IIFL Holdings Limited

Consolidated Financial Results – Q2FY18

Conference Call Transcript

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Management

Mr. Nirmal Jain – Group Chairman, IIFL Holdings Limited

Mr. R. Venkataraman – Managing Director, IIFL Holdings Limited

Mr. Prabodh Agrawal – Group Chief Financial Officer, IIFL Holdings Limited

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Holdings Limited Q2 FY18 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 telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to the management. Thank you, and 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 and R. Venkataraman – Managing Director.

I will now pass the mike to our Chairman to share his views on the macro environment and give an overview of IIFL Group's strategy and plans.

Nirmal Jain: Thank you, Prabodh. Welcome and good afternoon to all the participants.

Macro environment in India is looking good and positive, and I think one more confirmation for that has come from the ease-of-doing-business rank, in which India has improved significantly - almost 30 notches up. Sometimes we find that it is only Indians who are skeptical about India but most of the global investors and people who are looking from outside are taking note of the significant strides that the government and our policy changes have made.

I think amongst the big bang reforms, the only unfinished agenda was bank recapitalization, and that also has now been completed. That should have a very good, long term positive impact on the macro environment. One or two key impacts that we will see immediately are the monetary transmission of lower interest rates, and secondly it will trigger the credit off-take, which has been slow and sluggish, to pick up. With demands revival we can also see the private sector investment cycle coming back.

On the negative side, the Brent oil has crossed $60 mark and that's not good for India's fiscal and there are many people who are worried about inflation, in fact SBI has reduced the MCLR rate, albeit by 5 basis points, but it is in the right direction. If I look at things from the longer and medium term perspective, it is very difficult to predict the environment for next one or two quarters, but if you look at things for three years, five years or ten years then inflation has to be headed downwards. India is a globally integrated and linked economy and nobody is expecting global inflation to be high in the foreseeable future. As for the financial services industry, I think it has a very positive outlook and in fact I would say is seeing tailwinds at this point in time, and as the economy grows faster we will see a leverage impact on the financial services industry.

There are many people who talk about PSU Banks recapitalization and that they are competing in credit with private sector banks or NBFC, I think this is very far-fetched because at this point in time most of the NBFCs like ours operate in niche verticals where they have specialized skills. But on the positive side, recapitalization of banks and PSU Banks can have positive impact for all of us in terms of growth as well as on the lower interest rates.

Financial services industry when we look from a medium to long term point of view, I see three mega-trends and those three mega factors that should grow faster for next ten years are the sort of foundation for our growth strategy as well. The first is financialization of savings - although it started with demonetization, may be that was the trigger when we saw the inflection point, but there are much stronger underlying factors driving that. Another is lower interest rates -which most of the savers could enjoy say five years ago are no longer there, and we see that the bank interest rates/ fixed deposit rates, if you adjust for tax, it gives you less than 5%.

Secondly, real estate and gold used to absorb a lot of savings and investments, particularly the unaccounted-for money or money for which there is no trail through the banking system. Of course demonetization has helped there but also these asset classes have not given any attractive return and in fact most investors will be disillusioned when they compare the kind of returns that these assets gave say 10/20 years ago, against the recent trend and expected trends in the near future as well. So gold and real estate have become relatively unattractive. Real estate as an investment has become even more unattractive with RERA, with lots of disclosures and the way transactions take place. With that I think financialization of savings will keep gathering momentum and that is good for our Wealth Management business as well as our Capital Market business. The flow of more money into financial assets, whether they will be equity, mutual funds, bonds, life insurance or any other financial products, is a good sign for us as we are present from retail to institutional to HNI segment.

The next mega growth driver would be housing. This government is serious about housing for all by 2022, which will require huge investments -running into trillions of dollars over the next 10 years. For housing finance we have a housing finance company and you will see in our numbers that home loans is the fastest growing segment in our NBFC or lending portfolio. We can also play this theme by funds which are for housing and very soon we are going to launch through our AMC platform, a Real Estate fund which is targeted at investing in the affordable housing projects.

The third mega trend that I see in terms of growth would be SME. Small and Medium enterprises will drive growth in next 10 to 20 years. If you go back and see the history of China in 1980s and 1990s their economic growth acceleration happened primarily because of SME; we are seeing that trend in India now and many state governments have become development oriented and that is also helping this trend. When we say SME financing, then in our NBFC loan portfolio you will see that we play this theme not only by LAP which are predominantly to SME, but also now we have started the SME working capital or unsecured financing, even commercial vehicle, and to a large extent gold loan, is also for SME customers. MFI also is MSME, which is an even smaller or micro segment of SME customers. The key here is that the lending is driven by cash flow which is far more stable and predictable as compared to the lending which are for consumption or against collateral without clarity on the purpose.

With this, I think all our three core businesses - Wealth and Asset Management, Capital Market related activities and our Loans and Mortgages, seem well placed to seize the opportunity from accelerated economic growth which will have further accelerated growth for the financial services sector.

Thank you. With this I handover to Prabodh to take you through the details of our financial results.

Prabodh Agrawal: Thank you Nirmal.

We are very pleased to report a 40% YoY growth in our group net profits to Rs. 291 crores for the second quarter. Net profits after minority interest have grown by 25% YoY to Rs. 229 crores. Our net worth has reached Rs. 4,740 crores, ROE was 19.7% and ROA was 2.5%. All the three segments of the company that is NBFC, Wealth and Capital Markets contributed to this strong growth.

Talking more about the NBFC business, our loan AUM grew 27% YoY and 12% QoQ to Rs. 26,033 crores, Profit after Tax grew by 30% YoY to Rs. 132 crores. The NBFC's net worth is Rs. 3,712 crores, our Tier-1 CAR stands at 17.0% and total CAR at 18.4%. Thus we remain well-capitalized to meet our growth requirements. Our AUM growth is driven primarily by small ticket home loans which grew by 64% YoY. The other fast growing segment was small ticket SME loans which grew by 65% YoY. We have said on earlier occasions that small ticket housing and SME loans are our focus segments and will remain our primary growth drivers. Capital market loans have grown largely due to short tenure IPO funding. AUM growth was moderate or negative for LAP and Gold segments. In home loans, our focus remains primarily on the self-employed section which constitutes 60% of our loan portfolio. The fastest growing segment in home loans is the affordable home segment with average ticket size of 10 lakhs to 12 lakhs termed by us as Swaraj loans. More than 15% of our incremental quarterly home loan disbursements are as Swaraj loans. We have recently been sanctioned an additional refinance of Rs. 500 crores by NHB taking the cumulative amount to Rs. 825 crores, which shows the regulator's confidence in our portfolio and mix. As I said, there has been no growth in the LAP book and its share in the loan book as declined. Within construction and real estate finance the mix continues to change towards construction finance for small-ticket housing projects. As on 30th September 2017 we had nearly 5,000 approved housing projects up nearly two fold from 2,700 approved projects a year back. All our construction finance loans and 50% of home loans were made through these approved projects. We expect that this approach will materially reduce our operating and credit cost going forward for our housing finance company.

We believe that the overall portfolio risk is on the decline as our portfolio mix continues to become more granular, with greater share of small-ticket home loans and SME loans. The increasing granularity is driving down portfolio risk while at the same time helps us derive better yields versus large ticket lending. Retail loans including consumer loans and small business finance below Rs. 1 crore constitute nearly 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 40% of our home loan 60% of LAP, 90% of CV, 20% of SME and nearly all of our MFI loans are PSL compliant. In aggregate nearly 35% of our loans are PSL compliant which we can sell down to banks at attractive rates.

The share of securitized book stands at 12% of our AUM and our aim is to take the securitized book up to 15% to 20% of AUM over the next twelve months through higher sell downs of home loans, LAP, CV and SME loans. This should positively impact our profitability and CAR. Our average cost of borrowing declined by 12 basis points QoQ and 110 basis points YoY to 8.5%. Incrementally, we are now borrowing at an average cost of 7.9%. Term loan rates of banks had collapsed post demonetization and were available to us at bank's MCLR. In recent months market borrowings have become cheaper than bank term loans by about 40 to 50 basis points and this should further drive down our average borrowing cost.

Our NIM was at 7.2% up 56 basis points QoQ. Falling borrowing cost and rising share of high yielding SME and MFI loans have helped expand our NIMs, which were partly offset by the rising share of lower yielding retail home loans. Going forward continued fall in our funding cost and stronger growth in high yielding products like SME, gold and MFI should support our NIMs.

Cost to income ratio was at 35.8% and OPEX to average loan book ratio was at 3.05%. We believe there is sufficient scope for both these cost ratios to fall due to better economies of scale across our products and benefits of digitization. Our gross NPAs were at 1.95% of loans, down from 2.04% in the previous quarter and net NPAs were at 1.09% of loans up from 0.94% in the previous quarter. The marginal sequential increase in net NPAs was due largely in the LAP and Real Estate finance segments and to a much smaller extent in the MFI book. Our NPA ratios in all other segments were flat or declined QoQ. We have adequate collateral in LAP and Real Estate finance, and we expect to resolve most of the cases in the next one or two quarters.

Giving you more details on the digitization of our NBFC, in our quest to become a retail lender, with digital delivery we have been steadily digitizing the entire loan lifecycle. Out of nearly 4.25 lakh loans on- boarded in the last quarter, 95% were digitally on-boarded and 92% of all loans were acquired through Aadhaar based e-KYC authentication. Our e-sign penetration is steadily increasing with over 37% loans being digitally signed thereby reducing turnaround time and on-boarding the customers seamlessly in paperless mode. With 1.65 lakhs mobile app downloads, IIFL Loans mobile app is fast becoming the channel of choice for customers for both servicing and account management. Our latest business vertical 'Digital Finance' on boarded 16,500 customers last quarter all acquired digitally and with an entirely paperless process. This run rate is fast scaling up.

On analytics, we have a large customer franchise of nearly four million customers and a strong focus remains on cross sell. In the last quarter we generated 2 lakh plus leads resulting in sharp increase in the business from our internal customer base; this is set to rise going forward.

We are sharpening our risk analytics tool which helps screen new applications at the point of on-boarding as well as raise pro-active trigger alert for collections. Analytic triggers are also being used for early detection and deterrence of frauds.

Now talking about Wealth, IIFL Wealth PAT grew by 67% YoY to Rs. 95 crores. Our assets under advice, management and distribution have grown 47% YoY and 5% QoQ to reach Rs. 1.33 trillion. We hired thirty RMs during the last quarter taking the total number of RMs to 283 to further drive the growth going forward.

IIFL Wealth offers a broad range of product and services to participate in a larger share of the client wallet. This includes family office, trusts, AIFs, estate planning, offshore advisory services, brokerage, NBFC and research. Last quarter we provided several additional disclosures in our Wealth business in terms of AUM composition, breakup of retention yield into fee based and fund based, details of our AUM movement and new money garnered and finally the profit and loss account of Wealth business in a new format that was easier to understand.

We have continued giving the same information in this quarter. In the second quarter we raised close to Rs. 4,000 crores in net new money. During the quarter the team garnered AUM in wide ranging products including Rs. 1,600 crores in focused equity AUMs and Rs. 700 crores in focused debt and equity mutual fund products.

In our AMC in India we have raised a further Rs. 2,400 crores in our Special Opportunity Fund which invests in pre-IPO and IPO situations. The total commitments in these funds is now over Rs. 6,500 crores. AIF assets grew 53% YoY to almost Rs. 9,000 crores. Total assets under management are now at Rs. 22,848 crores comprising of Rs. 11,484 crores in our domestic AMC and Rs. 11,364 crores in our offshore AMC. IIFL Wealth Finance which offers loans against securities and margin funding to high net worth clientele grew its loan book 13% Q-on-Q and 2.1 fold YoY to Rs. 4,852 crores. Average lending rate for this book is around 10.5%.

We had a onetime mark-to-market loss of about Rs. 15 crore on our investments which has resulted in lower fund based income in this quarter. Effective tax rate for the wealth business was lower in the second quarter FY18 due to higher contribution from offshore entities and some long term capital gains. The effective tax rate for first half FY18 was about 25% and for the whole of FY18 we expect the effective tax rate to remain at this level.

Talking about Capital Markets, during the quarter our average daily cash turnover was up 14% YoY to Rs. 1,220 crores, our average daily total turnover including F&O was up 47% YoY to Rs. 13, 269 crores. Our NSE market share in the cash segment remains around 4% and in total around 2%.

We are continuously enhancing our offerings on digital and mobile platform for retail customers in our broking business. Our mobile trading app IIFL Markets had over 1.1 million downloads presently about 37% of our retail broking clients trade through the mobile app.

The investment banking tail completed six transactions during the quarter including four IPOs of ICICI Lombard, Dixon Technologies, Capacite Infraprojects and SIS India besides IPP of Questcon. The pipeline continues to be strong.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session.

We take the first question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Two questions to you. One, on the wealth management side; I was pretty impressed with the extent of cost control quarter-on-quarter despite the fact that at least from what one reads in the papers you guys seem to have been opening up offices offshore to target the NRI market etc. We have heard about your growth targets on the wealth management side and obviously that will break down into some portion of distribution income and some portion of fee income you'll earn in proprietary products. How do you think about the cost side of this, I mean you know are there any large step increases we should expect in cost or is it likely to be pretty moderate from here? And secondly, any update on the ratings from the NBFC I know that we were in touch with rating agencies regarding a possible upgrade. So any outlook on that?

Nirmal Jain: I'll answer your questions one by one. In wealth I think if you notice correctly then I think there are significant cost increase in last quarter because our employee cost has gone up by 20% quarter-over-quarter and 50% YoY and other operating expenses have gone up by almost 55% on a YoY basis. We have been building capacity, in terms of cost, manpower is the biggest cost and in the manpower the key element of cost is bankers. So you will have the way the wealth management is structured - there are bankers who are customer facing and they get customers and are more expensive resources and then there is the support staff. The number of bankers in last quarter has gone up to 283 which was around 253 in the quarter before. So we have been building capacity and we expect that this is required because still the market is growing and there is an opportunity to continue to grow in this business.

Pavan Ahluwalia: No I understand that, I expected a cost increase but frankly I expected it to be much higher given the offshore offices etcetera. Is it fair to assume that operating expenses will be roughly at these levels over the next several quarters and employee cost will just grow in line with senior hires where obviously the delta to overall account is higher because the average wage they are coming in at is much higher than the average prevailing wage?

Nirmal Jain: I think expenses will continue to go up but in proportion to revenue so you will not see significant increase in cost to income ratio.

Pavan Ahluwalia: On the wealth management side?

Nirmal Jain: Yes. That will be because as the business is growing we have room to build more capacity and continue to expand overseas as well as locally; but we will do it in a manner that they do not go overboard in proportion to the revenue. The second question was about rating, so our results have just been announced, and we will approach rating agencies immediately after this and ask them to review -that process will start from tomorrow itself.

Moderator: Thank you. Next question is from the line of Ashwin Balasubramanian from HSBC Asset Management. Please go ahead.

Ashwin Balasubramanian: This is with regard to the segment wise NPAs which is disclosed. So as I think you have mentioned in the initial remarks there was a spike in NPAs in both LAP and real estate. So on the LAP front to begin with is this coming from a few chunky accounts or is it like more like well distributed and are there any specific regions where you are seeing stress in the portfolio or it is more or less across the Board? And I mean particularly with GST coming in, are you seeing some stress in terms of the SME segment? Also just a related question here is historically I mean in terms of like resolving these NPAs how long does it take for you to like sort of generally repossess them and sell it down and when you actually manage to sell it down I mean, have you had to take losses in the past or your LTV more or less covers whatever?

Nirmal Jain: There are few chunky cases, but LAP has been impacted by GST in some of the SMEs and in Real Estate also there were one or two builders, who have not been able to keep their commitment for ~90 days and they had to be classified as NPAs. But most of our clients have good intent and either they get their loan refinanced or their revenue or cash flow picks up or they try and get some loan from a different source and get on track; or in some other cases, as their business also picks up, and post GST we are seeing that many SMEs are again seeing revival in their business in this quarter - and the cash flow will start this quarter because many of the SMEs will have receivables. So I think most of it will get resolved on their own with the borrower getting cash flow either from business or from another loan. In some cases where you have to go for SARFAESI and repossess the property, many of those get resolved when you start the process - many people when they see the real, serious threat on their property, they try and settle. In very few cases where it goes for ultimate repossession of property in auction, it may take about twelve months and even though SARFAESI has now expedited, practically speaking it can still take about twelve months. Its very difficult to say what will happen at the auction, but in most cases you recover your principal and your interest, in some cases there is some small write-off. This process has been on for several quarters so that continues.

Ashwin Balasubramanian: Just on the LAP front your yield also seems to have marginally increased. I would have thought that incrementally you know like you will probably be doing LAP at lower rates given the competition. So I just wanted to understand that and what is the incremental yield on your LAP book broadly?

Nirmal Jain: It is in the range of 13.1%. Incrementally we are doing very small ticket LAP, some of the larger LAPs are getting repaid and smaller LAPs are getting added. If you really look at the average ticket size then it has fallen, it is just about less than Rs. 8 million vs the earlier Rs. 9 million. As we have said in our earlier quarterly calls as well, our focus is on retail lending and digital processing, hence our LAP portfolio has moved to smaller ticket size loans as compared to a three/four year old LAP which were of larger ticket size. There are two trends here - one is that on the whole, interest rates have come down, therefore on a like-to-like basis the loan will be at a lower rate now; but the small ticket loan will always fetch you higher price.

Ashwin Balasubramanian: So how much is the small ticket LAP at?

Nirmal Jain: Incrementally we are doing only small ticket, we are focusing more on small ticket now.

Ashwin Balasubramanian: Okay and what would be the yield there roughly?

Nirmal Jain: It can be around 14%. Again that is under pressure, so if you have to look at the trend going forward it remains in similar ranges. In an environment like this it is not easy to take the interest rate up on a LAP portfolio.

Moderator: Thank you. We take the next question from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Shiv Kumar: Sir, my question with regard to the NBFC space. We get to see that the yield on home loans has trended downwards over the quarter from 9.7% to 9.6% and given the fact that the bigger NBFCs in the HFC business currently their home loan yields are sub 9%. Do you think you will be able to sustain these higher yields of around 9.5%?

Nirmal Jain: In home loan if you have to maintain quality and lend it to high quality borrowers, then you have to compete with the housing finance companies and other banks. As Prabodh mentioned that we got refinance of Rs. 500 crores from NHB and earlier we had Rs. 325 crores, so totally Rs. 825 crores. This refinance typically will come at around 7.2%, so it is a very competitive market and the margin on the face of it may look lower, but there are two things that happen here: one is that a good part of your portfolio you can sell it down after 1.5 years. secondly your leverage can be higher because capital adequacy requirement in housing finance company is 12% and not only that, because we do small ticket home loan, if you see our average ticket size it is Rs. 22 lakh and is entirely a priority sector lending compliant portfolio, and which has a risk weightage of 75%, so effectively your capital adequacy is only 9%. So yes, they are trending down but the cost of fund is also going down, therefore we are maintaining our margins.

Shiv Kumar: Yes, but can you maintain the yield at 9.6%?

Nirmal Jain: On a mix of portfolio that we have, yield will be around 9.5% to 10%. I think one more thing I would like to highlight is that we have done a lot of work on very small towns because we have branches in 900 cities, but we have to develop our credit processing capability. Over the next 12 to 18 months we will see that we expand our distribution there which will have a slightly higher yield than what we get from relatively larger cities. So we should be able to maintain it around 9.5% or between 9.5% and 10% in the current interest rate scenario.

Shiv Kumar: Sir and your cost of funds was one factor which led to the increase in NIMs to 7.2%, where do you see the NIMs ending by year end or even for the matter cost of funds?

Nirmal Jain: The NIM was around 6.6% in last quarter, there is a bit of a spike here but I think over a longer term we should maintain around 6.5%, 7% because in this quarter we had almost about 110 basis points saving in our cost of funding. But the incremental boarding of home loans is at a lower rate and that is a large part of our portfolio. So you know NIM may taper off slightly from the current level.

Shiv Kumar: Right sir and one more aspect that we got to notice was that we used up almost 200 bps in terms of capital adequacy from last quarter. So now it stands at 18.4 but we were under the impression that the finance business would not need any equity dilution at least for the next two years. So that two year period now should we compress it further given that we are using up capital faster than we anticipated?

Nirmal Jain: In the last quarter we infused capital in two of our subsidiary companies HFC and the microfinance company which will not be every quarter. Our microfinance company may require a bit of capital more and HFCwill require capital next year. So this aberration that you are seeing is because of the infusion in subsidiary companies in the last quarter. Also we have not utilized our Tier 2 capacity so if you see our Tier 2 we can have Tier-2 as much as our Tier-1 but that we have not done yet which is subordinate bonds, preference capital etcetera. So we can leverage that also.

Shiv Kumar: So you are ruling out any equity dilution over the next two years till FY20?

Nirmal Jain: Yes, we are not looking to raise capital before September, 2019.

Shiv Kumar: Right and sir coming to the wealth business, high bankers and now the size is 283, so what are the number you are looking at for FY18 year end?

Nirmal Jain: I cannot make a forward looking statement but I can only say that given India's economy growing and generally the savings as well as financial assets growing our business has been growing well and at least in the near future there is no reason to believe that there will be a slowdown.

Shiv Kumar: Okay sir and what can be said about the retention yield coming down from 94 bps to 91 bps over the last one quarter because even FY17 it was 98 bps and then we see a downward trend in terms of the retention yield?

Nirmal Jain: If you see the last two quarters I think the drop is because the fund based yield has come down and as Prabodh mentioned that there was a mark-to-market loss in certain perpetual bonds that we had in our treasury portfolio.

Moderator: Thank you. We take the next question from the line of Nirav Shah from Credit Suisse. Please go ahead.

Nirav Shah: I had couple of questions. One is on your CV book. On that the yield quarter-on-quarter has increased 50 basis points. So what would be driving that?

Nirmal Jain: In CV the relative proportion of used vehicles has increased and you know because of BS-IV norms becoming suddenly applicable from 1st April. If you know, the Supreme Court did not allow extension and most of the manufacturers were not ready with a new vehicle. So the market structure changed and there were no new vehicles available; hence the relative share of used vehicle increased where we felt a slightly higher yield.

Nirav Shah: Okay and with regards to your wealth management business, the net new money raised was around Rs. 4,000 crores compared to Rs. 11,000 crores last quarter. So what was the reason behind that?

Nirmal Jain: This is very difficult to maintain or compare on a quarter-to-quarter basis because many times you get certain large inflows. Typically what happens is that many large equity transactions happen in the last quarter of the year and that money comes in the first quarter of the year. Sometimes some people may liquidate some part of their funds so the net new money it varies from quarter to quarter. It cannot be a very steady trend.

Nirav Shah: Okay. Sir just one suggestion if you could provide with a longer history on that part it would be really helpful for us to understand the trends?

Nirmal Jain: The longer history is also there if you see the slide on the right side of slide 13. So we have given the FY14, FY15, FY16, FY17 numbers.

Nirav Shah: So just breaking that down quarterly?

Nirmal Jain: Okay I will tell you what. In FY14 the net new money was Rs. 7,293 crores and Rs. 10,405 crores then Rs. 8,459 crores and then in FY17 the net new money was Rs. 22,500 crores and in FY18 it is almost around in the first half around Rs. 15,000 crores, Rs. 16,000 crores.

Nirav Shah: Sure sir and just two housekeeping questions. Wanted to get the figures of the quantum of borrowings in your lending business and in the wealth management business?

Prabodh Agrawal: The total borrowings was about Rs. 21,000 crores on the NBFC consol books.

Nirav Shah: And in the wealth management book?

Prabodh Agrawal: In Wealth management, the loan book size is about Rs. 4,800 crores. It also has investment of Rs. 2500 crore and shareholder's funds of Rs 1700 crore. The balance Rs. 6700 crore is in the form of borrowings.

Moderator: Thank you. Next question is from the line of Ronak Shah from SJC Capital. Please go ahead.

Ronak Shah: My question is primarily on the demerged entity 5paisa. So if you could give us a sense of what the degree of overlap could be between the customers on 5paisa versus the retail clients you have on the IIFL platform and also how do you think about the road to profitability for that business?

Nirmal Jain: We do not expect much overlap otherwise we will be cannibalizing our own business. There is a different set of customers who we call DIY or do it yourself customers and they pay only a flat fee of Rs. 10 per transaction and no brokerage and this is again because the trend which has started , and there are some players in India as well. The most important differentiating feature is that in IIFL there is a relationship manager, there are branches, there is research and there is customer service which is available to customers all the time.

In 5paisa there will be no branches, no relationship managers or brokers, and customer service also is very limited, there is no customer service as such. So this model is completely digital, low cost where people can do it on their own. There was a loss which was about Rs. 5.5 crores in last quarter. It is very difficult to say when will this business make money. It may take a few more quarters. But while the key reason why we have demerged is that in a digital world it is very difficult to figure out which business model will take off and how big it will become and what kind of risk and threat it can pose to incumbent players.

But at the same time these businesses require investment and once you are a listed company then you have quarterly profit targets or at least expectations of profit from people on this call as well as outside. So we thought that we'll allocate certain capital and keep this business out and then if the business shows some performance then it can raise capital from private equity or outside world directly or it has to fend for itself within the capital that has been allocated. So that was the philosophy but at the same time business model is different and interesting and you know we just cannot be out of this, given the spread of digital technology as well as new millennial being completely hooked on to mobile as well as online, we have to be present in this segment as well.

Also keeping in line with high governance standards, the shareholding 5paisa is absolutely a mirror image of IIFL Holdings at the time of record date. For every 25 shares of IIFL Holdings you have got one share of 5paisa and its capital is 1/25th of IIFL Holdings.

Ronak Shah: Right and I think last year IIFL had put in about Rs. 80 odd crores into 5paisa so that is also?

Nirmal Jain: Totally Rs. 100 crores was invested in this, out of which there are some cumulative losses so whatever is remaining capital is after losses. So when this was set up it was decided by the Board that we will allocate Rs. 100 crores and no more.

Ronak Shah: And the last question on this. Do you expect any sort of transfer pricing between the two entities for example you mentioned 5paisa will be fairly hands off in terms of customer service but if they choose to publish some research which is borrowed from IIFL will there be any transfer pricing between the two entities?

Nirmal Jain: I think maybe research is the only service that can be used, but of course there will be arms-length transfer pricing but other than that we will try to keep it as distinct as possible.

Ronak Shah: And lastly, What is the management team going to be for 5paisa who is heading this?

Nirmal Jain: There is an independent Board and Prakarsh Gagdani is the CEO of 5paisa. Its too small a company at this point in time but there is a completely different management team for this.

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

Nischint Chawathe: Just one more data question what is the borrowing on the consol balance sheet?

Nirmal Jain: Borrowing is Rs. 29,000 crores on the consol balance sheet and about Rs. 4,000 crores would be investments and the liquid assets. So the net borrowing may be little higher than Rs. 25,000 crores but the gross borrowing is Rs. 29,000 crores and there is a treasury portfolio or investment portfolio of around Rs. 2,500 crores also in wealth.

Nischint Chawathe: The other thing was you mentioned about some losses in the wealth business or maybe I just missed that, so if you could share the quantum?

Nirmal Jain: Around Rs. 15 crores of mark to market loss in our treasury portfolio which gets adjusted in the fund based income.

Nischint Chawathe: Okay that is Rs. 15 crores. And any fund based will have only interest income or does it have anything else?

Nirmal Jain: Interest income also includes capital gains and treasury profit or loss.

Nischint Chawathe: Any specific reason why you mentioned that the tax rate will remain at 25% for the full year?

Nirmal Jain: Prabodh, can you explain the tax rate?

Prabodh Agrawal: Yes, the effective tax rate for the first half was 25%. This was lower than the marginal tax rate due to two items; One was the carry or long term capital gain and the second was the higher share of contribution from offshore entities. This has been calculated for the full year and is expected to remain at this level for the second half as well.

Nischint Chawathe: Just one request. If you could share on the ongoing business give the breakup of interest income into capital gains and interest income that would be helpful. I know your disclosures have already increased a lot, but this would be very helpful. Thank you very much.

Nirmal Jain: These are the AIF funds or the other funds that we have where we have a carry structure so they basically will come as the funds mature. But yes, in real estate fund also and other fund also we have certain carry units.

Nischint Chawathe: I had one more question, and that was on the loans in the wealth business. You know there is a fairly large growth so maybe if you could explain what these loans actually are and what is the trajectory expected out here?

Nirmal Jain: These loans are against IPO and loan against securities and they are almost entirely our wealth clients. As our wealth assets grow if you look at them as relative to our wealth assets, they are just about 5% or less than that. In fact maybe Rs. 133,000 crores your loan is around Rs. 4,300 crores so we are just about 2.5%, 3%. We can penetrate more in this but it will happen over a period of time.

Moderator: Thank you. Well, so that seems to be the last question. I now hand the floor back to the management for closing remarks.

Nirmal Jain: Thank you to all the participants. If you have any more queries, you can always get in touch with our investor relations. Thank you so much. Have a good day.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today’s conference. Thank you for joining us and you may now disconnect your lines.