IIFL Holdings Limited

Consolidated Financial Results – FY17/Q4FY17

Conference Call Transcript

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MANAGEMENT:

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Moderator: Ladies and gentlemen, welcome to the conference call to discuss the consolidated financial result of IIFL Holdings Limited for the year and quarter ended March 31, 2017. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you, and over to you all now.

Prabodh Agrawal: Good afternoon everybody. 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 now pass the mike to our chairman to share his views on the macro environment and overview of IIFL's strategy and plans.

Nirmal Jain: Thank you Prabodh, and welcome to our Analyst Call for reviewing quarterly as well as full year performance for FY17. As Prabodh said, I will share my thoughts on the macro environment and IIFL's strategy- just a bird's eye view, and then Prabodh will take you through the details of businesses line-by-line in more detail.

India is looking very positive. I am not commenting about stock markets that can be volatile but as far as India's economy is concerned people may have questions or doubts about how it is going to perform in the next three or six months or whether 7% is real or 6%. But I think if one has to ask a question about the next 10 years then nobody has any doubt that India is going to be the fastest growing economy in the world.

On top of that we have the interest rates' cycle which should ease, again, here I do not want to comment on the next one or two quarters, but if you look at the medium term then, since India is globally integrated and global inflation is unlikely to be more than 1%, 1.5% or 2%, interest rates will head down; and government is getting its act together, reforms are going full throttle, GST, where people have lots of concerns, is also now more or less imminent, and moreover even reforms in other sectors like power, road, railways as well as public sector orders are gathering momentum.

To be very honest, I have been looking at this market for last 30 years, and I've never been as bullish as I am today for India's prospects for next 10 years. If India's economy is going to do well, and we are financial services - which will leverage play on Indian economy, then we are fairly well-placed with a matured and robust business model.

In terms of our strategy, our endeavour is to be consistent and that should deliver consistent performance and growth and therefore I may sound repetitive to many of you who have been on our earlier call as well. We want to focus on the three Ds that was our target from FY16 to FY20, which is doubling our revenue and making sure that our bottomline grows faster; so we have set a target of 2.5 times for our net profit post minority and we want to make our business model durable so that even beyond FY20 it can sustain growth and is less volatile and vulnerable to cycles of the capital markets or economy, as well as de-risk the business model in terms of geographies, customer base, products and every other parameter that one can think of.

With this perspective, I can talk about our three core businesses. Our business is constituted in three groups: One is our lending business which is NBFC including our mortgages business done through a step-down subsidiary of NBFC which is the Housing Finance company. The second is the Capital Market and related activities and the third business is Wealth Management and Asset Management business.

In NBFC our mantra is retail lending digital delivery which meets all the criteria for our performance target of de-risking as well as making our group durable. In retail lending we have multiple products and every business is now changing with the impact of digital and mobile technology. I think significant gains can be derived in the retail lending business, where historically, in our old physical model with lot of paperwork and physical interactions, the operating costs were much higher and therefore retail borrowers were charged higher because the vendor had to incur higher sourcing cost as well; That is where we see a huge opportunity to digitize our operations and revamp the work flow. Plus we have a network of 1,100 branches all over the country which gives us a unique advantage to seize or tap this opportunity of retail lending. Also, in retail lending digital delivery for our NBFC business, which also applies for mortgages, we see a huge growth potential in affordable housing. I think for the first time since independence government has been serious about making the dream of housing-for-all true. A number of policy changes have already been announced and I think that impact will be seen over the next few years.

The second line of business is Capital Markets which is cyclical but there again we are trying to make our business model as robust as possible. This has three segments: In retail broking we have been one of the pioneers of online technology and our endeavour is to deliver to the customer at the lowest brokerage possible - digitally and completely online, including the research and advisory services. The second segment of this business is our Institutional Equities where again our focus is on research driven, long-term investors and the third segment of business is Investment Banking where our focus has been on equity capital market and we have done very large and marquee IPOs and QIPs in the last year and moved up in the lead table significantly.

The third line of business I will talk about is Wealth and Asset Management. Again, we are trying to de-risk our business model and make it durable by broadening our product and service offerings and also by deepening our service offering in terms of the way we engage with our clients. So our business model has to be customer centric.

With this perspective I will now handover to Prabodh to take you through our financials for the quarter and the year. Thank you.

Prabodh Agrawal: We are very pleased to report a 57% YoY growth in our Group net profits to Rs. 235 crores for fourth quarter FY17. For the full year FY17 our net profits have grown 48% YoY to Rs. 822 crores. Net profit after minority interest has grown by 34% YoY to Rs. 686 crores for full year FY17. Our net-worth has reached Rs. 4,382 crores having doubled over the last three years. ROE was 17.7% and ROA was 2.4% for FY17. We declared an interim dividend of Rs. 4.50 per share in Q3 FY17 which is also the final dividend. All the three segments of the company that is NBFC, Wealth and Capital Markets contributed to this strong growth. In our NBFC business, loan AuM grew by 14% YoY to Rs. 22,281 crores.Net profits grew by 27% YoY to Rs. 121 crores. Net profits for the full year FY17 grew 25% YoY to Rs. 423 crores. The NBFC’s net worth is Rs.3,462 crores, our Tier 1 CAR stands at 18.1% and total CAR at 20.7%. We are well capitalized and our endeavour would be to not raise capital for the next three years. NBFC's ROE of 14% and ROA of 2.1% for fourth quarter FY17 are healthy and expected to improve as we further leverage our balance sheet. ROE for the full year FY17 is 15.2% and ROA is 2%. Our volume growth, which had moderated in the previous quarter post demonetization, has picked up in the last quarter especially for home loans, CV and SME segments.

Moreover, we continued to make progress towards our objective of having a balanced and superior loan mix, i.e. reducing the share of relatively risky loans like capital market and large-ticket real estate loans. On the other hand, the share of retail mortgages and within that the proportion of small-ticket home loans continues to rise meaningfully. Within construction and real estate finance, the mix has significantly changed towards construction finance for small ticket housing projects. As on 31st March 2017, we had over 3,900 approved housing projects - up nearly two and half fold over 1,650 approved projects a year back. All our construction finance loans and 55% 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.

During this quarter, we added a new product line –Microfinance, through the acquisition of 95% stake in Bangalore based Samasta Microfinance. This currently constitutes about 1% of our AUM but is expected to make a larger contribution in the years ahead.

Going forward, key loan growth drivers will be home loans including affordable housing loans, CV loans, small ticket SME loans and to a smaller extent microfinance. Our asset quality remains sound with GNPA of 1.83% and NNPA of 0.58%, both stable on QoQ basis. In the last quarter, our reported GNPA were lower by Rs. 43.4 crores or 23 basis points due to RBI relaxation on NPA recognition. Since then these loans have either become regular or have been classified as NPA and this has been achieved without any spike in the NPA figures except for a slight increase in the CV segment. We intend to move to 90+ DPD NPA recognition norm from the current quarter. Our NPA coverage ratio improved both on QoQ and YoY basis to 68% without considering standard asset provisioning and to 92% including standard asset provisioning.

Our loan portfolio is getting more granular consisting of small ticket loans directed primarily towards lower middle-class borrowers. This is reflected in small average ticket sizes for most of our products including home loans, gold, capital market, CV, SME and MFI loans. Our retail home loan product is driven by progressively higher contributions from low income borrowers segment with the average ticket size of Rs. 12 to 14 lakhs. Retail loans including consumer loans and small businesses finance below Rs. 1 crore, constitutes nearly 80% of our loan book. Nearly 25% to 30% of our loans are PSL compliant which we can sell down to banks. The share of securitized book has moved up to 13.5% of our AuM from 10% in the previous quarter and under 9% a year back. Our aim is to take the securitized book up to 15% to 20% of our AuM over the next 12 months through higher sell downs in mortgage retail, CV, SME and MFI loans. This would positively impact our profitability and CAR.

Our average cost of borrowing declined by 50 basis points QoQ to 8.8%. Our average borrowing cost has dropped by 130 basis points over the last 12 months. Incrementally, we are now borrowing at an average cost of 8.2% as the cost of borrowing especially term loans from banks have collapsed in the last five months. Both availability and cost of funding have significantly improved in the current environment of risk averseness and low credit growth.

Banks are looking for borrowers with good credentials and therefore are very keen to lend to us and buy securitized pool from us. Our NIM has expanded by 49 basis points QoQ and 87 basis points YoY to 6.8%. The NIM expansion would have been more had it not been for rebalancing of our AuM mix in favor of low yielding retail home loans and decline in the share of high yielding gold and real estate loans. Going forward, the falling funding cost should continue to support our NIMs. Cost income ratio has declined by 10 basis points QoQ and 260 basis points YoY to 38.8%. Going ahead, we believe there is significant scope for the cost income ratio to fall further due to better economies of scale across our products and the benefits of digitization. NBFC head count grew 6% YoY to nearly 7,700. Number of NBFC branches has increased to 1,112 primarily due to addition of branches of Samasta MFI.

In digitization, we are implementing end-to-end digitized products and processes which were the focus areas in FY17, we have been able to enhance our process and improve our service across all products based on the digital initiatives and we are now digitally on boarding customers through web and tab based services across all our products. In the month of March., we digitally on-boarded 100% of our gold loan customers, nearly 50% of our CV customers, 40% of our SME customers and 11% of our HL customers. Backed by e-KYC, e-Sign and robust real-time appraisal process we are now able to disburse loans in seamless and almost paperless manner.

In analytics, we have made significant investment in creating data analytics capabilities. Our risk analytics is maturing fast, we have developed credit scores for CV, SME and mortgages to process new applications; cross sell is another big area and we have already started generating pre-approved list for all core retail products through our franchise database

Moving on to Wealth: IIFL Wealth PAT grew by 63% YoY to Rs. 75 crores in the fourth quarter and by 48% YoY to Rs. 250 crores in FY17.Our total wealth assets grew 51% YoY and 12% QoQ to reach Rs. 1.20 trillion. During the quarter, the team garnered AuM in wide ranging products including equity AIF and PE funds. We believe that a phase of accelerated organic growth has started with key hires being made, and broadening as well as strengthening our product offering. Besides nearly 30 RMs, over 100 people in support functions were hired in the last quarter.

IIFL Wealth has positioned itself to participate in a larger share of client wallet by offering family office, trusts, AIF, estate planning and offshore advisory services, enabling a strong penetration into this market. We have a competitive platform encompassing brokerage, NBFC and research. IIFL Wealth Finance which offers loans against securities and margin funding to high net worth clientele closed the year with a loan book of Rs. 3,615 crores with an average lending rate of around 11.2%.

In the capital market segment, during the quarter our average daily cash turnover was up 22% YoY and 16% QoQ. Our NSE market share in this cash segment is stable at around 4.3%.We are continuously enhancing our offering on digital and mobile platforms for retail customers in our broking business. Our mobile trading app IIFL Markets is the highest rated app on Android and iOS amongst peers with nearly 1 million downloads. Since its launch in February 2015, the brokerage earned and the numbers of clients trading on mobiles are on a steady rise. DIY based mobile trading contributes to over 20% of our retail brokerage income and about 34% of clients. The app has reached out to retail customers giving them access to research, IIFL View, and advanced trading tools, even in Tier 2 locations.

The investment banking team completed four transactions including two IPOs during the last quarter. FY 2017 has been a landmark year with 21 transactions completed including 5 IPOs, the largest number of IB deals done by us in a year. We are ranked number #2 in terms of amount raised through QIPs in FY 2017. We have a robust pipeline of IB deals in different stages of execution.

With that I think 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: My question is on the wealth management business. Obviously you guys have done a fantastic job in terms of AuM and net profit growth, however as I look at this business, when you look at the way this is evaluated in capital markets internationally, people look at assets and a certain revenue margin. When I look at how you guys are actually generating revenue, that may not be a very meaningful metric, so somebody could have Rs. 100 crores of assets with you out of which Rs. 90 crores are custodial assets and then it is really an investment in one or two AIFs that's driving the margin. Can you give us some sense of how you look at goals and targets in the wealth management business? I doubt it is assets and revenue margin. Is it something like 137,000 HNIs in India, how many do we have relationships with, how many do we plan to have relationships with, is that the right way to look at it? And in terms of growing further are we looking more to build the relationship with more of these 137,000 HNIs or sweat the existing relationships we have more? and if it is by growing the relationships with HNIs, what is our target in terms of bankers we need to hire, in terms of certain geographies that we have not penetrated that we may need to penetrate; If you could give us some sense of how these operating metrics stack up in wealth management and what your targets are on them going forward it will be very helpful?

Nirmal Jain: So I will answer this question but I will also request you to have a look at slide number 24 and 25 of our presentation that has been mailed to all the analysts. We have given a breakup of custodial assets. Custodial assets at this point in time are around 11% of our total assets of close to Rs. 120,000 crores. We have also given the retention yield on these assets, so other than custodial assets, our average yield is around 99 basis points. If you see the entire breakup of assets, which again is there in our presentation, 3% of these assets are NBFC assets i.e. the funded part of it, and out of remaining 97%, 9% is the advisory asset where we have the discretionary mandate. Then about bulk of it which is almost 60%, is our distribution assets, so they will be typically mutual fund, equities or funds and then there is an investment manager which is around 17% of our total assets. On slide 24 we also give the breakup of domestic and offshore assets, 80% of the assets are domestic assets and 20% would be assets which are NRIs or FPIs on our platform. Number of bankers that we have is 226, and this number also has been given for last five years, so in FY13 we had 100 bankers and that number has gone up to 226. The total staffing is around 700, so 226 are bankers and remaining are support and service staff.

In terms of these 137,000 families we have, if you look at our base of clients it is around 10,000 families but out of that 2,000 odd families account for 90% of assets. So typically bulk of our business is where our average assets would be, which on a family basis is around $4 million to $5 million or thereabout. The way we look at this business is that one, we have to keep increasing the base of families or base of clients that we have, and the other part of our strategy would be to keep increasing the stickiness of assets by getting relatively higher share of advisory assets and investment manager assets. So if you look at our advisory, this was nearly 1% in FY15 and has gone up to 2% in FY16 and now 9%. So that is how we look at this business. Is there any part of your question that is not answered, Pavan?

Pavan Ahluwalia: No, what I was actually focusing on was going forward right, say three years from now, five years from now, do you have any targets on this 10,000 number, does it need to become 20,000; I see your point that obviously you will want to up-sell people and generate a higher margin, but what is the strategy on taking this 10,000 to 20,000 how much hiring will it involve, how much can we grow at sweating our existing banker base. Any thoughts on that?

Nirmal Jain: Yeah, I think this is a good question. So if you look at our existing banker base and from FY15 to FY17 it has gone up steeply. The way this works is that bankers have become fully productive in three to five years. One is that of course we have to increase the productivity of our existing bankers but at the same time we will also be increasing the base of bankers. Out of these 10,000 families, I would say 3,000 will be say, active families, so our target would be to increase the number of these active families or where we have a much deeper relationship, and I think other than that everything remains the same. So there will be some improvement in the productivity of existing bankers which I said is 226, particularly the ones that we have on-boarded in the last two, three years, and we have also increased the base. If you look at FY16 to FY17 then the number of bankers has gone up by around 14%. The assets would have gone up around 24% or so. So I think our endeavour would be very broadly, of course one can never be precise in future numbers, to increase the number of bankers by 12% to 15% and assets by around 25%.

Pavan Ahluwalia: I got it, and there should be decent scope for a large operating leverage in the profit side right, because if the idea is 7,000 kind of semi active families, then we already have a relationship with them, there is already a banker in touch with them and as we build out our product suites, sweating them for more kind of a higher margin income, all that drops straight to the bottomline obviously adjusted for the RMs and incentive fee. But there is a lot of operating leverage there.

Nirmal Jain: Yeah, it should be there.

Moderator: Thank you. Next question is from the line of Diganth Arya from Antique Stock Broking. Please go ahead.

Diganth Arya: My first question is on the NBFC piece. We have seen a fair bit of borrowing cost going down and operating leverage playing out here. So going forward we expect this operating leverage to still play a part considering that mortgages have slowed down a little? And then second part to this question is if you can just give what is the outlook especially on the LAP part because after demonetization we have seen a little bit of slowdown at least for some other competitors of yours?

Nirmal Jain: I think from February, March of this year, the LAP and CD both are more or less getting back to their normal trajectory. LAP is always a little misunderstood asset class in NBFC because it is a very heterogeneous product; typically LAP is for SME i.e. small and medium enterprises, who borrow against their property for working capital expansion needs, but they can be from various sectors, from chemical to real estate builder to software or a service provider or tour operator or a doctor or to a chartered accountant; I think the key is which segment to select and what ticket size you work on. In terms of going back to the first part of your question the operating leverage, yes, I think there is still room for operating leverage to play out, it has come down from close to 60% in FY13 to less than 40% now.

The operating cost ratio is different for different segments, typically for mortgages it may be mid-teens and for gold loan it may be more than 50%, 60% or so, and cost to income ratio may be closer to 60% . I think as the mix changes then also we get some advantage, that is one, and secondly, we really do not need more branches now but we can grow based on the strength of our existing network and that basically gives us more operating leverage. The last quarter, as Prabodh pointed out, we acquired this company called Samasta, and then 70 branches got added to our network and that is why you see a jump in the branch number. But other than that we already have a network and we can sweat it out more and that should basically yield us a benefit in terms of operating cost leverage.

Diganth Arya: Alright. I have one data question also. The provisions in NBFC have doubled from say Rs. 26 crores last year this quarter to Rs. 62 crores, is there anything related to microfinance or is it more to do with general provisioning and say vehicle finance and other segments as well?

Nirmal Jain: See microfinance is very insignificant. Of course the provisioning there has been little higher because it was impacted by demonetization but I think CV has been one segment which was impacted by demonetization a lot and we try to be a little conservative and provide for that. Maybe Prabodh can add something.

Prabodh Agrawal: Basically we have been conservative in this quarter and have made some provisions, so you see that our provision coverage has gone up and our net NPAs have declined. We have made adequate provisioning for CV, LAP and SME segments, also in anticipation of the 90 DPD that we will be moving into this quarter.

Diganth Arya: Right got it, thanks for that. Second, I just wanted to know that after demonetization the wealth business has really, it was anyway doing well and that gave it one more booster shot. So in your commentary I heard that we have kept our 2020 targets intact, so will it be fair to assume that in that 2020 target what we were assuming before demonetization - the contribution of wealth will be significantly more now because we are seeing much more traction in that business?

Nirmal Jain: I do not think so actually, wealth was hardly impacted by demonetization

Diganth Arya: Actually I am saying it got accelerated.

Nirmal Jain: Last quarter of wealth is always positive and relatively stronger as there are many more products and people plan for tax and also the market segment is pretty strong. So when the equity markets are good even the value of assets goes up. So I have a feeling that as far as wealth is concerned, because most of the HNI investors hardly transact in cash and demonetization process, if you see a longer term - five to ten year horizon, this is just a blip, it does not structurally change the nature of our businesses; so it is back to normal right now.

Moderator: Thank you. We take the next question from the line of Saurabh Dole from Trivantage Capital. Please go ahead.

Amit: So basically, I have seen that other income has increased in Q4 quite drastically about 70% odd, is this sustainable income or some one-off kind of thing,? that is my first question; and the second question: what is your guidance for cost to income ratio going forward?

Nirmal Jain: No, on a consolidated basis, which other income are you talking about? Because, on a consolidated basis you see other income has gone up from 3.3 to 3.5 last quarter and full year also 10.6 to 12.4, so it is a fair movement, there is no extraordinary increase, in fact there is 7% increase in other income vis-à-vis 28% increase in total income.

Amit: I am talking about NBFC

Nirmal Jain: NBFC, in the mortgages we have our insurance piece that also keeps growing, so on a small basis it has gone up, what happens in mortgages business or housing finance business is that your NIMs are very thin but you obviously have other income in terms of insurance processing, and other cross sell that you do,. I think it is fairly sustainable, it will keep growing as our retail home loan and other businesses grow. So on a small basis it has gone up but I do not think there is anything extraordinary there. But generally it is insurance cross sells that we do to home loan customers.

Amit: Okay fair enough. And how do you see your cost to income ratio going forward say in about?

Nirmal Jain: I think I answered this question that we should be able to bring down our cost to income ratio further over next going forward.

Amit: Okay sir one more question. I am seeing that the NCD component to a total borrowing has gone up to above 40%, any guidance on that?

Nirmal Jain: I think we will keep a healthy mix of NCD, Bank and CP, and within NCD also mutual fund insurance companies and banks. So the mix will remain fairly balanced, maybe our CFO can add something to that.

Prabodh Agrawal: Yeah so what has happened is that if you look at post demonetization period, the bank borrowing cost dropped significantly, and after SBI dropped their MCLR rate by 90 basis points, bank borrowings have become extremely cheap. The NCD rates did not drop in the same proportion. Prior to demonetization our NCD borrowings were about 50 basis points lower compared to bank borrowing but after demonetization bank borrowings actually became cheaper and therefore we have been able to re-price all our bank loans at MCLR and not even just one year of MCLR but even three months and six month MCLR; so that is why you see this sharp drop in our funding cost.

The NCD market on the other hand, I do not think it is completely stable and the bond yields, even the G-Sec yields, have hardened in the last few months, so that one we are watching. Today if you are borrowing from banks at say 8.3%, 8.4%, typically I would like to borrow from the NCD market at below 8.2% so that should probably be the case going forward. But in the last few months we are focused more on the bank borrowings.

Amit: Okay considering that the rate easing cycle has been completed so going forward do we see any increase in NCD component or should it remain at the same level?

Prabodh Agrawal: It should increase but having said that, our view is that probably you could see another round of interest rate cut, SBI recently cut their deposit rates and therefore that could be followed by a cut in their MCLR as well, but I think going forward once the NCD market stabilizes we should be focusing more on the NCD. The other thing is also that in September we got a rating upgrade from CRISIL - we are upgraded to AA. So now we are rated AA by all the three rating agencies CARE, ICRA and CRISIL. We are actually hoping and expecting a further rating upgrade. If that happens then that will further boost our NCD borrowing program.

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

Nischint Chawathe: A couple of book keeping questions. I was curious why was the broking income down on a quarter on quarter and year on year basis although I think your broking volumes have been strong?

Nirmal Jain: Okay. You are saying the capital market segment?

Nischint Chawathe: Yeah, that is right.

Nirmal Jain: So in the quarter before I think there were quite a few large issues like DHFL Rs. 10,000 crores and this also includes investment banking income. But I do not know there is much decline, just see the numbers. You are looking at which numbers consolidated number? which slide?

Nischint Chawathe: The top line of basically capital market activities income?

Nirmal Jain: I think if you see the quarter before, there were large equity IPOs as well as debt issuances, DHFL Rs. 10,000 crores and then ICICI Pru IPO also would have happened in third quarter, right?

Nischint Chawathe: Yeah.

Prabodh Agrawal: And we also have some large investment banking income.

Nirmal Jain: There were large investment banking transactions in Q3 last year, Q4 previous year as well, so it is primarily because of that.

Nischint Chawathe: No but what would be the contribution of IB typically because last quarter was a very strong quarter for the broking industry and I mean in the sense cash market volumes were like almost up 33% for the industry so given the fact that your revenue has actually gone down I mean I would assume that investment banking is a very, very large component, so if you could just give a color of that, that would be helpful?

Nirmal Jain: I think maybe we should give the breakup of brokerage in investment banking, I think that will make things clearer, maybe we can find the number out and put it. Maybe we can report investment banking revenues separately also. We will discuss and do that, I think segmental revenues will make things clearer. But commodity revenue and the currency revenue also would have been down this quarter compared to the last year last quarter.

Nischint Chawathe: Sure, but on the broking to broking side any rough growth rate that you can share?

Nirmal Jain: Just one second, broking to broking side let me see whether we have numbers, then I can tell you what the brokerage income is

Prabodh Agrawal: It would be in line with the market because our market share in the NSE cash segment has remained at around 4.3%.

Nirmal Jain: I have the market share number but the commodity market share has gone down from 4.3% in MCX to 2.1% in Q4 FY16 versus Q4 FY17; the equity market share..

Nischint Chawathe: That's fine, equity is there in the presentation that's fine.

Nirmal Jain: Yeah equity market share has gone down marginally, but I think it has not gone down so significantly. I think there is a significant decline in commodity and currency revenue but we can put a break-up to understand how this number has moved here. Good question, I think we will think it over; we need to analyze this more.

Nischint Chawathe: Just wanted to check if you could help me reconcile the net worth of the NBFC business because I think on a quarter-on-quarter basis the net worth has kind of hardly moved?

Prabodh Agrawal: Yeah, that is because we declared dividend in the fourth quarter.

Nischint Chawathe: Okay. And how much was that.

Prabodh Agrawal: So what happened is that dividend was declared in the third quarter but it was paid out in the fourth quarter so that means that the net worth has hardly moved.

Nischint Chawathe: Okay and that would be how much if you can share the number?

Nirmal Jain: The full year dividend I think is Rs. 2.50 per share, what is the amount?

Prabodh Agrawal: Rs.4.55. That is for at the group level.

Nirmal Jain: NBFC?

Prabodh Agrawal: NBFC would be about Rs.125 crores, Rs. 130 crores.

Nischint Chawathe: Okay, there was any other adjustment to the net worth?

Prabodh Agrawal: No, it is only the dividend payout.

Nirmal Jain: So the full year dividend is paid once in a year so they get adjusted in one quarter.

Prabodh Agrawal: So almost the entire profit of the fourth quarter was paid out in the form of dividend.

Nischint Chawathe: Sure. On the interest income side could you break the interest income into NBFC, wealth and the standalone business?

Prabodh Agrawal: Interest income for NBFC is..

Nischint Chawathe: The NBFC is there but if you can just give for

Nirmal Jain: We have given the NBFC numbers separately and also the interest income of wealth separately.

Nischint Chawathe: Interest income of wealth

Nirmal Jain: No, I will tell you what has happened, so if you look at wealth numbers that is on slide number #21. There is the interest cost Rs. 105 crores, interest income is not given separately, and the NBFC interest income does not include wealth.

Nischint Chawathe: That is right, so wealth will also have the NBFC, right?

Nirmal Jain: Yes, Wealth also has an NBFC.

Prabodh Agrawal: See Nischint you have the loan book size Rs. 3,600 crore is the closing loan book. You also have the average loan book and I am telling you the yield is around 11.2%

Nischint Chawathe: okay, I'll do the math, sure. The other thing I want to double check the diluted share count was how much in the parent company?

Prabodh Agrawal: Parent company diluted share count I think it was 61.

Nischint Chawathe: Fully diluted?

Prabodh Agrawal: It is not changed; I will give the number, 661 million shares.

Nirmal Jain: Rs. 63.6 crore is the capital, there is a Rs. 2 share so just divide by 2, 31.8 but the diluted shares are ESOP diluted shares. We will give this number but the paid-up capital is Rs. 63.6 crores of Rs. 2 per share and ESOP outstanding is a very small component of it. I would think that it would be around 32 crores shares, but we will tell you the exact number, it is 32 crores outstanding shares.

Nischint Chawathe: One final question and that is ticket size of the real estate loans, is it like Rs. 8.5 crores?

Nirmal Jain: Of the construction finance, yes. So as Prabodh said that we have moved towards smaller ticket project financing and the projects that dovetail into our small home loan segment because the home loan ticket size is Rs. 26 lakh.

Nischint Chawathe: Yeah so, I am just saying that if I look at the project finance, or the wholesale developer loan segment, your ticket size is Rs. 8 crores, typically I thought that developer loans are like Rs. 1,500 crores kind of products?

Nirmal Jain: No, but that is in the large cities. That would be in Bombay, Delhi, of course the ticket size will be Rs. 100 crores to Rs. 200 crores but we have consciously moved towards smaller projects.

Moderator: Thank you. We take the next question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Yes, just one or two questions on the NBFC side. So you mentioned the rating upgrade, certainly you think you would have a strong case for it especially given not just your strong capital position but how well you weathered credit in an environment where most NBFCs have really taken quite a beating. Could you give us any guidance on when you are approaching these agencies and by when you would expect to see it happen; and also could you give us some comments on how you are looking at the growth opportunity in NBFCs because everywhere we are seeing people turn a bit cautious on credit. People are growing more slowly what kind of growth would you be comfortable with and which verticals in the NBFC are expected to drive that?

Nirmal Jain: So for credit rating we will approach them immediately maybe as of today or tomorrow itself for a review, but when they will do it is all up to them, it is very difficult for us to say because that is up to the agencies to take it up, but as you said we have a strong case. So normally you go for a credit rating review with the full year result, which is now, so this is the time to go to rating agencies for a review.

The second question is about growth so I think in terms of the growth that we have spoken about and the target that we have set for 2020, we are on track. So I think we will be looking at around 20%- 25% growth in volumes over next few years.

Pavan Ahluwalia: And any particular verticals, I guess what you are implying is that given your small size you can pick and choose niches to grow, so you are not affected by the overall slowing in the industry?

Nirmal Jain: First of all, I am not very sure there is a slowing in the industry because I think industry is just picking up. So the niche segment that we will focus on is home loan, mortgages, followed by SME and then commercial vehicle. So these three are core segments that would drive growth.

Moderator: Thank you. Next question is from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Sir, it is a bit of a follow up on one of the previous questions. The three-year target of doubling top line and 2.5x on the bottom line, now with all the tail winds that are happening in the economy in general, and specifically in your businesses for example more saving is going into financial savings, the affordable housing incentives etcetera capital market is doing well. When would be an appropriate time to sort of reconsider the guidance for 2.5x could it maybe be a bit conservative now?

Nirmal Jain: It is a four year target from close of FY16 to FY20; I think we had a good year and as of now things are looking good but there is no point in revising the target because you never know how next year or year after will be. So we would like to say that tailwinds may change into head winds over the next three years, as may happen, and this point of time does not seem appropriate to revise our targets, but we will try and make sure that we achieve and over-achieve our targets. The management team is committed to that but in a market like in a financing market things change very rapidly. So I think we would rather be sure about certain sustainable growth rather than make it volatile and try to be more aggressive at any point in time.

Gautam Bahal: Fair enough. Just one more thing to achieve the current targets do we need any further equity dilution or is that it?

Nirmal Jain: No, we do not need equity dilution; ROE in this quarter changed from 17.3 to 17.7 despite capital infusion that happened in this year, but I think now we are good, and our ROE target is 24% by FY20, so we cannot take any equity in the next few years.

Moderator: Thank you. Well, that was the last question. I now hand the floor over to the management for their closing comments.

Nirmal Jain: So I will request Venkat to give the closing comments. Thank you so much and if you have any questions you can always get in touch with our Investor Relations Department.

R. Venkataraman: Thank you everybody for joining us on this analyst call today. If you have any questions, please feel free to reach out to us or our investor relationship department. Thank you so much and have a nice day.

Moderator: Thank you 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.