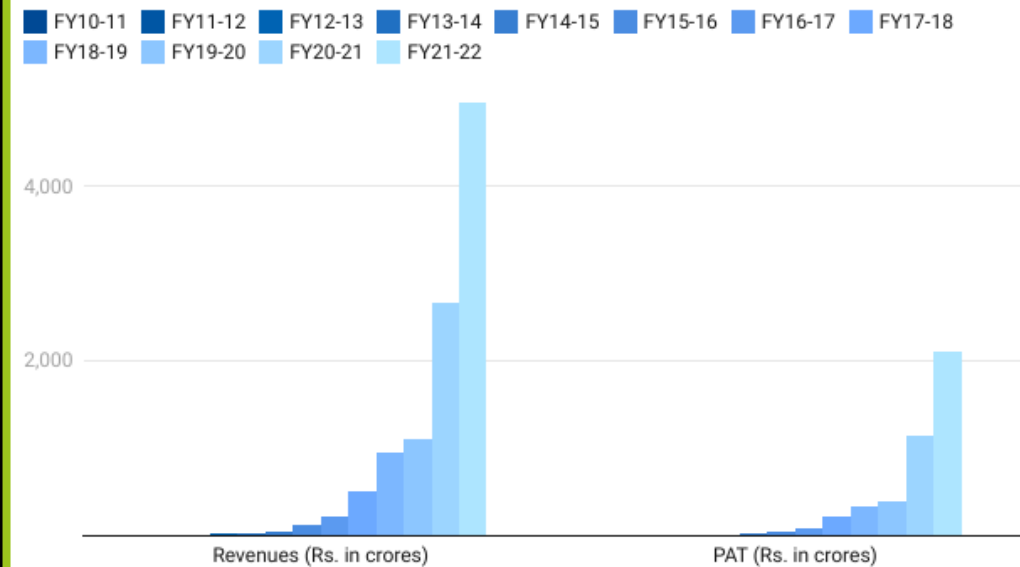


Chart: Zerodha • Created with Datawrapper



REGULATORY CHANGES

The financial industry is subject to various regulations that can change frequently. Any regulatory changes that affect Zerodha's operations or business model could have a significant impact on its profitability and growth.



TECHNICAL GLITCHES

Some users have reported experiencing technical issues such as slow loading speeds, freezes, or crashes while using Kite.



CYBERSECURITY RISKS

Zerodha holds sensitive financial and personal data of its clients, making it a target for cyber attacks. Any security breaches can result in the loss of confidential data and damage to its reputation.

Reviewing weaknesses and threats is a Good Idea



CUSTOMER SERVICE

Some users have reported difficulty in contacting customer support or receiving timely responses to their queries.



LIMITED CURRENCY OPTIONS

Kite currently supports only a limited number of currencies, which may be inconvenient for users who wish to trade in other currencies.



LEARNING CURVE

Kite is a powerful trading platform with a lot of features, which can be overwhelming for new users. Some users may find it challenging to learn how to use all the tools effectively.

Diversification :

Zerodha can diversify its product and service offerings to minimize its reliance on a single revenue stream. It can explore new business lines, such as wealth management, insurance, and mutual funds, to expand its customer base and increase its revenue streams.

Continuous Innovation :

Zerodha can continue to innovate its technology, offerings, and services to stay ahead of the competition. It can develop new tools, platforms, and products that cater to the evolving needs of its customers, such as advanced trading platforms, interactive educational resources, research tools and also invest in robust security systems, implement strict KYC and AML policies, and conduct regular audits to ensure its operations comply with regulatory requirements.

STAYING AHEAD OF THE GAME**Marketing Strategies :**

Zerodha can implement effective marketing strategies to increase brand awareness, attract new customers, and retain existing ones. It can leverage social media, email marketing, and other digital marketing channels to reach out to its target audience. Zerodha can also offer referral programs, discounts, and other incentives to encourage its customers to refer new clients.

Strategic Partnerships :

Zerodha can form strategic partnerships with other firms in the industry to leverage their strengths and expertise. It can collaborate with banks, financial institutions, and technology companies to offer innovative products and services to its customers.

Conclusions



PRIOR TO ZERODHA



Traditional stockbroking firms charged a percentage-based brokerage fee on every transaction and also charged other fees such as account opening fees, maintenance fees, etc.

HERO OF THE SHOW



Zerodha disrupted the industry by introducing a discount brokerage model where they charge a flat fee of Rs. 20 per transaction, regardless of the transaction size. This made stock trading much more affordable for retail investors and traders.

AFTER ZERODHA



Since its inception in 2010, Zerodha has grown to become one of the largest brokerage firms in India, with over 4 million clients and more than 15% market share in terms of trading volume.

The image features two men in an office environment. The man on the left has dark, curly hair and is wearing a grey blazer over a blue t-shirt. The man on the right has short, dark hair and is wearing a dark blue blazer over a light blue button-down shirt. A large, semi-transparent green rectangle is positioned in the center, containing the text 'THANK YOU' in white, bold, sans-serif capital letters. At the bottom, a yellow semi-circle contains the text 'SUCCESS STORY!' in black, bold, sans-serif capital letters, followed by the Zerodha logo and name in blue.

THANK
YOU

SUCCESS STORY!



ZERODHA