IIFL Finance Limited

(formerly IIFL Holdings Limited)

Consolidated Financial Results – Q4FY19

Conference Call Transcript

May 15, 2019

Management

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Mr. Karan Bhagat – Managing Director, IIFL Wealth Management Limited

Mr. Sumit Bali – Chief Executive Officer, India Infoline Finance Limited

Moderator: Ladies and gentlemen good day and welcome to the IIFL Group's Q4 FY2019 Earnings Conference Call

R Venkataraman: Good afternoon everyone. On behalf of team IIFL I thank you for joining us on this call. I am R Venkataraman, Managing Director, I am accompanied by Nirmal Jain, our Group Chairman, Sumit Bali, CEO of IIFL Finance , Karan Bhagat, Managing Director IIFL Wealth Management, Monu Ratra, CEO of IIFL Home Finance, Balaji Raghavan, Head Real Estate Finance and Kaumudi Biyani, Financial Controller, IIFL Finance. I now ask Nirmal, our Chairman to comment and give overview of the group's strategy and plans.

Nirmal Jain: Thank you Venkat. A warm welcome to all of you. First a bit of backdrop on macro environment; We are passing through volatile times, globally there are worries about China-US trade war escalating and consequent impact on interest rate, currencies, and also risk appetite for emerging market and in that background, we also have elections where uncertainty is looming large because nobody has clarity on how or what the final outcome will be, but it is just a matter of a few days. Also during the last year, as we sit down to review, we had quite a few interesting and challenging times, the liquidity concerns for NBFC is something that everybody is very keenly watching and curious about, and in that environment I think we are happy to report good performance.

Also, as all of you know that we have three businesses that are getting reorganized, so just a quick update on that. The Board has already approved the demerger of IIFL Securities and IIFL Wealth and the record date is on May 31. So what that means is that IIFL Holdings' shareholders as on May 31, 2019 will get shares of IIFL Securities and IIFL Wealth. IIFL Wealth in the ratio of one share for every seven of the parent and IIFL Securities one for one and after the record date therefore the listed company primarily will represent the NBFC because the holding company will not have any other significant business left. It will have a subsidiary company which is NBFC and which has two more subsidiary companies, which is Housing Finance and microfinance and the two companies -IIFL Securities and IIFL Wealth will get listed in due course so this process had started last year and now is consummating. So as I see now within may be a month or two we'll have three different entities separately and then just to complete the process, we'll merge NBFC with the holding company and that will require us to seek RBIs new license for NBFC in the holding company and then merge the NBFC in holding.

Coming to the performance for the last full year, IIFL Finance has reported 55% post tax profit growth, but if you adjust for exceptional item, which is gain on slump sale of commercial vehicle financing business, the IIFL Finance profit after tax has been Rs.634 Crores which represents 37% Y-o-Y growth. More importantly last quarter alone, our total AUM, the loan assets grew by 7.6%, which is almost around 30% annualized growth.

Now the numbers have to be understood from like-to-like basis so when we look at our loan AUM growth in FY2019 vis-à-vis FY2018, the growth is 29% if you exclude CV financing business because that business is now sold, so if we exclude from FY2019 it does not exist on March FY2019 because we consummated just before that, so if we exclude in the FY2018 as well then comparatively we have 29% growth in AUM, which is corresponding to 30% increase in the interest income and similar increase in cost and so on and which basically has given the profit growth of 37%.

A few things about our business 85% of loan book is small ticket granular loan book comprising primarily of four segments. In Home loan we are in the affordable home loan segment because our average ticket size is Rs.18 lakh, we are significantly present in Tier 2 and Tier 3 cities for our home loan business, 85% of our brand sales in number are also in Tier 2 and Tier 3 cities so the first home loan and the second segment of business loan, which comprises small ticket business loan of Rs.4-5 lakh largely unsecured and larger loans of about Rs.50 lakh are purposefully secured against property as per our internal policy and then the third segment of the business is gold loan where our book was around Rs.6200 Crores at year end and the last segment of the business is microfinance, which has also grown well to Rs.2300 Crores , so the business loan is about Rs.8100 Crores. Now these four are the core growth drivers for the Company. Other than this we also have the construction and developer financing where the construction and development developer loan aggregated to Rs.5000 Crores , it comprises Rs.3500 Crores in NBFC and Rs.1500 Crores in HFC.

I am sure that lot of questions about this and therefore we have Balaji Raghavan here with us for the first time on the analyst call. He has been heading this business for more than 10 years with IIFL and he will talk more about this business segment giving you more granular details of how we do this business and what is the portfolio like. So 85% of retail loan assets that we have are easily sell-able to banks, banks are always eager buyers of that because most of that would meet the priority sector requirement, and even for non priority assets theyre always willing to buy.

So this is the performance of our IIFL Finance.

The fact that our loan book grew at almost around 30% annual growth rate in last quarter shows that liquidity is not a concern for us because we are able to sell down assets to banks as we generate them and besides in last two quarters approximately we raised about Rs.2000 Crores in each quarter from long-term sources such as external commercial borrowing or refinancing by NHB and so on. We are planning to raise money by the way of ECB in various forms that can be dollar bond or bilateral multinational distributions funding, a few months back we had raised from CDC, who are also equity investors in IIFL Finance, and we plan to further diversify our sources of funding. As you are aware, we had a successful public issue also of Rs.1200 Crores in the previous quarter.

So having covered IIFL Finance in terms of performance as well as liquidity, we move on IIFL Wealth. We also have Karan Bhagat on the call who will answer your questions and give more detail.

This business has ended the year with 4% Y-o-Y growth in FY19 and 10% Y-o-Y growth in the quarter. Given that we changed our accounting as well as business model, this growth is very satisfactory because if you look at our topline more than 50% of it is annuity and fee income, which is very sticky and sustainable regardless of the environment. Last quarter we had discussed that we have moved to an advisory model in terms of the way we do our accounting that is more of accrual basis, and also the kind of products and services and offerings we are trying to encourage our customers to move to and IIFL one is the primary driver of that where we are trying to move away from the transaction based fee to the advisory fee which is more transparent and which in a way is win-win for the customer as well as wealth manager. For the customer because the charges are lower and transparent and from the firm's point of view, it builds in fosters long-term relationship.

IIFL Securities as you are aware had headwinds. We ended the year with 8% decline in post tax profit primarily because investment banking revenue was significantly lower and investment banking as all of you know that our strength is ECM, equity capital market comprising IPO and QIP and there the number of deals were significantly fewer in the last year. Hopefully if there is stability on the political and economic front, there is a lot of pent up demand for equity capital and a decent pipeline and hopefully things will recover in this year. So everything put together our consolidated profit is Rs.1253 Crores, 23% Y-o-Y growth, After minority interest PAT is Rs.965 Crores, which is 22% Y-o-Y growth.

With this now I hand over to Kaumudi for taking you through the details line-by-line of our profit and loss account and for all the businesses and then we will also have Balaji to talk about his business.

Kaumudi Biyani: Good afternoon everyone. To take you through the briefly numbers For the year, Group net profit was Rs 1,253 cr, up 23%YoY, and net profit after minority interest was Rs 965 cr, up 22%YoY.

In our NBFC business, Loan AUM was Rs 34,904 Cr, up 29%YoY and 7%QoQ, excluding CV AUM divested in March 2019. Profit after tax for the quarter excluding the exceptional items grew by 13% YoY and 56% QoQ to Rs 169 Cr. Full year profit after tax is at Rs.634 Cr, up 37% YoY. Our Tier-I CAR stands at 16% and total CAR at 19.2%. Primary drivers of our AuM growth are small ticket home loans, which grew by 42%Yo Y, Gold loans, which grew by 53%YoY, small ticket MSME loans, which grew by 18% YoY and Micro-finance loans, which grew by 172%YoY, coming off a small base. On the other hand, construction & real-estate finance, LAP and Capital Market loans will continue to have declining share in our portfolio. In home loans, our focus remains primarily on small-ticket loans in affordable home segment to both salaried and self-employed sections with average ticket size of Rs13 lakhs. Our small ticket home loan product is especially designed to support the informal income segment in fulfilling their dream of owning a house. As on 31st Mar 2019, we had over 9,000 approved housing projects, up nearly 1.5x from 6,200 approved projects a year ago. 57% 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. IIFL Home Finance has been a significant player in PMAY-CLSS. Till date it has benefited over 29,800 customers and disbursed subsidies of more than Rs. 690 Cr. In the near term, we plan strategic deeper penetration in certain geographies and further innovations in our digital processes to grow a granular book and ensure healthy portfolio quality. Retail loans, including consumer loans and small business finance constitute about 85% of our AUM. Another strong characteristic of our loan book is the large proportion of loans that are compliant with RBI's priority sector lending norms. About 57% of our HL, 54% of LAP, 44% of SME and nearly all of our MFI loans are PSL compliant. In aggregate nearly 41% of our loans are PSL compliant. The large share of retail and PSL compliant loans are of significant value in the current environment where we can sell-down these loans to raise long-term resources. Our average cost of borrowings rose by 9bps YoY and 59bps QoQ to 9.1% in 4QFY19. Our NIM was at a healthy 7.2% mainly driven by granular retail portfolio. Medium and high yielding assets currently constitute 47% of our AuM. These include Micro-finance loans, MSME loans, Gold, and construction finance. The other half of AuM consists of relatively low yielding assets including home loans, LAP and capital market loans. 85% of our AuM comprises loans that are secured and about 15% 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. We currently have 1,947 branches, primarily for our HFC, Gold and Micro-finance businesses. 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 1.95% and 0.62% of loans respectively. Under Expected Credit Loss provisioning under IndAS, provisioning coverage on NPAs stood at 139%, including standard asset coverage. Return on assets for FY19 was at 2.2% and return on equity at 18.3%. During the 4Q, share of commercial paper in total borrowings of IIFL Finance was 12%. In value terms, outstanding CPs were Rs 4,180cr during the quarter. During the quarter , we raised INR 1158 cr via pubic issue of NCDs, of which 92% of the total money was sourced directly by IIFL group. Our funding mix is well diversified including 18% from NCDs, 5% from sub-ordinate depth, 38% from bank term loans and NHB re-finance, 26% from securitization/assignment and 12% from commercial paper. Following the 10-year subordinated bonds raised from CDC, we have initiated discussions with other institutions to raise long-term funding. We have a positive ALM, whereby inflows and undrawn bank line cover or exceed expected outflows across all buckets. On the asset side, our loan book has a relatively short maturity pattern, with 25% of loans having maturity of less than 6 months and 39% of loans having maturity of less than 12 months. We continue to drive the use of credit scores and automated decisioning across products, and strengthened our risk mitigation processes by developing and deploying behavioural, collection and fraud score-cards. There is continued focus on cross-sell and win-back, with our analytically driven Gold –Loan win-back generating strong volumes for both Gold business as well as group-wide products

IIFL Wealth PAT, computed as per IndAS was at Rs. 84 cr, up 10%YoY. Our assets under advice, management and distribution have grown 5%QoQ and 28%YoY to reach Rs. 1.69 trillion. 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 now have presence in 33 locations across 7 major geographies. Net new money collected in 4QFY19 was Rs 5,377 cr. AIF assets grew 33%YoY to Rs 15,661 cr. IIFLW Finance, which offers loan against securities to high net-worth clientele, had a loan book of Rs 4,798 cr as at March 2019.

IIFL Capital Markets, which largely comprises retail broking, institutional broking and Investment Banking businesses, saw its net profits for the quarter declined 36%YoY to Rs38.0 Cr and 8%YoY to Rs171.1 Cr for the year ended March 31, 2019, mainly due to market volatility. During the quarter, our average daily cash turnover was up 5%QoQ to Rs 1,239 cr. versus 1%QoQ growth in exchange cash turnover. Our average daily total turnover, including F&O, was up 5%QoQ to Rs 17,134 cr. Our NSE market share in the cash segment was around 3.5%. 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 2.6m downloads. Presently, about 52% of our retail broking clients trade through the mobile app. We completed more than 15 transactions across various products in Investment Banking in the year to date including 3 IPOs, 4 QIPs and 1 ReIT despite the market volatility.

We will now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: Thank you. I have four questions, one is basically I will start with the NBFC business. There was quarter-on-quarter meaningful margin expansion so what basically drew that if you could highlight that?

Nirmal Jain: One is that CV business has been taken away from this, which had relatively lower margin compared to the other businesses. This entire growth is driven by high margin retail products so if you really notice the growth is significantly there in business loan and gold loan both the products yielding 18%-19% and 20%-21% so these two factors basically have resulted in margin expansion, but the base effect because that the CV business is out is also to be adjusted.

Viral Shah: Right Sir if I just was that also I am getting quarter-on-quarter increase of nearly 180 basis points in the margin?

Nirmal Jain: What happens if you see our last quarter GNPA had spiked, so when the GNPA is higher then you cannot take the interest income also, so the GNPA resolution also has resulted in expansion. As I said that CV is out which had relatively lower yield and the microfinance disbursement is significantly up, so the microfinance is high yielding product; If you see last quarter growth is primarily in these three segments so microfinance itself is about Rs.550 Crores of AUM growth which is high yielding product and so all these factors are combined ,and that is how the margin has expanded on the total. The GNPA resolution - when the GNPA had spiked then you cannot book an interest on that basically difference is in interest income as well.

Viral Shah: Okay if you could my correct understanding so under Ind-AS you can recognize the interest on GNPA or not?

Kaumudi Biyani: Under IndAS from an interest accrual perspective we can recognize the interest and you can correspondingly create ECL provision on it.

Viral Shah: Right Sir my second question was on same NPAs so your reported your NPAs did come down, but seems like you are provision absolute on provisions have also reduced so as a result it was largely because of write-off?

Nirmal Jain: No CV business is taken away so there was almost about Rs.150 Crores to Rs.200 Crores provision component for CV alone. So if you see, one is CV is out and also there has been resolution of NPA so both things put together and there are certain fully provided for assets we'll write it off so then you see that total ECL has come down to Rs.800 Crores but if you notice last quarter CV had almost 8.5% GNPA, which was skewing our averages , so if you take that away then all these numbers are falling in place.

Viral Shah: Thank you Sir. I have two more questions actually on wealth management if I can ask? So there was actually sharp decrease in the employee expense and the overall opex expense in the wealth management so this is something, which we have been seen for last couple of quarters and this at the time when our number of bankers have actually increased, so what is the driving that and how sustainable is it?

Nirmal Jain: But what has happened is the variable component of our employee cost has gone down significantly because this year if you notice then with the change in business model, fee income also has changed and actually that is what it is showing in the lower employee cost.

Viral Shah: Right and how should we look at the trend going ahead?

Nirmal Jain: Going forward, I think it will stabilize so again over a period of time gradually it will increase, but I think now the quarter numbers that you are seeing is more like the base.

Viral Shah: One question on the yield so basically I was trying to calculate the retention yield for the full year, net commission income that you have disclosed so it is coming different from what we have in the presentation?

Nirmal Jain: So yield if you see 85 basis point that you seeing is based on ex- custody assets so out of Rs.163000 approximately Rs.31000 Crores are custody assets so if you factor that then I think you will get the correct number.

Moderator: Thank you. The next question is from the line of Siva Kumar from Unifi Capital. Please go ahead.

Siva Kumar: Thanks for the opportunity. Sir, my question is with regards to the construction finance loan segment, their instead of for GNPA of 4.4% you have provided fully and you have net NPA 0%, which is very good but going forward what is your strategy will continue to fully provide for whatever GNPA is there in the construction finance business and what is your outlook going forward in that business for strength?

Balaji Raghavan: Essentially to answer your question yes we did fully provide it and of course we have also had some resolutions which had happened in the last quarter, which resulted in this and going forward to answer your question, we will review each transactions on a case-to-case basis and see whether it is necessary to fully provide.

Siva Kumar: Sir Can you give more granular data on the resolution like how much was GNPA at the beginning of the quarter and how much was resolved during the quarter?

Balaji Raghavan: At the beginning of the quarter, we had Rs.418 Crores which was there which we had recognized and out of which about 214 what we managed to resolve so basically these were resolutions which had happened where we had initiated certain SARFAESI actions and so on and we have taken possession of the land and during the quarter we managed to dispose off these lands and therefore we resolved them.

Siva Kumar: What will be the number of accounts when you started the quarter for Rs.418 Crores, what will be the number of accounts?

Balaji Raghavan: I think these are all larger ticket sizes so this would be I think about four or five accounts and now we would be probably left with may be two or three accounts so that is how the ticket sizes are. The ticket sizes are roughly in the range of I think around Rs.80 Crores to Rs.90 Crores.

Siva Kumar: What is your outlook going forward or do you think you have done with recognition of stress or do you still expect some stress to come on board?

Balaji Raghavan: I think we are done with the recognition of the stress because I think the most stressful time is what we saw was between November and March and the reason for this of course was multiple. One, of course is that much lower sales because of the GST impact and announcement of the reduction of GST and so on and plus of course we saw liquidity issues at the beginning of the third quarter where there was stress on the disbursal of the home loan and so on and so forth in construction finance so I think that we have seen in the last about two quarters or I would say little over two quarters was probably the worst of time then I think going forward we don't see an issue at all.

Siva Kumar: One question for the wealth business I do not know whether you already clarified on this, retention yield on ex-custody assets was 84 BPS for FY2019, what was it for Q4 specifically and what is your guidance going forward now that you have moved to advisory?

Karan Bhagat: I will quickly answer all the three questions. So the employee expense related, like Nirmal pointed out only to the extent of the variable provisions, otherwise the fixed component more or less remains in line. I think we will be able to get little bit of efficiency there over the next one year to the extent of 5% to 7%, but otherwise its pretty much going to be around the numbers, the trend is to continue. On the margins and the yields like Nirmal again pointed out correctly apart from the Rs.31000 Crores, 85 basis points calculated on the ex-custody assets. In Q4 the retention on the assets excluding the custody assets would be slightly lower and it will be in the region of 70 to 75 basis points, the new normal because of the revenue recognition on all our distribution products being on the trail basis instead of an upfront basis, I think will get our retentions down, we have to discover that over the three to six months as we move clients to advisory, but given our experience over the last three to four months I think we'll be in the region of 72 to 75 basis points on a gross basis pretty much what we've seen in the last quarter.

Siva Kumar: Sir one last question on the listing part, what is the timelines for listing this IIFL Securities and IIFL Wealth?

Karan Bhagat: As I said the record date is May 31, 2019 if you are a shareholder then and shareholder on May 31, 2019 you will get the shares for IIFL Securities and IIFL Wealth after listing, the procedure of exchange can take approximately 45 days and so I would think that it can happen, depending on how exchanges approve and process, it can happen anywhere between June and mid-July.

Siva Kumar: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Saptarshi Chatterjee from Centrum Broking. Please go ahead.

Saptarshi Chatterjee: Thank you for taking my question. My question again on the developer finance around we had 4.4% of the GNPA and out of Rs.418 Crores, Rs.214 Crores we have resolved, but the rest Rs.214 Crores, which is roughly around 2.2% we have written-off so I just want to understand apart from underlying segment itself where did you go wrong and how do we plan to correct in our underwriting skills and what changes we are bringing?

Balaji Raghavan: To answer your first part of your statement so we have not written-off Rs.214 Crores , all these are in the process of resolution and disposal of the assets and so on so you will see a further reduction here onwards so I think barely anything that we will end up writing-off so that is the first part. Second coming to what you said is that what we have done to improve? Now of course one or two also get into a root cause analysis of what was the cause of these issues, which came up. See the issues which had come up mainly where I would say due to the market and the environment to a large extent so if you see over the last about 8 to 9 months or even in a little bit more the liquidity as well as the sales velocity has been fairly low as far as entire sector is concerned. The sales velocity was low as there was anticipated reduction in the transaction tax which is GST, which the government had announced sometime in November; however, it came into effect only in the month of April so therefore for a good five to six months or so there was barely any buying or purchasing, which was happening in the sector. Secondly also is that post September about at least I think about two months or so most of the housing finance companies had slowed down disbursals in the segment because of liquidity issues so therefore again there were cash flow issues so I would say that the last eight to nine months were more of environment rather than anything else and of course we also saw one or two odd delays which also happened because of certain regulatory approvals etc., which were delayed beyond a point, which eventually of course came. So I think as far as the learning is concerned, I would say is that as far as the underwriting process is concerned, we have been robust and we continue to strengthen the underwriting process. In fact we have external independent directors also on the investment committees that are taking calls on any transaction that we are doing number one, other than that I think most importantly is that we have really strengthened our asset management capability so we have a dedicated team in order to take care of asset management on a day-to-day basis where we have in fact physical presence on all the project sites, so I think that is one of the most important steps that we have taken in order to ensure that we are in control of the entire project cash flows and know well in advance whether there is going to be stress or not. Also other than that as far as sector is concerned now we have always been focused on the mid market and the affordable residential segments so I think we are one of the few players who have never ventured out into any of these high end premium residential projects and probably we'll see one or two quarters of lower velocities and so on and so forth, but otherwise given the depth of demand in this segment in this country, I think we are fairly alright as far as the segments which we are operating in continue to be growth segments. So as I said temporarily we do see issues like what we saw in the two quarters in the past, but overall I do not see any issue, which is there as far as future of the segment, is concerned. Now if I look at the portfolio mix, which is also given I think in the presentation in that now if you look at the areas in which we are operating, if I look at Mumbai for example we would be operating in places like Dahisar, Borivali, Panvel and Thane and those kind of places where the unit price itself is fairly low so we are not really operating in let us say central Mumbai where the actual problem is there so we have always stayed away from those segments as a strategy. Over the last about 10 years we have also been maintaining our relationships with the preferred set of developers with a good reputation and track record of having delivered and paid, which has actually paid off for us and most importantly is that in every transaction that we have done, we have always kept a minimum cover of at least about two times as far as the asset value is concerned so we have always even though let us say we might have temporary situations of may be six months, 12 months; however, given the kind of covers that we have, we always have viability in all these projects and therefore to come back to the first statement, we do not end up writing-off anything.

Saptarshi Chatterjee: In terms of going forward disbursal so out of that three geographical zones, which will be in your focus and which one till try to what we have avoid?

Balaji Raghavan: Well, I would say that the first is that we are not really focusing on increasing this business in the balance sheet as far as the sector is concerned. So our proportion will probably remain the same or reduce. As far as geographies are concerned we still believe that depth of market exists in NCR some parts of Tier 2 cities in the north to some extent and not in Central or South Mumbai, so as far as future strategy is concerned to answer your question, this is something which is review which we do strategically where to invest, or not to invest or lend, every quarter or so, for example one quarter we might find then there is opportunity in the markets are doing well lets say Pune, but after a certain point in time, we find that the markets are probably not doing well over there because of oversupply situation for example we stayed away from Hyderabad for a good many number of years, but however we have started looking at lending transactions there and we are doing this in the last one-and-a-half years after the political stability has come and the demand has picked up again so these are which are I would say dynamic in nature and do keep changing overtime.

Saptarshi Chatterjee: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management Company. Please go ahead.

Anita Rangan: Just had one question in terms of like your business loans, your NPA actually has gone up and personally on net NPAs also like around 2.3 so in your developer book while you are able to like resolve what is the kind of asset quality you have seen here that was…? In the business loan segment and here your net is also like 2.3 versus your developer book where you net NPA is zero, here you have kept net NPA around 2.3 so what is the status of resolution here and if you can give some clarity here? My second question is on the developer segment, will you loan actually be exclusive for the developer and actually facing any underlying liquidity and how your hand holding some of the developers because if they are low ticket size I am sure they will also be raising some kind of liquidity from other sources as well liquidity pressure so how your hand holding segment supporting them in this point in time?

Nirmal Jain: I think Sumit and Balaji will take part of the questions, but just one clarification, on net NPA, so in ECL accounting, now there are four types of provisions and only the stage III provision is adjusted from gross NPA, so to put it differently, other than this we have significant standard asset provision that is what when we say I got 139% coverage that total provision is 139% on GNPA, but out of that

69% is my provision against specific assets and remaining is my standard asset provision so that is also charged to profit and loss account, but specifically our strategy for taking various NPAs business where the business loan Sumit will just take up the question and about your developer Balaji will take it.

Sumit Bali: On the business loan slight overview, we have about Rs.8100 Crores, 70% of the book is collateralized, 30% only is non-collateral, it is predominantly lent to business owners backed by cash flows and collaterals. So for us assessment of cash flow is pretty important, if you see the yield growth last year has been 10% and if you see yield on this business I think its about 15.7% and it is moving up and therefore 2.2% GNPA on this is not a very off-number, there is property collateral which takes time to get resolved so we are pretty confident we'll see resolution happening on this, but overall given the yield and the kind of growth rate and the movement towards the granularity where we are only looking at incrementally average ticket size of 22 lakhs on boarding. I think we are in good shape.

Anita Rangan: In this book what would be your mix between SME and business loans and LAP be?

Sumit Bali: Effectively these are all medium and small micro enterprises, 70% is collateralized.

Nirmal Jain: 70% is LAP and 30% is non-LAP.

Balaji Raghavan: Coming to your question on hand holding the developers in times of stress now essentially I would say put this as a spectrum so which is starting from let us say now as you have seen they have got fairly robust distribution and branches which is there both on the home loan side, gold loan side and the securities side so we too have various methods and processes by which we do quite a bit of cross sell, so wherever we find that there are depressed sale and there is correction required so we have gotten into such projects and used our own distribution in order to accelerate sales in a lot of instances so which obviously generates cash flow. Second is that there are instances where we have actually got into the project itself and decided to redesign the product in order to make it more suitable for the micromarket make it more affordable with the changing time so that is the second step we have to done so far and the third is that we have also had various instances where we have got stronger partners to introduce equity and do some sort of commercial contracts with the existing developer by which they are able to infuse equity and take the project forward and with the strength of brand and financial strength they are able to carry the project forward and the last of course is least desirable which is to go the completely legal route where you will need to take over the assets, which we have done in a couple of influences, but otherwise between the first three we are able to help the developers manage the cash flows and so on because in most of these relationships that we have as I mentioned we have been carrying a lot of this relationships for the last about 10 years where we have seen lot of the developers returning the money coming back borrowing more and we have seen at least about two to three cycles if not four with most of these people so therefore we believe in handholding, we have done all these 3 things which I mentioned.

Anita Rangan: Okay and would these we exclusive that you will be only exclusively core lenders or specifically like a consortium?

Balaji Raghavan: Generally what happens is that in fact in all the instances we are the single lender to the project so we might have other projects, which are probably mortgage to others, but however as far as we are concerned we are always sole primary lenders to in our projects that we are lending. We do not share anything.

Anita Rangan: Thank you very much.

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

Digant Haria: Just wanted to know we did around Rs.2800 Crores of securitization or direct assignments this quarter so what would have been the income generated on that?

Kaumudi Biyani: From the NBFC consolidated perspective we have income of around Rs.68 Crores, which has come into our books for this particular financial year as an interest strip adjustment on the assigned portfolio.

Digant Haria: Most of it direct assignment right so under Ind-AS we have to book everything as and when the direct assignment is done by?

Kaumudi Biyani: Under Ind-AS in case of direct assignment whatever the excess spread income which are going to get in the future year, we are supposed to book it upfront in the year you do the assignment and so the P&L impact for the same as around Rs.68 Crores.

Digant Haria: You mean lot of entire Rs.8000 Crores or Rs.9000 Crores of assignment that we did in the year, income effect of that is only Rs.68 Crores?

Kaumudi Biyani: Yes that is basically because whatever has been booked in the previous year also gets reversed out /amortized during the year so the net impact into the P&L is Rs.68 Crores.

Digant Haria: Okay and after the sale of CV finance to IndoStar what is the networth of our IIFL Finance or NBFC?

Kaumudi Biyani: IIFL Finance including the HFC and everything and closing networth is around Rs.4300 Crores.

Digant Haria: Thanks for these data point. Now my second question is mainly on this growth front that if I see that we have grown our microfinance book pretty fast and I understand that real estate now may be a lot of other players may not want to grow just because of the backlash that investors would have in the future for this business but then microfinance like we have tripled our loan book just four quarters so are we again trying to like reduce one segment which could probably become less risky in the future, which is real estate and may be grow fast in the segment which is probably going to be the scheme in the future because we have seen three years of fantastic growth in microfinance and we have seen the cycles definitely come again and again?

Nirmal Jain: Good question. First of all as you rightly said that the real estate might be seeing the trough so we are not exiting the segment and we are not reducing our exposure as a group, but what we are doing strategically is that the new exposure to developer that we are taking is through the fund structure. Very recently we raised the India Housing Fund in which even Fairfax has come in and sponsored DEG, which is Germany's very reputed institution, KFW's subsidiary has come as a partner and we raised about I think Rs.2000 Crores plus and we have started deploying that so what we have done as strategy we believe that real estate is a good sector, but because you take lumpy bets some of them may turn problematic but what you need to do is pull it together and that is what we are doing till now we have raised seven funds, three of them are more or less fully exited that yield of almost around 16% to 18%, so we have a fairly good track record in managing the financing of real estate developer for the last 10 years or 9 years, so we continue to grow that but not through the balance sheet of NBFC as much as through the fund structure so that is your part question one, and the second part of the question is microfinance so this growth that we are seeing is on a small base so there are two ways to look at it, you can say that the book has tripled and the other is growth in the book in overall scheme of things, it is ~Rs.2300 Crores of total AUM so on a small base the growth may appear in percentage terms higher, but this would not something which is extraordinary but when we acquired microfinance we were clear that we obviously have to bring it to scale and size so that it will become a meaningful part of the portfolio otherwise it does not make sense for us to do the effort of acquisition. Having said that the risks that has happened in microfinance sector over the last few years has been primarily driven by political factors, which had been localized in some geographies so what we have done strategically is that when we acquired this company they were predominantly operating in two states with a very minor presence in other two, today there in 16 states so that is why growth is because what we have done as that we have expanded given the synergies with our network because in any case, we have other than microfinance we have almost about 1400 branches so we have synergized with that so we have expanded in 16 states so that geographically we dissipate the risk and we do not have concentrated risk so based on that I think growth in the lower bases continue, but is absolutely under control.

Digant Haria: Thanks for the clarification Nirmal. I mean even in terms of this SME we have now clubbed the whole LAP portfolio with the small SME so one portfolio was 13%, 14% yield and one portfolio was around 20% and now we are treating that as one portfolio so in that old LAP portfolio like how is the credit trends and will we see a reduction in ticket size here because I believe used to be between that Rs.50 lakhs to Rs.1 Crores kind of ticket size there any focus here?

Nirmal Jain: I think it is very valid observation and good question. What we have done is that when we started the business 10 years ago we used to do Rs.7 Crores, Rs.8 Crores, of LAP as, many other players in the industry do. Then over the last two to three years we realized that the competitive pressures in that segment have brought the pricing down to a level that risk is not properly priced in , so supposing the people who are giving LAP at 10% very excessive cases of 9.25% or 9.5% also so then we thought it is better to do affordable housing finance that kind of yield so we exited the large ticket LAP, which is between Rs.2 Crores to Rs.10 Crores kind of thing where we were earlier, so that segment portfolio is running down, but the common characteristics of this portfolio whether we do a little larger ticket with LAP or we do a smaller ticket with unsecured is that primary decision to give credit as based on the cash flow and not collateral so even if we have collateral which we insist for Rs.55 lakhs and above, but the primary driver is that the cash flow should meet the repayments and not anything else and when we will do cash flow assessment then obviously income tax records are one small part of the whole assessment exercise because in Indian contracts you have to have very finely well developed method of surrogate income assessment and tools are available even from credit agencies like CRISIL for estimating turnover and things like that so this portfolio will increasingly see incrementally we are not doing large ticket let me put it this way, incrementally we are not doing big LAP in any case even the LAP which is there is average ticket and unsecured is even smaller Rs.4.5 lakhs or Rs.5 lakhs or Rs.6 lakhs ticket size so you can see further decline in the average business loan side, but these are all loans given to business based on cash flow analysis this is one and two we look for relationships that is lifelong and the business will keep getting renewed and the customer also grows along with you so that is how the business will shape up.

Digant Haria: Thanks Nirmal. Last question if you may gold business is done exceedingly well so no questions on that but just your thoughts on how much liquidity are we holding and what have been borrowing rates for us you both in NBFC and wealth business. Thanks that is it from my side.

Nirmal Jain: Borrowing rate has gone up by 58 basis points on Y-o-Y basis and on the portfolio business I think it is a similar trend in our wealth finance business also and in terms of liquidity so if you look at our wealth we are out of CP's completely, we have reduced our book size, then all the assets are basically they are callable, again they're liquid securities and they're short-term so you can renew them and as far as retail assets are concerned we can sell them down to banks and as I said in my opening remarks so 85% of our loan book is retail, in fact is something that banks are willing to buy so I think that we should be able to manage the liquidity phase or so called crisis well.

Digant Haria: Thank you and all the best.

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

Megha Hariramani: My question is on the growth rate for all the three division finance and wealth securities, what kind of growth to be seen going forward?

Nirmal Jain: I think NBFC sector last quarter trend if I look at it because I really cannot make forward looking statement, but I am saying that if you look at the trend then we are growing around 25% in volume terms, last year we grew about 37% post-tax profit so more or less we should try and maintain the trend

Karan Bhagat: On wealth I think number to closely track for us will be growth in assets and we hope to continue 20% to 25% growth in asset number there. We expect retentions to be potentially in the same region to round about 10% lower and simultaneously to that, increased productivity of RMs, because the weighted average productivity of RMs has gone up substantially for us, our weighted average maturity or tenure of RMs with us in the firm is now exceeding more than 5 years as the attrition rate continues to be sub 2% that is the factor which we believe will drive growth and productivity in a large way so I think we should be able to in spite of being at a large asset base number, be able to maintain our growth in assets in the region of 20% to 25% going forward.

Nirmal Jain: Securities business is a little volatile , what is happening over the years, we have seen that securities is also becoming resilient to the cycle. First of all, three segments we have are retail, institutional broking and investment banking, so in retail now we are significantly moving towards online, so you have higher operating leverage and also with the many new customers/millenials, they are looking at not only equities but in the way it is a mass affluent wealth management so they are looking at multiple products so if you have a look at our components within the retail then the non equity has been rising for the last five years. Our institutional business again the domestic mutual funds contribute much more now and there is fairly steady flow of money in the domestic mutual fund as compared to foreign investors and therefore we should see less volatility. Investment banking is dependent on equity capital market IPO and QIP and there again, its difficult to guess but with the market becoming larger and deeper, it should stabilize but as a matter of fact this business is dependent on capital market cycle.

Megha Hariramani: Okay next is on interest cost for the quarter, our interest cost was like just 3% as compared to the last year so is there any odd occasion why the interest cost?

Nirmal Jain: You are looking at consolidated number. May be the better way to look at it will be IIFL Finance separately because what would have happened is that the interest cost in IIFL Wealth might have gone down that the book has gone down and even in holding securities business the margin funding book has also fallen, but our IIFL finance interest cost has gone up by 24% for the full year and interest income has gone up by 30%, but again as I said our net interest margin has gone up for three to four reasons, which I explained. CV business relatively had a lesser interest margin as compared to gold and business loan and growth has been significantly higher in gold business and the microfinance so you can see those, but what happens in gold and microfinance as we are expanding our network even our operating cost increases significantly so if we look at number of branches that has gone up almost by may be 500 or 600 over the last one year so almost 50% growth in the number of branches or microfinance and gold and therefore we will see the operating cost also has gone up by 57%, but then this infrastructure should be good for us to stand in good stead to sustain the growth over the next two years.

Megha Hariramani: Okay and how many branches would be at profit on the operating level?

Nirmal Jain: Very broadly our branches breakeven in 12 to 18 months' time and I would say at least two-third branches would be profitable for sure from the remaining also losses or the deficit will be very marginal.

Megha Hariramani: That is it from my side. 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 data keeping questions from my side. First of all I think if I look at the overall interest income for the quarter, what was the contribution of loan assignment income which followup tends to be one-half?

Kaumudi Biyani: Amortization of Rs.14 Crores.

Nirmal Jain: Actually the full-year Rs.68 Crores , but in the quarter actually there is negative Rs.14 Crores.

Nischint Chawathe: If I really look at this ,your income has gone up on quarter-on-quarter basis, interest income has gone up from Rs.1175 Crores and I remove this Rs.14 Crores it will become something like around Rs.1309 Crores if I look at your, it is fairly large on almost like 12% sort of rise in interest income and if I look at your reported loan yield that has just one from 14.32% something like 14.7% so what really explains the difference and if anything your average loan book for the quarter has gone down so there is something that we really missing over here?

Nirmal Jain: Yes I think you have not adjusted for the CV business hive off?

Nischint Chawathe: No that is part of interest income right that comes?

Nirmal Jain: But the CV business hive-off happened on March 31, 2019.

Nischint Chawathe: No but even if I try to look at it that the loan book has not that whether we have been in a major increase loan book for us to say that?

Nirmal Jain: What has happened is that CV interest income has accrued, but the CV business hive-off happened at the end of the quarter so you are not seeing that in the loan book.

Nischint Chawathe: But can that be only the reason because all that would have happened is Rs.26000 Crores would have been like Rs.29000 or Rs.30000 Crores?

Nirmal Jain: Rs.135 Crores of GNPA release is also in this.

Nischint Chawathe: But that is part of interest income?

Nirmal Jain: No.

Kaumudi Biyani: Just to tell you as I understand your query is more on the interest income line , the reason for the quarter-on-quarter increase in the interest income. From quarter-on-quarter increase in the interest income as Sir highlighted in the beginning of the call also there has been a quite few are resolutions which we have done in this particular year, the moment you do resolution for the case which NPA cases, you have interest recognition coming up into your books so in this particular quarter because of resolution of our GNPA cases, we have a significant interest recognition appearing in our books?

Nischint Chawathe: But that could be penal interest or something is it?

Kaumudi Biyani: No not the penal interest, the actual interest on those loans, which have been resolved so when moment you classified them to an NPA you cannot recognize the interest income if you resolve those..

Nischint Chawathe: I guess what you also mentioned what under Ind-AS you would continue to recognize interest income in the interest line item and make a corresponding ECL provision?

Kaumudi Biyani: Then under Ind-AS that is what we do and that is the reason I am saying that moment if I create a ECL provision then the net impact on the P&L is zero.

Nischint Chawathe: I am just looking at the interest income line item. I am not looking at the overall P&L

Kaumudi Biyani: I will correct my self in terms of saying that when you are saying that an interest income is accrued on GNPA cases, the provision is also created under the same interest income line because I cannot inflate my interest income and create a ECL provision on interest under the provision line

Nirmal Jain: ECL is charged off against interest income

Nischint Chawathe: You have adjusted with the interest income itself and this is the reason?

Nirmal Jain: Yes it is not provision that is how the interest will be depressed for the quarter when the GNPA is higher.

Nischint Chawathe: Can you give the ECL numbers on stage 1, stage 2 and stage 3 in Q3 and Q4 quarter? We are just trying to kind of the reconcile with the provision number?

Kaumudi Biyani: When you are talking about the ECL number in terms of you are looking at overall basis right?

Nirmal Jain: Yes overall basis

Nischint Chawathe: ECL provision that we want stage 1, 2, 3

Kaumudi Biyani: On March 31, 2019, we have Rs.800 Crores so from stage 1 perspective we are at Rs.87 Crores which is including principle and interest element, on stage 2 we are at Rs.50 Crores, we have on SICR cases which is around Rs.257 Crores and on stage 3, we are at Rs.469 Crores.

Nischint Chawathe: You said Rs.87, 50 what is Rs.257 Crores?

Nirmal Jain: SICR so other than stage I and stage II even they are performing assets but if you think there is a significant increase in risk then you can make provision against those assets.

Nischint Chawathe: If you can share December number so that which is kind of getting the reconciliation?

Nirmal Jain: December would be higher because CV has been knocked off but will give the numbers.

Kaumudi Biyani: December are overall provisions was at Rs.1258 Crores, which is including CV business so stage 1 was Rs.239 Crores, stage 2 was Rs.32 Crores and SICR of Rs.222 Crores and stage 3 of Rs.764 Crores.

Nischint Chawathe: This is very helpful. Now just quickly moving onto the wealth business. We wanted to just understand during this quarter what was the component of upfront fees, which possibly cannot be or may not be recognized the next year when we would kind of move more towards the new regime and any guidance in that backdrop if could share with us?

Karan Bhagat: Nischint, very quickly I think this as a overall thing, around about 57% to 58% of our overall revenues are annuity based already even including the last quarter, remaining 40% is essentially a function of distribution as well as little bit of brokerage, but mostly distribution fees which is recognized upfront, out of that 42% brokerage which is part of it, which is a function of equity, real estates ,fixed income that will continue the way it is, which makes up close to about 7% to 10% of income line, so 58% plus 10%, 68% to 70% continues as normal. The remaining 30% distribution income effectively amortized through the year more or less falls to half the number as you build it out for the year, which therefore makes it round about 15% through the year or in the first quarter the impact can be slightly higher and that is the number which kind of has to correspondingly been made up by the increase in the fee income through the full, increase in AUM essentially. Increase in AUM on the advisory side on April 1, 2019 has moved from round about Rs.180 Crores to Rs.200 Crores at the end of December 31, 2018 to round around Rs.7400 odd Crores on March 31, 2019.

Nischint Chawathe: Okay so IIFL one is essentially Rs.10,000 Crores so total advisory is around Rs.7000 Crores?

Karan Bhagat: At an average fee of around about 48 basis points.

Nischint Chawathe: Okay just on the networth of wealth business I think you have not shared this quarter?

Karan Bhagat : It is there in the balance sheet, but around Rs.3000 Crores.

Nischint Chawathe: Sure and on the wealth business what was the investment book I think that was also something, which I did not really see?

Karan Bhagat: Investment book mostly in liquid fund and little bit of GSEC but otherwise the loan book is Rs.4800-odd Crores and plus we have our own AIF investment which would make up nearly Rs.450 Crores to Rs.500 Crores where we are acting as a sponsor for our own alternative investment fund.

Nischint Chawathe: net net that number would be similar to previous quarter I think Rs.1200-odd Crores last quarter?

Karan Bhagat: Yes. Netted off for liquid funds in the GSEC investments.

Nischint Chawathe: for IIFL Holdings for the parent what are the outstanding number of shares?

Nirmal Jain: IIFL Holdings - Rs.31.94 Crores

Nischint Chawathe: Rs.31.94 Crores, okay and how much was the capital infusion in the NBFC? During the quarter or during the year

Nirmal Jain: No NBFC we have 85% is owned by the holding company and 15% own by CDC.

Nischint Chawathe: Was there any infusion during the year?

Nirmal Jain: No. There was infusion in Housing Finance from NBFC but that does not make any difference because Housing Finance is 100% subsidiary of NBFC in any case.

Nischint Chawathe: Sure and can you just give us total share count for the wealth business as well as the securities business?

Nirmal Jain: Securities will not change and IIFL Wealth also no change and no issue is happening.

Karan Bhagat: It will about Rs.8.85Cr on a fully diluted basis out of which 52.5% and 53% is held by IIFL Holdings, which will basically around 4.5 Cr shares will get allotted to shareholders of IIFL holdings in the proposed swap ratio

Nischint Chawathe: Sure and Securities?

Nirmal Jain: Securities is one to one

Nischint Chawathe: Same number of shares right?

Nirmal Jain: Yes. 31.94 Cr

Nischint Chawathe: Thank you very much.

Moderator: Thank you. The next question is from the line of Nikhil Valecha from Sundaram Mutual Fund. Please go ahead.

Nikhil Valecha: Thanks for the taking my questions. On question on the wealth part, could you just explain changes that you are made in the RMs remunerations, which has resulted into sharp decline in the opex onto sequential basis?

Karan Bhagat: There is no change RM's compensation. It is a function of, if you actually see the fixed plus the variable put together as a function of the revenue, it is more or less constant in the region of 30% to 35% so there is a sequential decline because of the component of variable coming down, the fixed continues to be more or less remain the same.

Nikhil Valecha: Variable I guess because we are now so how the variable linked, I mean because now how the linked to the topline is because I think we were recognizing our 40% of the part, is it variable is also linked to upfront or trail or how is it?

Karan Bhagat: The best way to look at compensation is as a percentage of the topline, so if you look at compensation for last year for example, you had Rs.250 Crores plus Rs.140 Crores, which is about Rs.400 odd Crores, on a wealth income of around about Rs.900-odd Crores so that's the broad number round about in the region of 40% to 45%, in the current year you will have about round Rs.336 odd Crores on a topline of around about Rs.950 Crores okay similar number 40% is the compensation number either coming from fixed or variable as a percentage of topline.

Nikhil Valecha: You also mentioned that since 42% of our revenue is still upfront if I have heard correctly I think?

Karan Bhagat: I will explain again. 55% to 60% of our revenue comes in the form of either management fees or advisory or part of our loan syndication fees, 40% is essentially made up of two components. It could be distribution income or brokerage. At a minimum, brokerage happens in the region of 7% to 8% its a mix of not only equity but a lot of asset classes, predominantly fixed income, structured products, equity and so on and so forth, so round about 70% is a function of 50% annuity income , 10% brokerage and remaining 30% is essentially function of distribution fees from third party products distributed of other manufacturers, that 30% is going to be recognized on a trail basis instead of being recognized on upfront basis.

Nikhil Valecha: Okay you said that the impact on the first quarter would be higher so why only first quarter I mean just would be spread over the full year right?

Karan Bhagat: The distribution fees start coming to you on a trail basis instead of coming to you an upfront basis so effectively business done in the first quarter and second quarter and in the third quarter they start coming to cumulatively as a trail basis, only in the first quarter, the impact is larger because you would not be accounting trail for the ongoing basis so for example hypothetically if let us say you do Rs.100 Crores of distribution business in Q1 okay, you would have accounted only round about potentially Rs.50 Crores if the businesses happened through the quarter, you will only get round about 45 days of trail income but in Q3 you will end up getting the full three months of trail income and the asset size also increases for the distribution business done in Q1 as well as in Q2.

Nikhil Valecha: If I remember exactly I mean we had given the breakup of requisition trail and upfront so I think requisition upfront was closer to Rs.500 Crores in that Rs.1100 Crores now I just want to understand this part of the business. I think from what I understood that this part is business tool reduced by around 25% to 30% so if effectively our topline it would be closure to Rs.200 to Rs.300 Crores if am I right?

Karan Bhagat: Yes because of impact us recognizing distribution on a trail basis instead of upfront that is right.

Nikhil Valecha: Impact will be Rs.300 Crores right?

Balaji Raghavan: Rs.240 Crores to Rs.250 Crores.

Nikhil Valecha: Thanks. That is it from my side.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Nirmal Jain: Thank you so much for being patient and being on the call. If any more queries, please feel free to send us mail or get in touch with us. You can get in touch with Pooja, our Investor Relations Manager. Thank you so much. Have a good day ahead.

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