IIFL Holdings Limited
Consolidated Financial Results – Q3FY19

Conference Call Transcript
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Management
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Mr. R. Venkataraman – Managing Director, IIFL Holdings Limited
Mr. Prabodh Agrawal – Chief Financial Officer, IIFL Holdings Limited
Mr. Karan Bhagat – Managing Director, IIFL Wealth Management Limited
Mr. Sumit Bali – Chief Executive Officer, India Infoline Finance Limited

Moderator: Ladies and gentlemen, good day and welcome to IIFL Holdings Limited's third Quarter Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you, over to you.

Prabodh Agrawal: Good afternoon everyone. On behalf of team IIFL, I thank all of you for joining us on this call. I am Prabodh Agrawal, Group CFO, accompanied by Nirmal Jain, our Group Chairman; R. Venkataraman, Managing Director, Sumit Bali, CEO of IIFL Finance; and Karan Bhagat, Managing Director of IIFL Wealth Management.
I will now pass the mike to our chairman to comment on overview of the group's strategy and plans.

Nirmal Jain: Thank you Prabodh, Good afternoon to all the participants and welcome. We can take a quick look on our economy and the sector and then come to our plans and strategy. In terms of economy, many times there are good things happening but they get clouded by sensational news which in recent times have been very frequent; obviously there are uncertainties due to elections, but if we really look at the macro fundamentals, they are getting better. Lowering of oil prices augurs well for our macro fiscal deficit as well as current deficit and in turn for inflation, interest rate as well as currency, and we have seen that the headline numbers have been fairly positive. Also domestic investors continue to invest, so it hasn't been a situation of panic. The monthly inflows can vary little bit, but regardless of the uncertainties and the environment around, domestic investors continue to believe in the capital market and support it. Even from foreign investors' point of view, as we are seeing that China's growth has slowed down to the lowest in last 30 years and in terms of investment destination, India becomes the only large emerging market economy that can absorb investments. So from foreign investors point of view, regardless of what the outcome of the elections would be, India will continue to attract capital from foreign as well as domestic investors. In this background, in the next few months there may be uncertainty because of elections but the overall outlook of the economy would remain fairly positive. Coming to our businesses, last quarter was challenging and a defining quarter, like a trial by fire for risk management policies, liquidity policies etc. and once the dust settles, the men will be separated from boys. If I look at medium to long term, then all our businesses have very strong positive outlook. I don't think anything has happened which should impact, structurally or otherwise, the growth prospects of all our businesses. As you know that our businesses are clearly divided in 3 segments and will become different entities very soon. We have IIFL Finance where our focus for growth, as I have stated earlier, is on affordable home loan, gold loan and small-ticket business loans which also includes micro finance, where again there is a focus on income generating activities. Liquidity, in the last quarter, as all of us know has been challenging, but given our credibility with the investors, our ability to securitize assets as well the maturity profile of our assets and the liabilities, we have had a comfortable transition. Prabodh will give you more details. We have reduced our CP significantly down to 10-12% which matches the liquid assets that we keep at any point in time in our balance sheet. We also don't see any significant challenge in raising resources over medium to long term and continue to grow our businesses as usual. You'd have noticed that the real estate sector has been challenged and we have seen that there is a spike in the gross NPA of our large ticket real estate or construction finance loans, primarily because now the recognition norm is 90 days, so even if there is a slight delay, the auditors insist to classify them as non-performers. More importantly, in the last quarter, because of the chaos and panic, we have seen that many end users or buyers of homes for these projects defer or have delayed in payments. But we strongly believe that our collateral is good in each and every case and we should not suffer any losses. So as things recover, I think most of these loans will be back on track and would become normal because we haven't seen any challenge in terms of quality of promoters or quality of the collateral that we have funded. But the reality of the realty sector is that the gross NPAs for the time being has spiked. Our wealth business, Karan is with me and will talk more about it but with IIFL One, we have made a decisive move towards the advisory model and we want to lead the industry transformation. The initial response of our clients has been very exciting and very overwhelming. Our Securities business again, is bit more cyclical and the investment banking activities have been at a low and may be they will continue like that unless we see the capital markets sentiments changing, but for the time being the securities business is volatile and has suffered the cyclical setback. But our focus remains on becoming more efficient in terms of cost and trying to move digitally and online as quickly and as much as possible and also as innovatively as possible. Just a very quick update on our re-organization, that is on track as scheduled, the shareholders' approval was done in December and now we have a final hearing with NCLT sometime in the mid of February, and from there a few procedural requirements will be carried out which will take a couple of months. So with this I hand over back to Prabodh and he will take you through the line items and then we will have the queries. Thank you.

Prabodh Agrawal: Thank you Nirmal.

Our Group net profit was Rs220 cr in 3QFY19, down 12%YoY and 27%QoQ.
For the 9 month, net profit was Rs869cr, up 18% YoY, and net profit after minority interest was Rs664cr, up 18% YoY.

In our NBFC business, Loan AuM grew 33%YoY to Rs36,400cr; it was flat on QoQ basis. Profit after tax computed as per IndAS grew by 6%YoY to Rs108cr. It was down 33%QoQ. Our Tier-I CAR stands at 17.4% and total CAR at 20.7%. Primary drivers of our AuM growth are small ticket home loans, which grew by 49%YoY, Gold loans, which grew by 57%YoY, small ticket MSME loans, which grew by 56%YoY and Micro-finance loans, which grew by 205%YoY, coming off a small base. On the other hand, construction & real-estate finance, LAP and Capital Market loans will continue to have declining share in our portfolio. In home loans, our focus remains primarily on small-ticket loans to the salaried and self-employed sections. The fastest growing segment in home loans is the affordable home segment, or Swaraj loans, with average ticket size of INR 13 lakhs. Swaraj loans accounted for 23% of our home loan disbursements in Q3FY19 and 15% of closing home loan AUM. Our Swaraj product is especially designed to support the informal income segment in fulfilling their dream of owning a house. As on 31st Dec 2018, we had over 7,800 approved housing projects, up nearly 1.5x from 5,500 approved projects a year back. 55% of home loans were made through these approved projects. We expect that this approach will reduce our operating and credit costs going forward, for our housing finance company. IIFL Home Finance has been a significant player in PMAY-CLSS. Till date it has provided benefits to over 19,500 customers and disbursed subsidies of more than Rs. 450 Cr.

The company is also expanding its footprint and currently has over 110 branches across 17 states. The customer base for our HFC has crossed 72000 this quarter. Retail loans, including consumer loans and small business finance constitute about 85% of our loan book. Another strong characteristic of our loan book is the large proportion of loans that are compliant with RBI's priority sector lending norms. About 53% of our HL, 54% of LAP, 83% of CV, 42% of SME and nearly all of our MFI loans are PSL compliant. In aggregate nearly 47% of our loans are PSL compliant. Our average cost of borrowings rose by 31bps QoQ and 56bps YoY to 9.0% in 3Q. Incrementally our borrowing costs rose by 75-100bps due to the tight liquidity conditions in 3Q. Presently things are improving and funding costs have declined materially from 3Q level. In a rising interest rate scenario, we are in a position to commensurately re-price our loans. 46% of our loans are on a floating rate basis. In the last six months, we have raised our home loan rates by 90-100bps, LAP, CF, CV, Gold and SME loans by 150bps and Capital Market loans by 200bps. Our NIM was at 7.1%, expansion of 50bps QoQ and 5bps YoY. 89% of our AuM comprises of loans that are secured and about 11% of loans are unsecured. We believe our AuM mix is well balanced, with some scope for the share of high yielding and unsecured assets to go up.

We currently have 1,862 branches, primarily for our HFC, Gold and Micro-finance businesses. Consolidated GNPAs and NNPAs, recognized as per RBI's prudential norms and provisioned as per Expected Credit Loss (ECL) method prescribed in IndAS, stood at 3.7% and 1.5% of loans respectively. The NPA ratios appear higher partially because the loan book has declined 11% QoQ due to portfolio sell-downs. Besides, NPAs did go up across few loan categories including real-estate finance, capital market, CV and SME. Under Expected Credit Loss provisioning under IndAS, provisioning coverage on stage 3 assets stood at 60% and on standard assets at 181bps. Return on assets for 9MFY19 was at 2.0% and return on equity at 16.4%.

Some update on liquidity – during Q3 we were able to halve the share of commercial paper in total borrowings of IIFL Finance from 24% in end Sep to 12% in end Dec. In value terms, outstanding CPs came down from Rs8,353cr to Rs3,995cr during the quarter. Our funding mix is well diversified including 16% from NCDs, 5% from sub-ordinate debt, 39% from bank term loans and NHB re-finance, 28% from securitization/assignment and 12% from commercial paper. Following the 10-year subordinated bonds raised from CDC, we have initiated discussions with other institutions to raise long-term funding. We have received good response to our public issue of NCDs. The subscription amount has crossed Rs1,100 crores and we plan to close the issue tomorrow. We have a positive ALM, whereby inflows cover or exceed expected outflows across all buckets. On the asset side, our loan book has a relatively short maturity pattern, with 25% of loans having maturity of less than 6 months and 39% of loans having maturity of less than 12 months. We had liquid investments and sanctioned and undrawn credit lines totaling Rs3,750cr in end Dec.

Little bit on Digitization – We have continued our focus on digitization encompassing every aspect of customer loan journey. Of the total 9.12 lakh loans disbursed in 3Q, 99% were on-boarded digitally. We have focused on backend process digitization through multiple innovations as well as partnerships, helping us achieve process efficiencies. IIFL Loans app had 169K downloads in 3Q, with 27K net new additions. IIFL Loans app is extended to Personal Loan customers, allowing customers to pay their EMIs and service their loans seamlessly. On Analytics – We have continued to deploy advanced analytics and machine learning techniques for customer life cycle management. From usage of credit scores in credit decisioning, to portfolio optimization, to encouraging customer loyalty and managing collections risk via a combination of predictive scoring and real time dynamic notifications. Enhanced operational efficiency is being targeted via workforce analytics, geo-expansion and branch productivity analytics. Win-back and cross-sell continue to be strong drivers of reduced customer on-boarding costs; a multi-product, multi-channel cross-sell framework that factors into account propensity as well as behavioral risk associate with exposure has been deployed. Continuing with holistic approach towards Fraud and anomaly detection from pre-disbursal to post disbursal stage, we have developed a Fraud application scorecard for the digital finance portfolio. The scorecard is capable of assessing risk for customers with a bureau foot-print as well as those who are new to credit.

Now coming to the commentary on wealth management - IIFL Wealth PAT, computed as per IndAS, was at Rs79cr. Our assets under advice, management and distribution have grown 11%QoQ and 25%YoY to reach Rs1.61 trillion. We added 40 bankers during the quarter, taking the total number of bankers to 398, to further drive the growth momentum. We now have presence in 26 locations and 9 geographies. IIFL Wealth offers a broad range of product and services to participate in a larger share of the client wallet. This includes financial products distribution, advisory, brokerage, asset management, credit solutions and estate planning. Net new money collected Rs2,633crs in 3QFY19. AIF assets grew 23% YoY to Rs14,225cr. IIFLW Finance, which offers loan against securities and margin funding to high net-worth clientele, reduced its loan book by 23% QoQ to Rs4,748cr mainly due to conscious effort to de-risk business by recalling low yielding loans and exiting from non core assets.

Capital Market – IIFL Capital Markets, which largely comprises retail broking, institutional broking and Investment Banking businesses, grew its YTD net profits by 5% YoY. During the quarter, our average daily cash turnover was down 16%YoY to Rs1,183 Cr. versus 3%YoY de-growth in exchange cash turnover. Our average daily total turnover, including F&O, was up 10%YoY to Rs16,370 Cr. Our NSE market share in the cash segment was around 3.5% and in total around 1.5%. We are continuously enhancing our offerings on digital and mobile platforms for retail customers in our broking business. Our mobile trading app, IIFL Markets has had over 2.3m downloads. Presently, about 48% of our retail broking clients trade through the mobile app. We completed 12 transactions in Investment Banking in the year-to-date and have a substantial pipeline of deals in various stages of execution.

With that, we will now open the floor for Q&A.

Moderator: Thank you very much. We will now begin 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: First my question is on this securitized book of Rs. 9,060 crores. So how much of is it in that true sale or the direct assignment format and how much of it would be in our book which will be the securitized part?

Prabodh Agarwal: So out of the Rs. 9,060 crores of total off book Rs. 1,677 crores is securitization and about Rs. 7,380 crores is direct assignment.

Digant Haria: Okay and sir that direct assignment so this number for this quarter would be how much if we just want the securitization plus direct assignments for the current quarter?

Prabodh Agarwal: It is about Rs. 5,200 crores.

Digant Haria: Okay and would your interest income have any because I think under Ind-AS you have to account everything in the current quarter itself, so how much would that component be in the interest income line?

Prabodh Agarwal: It is about Rs. 45 crores.

Digant Haria: Okay alright thanks for that. And second question you know was on Nirmal's commentary that a large part of the ALM adjustments and those things are done. I believe that maybe a quarter and more and most of that should be over, so what would be the incremental lending rate and the incremental borrowing rate for the NBFC as a whole once these adjustments are over?

Nirmal Jain: No adjustments are over last quarter itself so right now the mix that we have is fairly stable and we can continue with the same mix which is around 10% to 15% of our total borrowings. But now the interest rates again that depends on the environment which is something again if there is a crisis or there is a crunch interest rate may go up. But most likely indications are that interest rates are headed southward so we do not see any reason to further increase the interest rates or do anything at least at this point in time.

Digant Haria: Okay. Yeah I get it that the borrowing cost is a variable but on the yield side we have generally been at 14% to 15% kind of a blended yield and if I take into account all the yield hikes that we have taken, should we still be able to be in that 15%, 16% kind of a range in terms of yields? I understand borrowing cost will probably I will ask you next quarter when things are better.

Nirmal Jain: We are maintaining our NIM, and our yield will remain in that range of what you are saying so around 14.5%, so 14% to 15% is what our yield will continue to be. Last quarter it was 14% to 15% that is the range that we look forward to.

Moderator: Thank you. The next question is from the line of Shiva Kumar from Unifi Capital. Please go ahead.

Shiva Kumar: Sir, can you give some more granular sense on the stress in the construction real estate segment of your NBFC as and what gives you comfort that most of this stress will not translate into a kind of write off kind of situation?

Nirmal Jain: Yeah so actually last quarter was an extraordinary quarter when you know the entire lending machinery for real estate came to a standstill and that was even more aggravated by home buyers deferring their purchases or basically it was an environment of very uncertain chaos, people just wanted to wait and watch. But I think things are getting better and it is just a matter of time that we should see that this is on track because I do not see any long-term problem with the sector, it is just a question of liquidity crisis which is temporary and transient.

Shiva Kumar: Okay and so and your comment on the operating expenses which have been trending at somewhat elevated levels over the last two quarters. Last quarter it was I am talking about the NBFCs space wherein last quarter it was about Rs. 279 crores and this quarter again we are seeing an elevated cost of around Rs. 298 crores. So what is leading to this higher cost structure?

Nirmal Jain: So we have been expanding our branch network fairly aggressively, our branch network has gone up to 1,862. We continue to expand and add people in our home loans and micro finance businesses and that is adding to the cost, and when you look at operating percentages then what has happened is that the loan book on a quarter-on- quarter basis has been flat, so obviously the ratios seem to be more elevated but it is all in line with our strategy for growth. So as we have said, that we will expand our physical network of branches which will basically service our gold loan, business loan and micro finance segment of the business.

Shiva Kumar: So will the expansion continue sir, is there any number you are working towards?

Nirmal Jain: Its very difficult to put a number, the pace may slow down a little bit in terms of the number of new branches that we will add but it is not possible to put a number to this.

Shiva Kumar: Right. And with regards to your cost of funds I see it is about 8.8% for the nine months. Maybe you can give me the incremental cost of funds for the immediate preceding quarter but your retail NCDs you have priced them between 9.5% to 10.5% and a Rs. 2,000 crores NCD should bump up your cost of funds right if you are able to secured all the cost and all?

Nirmal Jain: Our cost of fund is a weighted average mix of long-term short term and this NCD that we are raising they are for 39 months, 5 years, and 10 years, as Prabodh mentioned, our cost of fund has gone up in line with the industry, but whatever incremental borrowings we are doing, the NCD is in line with them. Prabodh you want to give some more numbers?

Prabodh Agarwal: Yeah so till now our average cost of borrowing has gone up by 31 basis points Quarter-on-Quarter and for the third quarter it was at 9%. That is the average cost of borrowing for the NBFC. It has gone up by 31 basis points Quarter-on-Quarter, 56 basis points Year-on-Year that is the average. Incrementally as I said the costs have gone up by about 75 to 100 basis points and there has been a commensurate rise in our lending rate also.

Shiva Kumar: So how is it panning out in this quarter?

Prabodh Agarwal: This quarter, the incremental costs are already down by at least 100, 150 basis points compared to the peak borrowing rate that we saw in the month of October and November. For example CP we had borrowed at 10% but incrementally now we are able to borrow at something like 8.6%. So that is just one indicator. Then similarly now term loans are also easier to get and the rates are also now much better. We had done earlier a direct assignment at say 9.5%, 9.6% now incrementally now we are able to do at 9.15%.

Shiva Kumar: Right, the next question is with regards to the wealth business. We see a steep drop in the fee based income instead of the fact that your AUM has grown by 11% Quarter-on-Quarter so what led to this steep decline in fee based income?

Karan Bhagat: So the fee based income has declined primarily because of two reasons. One obviously there is a slowdown in client activity for the last three months. Post the ILFS fiasco and in general because of the volatility in the market environment lot of investors are sitting on the side lines to invest new money. So even though the new flows are extremely good and strong, the postponement of the investment activity is fairly high.

So clients are wanting to keep the money in liquid funds and safer debt funds rather than investing it immediately into the market. So while the asset flows continue, on a Quarter-on-Quarter basis the decision to invest gets kind of postponed a bit. The second is obviously even within that the mix of investment has been predominantly on the fixed income side as compared to the equity side. So if you see a mix of our gross flows or investments for the last quarter compared to a typical average quarter where we see 50% to 55% on the money going into non AAA debt. Last quarter would have seen 72% to 73% of our investments going incrementally into AAA or better debt or AAA sovereign debt and only 27% - 28% of the flows going into non fixed income. Obviously that has an impact on the yield because AAA debt as well as primary sovereign funds we end up making a substantially lower fee income. So it is actually these two a little bit of slowdown in activity itself and second the mix of the activity also has been relatively muted towards a more risk free approach. That is the reason for the decline in the fee income though asset book is pretty strong.

Shiva Kumar: Yeah and what about that IIFL One strategy how will it brings down the yields?

Karan Bhagat: It does not necessarily bring down the yields okay so essentially IIFL One is more an advisory mandate as opposed to running a broker dealer/distribution mandate. Now while the advisory mandate itself is going to be giving a yield of let us say an average of 0.5% we have just launched it around about 2 months back, the response has been excellent. As we speak we would have converted already around about Rs. 6,500 crores to Rs. 7,000 crores of our assets into IIFL One or similar at an average retention of 0.5%. Now what we need to keep in mind and what is very critical to understand when we are looking at yield is the following.

Typically, in a broker dealer/distribution model you end up earning commissions on the transaction and not on the full portfolio. Now typically in a year, a client does not end up transacting more than 20% to 25% of his portfolio with us. As far as the advisory fee goes, that is being charged on the whole portfolio, so while earlier we were able to get let us say on an average a percent quarter on 20%, 25% of this portfolio.

Here you are able to get 0.5% on his full portfolio. So there is really no impact on the yield and it is much more sustainable because a lot of passive assets also you end up getting the advisory fee. However, it is a process because it needs changes at the back end in terms of technology, we need to maintain multiple portfolios for the client as opposed to maintaining one portfolio. As clients gradually change, they want part of their portfolio to continue in the broker dealer setup, part of the portfolio to move into IIFL One.

So it is a change which will not happen overnight but we are confident that it will take place over the next 6 to 12 months with a much more hectic pace and the impact on the retentions actually might end up being slightly more positive over the next 12 to 15 months as opposed to being negative because you end up getting your advisory fee on the full portfolio as opposed to getting a transaction fee on the part of the portfolio.

Shiva Kumar: Okay so any numbers you are working with as to how much of the portfolio would you wants to migrate to IIFL One?

Karan Bhagat: We just launched it two months back so I do not want to really crystal gaze that much into the future, but the response over last 45 days has been excellent and honestly if you personally ask me out of the incremental shares we are getting in terms of new asset coming into the firm, we are seeing nearly half to two thirds come in the form of IIFL One. In terms of the older assets, I think we should be able to move around about 25% to 30% over the period of next 15 months. So I think by the end of the current financial year we would be hoping to be at around about at least Rs. 10,000 crores to Rs. 12,000 crores under the IIFL One platform and potentially be four to five times that number by the end of the next financial year with an average retention of 50 basis points.

Shiva Kumar: Okay so I take it that the 75-bps yield that we are seeing for the nine months is more of an aberration, right, as and when the market activity picks up you would actually go to a slightly higher levels closer to FY18?

Karan Bhagat: You see on the distribution side the fee is obviously a function a little bit of the mix of the investment between equity and fixed income. Last quarter is pretty much, in terms of client activity and aversion to risk, comparable last to I remember only the first, second quarter of 2013. You have seen the risk aversion from clients being as low as what it was in the last quarter last only in 2013.

It may continue for another quarter given the fact that the elections are around the corner. But it will come back sooner than later because the flows are continuing and the money for the moment is lying in liquid funds waiting for a better opportunity or for more clarity and therefore less volatility.

Shiva Kumar: Okay if I can squeeze in the last question, what is the impact of the upfront commission regime in mutual funds?

Karan Bhagat: So, upfront commission regime in mutual funds for us we had moved to trade and mutual funds nearly a year-and-a-half, two years back. So it is already kind of there in the book. There will be a small minor impact of the TER change which is going to be close to 7% of our mutual fund income and our mutual fund income as a percentage of our overall revenues is around 12.5% so round about 7% to 8% of 12.5%,Okay, so close to 1% of our revenues, 1% to 1.5% of revenues is impacted because of the change in mutual fund TER which is already getting reflected from the last quarter onwards. So we have a mutual fund trade income of round about Rs. 130 crores, Rs. 140 crores a year which will reduce by round about Rs. 10 crores to Rs. 15 crores to Rs. 125 crores.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Can you just share more details about this real estate portfolio which is seeing some stress so how many lenders are under stress and you know what steps are we taking to recover that?

Nirmal Jain: No, I do not think that it is an epidemic or a crisis at this point in time but I really cannot give precise numbers of how many people are under stress or not stressed. What happens is that many a time some of the builders are under a temporary stress in the sense that one quarterly installment is delayed and they come back on track very quickly and the only damage that one can do to them is to disclose their name and then people start talking about them a lot. So as I said that the underlying collateral is solid and good and our belief is that this is just a matter of this quarter or next quarter and that most of these builders or the projects will be back on track. Wherever the action has to be taken, we do that, in fact there is SARFAESI and NCLT but these cases are very few and far between.

Ankit Gupta: Okay. Any specific geography where you are seeing the stress building up or where the NPS have shot up and are these loans to real estate projects which are targeted towards premium segment or these are normal?

Nirmal Jain: So primarily most or the entire stress is coming from the premium segment, premium in the sense that main Mumbai and maybe a little bit of Delhi but I think these two are the primary contributors.

Ankit Gupta: Okay. And secondly on the home loan book we have been seeing very sharp jump and growth rates and overall the industry is seeing lot of activity and lot of competition. So can you know elaborate more on how is the competitive intensity and our growth rates have been very high. So any reason for that, so any specific, apart from this affordable housing, which itself is seeing lot of competition, any comments on competitive dynamics for this sector?

Sumit Bali: So on the home loan side I think we have a good niche going for us in the affordable segment and that is where we are also seeing competitive intensity has weakened a bit and our belief is that post this crisis of liquidity in the Q3 we will see better times for some established players going ahead. There was just too much of froth before it but we do believe that the growth rates we have on that are sustainable. We have, similarly in line with the affordable home loans, also looked at low ticket LAP, so early days today but I think it is a differentiated good offering and I think that is another product we will scale up. So overall on the mortgages piece I think the whole integrated story of looking at it is - small developers who are building affordable homes, who work with them have large number of APF, funds some of these good builders, and also have a first right of refusal of getting home loan enquiries. So we have an integrated play here and we are confident that the growth rates will be good and we do see some space being vacated by some competitors and we hope to benefit from that.

Ankit Gupta: How much growth rate do you see for home loans going forward in let us say in FY20?

Sumit Bali: See we are also in a period where liquidity situation is what it is. So our efforts in the last quarter are showing results and with these NCDs showing some other borrowings coming through I think we should be in decent growth rates upward of about 25% to 30% for the quarter and next year also we should be able to sustain that.

Ankit Gupta: Okay and overall on the NIM side, typically we are saying that we will be able to maintain NIMs at this level and the proportion of retail portfolio in our overall loan portfolio is increasing. So like what gives you confidence that our NIMs will be maintained at this level?

Sumit Bali: So if you see Page 13 of our presentation and if you see the growth rates on gold loan, micro finance, MSME, I think these are businesses which are growing at very healthy pace, all are higher than our current NIMs. Home loan as I said will be slightly below that, but we are seeing rate transmission happening on the entire book. So we should really see the book which is there, and given that three out of the four products are higher than the current NIM and are growing higher than home loan rates, I think we should be able to maintain the NIMs.

Ankit Gupta: In our overall loan book over the next two, three years like how much will be the mix of retail and wholesale book in our overall loan book portfolio let us say two, three years down the line?

Sumit Bali: So if you look at our book today, it is 89% secured, 85% is retail, 11% is unsecured so going forward I think over the next couple of years the attempt should be to move around 75%, 80% on the secured side and 20%, 25% on the retail side. That is the journey we are progressing towards.

Ankit Gupta: Okay and last question on the wealth management side. Karan, with the yields coming down to almost like 75 basis points this year do you see some improvement with IIFL One coming in, in FY20?

Karan Bhagat: So I think the yields are unlikely to go up beyond 75 basis points too much. I think the steady yield really to target would be in the region of 75 to 80 basis points with a plus minus five basis points variation and if you see a really good environment you could see a 10, 15 basis points or a bad environment

15 basis points compression on the other side. But I would be very surprised if the yield goes too high beyond 75 basis points.

Ankit Gupta: Okay. So 75 basis points will be the new base for us in terms of let us say the market improves, it might have some improvement but that might be depending on the market conditions?

Karan Bhagat: Yeah I think 75 basis points is a fair assumption to make.

Ankit Gupta: Okay and any if say the market improves, the equity market improves so our AUM growth rates might improve with the improving sentiments?

Karan Bhagat: No, AUM growth I think from where we can see the markets right now I think if I take out either the growth in assets or fall in assets because of the mark-to-market movements I think domestically we should be targeting Rs. 20,000 crores to Rs. 25,000 crores on a yearly basis. It may not be exactly symmetrical on a Quarter-on-Quarter basis but I think a domestic AUM growth of around about Rs. 25,000 crores a year on net basis is the number I think which is definitely achievable even for the next year.

Moderator: Thank you. The next question is from Mr. Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just on the assignment income, how much loans did you assign this quarter?

Prabodh Agarwal: Nischint, I gave you that number, it is Rs. 5,200 crores of the total securitization/assignment that we did. I think out of this about Rs. 750 odd crores we had done a securitization balance is all assignment.

Nischint Chawathe: But on this almost Rs. 4,200 crores all that you booked as upfront income is Rs. 45 crores so how should we really think about this?

Prabodh Agarwal: There is always a reversal also of the previous deals that we have done. This is a net amount.

Nischint Chawathe: Sure okay on the wealth side are there any concerns on the LAS book, I believe you have kind of unwound the book to a very significant extent this quarter. Should we see further unwinding in the quarter?

Karan Bhagat: The only book we have unwound was which is not core to our wealth clients. So we have not really unwound in any significant way. Where we purely had loan against shares where clients did not have a significantly large relationship with us on the wealth management side is where we have unwound the book. Otherwise as a book you see we are massively unlevered. It is less than Rs. 4,800 cr book; we practically have on a net basis zero CPs. So our ability to expand the book is very high. However, we want to only and only use the book as a conduit to facilitate our wealth business as well as our investments as a sponsor to the alternative investment fund business. Otherwise on a standalone basis we really do not want to expand that book.

Nischint Chawathe: Sure. Just if you could give some insights in terms of the asset management side of the business. I believe you have given some disclosures on the breakup of assets etcetera. So maybe in terms of some plans how we should see revenues playing out?

Karan Bhagat: Yes that is one side we are extremely excited about. Within the asset management business obviously there are four/five mandates which we are running. So as of now our larger focus has been on the alternative investment fund side of the business. There we have seen the AUMs grow nearly to round about Rs. 14,600 odd crores, grown nearly 30%, 35% over the last year which is a significant number purely on account of the fact that we are coming from a large base last year. We had a base of Rs. 7,500 crores, Rs. 8,000 crores in our pre-IPO fund. So that is something which we are currently excited about. Within that we are running three or four different kinds of strategies which include everything right from private equity to listed equity to private credit to real estate fund. There we have had a fairly successful track record for the last six to seven years. We have recently closed real estate fund a month-and-a-half, two months back all of which is still lying in liquid.

We have got participation from four, five large institutions across the world. We have recently also won a large mandate to manage money for a large university in the US from a segregated managed account basis. So all that AUM put together on the alternative asset management side has moved to round about Rs. 24,000 crores. We have also recently got our UCIT license for our IIFL Singapore entity called IIFL Capital. There we completed an acquisition of a small fund with an asset base of $80 million. So these are the broad activities we are focusing within the alternative asset management space. The PMS and the mutual fund business continue to be relatively small for us. We are as of now not looking to expand the mutual fund piece apart from a couple of flagship schemes massively but a larger part of our initiative within asset management would continue to be on the alternate asset as well as the segregated managed accounts and that is where we believe we will be able to keep our net retentions around the 65, 70 basis points after accounting for all the direct distribution cost.

Nischint Chawathe: In terms of revenue if you could give some sense you know this quarter what was the revenue contribution I mean anything any color that you could give on this?

Karan Bhagat: Yes, so approximately the revenue contribution for this quarter would be roundabout, I do not have the number immediately, but it would be in the region of Rs. 45 odd crores for the quarter. This will be broadly Rs. 24,000 crores into 60, 65 basis points. So round about a Rs. 140 crores, Rs. 150 crores annually so round about Rs. 40 crores on a quarterly basis. This is the run rate we are running at right now.

Nischint Chawathe: Sure. Finally just moving on to the broking business. You know you reported a quarter-on-quarter decline in cash market volumes of something like around 10%, 11%. So just trying to kind of understand how should one be thinking about it. Very interestingly 5Paisa which was kind of a part of IIFL some time back has reported like a 19% volume growth in the cash segment. So I was just wondering as to how should one be thinking about it, is the market moving more towards the 5Paisa kind of a model or and how will this company then you know post separation play out?

Nirmal Jain: So I think that a segment of the market is moving towards discount brokerage and you can see that how quickly Zerodha has emerged as a larger player than ICICI Securities as well. So what is happening is that market will get divided in two parts. So there are still investors of course starting from wealth to mass affluent who basically look for individual and personalized service and advice, and they realize that few basis points of cost is worth the advice and also the service that they get. As the whole story plays out fully, I think discount brokerage will have certain market share but then there will still be a market or a significant segment of the market that will remain with good service brokers.

Nischint Chawathe: Sure and the IIFL will remain focused on full service model?

Nirmal Jain: Yeah absolutely.

Moderator: Thank you. The next question is from Viral Shah from Credit Suisse. Please go ahead.

Sunil Tirumalai: Sunil Tirumalai from Credit Suisse. I have two questions to Karan. I just wanted now that the presentation on slide 22 is kind of different from what it used to be earlier, just wanted some reconciliation. So the top left chart breakup of wealth management assets adding up to 100 basis 100% is the breakdown of the previous slide Rs. 1.6 lakhs crores, is that right or is there something excluded from that?

Karan Bhagat: No, it is just a breakdown of Rs. 1.6 lakhs crores.

Sunil Tirumalai: Right and where does the right hand side break up of AMC asset sit within this?

Karan Bhagat: It will fit in third party.

Sunil Tirumalai: Okay it is your AMC but you categorize this under?

Karan Bhagat: So the double accounting which is reported which I talked of to arrive at the Rs. 1 lakhs 60 crores. So our total assets will be 174 if I look at it individually. So the total assets will be 174 but of that Rs. 14,000 crores of our asset management assets have been distributed by the wealth management. So we knocked that off.

Sunil Tirumalai: Okay so out of total of Rs. 25,000 crores, Rs. 14,000 crores distributed in house?

Karan Bhagat: That is right, so that is why it is knocked off and then the net number is 160. We have not doubled.

Sunil Tirumalai: Understood and my second question yeah so I mean you mentioned about how we are seeing investors' money in fixed income funds from equity funds. But is there a risk to that as well I mean with not just market risk but even credit risk becoming an important factor for?

Karan Bhagat: Okay so as a firm we have very, very low exposure to credit funds as a whole. I think our larger exposure has been really to AAA funds as well as more FMPs. Our exposure to open ended credit funds is extremely, extremely low in percentage terms. But when I said last quarter risk appetite is low, I meant including credit funds okay. So there is hardly any new inflow in to credit funds. So what I'm really saying is that in that sense it got classified into two broad asset classes for the last quarter. The first asset class is AAA with and within AAA only six or seven names and everything else is quasi sovereign or sovereign. So when I say 72% of the trades are debt I am only meaning this world, 72% of the trades are in this part. Everything else which has got a credit element to it including debt fits in the remaining 28%. So the remaining 28% is not only equity, it could include equity, it could include credit funds, it could include a AA plus instrument, it could include a private credit rate, so all of that fits in the remaining 28%. 72% of the money is going into either AAA six names or AAA sovereign.

Sunil Tirumalai: Right and how do you read the market you know to this going forward it is going to remain like this or worsen from here with recent events?

Karan Bhagat: From what I am seeing from our planned portfolios, all the new money we have got, and a lot of new clients we got over the last few months, even today as I talk, more than 85% to 90% of the portfolios are sitting in practically liquid waiting for a better time to deploy or at best sitting in AAA and sitting aside. So in that sense the level of activity has dropped and I personally don't see it changing massively before the elections at least. I think that kind of broader slowdown in activity might continue at least till the elections and after that obviously, or you need to see some more clarity or definite conclusive view across the world in terms of some volatility falling off because otherwise I really do not see the mindset in terms of investments changing rapidly within the next 30 to 60 days.

Sunil Tirumalai: Right and lastly did I get you right that you said that the overall retention yield of 75 basis points which is fund based plus non fund based that should remain in this range of 75?

Karan Bhagat: Yeah, see that is obviously an estimate, it could minus 5 or plus 7, 8 because the advisory model throws up its own vagaries and challenges over the next one year but given my test marketing and the fact that we have moved Rs. 7,000 crores in the last two months last 45 days actually I think it is a basis there was data points. I think it is a fair enough estimate to assume the 75 basis points will hold. But what you have to appreciate in that 75 basis points is the dependence on any kind of retro session or commissions from the manufacturers is zero. So effectively reductions in TER, we are the first ones to launch direct plans in alternative investment funds and portfolio management services. So effectively in a sense we are kind of redirecting our plans even for alternate for us to come up with a direct plan. So the ability of that retention to stay becomes very, very high and practically non-dependent on the manufacturer.

Moderator: Thank you. The next question is from Ashwin Bal from HSBC. Please go ahead.

Ashwin B: This is Ashwin Balasubramanian from HSBC Asset Management. So my question was regarding the asset quality. So you referred to the real estate part, but even if I look at the other segments we have seen asset quality deteriorate quite sharply like for instance CV your net NPA has gone up from 2.9 to 4.4. So, I mean any color on that in terms of the geography or particular segments there which have caused that stress because other players in that segment have not reported?

And also on the real estate asset quality itself I just wanted to check because you have referred to the liquidity situation kind of being responsible but would not a lot of that just have flown in the 0 to 90 bucket in the last quarter, and is that full effect sort of yet to play out because some of that 0 to 90 would also now flow into the NPA bucket in the current quarter?

Sumit Bali: Specifically on the commercial vehicle it was a pretty challenging quarter and historically we have seen last year also the last quarter remains the best quarter, so we are hoping that will happen. This quarter a couple of things happened I think a lot of vehicles which we had in stock could not be sold because typically they depend on some other smaller NBFCs to fund that purchase to which due to the credit tightness was not forthcoming. So this month has already started looking good. Volumes also were down in the last quarter so that is also identified percentage basis. We are hoping that this quarter the numbers on CV would come down.

Ashwin B: And on the real estate?

Nirmal Jain: Yes, real estate I have spoken a couple of times, that the last quarter was an extraordinary quarter in terms of liquidity and the scene of real estate but we are confident that these things will get on track and the NPA spike that we are seeing will be reversed and the GNPA number in real estate I believe in the next two quarters will come down to the earlier levels. Again if there is another accident, another crisis and another set of new worries then nobody can predict that. But under normal circumstances where things are today we have seen that in the last few weeks I think that this will get better so that is what the hope is.

Ashwin B: Okay and just one additional question on the in terms of the availability of funds from let us say the banking channel how has that been like how much of incremental lines would you have got sanctioned let us say during the last quarter and till now and also like how do you see that part of that and what is your unutilized bank lines currently?

Nirmal Jain: So that we are focusing on securitization so what they are doing is their incremental available funds they are trying to use to buy assets from NBFCs, Prabodh will give you some more details on that.

Prabodh Agarwal: So we have as I mentioned in the call we have sanctioned and un-drawn credit lines of close to Rs. 3,000 crores so we have actually got a combination of sanctions for direct assignment as well as for term loan. So we have from various PSU banks as well as private banks sanction lines for securitization deals for our home loan, for our commercial vehicle, SME etcetera. So that is a pretty large pipeline which will fill up the next quarter.

Moderator: Thank you. The next question is from the line of Megha Hariramani from PI Square Investment. Please go ahead.

Megha Hariramani: My question is on the Q4, how does that look like? I mean do we see any pressure in the next quarter and second on the IIFL Wealth how do we plan to expand or probably grow this vertical line or you have been answering lot of questions on this but just in a nutshell if you can say what are we focusing on and how do we see the income on the advisory side or in the other income the fee income that we get, how do we see that expanding?

Karan Bhagat: So I think expansion of the wealth management side is essentially going to be a function of two or three things. The first function of expansion is essentially going to happen through deeper penetration in the cities beyond the top six cities. And we are seeing a lot of traction in the last six months in these cities so for example places like Baroda, Raipur, Goa, Ahmedabad we have seen massive traction build up and I think a large part of the wealth which is typically been either informally invested in ICDs, or in fixed deposits or in real estate is finding its way into financial assets in these regions. Second, across and irrespective of all the chaos and mayhem in the markets, the quantum of new money coming into the industry continues to be very, very strong. Even now on the unlisted strategic space there are at least a couple of transactions every fifteen days where people who have exited businesses are ending up with a large amount of capital in the secondary form. So that money continues to be fairly large and we continue to have close to 70% to 75% incremental market share where we have ensured that we are either the lead managers, lead bankers or at least a large manager of the money for all these cases. Thirdly, I think as I said we are very excited on the alternative asset management side, I think that is the business which for us can over the next 18 to 24 months grow three to four-fold from here. There obviously lot of investment is required in identifying the right people to bank the right strategies. So in that sense Anup coming in over the last six months has enabled us to grow that business well and as we build out that business we also recently closed a private equity fund of about Rs. 1,000 crores a couple of months back where we got a great manager Prashasta managing possibly a second private equity fund. With the first one we had a great experience both in terms of returns and exits. So those are strategies which I think will continue to do extremely well. In terms of advisory as I said earlier, I think overall at the end of the tunnel the average fee on a consistent basis will be higher than under the broker distribution model but it will take its own 9, 12 months to kind of play out before it settles at that range of 75 to 80 basis points.

Megha Hariramani: Okay and the first question was on Q4 how do we see the next quarter, will it be under pressure as compared to the last year March quarter?

Nirmal Jain: Things are very fluid actually and they keep changing every day and like last two days developments have been very favorable for the sector but on the whole I think last quarter was extraordinary in terms of panic gripping the market. So I do think this quarter should be definitely better than the last quarter. And we may not get on track as much as things used to be there three, four quarters back but still things should be changing for positive.

Moderator: Thank you very much. Next question is from Sahil Shah from Edelweiss Asset Management. Please go ahead.

Sahil Shah: Firstly on the Wealth RM side. This quarter we have added about 40 RMs and in last one year we have added about 70 to 80 RMs. But our employee cost is going down year-on-year. Can you put some light on that?

Karan Bhagat: This quarter RM addition is 29 because of the integration of Wealth Advisors.

Sahil Shah: Yeah but whole year it is about 70 to 80 RM additions. If you look at number and then our cost year-on-year is going down?

Karan Bhagat: Okay. So the employee cost has gone down because of the relative bonus provision variable which is a function of the incremental profit post breakeven coming down.

Sahil Shah: Okay and sir our PAT is also falling down on in the Wealth side it is about 15 to 18 this quarter how do you see that going forward?

Karan Bhagat: So I think we have addressed that mostly through the call the PAT is a function eventually of the gross retention and margins on both the funds as well as on the sales side, so it is a largely a draw down from the fact that the retention on assets is in the region of 60, 62 basis points as compared to 75 to 80 basis points in the previous quarter.

Sahil Shah: So how do we see that going forward?

Karan Bhagat: So as I said, if the level of activity is largely directed to an extreme position as extreme as the previous quarter with 70%, 75% in AAA and AAA bonds only, then the retentions can remain muted, but it is something which is once in a blue moon. Last I saw it in the second quarter of 2013. It may continue for another quarter or so but as long as the net flows continue to be positive, the retentions bounce back sooner than later.

Sahil Shah: Okay. On our asset quality front this quarter there has been our gnpa went up by 150bps this quarter-on-quarter and probably that comes in from real estate, and CV financing. Where do we see that going forward? Are we expecting the slippage likely to continue or what could be our call on that?

Sumit Bali: So overall I think again through the call we have said real estate has seen a very challenging quarter but underlying assets are good and it is just that some of these things also have external dependency in terms of getting sorted out. The other granular retail businesses like CV etcetera I am sensing better times ahead we do see fourth quarter being the best quarter for the last two years. So that is how we look at it for Q4.

Sahil Shah: Sir, could you quantify the number of developer that slipped into the GNPA this quarter?

Nirmal Jain: It is very difficult to quantify the number

Sahil Shah: Okay so lastly on the credit cost this quarter vis-à-vis last year Q3 FY18 our credit cost is very high mainly because of transition to IND-AS but how do we see the Q4 FY19 and FY20?

Nirmal Jain: I think if you look at our credit losses, they are in the range of 1%. May be you know given the profile so what happens that if you really look at SME and other product categories there the credit losses are higher but they are made up by higher yield as well. So it might taper off because as we have said, the last couple of quarters have been difficult but longer term, if you see our historical trend, is in the range of around 1% or maybe 18 basis points to 1%. So you can say that 1% plus minus 20 basis points that is the trend line that it should come back to.

Moderator: Thank you very much. Due to time constraints we will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Nirmal Jain: Thank you so much. Thanks everybody for being on the call. And if you need any more information or clarifications, please feel free to get in touch with our investor relations.

Moderator: Thank you very much. On behalf of IIFL Holdings Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.