India Infoline Limited

Earnings Conference Call for the quarter ended

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Corporate Participants:

MR. NIRMAL JAIN – Chairman and Managing Director

MR. R VENKATARAMAN – Executive Director

MR. L P AGGARWAL – Chief Financial Officer

MS. POONAM SARAOGI – Associate Vice President, Investor Relations

Moderator: Ladies and gentlemen. Good day and welcome to the India Infoline Limited Q3FY12 Results Conference Call. We have with us today Mr. Nirmal Jain, Chairman; Mr. R Venkataraman, Managing Director; Mr. L P Aggarwal, CFO and Ms. Poonam Saraogi – AVP, Investor Relations. At this time I would now like to hand the conference over to Ms. Poonam Saraogi. Thank you and over to you ma'am.

Poonam Saraogi On behalf of team IIFL I thank you for joining us on this call. With me today are Mr Nirmal Jain; Mr R Venkataraman; and Mr L P Aggarwal. I will now hand over to Mr. Nirmal Jain to give us an overview of the macroeconomic scenario.

Nirmal Jain Good morning everybody. If you look at macro numbers for Indian economy, this year's numbers are obviously not as good as last year. In fact, we are likely to end FY12 with GDP growth of 7.1%, which is our research estimate, vis-à-vis 8.5% in the previous year. Inflation which has been the big demon, which everybody has been trying to look at very carefully, I think those numbers will now moderate and with some base effect impact as well as the impact of RBI's tight monetary policy will see inflation numbers come down by 6% to 7% by March. This will actually help RBI continue with the process of easing the monetary policy.

Coming to capital markets, equity market volumes have seen a significant fall in FY12. The very close estimate that we will end the current year with Rs. 28 trillion of turnover in cash markets vis-à-vis 46.8 trillion last year and 55.2 trillion in the year before is a very significant fall. F&O volumes are likely to increase to 313 trillion this year vis-à-vis 292 trillion last year, but as you all know that from brokerages business point of view, the margins and the brokerage rates are significantly higher in cash market and this impacts the income negatively. Similarly, in FY12, we have seen that Investment Banking activity has been quite lackluster. The ECM segment has been even more impacted. Life Insurance business also has seen significant de-growth. If you look at the industry then for the first 10 months the volumes are down. For the Mutual Fund industry, distribution business has seen some pick up but not very significant.

On this background, when we look at the stock market sentiment, which has improved significantly in the month of January and the bullishness continuing in the month of February, has surprised many analysts because at the beginning of year no one was prepared for a 'bull market'. But just about a month into the year more and more consensus is emerging that the market sentiment has turned positive and we will probably have a 'bullish market', at least for some time. What has triggered this thing? I think there are 2-3 important changes; one is we have seen that FII money has started pouring in quite significantly and that has been driven by our valuations becoming very attractive. In fact the market corrected throughout last year and so valuations became attractive. But most significantly, there is liquidity coming from the developed world and particularly US, which surprised rest of the world by announcing that for three years they will continue with very low interest rates. They have frozen the interest rates; they are not going to increase it and for the first time the FM announced any guidance on interest rate. That would mean that easy liquidity conditions will continue throughout. With Europe problems, which most of us were worried about, the crisis took a very long time, the blow up will also not happen in a hurry and the problem, for the time being, seems that they have been temporarily taken care of and there will not be any hard landing as such. So with this we have seen that flow of capital to the emerging market and to India in particular has improved significantly.

On political front also, as you know, people are now looking forward to the budget. It is an important event for investors. As this entire rally is driven by FIIs, there is more concern about fiscal deficit and how Government tackles the dilemma of continuing growth, fiscal tightening and as well as preparing for the elections, which are in 2014. I think UP Election results will be critical. As Congress gets more confidence, they will continue with reform agenda with a lot more assertiveness than what we have seen in the past. But for the time being as long as flow of capital continues the market sentiment will improve and many a times liquidity can improve fundamentals as well. As we will see that many companies which were reeling under high debt and high interest cost will be able to restructure and re-strengthen their balance sheet.

Coming to our performance, which Poonam will discuss in greater detail with each line item, very broadly, vis-à-vis last year, our profits have almost halved. But we should keep in mind that last year third quarter was particularly good quarter because of Coal India and many other IPOs and after that we have seen that particularly capital market activity saw significant slowdown and this has been industry-wide phenomenon. But compared to last quarter we have seen significant improvement. Our post tax profit is up by 60% and our income is also up in a reasonable manner. This entire growth has been driven by non-equities business because our equities brokerage-related income saw a decline of 9% vis-à-vis previous quarter but that has been more than mitigated by a significant growth in two businesses; namely our NBFC or lending business, and number two is our financial product distribution business which comprises distribution of mutual fund, bonds, life insurance and also alternate assets; Life Insurance is the most significant part of it.

Coming to NBFC, we had expanded our network significantly in the previous quarter. In this quarter, quite a few branches would have become fully live and we see the impact in manpower cost. But we have a very wide network, in fact, the total number of branches that we have for all businesses put together is over 1800, and in addition to that we have more than 2000 sub-brokers. So, in terms of retail footprint, probably we have one of the widest networks. We're trying to leverage this in our NBFC business by expansion of retail loan products. And with this I hand over to Poonam who will take you through various line items and after that we will take Q&A.

Poonam Saraogi As you are aware, we are a diversified financial services company and have multiple businesses which are carried on in various subsidiaries. In today's call, I will be referring to our consolidated numbers as they give a true and fair representation of our performance. Further, we may make some forward looking statements based on the Management's current expectations during this call. Actual results may vary significantly. The accuracy or completeness of these expectations therefore cannot be guaranteed.

Coming to the numbers, for the quarter ended December, 2011, our total income was Rs. 4.8 billion - up 17% qoq and 5% yoy. Our Profit before tax for the quarter stood at Rs. 493 million, a decline of 51% year on year, our net profit after minority interest was Rs. 358 million down 47% year on year. However, we have performed well on a quarter on quarter basis, wherein our PBT was up 40% and out PAT was up by 62% on a q-o-q basis. Our growth was driven by an increase in our financing and lending business and our distribution business which primarily includes distribution of insurance and mutual fund products. Our Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) margin for the quarter was 43% compared to 39% in the last quarter.

However, Earnings before tax, depreciation and amortization (i.e. after interest cost) is 14% in Q3FY12 as compared to 25% in Q3FY11.

I will now take you through the financials of each of our businesses. Coming to our Equities, broking and related income, the revenue from this segment was Rs. 1.3 billion in the quarter – down 9% qoq and 33% yoy. It contributed 26% to our total revenues in the quarter. In Equity Brokerage, our average daily turnover during the quarter was Rs. 52 billion – down 0.6% qoq and 17% yoy. Market share on NSE was at 3.7% in Q3FY12, as against 3.6% in Q2FY12. Our market share on NSE has marginally increased to 3.7%, due to increase in our cash market volumes. The equity volumes remained sluggish throughout the last quarter, with market volumes falling by 4% on a quarter on quarter basis. The share of the Futures and Options segment in the overall market turnover on the Exchange further increased to 92% for the Dec quarter compared to 86% in Q3FY11. In commodities brokerage, our average daily turnover was Rs. 16 billion during the quarter – up 100% yoy and down 12% qoq. Our overall market share in this segment was 2.4% in Q3FY12.

Coming to the Financing and Investment segment, for the quarter, the income from this segment was Rs. 2.9 billion - up 26% quarter on quarter and 28% year on year. This segment constituted 60% of our total revenues during the year. Interest cost for the quarter was Rs. 1,364 million up 28% qoq and 31% yoy. Our overall loan book increased to Rs. 62.2 billion as at the quarter end, a 24% increase quarter on quarter and 110% increase year on year. Our loan book largely comprises secured lending with mortgages contributing to 50% vis-à-vis 53% during the last quarter, capital market products contributing to 16%, a fall from 23% in Q2FY12, gold loans contributing to 32% vs. 22% in Q2FY12. Other primarily includes Medical equipment financing which is at 2%. Our gross NPAs on our overall portfolio are 0.33% in Q3FY12 as compared to 0.4% in the previous quarter. Similarly net NPAs on our overall portfolio were 0.25% in Q3FY12 as compared to 0.31% in the previous quarter.

Coming to the Distribution and Marketing segment, our income from this segment for Q3FY12 was Rs. 655 million – up 55% qoq and 39% yoy. This segment primarily includes distribution of insurance, mutual funds, alternate asset products, bonds, etc. In Life Insurance business, our product portfolio is dominated by long term endowment products. In this business, we are a leading insurance broker and distribute products of all major insurance companies.

Coming to our cost, our operating costs were Rs. 537 million– a decrease of 7% qoq and 23% yoy. Direct costs were 11% of revenues in Q3FY12 and 14% in Q2FY12. Employee costs for the quarter were Rs. 1,303 million– up 21% qoq and 25% yoy. Employee costs were 27% of revenues for the quarter compared to 26% in Q2FY12. Other costs primarily including admin costs for Q3FY12 were Rs. 913 million in the quarter – up 9% qoq and 38% yoy. Other costs were 19% of revenues in Q3FY12 and 20% in Q2FY12. These costs primarily include rent, electricity, telephone and other legal and professional charges. The increase in our employee cost and administrative costs is mainly due to the expansion of our specialized retail consumer branches. Our average cost of funds in the quarter was 11.2%– which was up 60 bps compared to the previous quarter. Our short term debt program is rated A1+ by ICRA. ICRA and CRISIL have rated our long term debt as ICRA LAA- and CRISIL AA- respectively. Our consolidated net debt, as at the quarter end, was Rs. 46.5 billion and gross debt was Rs. 54.4 billion. Of this secured long term borrowings were Rs. 30.7 billion. Cash and cash equivalent position was Rs. 7.9 billion which includes fixed deposits of

Rs. 3.2 billion and mutual funds, equity shares and bonds of Rs. 3.6 billion. Our net debt to equity ratio was 2.6x as of the quarter end. Depreciation cost was Rs. 195 million for the quarter. Our net worth is Rs. 17.6 billion as of December 30, 2011.

Coming to a few other updates during the quarter, IIFL Nifty ETF which was launched on September 28, 2011 was among the top two equity oriented ETF in terms of total trading volumes for the month of December because of its high retail participation. IIFL Mutual Fund also launched its first debt scheme, IIFL Fixed Maturity Plan Series 1. The scheme is a close ended income scheme for tenure of 550 days. The performance of the scheme would be benchmarked against CRISIL Short Term Bond Index. The scheme closed for subscription on January 19, 2012. The fund received a good response and collected around Rs. 320 million.

India Infoline Venture Capital Fund, the venture capital arm of India Infoline Group (IIFL), successfully completed the launch of its Real Estate Fund – 'IIFL Real Estate Fund (Domestic) Series 1' on January 25, 2012. The fund was fully subscribed to its issue size of Rs. 5 billion. The fund is a debt and equity linked investment instrument focusing on affordable residential segment across the top seven cities in the country. With this we leave the floor open for any questions that you may have for us. Thank you.

Moderator Thank you so much Ma'am. We will now begin the question and answer session. Our first question is from Kunal from Edelweiss, please go-ahead.

Kunal On the Consumer Financing business, the proportion of the Gold Loan portfolio has gone up quite significantly from almost like 1,000 crores. It has gone up even in terms of percentage. So if you can give us some details on the ticket size, LTV and how many branches are currently doing the Gold financing business?

Nirmal Jain Gold business is done entirely through our own branches and ticket size is around Rs. 50,000 to Rs. 60,000 per loan. We are doing Gold loans through 1,200 branches now.

Kunal And in terms of LTV?

Nirmal Jain Typically, LTV is around 70% to 80% of the Gold based on the purity of the gold and the customer profile.

Kunal In terms of the pricing it is like three months average or something?

Nirmal Jain No, pricing is not done on a three months average but it is taken based on the recent price. Suppose, there is a sudden volatile movement and the three months price is higher than the current price, you can't have the three months price. We take the current price adjusted for some corrections in case there is a very recent up route.

Kunal And yield?

Nirmal Jain Yield is around 22% to 23%.

Kunal What would be the outlook on this particular portfolio? Definitely, there has been significant scale-up on demand that continues to be strong. So what would be our outlook with respect to this particular business?

Nirmal Jain Outlook is good, the business has become fairly competitive and with Gold prices at such high altitude, a lot of growth in this industry has happened. Gold prices going up also means that there is more drawing power in the hands of owners of Gold jewelry. The business will grow very well in the long-term, but the growth may taper off from what we have seen in the last two years.

Kunal And particularly for us who would be the key competitors if we have to look at it?

Nirmal Jain We have different competitors in Broking, Insurance and NBFC. As far as Gold Loan is concerned, there are very specialized Gold Loan companies like Manappuram, Muthoot and Shriram Union.

Moderator: We will take a next question from the line of Mr. Ritesh Nambiar from UTI Mutual Funds, please go ahead.

Ritesh Nambiar Just wanted a rough sense regarding the steep rise in distribution and marketing income. The majority rise is on account of?

Nirmal Jain The significant increase in this is of course the Insurance Income as we get into second-half, the season improves. But we also have been distributing Bonds, Mutual Funds and Alternate Asset products, so it is a combination of all of this.

Ritesh Nambiar Wanted a sense on the admin and employee cost. It's totally on account of gold branches?

Nirmal Jain Yes, other expenses which are administrative overheads, are primarily on account of Gold branches. The significant increase is because of increase in our branch network. Infact in the other businesses there would be some saving which is more than offset by increase in Gold branches.

Ritesh Nambiar I just missed out this gross NPA and net NPA as a percentage?

Nirmal Jain Gross NPA 0.33% and net NPA 0.25%.

Ritesh Nambiar This improvement is on account of better performance in Gold Loan?

Nirmal Jain And also as the size of the book increases, this percentage drops slightly. So last quarter was 0.4% and now gross NPA has gone down to 0.33% as a percentage of total book.

Ritesh Nambiar This time around you did not disclose the Wealth Management and Advisory Assets. Last quarter it was somewhere around 20,000 crores.

Nirmal Jain It remains at similar levels; there may be some marginal growth in that.

Moderator Our next question is from the line of Ms. Tamalika Dey from ICICI Securities, please go ahead.

Tamalika Dey Regarding Equity Broking and related income if you could just throw light on roughly what percentage of it would have been contributed from Advisory and Wealth Management?

Nirmal Jain Equity Broking and related income will be primarily from Equity Broking. Out of that, Wealth Management will be relatively very insignificant. In our Wealth Management business almost 75% of assets are held in Fixed Income segments. Very broadly, the equity portion will be around 20% or so and the other assets will be around 5%. These numbers may not be precise because they vary from period-to-period. So in our wealth management business, most of the investors' portfolio is dominated by non-Equity products.

Tamalika Dey And from Investment Banking?

Nirmal Jain Investment Banking will not be significant.

Tamalika Dey In Equity Broking, whatever you disclose is it gross of sub-brokerage or net of sub-brokerage?

Nirmal Jain It is gross of Sub-Brokerage. Sub-Brokerage comes as a part of our direct cost or operating cost what we see in the cost component.

Tamalika Dey That's 536 million, right?

Nirmal Jain That includes Sub-Brokerage, that also includes DSA payouts for our NBFC and certain payments which are directly linked to the business like exchange charges, statutory charges, etc.

Moderator Our next question is from the line of Pankaj Agarwal from Ambit Capital, please go ahead.

Pankaj Agarwal In last one month rally have you seen any signs of retail investors coming back to the market?

Nirmal Jain In the month of January, retail investors did not come back to market or at least if you see the retail volumes they were lower than the month of December. But it looks like now the sentiment is improving and in the month of February, in the last few days we have seen mid-cap have started doing well. So there are signs that retail investors will now come back to the market. If you ask me my intuition based on my experience is that if the rally sustains for a couple of months more then you will see retail investors coming back to market, but in a very slow and steady manner. I don't think that they will pour in, they will come slowly but they will definitely come. The signs are positive, the sentiment is encouraging but the actual number in the month of January was not encouraging at all.

Pankaj Agarwal If this rally continues do you see a revival of ECM market going forward?

Nirmal Jain Yes, I think so, maybe in the second half we will see revival of ECM market. In a growing economy ECM market cannot be dead for too longer time. I'm an optimist; I think we should see some activity in the second-half.

Pankaj Agarwal And finally, on these branches for Gold Loan you said at the end of last quarter, Q3 FY12 you had 1,200 branches, right?

Pankaj Agarwal What was the number at the end of Q2FY12?

Nirmal Jain It was close to 1,000. So many branches were in pipeline, so they have gone on stream in this quarter.

Pankaj Agarwal I was just seeing the increase in number of branches between Q2FY12 and Q3FY12.

Nirmal Jain We have not set up too many new branches in this quarter. There were quite a few branches in the pipeline. They have gone live this quarter. Consciously, we have slowed down the process of setting up new branches. We just wanted to make sure that the Gold vertical by itself is near breakeven because there is a huge overhead cost of new branches. So we wanted to take a breather and we slowed down the process of setting up new branches. But many branches which were in pipeline have become fully activated in this quarter.

Moderator We will take our next question from the line of Kajal Gandhi from ICICI Direct, please go ahead.

Kajal Gandhi I wanted to know on the Commodities Broking side. The market share mentioned in this quarter for Q2 is 2.1%, whereas in the last quarter the same was mentioned as 2.6%. So what was the exact Commodities Broking market share in Q2?

Nirmal Jain In the last quarter Spot Exchange was not included, and on a like-to-like basis we improved our market share.

Kajal Gandhi What are the expectations on Commodities front going ahead?

Nirmal Jain Commodity business will grow going ahead as the penetration gets wider and deeper. Because the entire business is forward driven with typically 4% margin. There is a fair amount of speculation in this. So, business will be volatile, but India is a very large country and there are a number of commodities in different segments with different interests. So this business will continue to grow with challenges for risk management and volatile ups and downs.

Kajal Gandhi And you have mentioned about your cash market share going up in this quarter. So, can you give some idea on how was it and what is that?

Nirmal Jain Our overall market share has moved up from 3.6% to 3.7% and within that cash market share has always been higher as compared to the F&O market share.

Kajal Gandhi But sequentially are seeing some improvements, let's say 10 basis points, 20 basis points?

Nirmal Jain The brokerage yield on the total basis is 3.1 bps as low as it can get, it might improve very slightly, but brokerage yield on an aggregate basis remains low for the industry. If you see the market volumes 92% volumes are F&O, so that is the cause for low brokerages. As you know brokerage rates are falling in various segments which is cash, futures and options but the yield has come down because of the mix.

Moderator Our next question is from the line of Nischint Chawate from Kotak, please go ahead.

Nischint Chawate Can you give us some sense about the trends in your Insurance Distribution business? Could you give us some color as to how the performance has been this quarter vis-à-vis previous quarter?

Nirmal Jain We have been continuously consolidating and growing our market share. This year compared to last year on the full-year basis we will see probably 20 to 25% growth. That is likely but again, no one knows how will this quarter be. Again, I think this business we have been consolidating and compared to 2004-05 to ‘07-08 when industry was growing by almost 60%, 70% and we were growing almost three times every year. Now I think this business will have a growth which is steadier, which on a year basis will be around 20, 25%. We think the industry will grow, once it recovers from the current slump at around 15% and we would grow at 20, 25%. This, I am giving a 3 to 5 year perspective.

Nischint Chawate How do we look at performance in this quarter or last nine months vis-à-vis how the industry has done? Because I believe the industry is kind of down.

Nirmal Jain We have done fairly well vis-à-vis industry because the industry has de-grown, but we have been able to grow marginally at least. We have done better than the industry.

Nischint Chawate Did you say that you have grown your market share or you have grown in absolute volumes?

Nirmal Jain Both. If we grew in absolute volumes then obviously, market share will also grow.

Nischint Chawate And what would be the reason? If you look at your Distribution Income, it is up 56% on a Q-o-Q basis. So how do I get handle of this trend? Is it largely driven by Insurance or were there any other big drivers this quarter?

Nirmal Jain I think that this 56% may be slightly higher than what our trend line growth will be, but this comprises multiple products. So, this will vary from quarter-to-quarter. As far as Insurance is concerned, industry-wide what has happened is that in the individual agent business segment there has been significant de-growth. Also, the manpower cost has now become reasonable. The challenges that we faced in 07-08 and 08-09 was that everybody was getting into this business, and we were one of the market leaders in the non-bank, broker and agent category. So we were the favorite poaching ground. Out of 50, even if one or two are poached at a significantly higher salary then you have to take care of the remaining 48. So cost was a significant challenge for us. But now good quality man power is available at prices which is reasonable to their economic value that they can generate. That is one reason which will allow us to consolidate. But we also get business by way of distributing Bonds, distributing Mutual Funds, etc. All these form a part of this income. How that will vary from quarter-to-quarter? Your guess is as good as mine.

Nischint Chawate Looking at the trends across last four quarters. We have consistently seen the number somewhere in 40-45 crores range. This quarter you said you have reported 65 crores. Should we say that the entire delta or a large part of the delta came in from distribution of Bond and other Wealth Management products? That is what I was asking.

Nirmal Jain Yes, you can say that significantly higher delta is because of the other products.

Nischint Chawate And in terms of the commission that you would be earning from the distribution business. Would you still be enjoying a higher commission rate?

Nirmal Jain If you look at our portfolio it's now largely Endowment or more than 90% is endowment and these are the genuine Insurance products. These are the products where you get the investor to pay premium for long-term like 15 years and these are not quick sell products. So based on the lessons that we learnt from crash after 07-08, we focus more on Endowment products.

Nischint Chawate Have there been any restrictions from the regulator on compensating you for media campaigns or training or anything of that sort or is that something which would still be going on?

Nirmal Jain Our marketing, we ourselves take care. But there are certain things like training, etc wherein our people are trained by Insurance companies. Whatever practices they have, are fairly standard and consistent across the industry.

Nischint Chawate Two more aspects I would just want to touch upon. One was that our employee cost has increased from around 107 crores to 130 crores. How do we read that, would this be for the Broking business?

Nirmal Jain It is primarily for Lending business - the Gold Loan branches and the people that we hire there.

Nischint Chawate If I look at your segmental earnings, the segmental profits table, your profit from Broking business is now down to around 15 crores from approximately 25-26 crores for last two quarters and the financing profits have increased to around 50 crores from around 30 crores for last two quarters. There seems to be a big swing this quarter. Anything that you may want to talk about here?

Nirmal Jain That is correct. There is a swing which is visible from the numbers and there is a swing that has happened. So if you see the entire growth, it is primarily driven by non-equities as I said in my preamble, because Equity markets continued to be very sluggish last quarter as well.

Nischint Chawate The point I'm trying to make is that Equity market volume is obviously were weak in the third quarter but they were obviously not all that weak that the segmental earnings come down from 26 crores to 15 crores. So is there something on the employee cost side or on the opex side because of which the number has come down to such a large extent?

Nirmal Jain In our case because most of our businesses are from branches and not from franchisees, say almost 85%. So our costs are fairly fixed. There is a 12 crore fall in our income that you see, but our infrastructure, our manpower cost, etc remain more or less static. If our business were to be driven by franchisees then with that the costs also come down but mostly our business is driven by own branches, where the cost structure is fairly fixed. So if we have a fall in our top-line then the fall in bottom-line will be more than proportionate.

Nischint Chawate Just one last point I want to touch upon - the tax rate was down to around 26% from 36% last quarter, anything specific here?

Nirmal Jain There is a tax-exempt dividend income and there are some investments in mutual fund that we keep for liquidity, from which some would have become long-term so we can take tax shield on that. So we compute the consolidated numbers for nine months and take the balancing number in this quarter.

Moderator Our next question is from the line of Mithun Ashwat from Barclays, please go ahead.

Mithun Ashwat You mentioned that the Gold business is still to breakeven. When do you expect that to happen or whether some costs are actually denting your profits currently? And also wanted to know on your Wealth

Management business, what sort of stake would you have and whether that's profitable?

Nirmal Jain I will take your second question first, the Wealth Management business is a subsidiary company and our stake is around 85% as of now. Is it profitable? Yes, it is profitable. Coming back to the Gold Loan business, because we have expanded our distribution network, there is the cost in the overhead, but it is close to breakeven level. Because this is part of the NBFC business so the cost allocations cannot be that precise. Based on the segmental results, which you have with you, NBFC as a business itself makes reasonable profit.

Mithun Ashwat I understand that, just wanted to understand for nine months what sort of drag was there and that drag will not be there next year.

Nirmal Jain The drag was more significantly in the last quarter and it has become easier but I won't be able to quantify and give you the precise number.

Moderator Next question is from the line of Vinay Shah from Reliance, please go ahead.

Vinay Shah I missed on that blended yield on broking side, if you can please mention that again?

Nirmal Jain It is little over three basis points.

Vinay Shah And what was the same in the last quarter?

Nirmal Jain Similar.

Vinay Shah Next thing is what is the gearing at NBFC level?

Nirmal Jain It is less than three times.

Vinay Shah Do you have any plans to raise further retail NCDs?

Nirmal Jain Yes, but most likely we will do it in the next financial year.

Vinay Shah Any quantum you may have in your mind?

Nirmal Jain Again depends on the market conditions and our requirements. Last time we did retail NCD of 750 crores, so the issue size of 375 crores and Green Shoe and so we retained 750 crores. So typical bond sizes are 500 to 1000 crores which depends on market environment.

Vinay Shah In the distribution and marketing income at the PBT levels this quarter it was positive marginally. But if you see the last three quarters it was marginal negative. So any specific things that have happened?

Nirmal Jain No, this is the nature of the business because the first half is a flat season where costs have been fixed and the business starts improving in the second-half. So, as the top-line improves you will see the improvement in the bottom-line as well.

Vinay Shah So it has direct correlation with the top line that way?

Nirmal Jain Exactly.

Vinay Shah In terms of your NBFC portfolio mix, can you share some colors how it will look like in FY13?

Nirmal Jain I think it will become more balanced. So if you see our mortgages is close to 50% and the trend will continue. The Capital Market which is now 16% may go down a little bit more. Then there will be a significant increase in gold loans and healthcare equipment financing.

Vinay Shah So no specific percentage for FY13

Nirmal Jain Our objective is to have a balance portfolio of Mortgages, Gold Loans and other secured lending.

Vinay Shah What is the capital adequacy at the NBFC level?

Nirmal Jain Our net worth is around 1,350 to 1,400 crores. So at this point our capital adequacy will be close to 20%.

Moderator Our next question is from the line of Hiren Dasani from Goldman Sachs, please go ahead.

Hiren Dasani Just two things; one is on the segment reporting, is there any regrouping as far as the capital employed is concerned between September and December quarter?

Nirmal Jain There is some regrouping there.

L P Aggarwal There was a common asset which was used for marketing as well as for the other businesses, so they have been regrouped in the current quarter.

Nirmal Jain Earlier there were assets shared, but now we have transferred the assets itself to the business.

Hiren Dasani So something would have moved from Equity Brokerage and related to lets say Agency and Distribution related?

Nirmal Jain That’s correct.

Hiren Dasani But even then don’t you think that the Equity Brokerage related capital employed looks on the lower side and just about 96 crores from 277 crores in the last quarter?

Nirmal Jain On the Equity business you will see that on one hand new Capex is not taking place and the depreciation is running down the net block and the working capital also has fallen with the low activity in the market.

Hiren Dasani And the other question is there is this talk about putting Transaction Tax on Commodity as well. What is your sense, whether it is going to happen and b) If it happens then what kind of impact it would have on the turnover?

Nirmal Jain It will be a retrograde move just like Securities Transaction Tax, so it will have a negative impact on the volumes, but I'm an optimist I think that this will not happen.

L P Aggarwal And if you would recall it was put around three years back and there were a lot of discussions, press coverage, etc. and it was ultimately withdrawn by the Finance Ministry. So I don't think they will do it this time without consultation of the industry as a whole.

Hiren Dasani But if it were to come, by how much would volumes go down by, 1/3rd, 1/4th, ½ what?

Nirmal Jain That is anybody's guess, but that will be a slow and gradual process.

Moderator Our next question is from the line of Rishindra Goswami from Locus, please go ahead.

Rishindra Goswami Just a couple of questions; one on your Gold Loan. What is your target?

Nirmal Jain No, we don't have any target in mind, but I think business will grow. So we have to make sure that we don't compromise on the asset quality, compliance and our processes. We are relatively new in this business; we have been there for just about two years. So in terms of data points we can't be as precise as other Gold Loan companies in forecasting, but we just want to grow the business in an orderly manner and seize the opportunity as it appears.

Rishindra Goswami So the credit exposure that you're taking on the client, is it a function of his payback capabilities or it is backed by assets therefore you lend?

Nirmal Jain Gold Loans are typically smaller loans taken for temporary purpose. Many times just for 15 days and the average loan tenure is just about 90 days or close to that. These are not loans which are like Mortgage Loans, which are typically cash flow driven. So if somebody is taking a small loan for short-term purpose, it is driven by collateral. But if it is a larger loan then we obviously look at the repayment and cash flow capacity.

Rishindra Goswami In terms of your sales force for your lending business, how is the incentive structure? Firstly, is there a DSA structure involved or is it all your own employees?

Nirmal Jain In Gold Loan there is no DSA involved. But DSAs are involved in Mortgages and other products.

Rishindra Goswami How are the incentive structure? They do get upfront incentive for the loan that they originate, right?

Nirmal Jain It is a fairly competitive structure, it depends on several things including negative marks for grievances, complaints, cross-sell, performance, training, etc. There are a whole lot of things, it is a fairly complex structure.

Rishindra Goswami So it is not one-time upfront?

Nirmal Jain There may be, but there are various types of incentives, bonuses, increments that work simultaneously.

Rishindra Goswami And then just on your Mortgage Loan business, two questions; one is what part of that loan book is LAP versus traditional mortgage?

Nirmal Jain As you know that our property or mortgage is about 50% of the portfolio.

Rishindra Goswami 50% is LAP?

Nirmal Jain LAP and Home Loans, i.e. mortgages basically. So there is loan against property but property also includes Home Loans. If your question is related to wholesale or corporate lending then on the total portfolio around 15% is on the corporate side. So it may include loans against Shares, Securities also and it may include the Real Estate developments also.

Rishindra Goswami Out of your Mortgage Loan book of about 3,100 crores how much you said is on the Corporate side?

Nirmal Jain I won't have a precise number but it will be typically maybe be around 600, 700 crores.

Rishindra Goswami And this would be largely your exposure to mostly Real Estate developers?

Nirmal Jain Yes, this amount would be to Real Estate developers.

Rishindra Goswami Have you seen any kind of stress there on that portfolio?

Nirmal Jain No, we haven't, but we have kept it limited. So, as a matter of policy, we try to keep these large loans which are Real Estate developers/ promoter loans restricted to 15% to 20% of our portfolio. We have also been fairly conservative in terms of choice of borrower and till now we have not seen any stress.

Rishindra Goswami Just overall on your NBFC business, what kind of Loan book growth do you see for next year?

Nirmal Jain Next year, the growth will slow down as compared to this year due to the base effect.

Moderator Our next question is from the line of Manish Shukla from Deutsche Bank, please go ahead.

Manish Shukla I wanted to get a sense of the returns which the NBFC business generates in terms of ROA and ROE as we speak today, and what is likely the ROE, ROA trajectory for that business going forward as you see it?

Nirmal Jain Our ROA is close to 1.95% on post tax, and if you look at Return on Equity going by this quarter's numbers we are nearing 10% now.

Manish Shukla And how do you see this panning out over the course of a year or two?

Nirmal Jain I think this will improve. If you notice in 2008-09, we slowed down our loan growth considerably. As compared to other NBFCs we are significantly over capitalized or under leveraged. So as we grow our loan book, our ROE should improve and should improve significantly. Because our cost structure is fairly fixed in terms of the origination, servicing, etc. Our cost structure doesn't change much as you grow the loan book. Also, our Gold Loan branches will become more productive, as we make sure that our infrastructure sweat more. This will also result in improvement in ROE.

Manish Shukla What would be the net worth of the NBFC business alone?

Nirmal Jain NBFCs net worth is 1,350 crores or close to that.

Rishindra Goswami In terms of borrowing mix for your NBFC, given that we will be in a declining interest rate environment for at least 12 to 18 months. How do you plan to use the borrowing mix. Will you still rely more on NCDs vis-à-vis bank borrowings or how do you go?

Nirmal Jain We will have a mix. So, if you look at our current borrowing mix, about 18-20% is NCDs and then we have bank borrowings where all interest rates are linked to base rates, so if the rate goes down and we will benefit from that. And then again 20-25% of our borrowings are short-term CPs which will also go down if interest rates continue to go down. So if the interest rates go down then almost about 80% of our borrowings should benefit from that.

Moderator There are no further questions.

Nirmal Jain I thank all the participants and in case you have any queries you can always mail it to our Investor Relations or get in touch with Poonam, who is in charge of IR. Thank you so much, have a good day.

Moderator On behalf of India Infoline Limited that concludes this conference. Thank you for joining us.