India Infoline Limited

Earnings Conference Call for the quarter ended

June 30, 2010

July 30, 2010

Corporate Participants:

MR. NIRMAL JAIN – Chairman and Managing Director

MR. R. VENKATARAMAN – Executive Director

MR. KAPIL KRISHAN – Chief Financial Officer

Moderator Ladies and gentlemen. Good day and welcome to the IIFL Earnings Conference Call for the quarter ended June 30, 2010. Joining us on the call today are Mr. Nirmal Jain, Chairman, Mr. R. Venkataraman, Executive Director and Mr. Kapil Krishan, Chief Financial Officer of IIFL. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nirmal Jain. Thank you and over to you Mr. Jain.

Nirmal Jain Good afternoon ladies and gentleman. This is Nirmal Jain. I will give a brief roundup on the macro outlook as well as our environment for all the businesses that we operate in and then my colleague Kapil Krishan who is the CFO will take you through various line items and more details of the results for the last quarter. In terms of environment, the global indicators are again showing signs of deceleration. The growth indicators particularly in the US and Europe are mixed, the recovery may be some time away and the possibility of another accident or another event which can cause huge jitters to global markets remain real. Back home our macro fundamentals remain robust. Despite lower IIP numbers, corporate earnings growth outlook as well as outlook for the economy as a whole is fairly positive. Broadly speaking when the economy is doing well, the financial services sector should also do well.

I will take you through various segments of financial services industry that we operate in. In terms of equities brokerage, which accounts for the most significant part of our top line and bottom line, there is a significant shift in product mix from cash market delivery based turnover to futures and options. In fact in the last quarter also, we saw that cash market turnover fell by 11.6% vis-à-vis the quarter before to indicate the falling trend in the cash market. Relative share in overall turnover of exchanges has continued, whereas the same for the futures and options has gone up significantly and within that option segment is growing even faster. The impact on brokerages is not very positive because you earn higher brokerage yield on cash market as compared to futures and options. So this has impacted brokerage yield of our company as well as many others in the industry.

Our second biggest line of business is life insurance distribution. There again we are seeing a tremendous pressure on the distribution margin because regulators have moved towards capping the expenses and the commission which insurance companies can pay out. This has impacted our business marginally. However, we have taken adequate steps to reduce our cost and change our product mix. Last quarter performance was fairly satisfactory because we had significant increase in our insurance income on a yoy basis.

The third most important business is wealth management. This business is seeing significant growth, but I must say that it's intensely competitive – a number of new players including foreign banks with wealth management units in India have entered the industry. However, we have good traction and we remain very positive on this business from medium to long term perspective.

Next business which again is very important for us is the financing and lending business. This business will see steady growth as the loan book improves. We are fairly cautious in terms of quality of our assets and therefore in this business we will see a steady growth over times to come. In terms of our funding, significant part of our book is funded by equity, but this distortion will get corrected as we keep growing our book. The small part of funding that we need from borrowing, we have been funding through short term sources and there the interest rates have gone up in this quarter vis-à-vis the previous quarter. Also, keeping in mind long term growth of this business we have substituted a part of our short term borrowings with long term loan of 3-4 year tenure and that has increased the cost. With these comments I will hand over to Kapil who will take you through details of our previous quarter performance. Thank you.

Kapil Krishan Thank you Nirmal. Good afternoon friends. 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 provide 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. The actual result may vary significantly, the accuracy of completeness of these expectations therefore cannot be guaranteed.

For the quarter ended June 30, 2010, our total income was Rs. 3.06 bn which was up 28% yoy and marginally down 1.2% on a sequential basis. Our profit before tax for the quarter stood at Rs. 653.2 mn a decline of 20% yoy and 17.5% sequentially. Our net profit after minority interest was Rs. 431.4 mn down 16.5% yoy and 17.4% qoq. Our EBITDA margins for the quarter were 35.6% compared to 33.2% in the previous quarter. Higher interest costs have resulted in a net profit ratio of 14.1% for the quarter compared to 16.9% in the previous quarter.

I will now present a review of each of our various businesses and costs. For the purpose of reporting, we have consolidated our income heads into three logical segments. The first is equities broking and related income. This includes equity and commodities brokerage, investment banking and wealth management income. The second segment is our fund based financing and investment business. The third is our third party distribution and marketing business which includes distribution of life insurance, mutual funds, and other financial products and also our online marketing income. The first segment is equity, broking and related. The revenue of this segment was Rs. 1.54 bn in the quarter, a marginal decline of 3.9% yoy and 6.3% qoq. This segment constituted 50% of our total revenues in the quarter. Our average daily turnover in equity brokerage for the quarter was around 43.5 bn, an increase of 35% yoy and 18% qoq. Our market share on the NSE was up marginally to 4% in the quarter. Overall yields declined as the share of futures and options segment in the overall market turnover increased to 84% in Q1 compared to 80% in Q4 of previous year and 72% in Q1FY10. We are now present in over 2,500 business locations of which over 500 are our own branches. The number of our broking customers increased by 8% over the previous quarter and 28% yoy to over 0.85 mn. We have recently secured membership of the Colombo Stock Exchange; this is further to the membership we got in the Singapore Stock Exchange in the previous quarter. As we mentioned in previous conference calls as well, we do not divulge the share of our retail and institutional broking business.

In commodities brokerage, our average daily turnover was Rs. 5.2bn up 45% yoy and 12% qoq. We have an overall 1.8% market share in this segment. Our merchant banking business was constrained due to overall weak conditions for IPOs. During the quarter we were the sole Book Running Lead Manager for the Rs. 744 mn Talwalkar Better Value Fitness IPO. We were also lead managers for the Rs. 11.5bn Videocon rights issue and syndicate member of the 2bn Parabolic Drugs IPO.

Going on to the financing segment, the income for the quarter was Rs. 1.09bn which was up 91% yoy and 13% sequentially. This segment constituted 36% of our total revenues in the quarter. The overall loan book grew by 3.28bn in the quarter and was Rs 19.6bn at the quarter end. The book is evenly split between consumer finance and capital market products. Net NPA on the overall portfolio were much below 1%, which reflects our credit quality and risk processing. Our focus on this business will remain to be retail lender and to focus on disbursing secured loans. We also launched a gold loan product in this quarter which will be scaled up gradually.

Going on to distribution and marketing, the income from this segment was Rs. 417mn which was up 110% yoy and down 13% qoq. This segment constituted 14% of the total revenues. First year insurance premium mobilization in the quarter was Rs. 642mn which was up 67% yoy. We now distribute life insurance products for most of the principals and we continue to grow our business with them. The life insurance industry is going through a period of readjustment caused by regulatory changes and that may have an impact on our first year commissions in the short to medium term.

Going on to cost, the direct cost for the quarter was Rs. 477 mn which was down 5.5% qoq and up 25% yoy. Direct costs were 15.6% of the consolidated revenues compared to 14.9% in the previous year.

Employee costs were Rs. 919mn for the quarter down 5.4% qoq and up 43% yoy. Employee costs were 30.1% of consolidated revenues. There is an overall pressure in employee cost due to rising competitions and also inflation in compensation levels.

Our administrative costs were Rs. 572mn in the quarter down 3.3% qoq and up 45% YOY. They were 18.7% of revenues in the quarter. Interest costs for the quarter were Rs. 283mn compared to Rs. 118mn in the previous quarter. There were 9.2% of the consolidated revenues. Our average cost of funds in the quarter was up 230 basis points to 7.75%. This increase was mainly due to higher borrowing cost on our short term borrowing due to tight liquidity conditions in the money market. We also added higher cost long term secured loans to our overall borrowings to fund the growth in the mortgage lending business.

Going forward we expect interest cost to rise in line with the overall growth in this business. Our consolidated debt as at the quarter end was Rs. 14.68 bn. Of this secured long term borrowings were Rs. 5.9bn. Cash and cash equivalent positions were Rs. 8bn at the end of the quarter resulting in a net debt of Rs. 6.68bn and a net debt to equity ratio of 0.4 times.

Depreciation cost in the quarter was Rs. 154mn. During the quarter we shifted to our new corporate headquarters to Kamala Mills, Lower Parel and we continue to incur capital expenditure to expand our infrastructure and our technology.

In terms of outlook, our Q1 margins were impacted due to low revenue growth in the broking segment and higher interest costs. We however remain sanguine about the prospects for the rest of the year. We expect equity markets to improve and we also expect growth in our financing business to drive our income growth. With this we leave the floor open for any questions that you may have for us.

Moderator Our first question is from the line of Jinesh Gopanni of Axis Mutual Fund. Please go ahead.

Jinesh Gopanni I just wanted a clarification on certain rumors which are in the market regarding our team from the institutional side going to BNP Paribas or Barclays, as that is the major piece of our business now, so if you can highlight that. And I just wanted to know our 4% market share - would it be a top 10 kind of a thing? Where do we stand in terms of the ranking?

Nirmal Jain Rumors are completely baseless actually, I also heard them and I find them amusing, but in fact there are some rumors about me and Venkat leaving too. But as a matter of fact this team that runs our institutional business has not exercised their options which are vested. And in fact they will be working hard on building up our international business also. So I can say that these rumors are completely baseless and there is no point in wasting time on this.

Jinesh Gopanni Okay, but do you see the conversion happening or why it is not happening, any specific reason for that or any timeline for that?

Nirmal Jain They have a right to exercise which is significantly longer. Part of the ESOPs are vested, so they have time and they will do so over a period of time because otherwise you will unnecessarily block your fund and you will pay the tax immediately.

Jinesh Gopanni What is the timeline…?

Nirmal Jain I think that our ESOP scheme allows up to 7 years for them to exercise

Jinesh Gopanni Okay.

Nirmal Jain So the rumors are completely baseless. Coming to your top 10, we must be amongst top 3 players in all the segments that we are operating in.

Jinesh Gopanni So then the 4% market share is sort of top three kind of thing?

Nirmal Jain Yes it should be because in this 4% market share also we don’t have any significant proprietary or arbitrage, so it is almost entirely client turnover.

Jinesh Gopanni And just going ahead, do you see derivatives continuing to be the largest pie for the market, as you said it is 84%-85%?

Nirmal Jain Yes, actually it is almost close to 90% for the market and it may move up few percentage points up or down.

Jinesh Gopanni And on the Sri Lankan subsidiary, just wanted to take the update on how big that would be an opportunity or how do you intend to play that?

Nirmal Jain Yes, I think this is a very exciting opportunity for us and we have been investing in setting up our operations in some of the Asian countries - we have a setup in Singapore, now we have setup in Sri Lanka. We will leverage our capabilities to do research as well as our understanding of broking equities and investment banking business. We think that these are smaller niche markets where we don't have much competition from the developed world and they have significant potential to grow. We had a Global Investors Conference also in Colombo which was very well attended and had a very good response from corporate as well as fund managers.

Jinesh Gopani Okay thank you very much.

Moderator Thank you. Our next question is from the line of Pankaj Agarwal of Execution Noble. Please go ahead.

Pankaj Agarwal Can you give the breakup of this equity brokerage and related income, how much came from equities, pure brokerage?

Nirmal Jain I am afraid, I won't be able to do that.

Pankaj Agarwal Okay. And were there any loan write-offs in this quarter?

Nirmal Jain Our loan provisioning is as per the guidelines; in fact we have more conservative approach. There are normal provisions and write-offs in the normal course of business but they are nothing extraordinary.

Pankaj Agarwal Yes because I remember in the last two quarters, they were in the range of 5-6 crores.

Nirmal Jain Yes that's right so that kind of trend will continue.

Pankaj Agarwal So they were still in this range?

Nirmal Jain They will be still in this range, because if you look at it in proportion to our overall book size which is now close to 2000 crores then it's very insignificant decimal percentage of that. But that amount will continue in every quarter.

Pankaj Agarwal In terms of the impact of new IRDA guidelines on your insurance income, do you see any significant effect after September, once these guidelines come into force?

Nirmal Jain The new guidelines of IRDA have come and will be effective after September. We have been in active consultation with all the manufacturers and we have not got a clear-cut feedback from them on what exactly is going to be the impact. All of them are still redesigning the product and it's on the drawing board stage. So as and when we get clarity we will be happy to share that with you.

Pankaj Agarwal Okay.

Nirmal Jain I will just add, if you see our last quarter, the insurance business has recovered quite significantly and I would feel that going forward also when the margins come under pressure and the guidelines become tighter, a number of stronger players will get consolidated and that would make life simpler for more serious long term players. In the last 2-3 years we have been experiencing significant inflation in the wage cost primarily because of many players trying to poach the same set of people. I think that trend is now settling down and that will have a very good impact. I am personally quite hopeful that these regulatory changes should help larger and longer term players.

Pankaj Agarwal Okay. And finally, on your strategy on gold loans, how are you trying to do this business - in some metros or on pan India basis?

Nirmal Jain We will do it pan India basis, because we already have a footprint in more than 500 cities, so we will be expanding pan-India. As of now there are just few branches because we have just started this business, I think it will take time, but as we keep getting larger, we will expand it all over the country.

Pankaj Agarwal And in the last quarter you had mentioned the board has approved an issue of new capital, so any plans to raise equity in the near future?

Nirmal Jain Last quarter if you go back to our conference call then I had said, we have an enabling resolution and we don't have any plans to raise capital. This enabling resolution will allow us to raise capital whenever the need be and will help the board to act quickly in response to environment whenever there is an opportunity. Currently we don't have any plans to raise capital.

Pankaj Agarwal Okay thank you sir and that's all from my side.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Paras Nagda of Enam Holdings. Please go ahead.

Paras Nagda What is the broking yield for the quarter and yield on the loan book?

Nirmal Jain Broking yields for the quarter has come down marginally – it is on 5 basis points. And gross yield on the loan portfolio is between 14%-15%.

Paras Nagda Okay, that's it.

Moderator Thank you Mr. Nagda. Our next question is from the line of Shrey Loonker of Reliance Mutual Fund. Please go ahead.

Shrey Loonker I just wanted to get some sense, how are we seeing the retail market - customers have grown on a sequential basis on the retail side. Are we still seeing absolute numbers in the retail industry growing or still it is land graph situation? Second, given that you are closer to the retail investor, how do you see the tilt shifting back in favor of cash, how does a typical cycle move in your view?

Nirmal Jain I think it's a good question and I will just try and give my opinion, but I don't have any empirical data or analysis to back it. I think one is that the retail growth is a secular trend because in India, penetration is very poor and as number of advisors keeps increasing from all the broking house and they reach out and they convert clients, we will see numbers growing. But, unless market shows a very clear positive bull market, people tend to be very jittery and they tend to do more intraday trading and more derivatives trading where they don't want to hold position for a long term. What happens with derivatives is that your brokerage rate is low but if you continuously roll over then, every time you roll over there is a cost, so normally people who want to hold for longer term wouldn't go for that. But today's environment is such that people are worried that something will go wrong in the US, Europe and the whole market can crash again, in fact the market rallied from 8000 to 18000 and the entire rally happened without much retail participation as such, either through mutual fund or through equities, so now at this high altitude customers are jittery. So I think the entire shift back or at least some positive movement towards delivery base turnover will happen when people see a stable market with a positive outlook and there is nothing scaring them whether on a global front or maybe local political or economy front. So maybe in the stable kind of environment and once the rally gathers momentum then you will see more retail investors coming in. But at this point in time, I think the trend will continue with dominance of derivatives.

Shrey Loonker Right and are we seeing the secular growth story actually playing out in terms of the entire market improving, if there is some statistic that you can perhaps share in terms of retail investors, how are the retail investors growing, the demat accounts, how are those growing in the system, so as against 8% quarter-on-quarter growth for us…

Nirmal Jain No actually maybe the growth has decelerated as far as industry is concerned and you see a spike when there are large IPOs but at this point in time growth to my mind is positive, it's fairly good, but it is not what it's supposed to be. I think this is not a sustainable growth that you see. But I think volumes will pick up, volumes are all friends with the market trends, when the market is stable, positive outlook you see volumes are picking up.

Shrey Loonker Right but from customer account level, we can expect a 20%-25% growth, right?

Nirmal Jain In number of customers yes.

Shrey Loonker Okay. Thanks, that's all from my side, thank you very much.

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

Nischint Chawathe I just missed the first part, you know what you said is that the distribution and marketing income primarily comprises of the insurance business?

Nirmal Jain Yes.

Nischint Chawathe Any other items which will be significantly part of it?

Nirmal Jain We have three groups there, one is broking; the second part is distribution and third is funding. Third party distribution also includes mutual fund, RBI bonds etc.

Nischint Chawathe And wealth management?

Nirmal Jain In wealth management, it again gets divided. Income coming from mutual funds will get consolidated in third party distribution, income coming by way of brokerage or equities will be taken in equities, brokerage and related, income coming by financing will come in the financing section.

Nischint Chawathe Okay so basically it will be completely stripped off within the three items?

Nirmal Jain Yes that is right.

Nischint Chawathe Okay. Any specific reason why the regrouping has been done this quarter?

Nirmal Jain It is in line with peer group. If you look at all our competitors then their businesses are also presented in a more consolidated way rather than putting every small business separately.

Nischint Chawathe Okay fine thanks.

Moderator Thank you. Our next question is from the line of Deepak Agarwal of India Bulls. Please go ahead.

Deepak Agarwal just wanted to know our employee costs have gone up 43% yoy so should we take this Q1 number and annualize it to get a full year number?

Nirmal Jain No, our employee cost has been going up for last few quarters as we are expanding our businesses. So if you look at quarter-on-quarter there is a marginal change, I mean it is flattish.

Deepak Agarwal Q1FY10, versus Q1FY11 has gone up from say 64 crores to 91 crores?

Nirmal Jain Yes that is right, but from Q1 it has gone up in Q2 from Q2 it has gone up in Q3 and Q4, but now there is a small decline versus previous quarter. So we have been expanding our operations in terms of wealth and international businesses. There are also salary increases which are ongoing, so all these things put together.

Deepak Agarwal So on a conservative basis, should we take it like this would be the bare minimum for the full year?

Nirmal Jain I think yes. The employee cost is something which you pay every month, so I think this is what is the cost on face of the company.

Deepak Agarwal So current run rate should continue?

Nirmal Jain Current run rate is similar, that is what we will continue with some small changes here and there.

Deepak Agarwal Right and can you also tell us about scale-up of the Singapore Fund Management business?

Nirmal Jain Singapore fund management business is new, so it will need to get some track record before it can be scaled up significantly, but we are getting some traction and some recognition there in terms of performance.

Deepak Agarwal Okay. Any numbers to share, what are our plans in 2 - 3 years?

Nirmal Jain I think it is very difficult in this industry to share or actually have a target number for next 2-3 years.

Deepak Agarwal And how about the gold loan business, what is the strategy and how do we plan to scale it up?

Nirmal Jain We actually have exited the unsecured lending business which is becoming a smaller part of our portfolio over a period of time. Now it's only 4% of our total portfolio. So what we have decided that newer businesses will focus more on secured lending and given our thrust on retail, this is one product that looks good for building from long term perspective.

Deepak Agarwal And this would be like completely independent branches?

Nirmal Jain No, we can use the same branches.

Deepak Agarwal Okay. Thank you sir.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Ramnath V of Birla Sun Life Insurance. Please go ahead.

Ramnath V Just wanted to understand your strategy on the asset financing front, how exactly do you see this business scaling up and what are the key products that you will be focusing on?

Nirmal Jain On the asset financing business as we disclosed in the previous conference calls also, we will focus more on the secured lending businesses which are primarily secured against house, properties or stock, shares, promoter holding, etc so that will be key focus of the company.

Ramnath V Okay. So it will be like loan against property and now gold loans also

Nirmal Jain Loan against property, loan against shares, loan against residential units, commercial unit, loan against share securities, debentures, etc.

Ramnath V And now even against gold that is…

Nirmal Jain That's right.

Ramnath V What will be the growth rate that you would be targeting here because some of the companies that have reported numbers have shown good growth? In terms of the overall volume loan growth, what is your target in mind and how do you see that spanning over the next two three years?

Nirmal Jain I think steadily. If you see last quarter its 15% growth per quarter, but again it depends on the lending environment. But that's the steady growth that we can manage in terms of our risk management and our distribution capabilities. There can be variations due to IPO funding which is seasonal business but other than that we have steady growth.

Ramnath V Sure, I am looking at some of the Loan against Property and home equity kind of loans, those are…

Nirmal Jain Yes so this is the key segment that we are growing.

Ramnath V Sure thanks.

Moderator Thank you. Our next question is from the line of Anand Laddha of HDFC Mutual Fund. Please go ahead.

Anand Laddha Can you share the composition of your loan book and yield on the same?

Nirmal Jain Our loan book as I said 96% is secured, and roughly about half of it is property loan and yield is around 14%-15%.

Anand Laddha Okay and the other half?

Nirmal Jain Loan against share and several general large capital market exposures, a little lower than half will be property loans and remaining will be capital market, gold is very small of this target.

Anand Laddha Okay. Margin funding book is a part of this book?

Nirmal Jain Margin funding book, loan against shares, they are two different products but both are part of this.

Anand Laddha What sort of margins are we looking at to make on this book?

Nirmal Jain Margin, you are saying interest margin?

Anand Laddha Yes.

Nirmal Jain 4%-5% gross.

Anand Laddha Okay. And when will we be able to leverage of our capital flow?

Nirmal Jain No, we will start as you can see that from zero leverage now we have reached on the net basis point for leverage so I think the leverages keeping going up.

Anand Laddha Okay and any number or any target on the full year basis on the leverage side?

Nirmal Jain At least it will go 2-3 times in next 2-3 years.

Anand Laddha Okay thank you.

Moderator Thank you. Our next question is from the line of Shrey Loonker of Reliance Mutual Fund. Please go ahead.

Shrey Loonker I just wanted to get some sense maybe after this new ULIP guidance has come, I am sure people are figuring out how it's going to work out, but after the cap-on charges that came in last year December, has there been any dialogue initiated by any of the insurance companies to claim down commission rates and have we seen any of it actually happening on the ground? Second question, Kapil if you could just give me how our average cost of funding and incremental cost of funding moved quarter-on-quarter?

Nirmal Jain Yes there is a continuous dialogue with insurance companies and we are looking at a product mix that can sustain margins. But there is lot of uncertainty on how cap on charges will work, so without that it will be very difficult to comment how things will shape up. But as a company we are focusing more on non-ULIP products which are endowment products and assured products. And the second question was, in fact Kapil mentioned in his description that our cost of funding has gone up to around 7.8% from 5.5%.

Shrey Loonker Quarter-on-quarter?

Nirmal Jain Yes quarter-on-quarter because we have taken some long term funding for 3-4 years which is higher cost and also the short term rates have moved up.

Shrey Loonker I see, okay. I am talking about the cap-on charges that came in last December. If you could just give us a sense what kind of a percentage decline in commissions per se on a new premium basis would be there? From an insurance perspective.

Nirmal Jain See actually this was a confidential issue we can't tell the exact decline in the commissions but needless to say there were marginal declines in the commission, nothing significant.

Shrey Loonker Could just give us a sense on the traditional side, how do you see the customer behavior when you sold ULIPs to them and for the same product, for the same customer if you go with a traditional how is the behavior different, how is the reception different?

Nirmal Jain Quite different. Also we will have to change because for your traditional products typically you have to pay premium for 15 years, so you would normally have a long term saver from a lower middle level and the premium amount typically is lesser. ULIP linked products are more like mutual funds more linked to stock markets whereas traditional products have nothing to do with stock markets or the overall performance of the year. So it is also not transparent to the unit holder or the policy holders that how this corpus is building up. I think it's very different, so when you look at traditional product, they are more like fixed deposit bank kind of, they are not equity kind of products, their more of the people invest for protection for security and for long term results.

Shrey Loonker Right but I just want a perspective; given that a traditional product will be savored by a person who genuinely wants insurance would it be fair to say that the intensity of push is also required less there by justifying lower premiums there?

Nirmal Jain No, actually it's the other way around, because traditional products typically are with a higher commission, see what happens, how people easily buy mutual funds because they are liquid and you can exit any time. But if I were to sell you a product where I say that you have to pay premium of 15 years and for some reason if you stop paying premium then you have a huge loss in terms of surrender charges, then it becomes very difficult. Normally, it is very difficult for people to agree to a long term commitment.

Shrey Loonker Right and on our ULIP customers what would be the renewal rate or persistency rate we would have seen for our customers that you have sourced for ICICI Prudential?

Nirmal Jain Renewal is different from the persistency, persistency is where customer continues to pay premium and doesn't withdraw or doesn't get out of it, so our persistency I think is probably among the best in industry because we have sold products with more clear understanding with the customer that he has to continue the entire premium term otherwise he tends to lose.

Shrey Loonker Okay that's quite helpful thank you very much.

Moderator Thank you Mr. Loonker. Our next question is from the line of Nischint Chawathe of Kotak. Please go ahead.

Nischint Chawathe This is pertaining to the financing business I understand that you are also offering home loans somewhere in the range of 8.25% and two year home loans at 9.25%, so I am trying to understand the strategy and what is the spread that you really expect to make in this business and what if the rates are so competitive what is the kind of volume that you expect from such products?

Nirmal Jain Yes this is the product which number of our competitors have offered including State Bank of India, HDFC, and also some of the NBFCs. Now the way they do this product and the way this product is sold because these are teaser rates, so if you have to borrow short term you can actually borrow much cheaper as compared to the long term borrowing. So normally these rates are valid for one or two years and then they become floating or they get aligned to the cost of funding. And typically you can make this product good by saying that customer wants to prepay or lose then there will also be a nominal prepayment penalty as compared to traditional mortgages where it can be higher. So supposing, these numbers are hypothetical, but just to make you understand the model, I can borrow for say 5 years at 10% or 10 years at 11% then I can't lend at 9% but short term I can borrow at 6% then I can lend at 8%, so what I do is I guarantee your rate only for one year or two years and I back it with a short term borrowing. And then the rate becomes floating because two years later you don't know what the interest rate environment will be.

Nischint Chawathe I got it, but what is the spread expectation from such a business?

Nirmal Jain It will be around 1.5-2%, they work on a very fine spread, but most of this can also get refinanced by NHB because now we are housing finance company which is registered with NHB and so some of these loans are eligible for refinancing, but you have to work on a very, very fine spread on this. But typically you know these are customers gathering strategies, because once you have customers you can buy and sell different kind of products and so this actually becomes easier or product which is just for getting new customers.

Nischint Chawathe So you don't really expect this to be a flagship product or something?

Nirmal Jain Not really. This is not a product, which will get you huge volumes, but this is product which will get you customers which actually places you well in the retail markets. And also I must clarify that what happens that these rates are eligible only for customers who are AAA in terms of their credit, like in terms of their income, in terms of their employment income, in terms of their service loans, not having any other loans, having owned house and all these things. So typically as the risk increases, the actual rate may vary.

Nischint Chawathe Okay. You were speaking to one of the previous participants and you said that half your loan book is mortgages and LAP and your average will be lower than I think 12%, so going forward also I think the broad strategy is that this could be half the book and the yield over there would be around 11-12% that still holds true?

Nirmal Jain No, actually one correction here is that half the book is property loan but they are not retail home loan. So our interest rate for other property loan which can be commercial loan or loan to builders or loan against shop premises, godowns, or these things where the banks normally do not cooperate - the interest varies from 15-18%. So these loan rates of 8% are for small loans because they are small in value they will not be significant part of our portfolio.

Nischint Chawathe So the broad view, from the SBU basis mortgages and LAP - they should give you around a 12% kind of yield.

Nirmal Jain They will give around 14% kind of yield.

Nischint Chawathe Okay and that still holds true?

Nirmal Jain Yes.

Nischint Chawathe Okay. Thank you very much.

Moderator Ladies and gentlemen that was the last question. I will now hand the conference over to the management to add closing comments. Please go ahead.

Nirmal Jain Thank you very much for participating in this conference call and should you have any more questions, feel free to drop an email to either Venkat, Kapil or myself or contact our Investor Relations department. The results are also put on our website on the investor corner. Thank you very much and have a nice day.

Moderator Thank you. Ladies and Gentlemen on behalf of IIFL we conclude this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.