"IIFL Wealth Management Limited Q3 FY2020 Conference Call"

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MANAGEMENT:	**MR. KARAN BHAGAT - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – IIFL WEALTH MANAGEMENT** **MR. ANSHUMAN MAHESHWARY - CHIEF OPERATING OFFICER - IIFL WEALTH MANAGEMENT** **MR. MIHIR NANAVATI - CHIEF FINANCIAL OFFICER - IIFL WEALTH MANAGEMENT** **MR. PAVAN MANGHNANI - HEAD STRATEGY AND INVESTOR RELATIONS - IIFL WEALTH MANAGEMENT**

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Wealth Management Limited Q3 FY2020 Earnings conference call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. On the call today for IIFL Wealth Management Limited, we have Mr. Karan Bhagat, Managing Director and CEO, Anshuman Maheshwary, Chief Operating Officer, Mihir Nanavati, Chief Financial Officer and Mr. Pavan Manghnani, Head Strategy and Investor Relations. I now hand the conference over to Mr. Anshuman Maheshwary for his opening comments. Thank you and over to you Sir!

Anshuman Maheshwary: Thank you. Good afternoon everyone and welcome to IIFL Wealth and Asset Management's Q3 update call. Over the next hour we will have Mihir take you through the financial performance. I will share other key business highlights and then request Karan to give his thoughts on key market and business-related trends and strategic priorities. We will then open it up for Q&A. So over to Mihir

Mihir Nanavati: Thank you Anshuman. I will now proceed to give an overview of the financial performance of the company for the quarter ended December 31, 2019.

The quarter has been stable with growth in key metrics. First AUM, our overall AUM has grown 5% Q-on-Q and 16% Y-o-Y to Rs.1,50,762 Crores. We have witnessed a strong growth in ARR assets 10% increase Q-o-Q to Rs.70,434 Crores including a 42% Q-o-Q in increase in IIFL-ONE assets.

Our loan book on December 31, 2019 stood at Rs.4,027 Crores up 5% compared to September 30, 2019, which was at Rs.3,851 Crores.

On to revenues, for the quarter revenue has grown 15.1% Q-o-Q to Rs.244 Crores. Recurring revenues have grown 11.2% Q-o-Q and 20% Y-o-Y to Rs.139 Crores, transactional and brokerage revenue stood at Rs.82 Crores for the quarter down 22.6% on a Q-on-Q basis.

Other income which primarily reflects our treasury income stood at Rs.23 Crores. Our consolidated revenues for nine months ended December 31, 2019 stands at Rs.674 Crores down 17.9% Y-o-Y.

Expenses, our employee and other expenses in Q3 were at Rs.144 Crores, up from Rs.130 Crores in Q2. It is mainly attributable to variable employee expenses including the cost of ESOPs started during the year. Administration and other expenses at Rs.46 Crores were lower than Rs.48 Crores in Q2 and in line with Q3 of FY2018. Overall cost income ratio was at 59% as against 61% in Q2 and in line with Q3 of FY2018.

Consolidated profit before tax is at Rs.272 Crores for nine months of the year and profit after tax in the same period is Rs.207 Crores. Profit before tax for the quarter stood at Rs.100 Crores up 22% Q-o-Q. Our PAT for the quarter stood at Rs.76 Crores up 8.6% Q-o-Q.

We have declared further interim dividend of Rs.10 per share taking our overall dividend to Rs.20 per share declared during the year.

I will now hand over to Anshuman to take us through the key business highlights of the last quarter.

Anshuman Maheshwary: Thanks, Mihir. Over the last few months, we have seen an improvement in the overall client sentiment; however, domestic and international macroeconomic factor continued to be an overhang to the emerging positive sentiment. As a company we have made steady progress on our strategic priorities and I wanted to cover some of the specific business highlights over the next few minutes.

Three specific points to highlight on our wealth management business performance, firstly we are continuing to see strong client traction with 100 plus relevant families added in the last quarter.

Net new money has also picked up with net flows from clients at almost Rs.9,000 Crores year-to-date. Of this HNI's are approximately Rs.10,500 Crores while treasuries have seen a net outflow during the year.

HNI net new flows for the quarter have also been steady and were approximately Rs.2,500 Crores. Secondly IIFL-ONE our flagship proposition continues to be the core focus area and AUMs have grown by nearly Rs.5,000 Crores to over Rs.16,000 Crores at the end of Q3.

We are on track to end the financial year at around Rs.20,000 Crores AUM under IIFL-ONE. Most importantly, our average AUM per family under IIFL-ONE has increased at about 25% to Rs.43.4 Crores and retentions have been steady at 42 bps. Please note that this retention is after excluding corporate treasury and non-fee earning assets where existing clients have transferred their investments, but the fee generation will only kick in on maturity of those investments. With growth in our managed pools solutions, we expect the retentions to steadily increase from 42 bps towards the targeted 50 bps mark.

Lastly, we continue to expand geographically with three new offices opened last quarter, taking our office count to 29. The new officers are Amritsar, Varanasi and Surat and we plan to continue the geographic expansion further to strengthen our presence in the non-metro cities as well.

Moving onto our asset management business, the focus has been on scaling up AUM across our existing products, AIFs, mutual funds and specifically especially in the PMS category. The stellar performance across all listed equities schemes has supported the strong AUM growth trajectory.

Overall AMC assets have increased 15% Q-o-Q to nearly Rs.27,000 Crores with AUM in our listed equities strategies increasing over 50% year-to-date to Rs.9,215 Crores. Improving retention has also been a priority and this quarter has seen an uptick in the same.

Three specific focus areas for us in the AMC, firstly the platform – regular additions to the product platform have helped maintain a market leadership in the alternative segment. Our aim is to build unique and comprehensive platform with capability across our four strategies listed equity, private equity, real estate and structured credit.

Secondly the distribution coverage – enhanced distribution coverage has been a big push area for us in this year and 63 distributors partner/channel partners have been added over the last year itself.

The third focus area is processes and people. We continue to focus on institutionalizing processes and increasing the use of technology across all the activities and functions and ensuring an ongoing focus on talent acquisition and retention.

Two other quick points before I hand over to Karan, first multiple initiatives focused on improving our productivity and driving cost efficiencies are underway and we should see visible impact over the next 6 to 12 months.

Our target remains to get towards 50% cost to income ratio towards the end of next year. Also, we have maintained a strong focus on technology with select strategic programs both for client servicing as well as for automating internal workflows and driving increased analytics.

Secondly acquisition of the wealth management business of L&T Finance is awaiting statutory approval. We expect it to come through over the next two to three weeks.

Now over to Karan to share his view on the market, business and our strategic priorities.

Karan Bhagat: Thank you Anshuman. The last quarter was an interesting quarter because post the IL&FS crisis last September for the first time, we saw clients having an active interest to invest. The focus towards investing in high quality fixed income and equity instruments continue, but the inertia of not wanting to do anything with money seems to have gone away.

Over the last three months, we have been able to launch very interesting products, be able to take our solutions to clients and successfully revitalize the system in many ways. Over the last quarter, we have also seen two interesting regulatory changes from SEBI one in the form of consultative paper, which talks about the new advisory guidelines and the notification of the new portfolio management services guidelines.

The PMS guidelines itself does not have any material impact on our business as it increases the minimum amount from Rs.25 lakhs to Rs.50 lakhs as well as takes away the ability of the manufacturer to charge an entry load to the client.

In our client segment both of those are really not an issue. Most of our portfolio management clients would typically tend to be far higher than Rs.50 lakhs and given the fact that we are on the changed model in no situation not even before the regulation that we are really charging a setup fee to the client.

On the advisory regulation, SEBI has taken out draft consultative paper. It is the fourth paper in last 4 or 5 years. We will have to wait and see how the clarity finally emerges but broadly they are talking about each client being distinctly captured in the group as either an advisory client or a broker dealer client.

From our perspective, this is a regulation we have spoken about many times over the last two to three quarters and we believe us as time goes by over the next nine to 15 months at some point or the other every client would have to get uniquely captured.

As a firm, we are extremely well prepared we have anticipated these changes in regulations and the IIFL-ONE portfolio management business is extremely well placed to handle this. As we go forward, we believe such regulatory changes may actually consolidate the market and enable us to be able to guide the client towards entering into relationships like IIFL-ONE much better and lead to certain maturity in the industry, which we are already moving towards.

From a business model change perspective, we have seen a very good trend emerging both from the client side as well as most importantly some our relationship managers. Clients have started understanding the IIFL-ONE proposition extremely well. Our retentions, our ability to convince them on the need to pay fees as opposed to us earning retrocession from manufactures has been much better established. As you go through most of our new clients nearly three-fourths of our new clients continue to come onto IIFL-ONE platform. For our old clients also ability to migrate them has moved forward steadfastly.

With every passing quarter I think momentum will only increase, last quarter we saw a good shift happening and as we have seen and as we have discussed earlier I think on the portfolio management non discretionary side we should be able to end up with 40-45 basis points retention and discretionary should be slightly higher.

On a blended basis, I think as we make transition to IIFL-ONE, our ability to convince clients of roundabout 50 basis points remains extremely, extremely strong. On the relationship manager side I think we have made the maximum amount of improvement over the last three odd months.

We had intense amounts of training from experts globally who have helped private banks make the shift from a distribution business model to a IIFL-ONE kind of model and we work very hard with the relationship managers to the construct a balance scorecard as well as reimagine their own profit and loss accounts over the next two-and-a-half three years and that has yielded good results.

I think today there is a large amount of conviction within the firm and within each relationship manager as to the benefits he gets by migrating clients to the IIFL-ONE platform. Their ability to scale up their business and have many more clients and therefore widened the span of control rather than being focused on the daily transactions is something which is of immense value to them.

We have also a made small change in terms of their compensation, we kind of introduced, a small variable which enables them to have a much softer landing as compared to the firm during this migration process and over the next 18 months it will help them build their balance scorecard is a much more realistic manner.

On the strategic initiatives side, we continue to build and expand the platform. For us to be successfully enhancing and staying ahead of competition on the IIFL-ONE platform we need to continuously invest on products, on our brokerage team, on our technology, on our advisory, investment counselor team as well as and our ability to provide ancillary services to clients including trust services, funding, tax advisors and so on and so forth.

On these services, we continue to invest and build a very strong architecture so that we can serve as on one stop-shop for our clients for everything regarding their net worth management.

As we go forward one interesting trend we continue to see is the expansion of the wealth management market in India for our segment moving away from 8 to 10 cities to becoming 25 to 30 cities and that is the change which is extremely interesting for us. We have invested a lot of our time over the last 12 to 18 months in building the 10th to the 30th cities if we can call it that way and very interestingly, I think each city gives us the opportunity of having 40, 50, 60 new relationships. That is something we have been extremely successful with over the last 12 to 18 months.

On the asset management side post Anup coming over the last 12 to 18 months all our funds continue to be practically on the top performing pole position for the last year-and-a-half and practically are in the top quartile, for the last one, two, three and five years.

On the back of that we continue to see a strong growth on asset management business as well as a continued focus to build a large platform to be able to house more and more innovative ideas on the asset management platform and all of this we hope to achieve with the razor sharp focus on productivity as well as cost.

I think as compared to the last 12 months we have seen some green shoots emerging over the last quarter, both from the market share perspective as well as from a relationship manager perspective and most importantly we have seen the traction improve substantially.

One of the interesting trends we have seen as far as relationship managers go, is our ability to attract senior relationship managers from the industry post the introduction of our IIFL-ONE platform has been extremely, extremely good, and as we build our business over the next 12 to 18 months I think we will find a lot more like minded senior relationship managers from platforms outside of ours, come together with us to be able to help build our business better.

Thank you.

Anshuman Maheshwary: Thanks with that we will open it up for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Saptarshi Chatterjee from Centrum PMS. Please go ahead.

Saptarshi Chatterjee: Congratulations Sir good set of numbers. First question is in the net new money that we have received in this quarter around Rs.1800 Crores if I compare that with earlier quarters of may be Q1 and last FY2019 this number seems meaningfully lower, are you seeing our kind of redemptions and when can we see this number to be similar to earlier quarters numbers?

Karan Bhagat: I think from a net new money perspective Q1 saw good inflow of Rs.6,500 Crores, Q2 was a little subdued, in Q3 our private wealth net new money is fairly decent since it is back to the Rs.2,500 Crores to Rs.2,700 Crores, there is Rs.1,000 Crores treasury redemption, which kind of keeps moving up and down on a quarterly basis, but I think very quickly we should be back to Rs.3,500 Crores to Rs.4,000 Crores quarterly numbers, which we intend to be targeting at. This quarter would be closer to Rs.2,600 Crores to Rs.2,700 Crores odd.

Saptarshi Chatterjee: Understood and L&T finance wealth management that AUM will come mostly in next year Q1 or Q4 only?

Karan Bhagat: Most probably in Q1 of next year, so it needs approval from DEA, so I think we will have to wait and see, but it should come through over the next 15 to 20 days and post that we can take decision on that, but it is unlikely to happen before the first quarter or next year.

Saptarshi Chatterjee: And lastly I wanted to understand that in recent times we have seen Axis Bank to be very aggressive in their Burgundy platform, so are you seeing any kind of competitive pressure in incremental client acquisition in any of the spaces because of these higher focus of such banks?

Karan Bhagat: Typically speaking more often than not the immediate target segment of most of the banks tends to be slightly different from our target segment, but given the new initiatives some of the banks are taking to be able to migrate to the higher segment, we will have to wait and see how we see them within the new clients we are acquiring, I think it is fair to say as we speak right now the answer is not really.

Saptarshi Chatterjee: Thank you so much.

Moderator: Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Sir my question to Karan, if you look at the transactional and brokerage revenue, there is very high amount of syndication-related revenue, highlight what exactly if it is like Rs.155 Crores odd versus Rs.40 Crores odd in FY2019 if you can just clarify what exactly is this?

Karan Bhagat: As I discussed in the previous quarter, syndication and brokerage revenue broadly includes all transactional revenues, so it would include transaction revenue for example, in this current quarter we could let us say if we are doing a block of NSE shares being sold to our clients that would get qualified as syndication brokerage revenue. Typical transactions we have done in the last quarter would include we placed a block of IndiGrid debentures which are CRISIL AAA debentures, now we could have placed a block of AAA Embassy REIT debenture, so all of those essentially gets classified under syndication and transaction, more often than not 60% to 70% represent high quality fixed income brokerage ideas.

Parag Jariwala: In any debentures which are like AAA, you basically buy it at a yield of, is this a pure brokerage or basically in sell down also there are some commissions like you probably buy it 8% and sell it 9%, so if you can book 1% extra?

Karan Bhagat: Typically it is about 30 to 40 basis points a year, so effectively it would range between 1%, 1.25% and 1.5% if it is a debenture of three years or four years, it is a debenture of five years it could be potentially 1.5% to 1.75%. Approximately 30 to 35 basis points a year effectively be transactions and brokerage revenue we can make from these kinds of transactions.

Parag Jariwala: These are like one time, you are probably booking entire five year revenue at one go right?

Karan Bhagat: This is one time as we kind of explained in our financials there are two kinds of revenue. One is the annual recurring revenue, which is essentially something where the clients willing to pay me fee year-on-year, but these are essentially trade with clients where they are not willing to pay me a fee year-on-year, so effectively they are buying the bonds, they do want to pay me 0.5% on the bond every year, so for example the same bonds sold to our IIFL ONE client we will not have the brokerage of 30 basis points, it will have full yield and the client will be paying me a fee year-on-year. So a part of it could be sold to a client who is dealing with me on a transaction basis, part of it could be sold to a client who is dealing with me on fee basis, so that comes in ARR slide. Transaction is giving me one-time revenue it is coming on the transactions from brokerage side.

Parag Jariwala: Okay and Karan with respect to your guidance, which you had mentioned earlier that the fourth quarter exit FY2020 into 4 will be FY2019, do you still maintain it?

Karan Bhagat: It is approximately similar, plus, minus 2% to 5%.

Parag Jariwala: Okay, just one last thing, so as a percentage of opening AUM if I look at an overall period of next five, seven years what proportion of net money you are comfortable, which is the percentage of sales by and large which you can do?

Karan Bhagat: Five, seven years only percentage may not be easy to model in that sense, but on an absolute number Rs.15,000 Crores to Rs.20,000 Crores over the next two-and-a-half to three years for sure these effectively means in the region of roundabout close to give or take 10% to 15% of our opening AUM. Going forward obviously year four, year five, year six depending on how the industry is at that point of time, in percentage terms, it might come off a bit, but if you do a model for six, seven years I would put it closer to 8% to 12%. If it is a shorter term of three years I would definitely push it towards 15% number.

Parag Jariwala: Thank you Karan.

Moderator: Thank you. The next question is from the line of Chirag Patel from Adinath Shares. Please go ahead.

Chirag Patel: My question is to Mr. Karan that going forward which product we want to highlight more to our customers, basically it was new three cities, which you mentioned like Surat, Varanasi and one more in initial talks, that is MF or AIF?

Karan Bhagat: I do not think we typically approach new clients with only new products, which will be driven more around asset allocations and therefore post that product selection. So where we typically would approach it is, how much in fixed income, how much in equity, within fixed income how much in AAA, AA plus and alternates and similarly in equity, how much in large cap, mid cap and alternates. That is captured been through our IPS, which is investment portfolio statement, what typically clients end up doing, in broadly 50% fixed income, 50% equity within the overall portfolio typically 10% to 15% tends to be alternates, which is alternative investment funds, PMS would have similar weightage of 10% to 15% remaining 65%, 70% ends up the mutual fund in high quality bonds that will be the typical mix and then there will be certain set of clients who might say that I wont start with the advisory proposition or with the portfolio management service, I want to start with more of a product based approach so there he might end up choosing one of these products, but our idea would be to sooner than later moving to a portfolio approach as opposed to stay in a product approach. So to answer your question, everyone wants mix of debt and equity and not more than 15% to 20% in alternates and potentially 10% to 15% in PMS.

Chirag Patel: We are catering more in way of financial planning kind of typical wealth management firm?

Karan Bhagat: Typical wealth management firm should end up doing a lot of financial planning, but yes, I think our focus is to first set up the IPS, which is the investment portfolio statement and basis of guidelines construct the portfolio.

Chirag Patel: What average ticket size of per client we accepting to receive for this kind of service average, any internal target we said?

Karan Bhagat: Currently our average clients across the firm is in the region of Rs.23 Crores to Rs.25 Crores, in IIFL-ONE proposition it is currently about Rs.43 Crores, I think that will come down towards the average size of the firms client, which is in the region of Rs.25 Crores odd.

Chirag Patel: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just on syndication, if you could give some color in terms of what pipeline you are looking at over the next couple of months because that tends to be slightly volatile one and the second one was you did make a mention about changing or treating the employee incentive program if you can explain that a little bit more in detail? Thank you.

Karan Bhagat: Thank you Mr. Chawathe. Both questions are important. On the syndication transaction brokerage revenue on the very long term basis I think it should end up at roundabout not more than 15 basis points to 20 basis points of the assets and the way that is kind of computed is that ARR income on the assets should stabilize in the region of 50-55, 60 basis points and 30% to 35% of that, is essentially what will come through as transaction and brokerage income. Currently it has been slightly higher, it will be in the region of 45% to 50%, that is also a function of the fact that only round about 15% to 18% of our assets are actually moved into the ARR bucket as we speak. So I think as we go along having the numbers, will kind of in percentage terms start coming off over the next year or so. It will see some bit of quarterly ups and downs the transaction brokerage revenue, but over the next year it will more or less stabilize in that region of round about 35% to 40% of the overall fee revenue and 60% to 65% of fee revenue should come through the ARR bucket. So for example, if you end up with Rs.100 fees and commissions, Rs.35 to Rs.40 maximum will be from the transaction brokerage revenue, Rs.60 odd will be from the recurring revenue.

Nischint Chawathe: Some color on the near term pipeline?

Karan Bhagat: Near term pipeline being closer to more 45% to 50% range as opposed to 30% to 35% range.

Nischint Chawathe: Sure, on the second one Sir?

Karan Bhagat: On the variable portions, we have two changes in the current quarter, so we had option plan of about 22 lakh, 2.2 million options granted to employees at a price if I am not wrong of roundabout close to Rs.900 a share that essentially is vesting over four years and effectively a large part of the cost essentially hits in year one, so effectively we have got a cost of roundabout Rs.7.8 Crores to Rs.7.9 Crores, ESOP cost included in the current quarters bonus provision and effectively from next quarter the 7.8 would move to roundabout Rs.14.5 Crores to Rs.15 Crores for the next three quarters and then consequently will keep coming down as a large part of the 4 year ESOP cost is being upfronted in the first year. We have also started out a small retention bonus program for some of our relationship managers, which essentially is a kind of reassurance that as we go through the change in the business model, some part of their bonuses which would naturally come through over the course of the normal year remains protected. That represents nearly roundabout 60% of the bonus provisions in the current quarter roundabout 30% to 35% is on account of ESOP cost and roundabout 10% would really be joining bonuses and so on and so forth. So that is the split of the bonus, so we expect overall from a guidance perspective for the full year we would model roundabout 35% odd number to variable cost of the total employee cost, so effectively salaries into roundabout 30% to 35% would be the broad variable cost including ESOP.

Nischint Chawathe: Just to understand this now, in the retention program what you are essentially saying is that when you get new business, you are going to mix some provisions for bonus that could be paid in the later periods, which could be pertaining to the revenue that you will be earning in the later period, so is it kind of sort of saying that you are making provisions for the revenue that you are earning in later periods, is it like upfronting of expenses that is the way to put it, which is the way you used to do earlier, where used to upfront income and obviously the bonus is also sort of upfront?

Karan Bhagat: Retention money is paid over 12 months, so it is not really upfronted in that way.

Nischint Chawathe: You are looking a provision right away?

Karan Bhagat: We are paying it quarterly, so what is provided for is what is paid for this quarter. It is subject to being employed in here, meeting a certain set of small minimum numbers, it is more like reassurance that if you are around then the numbers are done, minimum amount of bonus is there and honestly the provision more or less captures numbers, which would definitely come through in normal state of business, so it is not any advanced provisioning as such it is essentially more of a retention bonus very similar to what would normally get provided over the next 12 months. So I think it is safe to say that in either case with 70% of the mean already provided for, it could be minus 10% or plus 25% depending on how the business works out over the next 12 months.

Nischint Chawathe: So there is per se no lead lag effect between bonus and revenue on this, which is what I was asking?

Karan Bhagat: No, no lead lag effect.

Nischint Chawathe: Sure got it, so typically what you used to do is that you used to make a provision and pay it at the end of the year what you are saying is that you are kind of paying it in the quarters, is my understanding right?

Karan Bhagat: Yes that is right.

Nischint Chawathe: Sure, just one final on the mutual fund side, the recurring AUMs, I think we have seen this number sort of remaining flattish and it will be going a down a little bit in this quarter anything to read in that?

Karan Bhagat: I think two things have happened there, one part of the AUMs obviously moved into a IIFL-ONE and second the mix has improved therefore the brokerage is better. So for example we have seen a lot of liquid funds moved to arbitrage, a little bit of fixed income moved to equity and therefore the brokerage have moved up and part of the AUM retention is largely going from the movement to IIFL-ONE.

Nischint Chawathe: Okay thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Kunal Pawaskar from Indgrowth Capital. Please go ahead.

Kunal Pawaskar: My query to the IIFL Wealth team, I am on slide 7 of the presentation for this quarter and in the finance cost line in fund-based income under that heading, for the interest income that has probably grown around 25% year-on-year, the finance cost increase is much higher can I understand what is happening there behind this?

Pavan Manghnani: If I get the question right I think you are referring to the reclassified result table, slide 7?

Kunal Pawaskar: Correct, correct that is slide 7, reclassified result, I am on finance cost line and when we see that on a Y-o-Y basis 160 going up to 200 almost 25% whereas finance cost goes up much more and on another slide it also said that the borrowing costs were essentially stable so I was not able to understand why the disproportion increase here in finance cost, if you can explain that please?

Pavan Manghnani: So if you look at the next slide, if you just go to slide 8 for a minute what we have done is we have taken the whole fund based income, it is that full heading including the finance cost and broken up the income and the expense into three heads, one is what we earn as NIM on the loans that we give, one is the hedged instrument we hold on our balance sheet and the third is the other income. Now unfortunately, the way that result table is made, it does not really explain this well, which is why we have added this slide, so if you look at the hedged investment and you look at the jump between the income and expense on hedged investment, it is from 66 to 106 right? so that essentially has no impact on our financials or on our P&L, but the mark to market changes on the instruments which are hedged will drive these absolute numbers up and down. The obligation of the hedge instrument is being passed through net changes in fair value and cost of interest, but the nullifying impact is zero.

Kunal Pawaskar: Okay, okay so one should rather see slide 8 and just focus on the liabilities only on the loans to get a better picture?

Pavan Manghnani: Yes that is the reason we added this slide.

Kunal Pawaskar: I understood and on IIFL one platform, the second question was that it should probably touch around Rs.20,000 Crores is what you indicated in this call at start, would you be able to provide any guidance about how much that figure might be at end of FY2021, March 2021 quarter?

Karan Bhagat: We would be disappointed if it is below Rs.40,000 Crores

Kunal Pawaskar: Thanks. These were the questions from my side.

Moderator: Thank you. The next question is from the line of Priyanka Sarkar from HSBC. Please go ahead.

Priyanka Sarkar: Hi Sir, Thanks for this opportunity. Sir my question is a long term oriented and I will be happy if Karan Sir answer this for me, so for the last 10 to 12 years we have seen SEBI make a lot of regulatory changes such as entry loads, exit loads and up fronting of PEs. If all these changes have taken place obviously as the industry is gaining scale so what kind of more changes we think can SEBI come up with over the next three to four years which will impact our long term earnings potential?

Karan Bhagat: No, I think honestly a large measure of the changes on the asset management side I think more or less are reaching towards, I think it's a very well-regulated on the asset management side. The only thing which is not there is essentially on Portfolio Management and Alternative Investment Funds, there is still flexibility for the manufacturer and distributor to decide his upfront and trail commission and if you look at the history of mutual funds for the last 20 odd years, I think if you remember till 2007 if I am not wrong, for every transaction you essentially got trader commission. In 2009 that got eradicated. In 2015 SEBI reduced the upfront commissions to 1% and finally last year made it zero and they removed the entry load at 2007. I think even in the PMS regulation SEBI has actually taken the first step by removing entry loads now so you cannot charge the entry load now so we are back to effectively in a sense if we can call it PMS, we are in stage II of mutual fund regulation so I think as time goes by over the next three to four years, if III and IV essentially implies that the distributor even for PMS can only be paid from the scheme and only trail commission not upfront, so that can have a bit of impact on the behavior of the distributor where essentially for him whether he sells the portfolio management scheme or he sells an AIF, or he sells a mutual fund, for him the retention across all three will become more or less the same so that is as far as asset management goes. As far as wealth management goes, I think eventually as a wealth manager you will have to have a clear mandate with the client whether you are dealing with him as a portfolio manager or an advisor or a broker dealer and I think this definition will need to be extremely clear as a relationship between you and the client and therefore traditional responsibilities across all these three will need to be defined, your ability to maintain records of transactions across which we will be different, your in-house technology, compliance, book keeping across these three will be different and I think as time goes by I think SEBI will also require you to make a tighter log and control. As the business becomes larger and larger you may find it difficult to continue it as an individual IFA, you may need to corporatize that business. I think from our perspective I think two changes on the asset management side I think upfront commissions would slowly go away over the next three to four years even on PMS and AIF and on the wealth management side, I think as we go forward over the next three to four there has to be a clear relationship defined within the client and the firm. I think these are the two big things we will see over the next three to four years.

Priyanka Sarkar: Fair enough, thanks Sir. Can I add a one more questions please, is there any kind of global wealth Management Company that we aspire to become?

Karan Bhagat: I think there are many firms, there is no single firm we aspire to become like but to be honest giving credits to UBS, much more recently in Asia, Bank of Singapore, and in the US, we obviously got Bank of America, Merrill over the last decade or so all of them made a beautiful transition from becoming distribution outfits to becoming more advisory portfolio management focused solution provider and I think that is really where we would like to move our business towards.

Priyanka Sarkar: Okay thanks a lot Sir.

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

Alpesh Mehta: Good afternoon and congrats for the good set of numbers. First question is on IIFL-ONE, you mentioned around 42 BPS is the net retention so if I just back calculate the numbers, the average AUM for the first nine months is around Rs.77 billion is that right?

Karan Bhagat: That is right. They have many small adjustments to that so I just explain. Our IIFL-ONE assets are effectively kind of broken into three portions. One essentially discretionary PMS, the second is non-discretionary PMS and third is advisory. Advisory we offer only to corporate treasuries so there the retention is slightly low but large part of our assets which you see there are basically in the first two categories which are discretionary PMS as well as non-discretionary PMS.

There the only nuances there are certain instruments what we call are effectively fee bearing and certain assets which are currently not fee bearing but client has already contracted to it, thus it will become fee bearing, as soon as the maturity of the instrument which he invested in, which are the close ended instruments, comes up for maturity. So effectively blending those two the current data nuances, it ends up being closer to round about 36-basis points which automatically as instruments move up a maturity will move up to 42-basis points and currently if you do weighted average you are right, it will be Rs.7,754 Crores, but the right quantum asset is Rs.12,216, over the next two to three quarters the retention on these assets will automatically move up from the current number to 42-basis points.

Alpesh Mehta: I do not know whether you would be answering the question if I were to breakup this Rs.16,000 Crores between the treasury, discretionary and the amount that has been shifted from the rear upfront fees, would you be able to give a rough break up about that even?

Karan Bhagat: No, we can give the full break up in the sense we can send across the table also but the discretionary PMS run about Rs.4,000 Crores right now on a closing basis. The non-discretionary is roundabout Rs.7,800 Crores and the corporate advisory is roundabout Rs.3,800 odd Crores, which is a breakup of the Rs.16,000 Crores.

Alpesh Mehta: Okay and when you say around Rs.40,000 Crores are may be a guiding for around Rs.40,000 Crores of IIFL-ONE by FY2021 what is the rough mix that you have in mind.

Karan Bhagat: Corporate advisory should not typically be more than 20% we would want 80% in discretionary and non-discretionary.

Alpesh Mehta: Okay again by FY2021 while you have targeted number of around 50-basis points because of these nuances would the weighted average number be lower than the 50-basis points that you are guiding right now, because like for the first nine months when you have a reported number, weighted average number looks like around 28, 29-basis points?

Karan Bhagat: So that two ways for look at all these numbers, obviously run rate basis and managed for a period gone by. Okay I think for the period gone by in March next year for the previous 12 months I think it would be closer to 35-basis points and look forward run rate basis will be closer to 45 basis point, 50-basis points.

Alpesh Mehta: I got it. Second question is on the loan book of in this quarter, it is flattish on a quarter-on-quarter basis but since we have excess capital what was your guidance on this book. I understand it is better opportunistic but again any rough idea you have about this particular book?

Karan Bhagat: No. I think loan book while there is opportunity I think to find good quality assets today is not really an issue. Good quality assets that I am referring to and I am not referring to only promoter funding or stuff like that, even across our client base today good quality asset is not a problem but we have to be extremely sensitive about the liability side. So I think while we are looking to grow our loan book constructively, I think we continue to be very, very cautious and 110% sure that our liability should be towards the longer end and I think we are constructively going there. Today our entire liability is north of 9 to 12 months in the minimum so I think as long as we can maintain that we would hope to grow our loan book constructively by at least 15% to 20% over the next six to nine months.

Alpesh Mehta: And related to one more questions, related to business is has there been any change into the capital allocation towards this business versus the previous quarter because I think on a calculated basis at least the margins are higher.

Karan Bhagat: We have reduced a little bit of capital because the dividend we have declared we have up streamed it from the NBFC to the wealth business and then finally to the shareholders but that has got compensated by the profitability over the last two quarters.

Alpesh Mehta: Just a last question on the other income side, last quarter you had a negative impact of around Rs.19 Crores which was a mark to market and on a gross business the number was zero. In this part, mark to market gains of Rs.23 Crores?

Karan Bhagat: The other income is, more or less, we have roundabout Rs.740 Crores invested as sponsors /non-sponsor in our own alternative investment funds plus we would have another Rs.100 Crores, Rs.150 Crores at all points of time being in liquid schemes. I think the best way to look at that Rs.800 odd Crores is a broad return of 9%-10% on a yearly basis. The only challenge with this 9% to 10% is not going to be symmetrical on Q-o-Q basis so I think the other income will not go typically below Rs.60 Crores for the year and typically not exceed beyond Rs.80 Crores because we are not really doing anything else with the money. We are just investing back into our own alternative investment funds. So I think the number for the year would be in the region of Rs.60 Crores to maximum Rs.90 Crores and it essentially kind of end up being slightly asymmetrical on a quarterly basis. Because the broad NAV movement on the quarter-on-quarter basis is not necessarily reflecting the realized position.

Alpesh Mehta: Is this a gross number or there are mark-to-market losses or the provisioning also taken into this number?

Karan Bhagat: No. There is no provisioning. Provisioning was there only for the last quarter which is on that.

Alpesh Mehta: Last quarter, there is no provisioning?

Karan Bhagat: No I do not see any provisioning actually at all. Right now, we have no bonds, nothing. So we have disclosed our balance sheet in great amount of detail, so really there is nothing really there.

Alpesh Mehta: Thanks a lot and all the best for the future business.

Moderator: Thank you. As there are no further questions, I would now hand the conference over to Mr. Karan Bhagat for closing comments.

Karan Bhagat: Thank you. Look forward to the next quarter to speak to all of you again.

Moderator: Ladies and gentlemen on behalf of IIFL Wealth Management Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.