



IIFL Holdings Limited
Consolidated Financial Results – Q4FY18/FY18

Conference Call Transcript
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Management

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Moderator: Ladies and gentlemen, good day and welcome to IIFL Holdings Limited Q4FY18 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 now hand the conference over to the management. Thank you and over to you Sir!

Prabodh Agrawal: Good afternoon everyone. On behalf of team IIFL, I thank all of you for joining us for the call. I am Prabodh Agrawal, Group CFO accompanied by Nirmal Jain, our Group Chairman, R. Venkataraman, Managing Director and Karan Bhagat, Managing Director of IIFL Wealth Management. I now pass the mike to our Chairman to comment on overview of the group strategy and plan.

Nirmal Jain: Good afternoon and welcome to our analyst call. The year has ended well and we are very pleased to report that each of our core businesses has grown at more than 30%. At a consolidated level we have 33% growth in post tax profit after minority and pre-minority the post tax profit growth has been 41%. We have crossed 1000 Crores profit after tax milestone for the first time, our post tax profit prior to minority adjustment being Rs 1162 Crores for the year.

All our core businesses are benefiting from the underlying mega trends for the financial services sector, which are positive. If you look at IIFL Wealth and IIFL Securities, we are seeing a trend of financialization of savings on one hand and on the other hand there is sustained economic growth and this is creating a lot more wealth and giving opportunity for players like us to consolidate our market share. In IIFL Finance, as we know that public sector banks incrementally are losing market share in the new credit segment, and that is what is benefiting private sector banks as well as NBFCs. This, supported by the best in class talent that we are able to attract and retain, and our continuous focus on technology, is helping us grow our business at a sustained pace, maintain quality of assets as well as keep our risk framework tightly under control.

With this, I handover to Prabodh for a review of business and we also have heads of all our businesses here, my colleagues Karan and Venkat, to address any of the queries that you may have.

Prabodh Agrawal: Thank you Nirmal.

We are very pleased to report a 36%YoY growth in our Group net profit to Rs318cr for Q4FY18. Net profit after minority interest has grown by 33%YoY to Rs248cr. Our net worth has reached Rs5,070cr. ROE was 19.8% and ROA was 2.4%. Group net profit for full year FY18 grew 41%YoY to Rs1,162cr and net profit after minority interest has grown 33%YoY to Rs911cr. All the three segments of the company that is NBFC, Wealth and Capital market contributed to this strong growth.

Discussing the NBFC numbers, in our NBFC business, loan AuM grew 40%YoY and 14% QoQ to Rs 31,163cr. Profit after tax grew by 33% YoY and 10% QoQ to Rs160cr. For full year FY18, our profit after tax grew 31%YoY to Rs554cr.

The NBFC networth is Rs.3917 Crores. Our Tier I CAR stands at 14.8% and total CAR at 16.2%.

Primary drivers of our AUM growth are small ticket home loans, which grew by 61% Y-o-Y, small ticket MSME loans, which grew by 142% Y-o-Y and microfinance loan, which grew by 252% Y-o-Y. The latter two products growing off a small base.

Besides these three fast growing products, we also recorded good growth in gold, CV and construction finance loans. On the other hand, LAP and capital market loans were flat or declined Y-o-Y as planned.

In home loans, our focus remains primarily on the self-employed section, which constitutes nearly 60% of our loan portfolio and home loans of ticket size under 28 lakhs. The fastest growing segment in home loans is the affordable home segment or Swaraj loans with average ticket size of Rs.13 lakhs. Swaraj loans accounted for 22% of our home loan disbursements in Q4FY18 and 12% 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.

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

Within construction and real-estate finance, the mix continues to change towards construction finance for small ticket housing projects. As on March 31, 2018 we had over 6200 approved housing projects, up nearly 1.6 times from 3900 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 credit costs going forward for our housing finance company.

After a muted Q3 FY18 when we were assessing the impact of RERA, we are now more confident of construction finance loans with recent changes in the environment including RERA, Bankruptcy Code, etc. RERA has provided confidence to end customers and lenders on expected transparency. Information and documents uploaded by builders with RERA such as approved building plans, title deeds, encumbrance, construction stage update, inventory, timeline of completion of projects, escrow accounts towards payment etc., give us better control and comfort for speedy disbursements to individual customers.

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 microfinance 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 constitutes nearly 85% of our loan book.

Another strong characteristic of our loan book is the large portion of loans that are compliant with RBIs priority sector lending norms. About 45% of our HL, 60% of LAP, 90% of CV, 40% of SME and nearly all of our MFI loans are PSL compliant. In aggregate nearly 40% of our loans are PSL

compliant, which we can sell-down to banks at attractive rates, which would positively impact our profitability and CAR. The share of securitised book currently stands at 11% of our AuM.

Our average cost of borrowing declined by 7 basis points Q-o-Q and 44 basis points Y-o-Y to 8.4%. Availability of funds has considerably tightened over the past few months and there is a corresponding rise in the cost of borrowings. Many PSU banks are holding back sanctioned lines of credit. We are resorting to borrow a mix of term loans and banks and bonds with an endeavour to lock in longer tenure funds at fixed rates.

Our NIM was at 7.1%, expansion of 23 basis points Q-o-Q and 4-basis point Y-o-Y. Lower borrowing cost and rising share of high yielding SME, gold, MFI loans helped support our NIMs partially offset by higher share of lower yielding retail home loans.

Medium and high yielding assets currently constitute 51% of our AUM versus 46% at the end of March 2017. These include microfinance loan, SME loan, gold, CV and construction finance. The other half of AUM consists of relatively lower yielding assets including home loans, LAP and capital market loans. We believe our AUM mix is well balanced with some scope for the share of high yielding assets to go up.

Cost-to-income ratio was 42.9% and opex to average loan book ratio at 3.54%. Many of our small ticket loan products are opex intensive, including Gold, MSME and MFI. As the share of these products rises, it puts an upward pressure on our operating costs. Still we believe that we can contain the cost ratios on the back of operating leverage and digitization benefits.

The number of NBFC branches has grown 24%YoY to 1,378, compared to 1,112 a year back, as we added branches in our HFC, gold and micro-finance businesses.

Our GNPA's were at 1.7% of loans and NNPA's were at 0.8% of loans, both having declined QoQ. Sequentially NPA's declined for every single product. This was due to a combination of constant improvement in credit underwriting standards and concerted collection efforts.

Some details on digitization, we have continued our focus on digitization encompassing every aspect of customer loan journey. Of the total 5.43 lakh loans disbursed in Q4, 97% were on-boarded digitally with Aadhar-based eKYC undertaken for more than 90% of all bookings. We have focused on backend process digitization through multiple innovations as well as partnerships, helping us achieve process efficiencies.

With 40,000 mobile app downloads in Q4 and 2.5 lakh cumulative downloads, 'IIFL Loans' mobile app is growing steadily, fulfilling account management and servicing needs of customers.

In digital finance vertical classified under MSME loans 90,000 customers were acquired in Q4 versus 50,000 in Q3. All the customers were sourced digitally in straight-through paperless mode.

In analytics, we are driving use of credit scores and automated decisioning for our small ticket loans. 65% of small ticket SME loans last quarter came through instant decision route. Our digital finance business is entirely underwritten using automated scorecards.

On the portfolio side, we have monitoring tools with proactive early bucket collection triggers. We are using analytics driven cross sell and top ups. As our book scales up and seasons, cross sell contribution will also increase significantly. Analytics triggers are also being used by Fraud Control Unit (FCU) to eliminate fraud applications in pre-disbursal stage, as well as for initiating proactive action in post disbursal stage.

Some commentary on the wealth management business, IIFL Wealth's PAT grew at 37% YOY to Rs.103 Crores. Our assets under advice management and distribution have grown 3% on Q-o-Q and 39% Y-o-Y to reach Rs. 1.32 trillion. We hired 14 bankers during the quarter, taking the total number of bankers to 330, to further drive the growth momentum.

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 estate planning. We raised net new money of Rs.25053 Crores in FY18 versus Rs.22535 Crores last year. During the quarter, the team garnered AUM or commitments in excess of Rs. 4000 Crores in wide ranging products.

AIF assets grew 52% Y-o-Y to Rs. 11736 Crores. The total commitment in our 'Special Opportunities Fund', which invests in pre-IPO and IPO situations, is now close to Rs.8700 Crores. A new Affordable Housing Fund was launched in the last quarter, which also received an outstanding response with the commitment of more than Rs.1360 Crores.

IIFL Wealth Finance, which offers loan against securities and margin funding to high networth individuals, grew its loan book 15% Q-o-Q and 85% Y-o-Y to Rs.6701 Crores. Average lending rate for this book is around 10.3%.

Finally on the capital markets, during the quarter, our average daily cash turnover was up 39%YoY to Rs1,563 Cr., higher than the 30%YoY growth in exchange cash turnover. Our average daily total turnover, including F&O, was up 69%YoY to Rs17,455 Cr. 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 platforms for retail customers in our broking business. Our mobile trading app, IIFL Markets has had over 1.5 million downloads. Presently, about 41% of our retail broking customers trade through the mobile app.

FY18 was the best year for IIFL's Investment Banking Business since inspection and we were ranked number one in raising equity for private sector companies

The investment banking team completed 27 transactions during FY2018 including 11 IPOs and 8 follow-on offers involving listed companies. A number of private equity and pre IPO transactions were also closed. There is a substantial pipeline of transactions in various stages of execution.

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

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Viral Shah from Credits Suisse. Please go ahead.

- Sunil Tirumalai:** Good afternoon. This is Sunil Tirumalai from Credit Suisse. Thank you for the opportunity. My first couple of questions that on the Wealth Management piece, if we look at the quarterly number there seems to be some softness in the yields Y-o-Y and opex seems to have been grown much faster, so the PBT level actually the growth does not seem much, the PAT seems to have come about because of lower tax rate, so can you comment on all these and outlook on these items?
- Karan Bhagat:** Sunil, I think both from an assets perspective as well as activity, I think Q3 was fairly strong. So if you see both from Q1 and Q2 perspective, growth in Q3-Q4 was strong, but I think from our growth perspective, you are right Q4 was more or less around the similar numbers as Q3, but from an asset gathering perspective I think very difficult to look at it quarter-on-quarter. The momentum continues to be strong. Typically the first half tends to be stronger for assets and flows typically tend to be stronger in the second half. Retention really is 3-4 basis points kind of movement, so nothing really structural in terms of change of yields. It is just broader factor of the activity in the quarter.
- Sunil Tirumalai:** Karan, if I may follow-up there, so 65 basis points is your printed retention yield on the fee-based activities, so that is on Y-o-Y a reasonable decline, I think also for the year we have seen steady decline. So is that something as a trend or where should this settle?
- Karan Bhagat:** I think fee based income on wealth management side including asset management will be in the region of 65 to 70 basis points. See as the asset management assets also start becoming larger and larger, the net asset management yields in the region of 50 basis points post direct cost. Wealth management will continue to be in the region of 75-80 basis points. So the mix will continue to be in the region of 65 to 70 basis points. So our asset management becomes slightly larger portion, I think the yields will settle beyond the 60, 65, 67 basis points region.
- Sunil Tirumalai:** Got it. Karan also if you could comment on what do you think is the potential impact from SEBI's rules on reduction and the distribution charges from B15 to B30 and also I think some of the AMC earnings from redemption penalties the caps have also been brought down, I mean how does it impact distributors like yourself?
- Karan Bhagat:** Honestly, at the first level I think from the distribution perspective the impact is not too large. From an asset management perspective, there could be a bit of an impact, but from our own asset management mix if you see most of our assets currently are on the alternative investment fund side, as opposed to being on the mutual fund side. So the immediate impact on us as a manufacturer is not really there and really our distribution in the B15 before this has not been very, very large. So the B15 changing to B30 is not going to impact our distribution margins in a very material way.
- Sunil Tirumalai:** Got it and my last question is on the lending business especially on the home loan side, so this approved projects strategy seems to be doing well. I just wanted to understand what is the scope in terms of 6000-odd number of approved projects, how higher can it go and where do you think the market leaders are in terms of the number of approval projects they have? Thank you.
- Nirmal Jain:** This number can go higher many times. I don't have the numbers but you can certainly check with HDFC. They might have something like 25-30K projects at least. This number can multiply many

times, we have our network in over 1000 cities and towns and many of these projects are of different sizes, so I don't think we are anywhere near saturation in terms of number of APFs.

Prabodh Agrawal: Just to add to that we can continue to add close to 400-500 APFs every quarter, that kind of possibility is still there given the number of projects across India and many of these projects are now actually seeing better sales compared to what they have seen over the last two to three years.

Sunil Tirumalai: Thank you Sir. I will come back for a follow-up. Thank you.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Motilal Oswal Securities Limited. Please go ahead.

Shubhranshu Mishra: Good afternoon Sir and thank you for the opportunity. Just want to understand any strategy that you have for cross sell to the MFI customer?

Nirmal Jain: MFI customers, typically they start as a group loan and then they upgrade to individual loans as their credit becomes more acceptable and then over a period of time they take small SME loan and some of them also qualify for housing loan. So in terms of cross sell you can sell small products but typically these people as you know are the robust spread of society, so we really do not want to burden them with too much in our drive to raise fee income, that actually effectively increases the cost. There is opportunity to cross sell products like basic term insurance plan or accident insurance etc, but more than cross-sell I think there is an opportunity of upgrading these customers over a period of time.

Shubhranshu Mishra: Right. Sure Sir. My second question is with respect to the wealth management business, just want to understand – your asset accretion has been lower than your net new income, net new money, so how do we understand that and how do we look at it going forward in FY2019 and FY2020?

Karan Bhagat: I think you are looking at that on a quarterly basis might be a little difficult because it has its own elements of mark-to-market also, but I think looking forward I think adding round about 25000 to 30000 odd Crores of net new money in a year is the number we should be working on, obviously that will need to be adjusted for the mark-to-market on the existing stock of money.

Shubhranshu Mishra: Okay sure and data keeping question, what is the present number of RMs that you have and what is their average vintage?

Karan Bhagat: The exact vintage will be around 4.3 to 4.4 years. Every year I would say this is progressively kind of going up and the number relationship managers would be in the region of 330 and we would be adding approximately 40 to 50 relationship managers through the first half of the year.

Shubhranshu Mishra: With the similar vintage of five years?

Karan Bhagat: No when I am referring to vintage here, I am referring to vintage in the organization. The average vintage will be much, much higher because the average vintage of a person joining us will be at least six years to start with. So if I look at the average vintage if you talk about the average

professional experience that will be north of 10 years for sure, but when I say 4.5 years I am talking about their vintage on an average with the organization.

Shubhranshu Mishra: Right sure. And Sir in terms of your institutional security business what is your split between domestic and offshore?

Nirmal Jain: Domestic and offshore you mean the brokerage from domestic mutual fund in FIIs and FPIs. There is nothing offshore because the business is done from here.

Shubhranshu Mishra: Correct, would you have a split between your domestic flows and the FII flows?

Nirmal Jain: I think it is broadly equal now, 50:50.

Shubhranshu Mishra: Okay and your strategy going forward to maintain the yields on your institutional securities business Sir?

Nirmal Jain: Yields I think will move in tandem with market and industry, but in the last 10 years there has been a continuous decline and I think the point in time has come now that the downward potential is limited, I think the domestic market players will keep rising and there the brokerage rates will be slashed and also capped by the regulator, so I think now we will start looking at a plateau in terms of the rates curve, as against a decline in trend in the last year.

Shubhranshu Mishra: Okay and what are your blended yields in institution brokerage Sir?

Nirmal Jain: Blended yields?

Shubhranshu Mishra: Yes.

Nirmal Jain: I do not have that number actually

Shubhranshu Mishra: Thank you so much for your time Sir. Best of luck.

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

G Vivek: Congratulations Sir for good set of numbers. Few queries from my side; basically just wanted to enquire about our wealth management segment I believe we are the number one in this particular segment. I would like to know about the increasing competitive intensity in it and opportunity size for us and what are the USP or mote for us in this particular segment Sir?

Karan Bhagat: The USP or mote will essentially be a combination of three things. We need to continuously have the best set of people and relationship managers. From the products perspective, I think innovation will be very, very critical because the launch of interesting new ideas essentially allows clients to start with us and once they start then the comprehensiveness of the platform, which would include strong advisory, open architectural solution based platform, estate planning, corporate finance planning, all of that coming together with strong products and strong set of people will be our mote. It is a little abstract, there is no specific mote to define as such, but

essentially the mote will be a unique combination of these three things always being available with us.

G Vivek: Thank you and I wanted to have your rationale behind the proposed demerger of IIFL and how it will add value to the shareholder Sir?

Nirmal Jain: I think this we discussed in the last earnings call also, so we have three businesses that are distinct in terms of a set of customers as well as people that manage them and if you see our core philosophy, for more than two decades, has been to attract people with ownership -we have a very liberal employee stock ownership scheme; and what will happen when the three businesses are independent is that it will allow us a lot of flexibility, - to attract talent, particularly the top management talent, all the businesses can have individual definite growth strategies, different risk framework and a different business plan as well. From a regulatory framework, they'll become independent because they are regulated by different regulators; so as of now, as a conglomerate, you need all the regulatory approvals or NOCs for any approval or renewal or new license. I think from a governance perspective, everybody – analysts, media, regulators etc, prefers a clean structure with the business being clearly identified, rather than the conglomerate structure where equity ownership is lot of intra-ownership. So I think from governance, from management, from future business growth perspective as well as risk management, we thought it is appropriate that we segregate these three businesses.

G Vivek: Okay Sir and lastly Sir we and I believe are our one of the organization, which has been way ahead of others in the terms of IT usage, could you just throw some light what edge our IT division gives to us and what are the plans in the future?

Nirmal Jain: Our retail business has been moving predominantly to an IT platform and we have a lot of innovations like the trading platform- Trader Terminal, IIFL Markets app, in Loans now we have got IIFL loans app, and in a lot of our processes, as Prabodh shared numbers with you, the predominant part of our loan processing has become completely paperless and lot of work is happening in data analytics where we are continuously improving our automated credit underwriting mechanism using data; So I think we use IT in every facet of our business - in the backend and frontend as well as an intelligence, so I think its universal now.

G Vivek: In terms of last question, is in terms from the rising interest rates, what has been our strategy and how are we coping with this and will we be having some short-term negative impact?

Nirmal Jain: It is difficult to say but at this point in time, I think most of our loan assets are with the floating interest rate and we have the flexibility to pass on the increase in interest rates, so as long as its moderate it is fine, but if it becomes very steep then it might affect the credit growth for the industry as well as us, but at this point in time, I think we expect only a moderate rise, if at all, in the interest rates going forward.

G Vivek: Okay and lastly congratulations on your acquisition in the MFI. I think you bought it at the worst of the time and I believe is the tailwind back now for the MFI sector and is it performing nicely now?

Nirmal Jain: MFI sector is performing well whether there is a tailwind or not, but I think there is no headwind.

- G Vivek:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Just a couple of questions, now on the broking side, just trying to understand what would be the dependence of the broking business with the wealth business in terms of how much of broking volume would be contributed by IIFL Wealth?
- Nirmal Jain:** Negligible. Insignificant. Zero. Basically because IIFL Wealth has got its own broking card, so most of the customers are being migrated but the brokerage share is negligible there and since its broking card is already active, going forward, wealth customers will be on-boarded there itself and we will be 100% very soon, so wealth customers brokerage income is part of wealth itself.
- Nischint Chawathe:** And that would be like – just to get rough idea out of the 210 Crores, how much could that right roughly be? I am looking at the Q4 number and I am saying that?
- Karan Bhagat:** It is round about 12 to 14 Crores. It will be about 6% to 7% or so.
- Nischint Chawathe:** Sure and that is completely booked in the wealth business itself?
- Karan Bhagat:** Maybe 90% is already booked in wealth, 10% must be coming in IIFL but then wealth is the authorized person for that brokerage, so 90% of that comes back to wealth, so you can assume 100% is booked in wealth.
- Nischint Chawathe:** Now if I look at your broking income or as you call it capital market related income; this income was up around 25% odd, but your cash market volumes were up around 35%, so how should we think about it and if you can share what is the contribution of this?
- Nirmal Jain:** What happens in cash market is that there is delivery volumes and intraday volumes, so the brokerage that we get on delivery may be almost around 6 or 7 times or 10 times the intraday volumes, so with volume growth, what happens is the higher volume growth in intraday does not lead to proportionate increase in the brokerage income.
- Nischint Chawathe:** This is what you can say that this quarter essentially was a lot of – more of intraday and this is I guess volume?
- Nirmal Jain:** There is a brokerage income growth also, so it is like maybe slightly more intraday but delivery growth is also there. But what happens is that whenever market volumes go up or down the significant delta up or down, both is from intraday.
- Nischint Chawathe:** On the wealth side, on the MF distribution I believe last year your income was around 25% odd of the agency income, this year given the fact that the overall MF industry did very well, could that ratio have actually gone up – I mean I understand obviously you have scaled a lot in the other segments, but I mean given the fact that mutual fund industry did so well on this year?

- Karan Bhagat:** Actually what is happening is mutual fund flows in our segment -in the super high network segment -is actually not been phenomenally strong in the last six to eight months, compared to I am saying, the absolute number is strong, but compared to the alternative investments funds and PMSs the flows have been relatively lower. So the new incremental flows are going more into new independent multi-managers on the alternative investment fund side and PMS side as opposed to going into the mutual fund space. I think that number will remain round about that 20% to 25%.
- Nischint Chawathe:** Just last two questions, one was your guidance on the loan growth in the wealth NBFC and the other one was in terms of how many employees would you have in the wealth management business. I know you have 450 RMs but what will be the total employee count?
- Karan Bhagat:** We have round about 330 RMs and total number of employees including our investment team across both asset management and wealth management would be round about another 65 to 70 people and other 250 odd people here across the business so round about 700.
- Nischint Chawathe:** Sure and any guidance on loan growth in the wealth NBFC?
- Karan Bhagat:** The way to look at the loan book in the wealth NBFC would be broadly tracking about 5% to 7% of the assets there. On a broad basis at the lower end round about 5% of the assets and at the higher end, 6-7% of the assets is the way to look at it.
- Nischint Chawathe:** Just one last question was on the advisory business; is the realization in advisory lower than the realization in the rest of the business and how do you see the share of advisory going over a period of time?
- Karan Bhagat:** Right now share of advisory business in terms of revenue is next to zero, because purely most clients are on platform where they work as both distribution as well as advisory clients. So they ideally do not like to pay advisory fees, but are obviously aware of the amount of fees they are implicitly paying in distribution. So effectively the way the account is managed is a combination of distribution and advice and unless and until it becomes binary to do one of the things we do not see a scenario where clients pay for advice. It still continues to be a combination of both distribution commissions as well as advice. So currently in our current setup, it is more management fees on asset management products as well as the management fees on PMSs, but advisory fees from client is next to zero.
- Nischint Chawathe:** Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Ashwin Balasubramanian from HSBC Asset Management. Please go ahead.
- Ashwin B:** I had a couple of questions on the NBFC business. So firstly in terms of the borrowing mix, the CP borrowing is roughly around 35%, which used to be between 20% and 25%. So would this be the kind of thing levels, borrowing trends it will go or you might go further up here or what is the kind of mix, which you are looking in terms of between CP and term loans. That is one question. The second question was on the yields side. So in LAP and SME in particular I think the yields have moved up over last quarter what you have disclosed in the presentation, so just wanted to

understand given the competition incrementally what will be the yields in the LAP segment and how has the yield actually moved up, so I just wanted to understand?

Prabodh Agrawal: On the first question on the borrowing mix, actually the share of CP has gone up in the last fortnight or last month in March because actually we had some large bank loans, which were paid off because they were maturing, also some NCDs, which matured and were paid off and that was substituted by some short-term borrowing at the point of time because it's not possible to do that much long-term borrowing in the month of March. But the situation is correcting in the first quarter itself, where the share of bank loans and NCDs will go up and the share of CP will come down to the previous level of between 22% and 25%. So there are some large bank loans, which are in the pipeline, which have already happened or will happen by June end. So that is not the normal mix, it is a little bit of an aberration in the March end. On the second question on the yields, the yields, will go up gradually, we have already raised rates on our home loans by about 20-basis points for new loans and on existing loans we are raising it with effect from July 1, 2018, so that is happening and similarly yields on LAP will also move up as our cost of borrowing goes up.

Ashwin B: Just wanted to know LAP you will incrementally also be doing at similar rates is it 12.5%, 13%, which is your on book yield is about 12.8%?

Prabodh Agrawal: The incremental yield is slightly lower 11.5% approximately

Ashwin B: Because over the last quarter actually thing should increase?

Prabodh Agrawal: LAP anyway the growth has slowed down significantly on Q-on-Q, Y-o-Y basis. That product, as we have said in the previous calls also, that because of the competitive pressures that product is less attractive compared to say a year or half back and therefore the share of LAP has been declining.

Nirmal Jain: Every year deduction may be because of certain repayments as a portfolio runs down.

Ashwin B: Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Funds. Please go ahead.

Dhaval Gada: Congratulations on good set of numbers. Just one question, what is the impact of Ind-AS on various businesses?

Nirmal Jain: Impact of?

Dhaval Gada: Ind-AS.

Nirmal Jain: So we have done very thorough analysis of Ind-AS on various businesses, there would not be much impact, there are some small positive impact and some negative impact, but generally our accounting practices have been conservative. So as of now Ind-AS looks like it will be applicable but there are many companies that are trying to lobby with RBI or MCA to get this deferred. So it is a funny situation actually because many companies have started doing their accounting on Ind-AS

basis and if there is a change then they do not have a choice but to get back to the older standard. But as far as we are concerned, it would not make any negative impact on our reported members.

Dhaval Gada: Even on the wealth business, there would not be any meaningful impact is it?

Karan Bhagat: No, there is no meaningful impact. We have actually done the numbers. So the incremental impact on account of unexercised options everything is less than 0.1% to 0.2% of the revenues.

Dhaval Gada: Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. My question pertains to your Wealth Management business, so we currently are at about Rs.132000 Crores of assets under management. So what sort of growth we are looking at for the next may be one, two, three year's timeline?

Karan Bhagat: So we are hoping to grow the asset based at a CAGR of about 25% to 30% every year and commensurately with a little bit of compression in yields and little bit of operating leverage coming up we are hoping to be able to deliver a 25% CAGR growth in profits.

Deepak Poddar: Come again, I could not get your second part, can you please repeat?

Karan Bhagat: I said we are hoping to be able to sustain a growth of 25% to 30% in assets offset by a little bit of decrease in retention of assets aided by some increase in operating leverage enabling us to continue to grow profits at 20% to 25%.

Deepak Poddar: Okay, so profit growth may be we are looking at 20% to 25% and similarly on the NBFC side in IIFL Finance, what sort of loan book growth we are looking at?

Nirmal Jain: It will depend on credit growth, but under normal circumstances, we should look at 20%, 25% book growth.

Deepak Poddar: That is it from my side. All the very best.

Moderator: Thank you. The next question is from the line of Viral Shah from Credits Suisse. Please go ahead.

Sunil Tirumalai: Thanks once again Sunil here. I have a follow-up question. The NBFC within the wealth business, the spreads used to be quite high earlier it is a kind of becoming reasonable now I mean my calculated number it comes to about 500-basis points. It still seems a bit high given the kind of business you do so where should the spreads over here settle?

Karan Bhagat: I will give you a very quick synopsis. Broadly our net lending is at the rate of round about 10.1 or 10.2, average borrowing cost typically tends to be in the region of 7.95 to 8.10 depending on the quarter, so on the loan book itself there's a contribution of about 190-basis points plus the equity plus a little bit gets driven from the IPOs during the quarter. So round about 10% of the income

currently out of the NBFC book is dependent on the kind of IPOs which come through the quarter and the rest of the fund based income is essentially, the interest on the residual network in the consolidated entity ex the NBFC. So all of those four things put together are what is giving you that number.

Sunil Tirumalai: Thank you. The tax rate in the wealth management has been a bit low for the last few quarters, what is happening on that?

Karan Bhagat: So actually it is a function of two things, it is a function A of the carry being booked for the year that effectively enables the tax rate to go down a bit because the long term capital gains in the form of carry effectively does not get taxed. This year we booked round about Rs.40 Crores, Rs.45 Crores of carry through the year. The other thing, which has helped the tax rate this year, is the NBFC, because it was a new entity last to last year and effectively had a revenue of less than Rs.50 Crores hence the tax rate for the NBFC in the current year was about 25%. That 25% will move up to normal tax rate next year, so the next year tax rate will be around about 2.5%, 3% higher than what it was for this year.

Sunil Tirumalai: My last question is on the lending book. The opex outlook I think it was a bit higher for the quarter, any one-offs and what is the outlook? Thank you.

Nirmal Jain: For a long time our branch network was static and if you notice we had about 1100 branches but in last 4-5 months or may be last two quarters, we have set up almost 200 new branches and obviously these 200 new branches would require people also and we are seeing opportunity to grow the network and get wider and deeper. Many of the new branches breakeven in a year's time, but obviously in the first few quarters, the opex cost goes up, but we have seen opportunity for faster growth. Also you should note that if you look at cost-to-income ratio, it might go down for each business segment and it still goes up on a weighted average basis because cost to income ratio tends to be higher for businesses like gold loan, SME and MFI, all of which are small ticket businesses - Rs.50,000 as ticket size for gold loan, Rs.4 -5 lakhs as ticket size in SME and Rs.25,000 as ticket size in MFI. So these businesses are growing faster and we are expanding our network here. Each of these three businesses have higher cost to income ratio in any case, so you see the weighted average cost to income ratio going up. In the last couple of quarters they have added to overheads.

Sunil Tirumalai: That is useful colour and finally how do you see the loan book mix changing overtime and we have seen home loan increase in share and some of your focus areas increase in share, but how do you see this going forward?

Nirmal Jain: As we have been talking about for the last almost may be two years, our LAP is getting defocussed because we think the risk is not priced in because of competition, the interest rates have come down. Home loans remains our key focus, which is home loan to priority sector and small home loans, so average ticket size is continuously falling, so our incremental home loan is in the region of Rs.18 lakhs, Rs.20 lakhs ticket size, so home loan is one thrust for growth. Other than that there is MSME, MFI and gold loans, these are the faster growth segments within the loan portfolio. Commercial vehicle is cyclical, we are currently seeing an uptrend, so in this uptrend of cycle we might see faster growth. If I had to divide all our businesses in two categories then you will see

slower growth in capital market, construction real estate and LAP and you will see faster growth in other segments.

Sunil Tirumalai: Got it. Thank you very much.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Motilal Oswal Securities Limited. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity again Sir. I wanted to understand what is the percentage of active clients in your retail broking business?

Nirmal Jain: Percentage of active clients in our retail broking business will be around 25%, 30% of the clients on a monthly basis.

Shubhranshu Mishra: On a monthly basis, is it?

Nirmal Jain: Yes.

Shubhranshu Mishra: Thank you so much.

Moderator: Thank you. Would you like to add any closing remarks?

Nirmal Jain: Thank you so much for being on the call. We have our Investor Relations contact Pooja Kashyap, if you have any more queries, please feel free to send a mail or talk to our Investor Relations Department at any point in time. Thank you so much.

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