****

**9B19A048**

ZERODHA: Sustaining a Leadership Position in India

Vipul Kumar Singh and Sandeep Puri wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com. Our goal is to publish materials of the highest quality; submit any errata to publishcases@ivey.ca. i1v2e5y5pubs

Copyright © 2019, Ivey Business School Foundation Version: 2019-09-20

When brothers Nithin Kamath, founder and chief executive officer (CEO), and Nikhil Kamath, co-founder and chief information officer, founded Zerodha[[1]](#endnote-1). in 2010, their intention was to be disruptive pioneers in the Indian stockbroking industry. Not only did they introduce discount brokerage to India by leveraging retail investors to drastically reduce brokerage charges, they also married technology with stockbroking by launching several technology features, including Kite, a broking platform; Varsity, an online learning platform; and TradingQnA, a forum for traders and investors. By January 2019, this Bangalore-based, technology-driven, low-cost industry disruptor had replaced [ICICI Securities](https://tech.economictimes.indiatimes.com/tag/icici+securities) Limited (ICICI Securities) and emerged as both India’s largest brokerage firm with almost 850,000 active clients and the world’s largest retail brokerage firm with more than 2 million trades daily.[[2]](#endnote-2)

Between 2014 and 2018, Zerodha’s annual growth rate in client addition ranged from 200–300 per cent, but new brokerages with similar models were also adding to their client lists at a rapid rate.[[3]](#endnote-3) In a country where customers were equity-averse and would rather invest their money in gold and real estate, what strategies would the discount broker need to adopt to maintain and defend its leadership position? How could Zerodha harness the massive investment potential locked in the Indian market to retain its lead position? In a market swamped with near-identical products, what did it need to do to become the first choice of customers, stay ahead in the product-innovation department, avoid an identity crisis, and continue to remain distinct? Considering one of Zerodha’s main challenges was to grow and tap the retail-broking segment, what marketing and technology strategies could it use to increase both its brand awareness and its customer base?

COMPANY BACKGROUND

The Beginning

Nithin Kamath was introduced to trading by his friends in the business community in his neighbourhood in Bengaluru, India. By age 17, he had started using his mother’s account on the trading platform of ICICI Direct, which later became his competitor.[[4]](#endnote-4) After incurring some losses during the dot-com bust in the early 2000s, Nithin took a job at a call centre but continued to trade online on the side.[[5]](#endnote-5) By the end of 2006, Nithin and his younger brother, Nikhil, started trading full time under the name of Kamath Associates and became a sub-broking franchisee for Reliance Money.

When a poor business decision led the brothers to give up all their positions in their company in 2009, the year of a general election in India, they had to pass on a huge opportunity to make more money. The Kamaths then decided that Nikhil would continue to focus on trading and Nithin would start working on building a completely online brokerage firm.[[6]](#endnote-6)

Zerodha was launched in August 2010 with a flat brokerage of ₹20[[7]](#endnote-7) per trade. The name *Zerodha* was a coined word that combined the word *zero* and the Sankrit word *rodha*, meaning “barrier.” The idea was to facilitate zero-barrier trading.[[8]](#endnote-8) Zerodha was inspired by Nithin’s initial days as a budding trader with limited capital. Zerodha’s business model differed from that of the traditional brokers by offering personalized services to stocks and commodity market investors and charging lower fees.

Nithin had bootstrapped Zerodha with the intent of revolutionizing the Indian share-broking industry. After Zerodha was launched, he took it upon himself to answer customer queries and write blogs on stock trading and related topics. The industry had not previously seen a CEO taking the centre stage to build credibility. With technology upgrades in 2011 that enabled clients outside the National Stock Exchange (NSE) to trade and the introduction of the discount pricing model by 2013, Zerodha had established itself as an industry disruptor. The company continued to leverage technology in its quest to offer its clients better trading platforms. By mid-2015, it began using Kite, which allowed clients to trade from their desktop or their smart phone, and by the end of 2015, the company decided to offer services for trades on equity shares for zero brokerage fees. Both offerings helped increase Zerodha’s client base by a huge margin, from a mere 70,000 to 1 million clients, though not all were active.[[9]](#endnote-9)

Zerodha thus became one of India’s largest discount brokerage firms, contributing up to 5 per cent of retail trading volumes on Indian stock exchanges and generating a daily turnover of more than 1 million retail trade transactions. In January 2019, with more than 847,000 active clients, Zerodha surpassed ICICI Securities (at approximately 845,000 customers), which had been the market leader for nearly a decade (see Exhibit 1).[[10]](#endnote-10)

The Business Model

When Zerodha was launched, it developed a market out of the underserved retail investors who were frequent and seasoned traders but were paying exorbitant fees to traditional brokers for information and advice they did not need. Zerodha realized this gap and decided to minimize it with its asset-light discount broking model. In 2019, ICICI Securities had 200 branches[[11]](#endnote-11) across India, whereas Zerodha had only 23.

Zerodha had moved everything online to reduce costs related to unnecessary advice that seasoned and regular traders did not want to pay for. The discount broking model helped Zerodha to exponentially reduce brokerage fees and thereby revolutionize the industry. Initially, Zerodha’s business model focused on two major areas—pricing and transparency. According to Nithin, online traders did not need to be charged for services offered to those trading from an office, which meant that online customers could save those costs. As for transparency, Zerodha wanted to counter the opacity with which other traditional financial firms were charging for their services.[[12]](#endnote-12)

For a bootstrapped business that had started on a minimal budget, Zerodha needed to meet the regulations of the Securities Exchange Board of India (SEBI)[[13]](#endnote-13) and others, which included making a security deposit of ₹10–15 million to set up the firm.[[14]](#endnote-14) According to Nithin, the biggest challenge, however, was to convince clients that the company was offering quality services on the best platforms at the least cost possible, and that the flat fees were not a deterrent to those offerings.[[15]](#endnote-15)

Zerodha’s advertising and publicity expense was zero; its method of engaging and encouraging more people to understand the markets better and start investing was through a financial literacy program called Varsity, a free sign-up site that educated users on stock markets. The Zerodha model was to create an ecosystem around trading.[[16]](#endnote-16) Alongside Varsity was another free-for-all online initiative, TradinQnA, which was a forum where anyone could seek answers related to the markets.[[17]](#endnote-17) To include in the ecosystem people who had no clue about what to buy, Zerodha set up Rainmatter, a financial technology (fintech) start-up incubator, to invest in start-ups in exchange for equity so that these companies would mature and then benefit Zerodha.[[18]](#endnote-18)

Zerodha worked on minimal real estate, expenses, and low employee overhead and sought to use technology to give its clients everything that high-net-worth investors received from other brokerages.[[19]](#endnote-19) The model was aimed at finding new investors from among middle-class consumers who were not into capital markets and consumers who were investing in other asset classes and initiating them into trading.[[20]](#endnote-20)

Zerodha had an impressive share of the volume of trade at the Bombay Stock Exchange (BSE) and the NSE at ₹80–100 billion of trade daily in 2018, representing more than 7 per cent of the Indian retail market turnover. This market share put Zerodha ahead of it competitors in the retail brokerage business. Up until 2018, Zerodha had spent a negligible amount of money on marketing, instead relying heavily on word-of-mouth marketing, which itself made the firm unique.

Pricing

When Zerodha started, because it primarily targeted independent traders such as the Kamath brothers themselves who were frequent traders and for whom brokerage costs made a big difference, the company kept its pricing to a bare minimum. All clients’ equity delivery investments (e.g., on the NSE and the BSE) were offered at a ₹0 brokerage fee. For daily equity trading and futures and options (F&O) trading, the company charged ₹20, and for every executed order on intra-day trading across the exchanges (i.e., the NSE, the BSE, and the Multi Commodity Exchange of India Ltd.) on all parameters (i.e., equity, currency, and commodity), the company charged the lower of ₹20 or 0.01 per cent of the transaction turnover.

As of 2018, Zerodha had removed all commissions on equity investments and was the only company to offer direct mutual funds through a platform; Zerodha developed its own platform, Coin, for this purpose. The brokerage firm also offered commission-free mutual funds as opposed to up to 1.5 per cent up front commission and a 1.5 per cent yearly trail commission that a client would pay on an investment purchased through a distributor.[[21]](#endnote-21)

Because discount broking focused mainly on trading and was mostly conducted online, Zerodha was able to do away with the need for multiple offices around the country and unnecessary research, funding, and other add-on services. According to Nithin, the need for an offline support system was irrelevant for anyone trading online. It was also pointless and expensive to have multiple offices in the city and across the country, which were likely to increase overhead costs that would need to be extracted from customers.

Transparency

To convey its noble motives to its customer base, Zerodha kept the transaction process transparent. The comprehensive brokerage calculator on its website itemized the various transaction costs, from taxes to the brokerage fee charged. Unlike in traditional trading, where brokers charged according to the transaction volume, Zerodha played a significant role in promoting transparency across the industry, even when the actual cost incurred was independent of the volume traded.

attracting talent in FINANCIAL TECHNOLOGY START-UPS

In 2018, only 2 per cent of Indian household financial savings were directly invested in shares, which amounted to an insignificant figure of ₹1,509 billion for the entire Indian household population.[[22]](#endnote-22) Zerodha’s main challenge was to figure out how to grow the market and tap this segment. An integral part of this ambitious plan was technology. Given that many discount brokerages firms had been launched with similar pricing strategies, it was evident that technology would need to be Zerodha’s chief differentiator.

Zerodha believed that it was not just Tier 2 and Tier 3 cities[[23]](#endnote-23) that should be sought for new customers; even Tier 1 cities had potential that brokerage firms had yet to fully tap. The Kamath brothers needed to think of ways to bring more Indians into stock markets while accommodating the changing dynamics through continuous service innovation. Apart from the way trading was done, the Indian capital market was far behind developed markets in terms of the technology used. Although pioneering the discount broking model gave Zerodha the first-mover advantage, the model was no longer the company’s chief differentiator. Keeping that in mind, Zerodha decided to leverage technology and keep it at the firm’s heart.

Zerodha aimed to evaluate customer needs and objectives, advise clients, manage customer accounts and account records, explain the securities markets and the [factors](http://www.investinganswers.com/node/5492) that affect them, execute orders for clients, and monitor client portfolios. Zerodha focused on technology to cater to the changing needs of its customers in an effort to maintain its leadership position in the market. It had been continually innovating in the field of fintech to provide hassle-free user experiences unlike ever before. Also, Zerodha was quick to realize that the share-broking industry was extremely dynamic, and the firm would need to collaborate with start-ups to set the stage for the future. The company chose to use the most progressive form of innovation strategy—collaboration. Through its application programming interfaces (APIs), Zerodha made the rare capital market data available to start-ups, even as it helped them innovate. In return, with the help of these start-ups, Zerodha managed to deliver more functionality and faster time-to-market trading competitiveness.

Rainmatter

In 2015, Zerodha set up a start-up incubator, called Rainmatter, which aimed to invest in new age fintech start-ups and aid their growth by providing, in exchange for equity, well-equipped workspaces, mentorship, and funding (see Exhibit 2). Rainmatter intended to fund all start-ups that would help grow the capital market ecosystem in India.

One of the capital market’s significant hurdles in terms of building technology was the lack of open, technological frameworks and the need for regulatory compliance. For example, fintech start-ups wanting to promote investments to the masses could not even launch such an idea without first having a broking licence. This requirement was one of the prime reasons behind very few innovations in the Indian fintech industry compared with industries such as e-commerce, retail, and transport.

To overcome this barrier, Zerodha developed its Kite Connect API (Kite Connect) to assist in making customized trading platforms and applications for both personal and public use. With Kite Connect, Zerodha endeavoured to pioneer the concept of end-to-end broking as a service—from onboarding, Know Your Customer (KYC), account opening, right up to customer support. Once the product was ready, Zerodha assisted in attaining the necessary exchange approvals. Thus, fintech enthusiasts could focus on innovating investment products using these APIs while Zerodha dealt with the operational and regulatory details. With its futuristic approach, Kite Connect was expected to act as a catalyst for budding fintech start-ups in India. Providing a platform was Zerodha’s vehicle for unleashing the vast potential available in the tech-savvy youth of the country.

As anticipated, with Rainmatter and Kite Connect in place, various start-ups with innovative ideas surfaced (see Exhibit 3). One such start-up, smallcase, which focused on democratizing equity through technology, helped traders invest wisely in stock markets by developing an intelligently weighted portfolio of up to 20 stocks that reflected a market theme or trend. These portfolios were built based on long-term trends (e.g., the increasing middle-class population), government reforms, sector trends (e.g., in media and tourism), investing strategies, and trackers for Nifty sector indices.[[24]](#endnote-24) Each case cost approximately ₹100 and was linked to Zerodha Kite.

The dashboard showed only those items that were required, and the clutter was done away with. The platform was lightweight, consumed only 1/175 of the Internet bandwidth required by traditional trading platforms, and was launched in multiple languages to cater to a broader audience. Its advanced technical analysis charting included more than 100 charting indicators and more than six different types of charts for all stocks, and it could search through 70,000 stocks across multiple exchanges. The platform helped place advanced order types in milliseconds and hosted approximately 70,000 clients, processing more than 5 million requests daily with no hiccups. Kite was also available as a mobile application on both Android and iOS.

Another such start-up was Balance, which promoted the habit of saving and helped people do so by investing in certain default mutual funds (MF) according to the set goal. The Balance app could be connected to clients’ Zerodha Kite account or directly to their bank accounts. Zerodha’s collaborative approach helped the Indian fintech industry evolve and increased its own visibility and credibility as a leading, cutting-edge firm.

Trading Platforms—Increasing Convenience

In 2013, in an effort to encourage trading, the NSE offered its trading platform to brokers free of cost. This offering reduced Zerodha’s time to market by eliminating the need to develop its own trading platform. Zerodha had been following a highly client-oriented approach by continuously innovating products to address customer pain points and provide hassle-free trading experiences. In 2014, when the SEBI allowed exchange platforms to offer direct mutual funds in dematerialized (demat) forms, Zerodha seized the opportunity to broaden its product offerings and launched its direct mutual funds platform, Coin. For a flat fee of ₹50 per month, Zerodha made it extremely convenient to manage multiple mutual fund holdings and systematic investment plans.[[25]](#endnote-25)

In 2015, Zerodha launched Pi, a unique desktop application that offered advanced charting and backtesting capabilities. The software had 10 types of charts with more than 80 indicators. Traders could use Pi to view up to 50,000 candlesticks[[26]](#endnote-26) based on their system speed and configuration. Apart from having access to inbuilt strategies, users could also use Pi to create their own strategies, back test them, and trade directly from the chart. The easy-to-use terminal was offered free of cost to Zerodha customers.

Zerodha also had a fully functional and installable trading terminal, Zerodha Trader, which supported real-time monitoring and enabled faster execution of trades. It also developed software applications to enhance the user experience at each and every stage of the trading process (see Exhibit 4). The company was always focused on intuitive and responsive web-based trading platforms.

It also introduced a back-office tool, Q, which was a trading journal and financial assistant that tracked users’ trading activity and provided an in-depth analysis. This tool enhanced the after-trade experience by producing profit and loss statements, estimating unrealized profits, and developing heatmaps based on trading history. In Q’s upcoming version, Zerodha planned to incorporate advanced analytics to improve the odds of success by analyzing its clients’ past trading patterns.

Education—Strategically Increasing the Customer Base

Apart from collaborating with start-ups in the fintech sector to encourage more people to join Zerodha through the start-ups, Zerodha relentlessly promoted awareness of capital markets. To attract new customers, Zerodha introduced and consistently upgraded various education initiatives such as Varsity, TradinQnA, Rupee Tales, and Opentrade (see Exhibit 5). According to Nithin, only seasoned traders would know how to benefit from a good execution platform, but those who had never executed would not really trade. He considered this untapped segment to be a game changer in that only 3 million of the 180–200 million Indians who were capable of investing in the markets actually traded, which meant that the rest were potential traders who could be harnessed.

Because youth (i.e., those aged 15–24 years) formed the largest portion of India’s population,[[27]](#endnote-27) Zerodha targeted this group by holding seminars and forming associations with various colleges. It also built online knowledge portals to educate students about the potential of equity investment. Varsity was one such initiative. It was free and offered easy-to-grasp stock market lessons with in-depth coverage and illustrations.

To compensate for the lack of financial advice and research in the discount broking model, Zerodha tried to help its clients make an informative decision by spreading awareness about the latest trends in business, finance, and markets through its online news portal, Pulse. Another such initiative was the Opentrade platform. It was an extension of Zerodha’s open education initiative, Varsity. Opentrade featured the trading patterns of some of Zerodha’s most profitable clients. For a nominal monthly fee, clients could observe these skilled traders and monitor their portfolios passively.

One initiative was aimed at children. *Rupee Tales* by Zerodha was a series of books that introduced children to basic finance through stories that they could relate to. Zerodha also collaborated with regulatory bodies and stock exchanges to hold trade fairs for promoting capital markets in Tier 2 and Tier 3 cities.

INDIAN INVESTMENT PREFERENCES AND CONCERNS

Nithin was aware of Indian customers’ low savings; their stubborn aversion to equity investments; their fascination with investments in gold, insurance, and real estate; and their affinity for risk-averse investment instruments. The investment flow was highest in the traditional modes of investments such as those in the real estate market, gold, and fixed deposits (FD) with banks because investors preferred making safe and less risky investments rather than pursuing highly volatile investments such as the stock market.

In 2018, India was the world’s fastest-growing economy and the sixth-largest economy, with a gross domestic product (GDP) of US$2.61 trillion. The country’s high population dragged its GDP per capita down to $1,982. India’s economic strength lay in its limited dependence on exports and its high saving rates, favourable demographics, and booming middle class.[[28]](#endnote-28) According to Nithin, despite the high growth rate of stock markets, a lack of understanding about volatility in the capital financial market prevented Indian customers from reaping the benefits of the markets. He felt that although a large segment of the population was willing to invest in the stock market, many resisted because of either their lack of knowledge or a lack of proper guidance about stock market investing. Additionally, building sound judgment about how the stock market performed required time, effort, and easy access to technology and information.

According to Nithin, since 2014, Indians’ investment habits began to gradually shift from gold and real estate to financial savings, and this trend was unlikely to reverse. Besides, investments in both the stock markets and mutual funds had increased, in part because of structural reforms, such as the formalization of the Indian economy, the financialization of savings, financial inclusion endeavours, and the rising share of various funds being allocated to equities. Additionally, the pool of investible funds in the share market was expected to increase further as a result of India’s burgeoning middle class and a large working population with better job opportunities than in the past.

THE STOCKBROKING BUSINESS IN INDIA

In 2018, the Indian stockbroking industry was among the top growing segments in the Indian financial sector.[[29]](#endnote-29) The BSE, established in 1875, was Asia’s first stock exchange and the 11th largest stock exchange in the world in January 2019. The NSE, India’s first demutualized exchange, was set up in 1992 by a group of leading Indian financial institutions and supported by the Government of India in an effort to bring transparency to the Indian capital market.[[30]](#endnote-30) Capital markets all over the world experienced a revolution driven by technology and radical changes in the market structure. Electronic trading had dramatically increased the trading volumes and liquidity, helped reduce the cost of intermediaries, and broadened access to markets. In addition, exchange demutualization led to a dilution of the status of exchange members and democratized access to liquidity.[[31]](#endnote-31)

The Indian stockbroking industry had transformed from an unorganized sector to a sophisticated, organized, and technology-driven sector with more than 22,000 brokers in 2018. The revolutions in mobile and Internet technology were changing the way customers participated in stock market activities. Discount brokerages such as Zerodha leveraged mobile and Internet technology to provide complete online services and reduce costs drastically. Technology not only reduced the hassles and costs of stock market investments but also made clients self-dependent and minimized their interactions with a live broker. Smart phone-based platforms brought the markets to the fingertips of traders and made participation accessible and affordable for all. Mobile phones accounted for less than 1 per cent of trades for brokers until 2014, but by 2018, most brokers admitted that a majority of their trades came from mobile phones. Machine learning and artificial intelligence enabled traders and brokers to identify better opportunities. High-end mobile apps in the market could understand the investor’s goals and, accordingly, customized solutions for their investments.[[32]](#endnote-32)

The brokers faced two major challenges—economic hurdles and regulatory expectations. The economic challenge came from disintermediation throughout the world, and technology-driven changes began putting a lot of pressure on the brokers. Meeting the high regulatory costs and achieving regulatory compliance were among the biggest challenges for the brokers, considering the regulator did not differentiate between the different size and business models of brokers.[[33]](#endnote-33)

The next wave of stock market growth was expected to introduce new factors, such as low-cost, high-volume products that would create wealth for all. Financial literacy and education helped people realize the importance of managing and growing their assets. Technology was expected to continue to be one of the most critical factors for driving up market participation. Companies needed to maintain the right balance between automating processes with adequate physical support and a human approach to client servicing. They were expected to offer voice-based support and services in native languages to attract customers from various regions of the country.[[34]](#endnote-34)

The Major Players

Apart from Zerodha, the major players in the industry were ICICI Securities, HDFC Securities Limited, Sharekhan Limited, and Axis Securities Limited. The fees charged by Zerodha were less than those charged by its competitors (see Exhibit 6).

ICICI Securities Limited

ICICI Securities, a banking equity broker, was a subsidiary of ICICI Bank Limited. It had been one of the largest equity brokers in India by brokerage revenue and active customers in equities on the NSE. It had more than 200 branches in India and benefited from the brand equity of ICICI Bank. Its high brand value allowed it to charge high brokerage fees and impose high transaction charges. It offered a portfolio of products such as equity, derivatives, currency, MF, Insurance, FD, bonds, loans, eLocker, and national pension scheme to its customers.[[35]](#endnote-35)

HDFC Securities Limited

HDFC Securities Limited (HDFC Securities) was yet another banking equity broker. A subsidiary of HDFC Bank Limited, it offered a portfolio of products such as stocks, derivatives, MF, FD, insurance, bonds, and currency derivatives to its customers. It had more than 250 branches in India and was backed by the brand equity of HDFC Bank. As with ICICI Securities, the high brand value of HDFC Securities allowed it to charge high brokerage fees and impose high transaction charges.[[36]](#endnote-36)

Sharekhan Limited

Sharekhan Limited, a subsidiary of BNP Paribas SA and one of the first brokers to offer online trading in India, offered security broking and portfolio services to institutions, large corporate houses, and individual investors. It had 153 branches and more than 2,400 business partners spread across more than 575 locations. The company offered a wide range of savings and investment solutions, including equities, futures and options, currency trading, portfolio management, research, and mutual funds and investor education.[[37]](#endnote-37) Its transaction and brokerage charges were less than ICICI Securities and HDFC Securities.[[38]](#endnote-38)

Axis Securities Limited

Axis Securities Limited was also a banking equity broker. A subsidiary of Axis Bank Limited, it offered a portfolio of products such as equity, derivatives, MF, FD, exchange-traded funds, loans, and tax planning.[[39]](#endnote-39) It had 55 branches in 2018.[[40]](#endnote-40) Its brokerage charges were high compared with those of discount brokers.[[41]](#endnote-41)

Other major players in the market were Angel Broking Private Limited, Kotak Securities Limited, Motilal Oswal Securities Limited, Karvy Stock Broking Limited, and India Infoline Limited.

CONCLUSION

Zerodha had exponentially reduced brokerage fees and revolutionized the industry through its discount broking model and zero commission trading opportunities. Through its free-for-all financial literacy programs (i.e., Varsity and TradinQnA) and its start-up partnering incubator initiatives such as Rainmatter, Zerodha aimed to build an ecosystem around trading. The idea was to not only educate capital-market novices and new investors but also help everyone, including itself, to reap the benefits of equity investment. Reaching out to the millions of Indians not leveraging the power of the stock market and showing them how to create and multiply wealth at the lowest possible cost was a disruptive and pioneering move. Zerodha’s technology thrust open the doors to immense scope, making it possible to unlock the potential of not just Tier 2 and Tier 3 cities but also Tier 1.

Because Zerodha wanted to bring change to the investment behaviour of risk-averse Indians but knew doing so would be an uphill task, the firm focused on technology to cater to the needs of its customers to achieve its aim of opening 1 million accounts by 2020. In a dynamic yet conservative scenario, the company needed to keep the start-up culture alive even as it accommodated the changes. Whether Zerodha introduced a new offering in the form of a clutter-free, minimalistic trading platform or concepts such as backtesting through its desktop application, Pi, and algorithmic trading, it remained to be seen what further efforts Zerodha would make to bring the community of Indian traders at par with the rest of the world in terms of technology.

With competitors vying for the top spot, Zerodha’s leadership position was at stake, and the company would need to ascertain how to stay ahead of the competition and maintain its position. It would also need to assess what marketing and technology strategies to adopt to continue innovating at a fast rate and harness the massive investment potential locked in the Indian market to retain its number one spot.

Vipul Kumar Singh is an assistant professor at National Institute of Industrial Engineering, Mumbai, India; Sandeep Puri is an associate professor at Asian Institute of Management, Philippines.

EXHIBIT 1: TOP 10 STOCKBROKERS IN INDIA (2016–2018)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Rank** | **Company Name** | **Segment** | **Number of Customers** | | |
| **2016** | **2017** | **2018** |
| 1 | Zerodha | Online Discount | 165,586 | 602,493 | 847,016 |
| 2 | ICICI Securities Limited | Banking Broker | 618,359 | 798,355 | 844,853 |
| 3 | HDFC Securities Limited | Banking Broker | 483,244 | 535,003 | 674,495 |
| 4 | Sharekhan Limited | Offline/Online | 366,468 | 540,905 | 548,873 |
| 5 | Axis Securities Limited | Banking Broker | 259,006 | 404,769 | 416,707 |
| 6 | Angel Broking Private Limited | Offline/Online | 230,194 | 363,663 | 415,572 |
| 7 | Kotak Securities Limited | Banking Broker | 273,895 | 368,638 | 409,619 |
| 8 | Motilal Oswal Securities Limited | Offline/Online | 207,194 | 307,647 | 328,145 |
| 9 | Karvy Stock Broking Limited | Offline/Online | 181,384 | 244,753 | 270,521 |
| 10 | India Infoline Limited | Offline/Online | 197,996 | 225,435 | 225,435 |

Source: “Top 10 Stock Brokers in India,” Investallign, January 29, 2018, accessed February 6, 2019, www.investallign.in/top-10-stock-brokers-india.

EXHIBIT 2: START-UPS FUNDED AND INCUBATED BY RAINMATTER

Rainmatter was an initiative that Zerodha funded to incubate innovative Indian fintech start-ups. The initiative provided the following:

* Well-equipped workspaces, mentorship, and funding (US$100,000–$500,000) to innovative fintech and investment start-ups
* Direct industry connections and mentorship
* A wealth of archived market and financial data ready for crunching and analysis
* Real-time, tick-by-tick data from multiple Indian stock exchanges (i.e., the National Stock Exchange, the Bombay Stock Exchange, and the Multi Commodity Exchange)
* Real-time order execution capabilities, both remote and co-located
* Execution platform for mutual funds and insurance policies
* High level APIs for creating custom trading front ends
* Behavioural data for research and analysis
* 350,000+ strong trader/investor client base to showcase offerings

|  |  |
| --- | --- |
| **TradeLab** | A stock-vested broking and analytics firm. Helped Zerodha build its trading platforms Pi and Kite. |
| **Neotrade Analytics** | Distributed real-time data to traders and trading bodies on their preferred programming language platform and helped them decide when to invest in markets. |
| **Digio** | A digital signature-enabling platform built atop Aadhaar,\* which enabled Indian businesses and consumers to gain access to digital signatures for documents. |
| **Balance** | An app designed to help individuals make smart savings and invest in low-risk mutual funds. |
| **Streak** | A first-of-its-kind platform where traders could create trading algorithms without coding, which enabled traders without any coding knowledge to check the profitability of the algorithm before deploying. |

Note: APIs = application programming interfaces; \*Aadhaar was a 12-digit unique identity number provided by the Government of India to every Indian citizen.

Source:Company files, also available at Rainmatter (organization website), accessed September 9, 2019, https://rainmatter.com.

EXHIBIT 3: PARTNER PRODUCTS (PRODUCTS POWERED BY the ZERODHA PLATFORM)

|  |
| --- |
| **smallcase**  Powered by Kite Connect APIs, smallcase was India’s first thematic investment platform. It enabled users to invest in intelligently weighted baskets of stocks with a single click. |
| **Streak**  Streak was the world’s first end-to-end platform on which retail traders could create algorithms without coding, backtest algorithms on historical data, and deploy algorithms live in the market. |
| **Sensibull**  Sensibull was India’s first options trading platform, offering everything from simplified options trading for new investors to powerful trading tools for the pros. Sensibull aimed to make options trading safe, accessible, and most importantly, profitable for all. |
| **StockReports+ by Thomson Reuters**  Comprehensive stock, market, industry research, and analysis updated daily from Thomson Reuters on more than 3,000 Indian stocks. |

Note: APIs = application programming interfaces.

Source: Company files.

EXHIBIT 4: ZERODHA’s software products

|  |
| --- |
| Kite Web  A slick, full-fledged HTML5 trading platform with streaming market data, advanced charts, an elegant UI, and more |
| Kite Android/Kite iOS  Mobile application of Kite for Android and iOS |
| **Pi**  Zerodha’s in-house desktop trading application, built in partnership with TradeLab |
| Direct Mutual Funds  Coin  Zerodha’s direct mutual funds (MF) platform  Benefits:   * No commissions on investment—either upfront or trail * Direct mutual funds in DEMAT form, with convenience of one portfolio across equity, MF, and currency * Flat subscription fees of just ₹50/month irrespective of number or value of MF transactions across all fund houses; first ₹25,000 worth of investments were free * Single capital gain statement, P&L visualizations, and more * Net Asset Value (NAV) tracking orders; similar to stocks, users could place orders to purchase or redeem funds based on NAV |
| Kite Connect  A set of simple HTTP APIs built on top of Zerodha’s exchange-approved web-based trading platform, Kite. The API enabled users—clients of Zerodha—to gain programmatic access to data such as profile and funds information, order history, positions, and live quotes. Users could also place orders and manage portfolios at their convenience from an interface of their choice. |
| Q (Backoffice)  Zerodha’s next-generation trading journal and financial assistant |
| Console  Complete trade and reporting console and dashboard |
| Sentinel  Zerodha’s system for creating powerful market alerts on the cloud for stocks, futures, and options |

Note: APIs = application programming interfaces; DEMAT = dematerialized; P&L = profit and loss; UI = user interface; ₹ = INR = Indian rupee, average exchange rate in 2010 was US$1 = ₹60.59 and ₹1 = US$0.0165.

Source:Company files, also available at “Technology—Investments,” Zerodha, accessed September 9, 2019, https://zerodha.com/products.

EXHIBIT 5: zerodha’s EDUCATION INITIATIVES

|  |  |
| --- | --- |
| **Varsity** | Varsity was an easy-to-grasp, free, and open collection of stock market lessons with in-depth coverage and illustrations.  Average daily page views: 45,000+  Number of queries: 25,000+  Number of countries visited: 121  Overall page views: 5 million+ |
| **Opentrade** | The trading histories of selected star traders from Zerodha’s client base were made available to subscribers. When the star performer made a trade, real-time updates were provided, including details of the trade. |
| **Rupee Tales** | A set of five books that introduced children to the basics of finance through simple stories they could relate to. |
| **Trading QnA** | Question and answer site for information related to trading and stock markets. |
| **Pulse** | A platform providing the latest business, finance, and market news from all major Indian news sources. |

Source:Company files, also available at “Educate,” Zerodha, accessed September 9, 2019, https://zerodha.com/educate.

EXHIBIT 6: fee COMPARISONs OF MAJOR INDIAN SHARE BROKERS

(a) Broker Fees

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Broker** | **Zerodha** | **HDFC Securities** | **ICICI Securities** | **Kotak Securities** | **Sharekhan** |
| **Type of Broker** | Discount | Full-service | Full-service | Full-service | Full-service |
| **Account Opening Fee** | ₹300 | ₹999 | ₹975 | ₹750 | ₹750 |
| **Brokerage Account AMC** | Free | Free | Free | Free | Free |
| **Demat Account Opening Fee** | ₹100 | ₹0 | Free | ₹0 | Free |
| **Demat Account AMC** | ₹300 | ₹750 | ₹600 | ₹600 | ₹400 |
| **Trading Terminal Fee** | Free | NA | ₹900/year | NA | Free |
| **Call & Trade Charges** | ₹20 | Free | Free | NA | Free |
| **Minimum Brokerage Fee** | Nil | ₹25 | ₹35 | ₹0.04 for delivery and ₹0.03 for intra-day and futures trade | ₹16/scrip |

Exhibit 6 (continued)

(b) Brokerage Charges

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Broker** | **Zerodha** | **HDFC Securities** | **ICICI Securities** | **Kotak Securities** | **Sharekhan** |
| **Account Type** | Standard Plan | Online Trading | 3-in-1 Account | Fixed Brokerage Plan | Classic Account |
| **Equity Delivery (%)** | Free | 0.5 | 0.55 | 0.49 | 0.5 |
| **Equity Intra-Day** | ₹20 per trade | 0.10% | 0.28% | 0.05% | 0.10% |
| **Equity Futures** | ₹20 per trade | 0.05% | 0.05%–0.03% | 0.05% | 0.10% |
| **Equity Options** | ₹20 per trade | ₹100 per trade | ₹95–₹365 per lot | ₹ 300 per lot | ₹100 per lot |
| **Commodity** | ₹20 per trade | NA | NA | 0.07% | 0.10% |
| **Currency Futures** | ₹20 per trade | ₹23 per contract | 0.05%–0.03% | NA | 0.10% |
| **Currency Options** | ₹20 per trade | ₹23 per contract | ₹2–₹10/lot | NA | ₹30/lot |

Note: AMC = annual maintenance charge; Demat = dematerialized (a demat account holds shares in electronic or dematerialized form); DP charges = depository participant charges; NA = not applicable; ₹ = INR = Indian rupee, the average exchange rate in 2010 was US$1 = ₹60.59 and ₹1 = US$0.0165.

Source: Compiled by the case authors based on “ICICIDirect Vs RKSV (Compare ICICIDirect and RKSV),” Chittogarh Infotech, accessed January 28, 2019, www.chittorgarh.com/comparebroker/icicidirect-vs-rksv-securities/1/23; “Sharekhan Vs Zerodha (Compare Sharekhan and Zerodha),” Chittorgarh Infotech, accessed January 28, 2019, www.chittorgarh.com/comparebroker/sharekhan-vs-zerodha/2/18.

Endnotes

1. Zerodha was a partnership business that included Zerodha Commodities Private Limited, Zerodha Securities Private Limited, Zerodha Capital Private Limited, and Zerodha Technology Private Limited. [↑](#endnote-ref-1)
2. Vaibhavi Khanwalkar, “The Zerodha Story: How the Kamath Brothers Built India’s Largest Retail Broker,” Money Control, January 18, 2019, accessed January 26, 2019, www.moneycontrol.com/news/business/companies/the-zerodha-story-how-the-kamath-brothers-built-indias-largest-retail-broker-3403181.html. [↑](#endnote-ref-2)
3. Rachel Chitra and Partha Sinha, “Zerodha Replaces Biggies as Largest Broker in India,” ET Tech, January 10, 2019, accessed February 5, 2019, https://tech.economictimes.indiatimes.com/news/internet/zerodha-replaces-biggies-as-largest-broker-in-india/67465207. [↑](#endnote-ref-3)
4. Rachel Chitra, “Here’s How Zerodha Became India’s Biggest Stock Brokerage,” *Times of India*, January 20, 2019, accessed January 26, 2019, https://timesofindia.indiatimes.com/companies/heres-how-zerodha-became-indias-biggest-stock-brokerage/articleshow/67608674.cms. [↑](#endnote-ref-4)
5. Indulekha Aravind, “Startup Diaries,” *Business Standard*, May 2, 2015, accessed January 26, 2019, www.business-standard.com/article/beyond-business/startup-diaries-115050100813\_1.html. [↑](#endnote-ref-5)
6. Harichandan Arakali, “Nithin and Nikhil Kamath: Code Zero,” *Forbes* *India*, September 21, 2018, accessed January 26, 2019, www.forbesindia.com/article/tycoons-of-tomorrow/nithin-and-nikhil-kamath-code-zero/51347/1. [↑](#endnote-ref-6)
7. ₹ = INR = Indian rupee; average exchange rate in 2010 was US$1 = ₹60.59 and ₹1 = US$0.0165; all currency amounts are in ₹ unless otherwise specified. [↑](#endnote-ref-7)
8. Arakali, op. cit. [↑](#endnote-ref-8)
9. Ibid. [↑](#endnote-ref-9)
10. Ibid. [↑](#endnote-ref-10)
11. “ICICI Securities Ltd.,” Capital Market, accessed February 5, 2019, www.capitalmarket.com/Company-Information/Information/About-Company/ICICI-Securities-Ltd/12466. [↑](#endnote-ref-11)
12. Shweta Modgil, “From 10K Users in First 3 Years to 1.9 Lakh Users Today: Bootstrapped Zerodha Aims to Make Online Trading Low Cost, Transparent,” INC 42, December 14, 2016, accessed January 26, 2019, https://inc42.com/buzz/zerodha-startup. [↑](#endnote-ref-12)
13. The Securities and Exchange Board of India (SEBI) was India’s market regulator of capital and derivatives markets, including commodities and foreign exchanges. [↑](#endnote-ref-13)
14. Modgil, op. cit. [↑](#endnote-ref-14)
15. Nithin Kamath, “My Big Plunge: How Zerodha Got 80% of Retail Investors Trade to Use Online Discount Brokerage—In Just 5 Years,” Plunge Daily, October 18, 2016, accessed January 31, 2019, https://mybigplunge.com/mybigplunge/open-mic/zerodha-investors-discount-brokerage. [↑](#endnote-ref-15)
16. Pratik Bhakta, “The Lone Ranger: How Zerodha Held Its Own against India’s Largest Stock Brokerages,” May 18, 2018, accessed January 17, 2019, https://economictimes.indiatimes.com/small-biz/startups/features/the-lone-ranger-how-zerodha-stood-its-own-against-indias-largest-stock-brokerages/articleshow/64215146.cms. [↑](#endnote-ref-16)
17. Ibid. [↑](#endnote-ref-17)
18. Sindhu Kashyap, “Gunning for Profits of Rs 120cr, Bootstrapped Zerodha Is Betting Bigger for the Pond,” Your Story, February 14, 2017, accessed January 11, 2019, https://yourstory.com/2017/02/zerodha-3. [↑](#endnote-ref-18)
19. Venkatesh Ganesh, “Zerodha: Rising Stock on the Internet,” March 10, 2014, accessed January 17, 2019, www.thehindubusinessline.com/markets/Zerodha-rising-stock-on-the-Internet/article20736276.ece. [↑](#endnote-ref-19)
20. Ibid. [↑](#endnote-ref-20)
21. Sneha Jha, “Technology Helps Us Unleash Innovation in Capital Markets: Zerodha CTO Kailash Nadh,” *Economic Times*, April 3, 2018, accessed February 5, 2019, https://cio.economictimes.indiatimes.com/news/strategy-and-management/technology-helps-us-unleash-innovation-in-capital-markets-zerodha-cto-kailash-nadh/63589744. [↑](#endnote-ref-21)
22. Sreekanth Reddy, “RBI’s Statistical Data on Indian Households Savings & Investments (2017–18): How and Where Do We Save and Invest?,” ReLakhs Financial Services, September 19, 2018, accessed February 26, 2019, www.relakhs.com/rbi-data-indian-households-savings-2018. [↑](#endnote-ref-22)
23. According to Reserve Bank of India (RBI) guidelines from the 2001 census, Tier 1 referred to a city with a population of 100,000 or more; Tier 2 referred to a city with a population of between 50,000 and 99,999; and Tier 3 referred to a city with a population of 20,000 to 49,999. “Detail of Tier-Wise Classification of Centres Based on Population,” Reserve Bank of India, accessed February 5, 2019, https://rbidocs.rbi.org.in/rdocs/content/pdfs/100MCA0711\_5.pdf. [↑](#endnote-ref-23)
24. “The Nifty is a diversified 50 stock index accounting for 13 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index-based derivatives and index funds. . . . Nifty sector-based index are designed to provide a single value for the aggregate performance of a number of companies representing a group of related industries or within a sector of the economy.” National Stock Exchnage of India (website), accessed February 6, 2019, https://www.nseindia.com/products/content/equities/indices/nifty\_50.htm and https://www.nseindia.com/products/content/equities/indices/indices.htm. [↑](#endnote-ref-24)
25. A systematic investment plan was an investment strategy to invest a certain amount of money at regular intervals, typically weekly, monthly, or quarterly. [↑](#endnote-ref-25)
26. A candlestick chart (also called a Japanese candlestick chart) was a financial chart used to describe the price movements of a security, derivative, or currency. [↑](#endnote-ref-26)
27. According to India’s Census 2011, youth in India (defined as those aged 15–24 years) constituted one-fifth (19.1 per cent) of India’s total population. By 2020, youth were expected to represent 34.33 per cent of India’s total population. Central Statistics Office, Ministry of Statistics and Programme Implementation, Government of India (Social Statistics Division), *Youth in India, 2017*, 3, accessed February 5, 2019, http://mospi.nic.in/sites/default/files/publication\_reports/Youth\_in\_India-2017.pdf. [↑](#endnote-ref-27)
28. Prableen Bajpai, “The World’s Top 20 Economies,” Investopedia, January 10, 2019, accessed February 6, 2019, www.investopedia.com/insights/worlds-top-economies. [↑](#endnote-ref-28)
29. Ibid. [↑](#endnote-ref-29)
30. “Top 10 Stock Brokers in India,” Investallign, January 29, 2018, accessed February 6, 2019, www.investallign.in/top-10-stock-brokers-india. [↑](#endnote-ref-30)
31. Andre Cappon, “Brokerage World Is Changing, Who Will Survive?,” *Forbes*, April 16, 2014, accessed February 20, 2019, www.forbes.com/sites/advisor/2014/04/16/the-brokerage-world-is-changing-who-will-survive/#122ff52868a7. [↑](#endnote-ref-31)
32. Shrini Viswanath, “Future of Broking Is Not Just Technology,” *Business World*, May 12, 2018, accessed February 7, 2019, www.businessworld.in/article/Future-Of-Broking-Is-Not-Just-Technology/12-05-2018-148638. [↑](#endnote-ref-32)
33. Rahul Oberoi, “Meeting Regulatory Expectation Is the Biggest Challenge Brokers Are Facing Right Now: Uttam Bagri,” *Economic Times*, April 3, 2018, accessed February 6, 2019, https://economictimes.indiatimes.com/articleshow/63581831.cms. [↑](#endnote-ref-33)
34. Ibid. [↑](#endnote-ref-34)
35. “ICICI Securities Ltd. (ISEC) - Company History,” Business Standard, accessed February 6, 2019, https://www.business-standard.com/company/icici-sec-12466/information/company-history. [↑](#endnote-ref-35)
36. “About Us,” HDFC Securities, accessed February 6, 2019, www.hdfcsec.com/article/about-us-1647 Ibid. [↑](#endnote-ref-36)
37. “About Sharekhan BNP Paribas,” Sharekhan, accessed February 7, 2019, www.sharekhan.com/about-sharekhan-bnpp/who-we-are. [↑](#endnote-ref-37)
38. “Compare Online Brokers,” InvestYogi, accessed February 7, 2019, http://investyogi.com/Compare/Sharekhan-vs-ICICI-Direct-vs-HDFC-Securities. [↑](#endnote-ref-38)
39. “About Us,” Axis Securities Limited, accessed February 7, 2019, https://simplehai.axisdirect.in/aboutus. [↑](#endnote-ref-39)
40. “Axis Securities Limited,” Your Broker, accessed February 6, 2019, www.marketcalls.in/comparebroker/listings/axis-securities-limited. [↑](#endnote-ref-40)
41. Ibid. [↑](#endnote-ref-41)