



India Infoline Limited

Earnings Conference Call for the quarter ended

December 31, 2010

February 7, 2011

Corporate Participants:

MR. NIRMAL JAIN – Chairman and Managing Director

MR. R. VENKATARAMAN – Executive Director

MR. LP AGGARWAL - Group Chief Financial Officer

MR. KAPIL KRISHAN - Chief Strategy Officer

MS. POONAM SARAOGI – Associate Vice President, Investor Relations



Moderator

Ladies and gentlemen! Good day and welcome to the Q3 FY11 results conference call of India Infoline Limited. Joining us on the call today are Mr. Nirmal Jain – Chairman, Mr. R Venkataraman – Executive Director, Mr. L P Aggarwal – Chief Financial Officer, Mr. Kapil Krishan – Chief Strategy Officer and Mrs. Poonam Saraogi – AVP Investor Relations. As a reminder for the duration of this conference all participant lines 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. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nirmal Jain, thank you and over to you sir.

Nirmal Jain

Good afternoon friends. On behalf of team India Infoline I welcome all of you and thanks for joining this call. I have with me my colleagues R Venkataraman the Executive Director, L P Aggarwal, Group CFO, Kapil Krishan CSO and Poonam. I will just give broad remarks on the macro environment and how we think business is proceeding and then Kapil will take over to give you a more detailed insight into all our businesses.

Friends, since we had this call about three months ago, the whole world seems to have turned upside down. Just about three months ago everything seemed very well. The stock market was doing well, FII money was pouring in, inflation may have been a concern but was not out of control, crude oil prices were low, corporates were meeting their earnings target and analysts were upgrading their targets. In just a matter of few months, everything seems to have changed. Inflation seems to become uncontrollable. The crude oil prices have started going up. Even globally things which were a bit stable have moved into a bit of a scarier zone with completely unexpected development on the Egypt front. As a result, the stock market has also corrected by almost 13% to 14% from just about time since we had our last call. And in the month of January alone if we compare cash market volumes vis-à-vis the previous quarter, they are down 16.5%. But interestingly, despite all this most India observers, analyst



and investors would still feel and believe that the long term story remains intact and there are many who are looking for opportunities to invest at right time. A three to five year scenario is still positive but the challenges for next two to three quarters are also quite serious and they can't be wished away. Globally, also we are not out of woods yet, and particularly the Euro zone will take very, very long time to recover or to get into a healthy situation.

Coming back to various businesses that we operate into, they have challenges which are beyond macro. If we first take broking, the brokerage rates or yields have been under pressure for a long time. The primary cause of this was change in product mix, with futures and options accounting for larger part of turnover, whereas cash based delivery trades which are more indicative of investors' interest in the market have been on the decline.

On top of that competition also continues to intensify. Many people would like to see consolidation happening, but we have not seen anything on that front. That coupled with challenges on regulatory front, which are becoming more stringent, and cost pressure on the salaries, wages front continue to increase.

Our other equity related business is investment banking. There was a newspaper article where we had noted that most of the IPOs have lost money and in many QIP also the story is similar. So, this does not auger well unless the market sentiments improves significantly and the market is stable for some time. We are unlikely to see revival in the sentiment or a large deal flow in the capital market segment of investment banking business.

On wealth management front, although it is a new and sunrise business which has long term promise, but there again the competition in pricing continues to be under pressure.

Our other significant line of business is financing and lending. In this business there has been significant upward pressure and interest cost which is bringing margins under



pressure. Particularly in our case till last year our leverage was very low and we were comfortable funding the small requirement of our book, which could not be met by our networth, with short term fund. But this year in the first three quarters we have consciously made sure that our asset-liabilities are comfortable and we have also taken long term borrowings that entail higher cost and that coupled with significant increase in short term interest cost, has put pressure in our margins, which is net interest margin and the spread. We define net interest margin as the difference between the total interest income and interest cost divided by assets whereas the spread which is more realistic indicator of the margins on an incremental basis is the difference between our average yield on loan book and our weighted average borrowing cost.

Now, coming to our insurance business. Many people believe that this industry has been under tremendous pressure because of regulatory guidelines particularly related to margins. But in fact the business, still significantly lower than its peak in 2007-2008, is growing positively in a healthy manner.

In terms of our international businesses, they continue to be in investment phase. We commenced our operations in Singapore Stock Exchange and as a gesture of goodwill our first week brokerage was donated to a charity there. We have started well but these businesses will take some time before they breakeven and contribute meaningfully to our bottom line.

One more important development that has happened in the last few weeks has been our buyback. We completed 100% of our buyback. We had upper limit of 104 crores, which is around 10% of net worth of our standalone listed company. That is what is permitted with board approval and we had completed that entirely.

There are many people who questioned that in the environment like this, is it a good idea to buyback and reduce the available cash and capital, but we thought over it and despite the buyback our debt equity is comfortably less than one. Kapil will share more data on this. Typical NBFCs or financial services companies will have debt equity of five



to six times. A lower debt equity while it is comfortable from lenders and credit rating point of view, it is not great news for equity shareholders because the equity capital is not leveraged enough. When we raised capital towards 2007 and 2008 the things were looking very sanguine and we had targeted to aggressively build our loan book, but since then all of us know how the financial market world over changed and we too became cautious. We have been growing our loan book and the pace has been accelerating but still at a pace that we are comfortable with in terms of creditors and I am very happy to report that our gross NPA and net NPA continue to be well below 1%. And therefore we think that a buyback, the amount of which is less than half of our current year's accrual is very comfortable to give it back to shareholders and improve our efficiency of capital.

In terms of this quarter's result, I think we have been putting our emphasis on businesses other than the ones related to the capital market. That to some extent also shows up in the results. Our financing business and our insurance business also now contributed meaningfully and going forward I think that this trend will become more visible. Although we are not immune to the capital market cycle or even the interest cost for that matter, but we have multiple revenue streams, all focusing on our core competencies in financial services, mitigate to some extent the risk which is related to one segment of business. With this I would now hand it over to Kapil to take you through financial performance for the quarter, thank you.

Kapil Krishan

Thank you Nirmal. Good afternoon friends. I will start with the equities, broking and the related income segment. The revenue of this segment was Rs.1.87 billion in the quarter, which was up 14.5% Q-on-Q and down 3.1% Y-on-Y. This segment contributed 41% to the total consolidated revenues. In equity brokerage our daily average turnover during the quarter was around Rs.62 billion an increase of 66% Y-on-Y and 34% Q-on-Q. Our overall market share on the NSE increased to 4.2% in the quarter. The share of futures and options segment in the overall market turnover on both the exchanges increased to 86% in Q3 compared to 84% in the previous quarter and 78% in Q3 of the previous financial year. The number of our broking customers increased



3.6% over the previous quarter and 20% Y-on-Y to 0.9 million. Across all businesses our total customers were well over 1 million. In commodities brokerage our average daily turnover was Rs.7.8 billion during the quarter up 79% Y-on-Y and 19% Q-on-Q. We have 2.1% overall market share in this segment on the MCX and the NCDEX exchanges put together. Our wealth management business continued its rapid growth with assets under advice increasing to over Rs.150 billion. Our investment banking team handled QIPs of three mid-sized companies during the quarter.

Going on to the financing and investment segment, the income for the quarter was Rs.2.25 billion, which was up to 276% Y-on-Y and 80% Q-on-Q. This segment constituted 49% of our total revenues during the quarter. The spike on the sequential basis is due to large IPOs and their funding on which we earned income. During the quarter income on account of IPO interest and related income was around Rs. 65 crores. Our overall loan book increased to around Rs.30 billion as at the quarter end. A net increase of Rs.5 billion in the quarter. 53% of the book was to mortgage and consumer finance segment and 47% was to capital market segment. Our mortgage loan book increased 38% Q-on-Q and our capital market book declined a bit. Our gross and net NPAs on the overall portfolio are 0.5% and 0.4% and have been around this level with the exception of the quarter ended September 30th when they were 0.8% and 0.7%. The figures in the previous quarter were however an aberration as certain interest on some capital market lending portfolio was not serviced on time and technically had to be qualified as NPA, despite us having adequate cover of pledge securities. About 99% of the loan portfolio is secured against collateral of mortgages, shares, debentures and other securities. Our net interest margin for the current quarter is 7.2% and our loan spread is 4.9% both of which are at very healthy levels.

Going on to the distribution and marketing segment, during the quarter under review our first year premium mobilization stood at around Rs.660 million up 7% Y-on-Y. Our income from this segment was Rs.471 million up 29% Y-on-Y and down 7% Q-on-Q. Post IRDA regulations there has been launch of new low cost products with lower commission rates particularly ULIPs. While this benefits the customers in the long



term, there is a short term impact on our revenues from this segment. In the long term this should however be set off by increasing volumes.

International expansions during the quarter. We commenced broking operation in Sri Lanka and Singapore. The company is donating its entire first week commissions from trading operation, on the Singapore Stock Exchange to The Community Chest of Singapore. Our second global investors' conference enterprising India II is scheduled to be held in Mumbai this month. We are expecting an overwhelming response from global institutional investors, corporate, analyst, economists and thought leaders. IIFL also received FSA license in London UK for advising on investment and arranging deals in investment for eligible counterparty and professional investors.

Moving on to costs, our direct costs were Rs.696 million in the quarter, an increase of 64% Y-on-Y and 57% Q-on-Q. Direct cost comprised mainly of sub-brokerage commission, exchange related cost and provision for doubtful debts. Direct costs were 15.1% of revenues in the quarter, marginally higher as compared to 14.9% in FY10. Employee costs were Rs.1.04 billion in the quarter up 5.6% Q-on-Q and 26% Y-on-Y, employee cost were 22.7% of revenues in the quarter. There is an overall upward pressure on employee cost due to rising competition and increasing compensation levels. Our administrative costs were Rs.660 million in the quarter up 8.1% Q-on-Q and up 27.8% Y-on-Y. Administrative costs were 14.4% of revenues in the quarter and they comprised mainly of rent, electricity, telephone and other legal and professional charges.

Our average cost of funds in the quarter was 8.5% which was up around 70 basis points compared to the previous quarter. Our short term debt program is top rated P1+ by CRISIL, A1+ by ICRA and F1+ by FITCH. We have LAA- long term rating from ICRA. Our consolidated gross debt as at the end of the quarter was Rs.25.9 billion as compared to Rs.22.3 billion as on September. Of this secured long term borrowings were 14.2 billion. Cash and cash equivalent position which include fix deposits, mutual funds etc was Rs.11.6 billion. Our current leverage is low with a net debt to equity ratio of 0.8 times and a gross debt to equity ratio 1.4 times, indicating room for further



borrowings without raising equity capital. From shareholders' point of view this indicates that ROE levels have room for further expansions. Depreciation cost in the quarter was Rs.150 million. Our consolidated net worth as on 31st December was around Rs.18 billion. With this, Friends, I would leave the floor open for any questions that you have for us.

Moderator Thank you very much sir. The first question is from Kunal Shah from Edelweiss, please go ahead.

Kunal Shah Yes, hello sir. Congratulations for the good set of numbers. Sir, on trading volume, which has gone up almost 34% quarter-on-quarter, wanted to get some sense with respect to how is it doing on the cash and F&O segment and if possible some color on what market share you have gained, particularly in retail or institutional side?

Nirmal Jain The trading volume that has gone up, has gone up in all the segments. We have also started the arbitrage desk which has also contributed to this turnover.

Kunal Shah Okay, so if we exclude arbitrage then can we consider market share to be pretty much at 4% kind of a level, what we had seen over last year?

Nirmal Jain Yes, if you exclude arbitrage, market share will have a marginal increase.

Kunal Shah Okay and sir the other thing is on direct cost. You mentioned that the two important components are sub-broker commission and provision for bad debts. There has been an increase in the direct cost. This is slightly higher than what is the increase in the equity brokerage. So, can we consider that there is some provision for doubtful debts included in this particular number?

Nirmal Jain No, I do not think there is anything abnormal on the doubtful debt which is different from the previous quarters. If you see the direct cost is a consolidated direct cost for all the businesses. Is that the number that you are referring to?

Kunal Shah Yes, 70 crores which is there on the direct cost side.



- Nirmal Jain** It is 15.1% vis-à-vis 14.9% last year. This year when we reported the numbers as per exchange guidelines we reported the interest income and interest expenditure separately. Therefore the income figure looks relatively bloated as a percentage of cost. But on a trend line basis I do not think there is any significant change.
- Kunal Shah** Okay and sir, what is the growth strategy in the consumer finance business?
- Nirmal Jain** Yes, we are growing primarily on the back of our retail network, because we have branches all over the country. We have presence in over 500 cities. Strategy there will be to grow in the tier II, tier III cities primarily. If you see this quarter also, the entire growth has come from mortgages. So, that will continue to be our strategy going forward.
- Kunal Shah** Okay and sir how is the yield on mortgage loans. We have reported kind of 7% NIMs. If we see the proportion of the mortgage loans moving, where do we see the margins in this business settling down to?
- Nirmal Jain** See, in fact the NIMs has come down and the spread also has come down, so our NIM on mortgage alone will be around 4%.
- Kunal Shah** Okay and one last question with respect to the NPLs. The provisioning is definitely much lower than 1%. But if I still see the provisioning coverage, then I think 0.5% is the gross NPA and net is 0.4, so provisioning coverage seems to be like 20%, 25% or so. So is it because there are some loans which were not serviced on time but we do not see any defaulter though it is particularly on that account?
- Nirmal Jain** No, actually over and above this we have also made a special provision of 0.25% which were on standard assets, which is as per RBI guideline. I am sure that, your firm also would have made it. Though these guidelines came at quarter end, but we have made it for the previous quarter as well. So, if you take that quarter percent and this, then the provision coverage is also adequate.



- Moderator** Thank you. The next question is from Viraj Gandhi from ICICI Securities, please go ahead.
- Viraj Gandhi** Good afternoon sir. Sir, are we seeing that the 3.9% market share we were serving in last quarter is being maintained on the business and the incremental growth has come from the treasury business, is it true to understand that?
- Nirmal Jain** No, I have answered this question that there has been a marginal increase in our market share also. Our market share without considering arbitrage business is also over 4% now. Arbitrage and treasury that we just started last quarter has not contributed significantly to turnover yet, but there is some contribution for sure, but without that also our market share is above 4%.
- Viraj Gandhi** And sir, what will be our incremental cost of borrowing?
- Nirmal Jain** Incremental cost of borrowing is in line with the market, in fact we are P1+ rated. It keeps changing everyday.
- Viraj Gandhi** Sir, the interest income of 225 crores for this quarter will be from two three angles, right one is from the loan book; one will be from the FDs that we maintain?
- Nirmal Jain** Yeah actually, you see the FDs and the cash balance that we maintain in mutual fund and other liquid assets; this is close to 800 crores to 1000 crores so you can back calculate it.
- Viraj Gandhi** Okay fine and sir any guidance for the loan book for the year end and for the next year, what we are planning?
- Nirmal Jain** No, it will be inappropriate to give guidance. But as I said earlier on the call that we will continue to grow our business.
- Viraj Gandhi** Okay and final question sir, what will be the yields for the quarter that has ended?
- Nirmal Jain** Yield in terms of?



- Viraj Gandhi** Sir, because 187 crores of equity brokerage does not constitute of brokerage alone, so back calculating it will be a wrong thing do. Because, there I am getting only 4.7 basis point of yield at 6400 crores of turnover.
- Nirmal Jain** Yes, the yield will be around 5 basis points.
- Viraj Gandhi** Okay thank you sir.
- Moderator** Thank you. The next question is from Ajinkya Dhawale from Bajaj Allianz Life Insurance, please go ahead.
- Ajinkya Dhawale** Yes, so again coming to this financing income line item of 225 crores in the quarter. Can you just give breakdown because 3,000 crore loan book with an average yield of 15% plus 1000 crore cash balance with average yield of around 9%, 10% still sum does not add up to 225 crores on a quarterly basis?
- Nirmal Jain** Can you just come back on how you are calculating it?
- Ajinkya Dhawale** No, even if I assume a 3000 crore loan book was there for whole of the quarter at average yield of 15%?
- Nirmal Jain** Yes.
- Ajinkya Dhawale** So, that gives me about 112 crores a quarter and then 1000 crores liquid cash at 10% average yield?
- Nirmal Jain** Also, as Kapil mentioned that Rs.65 crores was IPO income.
- Ajinkya Dhawale** Right and second thing again going forward how do you see these margins based on your current borrowing rates and lending rates the overall net interest margin?
- Nirmal Jain** I think today we are in a scenario where money market is exceptionally tight, interest rates are going up. The way things stands today it looks tough, it looks like that interest rates will further go up, so that would put further pressure on the margins.



- Ajinkya Dhawale** So, would we slowdown on the growth?
- Nirmal Jain** No, actually there is no point in slowing down because our NIMs are reasonably and comfortably positive, they are not exceptionally good as they were say last year, but I think business remains healthy. Also of course you re-price wherever possible and also the new loans will be at a higher rate. But in my opinion which may or may not come true, interest rates may be hardened by another 50 basis points in the next couple of months. So, that is not something in an NBFC situation which will make a lot of difference to the business growth as such.
- Ajinkya Dhawale** And question on this insurance income, this third quarter was suppose to be a painful quarter and we have seen similar kind of top line, I think 66 crores – 67 crores right on the business returns?
- Nirmal Jain** That is right.
- Ajinkya Dhawale** But the commission yields does not seem to be under pressure. So, can you just explain?
- Nirmal Jain** Commission rate has come down, the business have grown.
- Ajinkya Dhawale** Okay, but if I see 3Q over 2Q?
- Nirmal Jain** Down 7% in terms of income.
- Ajinkya Dhawale** Yes, but the commission impact is not that severe as one would have felt is that?
- Nirmal Jain** No, the volumes had gone up but still commission is down 7%.
- Ajinkya Dhawale** Okay and on the employee side, is the bonus provision prorated till December?
- Nirmal Jain** Most of our bonuses are not only pro-rated but they are also given quarterly.



- Ajinkya Dhawale** Okay, yes so one may not expect meaningful deviation from employee cost going forward?
- Nirmal Jain** Yes, actually it also depends on the discretionary bonuses which are given at the end of the year but we do not expect significant deviation.
- Ajinkya Dhawale** Correct. Okay, thank you that is it.
- Moderator** Thank you. The next question is from Pankaj Agarwal from Ambit Capital, please go ahead.
- Pankaj Agarwal** Hello sir, can you give breakup of this equity brokerage and related income between equity brokerage and at the other fee income?
- Nirmal Jain** I won't be able to share the data with you, but it includes the investment banking related income and certain part of wealth management income which is equity related.
- Pankaj Agarwal** Okay. But the sequential increase of 14% is it broad based between equity brokerage, merchant banking and wealth management or it is driven by primarily investment banking?
- Nirmal Jain** Yes, it is primarily driven by merchant banking and commodity broking also had good growth.
- Pankaj Agarwal** Okay. So it would be safe to say equity brokerage would have been flat quarter-on-quarter I mean.
- Nirmal Jain** Yes. Very marginal increase.
- Pankaj Agarwal** Okay. Thanks a lot.
- Moderator** Thank you. The next question is from Nischint Chawathe from Kotak Securities, please go ahead.



- Nischint Chawathe** Hi, my question pertains to the insurance business. Now what I understand is that APE for both the quarters that is the previous quarter and this quarter have been almost stable, as in the premium mobilization for both the quarters have been almost stable, is that a right observation first of all?
- Nirmal Jain** Yes, I think both quarter premium mobilizations are flat but income is down 7% sequentially.
- Nischint Chawathe** What I was trying to figure out was that the income decline is just about 7% so going forward is that the only decline that we are restricting to?
- Nirmal Jain** Even in the previous quarter significant impact of this squeeze had already started coming in. And so I think going forward this is the trend that you can assume. With one exception that if you can change the product mix then things can change. We didn't sell much of pension products in last quarter. So compared to industry, our cost would have been less because we have changed the product mix more in favor of traditional endowment or long term products which have better yield. Post the new regulations, typically in endowment products we will get about 30%, in ULIP product we get about 7% - 8%. And single premium product you will get 1-2%. We don't sell much of single premium and pension products.
- Nischint Chawathe** Okay. And what is the contribution of trail income in the numbers.
- Nirmal Jain** Yes, this is an important point that the trail income relatively keeps increasing and that cushions the fall in the yield.
- Nischint Chawathe** So I mean, roughly what proportion today would this be? Because I guess your business obviously increases over the years. Roughly what proportion of the number that we are looking at would be trail income?
- Nirmal Jain** I do not have that data readily but it will be approximately around 10% or so.



- NischintChawathe** Okay. So just 10% of this is the trail and still 90% of the income that we are seeing today comes in from the new business that you are talking about.
- Nirmal Jain** That is right. I don't have precise data on this but I think this is my estimate.
- NischintChawathe** Okay, sure. The second question pertains to the broking business. I think couple of weeks back we had a concall after the discussion on Money Matters Financial Services. At that point of time we said that, obviously you did a job just like possibly any other banker doing have done and hence prima facie there should not be any impact on business going forward. Having seen couple of weeks out, what is the reaction of clients. Do you really see any kind of an impact on business especially on the institutional equities side.
- Nirmal Jain** I think there is absolutely no impact whatsoever and in fact clients have appreciated that we have been transparent throughout the process and shared all the details. But the whole market has turned negative. So the deal flow has almost dried up for a different reason.
- NischintChawathe** Yeah, that's obvious for the entire market.
- Nirmal Jain** Many things are getting differed. But I think as far as the corporates or investors are concerned or all the people that we have met, I don't think there is any impact whatsoever.
- Nischint Chawathe** Okay, now on the wealth management side. With whatever happened on the Citi scam, do you see any regulatory changes for something that could tighten this skew for the industry? Because this is one industry where I guess there is absolutely no regulation or very limited regulation at this point in time. And has there been any regulatory move in your understanding on this?
- Nirmal Jain** I think regulatory moves will happen and this industry has to get regulated. And as many industry experts have also opined that there is a need for regulation. I see this as a



positive development because in this industry. It's high time that this industry gets regulated and that will help larger established player with clear policies and practices.

Nischint Chawathe But any sense you could give has the regulators initiated any dialogue with industry player.

Nirmal Jain I think SEBI may announce guidelines very soon. But we don't have any active dialogue with the regulator or anybody for that matter.

Nischint Chawathe Just one more thing on this. Is it accurate that IIFL wealth managers are now also distributing non-financial products like real estate, etc., not real estate loans but kind of real estate broking?

Nirmal Jain Yes, we have. The real estate broking and real estate advisory they are different businesses. So that is true that we have real estate experts also who have advised customers on their investment in real estate - some of them looking for capital appreciation and some who are looking for a good rent yield and parking their surplus money. We advise on all asset classes which includes equities, debt, commodities as well as gold bullion and also real estate. We have a separate product expert for each asset class.

Nischint Chawathe Okay. And just finally one data point what was the debt at the end of the quarter, I missed that number?

Nirmal Jain See the gross debt is around 2500 plus crores. But if you net of cash and liquid that we have, then our debt would be close to 1400 crores. And on our net worth of 1800 crores that would be a debt-equity ratio of 0.8.

Nischint Chawathe Okay, fine. Thank you very much.

Nirmal Jain Thank you.

Moderator Thank you. The next question is from Aparna Karnik from DSP Blackrock, please go ahead.



Aparna Karnik

Hi. Good afternoon sir. I just wanted to check your views on the real estate sector considering our large mortgage lending book. Do you see any pressures here going forward either in terms of growth or asset quality? What is your expectation and possible impact of either crunch to developers for completing projects or some kind of a liquidity problem which developers go through, do you think that or significant decline in real estate prices could impact your book in terms of growth and asset quality?

Nirmal Jain

Now these are my personal views. I think that real estate market is due for a good correction and I think this liquidity squeeze and also the cleanup of the supposedly corruptive practices that has happened with the new Chief Minister and new commissioner will definitely impact the real estate prices but only in some parts of Mumbai. So personally I am not so bearish on all India prospects because if you just get out of these small pockets of Mumbai then real estate prices are fairly affordable. I mean you can get a house for 2500 to 4500 per square foot. And there also can be marginal impact which is around 10% or so because when your interest goes up your EMI and the loan servicing capacity will be impacted. So the impact may come from the other side which is from the borrower and typically borrowers who are borrowing from banks will be impacted in terms of taking loans vis-à-vis their income. But to my mind the higher risk is segment of South Bombay or the Parel and Worli sector where the real estate prices have gone up significantly. But historically we expected this in 2008-2009 as well, which did not happen, in fact prices bounced back with a vengeance. So it's very difficult to predict. But in terms of our business there are two components. The retail business accounts for 70% of our loan book in mortgage and the corporate lending is just 30% and in corporate lending LTV will never exceed 50% which is the value of the collateral will be at least twice the loan amount. And on top of that we take extraordinary care in checking the background and credentials of builders. What will happen to my mind if at all there is a crunch and there is the liquidity squeeze as real estate sector comes under pressure then I think men will be separated from boys. There will be some reputed good builders, who understand the financial risk, they plan their finances as well as their sales and also obtain approvals in a planned manner. They will actually become stronger by default because the small players will get weeded out. I



think that is the more likely trend in this sector in next 9 to 12 months. But our endeavor is to bet on corporate or large builders who have a good track record. And also the predominant part of book is always retail which is spread all over the country.

Aparna Karnik

Okay. Thank you sir.

Moderator

Thank you. The next question is from Apporva Shah from Prabhudas Lilladher, please go ahead.

Apporva Shah

Yes, hi sir. Most of my questions have been answered but just a couple of questions on the buyback. Can you just tell me how much was bought back and what's the outstanding equity now?

Nirmal Jain

We have bought back close to 1.30 crore shares at an average price including brokerage and cost of Rs 80. So I think you should reduce 1.3 crores shares from the outstanding equity which is disclosed in our public results today or there would be a footnote also to that effect. The precise numbers of shares are there in the website.

Apporva Shah

But there is still dilution that will come in, in a year or two for warrants and some other to be diluted.

Nirmal Jain

Yes, there is a dilution pending not for warrants, but only for ESOP. And yes that would come in the next couple of years. For buyback, we precisely bought 12,998,877 shares at average cost of 79.88 which including brokerage is Rs. 80 and we almost utilized the entire amount to 104 crores.

Apporva Shah

Right. All right, thank you.

Moderator

Thank you. The next question is from Amit Premchandani from UTI Mutual Fund, please go ahead.

Amit Premchandani

Yes, good afternoon sir. Just a question on the arbitrage income, do you book it in interest income or in the equity income?



- Nirmal Jain** In terms of segment it is classified into financing and investment.
- Amit Premchandani** So it will be finance. And what portion of that will be financing.
- Nirmal Jain** It is not significant.
- Amit Premchandani** Okay. And on the insurance part this 66 crores that you have said the premium income, is it weighted average including single premium products?
- Nirmal Jain** Single premium we take 10% weighted, but I think our single premium business is almost zero.
- Amit Premchandani** Okay. Thank you sir.
- Moderator** Thank you. The next question is from Vinay Shah from Reliance Mutual Fund, please go ahead.
- Vinay Shah** Couple of questions. First is, we did launch gold loans in first quarter, so just wanted to have status as to what kind of run rate do we have on a monthly basis and what is the current outstanding book. And in the overall portfolio where it is classified?
- Nirmal Jain** Yes, as of now it is pretty insignificant, so it's not even 1% of our book. It is classified as a secured loan in the overall portfolio.
- Vinay Shah** Okay. So what kinds of disbursement targets are there for gold loans in the next one year?
- Nirmal Jain** Now see from our point of view this is a business without precedent because we are doing this business for the first time. So it is a very difficult to set a target. But we have done a lot of groundwork to understand this business and we already have a network all over the country. So we will expand the business as per opportunity. And over a period of time business will gain more significance.
- Vinay Shah** Okay. Same way can you throw some light on this healthcare finance business.



- Nirmal Jain** I think it's a new business. There also it is a very insignificant disbursement amount at this point in time. We just started couple of weeks before the quarter end. Whatever work we have done in terms of NBFC space we think that these are good businesses to be in.
- Vinay Shah** And second thing on the gearing aspect you mentioned that you could take it to six to seven times at par with other NBFCs. So I just wanted to check that what is the gearing that will be on the NBFC, what will be the gearing at the parent level?
- Nirmal Jain** I am not saying six to seven times. Initially in the next two to three years we plan to take it three to four times so our NBFC ROE can be around 18%. That's what our target is. And in terms of gearing, we will be primarily in NBFC and not so much in the parent company. I am saying going forward in the next couple of years we should see more leveraging happening through NBFC.
- Vinay Shah** Okay, fine. Thank you very much.
- Moderator** Thank you. As there are no further questions from the participants I would now like to handover the conference back to Mr. Nirmal Jain for closing comments.
- Nirmal Jain** Thank you very much for being patient and being part of this call. If you have any more queries or any more questions you can always address it our CFO or Investors Relations department. The contact details are there in the website. We will be very happy to respond to you. Thank you very much and have a good day.
- Moderator** Thank you. On behalf of India Infoline Limited we conclude this conference call. Thank you for joining us and you may now disconnect your lines.