



July 28, 2022

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The Manager,
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The National Stock Exchange of India Ltd.,
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BSE Scrip Code: 542772

NSE Symbol: IIFLWAM

Subject: Disclosure under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of earnings call.

Dear Sir/Madam,

Further to our earlier intimation regarding the earnings call scheduled on July 26, 2022, for the unaudited financial results for the quarter ended June 30, 2022, please find enclosed herewith the transcript of the earnings call held on July 26, 2022.

The transcript of the said earnings call shall also be available on website of the Company at www.iiflwealth.com.

This is for your information and appropriate dissemination.

Thanking you.

Yours truly,

For IIFL Wealth Management Limited

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IIFLWAM Earnings Call Q1 FY23 - July 26, 2022

- **Moderator:**
- A very good afternoon ladies and gentlemen, and good day and welcome to IIFL Wealth and Asset Management's Q1 FY 23 Earnings Call. As a reminder all participant lines will be in listen only mode. There will be an opportunity for you to ask questions after the management shares their thoughts. Should you require assistance during the conference, please signal the host by tapping on the raised hand icon. Please note that this conference is being recorded. On the call today we have with us Mr. Karan Bhagat, the Managing Director and CEO, Mr. Anshuman Maheshwary, the Chief Operating Officer, Mr. Sanjay Wadhwa, the Chief Financial Officer, and Mr. Pavan Manghnani, Head Strategy and Investor Relations. I now hand it over to Sanjay to take this conference forward.

- **Mr. Sanjay Wadhwa – Chief Financial Officer, IIFLWAM:**

- Thank you, Anil, and good afternoon to everyone on the call today. The financial markets have witnessed a bit of volatility and some minor corrections – on account of both local and macro factors. These have impacted most businesses – be it on account of FII outflows, the depreciating currencies, etc. lots of ups and downs during the last quarter and last financial year. Amidst all that, we are happy to give an overview of the current quarter at IIFLWAM. While our AUM is not entirely insulated from mark to market fluctuations, however, our asset allocation framework, strong net flows for the quarter and robust revenue streams, have held us in good stead. Our continued focus on recurring revenues is paying off in volatile markets, as witnessed in the current quarter, i.e, Q1 FY23. From that aspect, jumping into our financials, we have seen growth across all the key metrics – in the form of AUM's, Net Flows, Revenues, Steady retentions, and Profitability. Happy to report, we clocked our highest ever OPBT or Operating Profit Before Tax in this quarter – Q1 FY 23.

Some specific financial numbers: Some specific financial numbers:

- Starting with AUM – Our total Aum is now more than 314,000 crores, up 11% Year on Year, down 13% Quarter on Quarter. Excluding custody, our overall AUM increased 7% YoY, what was down 3% QoQ to 2,52,000 crores with Wealth AUM at 199,000 crores and Asset Management AUM at 53,000 crores. Importantly, our ARR assets remain flat QoQ in spite of the MTM and we were up 22% YoY to 143,000 crores. With this the share of ARR assets in Total AUM now stands at almost 57% as we continue our journey towards steadily increasing the buy of ARR assets. I'm happy to share that despite the market conditions, our net flows have been relatively strong for the quarter. We clocked 6,078 crores, of this, 5,000 crores was in Wealth and nearly 1,000 odd crores was in Asset Management. Our loan book also for the quarter was at 4,163 crores, marginally lower than the previous quarter.

- Now coming to Revenues and Retentions. Our Total Revenues increased 21% YoY and were down 17% QoQ to 369 crores. As compared to Q1 FY22, our Revenue from Operations was up 32% YoY but down 11% QoQ to 375 crores. Importantly, our Recurring Revenues have increased 1% QoQ and 33% YoY at 255 crores. As a percentage of overall revenue, Recurring Revenues comprised 69% of the same, a significant jump from 56% from the previous quarter, showcasing the importance of building a recurring revenue generating base of assets. Further, the growth in ARR revenue has come from both Wealth as well as Asset Management businesses, both seeing a healthy uptick over the last quarter. This quarter has seen lower transaction revenues at 119 crores. While it is still up 31% YoY, but it is down 30% QoQ, primarily given its nature and the market conditions, flows and demand for TBR assets have been low, in line with our expectation. Our Retentions across Wealth and Asset Management segment holds steady with Wealth Management retentions at 53 bps and Asset Management Retentions at 86 bps. At an aggregate level, our overall Retentions now stand at 59 bps.
- Now coming to Expenses. Our endeavour to consciously drive cost optimisation is now reaping its rewards. For the quarter, our Cost to Income has dipped to 45% from the earlier 52% which was in the previous quarter. This is primarily on account of 30% Quarter on Quarter reduction on employment cost which was envisaged when the absorption of one-time variable employment cost impact on account of transition, which we completed in FY22. Our Total Expenses for the quarter was down 29% Quarter on Quarter, and slightly up YoY by 9% at 168 crores. Administrative and Other Expenses were down 24% Quarter on Quarter at 43 crores.
- Now coming to Profitability. As stated earlier, we recorded our highest OPBT clocking 207 crores, which was up 59% YoY and 10% QoQ. Our quarterly PAT stood at 160 crores, an increase of 35% YoY, down 4% QoQ. Importantly, our Tangible ROE, which is ROE excluding Goodwill and Intangibles, has held steady at 26% for the quarter, which was 20% in June 2021.
- With that, we come to the end of the financial highlights. I'll now hand it over to Anshuman to cover the key business and strategic highlights. Thank you.
- **Mr. Anshuman Maheshwary – Chief Operating Officer, IIFLWAM:**
- Thanks Sanjay. A very good afternoon to everyone. The last few months have been interesting for us, both in terms of markets and business. I say interesting, because despite macro volatility and global factors, we at IIFL Wealth & Asset Management have not only been able to suitably withstand these uncertainties, these in fact have fortified our cores, laying further testimony to our pivotal philosophies of capital preservation, balanced asset allocation and building a recurring revenue base, while maintaining a high degree of transparency with our clients. With increasing interest rates and a conscious increase in appetite towards debt instruments, it allows us to reduce volatility in client portfolios and improve their experience with us. The ability of a client to appreciate a sound investment policy framework specially comes out in these times, and we foresee our ability to continue to gain and consolidate market share, especially in such slightly challenging times.

- Last quarter I spoke about our 3 core tenets of our strategy – growth, resilience and agility. Taking a cue from them, allow me to share some key strategic updates for the last 90 days, and in a way, what’s shaping up the journey for the rest of the year.
- These 3 months, despite the market volatility, we were able to hold fort on the wealth and asset management side. A testimony to this has been our business metrics which Sanjay has already spoken about. But, I wanted to highlight 3 specific aspects. Firstly, reinforce our net flows that have held strong with more than 5,000 crores of net flows in wealth in the last quarter itself. This further reflects the strengths of our robust governance and risk management approach. It also showcases the strength of our relationships and the platform proposition.
- Net flows on Asset Management also held strong given the uptick in our structured credit and multi-asset strategies, which balances against the lower traction on private equity in the current environment. Secondly, the share of our ARR revenue to Total Revenues has grown steadily to almost 70% this quarter. We are already seeing the benefits of this pool of steady revenues in our current quarter results. It is allowing us to continue to invest on key strategic and growth areas, including technology, Senior Relationship Managers and investment teams, and key geographies. Thirdly, as Sanjay highlighted, our Cost to Income, a metric that we monitor very closely now stands at 45%. This is in line with what we had communicated earlier as well. We believe that the employee costs are in a steady-state range of approximately 33% with administrative costs being another 12%. We expect to sustain these levels with a prudent cost discipline approach and further improve as select productivity and efficiency initiatives kick in.
- Some other key business updates first is on dividend. As a firm, we continue to cohesively work towards improving capital efficiency and ROE numbers. This year, we’re happy to report that our Tangible ROE is already at 26%, while the overall ROE remains at 21%. In line with the above, we’re pleased to announce the 2nd interim dividend of Rs. 15. This aligns with our dividend policy of 70-80% PAT payout to our shareholders. It also positions us fairly uniquely as a high growth as well as a high dividend yielding company.
- The second update is on Mumbai Angels. As you would have seen, we have entered into an agreement to acquire 91% of Mumbai Angels, a private investment platform for early-stage ventures. Mumbai Angels has been a pioneer in this space, and the acquisition aligns well with our overall platform offering, especially as we develop the mid-market segment proposition. The acquisition is at an enterprise value of Rs. 42 crores plus any cash and cash equivalent as on the closing date.
- The third is, we wanted to update you on some of the organisational changes and key hires. Internally, we’ve had some rejigs in our role as well with Nikunj Kedia taking over as Products Head. He is now going to be responsible for all third-party fund management, due diligence and selection, covering mutual funds, PMS and AIF, and also deal syndication and sourcing. In addition, there are some notable hires during the last few months. We’re very happy to welcome Anupama Sharma as a senior leader in the Wealth Management business. She comes in with over 20 years of work ex in the banking and wealth management space. Navin Upadhyaya joins us as our Chief Human Resources Officer with over 2 decades of experience with

domestic and international banks. On the technology side, as we've emphasised over the last few quarters, has been a significant focus area for us. We have Santoshi Kittur join us as our Chief Technology Officer. She comes in with over 25 years of experience, and will be responsible for visioning, formulating and implementing the technology and security strategies, and ensuring that our firm's technology capabilities are in line with our growth and differentiation aspirations. We're excited to have them and others who have embarked on this journey with us.

– With that, I would like to hand it over to Karan and open the session for Q&A.

– **Q&A Session begins:**

– **Moderator:**

– Thank you Anshuman and welcome Mr. Karan Bhagat. We'll now open the floor for questions. May I request you to please on the Raise Hand icon to ask your question. We'll give it a minute for the questions to queue up. First in line we have Mr. Mohit Mangal. Kindly unmute yourself and introduce your firm. Thank you.

– **Mr. Mohit Mangal – BOB Capital:**

– Yeah, thanks for the opportunity. This is Mohit Mangal from BOB Capital. Sir, I've got 3 questions. The first question is in terms of net flows. So, 6,000 crores was good, even Wealth Management was good. Anshuman stressed that private equity was under pressure, but if I look at the discretionary PMS also, those flows were pretty low. So, could you just elaborate why and what happened during this quarter?

– **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**

– So, I think overall, flows in discretionary PMS typically has a lag impact. But overall from a flow perspective, I think what was positive, and then I'll come to specifically answer your question. I think what was positive is, in most of the new mandates and deals we were able to get significant amount of market share. And, pretty much in 8-9 of the 10 mandates which happened through the quarter, we were kind of the lead advisors. Therefore, the flow in net flows across Wealth Management has been substantially strong. In terms of product side itself, I think the last quarter has been a little muted on equities itself from a flow perspective. Clients have kind of looked at postponing a bit of their equity purchases for the last 3 months, and therefore the larger flows on the product side have been more driven towards the credit strategies, which doesn't necessary form a very large part of the discretionary mandates, but essentially expresses itself through the credit strategy in the AIF. But as time goes by, a part of this 6,000 crores or rather part of the 4,800 crores in the Wealth Management side will gradually also move towards discretionary. So, I think from the discretionary flow perspective, I think we will catch up through the rest of the year and it will kind of play its own part. Obviously, it will be a mix between discretionary and non-discretionary, but we will see some movement there.

– **Mr. Mohit Mangal – BOB Capital:**

– Perfect! And just a follow up – the net flows guidance of 37,500 crores still holds true for the entire year, right?

- **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**
- I think it holds true. Obviously, all guidance, to a certain small extent, are dependent on markets a bit. But, I think just given the way the consolidations are happening in the industry, I think we're competitive extremely well positioned to hold that guidance of 35,000-37,000-40,000 crores for the year. Obviously, if the markets go through very very deep purple patch, the numbers might be a little here and there. But outside of that, on a steady steady basis, I think the 35,000-40,000 crore guidance holds.
- **Mr. Mohit Mangal – BOB Capital:**
- Understood. Sir, the second question is on the acquisition. To acquire something with a turnover of just 10 crores, isn't it too small for IIFL Wealth to acquire a company like that?
- **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**
- No, it's more of a platform Mohit. So, effectively, it's an old platform, about 7-8 years. It has round about 1,000-1,500 active clients on the platform. So, it's really about what we can do with the platform rather than what it represents currently. So in some senses, it's a Segway into our CAT 1 journey, which effectively is really a journey which is associated with slightly earlier stage investments and requires us to maybe also use it as a platform to help syndicate some deals out to our clients. We've not really been doing the CAT 1 journey for the last 7-8 years, we're more focused on the fund management or the Category 2 side. As we build out our own experiences on the mid-market side over the next 12 months, I think this platform will be a very important platform for us to engage with our clients on this side of the private equity story. So, I think it's more a platform. Obviously, from a revenue perspective it's only 9.5-10 crores currently, and from a profitability perspective it's about 2.5... actually 3.1 crores profit. So, it's too small right now to really look at a PE and price to revenue and so on. But as such, it's doing round about 3 crores of profit and 10 crores of revenue. It's really going to be about what we can do with the platform rather than what currently is there in the platform, in that sense.
- **Mr. Mohit Mangal – BOB Capital:**
- Okay, perfect! My last question is, you have been speaking about those 5-15 crore category and 10-25 crores which you intend to start say towards the end of the year. So, I just want elaboration on two aspects. First is, what states or geographies you intend to go into for this segment? And secondly, I what is your initial analysis of how this segment would be beneficial for the company? Whether it would earn a distribution income or a manufacturing income or it would be just a plain brokerage income? So, if you could just specify into this?
- **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**
- Mohit, obviously, we're slightly in the earlier stages of ideation on that. But, I think, I can give you my earlier hypothesis on that business. I think, from a geographical perspective, today we're in 14-15 geographies. We would naturally want to be in another 7-8 geographies even without getting into the mid-market segment. So, I

think, the entire Ultra High Net Worth segment itself requires some bit of geographical expansion of 7-8 cities within India, and potentially also maybe expand out to Dubai and Singapore from an NRI market perspective. So, that's something which we're going to look at in either case, even in the Ultra High Net Worth side. On a mid-market side, I think the 5-20 or the 10-25 crore journey, as we kind of build it out, I think in the initial days it's going to be more a distribution platform as opposed to a brokerage platform. We don't really see ourselves being another broker, but we see ourselves being a very very innovative and smart distributor in some senses. So, our initial hypothesis for the 10-25 crore client will obviously be a light financial planning, light asset allocation, investment policy statement and a guided distribution. So, I think that's going to be the initial hypothesis to get in. Obviously, to get that platform to work, you need a lot of things to come together, right? For eg. The Mumbai Angels thing, the ESOP funding, a good network of innovative products and ideas; you need at least 10-12 platform associated things to come in for us to have a platform which is strong enough to attract clients. Pretty much like our Ultra High Net Worth business, you need all three 3 to come – platform, products and people. I think even in that business, we'll need to get all those 3 things in. And, over the next 9-12 months, as we discover the right strategy to get into the business, we'll also keep going along in building the right components for the platform so that the clients are well serviced, and most importantly, we're able to attract clients to that platform.

– **Mr. Mohit Mangal – BOB Capital:**

– Perfect! Thanks and wish you all the best.

– **Moderator:**

– Thank you. Next in line we have Mr. Aejas Lakhani. Kindly unmute yourself and introduce your firm.

– **Mr. Aejas Lakhani – Unify Capital:**

– Hi Karan, this is Aejas here from Unify Capital. Karan, three questions. First is, could you expand thoughts on capital allocation more from a dividend v/s a buyback perspective?

– **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**

– To be honest, both are kind of fairly similar. Buyback obviously has a tax of 24%, dividend has a tax of 35%. But a large part of the shareholding obviously for a lot of us is institutional in nature, which is essentially driven by mutual funds and foreign institutions who are more or less indifferent to a buyback/dividend. So I think, from an ability to kind of predict it naturally, we prefer the dividend route where effectively we will be looking at, subject to everything else, 70-85% of our profits every quarter being paid out as dividends. So, that's really the thought process. It is a little more tax onerous for the domestic resident shareholders, including the promoters, but it is a gap between 23-24 v/s 33-35. So effectively in some sense, we believe we would like to follow a stable dividend policy. If at all we have an opportunity to do a buyback at the right time, we'll look at it more sporadically. But, I think from a consistent ongoing basis dividend is the way to go for us.

- **Mr. Aejas Lakhani – Unify Capital:**
- That’s fair. I’ll just articulate where this though came from. If you look at the kind of dividend yield you have coupled with the kind of growth you’re demonstrating, it doesn’t make a lot of sense because a lot of high dividend companies do not have the kind of growth levers and earnings momentum that you have. It was more contextual to look at it from that sense. I hope you...
- **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**
- I got it, I got it. But to be fair... I hear you Aejas, but my only thought process there was, we are unlikely to need large amounts of capital for our growth. So in that sense, I guess, if ever we feel that’s the requirement, we may relook at the thought process there. But I think, the 10-15-20% of profits which we’re kind of retaining are more than sufficient for our growth prospects, in that sense.
- **Mr. Aejas Lakhani – Unify Capital:**
- The next one is, could you speak about how investments in tech could drive business outcomes?
- **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**
- It’s a great question and from an answer perspective, it is really kind of broken up into 3 parts – 2 parts of the business we are already in and may be the 3rd one we’re working on. I think on the Ultra High Net Worth side, the client behaviour is changed to the extent of saying they don’t want to transact necessarily online. So, there’s hardly any client who’ll go out and buy Rs. 5-10-15-20 crores in a product online; that’s unlikely to happen not only in India but also globally. But what has happened, is the expectation of the client is changing radically. So, he’s expecting the firm to be fully technology enabled. Now what I mean in that is, he expects the RM to have lot more information because the RM should be equipped with a lot more data analysis which is available to the RM. And, the clients are expecting much faster response times, our ability to access document repositories without really calling, our ability to see a lot more data analysis on his own portfolio, a lot of what-if analysis on his portfolio. So, the expectation of the client is substantially changing, thanks the technology. The execution of the transaction is unlikely to change on the Ultra High Net Worth side. One the Asset Management side, largely on the alternates business, I think, it’s become a very critical part of all our diligence exercises, our ability to capture our meetings with our investors, with the companies we meet, our ability to capture information and actually percolate it in leading to more defined decision-making which is more consistent in the long term, is largely being enabled by technology. On the internal side, obviously, it helps us in a lot of ways, right? It gives us signals in terms of which clients can we potentially lose, which clients have been inactive for the last 12-18-24 months. So, there’s lot of impact from a technology perspective on the analytics side. What we haven’t done too well as a firm, and technology gives us a chance to do that is, improving the profiling of our clients. So, that’s something which we are really working hard on internally. And that we believe in the medium to long term will definitely help us improve our wallet share. On the mid-market side, as and when we get there, I think there technology will not only be

an enabler, but also maybe a key to the business. In our alternate asset management business and Ultra High Net Worth business, I think it's a very high enabler, but it's not the business itself. I think, in the mid-market side it will have a higher component of involvement because it will enable us to increase span of control, and therefore it has a very very tangible and direct impact on the cost to income ratios. So I think, from a technology perspective, I think we'll have to look at all of these 3 businesses with that lens and ensure that we're able to kind of meet... not only meet, but potentially also beat the relevant benchmarks required.

– **Mr. Aejas Lakhani – Unify Capital:**

– Oh thanks, that's very helpful. One last one. You mentioned in your opening comment about consolidation. So, should we expect more smaller tuck-in acquisitions like you've made?

– **Mr. Karan Bhagat - MD & CEO, IIFLWAM:**

– Not really, there's nothing on the horizon. But, if there's something interesting that comes up, we're always open. But, it really has to add to the platform. It should be something which we're not able to immediately build out. It should add something very material. But otherwise, really honestly, acquisition is not the way to go for us. We would prefer to kind of build out. Our ability to reach out to our clients is fairly high. So, ideally as first choice, we would want to kind of do things in-house rather than go and acquire, but at the same point of time, we're not absolutely against it.

– **Mr. Aejas Lakhani – Unify Capital:**

– Got it. Thanks a ton.

– **Moderator:**

– Thank you. May I request you to ask your questions, kindly click on the Raise Hand icon. Next in line we have Mr. Nihar Shah. Kindly unmute yourself and ask your question.

– **Mr. Nihar Shah:**

– Hi Karan, good afternoon. Hope everyone's doing well. Just a couple of questions from my side. If I take a look at the variable employee expenses, they are down quite substantially. While I understand on a Q on Q basis you had mentioned that there were some one-offs last year because of the high transaction income, but even on a Year on Year basis it's lower compared to the Net Revenues that you had. Just wanted to understand, is this the new normal going forward when you think about how you compensate employees on a variable basis? And, maybe just related to that, given that you have changed the... you sort of normalised the employee compensation starting this year, how is attrition within Relationship Managers trending for you guys?

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– Thanks, Nihar, for both the questions. Broadly speaking I think fixed plus variable will be in the region of 32 to 34% of the revenue, the net revenue, so that's broadly the

benchmark at which it will move. So obviously from a variable bonus perspective is pretty much kind of the way we do it, we are calculating it for the full year and therefore around that we are doing it proportionately. So to answer your question, yes, it is more or less in line with the new normal. It effectively is going to reflect in all points of time 32 to 34% of our revenues as total compensation. So effectively if you see the variable it will broadly be the difference between 32 to 34% less the fixed cost for the quarter. From a perspective of retention I think we pretty much believe we are at the 94th 95th percentile in terms of our relationship manager payouts including fixed and variable. We have done a fairly large restructuring of the fixed payouts across the firm last year, which you would see has resulted in fixed compensation move up from 77-78 crores in a quarter to nearly 84-85 crores for the current quarter. So that's a fairly healthy adjustment we have made on the fixed compensation side. On the variable I think it will be in that region to kind of account for the 33-34%. Attrition on the relationship management side fortunately for us has been fairly low, at what we call as the principal and the partner level I think attrition is less than a percent and half to 2%, maybe Pavan can give the exact number but it will be sub 2% for sure at the principal and above level.

– **Mr. Nihar Shah:**

– Got it, that's all from my side, thanks, Karan.

– **Moderator:**

– Thank you. May I request you to please click on the raised hand icon to ask your question?

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– I think Sanjay has a question.

– **Moderator:**

– Yeah, Sanjay, kindly unmute yourself and ask your question.

– **Mr. Sanjay – ithought PMS:**

– Thank you. This is Sanjay from ithought PMS. So, Karan, Anshuman spoke about increasing debt appetite and appetite in customers. And another listed peer is seeing good demand in MLDs and their yields are at 1.5%. I just wanted to get your thoughts on MLDs, are we selling them to clients, if yes, what are the risks involved.

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– So I am not quite sure of those MLDs, Sanjay, I have not really looked at it. So honestly I am not able to kind of quickly comment on those MLDs. But for the MLDs we raise from our clients for the IIFL Wealth MLDs itself it is really a transaction which is with our subsidiary, so really there's no income being booked on account of us raising any MLD, it really doesn't form a part of our revenue line at all because it kind of gets consolidated within the entities itself and therefore it gets set off. From a normal MLDs if you are raising MLDs for third parties and let's say people like hypothetically like you know let's say any of the NBFCs, let's say AA+ to AAA NBFCs

brokerages tend typically to be in the region of 25 to 30 basis points per annum. So effectively if you are doing let's say 500 odd crores you would get you know debt brokerage as approximately 1.25 to 1.5 crores. So for us it is not really a very large portion of our revenues, it typically tends to be more or less give or take equal to our equity brokerage number every month. So effectively it is in the region of round about 2.5 to 3 crores a month.

– **Mr. Sanjay – ithought PMS:**

– Right, so we buy it from the subsidiary and then mark down the yields and then further sell it to clients or how does it work?

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– We don't buy it from the subsidiary at all, we just issue from the subsidiary.

– **Mr. Sanjay – ithought PMS:**

– Right, right.

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– There is no revenue happening because of any MLD issuance buyer NBFC.

– **Mr. Sanjay – ithought PMS:**

– Got it, thank you. Second one, so we have reached the bottom for employee cost, any lever in terms of the other non-employee expenses can it come down from 12% say to 10%?

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– No, as I said earlier I think for the current year I think 44-45%, 44 to 46 will be the region.

– **Mr. Sanjay – ithought PMS:**

– No, medium term.

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– Yeah, I think long term there is potential for it to come down by 3-4%, but that's not, it is not going to be on account of reduction of employee cost or something like that. I think it is going to be a function more of maybe better productivity, better span of control and more efficiency on costs which are not directly proportionate to increase in revenue. So I think the extra 3-4% we have to really work hard on. I think they are more related to productivity and span of control. We know where it can come down from but you know those are none of the issues, those are which can be kind of very, very easily in the immediate term, but I think in steady state without impacting, without impacting you know the delicate relationship between clients, employees and shareholders, I think there is a potential to kind of get down the cost to income by 2-3%.

- **Mr. Sanjay – ithought PMS:**
- Right. So all the low hanging fruits are done with?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- No, I think on the admin expenses as well as on the productivity side I wouldn't say they are not low hanging fruits. There are low hanging fruits. But you know the implementation of that would take some time, I am saying they are identified there are I know what is to be done but the time would be somewhere between the 12th to the 18th month. Yeah if you are saying low hanging fruits from a time perspective I would say, yes, we are done with.
- **Mr. Sanjay – ithought PMS:**
- Right, thank you. And finally, so you didn't answer the question on flows. Will it be difficult you know to hit around say 10,000-12,000 crores to just to meet our guidance because we have done already 6000 we need 30,000 more for the rest of the year in 3 quarters.
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- See, flows can be a little episodic, okay, both ways, so it is possible you get 15-16000 of flows in a quarter, it is possible you end up at 3.5 to 4000 crores in a quarter. Really difficult to plan for flows on a quarterly basis, I have said that before also. But you know, you will have 1 or 2 quarters where you do extremely well, you have a couple of quarters where the flows are a little muted. But yes, if the markets remain absolutely subdued for the full year, it is potentially possible that the guided flow number kind of comes off a bit. Obviously the flow, the guided flow number doesn't have a massive impact on the current year's P&L because it is kind of incrementally adding to the P&L also in a limited way. But it can have consequential kind of a bit of an impact on the next year's P&L. So we will have to kind of, I personally feel right now I think the mix might change a bit but I feel comfortable around the 35-4000 crore number, but obviously if markets remain very, very subdued then you can potentially miss that number.
- **Mr. Sanjay – ithought PMS:**
- Got it. Any specific segments that could give you that 15,000 particular quarter or where you are seeing traction?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- For example last quarter obviously has seen a lot of traction on the fixed income side, right, so in that sense we are blessed to be able to navigate between fixed income and equity equally easily. And given the way we do it there is, it is not as if our retentions between either on equity are phenomenally high or in fixed income are phenomenally low, right. So we are able to kind of manage the retention and successfully navigate between the asset classes. I think my personal views unless the equity markets fall by another 10-15% which is a plus and a minus because it is a plus because a lot of clients will come in with a lot of new equity flows. It is minus

because obviously it impacts our overall AUM from a mark-to-market perspective. But unless I think that happens I think clients are going to remain a little, little on the sidelines and they are unlikely to put in huge amounts of money into equity just given the entire macro situation globally. So through that period of time I think the ability to do a lot of innovative fixed income is going to be important.

– **Mr. Sanjay – ithought PMS:**

– Okay, just a last one if I can ask. The breakup of 6000 crores in terms of existing clients and new clients if that's possible.

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– I don't have the number immediately. Pavan, would you be able to maybe after 5-10 minutes get back on the number.

– **Mr. Sanjay – ithought PMS:**

– Sure, all right, thank you.

– **Moderator:**

– Thank you. May I request you to please click on the raised hand icon to ask your question? Next in line we have...

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– Sanjay, we will broadly having I am doing some guess work here Pavan will come back, but I think it will be in the ratio of 70:30 approximately or may 75:25, 75 from new clients and 25 from existing clients. I will let Pav an come back with the exact number.

– **Moderator:**

– Thank you, Karan. Next in line we have Mr. Nimish Maheshwari, kindly unmute yourself and introduce your firm, thank you.

– **Mr. Nimish Maheshwari -**

– Hi, Karan. I am Nimish. Two questions.

– **Moderator:**

– Nimish, there is a lot of disturbance in the background if you could just move to a quieter place and ask your question.

– **Mr. Nimish Maheshwari:**

– So what is the traction in brokerage income, you are looking at in the coming quarter and the IIFL One revenue is flat during the quarter, so how are you looking at that?

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– Could you repeat your first question, Nimish?

- **Mr. Nimish Maheshwari:**
- What is the traction in brokerage income you are looking in the coming quarters?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- Okay, thank you. So I think you know brokerage income there is a certain minimum and obviously it can get elevated massively if the capital markets are supportive. So brokerage income to a certain extent brokerage income transactions remain a little bit in some senses dependent on where the capital markets are. But overall I think just given the fact that we get it from many sources including fixed income, equity there's a certain minimum which is already kind of always kind of comes in. And historically we have seen that number somewhere in the region of 55-60 odd 65 crores in a quarter 100% kind of comes in as brokerage transaction income. Obviously like we saw in quarter 4 also move up in an elevated fashion in case capital markets are very active. But I think on a sustainable basis we believe what we have put it out as a guidance is something which we feel will come through for sure. So number around the 75-80-85 crores a quarter is something which we feel very, very comfortable about from a transactional income perspective. From a perspective on income on IIFL One again I think we have had good flows but largely it is a function of a little bit of mark-to-market. I think largish impact from a pure Q-on-Q basis is largely on accord of the mark-to-market which is in the region of I think if I am not wrong 8 to 11% on IIFL One. But no big changes in assumptions on yields and so and so forth there.
- **Mr. Nimish Maheshwari:**
- Thank you.
- **Moderator:**
- Thank you. Next in line we have Hiten Jain, kindly unmute yourself and introduce your company.
- **Mr. Hiten Jain – Invesco:**
- Hi, this is Hiten from Invesco, so I just wanted to understand MLDs better. Is it that you guys don't have focus on MLDs?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- Hiten, I actually honestly don't understand how those MLDs work but I am not sure how you book revenue on them, so I am not sure if I
- **Mr. Hiten Jain – Invesco:**
- So it is Market Linked Debentures and essentially you sell this to your clients, so some NBFCs issue that and then you sell to your clients and you get a distribution fee on that, most of the times it is upfront.
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

- So as I said earlier it is 25 to 30 basis points for a year. So if you do a 3 year MLD it will be 80 to 90 basis points, that's about it.
- **Mr. Hiten Jain – Invesco:**
- No, I am saying in terms of your product lines in terms of your bps is it that...
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- We do that, we do that, we do a lot of MLDs but as I said you know it aggregates to not more than 2.5 to 3 crores a month.
- **Mr. Hiten Jain – Invesco:**
- Do you mean that it is a small market and there is only that much that you can do or so is it a problem on the supply side or on the demand side?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- No, so we are more or less concentrated on MLDs on AA+ and above or in fact nearly on AA+ to AAA. We really don't go into the AA- market too much or even the A- or the A+ market. And I think the flows there can be with a slightly higher brokerage income. On the AA+ to AAA the brokerages would average to 25 to 30 basis, in fact on the AAA side it would be substantial lower, it will be 5 to 10 basis points. We have been a little cautious on the MLDs we really don't want to kind of go out to clients with A+/A-, we would prefer them to come into a pool of investments either through a structured credit fund or through a mutual fund or through a PMS where instead of getting exposure to a single credit of A+ or A-, they are able to get into a diversified pool of 15 to 20 instruments.
- **Mr. Hiten Jain – Invesco:**
- Got that, do you sell only of your sister concern or is there select NBFCs of whom the, I mean who are your suppliers in that sense? Is it your only sister concern IIFL NBFC or someone else?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- No, there is nothing like that so IIFL Wealth if you mean IIFL Wealth NBFC, that's like raising paper for our own entity from our own clients. In that there is obviously there is no brokerage, because we are raising money for our own entity. Outside of IIFL Wealth we raise money for select NBFCs which are AA+ to AAA, there is no specific entity as such. Our largest amount of our allocations would go to people like L&T, HDFC, Kotak Prime and so on and so forth. Those are the larger NBFCs for whom we would be raising MLDs.
- **Mr. Hiten Jain – Invesco:**
- All right, thanks.
- **Moderator:**

- Thank you. May I remind you kindly click on the raised hand icon to ask your question? Next in line we have Dipanjan Ghosh, kindly unmute yourself and ask your question.
- **Mr. Dipanjan Ghosh:**
- Hi, Karan, am I audible?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- Yeah.
- **Mr. Dipanjan Ghosh:**
- 2-3 questions from my side. First if you can give some colour on how the pipeline looks in the institutional flow on the EMP business? Second you know, let's say hypothetically markets try to remain weak for a period of time 3-4-5 quarters and you know AUM growth becomes to some extent linked to new customer acquisitions and geographic expansions, some of the points that we have been discussing. In that context how do you see the people cost or the manpower cost really shifting up in case client acquisition becomes a pool for AUM for some quarters. Third, I think more from a yield perspective, you know, we kind of used to discuss that if markets are weak and you acquire some let's say smaller segment or smaller ticket size client probably yields tend to be a bit favourable in a weak market sentiment when clients are trying to move more towards the advisory sort of business line rather than pureplay brokerage or indication sort of activity. In that context how do you see the yield of PMS business segment? These are the 3 questions.
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- Got it. I think, so Dipanjan, I think from a market perspective I think from RM cost structure obviously there are two parts, there's a fixed portion and there's a variable portion. So I don't think so the fixed portion really changes or is a quick function of the kind of flows and the kind of new clients we acquire. I think that's more or less going to be there. I think there is some flexibility which kind of builds in on the variable side. But as I said earlier I think you know if net flows were to subside in a very, very large way, they impact the current year's financials to a certain extent, and the next year's financials to a certain extent. In both ways you know if you get higher flows than what you are targeting it also doesn't necessary help you in a big way in the current year. And similarly if you don't get to that number it doesn't kind of hurt you in a very, very large way in the same year. So I think from a revenue and a profit and a RM compensation perspective, net flows will for the current year won't have a direct correlation to that extent but it will have an impact. So I think from a revenue and a cost perspective this year, it will be to a certain extent dependent on net flows to a certain extent it is dependent on the AUM and the flows we have already achieved last year. Coming to the point of the institutional mandates itself I think the team is working very, very closely from a capacity perspective so we have already got 4 large mandates, I think we would look at adding a couple of mandates over the next 12 odd months. But we would be very cautious on not building up too many mandates on the institutional side. I think we

will see some more traction happening on the family office and the ultra HNI space on the listed equity side, especially in the form of PMSs and AIMs. I think the larger collection over the next 12 months would be happening from those channels as opposed to necessarily from the institutional mandates.

– **Mr. Dipanjan Ghosh:**

– Third, maybe on the yield question I mean how do you see the yield on the IIFL One platform shaping up in the current environment?

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– So I think the yield is, from an yield perspective I think it is pretty much similar, there is no real change there. I think non discretionary will be in the region of 35 to 40 basis points, 30 to 40 basis points, discretionary will be in the region of 60 to 70 basis points. So all things being equal and the equvalued size of the clients being between 25 to 100 crores and not only 250 crores plus will allow us to reach the blended yield of 45 to 50 basis points. So I think the two determinants of yield will be the spread between discretionary and non-discretionary and secondly an advisory and second will be the size of the clients. I think if these are two are well managed I don't see any reason for the yields to be below the 45-50 basis points number.

– **Mr. Dipanjan Ghosh:**

– Sure, just one follow up on the first question, you know, while it is getting to more from the perspective that in case you need to add more RMs or do you have the, what is the current RM capacity in terms of new client additions that they can kind of you know kind of tackle some new flows or new clients have...

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– Honestly there's a lot of capacity to add honestly, Dipanjan, as I said earlier I think we could do a little better on productivity also. So I think we have some great relationship managers and a lot of relationship managers have been in the system in the last 6-7-8 years who have now shaped up to become I am calling very loosely team leaders, right, who themselves can today nurture new talent. So in some ways you know from a span of control perspective we have the ability to maybe add at least 30-40% to our client base without necessarily needing to add a whole new set of relationship managers. And therefore you know in some senses it comes back to that cost to income question. The real change there on cost to income really is a function of productivity. So I think there's some so there is that span of control which can be improved on productivity and therefore can be improved. And in some senses obviously it doesn't mean we don't add new RMs, wherever we find good talent and people who can add to our client bases as well as to our bench strength we will be happy to add. But at the same point of time can we grow with our existing set of RMs, the answer is yes.

– **Mr. Dipanjan Ghosh:**

– Sure, that helps, thank you, Karan and team and all the best.

- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- Thank you.
- **Moderator:**
- Thank you. Next in line we have Bhuwanesh Garg, kindly unmute yourself and ask your question.
- **Mr. Bhuwanesh Garg:**
- I would like to know about the benchmarking about your advisory performance like how do you benchmark your advisory performance in the sense that when do you communicate to clients, then on what parameters you communicate that whether you have, how much you have outperformed and I mean and how do your clients evaluate your performance, advisory performance on key parameters.
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- I think the performance from a non-discretionary and advisory perspective both is really kind of benchmarked in some ways as synthetic index because each client has a separate investment portfolio statement and therefore a separate allocation guideline, but typically what we try and do in all our reports is effectively show a 5 kinds of potential benchmarks. One benchmark is if you would have 100% been in debt, the other benchmark is if you would have been 100% in let's say in the equity index, third benchmark is let's say if you would have taken a balanced approach of 50:50, 4th benchmark is what he has guided in his investment portfolio statement, let's say he has guided 75:25. And how is he doing related to that benchmark. So effectively all our portfolio statements that carry his performance are relative to all these potential benchmarks and effectively empowers the relationship manager to have a continuous discussion with the client on various scenarios in the sense how is he doing in his existing benchmark related to the indices, how he could be potentially doing in case he has made separate asset allocation choices.
- **Mr. Bhuwanesh Garg:**
- Okay, sir, thank you.
- **Moderator:**
- Thank you. Next in line we have Aejas Lakhani, back with a question. Ajas, kindly unmute yourself and ask your question.
- **Mr. Aejas Lakhani:**
- Yeah, thanks for the follow up, Karan, just a quick check on the assets where you know we have already booked revenues of those 15-16000 crores, how much would mature in '23?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- '22-23 is nearly 40% of that.

- **Mr. Aejas Lakhani:**
- 40% okay.
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- That is the 2nd half of the year.
- **Mr. Aejas Lakhani:**
- Okay, and the other bit is in the asset management this time around we saw new entrant in the form of the customized multi asset class. If you could speak a little bit on that and you know the run rate going into the closing area almost close to 350 crores so a little bit on that. And you know what kind of launches should we expect from the asset management side in '23. And if you could call it out with that timeline, a broad timeline?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- So I think the multi asset is a fairly interesting strategy it allows us to kind of in some sense build out slightly more bespoke strategies for large clients where you are able to kind of navigate between fixed income equity with some bit of, with some bit of ease. Having said that obviously these are strategies which are fairly bespoke and need to be customized, and therefore can be run only for fairly largish amounts. So I think you know from an initial thought process perspective we would like to keep the minimums around the 75-100 crore kind of number per family, and maybe start off in this year with maybe 15 to 20 odd families in the current year from a commitment perspective. So, what you see obviously there is 350 or 400 crores of draw down so the commitment could be closer to the 650-700 or 750 crore number, so I think by the end of the year we will have round to about 15 to 25 families who are kind of doing multi asset bespoke strategies with us. So, from a timing perspective I think through the year we expect to get 2-2.5 to 3000 crores of commitments there, and maybe 1000 to 1500 crores of maybe potential draw downs. Because the AUM effectively reflects only the draw down as opposed to the committed amount.
- **Mr. Aejas Lakhani:**
- Fair enough, thanks. Could you speak about what can we expect from the AMC side in the year?
- **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**
- I think from the AMC side I think from our launches perspective I think I will talk about what is more or less on the horizon now rather than going into what is there in Q3 Q4 in that sense. But on the Q2 side immediately I think the focus continues to be on the fixed income side. So we are currently already in the process of raising a structured credit fund which is targeted towards the 11 to 14% kind of yield. It is our 4th fund in the strategy, all the first 3 funds have done fairly well. The first fund was returned at a gross return of around 15.8% to clients. I think the funds collected close to around about 100 odd million dollars and will be on its way to around about

150 million before we close. Outside of that we are also looking at a fund which is kind of slightly more focused on REITs and InvITs so effectively something which is providing a bit of steady income and a little bit of capital appreciation. So we have done a couple of transactions there some of which are in the public domain and those will really kind of fit into and become a part of the fund raise as we go along.

– **Mr. Aejas Lakhani:**

– Thanks, that's it.

– **Moderator:**

– Thank you, may I request you in case you wish to ask a question kindly click on the raised hand icon?

– **Mr. Pavan Magnani – Head, Strategy and Investor Relations, IIFLWAM:**

– Just a quick update on that net flows question, of the 5000 odd crores of net flows in the wealth management business quarter 1 the split is 60:40 between existing and new clients. On an average in the year though it is closer to probably 70:30 like Karan said but every quarter you have some dispersion in this ratio, so right now it is 60:40.

– **Moderator:**

– Thank you, Pavan, for the update. In case there are any more question kindly click on the raised hand icon?

– **Mr. Karan Bhagat – MD & CEO, IIFLWAM:**

– Great, thank you, thanks everybody for joining in on the call and we will see you again after 3 months, thank you.

END OF TRANSCRIPT