IIFL Holdings Limited

Consolidated Financial Results – Q1FY19

Conference Call Transcript

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Management

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Moderator: Ladies and gentlemen good day and welcome to the IIFL Holdings Limited Q1 FY2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you 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, R Venkataraman, Managing Director, Sumit Bali, CEO of IIFL Finance and Karan Bhagat, Managing Director IIFL Wealth Management. I will now pass the mike to our chairman to comment on the overview of the group strategy and plans.

Nirmal Jain: Good afternoon and welcome to our analyst call. As we start, the news has just flashed in that RBI has increased repo rate by 25 basis points to 6.5% as was expected. So I'll just take a few minutes to speak on the macro environment as we see it and then how our business is progressing and our strategy going ahead before I hand it back to Prabodh for a more detailed discussion on each of the businesses.

The repo rate hike is just one indicator, but as we know the liquidity has been tightening because most of the foreign investors have sold particularly debt and obviously that has an impact on currency also, but amongst all the emerging markets, India has been impacted relatively less, has done much better actually compared to other emerging markets in the last few weeks. In fact, in terms of liquidity, interest rate, inflation of course the outlook is tight at least for the next few months. Crude oil price has been one factor that has been driving the current account deficit and also impacting fiscal deficit in some way, but GST on the other hand has shown very good improvement over the last few months and is looking positive.

When we look at the economy despite this rate increase and the tightening of liquidity, economy seems to be doing well. We just look at the parameters that a common man would understand -all the hotel occupancies are at an all-time high, airlines are full, automobile sales are again at an all-time high, consumer product companies are showing good volume growth after quite some time and at least in this quarter we have seen that most of the analysts are doing earnings upgrades in some IT sector companies and not the two wheeler, but the other automobile companies and some infrastructure capital goods companies as well as in consumer products company. So we are seeing some earning upgrades coming after a long time and the economy looks good for 7-7.5% growth. Monsoon also has progressed very well.

From the financial services sector, I think the sector has done well and the trend or the underlying factors remain the same that the private sector banks and the NBFCs are getting larger share of incremental credit and in fact of course they keep investing in the risk mitigation and technology, but there is demand for credit, which they can meet.

As far as interest rates are concerned, of course there's the rate hike, most of our products are not so sensitive to price; when we talk about gold loan, commercial vehicles or SME, more or less we are able to pass on the rate hike and also we have certain longer term liabilities and loans, which basically keep our weighted average rate of interest under check.

As far as home loan is concerned, it is more sensitive to price increase being passed on, most of the time we are able to season the assets for more than one year and sell it down and make sure that we do not have much impact of the rate increase, but we have taken 20 basis points and 40 basis point rate increase in our home loans and LAP.

Coming to our business, I think we've had a few exciting developments in this quarter; - Sumit Bali has joined; Sumit Bali has an excellent track record of building retail assets in Kotak Bank, earlier Kotak Prime for more than two decades and brings a wealth of experience which was required for us as our business is at a tipping point. Our business is focused, as you know, on retail lending and our strategy summarizes the objective - retail lending digital delivery. We welcome Sumit and he is also here to take a few questions later. We also have one more key person who has joined - Anup Maheshwari, as a co-CEO and CIO of our AMC, which is our asset management company for our mutual fund business. Again as all of you know that Anup has stellar track record in terms of performance as well as very deep and rich experience in this industry, so these are the two new senior people in the group, and we welcome them.

In terms of our business volumes and growth, I think the first quarter we are seeing that the capital market activities were a little bit subdued in terms of volumes and investment banking, when we compare with last year, because investment banking revenues tend to be lumpy, so this year first quarter was not as good, but pipeline is looking extremely positive. Also this is the first time that we are reporting our results under Ind-AS and therefore some of the numbers might look little away from the trend line and particularly we will talk more about it. Prabodh will take you through the numbers and explain why some of the numbers may look to be deviating from the trend line and of course we have given a very detailed comparison and reconciliation of IGAAP versus Ind-AS for each of the businesses. So with this, I hand it over to Prabodh to take you through line by line all the businesses.

Prabodh Agrawal: We are very pleased to report a 38%YoY growth in our Group net profit to Rs348cr for Q1FY19. Net profit after minority interest has grown by 37%YoY to Rs269cr. ROE was 20.3% and ROA was 2.4%. All the three segments of the company have recorded steady growth.

In the NBFC business, loan AUM has grown 44% Y-o-Y and 8% Q-o-Q to Rs.33,653 Crores. Profit after tax computed as per Ind-AS grew by 68% Y-o-Y to Rs.196 Crores. Our Tier 1 car stands at 15.9% and total car at 19%. Primary drivers for AUM growth are small ticket home loans, which grew by 57% Y-o-Y, small ticket SME loans, which grew by 139% Y-o-Y and microfinance loans, which grew by 291% Y-o-Y, the latter two products growing of a small base. Besides these three fast going products, we also recorded good growth in gold, CV and construction finance loans. On the other hand, growth in LAP and capital market loans was moderate as planned. In home loans our focus remains primarily on small ticket loans to the salaried and self-employed sections. The fastest going segment in home loans is the affordable home segment or Swaraj loans with average ticket size of Rs.16 lakhs. Swaraj loans accounted for 21% of our home loan disbursements in first quarter and 13% of closing home loan AUM. Our Swaraj product is specially designed to support the informal income segment in fulfilling their dream of owning a house.

IIFL home finance is a significant player in the Pradhan Mantri Awas Yojana Credit Linked Subsidy Scheme. Till date it has provided benefits to over 14000 customers and disbursed subsidies of more than Rs.317 Crores. We were recently commented for our outstanding performance in this area by the Minister of Housing and Urban Affairs.

We continued to focus on digitization of our loan process with 40% of our loans being onboarded and sanctioned on tablet application available with our sales team. The underwriting is automated on tab to give an instant sanction decision. Called the Jhatpat loans, this initiative has also led to enhancement in productivity of support teams and enabled IIFL to handle greater volumes of retail home loans in the future.

Within construction and real estate finance, the mix continues to change towards construction finance for small ticket housing projects. As on June 30, 2018, we had over 6600 approved housing projects up nearly 1.5 times from the 4500 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 reduce our operating and paid 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, SME loans and Micro-finance loans. The increasing granularity is driving down portfolio risk, while at the same time helps us derive better yield versus large ticket lending.

Retail loans including consumer loans and small business finance 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 47% of our HL, 57% of LAP, 86% of CV, 50% of SME and nearly all of our MFI loans are PSL compliant. In aggregate nearly 43% of our loans are PSL compliant, which we regularly sell-down to banks at attractive rates, and which has a positive impact on our profitability and CAR. The share of securitised book currently stands at 16% of our AuM.

Our average cost of borrowings rose by 20bps QoQ to 8.58%, which is still down 5bps YoY. Availability of funds has considerably tightened over the past few months and there is a correspondent rise in the cost of borrowing. We are resorting to borrow a mix of term loans from banks and bonds, with an endeavour to lock-in longer tenure funds at fixed rates. Our NIM was at 7.2%, expansion of 66bps YoY, helped by recognition of interest on Stage 3 assets and upfront gain on direct assignment portfolio.

In a rising interest rate scenario, we are in a position to commensurately re-price our loans. 46% of our loans are on a floating rate basis and an additional 25% of our loans have a maturity of less than one year.

Medium and high yielding assets currently constitute 52% of our AUM versus 46% at the end of March 2017. These include microfinance loans, MSME loans, gold, CV and construction finance. The other half of AUM consists of relatively low yielding assets including home loans, LAP and capital market loans. 91% of our AUM comprise loans that are secured and only 9% of loans are unsecured.

We believe our AUM mix is well balanced with some scope for the share of high yielding and unsecured assets to go up.

Cost to income ratio was at 42.6% and opex to average loan book ratio was at 3.5%. Many of our small ticket loan products are opex intensive including gold, CV, MSME, and MFI as the share of these product rises it puts an upward pressure on our operating cost, still we believe we can contain the cost on the back of operating leverage and digitization benefits. We continued to add branches in our HFC, gold and microfinance businesses. Total number of NBFC branches have grown 39% Y-o-Y to 1547 compared to 1114 a year back.

Consolidated GNPAs and NNPAs, recognized as per RBI's prudential norms and provisioned as per Expected Credit Loss (ECL) method prescribed in IndAS, stood at 2.0% and 0.9% of loans respectively. As a result of implementation of Expected Credit Loss provisioning under IndAS, provisioning coverage on standard assets, as defined in RBI prudential norms, increased from 45bps to 207bps. Return on assets was at 2.4% and return on equity at 20.7%.

Talking about digitization we have continued our focus on digitization encompassing every aspect of customer loan journey. Of the total 6.67 lakh loans disbursed in Q1 (gold 394k, digital 90k, Samasta 163k, HFC 7k), 99% were on-boarded digitally, with Aadhaar based e-KYC undertaken for 96% of all bookings. We have focused on backend process digitization through multiple innovations as well as partnerships, helping us achieve process efficiencies. With 71000 mobile app downloads in first quarter and 3.3 lakh cumulative downloads IIFL loans mobile app is growing steadily fulfilling account management and servicing needs for customers.

On analytics, we continued to drive the use of credit scores and automated decisioning across products. Majority of SME and CV loans are currently being disbursed through instant decision route. We are planning to use behavioural score card to monitor existing loans and for repeat funding to existing customers. On the portfolio side, in addition to early warning triggers we have introduced monitoring tools and collections triggers to bolster recovery from late bucket customers. Analytically driven cross sell and top-ups remain strong as we continue to increase our product coverage. We have also devised win-back strategy for past customers, which would help us increase originations in a cost-effective way. Here the biggest potential is in our gold loan business, where till date we have cumulatively disbursed 95 lakh loans amounting to Rs48,781 cr. Analytics triggers are also being used by fraud control unit to eliminate fraud applications in pre-disbursal stage as well as for initiating proactive action in post disbursal stage.

Coming to wealth management, IIFL Wealth PAT, computed as per IndAS, grew by 26%YoY to Rs110cr. Our assets under advice, management and distribution have grown 7%QoQ and 25%YoY to reach Rs1.41 trillion.

IIFL Wealth raised equity capital of Rs.746 Crores in June 2018 through a prior placement to six institutional investors. Out of this amount, we have allotted shares worth Rs.652 Crores and the same forms part of net worth as on 30th June 18. Allotment of the balance 94 Crores worth of shares is pending allotment.

We had 18 bankers during the quarter taking the total number of bankers to 348 to further drive the growth momentum. We now have presence in 23 locations and 9 geographies. IIFL wealth offers a broad range of product and services to participate in a larger share of the client wallet. This includes financial products distribution, advisory, brokerage, asset management, credit solutions and state planning.

We raised net new money of Rs5,228cr in Q1FY19 versus average quarterly run-rate of Rs6,263cr last year. AIF assets have grown 60% Y-o-Y to Rs.13,422 Crores.

IIFL Wealth Finance, which offers loan against securities and margin funding to high net-worth clientele, grew its loan book 31%YoY but down 16% QoQ to Rs.5,631cr. Calibrated approach to portfolio management and selected exits in certain exposures in present volatile market conditions has resulted in QoQ decline in the loan portfolio. Average lending rate for this book is around 10%.

Coming to Capital Markets, IIFL Capital Market activities, which largely comprise retail broking, institutional broking and investment banking businesses, grew its net profits by 11% Y-o-Y.

During the quarter, our average daily cash turnover was up 9%YoY to Rs1,215 Cr. versus 14%YoY growth in exchange cash turnover. Our average daily total turnover, including F&O, was up 51%YoY to Rs16,677 Cr. Our NSE market share in the cash segment was around 3.7% and in total around 1.9%. We are continuously enhancing our offerings on digital and mobile platforms for retail customers in our broking business. Our mobile trading app, IIFL Markets has had over 1.9m downloads. Presently, about 36% of our retail broking clients trade through the mobile app. We completed 6 transactions in Investment Banking and have a substantial pipeline of deals in various stages of execution.

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

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 Siva Kumar from Unifi Capital. Please go ahead.

Siva Kumar: Thank you for the opportunity and congrats for a great set of numbers. Sir, I just want to know what is the strategy being adopted in the gold loan business because the main stream gold loan NBFCs have been struggling to put up AUM growth while we have seen IIFL's case that quarter-after-quarter you're notching up very good growth numbers, so I just wanted to know the strategy what is going right for you that the mainstream gold loan companies are getting a drop?

Nirmal Jain: Actually see if you look at our gold loan branches and the assets per branch, they are significantly lower than the other two mainstream companies. So we are just catching up; so typically if you look at the two large gold loan companies then they will have on an average AUM of around Rs.6 to Rs.7 Crores per branch. In our case it was less than 3 Crores if you go back few quarters back, so may be it was a conscious decision to put a cap and not increase this portfolio in 2016-2017 and we are trying to use the branches for other products, but we are just trying to get the normal share of market for any branch for that matter.

Siva Kumar: Right, Sir and coming to MSME, I see that the NNPAs in case of MSE segment is slightly higher than the rest at 2.4% and we also saw that across the ecosystem much of the banks had some stress related to the MSME sector, so are you seeing any early signs of stress in this particular sector?

Nirmal Jain: MSME is a very heterogeneous sector. This sector has loans of Rs.4 lakh and 40 Crores also, so obviously there is some stress in some pockets and some segment and also as far as we are concerned what we are doing is that we are focusing on a very small so about Rs.4-5 lakh of loan where the yield is higher and you also have a slightly higher provision, but then the yield or NIM takes care of it. But if you look at our trends for last few quarters when we scaled up this business on a small base, it is fairly comfortable and in line with our expectations.

Siva Kumar: Right Sir and going forward what is the segmentation towards which you are working for FY2019 as in what would be the share of retail mortgage, gold loan, CV loans, can you kind of give us some ballpark numbers with which we can work with?

Nirmal Jain: I think what we have been talking about in the last few analyst calls remains the same, that home loan will grow faster in terms of the relative share and also obviously the SME; these two segments are growing faster. Commercial vehicle is a cyclical market, so we are seeing there is an uptrend in commercial vehicles this year, may be last couple of quarters we have seen the cycle has turned. So I think that these are focus areas for growth and you see that relatively speaking capital market has gone down and earlier we used to have corporate loans, they have also gone down, and LAP also has been relatively reducing in its share – we expect the same trend will continue.

Siva Kumar: Right Sir and any guidance on the NIM Sir? Now that the cost of funds is going up, will you be able to maintain the NIM as last year?

Nirmal Jain: So NIM in case of Ind-AS they appear a little higher because you provide interest accrual even on the NPAs but what you do you do is that you knock it off in a higher standard asset provision, so that is how Ind AS accounting is, but on the like to like comparison, it is similar on 7%.

Siva Kumar: Thank you Sir.

Moderator: Thank you. The next question is from the line G Vivek from GS Investments. Please go ahead.

G Vivek: Good afternoon Sir, and we wanted to know about the subdued performance of the Star performer of our group wealth and the retention margin has also come down, what is the reason Sir?

Karan Bhagat: The retention margins have been fairly stable actually, but what has come down on the retention side is the fund based income, so fund based income in the previous quarter of last year, there was an exceptional item. First quarter of last year there was an exceptional item of 15 Crores on the fund based income that is kind of knocking off the retention by 6-7 basis points, otherwise from an asset perspective, the overseas business is consolidating a bit where the flows have been quite muted, so the domestic assets have grown by nearly 10% to 11% and we have seen the net impact of 7% because of 2%-3% decline in the overseas assets. Otherwise from a domestic perspective, activity continues to be fairly strong, asset growth as well as retention growth are broadly from a fee basis on the same lines as the last two quarters.

G Vivek: So the retention margin last year was 0.95 and this year it is 0.85.

Karan Bhagat: Yes, so that 10 basis points that you see the basically on the fee side, it is exactly the same, the 10 basis points decline in more on the fund based margin.

G Vivek: The reason for slowdown in wealth in overseas is the political uncertainty in India and consequential uncertainty in the new stock market?

Karan Bhagat: A little bit of that and there is also little bit of change in regulations, where NRIs now need to be less than 50%, so there is a little bit of confusion in regulations also, I think as and when they become clearer, we will see some inflows coming back.

G Vivek: So is that one off sort of situation?

Karan Bhagat: See our international business as you've seen is a smallish part of our overall assets, it is down to round about a billion and a half, so I think from this base you might see another 25% to 30% kind of correction over the next six to nine months, but that is about it. So overall across the full asset base it is not a consequent impact.

Nirmal Jain: Retention yields breakup - 70 basis points is the fee income and 50 basis points is fund based, last year the fund based income was 25 basis points; so there is exactly a 10-basis point decline entirely in the fund based and the fee based has remained the same.

G Vivek: Okay Sir. Thank you and Sir we are entering into very hypercompetitive segments like housing finance and gold loans and microfinance, wherein sort of, if it is becoming commoditized and what is the differentiating factor for us and how do we foresee the future in that? Thank you.

Nirmal Jain: No, I do not think we are entering now. We have been there for last 10 years or 7-8 years, so this is question maybe relevant for new NBFCs is being set up, so we have been there in both these business for quite sometime and we are high on the learning curve now.

G Vivek: Thank you.

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

Megha Hariramani: Congratulations for good numbers. Two questions, one on the home loan segment, if you could just give us the breakup of how much is self-employed and salaried proportion in the home loan and second on the net new money raised on the wealth division, how do we see that going forward to grow and in what manner?

Nirmal Jain: Thanks Megha. Self-employed and salaried is broadly equal, it is about 50:50 in case of home loan

Karan Bhagat: I think net new money, I think it will be in the range as discussed in the previous call in the region of now about 20% to 25% of last year's assets, so I think 25 odd thousand crores is the number we would be targeting for the full year. It may not be symmetrical quarter on quarter, but I think over a full year time period, I think 25,000 to 30,000 crores is the number to be looking at.

Megha Hariramani: Perfect and if I may just start another question that is on the CV business, as you said you might see some cyclical-ness kicking in, but how do we kind of deal with it because it is – the LTV is also high and so are the NPAs on the segment?

Nirmal Jain: CV business actually is seeing the upcycle and a strong demand growth for credit and I think it might improve, it may be good time to reduce NPAs and recover some of the old dues also.

Megha Hariramani: So we do not see any challenges there as of now?

Nirmal Jain: Not in the near future, I mean in the longer term, it is cyclical business, but at this point in time outlook is looking good.

Megha Hariramani: All right. That is it. Thank you.

Moderator: Thank you. The next question is from the line of Jahnvi Goradia from Motilal Oswal. Please go ahead.

Jahnvi Goradia: Congratulations Sir for a great set of numbers. Sir just one question on housing finance. We have seen great growth this quarter, so wanted to understand your sense on where this growth is coming from in terms of different geographies and how do you see the supply side issues on the affordable housing segment and the supply coming up there, what is the trend there?

Nirmal Jain: You see the sector is doing well, but as a strategy we have been investing in this. So we expanded our network, we expanded our branch network or the branches that from where we operate home loans and we have been doing this since last year and so what you are seeing is an outcome of this conscious strategy. In terms of affordable housing, I think the requirement is huge, so if you talk about our Prime Minister's vision by 2022, we are talking about a trillion dollar investment in the sector and obviously the demand for housing credit will be very good. Affordable housing supply is coming in some states and smaller towns and also Tier 2 cities as well. So we have close to 5000 projects which are approved for financing and obviously we are focusing on small and mid sized projects where our segment is, if you look at our loan average ticket size of about 20-22 lakh rupees of loan. So we are talking about house of Rs. 25 lakhs, obviously this in smaller towns, or suburbs of larger cities, that is where our focus and our market is.

Jahnvi Goradia: But Sir any geography, certain states which are doing very well versus because we have seen other affordable players not reporting great set of numbers on the disbursements, so just wanted your sense on different geographies and how they are doing?

Nirmal Jain: No, all the geographies are doing well actually including the south and north, the east is also doing very well actually, but there is an order, I do not about the other affordable housing companies, if you named them, then I will be able to understand who you are referring to, but there are companies that are growing very well also, so if you look at companies like PNB housing finance and many others, they are doing well. There may be some challenge for the new players who haven't established their distribution network as well as underwriting and collection systems inside. But other than that sector is doing well and there is all round growth.

Jahnvi Goradia: Okay. Thank you so much Sir and all the best.

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

Nishchint Chawathe: Just first on the wealth business, there was a quarter-on-quarter decline in the wealth NBFC loan book. So just trying to understand I guess you mentioned on TV that it is because of competition that somewhere you have gone a little slow, but may be if you can explain that that could be better?

Karan Bhagat: I think the loan book, which has reduced because of the interest rate competitiveness is round about close to 500 to 600 Crores. The remaining 400 to 500 Crores was a little bit of end March phenomenon also for the book to go up, but otherwise, like we have guided continuously the funding book will remain in the region of round about 4.5% to 5.5% of our assets, so between the 4% to 6% broad range depending on market activity, the loan book will remain at that range. So 140,000 Crores round about 5.5 to 6000 Crores is your broad range of the book and on quarter-on-quarter basis obviously it is depending on the activity, I think end of March there was also one small IPO, which kind of carried forward, that added round about 250 to 300 Crores. So those kinds of things were there. From a pure interest rate, competitiveness perspective, I think we let go of round about 4 to 500 Crores of loans where we felt that the pure interest rate commercially was not justifiable to be lending.

Nishchint Chawathe: So in this business in terms of lending how do you think about it, you have a particular target ROE in mind or how do you really decide..?

Karan Bhagat: Typically 90% of our clients, not 90% possibly even 95% of our clients are clients we are already doing wealth management business with. On a standalone basis obviously the funding itself does not make sense unless we are getting complementary fee income from the clients. So effectively you would be ideally lending to clients who are in any case large enough wealth clients with us and effectively on the funding interest rate plus the fee income put together, we should be in late teens in terms of the ROE.

Nishchint

Chawathe: Sure. Got it. And the capital that you raised this is essentially growth capital for this particular business I believe?

Karan Bhagat: This business and also the alternative investment fund business because AIF business also will continue to need some capital, so as a sponsor as we speak right now we've got round about 230 odd crores invested in our own schemes because by regulation, we need to put in 5% or 10 Crores whichever is lower in the case of all CAT-III schemes, but typically some of the schemes we have done like IIFL Housing Fund which has collected about 2,000 Crores, we have put in around 25 crores as a sponsor. So typically you can assume round about 2 to 2.5% of the alternative investment funds we manage, we will be deploying back as a sponsor into those schemes. So today we would have round about 18,000 crores of commitments in our AIF schemes, of which we would have put in about 240 crores and we have committed to put another 100 Crores, so round about 340 Crores is our own deployment back into our AIF as a sponsor.

Nishchint Chawathe: And this capital that you raised, this has already been allotted, right, this 746 Crores?

Karan Bhagat: Yes - so only General Atlantic needed CCI approval, so that is round about 94 Crores, so that allotment will happen over the next two to three weeks as soon as they get the approval. The rest of it is allotted.

Nishchint Chawathe: Sure. Just on the business side again, there was some regrouping in your AUMs I think between distribution and advisory assets?

Karan Bhagat: Right, so we've just grouped the mutual funds together actually, so the mutual funds, which were coming under advisory, have been grouped as distribution under mutual funds.

Nishchint Chawathe: So these are essentially direct assets, but they were kind of..

Karan Bhagat: Yes, they were coming under advisory, so we just grouped it there that is about it, nothing else.

Nishchint Chawathe: And incrementally which segment do you see growing faster over the next let us say four quarters?

Karan Bhagat: So currently the way the market is set up is, really clients are still not moving towards paying fees on assets yet, it still advisory/financial planning kind of service, where the larger amount of fees is paid through distribution as supposed to being paid as management fees, so I think that trend will change over the next 24 to 36 months, but it is a gradual change, and I think over the next 36 months, you will see nearly 32% to 40% of the industry moving towards semi-discretionary and discretionary and 60% to 70% continues to remain in distribution. Second obviously the alternate investment fund business will continue to grow and there the stickiness on the alternates is fairly high because the products raised are for a longer period of time and there I think you typically continue to enjoy the 100 and 150 basis points of gross management fees and third we recruited Anup, who is going to join us over the next 10 odd days. With him coming we will see on what basis and how much we want to also expand our mutual fund business as well as the other spaces and ideas within the alternate investment fund basis.

Nishchint Chawathe: Okay. I just have one or two questions on the NBFC business as well, if you could give us the networth of the NBFC business as on date?

Prabodh Agrawal: Yes, so Nishchint actually there is some adjustment to the opening networth as per Ind-AS we have to do some adjustment as of March 31, 2017, so for which we have time up to December to publish, so that number broadly you know the previous GAAP number and the net profit in this year, so that is there. But the exact networth will be revealed later.

Nishchint Chawathe: No, fair point. On the provision side, if you could tell us what is the outstanding provision on balance sheet? So that I can then calculate the stage 1, stage 2, stage 3?

Prabodh Agrawal: Outstanding provision is basically close to 800 Crores.

Nishchint Chawathe: Sure and just one last thing in terms of loan sell down to bank, I mean do you do a sell down or a securitization, I believe you said that you are booking the entire income upfront?

Nirmal Jain: Yes, so in June quarter, we did one large transaction, which was direct assignment, which is true sale and not any securitization with, so that is something on which as per Ind-AS we did book upfront income to be about 35 Crores and that is why you see that NBFC numbers of Ind-AS so 68 to 69% Y-o-Y growth. On a GAAP basis, it is still 30% profit growth.

Nishchint Chawathe: Sure and in the outstanding block as a policy kind of doing more of bilateral or securitization how should we thinking about it?

Nirmal Jain: What happens that if you really look at if you do securitization 9%-10% of cash collateral and there is a negative carry, your capital is also blocked, so bilateral direct assignment is a best way to wherever you can.

Nishchint Chawathe: Sure and today on the balance sheet, you would have like majority or combination or how would it be like?

Prabodh Agrawal: Currently we have about 5300 Crores of securitized book, out of which 3800 Crores is direct assignment.

Nishchint Chawathe: Thank you very much.

Moderator: Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: The first question is around the rearrangement, can you give us some timelines regarding that?

Nirmal Jain: It is progressing well. We already got RBI as well as quite a few foreign regulators' approval, now we are awaiting SEBI approval actually. And SEBI on the website they have updated they are waiting for other regulators' approval. Some other domestic approvals are awaited as well. But as soon as these approvals come, we can file for NCLT and then NCLT calls a shareholders meeting etc and it goes on. Practically speaking it may take about six months from now.

Prashant Kothari: Okay and the second question is round the NBFC business, now that we have the new CEO what kind of strategy change or the kind of looking at in the next few years?

Sumit Bali: We are present in most of the retail businesses; we would rather build scale and size on those. We have grown in higher double-digits on most of the business, but I think we still have scope to grow further and we expect to keep going at about 30 to 35 year-on-year.

Prashant Kothari: So how is it different from what we have in mind earlier?

Sumit Bali: If you see we are present in most of the lending side right now from microfinance to affordable housing to LAP to construction finance to SME loans, gold loan to CV, I think there is enough scope of growth in those and we will as and when chances come evaluate new businesses but right now the focus is to go deeper into these businesses.

Nirmal Jain: Sumit is saying no change in strategy right now, it continues, he will just build up on whatever has been done till now.

Prashant Kothari: Thank you.

Moderator: Would you like to give any closing comment Sir?

Nirmal Jain: Thank you and if any of you have any more questions, you can always get in touch with our investor relations. Thank you so much. Have a good day ahead. Bye.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of IIFL Holdings Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.