“India Infoline Limited Q3 FY14 Earnings Conference Call”

January 30, 2014

MODERATORS: **MR. NIRMAL JAIN – CHAIRMAN, INDIA INFOLINE LIMITED**
MR. R. VENKATARAMAN – MANAGING DIRECTOR, INDIA INFOLINE LIMITED
MR. DHRUV JAIN – CFO, INDIA INFOLINE LIMITED
MR. AMIT MEHENDALE – CFO, INDIA INFOLINE FINANCE LIMITED
MS. SHRADDHA KAMAT – MANAGER, INVESTOR RELATIONS, INDIA INFOLINE LIMITED

Moderator Ladies and gentlemen good day and welcome to India Infoline Limited Q3 FY14 Earnings Conference Call. We have with us today Mr. Nirmal Jain – Chairman; Mr. R. Venkataraman – Managing Director; Mr. Dhruv Jain – CFO for India Infoline Limited; Mr. Amit Mehendale – CFO for India Infoline Finance Limited and Ms. Shraddha Kamat – Manager, Investor Relations.

As a reminder all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal an operator by pressing '*' and then '0' on your Touchtone phone. Please note that this conference is being recorded.

I now handover the conference to Ms. Shraddha Kamat. Thank you and over to you, ma'am.

Shraddha Kamat On behalf of team IIFL I thank you for joining us on this call. I am Shraddha Kamat – Manager-Investor Relations accompanied by Mr. Nirmal Jain our Group Chairman; Mr. R. Venkataraman our Managing Director; Mr. Dhruv Jain – CFO for India Infoline Limited; and Mr. Amit Mehendale – CFO for India Infoline Finance Limited.

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 we would be referring to our consolidated numbers unless otherwise if specifically stated as they give a true and fair representation of our performance.

Further, any of us in today's call may make some forward-looking statements based on the management's current expectation actual results may vary significantly. The accuracy of completeness of these expectations therefore cannot be guaranteed.

I will now handover to Mr. Mr. R. Venkataraman – Managing Director, IIFL Group to give an overview of the macro environment and discuss our financial performance for the quarter. Over to you, sir.

R Venkataraman Thank you Shraddha. The bane of inflation continues to plague the common man and has been a cause of worry for the Governor who recently hiked the Repo rate by another 25 basis points. The Governor's statements make us believe that finally rate hike cycle might be behind us. The economy is slowly showing signs of stability and it appears that the worst might be behind us. The fall in current account deficit is an indicator of good times with the expectations that it will decline to 2.5% of GDP. In recent times the Indian Rupee has stabilized at 62 to 63 levels and there are expectations that finally in financial year 2015 our domestic GDP will pick up. Corporate earnings are also showing signs of stability and upswing. Unfortunately the recent FED taper and emerging currency market depreciations are the new dark clouds on the global horizon.

On the domestic front – all eyes are on the elections which are expected to get over by May. The outcome of these polls could influence sentiment and perhaps drive the country's fortunes given the dismal state of capital formulation in the country.

Coming to our businesses:

Our NBFC Lending business has shown steady growth despite difficult credit and macroeconomic environment. Our focus is on mortgages which will be the key thrust area for growth. Recent RBI guidelines and norms of capping gold loans loan to value for banks at 75% and increasing loan to value LTV for NBFC from 60% to 75% has created a level playing field for banks and NBFCs alike and we expect this business to pick up in the days to come.

Our Wealth business continues to grow and we are emerged as one of the leading wealth managers in the country with assets were in excess of Rs. 50,000 crores under advice. The capital market and commodities broking related businesses continue to face head wins.

Among other updates India Infoline Housing Finance Limited – the 100% subsidiary of India Infoline Finance Limited has successfully completed the bond issue of secured redeemable non-convertible debentures raising over Rs.

500 crores. IIFL home bond received an overwhelming response and oversubscribed 2.13 times. It was the first ever public issue of bonds by any private sector housing finance company in the country as per prime database. These NCDs have tenure of 5 years and will help us to improve our liability profile.

India Infoline has proposed to divest its 76% stake in its Sri Lanka subsidiary IIFL Securities Ceylon Private Limited to Sri Lankan partner who presently holds 24% stake. This entity was engaged in stock broking activities in the Colombo Stock Exchange. India Infoline Limited bagged the prestigious NSDL award for the most number of active accounts in the non-bank category at the 28th DP conference of NSDL. We also received an award at the 53rd Association of business communicator of India award for IIFL Buzz which is our internal newsletter.

With this I now handover to Mr. Amit Mehendale for an overview of our NBFC business. Over to you, Amit.

Amit Mehendale I will now start with overview of our NBFC business.

For Q3FY14 incomes of fund-based activity segment was Rs. 509 crores marginally up quarter-on-quarter and of 10% year-on-year. Interest cost was Rs. 300 crores of 6% quarter-on-quarter and 35% year-on-year. This segment constitutes 74% of total income for the quarter. For 9 months FY14 income from this segment was Rs. 1494 crores and interest cost was Rs. 849 crores.

Our quarter-end loan book increased to Rs. 10,042 crores marginally of quarter-on-quarter and of 12% year-on-year. Our loan book comprises secured lending of mortgages, capital market products, gold loans, loan against medical equipment and commercial vehicles. Share of gold loan in the loan book has fallen from 42% in Q3 FY13 to 31% Q3 FY14. Mortgage loans now form 52% of loan book and continue to grow steadily and become our focus area.

We continue to maintain high quality of assets these dividend in low level of NPAs. Our gross NPAs and net NPAs stood at 0.83% and 0.40% respectively as on December 31st 2013. Against gross NPA of Rs. 83.5 crores we have non-standard asset provision of Rs. 43.4 crores and hence our net NPA stands at 0.4%. Besides this we have a provision of Rs. 28.5 crores for standards assets as per statutory requirements. Our average cost of fund for the quarter was around 12%. Cost of funds was higher in the quarter due to rollover of CPs at the end of last quarter at higher rates. However, dependence on short term borrowings has reduced significantly. Share of CPs in total borrowings has come down from 36% in Q3 FY13 to 20% in Q3 FY14.

I will now handover to Dhruv for an overview of other businesses.

Dhruv Jain

For the quarter-ended December 2013 our total income was Rs. 690 crores with a marginal change quarter-on-quarter and year-on-year. Our profit before tax was Rs. 101 crores marginally up quarter-on-quarter and down 5% year-on-year. Net profit was Rs. 67 crores marginally up and down 8% year-on-year. For nine months ending December 2013 our total income was Rs. 2050 crores. Profit before tax was Rs. 295 crores and profit after tax was Rs. 197 crores. I will now present a review of each of our other business segments and cost.

I will start with Marketing and Distribution income – This segment primarily includes distribution of insurance, mutual fund, alternate asset product, bonds etcetera. In Life Insurance business our product portfolio is dominated by long term endowment products. Our income from this segment for the quarter was Rs. 97 crores up 6% quarter-on-quarter and up 4% year-on-year. Mutual fund AUM mobilized by IIFL Group is close to Rs. 17,000 crores. IIFL Wealth has emerged as one of the leading players in this space with asset under advice of over Rs. 52,000 crores. IIFL is one of the leading brokers of Life Insurance products and has a mobilization of Rs. 32 crores during the quarter. Insurance business was impacted the delay in renewal of license by IRDA but it is now on track. I will now move on to the capital market activities income.

The revenue for the quarter for this segment was Rs. 82 crores marginally down quarter-on-quarter and 42% year-on-year. Capital market activities comprised income from equities, commodities, currencies, investment banking etcetera. This business is undergoing restructuring and we are developing an advisory centric model leveraging our research credentials. Now I should take up major cost heads. For the quarter our operating cost was Rs. 64 crores a decrease of 13% quarter-on-quarter and 30% year-on-year. Operating cost was 9% of revenues for the quarter.

Employee cost for the quarter was Rs. 117 crores with 4% decline quarter-on-quarter and 16% decline year-on-year. Other cost primarily including administration cost were Rs. 91 crores for the quarter marginally up 6% quarter-on-quarter and down 17% year-on-year. Depreciation cost in the quarter was Rs. 17 crores. Our consolidated net debt as at the quarter end was Rs. 8,095 crores and gross debt was Rs. 10,486 crores. Of this secured long term borrowing was Rs. 6,922 crores. Cash and cash equivalent position was Rs. 2,391 crores which includes fixed deposits of Rs. 366 crores and mutual fund, equity shares and bonds of Rs. 915 crores. Our gross debt-to-equity ratio was 4.86 times as of the quarter end and net debt-to-equity ratio was 3.75 times as of the quarter end.

I now leave the floor open for any questions.

Moderator Thank you very much, sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria My question is on the gold loan business. One, is it the first time that regulation has been favorable for with the gold loan business. So how do you see your gold business panning out in the next four or five quarters. That is one and second is so are we now pushing more and more non-gold products also in our branches? There are two questions.

Nirmal Jain So the gold loan business I think will continue to grow in line with other businesses. Last three quarters the business was not growing and in fact has also fallen in absolute terms, in terms of book size. But as a strategy we want to focus more on mortgage and home loan business. However, this relaxation is important not only from the point of view that the loan value becomes higher but more from the point of view that RBI no longer views this as a negative risk kind of asset class that they want to discourage but they have taken a more pragmatic approach to this.

So in terms of our strategy we will continue to grow all the businesses and my guess would be that it should grow more or less in line with growth in other businesses.

Digant Haria So around 30% of loan book from gold is what we should expect in the coming quarter?

Nirmal Jain Yeah, I think we should try and maintain at that level only.

Moderator Thank you. We have the next question from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar Just wanted to know the recent public issue what is the wallet cost which was incurred on the issue and how much you had expensed in the P&L?

Amit Mehendale The cost for the issue was Rs. 10.8 crores for the housing finance company and since the issue is for 5 years the cost is spread across 5 years.

Ritesh Nambiar So quarterly you would have taken a quarterly run rate in this quarter?

Amit Mehendale Yes, that is right. But in fact is also taken on a monthly basis not just on a quarterly basis. So to that extent the issue concluded in December.

Ritesh Nambiar So actually just on that issue only the cost of funds overall has in fact inched up 20 odd basis so where do you think so it would stabilize in the coming few quarters?

Amit Mehendale As we have also said in our investor communication, this quarter, marginally higher cost is on account of incremental cost of CP rollover. So some of the CPs got rolled over at September quarter end when short term rates were higher. Now we expect the cost to go back to our earlier level which is around 11.8%

Nirmal Jain Actually it is very interesting. While the REPO rate has been taken up but the short term like CP rates are now around 9.5% which are now much lower than during the early part of the year. Also we got our long term money from bond issues, so HFC we raised it by around 11.5% coupon. So all I think all put together we should look forward to a fall in cost of funds in this quarter. There may be securitization transaction of our priority sector book which can happen at 10% to 11%. So the weighted cost to fall further.

Ritesh Nambiar Sir, lastly on this distribution income business the Q4 being a good quarter for this business where do you think so this Q4 would it be the same as last year or much better?

Nirmal Jain It is very difficult to make a forward looking statement but you are right that seasonal business in last quarter is always better business and Q3 was unfortunate for us because we lost out almost more than a month on the IRDA license renewal delay.

Ritesh Nambiar And sir, just on a broader term in fact most of the segments now in this cycle within the NBFC and HFC phase the mortgage has actually played out versus any other segment as far as risk adjusted return is concerned. So do you think so in the long run mortgages do you foresee any pressure in this segment because most operators are trying to hedge their business by being aggressive in this business?

Nirmal Jain Mortgage again is a very wide subject. So you can fund high value apartments in South Mumbai or affordable apartments in the outskirts of small town. And the way we look at it I think we have all India presence and a very fairly disbursed and diversified book, both geographically as well as segment wise. So if you are not catering to the top end of the market where there has been lot of bubble pressure last few years, this sector should be much better asset class than any other asset class over the next 5 to 10 years very easily. Because people, when they own a house there is emotional attachment and this is the last thing they want to lose in terms of whatever commitment they have. So mortgages will always, I think, be a better performing asset class.

Ritesh Nambiar Any clarity on the banking license by any chance?

Nirmal Jain Actually we know as much as you know because everything that we know is from newspapers and media.

Moderator Thank you. We have the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe Just a couple of bookkeeping questions from my side. What would be the insurance premium mobilizations during the quarter?

Nirmal Jain Rs. 32 crores.

Nischint Chawathe And if I look at the distribution income of Rs. 96 crores I mean what component of it because I think last quarter you have given a rough idea as to how much of it comes from wealth and how much of it comes from insurance. So how should we look at it this quarter?

Nirmal Jain So this quarter insurance was much lesser. What happened is we had our broking license renewal which was ultimately done on 19th November but there was a delay in between the time period when we could not log in any business. And that is why the number is so small. In fact otherwise it was in the range of Rs. 45 crores to Rs. 50 crores at least. So this time the relative share of mutual fund, Wealth Management Advisory would have gone up in the overall income component.

Nischint Chawathe And if we look at I mean what could be the equity broking income for the quarter?

Nirmal Jain See the total broking income is around Rs. 82 crores. So significant part of it is equities.

R Venkataraman Commodities have come down very significantly.

Nischint Chawathe Can you share the number because we have been sharing it for last two quarters?

R Venkataraman So to give you a breakup of the Rs. 82 crores which we have close to about Rs. 74 crores on account of equity brokerage and the remaining is commodity and currency.

Nischint Chawathe Just going on further on the Finance business what could be the provisioning cost for the quarter?

Amit Mehendale Rs. 11.85 crores.

Nischint Chawathe And borrowings on balance sheet?

Amit Mehendale Total borrowings consolidated is Rs. 10,031 crores.

Nischint Chawathe And cash?

Amit Mehendale Cash is Rs. 1100 crores. See this included the housing finance money which we raised.

Nischint Chawathe Okay, it was just raised so that is something which is lying we will utilize over a period of time. In terms of guidance for growth in the NBFC business I mean how would you look at it? I believe you did say that gold loan business will move in line with the other segments but broadly I mean what kind of guidance should we make? I mean how should we see the business going?

Nirmal Jain See the loan book has been static in last quarter so obviously that is not the scenario which will continue. So capital market and gold loan component did not grow. So I think we should target to grow the book on an annual run-rate basis around 20% to 25%.

Nischint Chawathe So across all products this is the kind of growth that you would want actually?

Nirmal Jain That is right.

Moderator Thank you. We have the next question from the line of Rishindra Goswami from Locus Investment. Please go ahead.

Rishindra Goswami Just a quick question on there has been a little bit of a NPA pickup so just wanted to understand where the slippage has come from and what was the slippage for the quarter?

Amit Mehendale Well, it is on account some cases in mortgage.

Nirmal Jain Yeah, in fact, this is in line with the market conditions. So there is some stress in mortgage primarily but we believe that it is not so significant there is nothing to panic or alarm kind of a situation. So the number of cases that become delinquent have gone up and the gross NPA also has moved up to 0.8% level but my assessment would be that these things will correct itself very soon. As we are already seeing, the sentiment is improving and things will be back on track. So there are few cases where the customers is under some sort of stress and they are not able to meet their commitment for one or two quarters but the value of collateral is fairly sufficient and in most of the cases customers intent is not in question, it is just the ability which is temporary.

Rishindra Goswami I see so you expect them to kind of get current again?

Nirmal Jain In the next one or two quarters, yes.

Rishindra Goswami But in terms of just the number what was the slippage for the quarter?

Nirmal Jain If you see the gross NPA it moved up to 0.83% from 0.6% last quarter. So we have given the absolute number of gross NPAs also.

Dhruv Jain Yes, it is Rs. 83.5 crores compared to Rs. 66 crores last quarter.

Rishindra Goswami Right, so the entire the difference two is the slippage you are suggesting?

Nirmal Jain Yes, this is primarily mortgage but there will be some gold loan cases also where interest is not paid in time and they go NPAs.

Rishindra Goswami And just one more question on the provisioning cost. Is there any provisioning that you took towards the NSEL related exposure of your clients?

Nirmal Jain As we have said we do not have any exposure ourselves and the client exposure we will never take position. That way we have daily turnover of Rs. 4000 crores and many clients lose money and gain money. Obviously the broken in question cannot be expected to make provision for that. So we have not funded anything and we also do not have any proprietary exposure and also now the new thing that has come up is that there are some brokers who took positions on their book and then they down sold it to clients but in our case we do not have any such situation also.

Rishindra Goswami But I think last you had shared somewhere Rs. 200 crores plus type number that your clients had kind of?

Nirmal Jain Yeah, that is the client exposure and the client has paid money for that before taking that exposure.

Rishindra Goswami Just last thing was can you share what portion of the loan book is towards that real state NCDs and developer loans?

Nirmal Jain It is around 15% of the book.

Rishindra Goswami And any stress that you have seen there or everything is performing as per your expectation?

Nirmal Jain No, it is performing quite okay. So we are not concentrated in any one area but it was fairly disbursed all over the country. And till now, touch wood, there is not much stress there.

Moderator Thank you. We have the next question from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.

Vinay Shah Sir, first question is in IIFL Finance. In IIFL Finance our share capital has increased to Rs. 372 crores from Rs. 237 crores so was there any capital infusion in there?

Dhruv Jain No, I think if you are looking at the total balance sheet which is a consolidated balance sheet and in the consolidated balance sheet housing finance company was capitalized where the parent had put in money Rs. 135 crores. So if you adjust for that you will get the number.

Nirmal Jain So actually the Housing Finance Company has been capitalized by the listed entity so that is why the consolidated as well has gone up.

Vinay Shah So the HFC has been capitalized by India Infoline Limited?

Nirmal Jain That is right.

Vinay Shah Not IIFL Finance?

Nirmal Jain No, India Infoline Limited also and partly by IIFL also but the increase that you see on the consolidated is because of the parent company infusion.

Vinay Shah Second question on the standalone financials the employee cost has increased quarter-on-quarter from I think Rs. 35 crores to Rs. 42 crores. So any specific reason for this increase in this quarter?

Dhruv Jain Yeah Vinay, see in this particular quarter we had a shrinking of business and number of employees actually were retrenched. So these are all one time settlements which have been done for various employees in this standalone business, the broking business. So that is why the cost has actually gone up.

Vinay Shah The next question is because standalone top-line is down largely on account of low volume in the currency and the commodity business. Is it the correct understanding?

Dhruv Jain That is right, yes.

Vinay Shah So how do we see this thing going forward the run rate of standalone top-line?

R Venkataraman Yeah, actually if you look at it the imposition of commodity turnover tax from first of July has impacted commodity exchange volumes and then the currency exchange volumes are impacted because of Reserve Bank of India's imposition of limit on open position in currency futures. So going ahead I think we are seeing this bottoming out and as and when RBI removes the limit on currency futures, I think, volume should come back in the currency segment. Coming specifically to the point on cash market front yes, retail investors are still away from the market and as and when the overall market picks up and we see action coming back to small and midcap counters we will see cash delivery volumes pickup on the capital market front also. So overall I think we are going through I would say a period of sustained head winds and things can only get better from here.

Vinay Shah As Dhruv mentioned that there were employees retrenched in this quarter so these employees pertain to which segment?

Nirmal Jain They are mostly broking but normally retrenchment is based on performance.

Vinay Shah And in one of the remarks you mentioned that the capital market business is going for restructuring and it is more of an advisory kind of thing. So can you elaborate this capital market covers the entire commodity, currency, broking and Wealth Management and how things will change?

Nirmal Jain Actually so what has happened in this business is very small investors who have been trading Options & Futures we are discouraging them and we have not giving leverage because our experience of last so many years is that the small customer when they trade they make money or when the trade in option they burn out very fast and they lose money. So our focus on not just execution of services for broking but more looking at some renewal side of the customer and focusing on the advisory part of it. The direct equity we believe is a product for the investors who have at least some reserve amount of money and understand the market. So what we are doing is that smaller investors we are just trying to direct them to mutual fund and insurance products and not into directly equity. And we will also strengthen our research and advisory support all over the country. So first we setup advisory and the qualified advisors not only in Mumbai but also in other places can service the customers with good quality research call as well as advise on portfolio sometimes including asset allocations and making sure risk and return are met.

Vinay Shah So the same would apply for our Wealth Management segment?

Nirmal Jain No, Wealth Management business has always been on the advisory platform. So Wealth Management caters to larger investments with larger customers, where the type of relationship with respect to the business is very different.

Vinay Shah What was the top-line from Wealth Management this quarter?

Nirmal Jain 60% of that FPD income is from wealth, broadly

Vinay Shah And one last bookkeeping question. In terms of branches how many branches at present would we having for capital market and for NBFC business?

Dhruv Jain The non NBFC branches are about 250 right now.

Nirmal Jain Capital market let us say around 250 here.

Amit Mehendale And NBFC branches are 1315.

Vinay Shah So any major shutdowns of branches in this quarter?

Nirmal Jain It has already happened so that way we shut down more than 100 branches in last quarter but I think now things are stable.

Moderator Thank you. Anyone who has a question at this time you may press * and 1.

R Venkataraman Thank you all for participating in the conference call. If you have any more queries you can send it to our Investor Relationship Department and have a nice day.

Moderator Thanks. We will take the next question from the line of Priya Pandya from Cogencies. Please go ahead.

Priya Pandya Just wanted to have an understanding that the recent rules which have come up about the pre-2005 notes so I wanted to have an understanding of how or whether it can impact the real estate industry in terms of the cash component or the black transactions which happened in the real estate markets. So just wanted to understand that aspect?

Nirmal Jain I do not think so. We do not deal with cash so I do not think that will have an impact that is not to our knowledge.

Moderator Thank you. Participants on behalf of India Infoline Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines.