"India Infoline Limited Q3 FY'15 Earnings Conference Call"

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MR. R. VENKATARAMAN – MANAGING DIRECTOR - IIFL HOLDINGS LIMITED
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Moderator Ladies and Gentlemen, Good Day and Welcome to the IIFL Holdings Limited Q3 FY'15 earnings conference call. As a remainder, all participants' lines will be in the listen-only mode. There will be an opportunity for to you ask questions after the presentation concludes. Should you need assistance during this 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 Mr. R. Venkataraman, Managing director, IIFL. Thank you. Over to you sir.

R. Venkataraman Thank you. Good afternoon friends. On behalf of team IIFL, I thank you for joining us on this call. I am R. Venkataraman, and I am accompanied by Mr. Nirmal Jain – our Group Chairman; Mr. Parag Shah – the CFO of IIFL Holding Limited; and Mr. Amit Mehendale – the CFO of India Infoline Finance Limited.

As you are aware, we are a diversified financial services company with multiple business carried out on various subsidiaries. In today's call, we would be referring to our consolidated numbers unless otherwise, specifically stated, as they provide a true and fair representation of our performance. Further any of us may make some forward looking statements based on the management's current expectation during the call today. However, the actual results may vary significantly. Therefore, the accuracy of completeness of these expectations cannot be guaranteed.

Earlier this month, the Reserve Bank of India gave a pleasant surprise by announcing a rate cut of 25 basis points. Falling inflationary trends aided by falling crude oil prices and other commodities and the Governments intents to meet its fiscal deficit target might have accounted the Central bank for cutting rates earlier than expected. We believe this is to be the first of the many rate cuts to follow over the next 12 to 18 months. The rate cut will provide a much needed impetus to the various initiatives of the Central Government including Make in India launched by the Prime Minister himself. The new Government has been taking all the right steps and making all the right noises with the target to kick start the economy. Indian equities continues to be preferred destination for investors globally in the emerging market space even after considering the handsome returns of the last calendar year. Quality IPOs should pull back the retail investors who have slowly started participating in the domestic equities markets. In spite of domestic cheer, geopolitical tensions in various parts of the globe continued to cast a shadow. Union Budget 2015 will be a key event that could shape the future movements of the stock markets in India. We continue to remain optimistic about all our businesses on the back of economic revival, conducive macro-economic situations, and increased investor interest, both domestically and overseas.

Among other updates, IIFL has been ranked India's top securities trading firm as per the fortunes list of 500 largest corporations in India in its December 2014 edition. IIFL received the Best Broker Award at Zee Business award in December 2014. IIFL Private Wealth has being recently named Asia's most technologically innovative private bank by the Euromoney innovations in Wealth Management Technology Awards in November 2014. With this, I now hand over to Amit Mehendale – CFO India Infoline Finance Limited for an overview.

Amit Mehendale Thanks. For the quarter ended December 2014, our total income was Rs.924 crores up 34% Y-o-Y. Our profit before tax was Rs.179.1 crores up 77.2% Y-o-Y. Net profit was Rs.112 crores up 67.4% Y-o-Y. I will now take you through each of the business segments.

<u>Fund Based Activities :</u>

For Q3, FY'15, income was Rs.680.2 crores up 34% Y-o-Y. Interest was Rs.373.8 crores up 24.7% Y-o-Y. This segment constitutes more than 70% of our total income for the quarter. Our quarter end loan book increased to Rs.13,795 crores, up 37% Y-o-Y. Our loan book comprises secured lending of mortgagees, capital market, gold loans, loan against medical equipment, and commercial vehicles. Mortgage loans form the dominant part of our loan book at 44%. It continues to grow steadily and it has become our focus area. We continue to maintain high quality of assets. Our gross NPA and net NPA stood at 1.1% and 0.41% respectively, as at the quarter end. Against gross NPA of Rs.153 crores, we have provisions of Rs.96 crores and as our net NPA stands at 0.41%. Besides this, we have a provision of Rs.44 crores for standard assets as per statuary requirements. Our average cost of fund in the quarter was around 11% down 11.2% last quarter.

<u>Financial products distribution :</u>

our income for this segment for this quarter was Rs.143.5 crores up 48% Y-o-Y. This segment primarily includes distribution of mutual funds, insurance, alternate asset products, bonds etc. In Life Insurance business, our product portfolio is dominated by long-term endowment products. Total assets under advised distribution and management were Rs.67,500 crores.

I will now move on the Capital Market Activities :

Income for the quarter for this segment was Rs.98.8 crores up 21.2% Y-o-Y. This segment has witnessed substantial growth from March 2014. Our average daily equities turnover was Rs.7,117 crores for the quarter up 48% Y-o-Y.

Now I should take up major cost heads. For the quarter, our operating cost were Rs.103.3 crores, an increase of 62% Y-o-Y. Our operating cost was 11% of the total income for the quarter. Employee cost of the quarter was Rs.152.8 crores up 30% Y-o-Y due to increments and salary incentive and bonus payments. Other costs primarily include admin costs which were Rs.111.6 crores for the quarter. Depreciation cost was Rs.13.7 crores for the quarter. Our consolidated net debt as at the quarter end was Rs.11,480 crores and gross debt was Rs.13,626 crores. Of this secured long-term borrowing was Rs.8,667 crores. Our gross debt-to-equity ratio was 5.65 as at the quarter end and net debt-to-equity was 4.76 as at the quarter end. I will now leave the floor open for any questions. Thank you.

Moderator Thank you very much sir. Ladies and Gentlemen, we will begin the question-and-answer session. The first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria My question pertains to the NBFC operations. Sir, within the mortgage part, what is the proportion of home loans; that is one and you know what are the yields on home loans as well as LAP which reside in our mortgage book?

Amit Mehendale See, for two different products are different. Home loan depending on the profile of the customer, they range from 10.2% to upwards of 13%, 14%.

Digant Haria That is on the home loans right?

Amit Mehendale Yes.

Digant Haria Sir, this 13%, 14% of yield, so what would be the profile and the geographic locations where you would actually do that?

Amit Mehendale There are essentially self employed. Most of them are self employed profiles and geographical profile is spread across the country.

Digant Haria Sir, if I had to just get a sense on your branches, so, what portion of your branches would be in metro cities or Tier 1 cities ?

R. Venkataraman Broadly speaking, we have presence in 900 towns and cities in the country. So, that covers most of the metros and other smaller locations also.

Digant Haria Now that Gold Loan operations is less significant in the overall scheme of things; can we expect the cost-to-income ratio for our NBFC operations to go down further? Like we have seen very good reduction in the last 4 quarters. So, can we see it still coming down over the next 3, 4 quarters?

R. Venkataraman Gold loans as a total percentage of the loan book has come to less than 30%. So, we are targeting to improve our cost-to-income ratio and as you would have seen in the numbers also on a quarterly basis, we have brought it down round about 45% to 41.7% and our aim is to bring it down further.

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

Nischint Chawathe Just a couple of questions on data points. What would be the minority interest in the Wealth Management business?

R. Venkataraman So, see out of the 8.3 about 90 lakhs is because of NBFC and remaining is Wealth in absolute terms. So, it will be Rs.7 crores.

Nischint Chawathe On the total assets under advice, was there a decline on a Y-o-Y basis, and Q-o-Q basis, I think the last quarter's number was around Rs.74,000 crores which is now gone to Rs.67,500. Is that..?

R Venkataraman On the wealth front, we had ended it about Rs.67,544 crores.

Nischint Chawathe Okay, that is right. But the quarter before that was Rs.74,000 crores, if I understand rightly? If maybe you can give a break up of assets under advice or mutual fund then you know some of the breakups that you had given earlier of Rs.67,000 crores. I think last quarter, you had given somewhere close to Rs.48,000 crores of assets under advice and mutual fund distribution were around Rs.20,000 crores.

R Venkataraman For the break up of assets under advice of the 67,544, we will send it to you separately.

Nischint Chawathe On the NBFC side, I am not sure, if you give this number on net worth for the NBFC business as on Q3?

Amit Mehendale Networth for NBFC is Rs.1,898 crores.

Nischint Chawathe And would it the mortgage business come down on a Q-o-Q basis?

Amit Mehendale No, it is gone up marginally, in terms of loan book, it has gone up.

Nischint Chawathe Because, I think it was 6,100 versus 6,300.

Amit Mehendale No, you have to also look at the entire book. So, there was some securitization done during the quarter. So, if you look at the entire book, the book would have grown.

Nischint Chawathe So, you can assume that broadly, the entire securitization was mortgage.

Amit Mehendale Yes, there was one CV pool of Rs.98 crores; apart from that it was mortgage.

Nischint Chawathe Anything to read in this sharp rise in the LAS portfolio.

R. Venkataraman Nothing because you know the last two quarters, markets have done well and there has been increased appetite for this product.

Nischint Chawathe That should possibly continue for as in you know till the market remains strong or so…

R. Venkataraman we want to have multi product diversified NBFC with a predominant focus on mortgages. So, I think last two quarters, it was more opportunistic driven by as you likely pointed out increase in the capital market activity. But, we already at a good level, so going ahead, I do not know how much of incremental growth we will see there; difficult to forecast.

Nischint Chawathe And just one data point on employee expenses in the NBFC business. I think it was Rs.55 crores last quarter.

Amit Mehendale Yes right.

Nischint Chawathe It was Rs.55 crores in the Q2, so I just wanted the number for the Q3.

Amit Mehendale It is Rs.57 crores for this quarter.

Nischint Chawathe Okay and just finally, one or two questions on the Broking business. There was some element of weakness in the overall capital market income. I mean I guess the volumes were not down as much. So, anything to read on that?

R. Venkataraman See, last quarter, we had 5 or 6 less number of trading days. So, that was one factor and the previous quarter, we has an investment banking income also which was not material. So, these are the two reasons why we have seen this.

Nischint Chawathe And the insurance AP I believed was flat on the Q-o-Q basis.

R. Venkataraman This is sale of insurance?

Nischint Chawathe Yes, insurance business, was broadly flat on the Q-o-Q basis, is what I would assume. The AP or the premium…

R. Venkataraman I think there was a marginal growth.

Nischint Chawathe Okay, but nothing significant?

R. Venkataraman Yes.

Nischint Chawathe And incrementally, you would look forward to the Q4 for…

R. Venkataraman JFM quarter is a seasonal peak quarter, so it will be better.

Nischint Chawathe Okay and anything on the wealth side to read in terms of the Q4, which is peak quarter typically, is it that the Q4 or there is no…

R. Venkataraman If you look at it, historically JFM quarter has always been good for this Financial Products Distribution business broadly speaking including wealth. So, we are optimistic about both these products, Financial Products Distribution as well as Wealth in the JFM quarter.

Moderator Thank you. Next question is from the line of Pooja Swamy from Span Capital. Please go ahead.

Sudhakar Couple of questions. The first question is again on your Wealth Management business; this product Q2 and Q3, we have seen significant growth in revenue Rs.100 crores versus Rs.57 crores last year. So, has there have been some reclassification of income or something.

R. Venkataraman No, there is no reclassification.

Sudhakar So, what had led to almost 100% jump in revenue?

Management Can you tell me what numbers are you comparing again?

Sudhakar See, this is the Wealth Management, it is given under Slide #21. So, income from operations last year Q3 '14 was Rs.57 crores. So, this year it is around Rs.120 crores.

Nirmal Jain 57 to 100 crores is the organic growth in Wealth Management business and business has been growing pretty well. So, this is what one year you are talking about. I think business has grown and this year in fact, with the capital markets taking off, the activity level and incrementally, there has been significant mobilization of mutual fund also. So, all these activities have contributed. So, this is entirely organic growth.

Sudhakar My second question is on your Lending business. What could be average yield across all your portfolios?

Nirmal Jain It is around 17%.

Sudhakar And versus in the Q2, have you seen any drop or increase in your yield?

Nirmal Jain So, there is a marginal drop as our portfolio mix is moving away from gold, there is a few basis points drop in this quarter.

Sudhakar Yes, but your capital market has increased, right. If you see Q3, almost Rs.1,000 crores of lending to the capital market?

Nirmal Jain Capital market lending is also at around 14% types, it is not at 19-20% which is the gold loan. But if you look at our business model going forward, there can be further decline in the yield, but that could be more than make up by cost of fund coming down in one end and on the other end, cost-to-income ratio also coming down. Because, as you move away from gold to mortgages, your cost-to-income ratio comes down. If you look at entire industry, so the Gold Loan industry's cost-to-income ratio may be in the range of 50% but if you see Housing Finance, it will be in the range of 15% to 20% because of course, you give a larger loan and the loans have larger shelf life also or the larger tenure also. So, obviously, the mix is changing, the yield may come down a little bit, but you will see cost-to-income ratio is also dropping and also cost of fund coming down over a period of time.

Sudhakar So, how should we look at the overall NIM? Should it be around similar levels, 7.5%?

Nirmal Jain Of course, NIMs will be at around similar level and cost-to-income ratio should improve.

Sudhakar How do you see the overall book growing going into next year?

Nirmal Jain So, if you see last quarter, we have grown book around 7.5% and we have securitized a little bit more so, our balance sheet has grown around 6.5%. If you compound it, it is anyway between 25% to 30% book growths; that is what we would look at maintaining it.

Sudhakar Would we see the proportion of capital market lending going up or it would be around similar levels?

Nirmal Jain I think, they are more opportunistics. So, I would not expect it to grow further but it is the sporadic transaction that can come with IPO or it can come with some of the mutual fund. So, over a longer period of time, I think, this will not drive.

Sudhakar And my last question is what is your capital adequacy ratio in the Lending business?

Nirmal Jain So, if you look at our Tier-1 capital adequacy ratio is around 11.6%, where the requirement is 7.5 and it will go up to 10% in that new RBI policy over a period of time, over next two years and then the remaining part is subordinate debt which again we have 5.2% but it can be as much as Tier-1 capital as per the regulatory norms. So, both put together, our capital adequacy is 16.8% but in Tier-2, we have more room to raise subordinate bonds and further increase our capital adequacy. Tier-1 is more relevant at 11.6% vis-à-vis 7.5%.

Sudhakar So, would it be safe to assume that at least for next 12 to 15 months, you would not require any further funds in NBFC?

Nirmal Jain So, there are two things. One is that, we may not require, but that does not mean we may not raise. But of course equity money, we can do without equity for at least 12 to 18 months, but we look at the appropriate time to raise capital and we may like to do it with some margin of safety and little bit ahead of time and not in the nick of time.

Sudhakar If and when you raise that money, would it be through investment from the holding companies or would it be open for any strategic investor or someone?

Nirmal Jain I think we wll evaluate all the alternatives. So, at this point in time, we have not really thought through.

Moderator Thank you. The next question is from the line Rishindra Goswami from Locus. Please go ahead.

Rishindra Goswami What the gross debt on consol NBFC.

Management It is Rs.13,125 crores.

Rishindra Goswami Would you have the data for what the total developer related exposure is on the mortgage portfolio through NBFC.

Nirmal Jain It is around between 10% to 15% of the book.

Rishindra Goswami 10% to 15% of the overall book?

Nirmal Jain Yes, you are talking about builder which has a large mortgage loans right?

Rishindra Goswami Builder loans through NCDs or through any other route.

Nirmal Jain NCD is Rs.700 crores which is primarily builder loans.

Rishindra Goswami Got it, anything else other than this NCDs.

Nirmal Jain Other than NCDs, there are some larger loans, which we classify them as corporate loans. So, they can be builder, non-builder both.

Rishindra Goswami Got it, how much would that be?

Nirmal Jain So, that is what I said, that put together, this NCDs and the large loans put together would be at anywhere between 10-12% of our portfolio.

Rishindra Goswami 10%, 12% of the overall loan book right?

Nirmal Jain Yes. That’s right.

Moderator Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

R. Venkataraman Thank you for participating in the conference call of India Infoline. If you any more queries, please feel free to send it to our Investor Relations. Thank you very much and have nice day.

Moderator Thank you very much members of the management. Ladies and Gentlemen, on behalf of IIFL Holdings Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.