"India Infoline Holdings Limited Q1 FY-16 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the India Infoline Holdings Limited Q1 FY16 Results Conference Call. As a reminder all participants' 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. I would now like to hand the conference over to Mr. Venkataraman. Thank you and over to you, sir.

R Venkataraman: Good afternoon friends. On behalf of team India Infoline I thank you all for joining us on this call. I am R Venkataraman and I am accompanied by Mr. Nirmal Jain – our Group Chairman; Mr. Parag Shah – CFO of IIFL Holdings; Ms. Rajashree Nambiar – CEO of India Infoline Finance Limited and Mr. Amit Mehendale – CFO of India Infoline Finance Limited.

As you are aware we are a diversified financial services company with multiple businesses carried out in various subsidiaries. In today's call we will 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 today may make some forward-looking statements based up on management's current expectations however, actual results may vary significantly therefore the accuracy of completeness of these expectations cannot be guaranteed.

Market in the first quarter of Fiscal 2016 has seen volatility and this was driven by both global and domestic events. The Greek default saga which played out like a Soap Opera gave jitters to the global market and investor community. Finally Greece to manage to stitch a deal with its lenders at the last minute. The stock market crash in China is another cause of worry. China the world's second largest economy has seen more than 30% drop in stock market indices after record high in the current year itself. The collapse has taken place in spite of intervention by regulators restrictions on selling of stocks as well as government agency backed by.

While the crash in Chinese stock market has taken investors all over the globe the next global event is the US Fed rate hike which may be expected any time. Domestically fears of a below normal monsoon has somewhat receded thanks to bountiful rains all over the country in the last two weeks. Good rural economy will lead to a boost in rural spending in the coming festive season. Inflation is stabilizing and is currently in line with RBI's target. Rupee has been broadly resilient. The credit uptake in the domestic economy has been slow. The lower crude oil prices and declining gold prices will help the government to cut its import bill as well as narrow its deficit.

All this will provide inputs to future rate cuts by the Reserve Bank in the latter part of the current Fiscal. However no cuts are expected in the August policy to be announced in the next week. There is positive of news because for the domestic market because of increasing domestic equities inflow.

The monsoon session of the parliament has seen a logjam till now and the opposition is in no mood to relent and have any serious discussions on any of the important bills. The cabinet resolution on goods and services tax suggestions might break the deadlock. Passage of key bills will be the trigger for our economy and markets in the days to come.

Other updates. IIFL Wealth was conferred with the following two awards during the quarter. We got the Best Domestic Private Bank in India overall by Asiamoney Private Banking poll of 2015 and the Best Domestic Private Bank in India for asset less than Rs. 25 million by Asiamoney Private Banking Poll 2015. With this I will now handover the mike to Mr. Amit Mehendale – CFO, India Infoline Finance Limited for the overview of the financials.

Amit Mehendale: For the quarter ended June 30, 2015 our total income was Rs. 963.9 crores up 22% year-on-year and down 9% quarter-on-quarter. Our profit before tax was Rs. 187.7 crores up 30% year-on-year and down 17% quarter-on-quarter. The net profit was Rs. 107.7 crores up 15% year-on-year and down 18% quarter-on-quarter.

I will now take up NBFC business. For Q1 FY16 income was Rs. 702 crores up 26% year-on-year and 1% quarter-on-quarter. Interest cost of Rs. 386.5 crores up 22% year-on-year and 5% quarter-on-quarter. This segment constitutes more than 17% of our total income for the quarter.

Our quarter and loan book stood at Rs. 14,679 crores up 18% year-on-year. Our NIM book comprises secured loan, loan against property, capital market, gold, medical equipment, commercial vehicle finance. Mortgage loan portfolio stood at Rs. 7,092 crores this quarter up 23% year-on-year and forms a dominant part of our loan book at 48.3% as at the quarter end.

There has been thrust on home loans for incremental business and growth. We continue to maintain high quality of assets. Our gross NPA net NPA stood at 1.62% and 0.81% respectively. For the quarter we have recognized as a 150 day past due compared to 1.27% and 0.54% in the previous quarter which was based on 180 days delinquency norm against the gross NPA of Rs. 238.2 crores we have non-standard as a provision of Rs. 119.5 crores. Besides this we have provision of Rs. 62.7 crores for standard assets as per statutory requirement.

Total provision coverage including standard asset provision as a percentage of gross NPA was 76.5%. Our average cost of funds were 7.5% for this quarter down from 10.6% in the previous quarter.

I will now take the financial product distribution. Our income for this segment was Rs. 126 crores up 27% year-on-year and down 40% quarter-on-quarter. This segment primarily include significant part of wealth business besides the income from distribution, insurance, mutual fund products, realty, and property advisory services.

Total assets under advice distribution and management this Rs. 75,521 crores up 12% year-on-year.

I now move on to capital market activities. The revenue for the quarter of this segment was Rs. 106 crores down 1% year-on-year and 17% quarter-on-quarter. IIFL's average daily turnover was Rs. 7,707 crores this quarter.

Now I shall take up major cost head. For the quarter our operating cost were Rs. 101.2 crores, an increase of 32% year-on-year but down 31% quarter-on-quarter. Employee cost for the quarter was Rs. 158.8 crores up 17% year-on-year and 2% quarter-on-quarter. This is largely due to increase in staff strength and annual salary increment. Other cost primarily including admin costs were Rs. 95.2 crores for this quarter. Depreciation cost for the quarter was Rs. 16.4 crores.

I now leave the floor open for any questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rishindra Goswami from Locus Investments. Please go ahead.

Rishindra Goswami: Could you share the employee expense number for NBFC this quarter?

Amit Mehendale: Employee expense for the quarter was Rs. 66.01 crores for this quarter. Based on consolidated basis which includes the housing finance business.

Rishindra Goswami: And what was the depreciation in NBFC?

Amit Mehendale: Depreciation cost for NBFC for the quarter is Rs. 7 crores.

Rishindra Goswami: And the other couple of data points on this thing is on the NBFC business is what is the total borrowing and total assets?

Amit Mehendale: The total assets are at Rs. 14,680 crores. So the borrowing as at the quarter end is Rs. 14,506 crores which also includes the financial assets of Rs. 1,953 crores.

Nirmal Jain: So Rs. 14,500 crores is the borrowing close to Rs. 2,000 crores is the liquid assets so if you net off it Rs. 12,600 crores.

Rishindra Goswami: What is the consol borrowing number?

Amit Mehendale: Rs. 14, 506 crores.

Nirmal Jain: Rs. 14,506 crores is gross.

Rishindra Goswami: And the other thing was what is the total branch count now in your NBFC?

Nirmal Jain: It is close to 1,100.

Rishindra Goswami: And the total number of employees?

Nirmal Jain: In NBFC or all over?

Rishindra Goswami: In the NBFC?

Rajashree Nambiar: It is 8,257.

Rishindra Goswami: This is including the HFC, right?

Nirmal Jain: That is right. So primarily is the growth in manpower cost is in HFC where we have scaled up significantly and so in the last quarter there is a significant drive in employee cost primarily because we have been scaling up our HFC business and obviously as these people become productive in next few quarters we will see much higher growth in the home loan book.

Rishindra Goswami: And what is the branch count in HFC now?

Nirmal Jain: 22.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir, can you give me the breakup of your mortgage portfolio in terms of home loans, builder loans, LAP?

Nirmal Jain: So mortgage portfolio home loan which is primarily done through HFC so the HFC loan book was Rs. 2,850 crores out of which close to Rs. 2,400 crores is retail and Rs. 450 crores would be large which are again residential projects typically we fund large projects where we can get retail loan which can dovetail into retail loans later. NBFC a large loan the corporate loans our portfolio has fallen significantly. Now it is Rs. 1,990 crores and mortgage retail which is primarily LAP will be around Rs. 2,250 crores.

Digant Haria: So the home loan portfolio and LAP portfolio will be the biggest drivers of this piece going forward, right?

Nirmal Jain: Yes, this is the first quarter in home loan portfolio has become larger than the LAP portfolio.

Digant Haria: Second question is around the gold loan business the proportion has been constantly coming down and I believe it is one of the highest yielding products for us. So is that the reason that our margin in this quarter have fallen a bit and what is our future strategy going around because when I look at the results of say a Muthoot Finance or Shriram City Union they could register some good growth in gold in the last quarter at least. So what trends are you seeing there?

Nirmal Jain: So our gold loan prices are fallen in last quarter and obviously if you see the gold financing companies when the gold prices fall typically the results are not very you know they basically take a hit because the amount of loan that have been given against the same loan also same gold falls. As far as we are concerned last few quarters we would have seen that we have been very consistent and strategically we want to bring down gold loan portfolio. It will look optically as a high margin but it is volatile.

So it is very volatile in terms of because typically if you see the contextual gold loan period is about 96 days or may be 3 or 4 months so book builds and if there is a market movement the book goes down also. So we want our diversified asset mix and if you look at our 3 to 5 year plans in gold loan, commercial vehicles these are the two segments. The third segment is SME and medical equipment all three of them will be about 20% each. That is what our objective would be. And gold loans the margins are higher but also there are costs which are related to branch overheads and the operational cost which are also high.

So on the net optically it looks as a high NIM business but longer term it is not something which will guarantee you high ROE in terms of what you can leverage. And also consistent and a steady growth also is more visible in say mortgage and other products as compared to gold.

Digant Haria: So are we scaling down our gold loan business in terms of closing it from some branches and volumes are not adequate to justify the costs?

Nirmal Jain: Yes, so from the peak of 1,400 branches we have come down to 1,100 branches.

Digant Haria: So all these 1,100 branches that you mentioned for NBFC all of these branches have the gold loan product, right?

Nirmal Jain: Yes, more or less all of them will have gold loan products.

Digant Haria: And you would be having a rule that if say the gold loan portfolio in a particular branch falls below the threshold you will close or migrated to some other nearby branch because you will have to have a security guard; you will have the cost of storing the gold. So your cost ratios would that also fall in line with the fall in gold loan portfolio in the future?

Nirmal Jain: Yes, of course it should fall. So what you are saying is right. So there are several other individual factors that if the branch is also doing other business or can we reuse the branch for other products such as home loan or for the group companies a distribution or broking. So I think we take in to consideration all these factors and then there is a process of communicating to the customers moving them to the nearest branch or getting the loans. It will take few months. But what you are saying in principle is right that if the branch becomes unviable then it will take a few months or few quarters but we shut it down.

Digant Haria: Sir, and my last question is on the wealth management piece. So in this quarter the costs have come off quite sharply both in terms of employee cost and operating expenses. So is this more of a seasonality or there is something more to it?

Nirmal Jain: No, I think the seasonality the last quarter March quarter was a bumper quarters the bonus is also peak there and also if you look at the operating cost then there is a significant component of external wealth managers, the introduction fee and the payouts and also the promotional events and all those things that happened in the last quarter with the customer events as well as the employee events. So the last quarter peaks and the first quarter typically flat so I think there was a reason.

If you look at the employee cost on a YoY basis it is flat but it contains fixed as well as variable component and also the salary increase effective 1st July. So I think that is what explains that why employee cost is flat on a YoY basis and the cost had come down on a quarter-on-quarter basis with last quarter is always a peak quarter. So this trends we will see in the rest of the year also.

Digant Haria: And on this new mutual fund guidelines which have come for income recognition so our revenues may probably look that they are not growing quarter-on-quarter but then we are building and book which will yield us for many years to come. Is that a correct thing to assume now?

Nirmal Jain: I think that is correct because most of the mutual fund distributors and wealth manager will take a hit on the upfront but I think the trail fee will build up over years.

Moderator: Thank you. The next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: Sorry, I did not catch the number of the home loan portfolio within the parent company?

Nirmal Jain: So the home loan portfolio Nishchint, we are doing all our incremental home loans portfolio from housing finance and from the NBFC also whatever we could shift we have taken it out. So there may be some home loans in NBFC but the predominant part of home loans will be in housing finance. So our HFC loan book was Rs. 2,850 crores I am just rounding it off to the nearest 50 or whatever and nearest 0 so the Rs. 2,850 crores has at June end which was about 45% growth over the previous quarter and almost 2.5 times what it was a year ago.

Nishchint Chawathe: And in the parent company I believe you said LAP is Rs. 2,250 crores?

Nirmal Jain: So LAP is Rs. 2,250 crores which is typically small LAP. The large loans portfolio we have brought it down to Rs. 1,990 crores from almost Rs. 2,800 crores quarter before so there are almost 30% decline in the large loan portfolio. I will just give some more explanation because I think some of the question which analyst might be looking at. So our NBFC I think this quarter was a watershed quarter because there are significant transformation that is taking place. One is that our thrust is on home loan which obviously means that your NIM go down in the short term why I say short term because typically home loans for 10 to 15 years and once you season it for a year or year-and-half then we can sell it down and lock the margin for the remaining part and reuse the capital. Secondly, in HFC your capital adequacy requirement in the risk weightage is also lower. So you always can churn out or you can leverage more and built it up over a period of time.

But obviously in the interim it can be a small hit. Secondly, in large loans all of us are aware there is bit of a scare around large real estate projects and more or in cities like Mumbai and then where our office is located. So there were few large loans where we could see that they had other lenders and we allowed or sort of encourage the pre-payment and tried to reduce the portfolio because that collateral was good the loans were on track and there were other people who are willing to take them over. So in fact they have been taken over. So almost Rs. 500 crores of large loans got repaid and there are some incremental. So on a net basis our portfolio has gone down by Rs. 800 crores. Now unfortunately what happened is this happened in the early part of the quarter and that lead us most of the CP market when you contact them for three to four months.

They do not allow pre-payment or they ask you for 100 basis points difference you got to pre pay. So you end up carrying that lot of liquid for rest of the quarter in mutual fund in the negative carry. So if you look at our interest the cost has gone up more than proportionately as compared to interest income and that the income on mutual fund liquid investment that would have we deployed that surplus fund that is coming at the income on investment which is significant increase in this quarter.

But we are building the business from a longer term perspective more diversified and more with the asset classes that you are comfortable from a longer term perspective.

Nishchint Chawathe: I am sorry I joined late so I might some of the questions might be repetitive. But could you give a guidance for the loan growth may be for 2015 or 2016 and how that?

Nirmal Jain: So first quarter is an exceptional quarter where the gold loans portfolio has gone down by 15% YoY; 8% quarter-on-quarter and the large loan portfolio has gone down almost about 13% quarter-on-quarter. So these kind of exceptions are unlike it too happen in the next three quarters. So I think for the year the whole we will be more or less in line with the industry or slightly more than the industry so which is around 20% to 25% loan growth is what we can look forward to.

Nishchint Chawathe: Just on the wealth business if you could give us some breakup of the AUMs between offshore private wealth mutual fund etc?

Nirmal Jain: I do not know how much is the influence in the share in public domain but I can tell you the broad numbers that we do. So totally our assets were around Rs. 75,000 crores out of which our global assets are about Rs. 10,500 crores and the remaining assets are domestic assets.

Nishchint Chawathe: And assets under custody would be?

Nirmal Jain: Those are global advisory, so custody assets have gone away so the global advisory assets are what we were earlier custody asset of around Rs. 12,500 crores. So if you go back a year in time then we had more than Rs. 25,000 crores of custody assets now they are disappeared. Some of them have mopped into global advisory assets of about half of that.

Nishchint Chawathe: So global assets would be Rs. 10,500 crores?

Nirmal Jain: Approximately Rs.12,500 crores.

Nishchint Chawathe: Mutual fund would be approximately Rs. 21,000 crores to Rs. 22, 000 crores?

Nirmal Jain: Mutual fund approximately will be Rs. 26,000 crores to Rs. 27,000 crores/

Nishchint Chawathe: And what would be the rest?

Nirmal Jain: So rest have all means direct equity bonds, real estate discretionary assets we have launched AIF fund almost close to Rs. 3,000 crores. We have raised by way of AIF and TMS funds so that is all. So global assets will be so there are two breakup in global assets. So I think if the where IIFL access global as investment managers that is about Rs. 15,000 crores and another Rs. 12,000 crores will be advisory assets. So I think global assets will be same-to-same with one-third will be global assets and two-third will be local assets.

Nishchint Chawathe: And in terms of commission grades how does that kind of play out with the mutual fund regulations and I guess the service tax changes? So in terms of kind of at least that particular segment would you kind of look at flattish number for this year?

Nirmal Jain: So there is a negative development in a way because it is a direct hit and mutual fund a significant component. But I think we look forward to make it up by way of other products as well as the mutual fund continued, of course the trade income and on the upfront also now the industry is divided so it is very difficult to figure out how it will take, some of the mutual funds are still willing to give upfront and defy every discharge so how the industry is shapes we really do not know at this point in time. But I think maybe it looks like that upfront income will be taken away and it is all be made up by way of from other products and trade income.

Nishchint Chawathe: So the mutual fund income of around Rs. 300 crores or so last year that will I guess what you are saying is that we will try to kind of ensure that it remains safe?

Nirmal Jain: No, that would have two components. It would be upfront as well as trail.

Nishchint Chawathe: Yes, but you will not be able to book trail this year because you were done a lot of upfront last year with zero trail in your one I believe?

Nirmal Jain: No, I think we continue to get mutual fund commission so it is not because the excess have been building up over years. So it is not that the trade will be negligible or will be zero. So it will be significant trade.

Nishchint Chawathe: But that with the growth expect you are broadly considering that that number will at least?

Nirmal Jain: No, they are confident of to make up for that. We will make up by way of other products so we are focusing on structured products and many other things bonds as well as direct equity markets and better. So it will be made up.

Nishchint Chawathe: So this year I guess one component you will be able to?

Nirmal Jain: Look for the trend then it looks like that I think of course you know you cannot look at the first quarter YoY growth is projected but we should be able to make up and at least maintain the growth.

Moderator: Thank you. The next question is from the line of Mohit Pandey from CRISIL. Please go ahead.

Mohit Pandey: Sir, my first question pertains to housing finance so you mentioned earlier that you have been scaling up the portfolio. So just wanted to understand which particular geographies have you been scaling up and where do you foresee further growth to come from?

Nirmal Jain: So we are carrying on in all the geographies except East so we are more or less we are expanding with equal vigor in all West, South and North but I think eastern market is something which is at this point in time we are not focusing too much.

Mohit Pandey: And in terms of your target segments could you tell more about the average ticket size and whether your customer profile comprises of self-employed or salaried classes on the home loans front?

Rajashree Nambiar: So the average ticket size for the home loans have been essentially picking up between 20 to 22 lakhs and so far we have our segment have been the self-employed and in terms of the other question you have asked for the distribution so Nirmal answered it is across the geographies with East and sometime back there was a question we have also been increasing the number of dedicated distribution points we have for the HFB. So we started actually somewhere around

12 to 15 last quarter we have moved it up to almost 24 to 30 now. So that is the other distribution point.

Mohit Pandey: And in terms of GNPR for last quarter I believe there was a slippage in the capital market lending portfolio. So could you please tell the status on the same? And also if you could give a sense of the breakup of this 5.62% GNPA across the various portfolios that you have?

Nirmal Jain: So there is one rule that is net. So if you look at our gross NPA of 1.62% so one reason is that the norms have changed from 180 days to 150 days. And two is there are two, three large cases that we are trying to resolve and we have not been able to resolve it in the last quarter but I think it looks like there may be next one or two quarters we should be able to close them and that should actually break down the number. One case in capital market and one or two cases in LAP. So we need to resolve them because they are little chunky ones.

Mohit Pandey: And what would be the split between the broking revenues and I-banking revenues for the quarter and capital markets segment?

Nirmal Jain: So I think of the total capital market revenues that you see 15% is investment banking the remaining is brokerage broadly.

Mohit Pandey: And how are we seeing it going ahead?

Nirmal Jain: Investment banking is deal based so it is volatile. I think in this quarter it looks good but unless this quarter ends we just cannot project the numbers. So investment banking we have been looking forward to a good season for IPO and equity capital market and that is where our strength is. But unfortunately last one year it has not been as good as one would have expected but hopefully things should pick up.

Moderator: Thank you. The next question is from the line of Pooja Swami from Span Capital. Please go ahead.

Pooja Swami: So my first question is on a capital market segment. So if you look at our cash volume; cash volume has been falling sequentially and year-on-year also. Your fall has been almost 15% compared to market fall of 10%. So how do you explain this?

Nirmal Jain: So if you are looking at YoY or quarter-on-quarter?

Pooja Swami: Both the year-on-year and quarter-on-quarter also? Because if you see year-on-year your cash market volume has fallen from almost Rs. 1,000 crores to Rs. 840 crores whereas the market for if you look at the exchange turnover the fall has been 10%?

Nirmal Jain: So I think if you look at the last quarter last year we did a restructuring of the business and we tried to consolidate the smaller customers more and encourage them to move towards mutual fund and try and focus and also we have shutdown many branches and consolidated the business. Last quarter our institutional business was lower so relatively the market share fall was more than compared to previous quarter and with that the business had driven to some part by block deals which again there can be some few blocked deal which can spike or there can be and lack of them basically can cause lower market share. And also I think that some part of market has been in algo trading where we are just building capabilities we are yet not encouraged our clients to get in to that and we are just trying to build the product there. So I do not have the precise numbers but I would like to believe that algo volumes went up significantly and we lost out on that.

Pooja Swami: And what are the current yields now?

Nirmal Jain: So yields have not changed much so they are around 3 basis points up.

Pooja Swami: And my second question is again on your lending business. In the commercial vehicle segment we have seen the book almost doubling this year. So if you could explain us what is the nature of these lending is it firsthand lending or is it like commercial vehicle or high commercial vehicle? What exactly are these?

Rajashree Nambiar: So we lend to both heavy and medium commercial vehicles and we have a mix of both. We do both new vehicle financing as well as used vehicle financing and our mix is about 70:30 respectively.

Pooja Swami: 70 would be new?

Rajashree Nambiar: Yes.

Pooja Swami: And are these through the retail users or to large fleet operators?

Rajashree Nambiar: We have a combination of both they are largely to the retail user, end user and but we also have a certain proportion which is for fleet operators.

Nirmal Jain: Yes, very large established fleet operators can negotiate better rate from bank. So if we look at medium size to small size fleet operators and single users.

Pooja Swami: And my last question is on again on a gross NPA. You have given your NPAs number this quarter and 150 days recognition norm. Is it possible for you to give a similar number for that previous year on 150 days?

Nirmal Jain: We do not have that number actually so maybe someday we will have to compile that number, yes.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: This question is on the capital market portfolio that you have so that is almost 17% of your total NBFC portfolio. So just wanted to know like what is the proportion of retail customer what would be the promoter funding out of this portfolio and the second question again on this what is the competitive landscape like and how are we better than banks; what proposition do we offer more? Is it the kind of shares that we lend against or something else?

Nirmal Jain: So we do not have much promoter funding. I think we will have almost zero or negligible promoter funding. We are now as far as RBI is concerned I think for the NBFC they will laid down very strict norms also that you can lend only against certain category of shares with A-Category of shares you have to maintain 50% margin at all times. Now we are following all those things very strictly and not trying to circumvent any of those provisions of RBI. So with that I think the in the way the positive of book or the whether the safety has improved significantly because you can fund only against A Category shares and also whether we have up to 50% that typically less than that because you need to keep margins in case the price has move up and down. Secondly, how are we better than bank; banks I think have a limit of some Rs. 10 lakhs or Rs. 20 lakhs per individual borrower and that is what NBFCs do not have. So we can I mean if you got equities worth Rs. 50 crores I can give you Rs. 25 crores of loan also depending on quality of stock and otherwise KYC of the client. So we can have a larger individual loan and that is the only difference that is there with vis-à-vis banks. And also the turnaround time can be faster and the loan can be flexible that you can repay any time and reduce your interest cost.

Digant Haria: And all these shares are in a DP account that we own right or we will land against the DP account somewhere else?

Nirmal Jain: No, typically most of the DP accounts will be with us but of course you can pledge and lend against DP accounts outside but in very exceptional cases but typically we prefer DP with us. But yes, it is possible that you can have a DP account outside you need to pledge and we will lend you.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just wanted to know the implications that you see from SEBI's recent move of increasing the minimum contracts size in F&O from 2 to 5 lakhs?

Nirmal Jain: I think it is a positive development because small customers they end up taking risks and leverage in future & options which is not appropriate for them. So I think as far as we are concerned we do not see much impact because the initial dividends trying to encourage customers who have a little larger margin only to take in derivatives.

Moderator: Thank you. The next question is from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg: Any thoughts on the Fairfax open offer side how do you look at the whole thing panning out versus open offer gets completed?

Nirmal Jain: So Fairfax may have made an open offer of about 26% of equity at Rs. 195. Fairfax has been invested in our company for almost about I think four years or so and I think is a very renowned and good investor. Prem Watsa has an impeccable reputation and in fact for 30 years he is known as Warren Buffet of Canada and for 30 years I think he has a track record of some compounded return of 18% or whatever but his name brings lot of credibility and respect. So we are quite happy with that. But as far as promoters are concerned we are not going to offer single shares so we are not going to get diluted and in the external shareholding it will get consolidated. I think in the institutional survey if they get what they are looking for then obviously they are become a larger shareholder. But they are not looking for any shareholders rights or any additional board member and that is what companies is not willing give either. So I think the control of management remains with us and it is in terms of financial investor it is a good name and we welcome it. But really I cannot comment on the price and what and the number of shares that we get ultimately so I absolutely no idea on that. In terms of process also there are few regulatory approvals that are required I do not have precise details because their bankers and their lawyers are different I mean they are appointed but the feeling that I am getting it will take about at least a couple of months.

Vikas Garg: And given the fact Nirmal that Fairfax has been already a major shareholder for four years and I am sure the discussions have been happening at the board level in terms of the strategy going forward. So you think that the strategy of the company which has been more focused upon the lending business as of now would continue even if there was a some kind of a change in the shareholding pattern or it could kind of a completely different going forward?

Nirmal Jain: No, Fairfax is a fairly passive investor so they really do not get in to company strategy or which business or what we should go forward and I think in last 4 to 5 years whatever they would have seen they would have been happy with that. So that is why we made an offer. So I think there will be absolutely no change whatsoever in terms of our business plans and strategy for future growth. So at the board level of course we discussed the issue and a committee of independent directors have been formed to opine on this as required by law and give comments so that will happen in due course. But as far as our business plans are concerned or our strategy for business growth is concerned there is no change whatsoever.

Moderator: Thank you. The next question is from the line of Mohit Pandey from CRISIL. Please go ahead.

Mohit Pandey: Sorry I missed the borrowing figure and if you could just indicate the leverage and how it has moved from last quarter and the same quarter last year of NBFC?

Nirmal Jain: So the borrowing number was Rs. 14,500 crores. NBFC standalone or consolidated level?

Mohit Pandey: At consolidated level?

Management: Rs. 14,500 crores and debt-to-equity is 6.46% in this quarter gross. So without factoring the cash or cash equivalent the financial results that Nirmal talked about earlier.

Nirmal Jain: Similar level of 6.3.

Moderator: Thank you. The next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: What were the employee expenses in the NBFC?

Nirmal Jain: Rs. 66 crores.

Nishchint Chawathe: And the other question was pertaining to the transfer of insurance subsidiary. Just wanted to get a little bit of clarity and update on and possible valuation if you could share?

Nirmal Jain: So the transfer of stake this has happened so that we comply with the law but after this Kotak's case that has been approved in the law also has changed so they have come up with clarifications and amendment. So the most likely scenario is that it takes the stake back. Valuation of the shares addition has done by chartered accountant and bar approved by the board. This has more become technical because I think the most likely scenario is that stake will come back to the hold of IIFL.

Nishchint Chawathe: So just curious was has this already happened or was this kind of proposed at that point of time?

Nirmal Jain: The stake sell has happened only. See what happened is that after the budget in March the government changed the rule very clearly and categorically saying that FIIs will be treated as foreign shareholders and insurance brokers will be treated as par insurance manufactures. So that means that IIFL if it has FII holding of more than 50% cannot hold the insurance broking companies. Now at that point in time Kotak share was less than 50%; Kotak's foreign assets. But then they applied for FIPB because for ING merger actually the stake would have gone beyond 50%. So in that I think there was a clarification the amendment that came later again restoring the earlier status which was that FII holdings will not consider as foreign shareholding. So that has happened very recently so I think we will take it up again and transfer it back.

Nishchint Chawathe: So on the numbers that you are able to see because I believe you have reported this on June 11th so on the first quarter numbers that we are able to see how is that treatment this is the insurance business is not getting reflected or how does that work?

Nirmal Jain: No, I mean the insurance business so whatever the accounting treatment has to be done has been done. But it is not significant in fact on either bottom-line or topline.

Nishchint Chawathe: So that would mean that for this quarter you have not included insurance income?

Nirmal Jain: No it has been done based on the date so I think in our consolidation if we consolidated till the date was there and then there is a minority share of which comes.

Nishchint Chawathe: And it will be transferred back to the parent company whenever the transactions happens I believe at a similar valuation?

Nirmal Jain: That is right.

Moderator: Thank you. The next question is from the line of Prerna Lotlikar from Allard Partners. Please go ahead.

Prerna Lotlikar: Yes, sure. Sir, I wanted to know regarding your gold loan portfolio. So the current decline in the portfolio is it because of the weaker demand that you are seeing for this product or is it a conscious strategy that you are following that you are moving away from gold loan?

Rajashree Nambiar: Yes, so it is actually a combination of both. Strategically we have been trying to contain the composition of gold loan in our overall portfolio and as you see it has come down to now 24% when it was quite high up to 40%. However, what is also impacted the drop in the gold loan book really is what is happening outside which is the subdued growth in the industry and much lesser demand and also the fall in gold price. So all of that has come together and we have lost approximately Rs. 330 crores in the gold loan book.

Prerna Lotlikar: So going forward it would continue to be around this levels or would it reduce even further?

Rajashree Nambiar: Yes, really our strategic intension is not to grow the gold loan book but essentially to keep it at this level and consolidate. However, we will do other ways to improve the profitability on the book because we are looking at other things like getting in a lot more retail customers we are also looking at improving operational efficiency through digitization and we are obviously given the market conditions focusing a lot on collection as such right now.

Prerna Lotlikar: And over the past year have you closed branches for the gold loans segment?

Rajashree Nambiar: Yes, we have and I think Nirmal has already mentioned on the call at one time we were closer to 1,400 branches which we actually brought down rationalized and we are somewhere around 1,100 branches now. That is really happened over the past 12 to 18 months.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Venkataraman for his closing comments. Over to you, sir.

R. Venkataraman: Thank you everybody for participating in the conference call. If you have any more queries, you can please feel free to send it to our investor relations and we will be more than glad to get back to you. Thank you very much and have a niece day.

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of India Infoline Holdings Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.