IIFL WEALTH

February 12, 2021

The Manager, **Listing Department,** **BSE Limited,** **Phiroze Jeejeebhoy Tower,** **Dalal Street,** **Mumbai 400 001.** **BSE Scrip Code: 542772**	**The Manager,** **Listing Department,** **The National Stock Exchange of India Ltd.,** **Exchange Plaza, 5 Floor, Plot C/1, G Block,** **Bandra - Kurla Complex, Bandra (E),** **Mumbai 400 051.** **NSE Symbol: IIFLWAM**

Dear Sir/Madam,

Sub: Disclosure under SEBI (Listing Obligations and Disclosure Requirements Regulations, 2015 – Transcript of earnings Call

Further to our earlier intimation regarding the earnings call to be held on February 4, 2021 for the unaudited financial statements for the quarter and nine months ended December 31, 2020, please find enclosed herewith the transcript of the same.

You are requested to kindly take the aforesaid on your record.

Thanking You,

Yours faithfully,

For **IIFL Wealth Management Limited**

IIFL WEALTH MANAGEMENT LTD. MUMBAI

Amit Bhandari
Company Secretary & Compliance Officer
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Encl: a/a

"IIFL Wealth Management

Q3 FY2021 Earnings Conference Call"

- **Moderator:**

- Very good afternoon, ladies and gentlemen. Good day and welcome to IIFL Wealth and Asset Management Quarter 3 FY21 earnings conference call. All participant lines will be on listen only mode and there will be an opportunity for you to ask questions after the management shares their initial thoughts. Should you need assistance during the conference call please signal the host by clicking on the raised hand icon. Please note that this conference is being recorded.

- Today on the call we have with us on behalf of IIFL Wealth and Asset Management, Mr. Karan Bhagat, Managing Director and CEO, Mr. Anshuman Maheshwary, Chief Operating Officer, Mr. Mihir Nanavati, the Chief Financial Officer and Mr. Pavan Manghnani, Head - Strategy and Investor Relations. Over the next hour Mihir will take us through the financial performance for the quarter, Anshuman will provide us the other key highlights and then we'll have Karan share his thoughts on the macro trends in the market and our business. We will then open it for Q&A. I now hand over to Mihir, over to you Mihir.

- **Mr. Mihir Nanavati - Chief Financial Officer, IIFL Wealth Management:**

- Thank you, Anil, and a warm welcome to all the participants on this earnings conference call. I will now give a brief overview of the financial performance of the company for the quarter ended December 31, 2020. And as I begin I will like to mention that we continue to function effectively and across the platforms through these times and have seen steady growth and stable operating matrix for the quarter.

- Assets Under Management:

- Our overall AUM increased 7.2% QoQ to Rs. 2,00,494 Crs from 1,87,097 Crs in Q2 of this ARR and assets increased 14.4% QoQ to Rs. 90,500 Crs from Rs. 79,142 Crs in Q2. IIFL One AUM grew 60.6% QoQ to Rs. 25,948 Crs from Rs. 22,259 Crs in Q2. Our loan book increased 6.5% QoQ to Rs. 3,019 Crs from 2,836 Crs in Q2.

- Revenues:

- On the revenue side, our total revenues for this quarter increased 13.4% QoQ to Rs. 280 Crs from Rs. 247 Crs in Q2. Within this our ARR revenue for this quarter showed an increase of Rs. 10.1% QoQ up from Rs. 140 Crs in Q2 to Rs. 154 Crs. Other income for the quarter stood at Rs. 41 Crs. On a 9-month basis we reported an overall revenue of Rs. 766 Crs up 13.6% YoY from Rs. 675 Crs in the earlier period.

- Expenses:

- On to expenses, our total expenses for the quarter increased 13.4% QoQ to Rs. 152 Crs from Rs. 134 Crs. Of this total employee cost increased by 10.6% QoQ to Rs. 109

Crs from Rs. 99 Crs. Accordingly, our overall cost to income ratio remained flat at 54% for the quarter. On a 9-month basis the aggregate expenses were Rs. 416 Crs up 3.5% YoY basis from Rs. 402 Crs in the previous period.

- Profitability:

- Operating profit before tax for the quarter was Rs. 87 crore which increased by 11.8% QoQ from 78 Crs. PBT for the quarter increased by 13.4% to Rs. 128 Crs and PAT accordingly increased to Rs. 97 Crs from 86 Crs in previous quarter. On a 9-month basis our PBT stood at 350 Crs up 29% YoY compared to 272 Crs. And PAT stood at 267 Crs up 29% YoY up from Rs. 206 Crs in previous period.

- With this I will now hand over to Anshuman to take us through other key business highlights, thank you.

- **Mr. Anshuman Maheshwary - Chief Operating Officer, IIFL Wealth Management:**

- Thanks, Mihir. Good afternoon, everyone, let me move on to the key highlights for the quarter.

- Overall we have continued on a sustained growth and financial performance particularly for Quarter 3. We see strong overall momentum across both our wealth and asset management businesses; and remain focused on clients, employees, cost and capital. From a client sentiment perspective, we saw risk appetite returning strongly with every new high created by the benchmark indices. Flows towards equities continued to improve with our overall debt equity mix returning to almost pre Covid levels. Overall allocations remained balanced with continued interest in fixed incomes instruments as well as alternate investment opportunities. New client acquisitions continued to be a robust with 1790 new relevant families on-boarded over the last 9 months, and 368 relevant families on- boarded in the current itself. Overall net flows for 9 months are at about Rs. 8,000 Crs, marginally lower than where would have liked to be. However, we are seeing a strong build up in quarter 4 and expect to end the year in line with our full year net flows target of 11 to 12,000 Crs.

- Importantly our flagship offering IIFL One continues to grow and gain market acceptance, a significant growth over the last quarter as well as YoY and the assets have now reached 26,000 Crs. Even within IIFL One specifically our Discretionary PMS offerings saw nearly 3,000 Crs of new flows and while the retentions were lower in this quarter we expect it to get back to over 50 bps shortly.

- We are very enthused by the growth being seen in the asset management business with net flows for the quarter at over 2,500 Crs. Overall AUM increase of over 20% over the last quarter and improved retentions as well. This has been driven by the strong performance of our funds specifically on the listed equity side as well as increased traction on institutional mandates for our alternate investment strategies.

- There’s been negative net flows that has been seen in our TBR AUM under our distribution platform. This is, again as many of you would recall, this is as per the expectation of a gradual shift of TBR assets to ARR earning assets across the other platforms.

- For us cost and capital efficiency continues to be a big focus area. On both allow me to call out what we are doing and what's been seen in the last quarter. While our cost to income ratio is flat, we have seen additional cost under two heads in the last quarter. Firstly, on employee variable cost which is reflective of our approach towards the move to ARR, IIFL One and incentivizing specific strategies. And secondly on administrative costs where we are using external support to supplement the organizational capabilities in specific areas, specifically around technology, risk, etc.

- I think it is important to call out Technology. It will continue to a big focus area for us with a significant push on bringing digital to each part of our client journey as well as the internal organization. We are very excited by the path being taken up on this front and we will update you on an ongoing basis on the developments.

- In line with our focus on improving our capital allocation and ROE as well as guidance on declaring 60 to 80% of our annual PAT as a dividend, we are happy to declare an interim dividend of Rs. 30 per share, the record date for the same is February 12th, 2021.

- On a separate note as we have done each quarter we continue to enhance our reporting structure and the level of details provided in our investor presentations. As you would have seen, we've made changes to the way we've depicted AUM as well as net flows. The reduction in total AUM because of double count of assets distributed by the wealth business for the AMC has been removed. It is a signal that also highlights that we see these two as two separate businesses, two pillars to our overall wealth and asset management business; working at arm's length and consequently, the reporting on assets and retentions have been changed to reflect the same. Correspondingly, we have also started reporting our net flows by engagement type thus providing far greater clarity in where exactly we are adding new assets and the corresponding retentions as well. And, of course, we continue to review our guidance each quarter and report on our performance against the same.

- With that I would now like to hand it over to Karan to share his views on the market, sentiments therein, business outlook and lead on to the Q&A, over to you, Karan.

- **Mr. Karan Bhagat – Founder, Managing Director & CEO, IIFL Wealth & Asset Management:**

- Thank you, Anshuman. Good afternoon to everybody, last quarter obviously saw a lot of confidence come back in the markets and most specifically with high net worth individuals. There's a greater degree of confidence both on the credit side, fixed income side and most importantly on the equity side. We've also seen the continuation of many, many more monetization's. Not only through IPOs but on the secondary side as well, there are a large number of deals which have happened over the last 3 months, a large number of them are still to be consummated, they are signed and continuous net flows over the next 6 to 12 months, I think, will continue to be a good harbinger for our business.

- As we grow our business we continue to work very hard on two aspects, one is really the technology backend, because we need to kind of clearly segregate our business into 4 distinct parts as required by the regulator, and before 31st March we need to be able to segregate all our clients into Advisory, Distribution, Discretionary and Non Discretionary. So, it's a large exercise which the firm has undertaken and we are fairly confident we will be able to engage with each client in each segment type. But overall, it will be net positive because we would have discussed the engagement type with every client and most importantly understood and debated with him which fee structure or which engagement model he wants to get into. We are hoping at least for 60 to 70% of our large clients we will have clarity by the end of the financial year and as we go forward from there we kind of, will kind of manage to get clarity on the remaining 25 to 30%.

- On the competitive landscape perspective, we continue to be in fairly a good position. We feel very happy about our platform, and our ability to cover all aspects of the clients' requirement. Most importantly, both from a commercial perspective as well as from an extremely high engagement and a high involvement, our relationship managers, our advisory team as well as our product team continues to be engaged with the client on a 24 x 7 basis. Enthusiasm and effort is not lacking at all with the team, which is very important in our business because we need to stay connected with the client at all points in time.

- From an overall business perspective, as Anshuman pointed out, I think one of the numbers that we would have liked to be better over the last 9 odd months, would be our net flow number. We would have ideally, pre-Covid, wanted to have this number at around the 12,000 to 15,000 crore mark, potentially closer to the 15,000 Crs mark, I think over the last 3 months and potentially over the next 3 months, the market has given us an opportunity thanks to the monetization activity, to acquire new clients and cover the deficit to that number. We are fairly confident our net flow number of approximately 8,000 to 8,500 Crs for the first 9 months has definitely got the potential and the legs to move towards the 12,000 Crs number, if not closer to the 14,000 – 15,000 crore number, by the end of March.

- Overall product performances also across the board, both on the wealth management side as well as the asset management side has been good; it has been fairly tight. We've also been innovative and opportunistic for our clients. We have made large trades in a couple of instruments which have really worked out well. So while we've been kind of going deep with clients on the portfolio allocation, asset allocation and building a process driven approach to managing money in the longer term, we have also ended up doing 2 or 3 trades where there is a high conviction on an opportunistic basis.

- From an organization structure perspective, we continue to expand and ensure that we have the right bandwidth to build out all our businesses.

- On the Wealth management side, Anirudh and Yatin both will get promoted to become joint CEOs of business. On the Asset management side, Manoj who joined us from L&T and comes with over two decades of experience on wealth management side and will take over as the CEO on the Asset management side, and along with him, Anup, who's been the pillar of our growth and specifically performance on the Asset management side, will continue to play an extremely vital role as the CIO. Umang Papneja, on the Wealth management side obviously continues to play a pivotal role both on the product innovation as well as the CIO for our Wealth management business. We have also seen Pramod Kumar who joined us from Wealth Advisors and was the CEO of Wealth Advisors to take on the additional mantle of being the CIO for our IIFL One business, and he has built out the entire platform over the last 12 months. Along with him, we've seen great amount of success being built in the platform over the last 12 odd months.

- Along with that obviously on the non-sales and non-investments side, we continue to make our team robust. We need to make more investments on the technology side and the risk side of the business. We continue to focus on those two aspects in a deep way, and if at all there would be any increase in the admin costs it will largely be driven by these two heads. And as we build our businesses and become larger, we would want to invest more and more on the technology side. Our initial investment on the technology side will not be much on the client facing side; rather it will be first driven towards ensuring that all our processes and interface with client can kind of be in a digital manner, allowing us to expand, without kind of loading on a huge amount of administration expenses as we expand. Overall, things look substantially better. And if I was to say that the clarity in the business model is emerging on a daily basis though, we would like to give ourselves a little bit of pat on the back in terms of looking at the evolution of this business model over the last year and half to 2 years, and potentially preparing for it early. You still can't prepare for it enough and we still need a little bit more work to be done. But we are confident, like we had guided a year and a year and half back, by the end of quarter 4 of the current financial year, we would be close to on a run rate basis, a revenue and a PAT number equal to pretty much the number from where we started the re-structuring of our business model in 2018. So that's really it from my side, would love to open the floor to question and answers, thank you.

- **Moderator:**

- Thank you, Karan, we'll now open the floor for Q&A. May I request you to please click on the raised hand icon to post your questions. Also I request you to kindly introduce yourself and the company you represent so that management can address the questions appropriately. Please just give a minute or so for the question line to queue up. The first question is from the line of Saptarshi, please unmute yourself and introduce yourself, Saptarshi, go ahead; yes.

- **Mr. Saptarshi Chatterjee - Centrum Portfolio Management:**

- Thank you for the opportunity. Sir, my first question is like you are saying this quarter the sentiment has been positive and as well as you are saying a new number of deals coming in. But if we see our projections from last quarter to this quarter also, it is kind of a 11% growth in AUM that we are projecting for year on year FY22 over FY21. So are you being conservative over here to have around 10 – 11% AUM growth or will you think that the growth can be much higher than this, with this positive sentiment.

- **Mr. Karan Bhagat – Founder, Managing Director & CEO, IIFL Wealth & Asset Management:**

- I think the AUM itself has to be broken up into 2 parts. One will be the mark to market, and second is the net flows number. So I think what we really are kind of focused on ensuring is a 12,000 to 15,000 crore net flow number every year. The mark to market obviously can lead to the AUM growing substantially faster, like what's happened over the last 9 months, but it can also kind of have a tough year at some point in time. So really what we are saying is a growth of 7 to 8% which is the 14,000 - 15,000 crore number, we are only on the net flows basis and adding to that the mark to market.

- **Mr. Saptarshi Chatterjee – Centrum Portfolio Management:**

- Understood, and second thing so I think from last quarter to this quarter most of the addition of AUM has been on the mark to market side other than net flows. Net flows has been slightly subdued even if we exclude custody assets. But on the other hand if we see cost structure for FY 21 itself there has been high increase I think 20% increase on earlier projections for FY21. And also if we see variable cost, I think variable cost to fixed is somewhat around 36% versus what you were guiding earlier I think around 20%. So if you can talk slightly on what is happening on the variable side and overall cost structure.

- **Mr. Karan Bhagat – Founder, Managing Director & CEO, IIFL Wealth & Asset Management:**

- So I think from a AUM perspective kind of I have already answered, from a cost perspective there are 2 elements of cost really, one is the employee cost and other is the administration cost. The admin cost is seen more a onetime kind of increase on account of, as Anshuman pointed out, a few additional initiatives on the technology side. I think that's going to remain more or less in that range of close to around about 40 odd Crs there about for a quarter. The employee cost can become a little variable in some quarters where we kind of provide additional incentives and so on and so forth. But you need to look at the variable employee cost in two portions, one is really the employee stock options which we've discussed earlier, and second is the bonus provision which happens on a year to year basis. So I think overall put together that number will look like 35 – 36 this year but as we've discussed earlier a component to that really is the front loading of the e-sops which were given last year and a large part of that cost nearly 55% essentially hits in this year. From an incentive plan perspective obviously, if, as and when revenues increase a bit there, is a little bit of delta increase in the incentives. So that will obviously not be in the same proportion as revenue, but it will see a little bit of increase in incentives as for as the variables go in case of addition of AUM.

- **Mr. Saptarshi Chatterjee - Centrum Portfolio Management:**

- Yes sir, excluding the ESOPs are we still holding kind of a 20% of variables on our fixed stand by cost as an in general for normal years?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- Yes, so it will broadly be in the region of 18 to 22%.

- **Mr. Saptarshi Chatterjee – Centrum Portfolio Management:**

- And lastly, I think we have discussed this earlier also on the yield side, if I see across your segmental yields, they have either retained or improved quarter on quarter, and we have talked about IIFL One yields to be improved, again going back to 50 bps level. But going forward you are saying that from 55 basis points this year, maybe 53 basis points next year, the yield is going to be stabilized. Now one is do you think yields would be stabilized 53 bps? Second is in which segments actually are you seeing the pressure on yields, so that you are projecting slightly lower yields next year?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- No, to be honest, I don't think so there is a massive pressure on any segment so as to say. But I think the reason why we are projecting a 2 basis points lower yield for next year is we are kind of assuming a slightly more benign capital market activity and therefore the TBR revenue might end up becoming slightly softer compared to what it is this year. As far as the IIFL One AUM and the AMC AUM goes, honestly, I think we are finding clients fairly comfortable with the current yields. So, we don't see too much of compression there. I think that will kind of stabilize at the current levels. There the only functionality will be the size of the client. If we end up getting only very large clients, then obviously there will be pressure on the yield. But as long as the spread of clients between 25 Crs to 500 Crs say is good, I think that yield is more or less the right yield. But from a next year perspective we have kind of factored in a slightly softer capital markets to kind of look at the compression in yield by 2 basis points.

- **Mr. Saptarshi Chatterjee – Centrum Portfolio Management:**

- Just one clarification. If my understanding is correct we are saying transactional yield, or transactional revenue to be lower for next year and therefore yields. But ARR yields to be more or less in the similar region.

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- That's right.

- **Mr. Saptarshi Chatterjee – Centrum Portfolio Management:**
- Okay. Thank you.
- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**
- Thank you.
- **Mr. Pavan Manghnani – Head Strategy and Investor Relations, IIFL Wealth Management:**
- One quick addition. We have also factored a lower other income next year. This year the other income is slightly higher because of some amount of claw back of what hit we took in Q4 in last year. That is why also you are seeing a dip.
- **Mr. Saptarshi Chatterjee – Centrum Portfolio Management:**
- Sure, thank you so much.
- **Moderator:**
- Thank you Pavan. Thank you Saptarshi for your question. Next in the line we have Mr. Mohit Mangal. Mohit please introduce yourself and the organization.
- **Mr. Mohit Mangal – Anand Rathi:**
- Yeah hi. Thanks for the opportunity. This is Mohit Mangal from Anand Rathi. So my first question is towards the investment book. So I think investment book there are certain investments that matured which led to the reduction in the investment book from Rs. 6,000 odd Crs to Rs. 3,300 Crs. So just wanted to know what is in the pipeline for the growth or how would we factor in?
- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**
- No, so as we had pointed out in the last quarterly call, the G-SEC Hedge product, the structure we had issued to our clients was coming to an end in the end of March. So that is essentially the book which has got reduced from Rs. 6,000 Crs to around about 3,300 Crs. So that trade has kind of got automatically wound down. I think on the investment side we have another trade on some high-quality bank bonds which we have done which is around about another Rs. 700 Crs which comes in for automatic maturity somewhere during at the end of this calendar year to a March of next year. So that will also reduce the investment book automatically by around about Rs. 700 odd Crs. We have got Rs. 800 - 900 Crs broadly invested in our own products of which around about Rs. 450 – 500 Crs is the long-term book, Rs. 350 - 400 Crs is the transitionary book, and the rest of it really on the investment side is broadly in liquid instruments and so on and so forth which kind of go through a constant change. So, in essence, the long term static book is the Rs. 700 Crs or Rs. 750 Crs left of the hedge product, which is going back on our profit and loss account. As such and we have around about Rs. 850 - 900 Crs of different sets of instruments

which are invested back into our own instruments, own AIFs and own Mutual Funds. But a whole lot of that would be fixed income, or large part of that would be fixed income.

- **Mr. Mohit Mangal – Anand Rathi:**

- Okay. Alright. Got your point. Now in terms of the relevant families, now although the relevant families increased from the previous quarter, but if we look at the existing relevant families, that declined by around 200. So, any specific reason for that? So that decreased from 5141 to 4950. Hello?

- **Mr. Pavan Manghnani – Head Strategy and Investor Relations, IIFL Wealth Management:**

- So the logic of relevant families is, families with an AUM of greater than 1 crore, so relevant families on a 9 month basis have increased from 4642 to 4960. I think your question being quarter two to quarter three the relevant family number may have reduced right?

- **Mr. Mohit Mangal – Anand Rathi:**

- The existing relevant families.

- **Mr. Pavan Manghnani – Head Strategy and Investor Relations, IIFL Wealth Management:**

- So that can be for two reasons. One, that there could be some number of families where you would have seen some amount of withdrawals which take the AUM below the crore number, and we have seen a bit of that happen in this quarter, primarily because we have seen a lot of people withdraw money for real estate purchases. But that doesn't mean that the client is lost. It simply means that the AUM is dropped or it is being withdrawn and it will come back.

- Overall on a 9-month basis, we are seeing that number increase quarter on quarter because of various reasons you may see some fluctuation in that number. But that is not a loss of families. That is simply a change.

- **Mr. Mohit Mangal – Anand Rathi:**

- Okay fair enough. Fair enough. Now my last question is towards the merchant banking thing. So I think our company received the SEBI license for merchant banking. So going forward what is the path of that for the company?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- So I think two objectives there honestly. One we obviously want some bit of revenue and SEBI registered business activities in the holding company. With the movement of the brokerage license into the distribution subsidiary, we would not be left with an appropriate license at the holding company. Secondly obviously on the merchant banking side, while we have no plans to get into the conventional institutional equities and investment banking kind of business on the equity side, we have done 3 or 4 fairly large and very interesting deals on the debt syndication side. And that is something which we will continue to explore from a merchant banking perspective. And that’s really the current thought process around that license.

- **Mr. Mohit Mangal – Anand Rathi:**

- Yeah fine, that’s it from my side. In case of anything I will join the queue.

- **Moderator:**

- Yeah thank you Mohit. Next in line we have Mr. Prashant Sridhar. Prashant please introduce your firm and ask your question.

- **Mr. Prashant Sridhar – SBI:**

- Prashant from SBI. Just a small clarification. On this slide number 8 which I am looking at, so with you exiting the advisory business, I understand it’s going to be a small portion of the AUM, which portion would this form in the slide number 8?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- No Prashant just to correct you, we’ve not exited at the advisory business at all. We had in fact issued a clarification in the exchanges also.

- **Mr. Prashant Sridhar – SBI:**

- It would only be where there is some linkage to the brokerage right?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- No, no, I will just explain once again. So essentially earlier some distribution clients were essentially using the direct plan to invest in mutual funds and get a feed. So, they were deemed to be advisory clients, without actually being advisory clients. Post the announcement of the RIA regulations, we had sent out a mail to those specific set of distribution clients that for those clients we will not be continuing with advisory services. It was misunderstood by somebody and obviously kind of circulated as if IIFL Wealth was giving up its advisory license. We issued a clarification the next day. There is nothing like that. What we are doing is every client who comes into the system will be either split into distribution or advisory, or Non-Discretionary PMS or Discretionary PMS. So effectively our preferred mode of dealing with ultra high net worth individuals will be non-discretionary PMS because we can have the bank and the custodian demat open for him. Operationally, it makes our life much easier. In case the client doesn’t prefer to do that, we are absolutely open to doing advisory. As we speak currently, our advisory license is having more corporate treasury clients as opposed to high net worth clients. Most of our high net worth clients are opting for non-discretionary PMS in case they want advisory solutions or discretionary PMS. In case a client wants pure advisory, we are open to doing it.

Currently we are seeing more corporate treasuries who cannot open custodian bank accounts and demat accounts, open advisory accounts with us.

- **Mr. Prashant Sridhar – SBI:**

- Okay thanks. That was a very useful clarification. So these particular set of distribution clients who would move out would be what percentage of the AUM?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- So totally under advisory we had close to around about Rs. 31,000 Crs of AUM approximately 6 months back. Currently of the Rs. 31,000 Crs it is broken up into two or three parts. The first part essentially is the direct AUM applications for our portfolio management clients. So that doesn't need to move out. That needs to just change from the RIA to the PMS direct plan. That is already under way. So, the reporting of that Rs. 8,000 Crs automatically just shifts from the RIA to PMS. The remaining Rs. 22,000 – 23,000 Crs will have to be either mapped as a broker or mapped as an RIA. And we have time till 31st of March, which I pointed out in my introductory comments to engage with these clients and essentially figure out whether these clients want to be continuing with us as broker clients or shift to non-discretionary PMS/Advisory.

- **Mr. Prashant Sridhar – SBI:**

- Understood. Thank you so much. That is really useful.

- **Moderator:**

- Thanks Prashant. Next on line we have Nihar Shah. Nihar, please introduce your firm and ask your question.

- **Mr. Nihar Shah – Newmark Capital:**

- Sure. Hi this is Nihar here from Newmark Capital. Just a couple of things. Firstly, on the investment piece, the profits or the other income that you get on investments is largely coming from this Rs. 850 to 900 crore investments in AIF right? Is that correct? Or are there any other places as well where you get this other income?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- No. So the other income is essentially made up as you are rightly saying of three parts. One is the mark to market of this Rs. 850 - 900 Crs. Second is obviously a little part of investments in fixed deposits for our exchange margins and so on and so forth. And thirdly we have a little bit of a negative liquidity cushion running for the last 9 odd months which is offsetting the mark to market on the AIFs. So, on an average we have been sitting on around about Rs. 500 to 600 Crs surplus liquidity for the last 9 months. We started off with Rs. 1,000 Crs and it is down to around about Rs. 450 – 500 Crs now; which will get fully corrected in March-April as we have redemptions of the NCDs coming up. So, half of it is obviously addressed by a slight increase in our loan book, and half of it will get repaid in March-April. So essentially the other income is made up of these three parts. The third part being negative right now which is the incremental liquidity bucket.

- **Mr. Nihar Shah – Newmark Capital:**

- Got it, got it. Great. The other question I had was you know if you can on the lending book we have seen a slight uptick on our QoQ basis after, you know, sort of being run down quite a bit over the last maybe 3 or 4, 5 quarters. Any sort of qualitative you know – how is that growth looking and where do we see that book over the next year or so? That would be useful.

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- So two points there. I think generally speaking there is an uptick on the lending side. I think ability to get hold of good transactions can potentially increase the book by around about 10 - 15% over the next quarter. That ability exists. I think we are able to see some good transactions which fit into our credit matrix. And most importantly our transactions which give us an operating leverage on the wealth management or asset management side. So, we need to tick both the boxes from a credit perspective as well as from a strategic fit into our two core businesses. And I think there is, after some two or three quarters, the ability to kind of pick up the book by around about 10-15% over the coming three odd months. The second part of the lending book which will give it some bit of fillip is our declining cost of funds itself. Because a large part of our borrowing; effectively we were not dependent on CPs which paid off well right from the crisis days of ILFS, all the way to COVID. But we also ended up with slightly higher cost borrowing for a longer period of time. So, over the last 9 to 10 months we have ended up having borrowed NCDs two years back, at around about 8.75 to 8.8 %, which effectively has hurt us in two ways. One obviously our blended cost of our book is slightly higher on the cost side and second over the last 6 to 9 months we have had a little bit of incremental liquidity. As the liability book is kind of going through a change, our incremental new borrowing is at substantially lower rates, closer to the 7-7.25% kind of range. So, as we hit March-April, our blended cost of funds also comes down and effectively gives us or makes us more competitive from a lending perspective, to be closer to the market in terms of lending rates. I think both these factors put together will allow the loan book to kind of potentially move up by 15-20% from where it is today.

- **Mr. Nihar Shah – Newmark Capital:**

- On a sort of structural or a fundamental perspective Karan do you think that as you had mentioned earlier that this should sort of range somewhere between 2 to 6% depending on market cycle and sort of average out at 4% of your AUA. Do you still hold that, because at this point we are probably closer to 1.5 or thereabouts?

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- So 2.5 to 4% is what I think it would be. I think it should average out to around about 3 odd percent.

- **Mr. Nihar Shah – Newmark Capital:**

- 3 odd percent. Great, got it.

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- Sorry, in that 3% I will also include the sponsor kind of investments broadly. So, 500 Crs would be kind of coming from the investment side.

- **Mr. Nihar Shah – Newmark Capital:**

- Got it. And just one sort of small feedback on the presentation. If you could include couple of data points that you used to historically, which was the attrition at both the customer side as well as the employee side; or sort of on the relationship manager side, that sort of just gives us a little flavor of what is happening internally in the organization.

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- We will do that. We thought we will do it more on a six-monthly basis. But we will get it back on a quarterly basis. No problem.

- **Mr. Nihar Shah – Newmark Capital:**

- That's fine. Great. Thank you. That is all from my side. Thanks.

- **Moderator:**

- Thank you. I think Karan you have covered most of the points well. So, in case you wish to give your closing remarks, you could go ahead with that.

- **Mr. Karan Bhagat – Founder, Managing Director and CEO, IIFL Wealth Management:**

- Thank you everybody, and look forward to meeting you all at the end of the next quarter. What we will do is basis the feedback we will add another couple of slides and potentially kind of re-upload the presentation to cover some of the aspects which have been required in the analyst call. Thank you.

- **Moderator:**

- On behalf of IIFL Wealth and Asset Management we thank all of you for joining in in this analyst call. Thank you and have a nice day.