# IIFL Holdings Limited

## Consolidated Financial Results – Q1FY17

## Conference Call Transcript

August 01, 2016

**MANAGEMENT:**

MR. NIRMAL JAIN – GROUP CHAIRMAN, IIFL HOLDINGS LIMITED

MR. R. VENKATARAMAN – MANAGING DIRECTOR, IIFL HOLDINGS LIMITED

MS. RAJASHREE NAMBIAR – ED & CEO, INDIA INFOLINE FINANCE LIMITED

MR. PRABODH AGARWAL – GROUP CFO, IIFL HOLDINGS LIMITED

MR. MILIND GANDHI – CFO, INDIA INFOLINE FINANCE LIMITED

MR. PARAG SHAH – CFO, INDIA INFOLINE LIMITED

**R Venkataraman**: Good afternoon and thank you. On behalf of Team IIFL, I thank all of you for joining us on this call. I am R Venkataraman and I am accompanied by Nirmal Jain – our Group Chairman, Rajashree Nambiar – CEO, India Infoline Finance Limited, Prabodh Agarwal – Group CFO IIFL Holdings Limited, Parag Shah – CFO, India Infoline Limited and Milind Gandhi – CFO, India Infoline Finance Limited.

As you are aware, we are a diversified financial services company with multiple businesses carried out in various subsidiaries. In today's call we would be referring to our consolidated number unless otherwise specifically stated as they provide a true and fair representation of our performance. Further any of us may make some forward looking statements based on management's current expectations during the call. However, actual results may vary significantly therefore the accuracy or completeness of these expectations cannot be guaranteed.

The last quarter was marked by sharp volatility in global financial markets as United Kingdom voted to exit the European Union. Post Brexit, analysts have revised downward global growth forecasts. However, it appears world markets have quickly adjusted to Brexit. India remains an attractive market given good monsoons so far, easy liquidity helped by global factors, increased government spending and increased hopes of GST Bill getting passed by parliament. On back of stable macro-economic conditions, Indian equity markets regained upward momentum. The 7$^{th}$ Pay Commission Revisions, low crude oil prices and uptick in rural economy, thanks to good monsoons will necessarily give tailwinds to India's growth trajectory. We believe Indian economy is on an upswing, whether stock markets have rising faster than fundamentals is a matter of debate and discussion.

**Other updates:**

CDC Group, UK government owned development finance institution, will make an investment of about Rs. 1,000 crores in wholly owned NBFC subsidiary, India Infoline Finance Limited. The proposed investment is by way of compulsory convertible preference shares which on conversion will result in about 15% equity stake for CDC in IIFL Finance on a fully diluted basis. The transaction is subject to necessary regulatory approvals.

**Awards and accolades received during the quarter:**

- IIFL was presented with ET Best BSFI Brand Recognition Award.
- IIFL Market was the highest and most downloaded stock marketing app in peer group and it received BSE's BSE Skoch Order of Merit Award for Innovative Deployment of Technology within Investing Services.
- IIFL Wealth won the best performing National Financial Advisor Wealth Distributor Award by CNBC & UTI Financial Advisors Award 2016.
- Plus, Best Independent Wealth Management Team, India at Capital Finance International, Best Private Bank, India at Asset AAA Digital Enterprises Award, the Best India Startup Fund, Seed Venture Fund at Alternative Investments Award and the Best Wealth Management Firm, India at APAC Insider Investment Awards.
- Our CSR efforts were recognized at numerous forums and IIFL Foundation bagged the BSE Skoch Award for Innovation and Meritorious CSR.

We believe all our businesses are poised to see *ache din* in the days to come. I now pass the mike to our Chairman, Nirmal Jain to share his views on the strategic initiatives taken by our group.

**Nirmal Jain:** Thanks you, Venkat. I will talk about broad strategy of the group. Many a times, I am asked this question that we have three key lines of businesses - Wealth, NBFC or consumer finance and third is Broking or Agency. Where's the focus of growth going to be? Which business will grow faster? Where will there be larger allocation of assets? So, will speak about the three together and then respective business head can take over for more details. First of all, the macro-outlook for all the businesses is very optimistic. India's economic growth is accelerating and financial services should be well-placed to make the most of it. The financial services industry with years of compliance and evolving regulatory structures has come to a stage where, larger established players with good practices tend to benefit. So, I will talk about our three businesses, first is the consumer finance and NBFC business. As we have articulated in the last few quarters that our strategy is to focus on the retail small ticket loans and that is what we are doing. If you look at our fastest growing business - home loan, where our ticket size is around Rs. 28 lakh and average incremental ticket size is even lower. The second business - gold loan, where we said that we will bring it down but it will remain and continue as a part of the portfolio. Here, the business has come down to 15-16% of our book and average ticket size is just about Rs. 50,000. Even in commercial vehicles, we focus on the small fleet operators or may be one or two truck drivers, our average ticket size in the loan is just little less than Rs. 10 lakh. In LAF, it is just about a crore and in medical equipment, it is around Rs. 20 lakh. So why are we focusing on the retail small ticket loan? For two key reasons: (i) we disperse our risk (ii) using technology, we can bring down our operating cost significantly. So, in case of our operating cost which is about 2.5% of loan book, our target is to bring it down by 15-20 basis points every quarter for at least next 4 to 6 quarters. The second key element of our NBFC strategy is to focus on cost of funds. So this quarter, our loan book had declined primarily because significant part of our capital loan book has moved to IIFL Wealth Finance, the NBFC subsidiary of IIFL Wealth Management Ltd. The newly floated NBFC started operations towards the end of last quarter. Going forward, in the next three quarters, we should see our cost of funds going down driven by 2-3 key reasons – (i) interest rates should come down in the economy (ii) we are well placed to get our credit rating upgraded. Our businesses have been growing well with good quality of assets. There has been capital infusion - CDC proposes to invest around Rs. 1,000 crores in our NBFC. Besides this, last quarter, Generic Atlantic has invested similar amount in the wealth business. Altogether, if you look at the available net-worth for the group in last 12 months or say 12-18 months period has doubled from around Rs. 2000-2500 crores to close to Rs. 5000 crores may be by September end. So that should help us in improving our credit rating. Other than that, we had certain high cost funds. Almost Rs. 1,000 crores of debentures are due for redemption in this quarter which are borrowed at about 12%, so there at least we can have a 300 basis point cost advantage as we replace them going forward. Furthermore, we have been focusing on digitizing end-to-end processes in all our businesses and a lot of pilot projects are now coming to fruition. So, in the next 2-3 quarters, we should see significant reduction in our operating costs as well. Coming to wealth business, although the base is elevated and not many analysts would expect the growth to slow down but the way we are planning, we think that growth momentum can continue for some time because there is a huge market. There are 2-3 things that impacted our performance last year and going forward how they look, I will just talk about it little bit. We increased our capacity significantly last year. In terms of customer facing people, the number increased almost from 130-140 to 220-230 last year, which is a significant increase. These people become fully productive in over 2-3 years and we should start seeing the benefit from this year onwards in terms of the total assets under management. Secondly, mutual fund upfront commissions were capped at 1% which used to 2.5-3% earlier.

What it did is that significant part of trail commission which used to get converted into upfront is not happening now. This impacts your income or revenue in year one but from year two to year five it benefits because you get a higher trail commission and fee. So from this year onwards we should see that mutual fund fee component should also start increasing and start rising. We are also moving from distribution based model to advisory based model as quickly as possible and that should change the structure of business over years to come. Another important thing in wealth is that we have a NBFC which has got funded. Our distribution cost for this NBFC is practically zero because these are all wealth customers that get finance. This company's loan book is already 1.5 times net-worth and balance sheet size is close to 2 times. As we leverage this adequately, the financing business will also contribute to the earnings of wealth. Now the third kind of business which is broking our agency has been quite volatile over last few years but we look at this business future with great optimism. We have brought down our costs significantly and this is seen in our administrative costs within the consolidated results. In addition, we are focusing more on digital and online. In our life insurance business, first quarter typically used to be loss-making. Here, although we have brought down our volumes significantly, with the focus on more productive segments and digital business model, even the first quarter in our life insurance distribution business this year has not been loss making. Going forward, I think the business structure will change; we will not focus on volume but will focus on profitability in life insurance. Capital market outlook is good and our mobile platform has become one of the most popular platforms. It has a rating of 4.4 on Google Play Store, the highest as compared to broking peers with more than 6 lakh downloads, it has a pretty large base of users. With this I will hand over to Rajashree who will talk a little bit more details about our NBFC business and then Prabodh Agrawal, our Group CFO, who will take you through financial numbers line by line. Thank you.

**Rajashree Nambiar:** Thank you Nirmal. After a steady performance in FY16, the NBFC business has sustained a momentum in Q1FY17 with a PAT of Rs. 89 crores that is up 22% YoY. AUM has grown to 18,560 crores up 16% YoY. Steady growth and profitability is a combination of income growth plus 12% YoY while maintaining strong discipline on costs that is up 2% YoY. Retail mortgages and commercial vehicle finance have remained our biggest drivers of growth with gold loans registering net business growth after a period of volatility. Mortgage retail AUM has grown to Rs. 9122 crores up 65% YoY and 9% over previous quarter driven by a progressively higher contribution from small ticket home loans. Commercial vehicle AUM has grown to Rs. 2,523 crores that is up 73% YoY and 11% over previous quarter on the back of sustained growth in the HCV segment. From a strategy perspective, we continue to sharpen our product suite comprising of wide range of secured lending solution catering to both individuals as well as small businesses. Strong cost discipline has helped in controlling increase in operating expenses, digitization led process improvements and strong productivity push has resulted in cost saves which have provided room for investment in people and technology. There has been continuous progress on the digitization front with increasing adoption of digital processes such as gold loan cashless disbursal, e-KYC, IMT based transactions for gold loans and we now have started the sourcing for some of our products. We continue to enhance our interface with customers with a launch of a new responsive website for IIFL Finance. Our GNPA stands at 1.97% for the quarter as we moved to the 120-day NPA regime and we have adequate strength in our P&L to absorb the impact as we continue to maintain 75% plus provision coverage. Overall, we are in a great position to continue momentum on the back of a strong management team and a contemporary business approach. Last but not the least, we are delighted with CDC Group's participation into the NBFC and we believe it is a vote of confidence towards our resilient business model which is strongly poised for long-term growth. I now hand over to our Group CFO – Prabodh Agrawal.

**Prabodh Agrawal:** Thanks Rajashree. Good afternoon everybody. You would have seen the numbers and the analyst's presentation. So I do not want to repeat them but just to reiterate the headline numbers for Q1FY17, IIFL Group's consolidated PAT before minority interest was up 33% YoY and 6% QoQ to Rs. 158 crores. Annualised ROE was 18.4% and ROA was 2.3%. NBFC AUM was up 16% YoY to Rs. 18,560 crores and Wealth AUM was up 14% YoY to Rs. 85,783 crores. NBFC PAT was up 22% YoY to Rs. 89 crores and Wealth PAT was up 41% YoY to Rs. 53 crores. On the capital market business our revenues declined YoY basis due to lower trading volume and slight compression in commission rates. However, we are also able to bring down our operating cost and the segment still remains very profitable for us. With this deep overview we would now open the floor for Q&A.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

**Anita Rangan:** In your mortgage section, like mortgage retail and large mortgage, can you give a sense of how much would be actual residential housing loan versus LAP and developer loan?

**Prabodh Agarwal:** See if you look at the mortgage retail, mortgage retail is about 49%, mortgage large is 12%. Mortgage large refers to the builder loans and within mortgage retail, the LAP portion would be about 60% of that.

**Nirmal Jain:** So if you look at the corporate or builder loan it has come down from 15% to 12%.

**Anita Rangan:** And also in capital market segment, now the shift to wealth assets I think is about Rs. 1,300 crores but the decline is a little more than 1600 crores. So I was wondering like are you de-growing this capital market segment itself?

**Nirmal Jain:** Here, the requirement in the loans are a little volatile and erratic because most of the capital market loans are shorter tenure for 3 months to 6 months and typically at the year end on March 31st this book may be larger. And sometimes the quarter end this year IPO funding is pending that can bulge number which is may be just for a very temporary or short period. But in terms of business volumes, I do not think there is any decline on a regular or a steady state business if you look at it. But you are right if you add up the two numbers then they are lesser than the previous quarter. But there is no loss in transition, let me put it this way.

**Anita Rangan:** And in terms of gross NPA have you already shifted to 120?

**Nirmal Jain:** Yes, we have already shifted to 120. If you look at bucket-to-bucket then they are similar in standing down.

**Anita Rangan:** And which segment can you give some focus as to which are like higher within the gross NPA?

**Nirmal Jain:** In terms of incremental, because of this movement, the most impacted segment is commercial vehicle. And another thing that has happened is, so maybe there is one case in capital market which remains here. So if you take the aggregate including wealth if you look at both then the gross NPA even 120 days would appear much lower. So, the denominator which has moved to wealth is almost without any NPA.

**Anita Rangan:** So this 1.97 is only for the IIFL Finance, including the wealth?

**Nirmal Jain:** No it is without, not including wealth NBFC. Wealth NBFC has no NPA, no delinquency, it is very new.

**Anita Rangan:** And after like CDC shareholding will there be any change in like shareholding pattern or any control on IIFL Housing or will the subsidiary shareholding and subsidiary structure will remain the same?

**Nirmal Jain:** Housing will remain wholly-owned subsidiary as it is and they will have a stake in NBFC.

**Anita Rangan:** And going forward the incremental capital market business will be in IIFL Wealth?

**Nirmal Jain:** Incremental capital market business of HNI customers. Some part which is retail customers will remain in NBFC, so up to Rs. 10-20 lakh of retail loans or the smaller loans will remain in this NBFC but that is not the focus area for growth.

**Moderator:** The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

**Pawan Ahluwalia:** I just wanted to understand on the lending that you are doing in the NBFC, you talked a little bit about small ticket size across the portfolio. Could you give us a sense of the extent to which we are competing basically alongside banks in each of these verticals or whether we are competing more in the NBFC space with the likes of Mahindra or a Sriram? In fact, if you could just take the key verticals in the NBFC and give us a sense of what universe is likely to be a competitor there because structurally that affects the yield will likely to earn in the long term to the extent that would competing alongside banks, you have competitors with low cost of funding.

**Nirmal Jain:** So the largest segment is home loan and in home loan, you can divide the market in three parts. One is the absolutely the upper segment where the interest rates are around 9.5% where most of the banks and HDFC would compete. A little lower segment is where Gruh Finance kind of companies are there with typical yield of around 12% and yet lower segment is, where AU Finance and very recently I think Aspire have been there, where the yield is around 15-16% or 16-17%. So we are in the earlier two segments. We are more into Gruh, Dewan Housing, India Bulls and little bit in HDFC kind of segment as far as the home loans are concerned. So we really do not compete with the banks head-on but, our primary competition would still be with housing finance companies and NBFCs. I am talking about home loans first. Then going to commercial vehicles, again our competition would be more with NBFCs and not as much as say likes of HDFC Bank or SBI that may have many customers that are large truck operators, fleet owners who have a reputation, they have their own rating and there the yield is much finer, margin is much lower. And then you come to say SME, again we are focusing on less than Rs. 50 lakh a loan with underserved segment where again some of the NBFCs would be there. Broadly speaking, maybe a small segment of our home loans largely competes with bank but, largely our competition would be more with different NBFCs in different segments but not all of them. We are still not there in a very high yielding class but, we are there in the mid segment. In commercial vehicles, our used vehicle and new vehicle mix is 50-50. So, we are not head-on into the highest yield and relatively a more difficult segment but we are in a mix.

**Pawan Ahluwalia:** And are there any segments where you are worried that in a 2-3 horizons of banks will make a serious push because in a slow credit growth environment banks are fighting to try and grow in all kinds of directions. Do you see them encroaching more on your turf or the collective NBFC space at any of these verticals in the next few years?

**Nirmal Jain:** Actually there is a lot of talk about this that the large loans are not growing so banks will get into retail loans or small ticket loan. But there are 2-3 big challenges and that is why we see that most of the NBFCs are growing rapidly as compared to banks. One is that in this smaller segment, you really have to develop specialised skill-sets to do credit assessment and keep your operating cost low. Supposing if I am running a bank and sanctioning Rs. 1,000 crores or Rs. 5,000 crores loan, vis-à-vis Rs. 50 lakh or Rs. 5 lakh the approach, the approach, the cost structure is very different. Personally I think, while banks are making efforts and creating verticals to get into this, two important things are to be noted (i) operating cost and (ii) the way you do credit underwriting is very different. It is not really as straightforward or as simple as you take the income records, you take CIBIL scores and say yes or no. It requires a lot of skill development over a period of time. Personally, I feel that, in this segment, NBFC will continue to dominate. And even if the banks want to get in a big way it will take time. Moreover, these segments grow slowly. For a typical NBFC, they may still make sense, but if you have a very large balance sheet like that of a bank then you will make lot of efforts but it would not move the needle.

**Pawan Ahluwalia:** And last question on the Wealth Management side; what kind of growth rate do you think we could expect on wealth on a 3- to 5-year horizon?

**Nirmal Jain:** See, I do not want to speculate and get into forward-looking statement. Internally at least, we want to maintain the pace of growth which of course may not be extraordinary as it was in the past 5 years but it would still move faster than the industry or faster than the entire financial services sector put together. Last year, we ramped up our capacity of people by more than 50%. The benefit should accrue from this year for at least say next 2-3 years because typically this industry has very limited number of experienced people but you have to actually take fresh, good quality, bright people from college or with little experience and train them up. And there is a huge market to tap. So I think we would like to continue our aggressive stance in growth but I do not want to get into giving you the precise number.

**Moderator:** The next question is from the line of Rishindra Goswami from Locus Investment Managers. Please go ahead.

**Rishindra Goswami:** Couple of questions on the NBFC, would you give us a breakup of employee and non-employee expense in the NBFC?

**Milind Gandhi:** The total employee expenses for the quarter are Rs. 74 crores and other operating expenses would be around Rs. 50 crores.

**Rishindra Goswami:** And what would be the employee count in NBFC now?

**Milind Gandhi:** 7,416 at NBFC consolidated level, including HFC. The manpower growth is primarily for home loan business.

**Rishindra Goswami:** And how many would be in the HFC?

**Nirmal Jain:** 1,400.

**Rishindra Goswami:** And any branch additions over this year and next year?

**Nirmal Jain:** Not really. So the number of branches have more or less remained around 1000, so 986 to be precise. Branch has no significant change. So in HFC, we have got 1,000 branches but we have not really set up infrastructure for home loan in all the branches. We operate from about 60 branches in the home loan business which will grow over a period of time. In terms of the branch network, I think we have adequate network and footprint all across the country.

**Rishindra Goswami:** What would be your sense of free equity sitting with the parent now?

**Nirmal Jain:** Parent is not leveraged. We can leverage and do it but may be the surplus liquidity has been kept at around Rs. 500 crores but it is not something that is available for our allocation. We have raised capital separately in our subsidiary company.

**Rishindra Goswami:** And just one last question on the wealth side, what would be the total custody assets within Rs. 85,000 crores that you have reported as per your total AUM?

**Nirmal Jain:** We are not a bank but distribution assets are roughly 60% of total assets.

**Rishindra Goswami:** That is the actual income earning assets you are saying?

**Nirmal Jain:** No, non-distribution assets would be the advisory assets and where we are investment managers. So, all of them are income earning assets.

**Rishindra Goswami:** I see. So any impact on the revenue margins of this business given that you indicated that there would be bump up in the trail income this year?

**Nirmal Jain:** Very broadly, if you look at our mutual fund business, last year, our income came down because of this. Just to give you a typical benchmark – suppose, you have 1% instead of 2.5% then this remaining 1.5% will accrue as 30 or 40 basis points over 3- to 5- years. Thus, instead in an earlier business model you could have booked 250 basis points in year 1, now you book 100 basis points at 30-30-30. Now, this is not as structured because it depends on scheme, customer redemptions and so many other things but, broadly this is the model.

**Moderator:** The next question is from the line of Jinesh Sanghvi from Trivantage Capital. Please go ahead.

**Jinesh Sanghvi:** Just wanted to understand on one of the key products on LAP, what are you seeing the trends in terms of LAP and the kind of stress levels you see there as well as the kind of ticket size. As well as, in the recent times, it seems that many of the banks and NBFCs are aggressive into this space. So the yields are coming down and the LTVs are going up. So your views on that.

**Nirmal Jain:** LAP is a very heterogeneous product category because when you say loan against property, it comprises hundreds of industry with different kind of borrowers. But, the complete industry as a whole passed through some difficult phase in years 2013-14-15. Things have started looking little better. And, our focus is mostly in the priority sector lending category and relatively smaller ticket size. Our average ticket size is around Rs. 1.2 crores.

**Rajashree Nambiar:** To add to Nirmal, in terms of going forward; our plan on LAP sourcing is essentially what we have been doing for the last 12 to 18 months. In case of retail home loans as Nirmal has mentioned, that is where we are really expanding and increasing i.e., almost trebled in terms of our monthly disbursals. And on the LAP, keeping in mind what you mentioned was happening externally, a few things that we are looking at quite closely - we have really been quite cautious about balance transfers, we are looking at valuation quite closely and end use monitoring. These are some of the things that we have added as cautious measures into our sourcing.

**Jinesh Sanghvi:** So does that mean in terms of the borrowers that come to you say – what – you say like Rs. 1-1.2 crores would be, so majorly the SME kind of customer. Do you have any specific analysis modules for them or is it just based on the LTVs that lend to them?

**Nirmal Jain:** I think our model is more on a cash flow basis. So it is now just the collateral but the cash flow is the key component of our credit valuation and I think that is something which helps in improving quality of assets also.

**Nirmal Jain:** So in analysis of how the loan is going to be repaid, that is the most important thing from the cash flows rather than just the collateral?

**Jinesh Sanghvi:** What would be your average LTV and the average tenure for the product?

**Rajashree Nambiar:** Our LTV would be around 60-62% and the contracted tenor would be about 3-5 years.

**Jinesh Sanghvi:** So what do they bring the breakup in terms of residential and commercial property there?

**Nirmal Jain:** Overall in the mortgage portfolio 70% is backed by residential collateral.

**Moderator**: The next question is from the line of Bhavyesh Divecha from L&T Mutual Fund. Please go ahead.

**Bhavyesh Divecha:** Can you please give me some more nature of the book of the Wealth Finance which is being done and how well does it fit with a consumer founding business, in a way do you have a similar team or a same team which is being shared by both the businesses and how is the risk also shared across both the businesses?

**Nirmal Jain:** You are saying the wealth NBFC, right. So wealth NBFC and consumer NBFC are completely different. So the consumer finance team has nothing to do with wealth NBFC. And the wealth NBFC primarily provides finance to our wealth customers and they have typically larger ticket, loan against shares or loan against securities. And very few cases of loan against property but the focus of wealth NBFC is predominantly on wealth customers where you already have an RM that is servicing the wealth account so that basically sources the requirement. So you do not need a distribution team there.

**Bhavyesh Divecha:** So broadly speaking Wealth Management business is entirely loan against shares with a very small quantum of loan against property as of now. And going forward also that would be the nature of the business?

**Nirmal Jain:** Yes that is the nature of business, so that segment (IIFL Wealth Finance) is very different.

**Bhavyesh Divecha:** And any future projection would be possible for Wealth Management though it would be cyclical and episodic in nature but directionally what kind of a book are we looking over there?

**Nirmal Jain:** Directly we are looking at good growth but difficult to quantify the numbers.

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

**Nischint Chawathe:** Can you just explain what was the regrouping done in the numbers during the quarter?

**Prabodh Agarwal:** The regrouping was done in the segmental portion, the fund based capital market and the distribution business, there, there is some regrouping where the two NBFCs are classified as fund based, the distribution includes all the wealth, insurance and reality and the capital market consists of equity and commodity.

**Nischint Chawathe:** Okay, what would be the income of the Wealth Management business, I mean to say the fund-based income.

**Prabodh Agarwal:** The fund based income would include, you can take about 12% to 12.5% yield.

**Nirmal Jain:** 12.5% yield is there but you have the breakup. If you look at the total income of Wealth Management is Rs. 177 crores and out of that, fund based income is Rs. 40 crores in the first quarter.

**Nischint Chawathe:** What is the impact of the advisory model, when you say that we are going from distribution base to advisory based model?

**Nirmal Jain:** So, we are trying to increase the relative share of advisory based assets from the distribution asset as you know that this task is really a long-term task but we have put in place a good sort of an incentive structure and training for our people. So our objective is that all our established old customers we move them to advisory platform which is family office. As you know, it is a long process, so till now if you are ask me numbers they are very small but going forward this will become the key driver.

**Nischint Chawathe:** Okay, I just wanted to check when is the CDC money coming?

**Nirmal Jain:** So, the only approval required is CCI which is Competition Commission of India. We need to seek the approval because then no monopoly can be created by us where market share is not even 1% in the notional product category but, it is the norm. It should happen in 3 to 4 weeks, as soon that happens we should get the money.

**Nischint Chawathe:** And how long will be the conversion time period?

**Nirmal Jain:** They will convert before any exit event, which is IPO or listing or any private equity or new investment.

**Nischint Chawathe:** Okay, just one or two data point questions again. On the insurance distribution side, what was the income and volume growth and I believe this is a part of distribution income.

**Nirmal Jain:** So, on insurance, the total weighted average premium was about 10 crores down from 40 crores in the last year almost 75% down in the first quarter. Typically, what happens in this business, the first quarter is loss-making because it is a slack quarter, but this year we thought we will keep our capacity flexible and not fire too much in the first quarter itself.

**Nischint Chawathe:** Sir, just the loan yield on the NBFC, I think you have not mentioned it this time around. Last quarter, I believe was it was 15.3%.

**Nirmal Jain:** Yes, so this time also it is 15.3%.

**Nischint Chawathe:** Okay and finally just one question again on the NBFC side, what happens to the ROEs of the NBFC business given the fact that first of all you are looking at very high capital infusion and you are focusing a lot on the retail mortgage business, which typically tends to be a low spread business?

**Nirmal Jain:** The retail transition has happened over the last 12 to 18 months. If you see now, then relatively I think, in the gold loan and SME business, wherein we pilot tested the products, the yield is a little higher i.e., the less than Rs. 50 lakh SME loan which we propose to process completely digitally, there the yield is around 16% to 17%. So, I think yield might more or less would have trough and don't expect further fall in the NIM. Going forward, even the environment for gold loan business has improved so even that product should see a good growth.

**Nischint Chawathe:** No but given the fact that you are growing in the retail mortgage business so fast, and I would expect that the share of retail mortgage would go up over a period of time.

**Nirmal Jain:** Yes that is right. In retail mortgage, you can securitize and sell the book only after one-year seasoning that will be from this year. May be last year, we were not ready for securitizing and selling down the assets, so once you that you can actually lock in 1 to 1.5% margin for a period of time. Secondly, we expect our cost of funds to go down this year with the environment as well as the credit rating upgrade. Third is that even the retail mortgage will have a mix of absolutely lowest yielding as well as slightly better product which yields at around 12%. On the whole, if you look at retail mortgage has grown very rapidly in the last 18 months but this was the time when gold loan and SME were not contributing enough which are high yielding products. Going forward, considering our internal projections, we should be able to maintain the yield. If you see this last quarter, yield actually was 14.8%.

**Nischint Chawathe:** Okay 14.8 versus 15.3.

**Nirmal Jain:** Yes, that is right.

**Moderator:** The next question is from the line of Bhaumik Dave from Reliance Mutual Fund. Please go ahead.

**Bhaumik Dave:** I had a couple of questions, one regarding her capital markets business, so if I see your volumes have like declined by around 8% to 9% year-on-year but your revenue trajectory has gone down to around 15%, so what explains that? This is because your segmental revenue in your capital market business has fallen around 15%, whereas your volumes have only declined 8% to 9% and your mix in the cash and F&O has remained more or less stable.

**Nirmal Jain:** Okay, so last year we had one large significant investment banking transaction in the first quarter, which was not present in this quarter. In fact, there were quite a few IPOs but the revenue will fructify in second and third quarters. So, investment banking revenue this year in the first quarter was very negligible. To add to last question of Nischint, the improvement in yield in this quarter is also because of significantly lower capital market book which was a low-yielding book.

**Bhaumik Dave:** Okay, sir is that the reason, I think even your if you see your segmental PBT has gone down significantly, your margins have collapsed around 20% to 23% to around 10% now. Is that because that one-off revenue item that was there and or is there something else to look into this.

**Prabodh Agarwal:** See, it is basically a combination of three things; one lower volume, second slight decline in the commission rate and the third is the lack of investment banking fee. So the investment banking fee that is the major impact; that is the biggest impact on the 15% YOY decline that you are seeing.

**Bhaumik Dave:** And sir do we expect the full year number of like further for this business to be around the same level as last year in the worst case scenario?

**Nirmal Jain:** Yes I think full year our investment banking we should grow because it seems like a good environment in the capital market. But it is very difficult, see all investment banking transactions are like lumpy and you really can’t predict them in a very precise manner but on the full year we don’t expect a decline.

**Bhaumik Dave:** Sure, and sir second question is in our NBFC book sir, how does sourcing take place, what portion of your sourcing is in the LAP book is DSA also on the home finance book that you are building, so what is the sourcing mix?

**Rajashree Nambiar:** So, on the home loan book, 90% of the sourcing is in-house from our own proprietary sales force and on the LAP, we get about 60 to 70% from the DSA, the rest from our own sales force.

**Bhaumik Dave:** Sure, do we plan to decline this further, the 60% or 70% or are we comfortable with this level of DSA?

**Rajashree Nambiar:** We have seen a steadily declining number, the trending is towards our own sales force, and this used to be at higher as 90%, which is going to take a dump.

**Moderator:** The next question is from the line of Shiva Kumar from Unifi Capital. Please go ahead.

**Shiva Kumar:** Yes, sir, can we assume that loan mix has stabilized at the current levels wherein gold has stabilized. If you look at the sequential movement, gold has stabilized just increasing by 1%, capital markets have moved to IIFL Wealth Finance, sir can we assume that the mix has come to stable structure and from now on NIMs must also stabilized at the current level?

**Nirmal Jain:** The home loan segment will grow a little bit further from here and the large mortgages may decline a little bit. Capital market may decline still, very straight but not significantly but more or less I think the product mix will not change radically from here but, few basis point increase in home loan you should see in every quarter.

**Shiva Kumar:** Right sir and the decline which we are seeing in mortgage large has been very steep for the last 2 quarters even on a Q-on-Q basis it has come down to 15%, are we pre-closing the loan, is it the strategy in-house that you have a target in mind for FY17?

**Nirmal Jain:** No, the large mortgage loans come down because the new loans are being booked in the fund and these loans are getting repaid in their normal course.

**Shiva Kumar:** So, you are actually getting new developer loans also?

**Nirmal Jain:** The new developer loan of a larger ticket size is getting into the fund primarily where we have alternate investment fund under our asset management. The incremental developer loan are primarily those which can dovetail into small ticket home loans and there again, we fund after the approvals at construction stage, so you are competitive with banks in terms of rates but the primary objective is that you get into a relationship and build a network with builders so that you get a priority treatment, when you want to tie up for home loans.

**Shiva Kumar:** Okay, so developer loans won't be sitting in the NBFC segment right. So, it has moved to the AIF for structure.

**Nirmal Jain:** The larger developer loans and the smaller developer loans where we have home loan opportunities they will still be continue in NBFC and HFC and we continue to book there.

**Shiva Kumar:** Sir and what is your year-end loan growth target.

**Nirmal Jain:** I don’t think we have any target or we have given any guidance on the target. I think the industry should grow at around 20% to 25% or at least may be 15% to 20% volume, so we should maintain the pace and try and improve a little bit. Once we have infusion of capital then our Tier-1 capital will be adequate to grow faster.

**Shiva Kumar:** Sir, coming to that, sir what would be the Tier-1 capital as when as CDC infuses the 1000 crores and does it obviate the need of any equity dilution for the medium term and how long will it take for the equity dilution.

**Prabodh Agarwal:** Our Tier-1 CAR which is currently at 12.8% would go to close to 20% and that would be sufficient to fund our growth for the next 3 to 4 years.

**Shiva Kumar:** Sir, I have one question in the Wealth Management segment. We see the employ cost have declined sequentially, what explains that.

**Nirmal Jain:** It is a good question but the bonus which is not predictable actually, so last quarter we had a good bonus payout in the last quarter, but this year what we have done is that the entire bonus accrual policy has changed a bit and we are accruing it more accurately and little more aggressively from first quarter itself.

**Shiva Kumar:** IIFL Wealth Management sir. The admin and other expenses have come down from 52 crores in Q4 to 37 crores in Q1.

**Nirmal Jain:** When the business volumes peak out, you also have a higher referral and other payouts which are connected to IFAs or sub-broker, so even those now have been brought down in this quarter. If you compare YOY then the operating cost and admin cost have gone up significantly but, Q4 last year was an aberration where significant payouts came in the last quarter.

**Shiva Kumar:** Sir, coming to the home finance NBFC, what is the current geographical distribution of your branch network and what are your plans going forward? Are you going to focus in certain stage, can you just give some color on that?

**Nirmal Jain:** We have an all India distribution. Slide #12 gives you the spread of branches. The are 11% branches in East, 27% in West, 23% in North and 39% in South. So south is the largest or has the largest penetration of our branches.

**Shiva Kumar:** Right, sir, and do you have a separate structure for the CV loans or it use the same structures which is available for home loans.

**Nirmal Jain:** No, people in the credit underwriting and everything else are completely different but they use the same branches in most cases.

**Shiva Kumar:** Sir, do you see the traction which we got to see in this quarter for CV loans to continue 11% quarter-on-quarter?

**Nirmal Jain:** Yes, I think it will continue. I can't say the percentage quarter-on-quarter but traction will continue.

**Moderator:** The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

**Hiren Dasani:** Yes, sir just one simple clarification, your quarterly profit before minority interest this quarter is about 158 crores and in your presentation Rs. 53 crore is roughly from wealth and Rs. 89 crore is from the NBFC, so if I were to do the adjustment does it mean that the capital market activity is about Rs. 16.5 crores quarterly profit or are there any inter-company transactions etc., which I need to be thinking about.

**Nirmal Jain:** No broadly you are right.

**Hiren Dasani:** Broadly that is the number right, 16 crore is the profit from the capital market.

**Nirmal Jain:** Yes broadly that is correct.

**Hiren Dasani:** Yes, the AIF, AMC, etc., all that is part of wealth or that is part of capital.

**Nirmal Jain:** That is the part of wealth.

**Hiren Dasani:** That is part of wealth. Okay, now sir on the NBFC side, when you say the retail mortgages which is 49% of the AUM, what are the kind of borrowers we are lending at and what is the yield at which you are lending at here, is it salaried, self-employed with what's the.

**Nirmal Jain:** Yes, mostly salaried and self-employed people with income record and for the home loan, yield is around 11%.

**Hiren Dasani:** So salary would be what 30% to 40% or may be 70% or 80% salaried.

**Nirmal Jain:** 70%.

**Hiren Dasani:** 70% will be salaried.

**Nirmal Jain:** So, actually in the last quarter, home loans average yield was 10.7%.

**Hiren Dasani:** 10.7%, okay and does the LAP also get reflected in the mortgage retail.

**Nirmal Jain:** That is right, so there the yield is 14%.

**Hiren Dasani:** Okay, so what is the core home loan book then here of the 10,000 crore.

**Nirmal Jain:** Home loan book is 3200 crores.

**Hiren Dasani:** And the remaining would be LAP.

**Nirmal Jain:** 6,000 crores.

**Hiren Dasani:** 6,000 crores, okay and when you say large mortgage that is individual or that is like a builder financing.

**Nirmal Jain:** That is like builder financing.

**Hiren Dasani:** Okay and the yield there would 14% to 15%.

**Nirmal Jain:** No, the large loan yield will be higher. Large loan yield will be around 19%.

**Hiren Dasani:** Okay and healthcare and SME finance would be 17% to 18% or probably.

**Nirmal Jain:** I will give you yield for all the product category, home loan is 10.7%, loan against property is 14%, corporate loan as I said is roughly around 19%, mortgage is aggregated 14.2%, commercial vehicle is 15.4% and SME is 17.4%, and medical equipment is 13.6%.

**Hiren Dasani:** Okay in Capital Market?

**Nirmal Jain:** Capital Market is around 12%-12.5%.

**Hiren Dasani:** Sure, this 197 basis points of gross NPA on 120 DPD what would it look like at 90DPD?

**Nirmal Jain:** It should be up by about 30 to 40 basis points.

**Hiren Dasani:** What is your sense in the overall ROA trajectory of 1.8% in the NBFC operations?

**Nirmal Jain:** With this in equity infusion, ROA goes up and ROE goes down little bit, but on a steady state basis supposing, we utilized our book fully and we are able to reduce our operating cost, if you look at the numbers a year later or year and half later, then our ROA targets should be around 2.5%.

**Hiren Dasani:** And what kind of leverage would we look then in a fully optimal kind of basis.

**Nirmal Jain:** 5x to 6x

**Hiren Dasani:** Okay, so 2.5 x 6 is what I should do the math in terms of ROE.

**Nirmal Jain:** Plus the net worth will earn around 14-15% or whatever.

**Hiren Dasani:** Yes, okay, asset to equity will be 7x.

**Nirmal Jain:** See our ROE has been around 18% and as we utilized capital fully and we improve our operating efficiency we should take it in early 20s.

**Moderator:** The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

**Rahul Ranade:** Yes, sir, just a question about the home loan so if I heard right it was 60 branches that we are doing home loans out of the 900 odd branches right.

**Nirmal Jain:** That is right.

**Rahul Ranade:** So the geographical split out of these branches would it be similar to that of the overall branches or is there a specific region?

**Nirmal Jain:** I think more or less we are there all over. We will be slightly more in North if you look at home loans.

**Moderator:** The next question is from Vibha Batra from Fare-Connect. Please go ahead.

**Vibha Batra:** My question is that within your retail finance you have segments there, you need specific teams like CV, gold loans and home loans, and the builder finance and till those businesses are house under one NBFC, sir what is the rationale of transferring the wealth to a separate segment, I understand that catering to a segment which is different from retail but couldn’t it have been done as a part of the overall NBFC, are there any significant benefits of the split?

**Nirmal Jain:** This is the one question I have taken last quarter or quarter before last. We need capital and the wealth customers are relatively our NIMs are lower but our distribution cost is lower too because of the wealth RMs can handle it. If we keep it in NBFC, where we raise capital which is very expensive and do not get the yield which is adequate. We could raise the capital at a good multiple in wealth and provide the finance to our wealth customers, that the releases capital and allows us to grow much faster. Furthermore, if you look at it from all angles, the segment of customer is very different, the risk management process is very different, the distribution is very different, as well as the cost of equity is different for the two businesses; it is justified because there is a fee income in wealth. So, it does not make any sense to continue in a business model where we are focused on retail. When you look at retail business, the process is more like a factory where there are clear processes, the score cards every stage and the file goes through the processing system which is very different from a large ticket loans. Considering all angles, it makes sense to remove it and put it as a part of wealth.

**Vibha Batra:** But does that mean that you leverage more in that entity or how will cost.

**Nirmal Jain:** Yes, wealth NBFC will leverage. Our assets are close to Rs. 90,000 crores; if we take 5% propensity or on an average requirement of borrowing then on the Rs. 90,000 crores you can leverage about 4x to 5x, so this company will be also adequately leverage.

**Vibha Batra:** But the ticket size is there would be significantly larger than what they are here.

**Nirmal Jain:** The ticket size starts from Rs. 50,000 and typically goes up, Rs. 4 lakh to Rs. 10 lakh; there the ticket size might start from Rs. 25-30-40 crores to Rs. 100 crores typically.

**Vibha Batra:** So even with that ticket high base, capital market segment and similar leveraging you expect to maintain the same rating in that company?

**Nirmal Jain:** Same ratings.

**Vibha Batra:** Yes, I mean if concentrated and you leverage more would the rest be higher end.

**Nirmal Jain:** Typically, you have a much bigger relationship with the clients and you may have assets of the client which are so the collateral cover there is significantly higher, so I do not think rating will be a challenge, the quality of assets and rating is a credit processes. We will not make any compromise in the quality of assets in the collateral and the quality of borrower. Our processes will remain as stringent or may be as required for the business so I do not think any challenge in rating. If you look at that business although RBI persist capital markets in mid-tier segment but when you look at the granular detail of that business then it is hardly any risk because typically you have a much bigger relationship with the customer, you got his assets, you know the customer, the customer is a very reputed typically an entrepreneur or a corporate professional and the LTV, there is also have significant margin of safety as RBI requires 50% and we fund only against liquid or high quality shares. So with all these safeguards I don't see any risk there.

**Moderator:** The next question is follow up from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe:** There is some regrouping on the operating cost on a consolidated basis as well so just trying to understand what this is?

**Nirmal Jain:** There is a DSA commission or payout, we are now netting it off from the processing fee, that is the only regrouping or reclassification that has been done.

**Prabodh Agarwal:** That we did in line with the practice followed by other HFCs and the NBFCs which is we found that was a very common practice so that is something which we have changed this quarter therefore, last quarter's numbers have also been regrouped.

**Nirmal Jain:** Other income goes down, the cost also goes down.

**Moderator:** Thank you, will take the last question from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

**Piran Engineer:** Yes, thanks for taking my question most of them are answered but I just have a couple of clarifications, firstly on your residential mortgage book which is grown a lot. On LAP what are the kind of trends you are seeing on asset quality and secondly your yields you said is 14% what are kind of DSA commissions because one of your competitors Bajaj Finance has spoken about how they find the returns in this business very low when you have DSAs and that is why the kind of moving out of that so do you feel the same way too.

**Nirmal Jain:** In this business, there are 2-3 different types; one, there is a LAP of larger amount, in such case, what they are saying may be right. But, our focus is small-ticket LAP relatively in the LAP. Thus, a typical LAP is between Rs. 7-8 crores and even Rs. 10-15 crores but we focus on a smaller ticket LAP with little different segment more like MSME segment and not exactly LAP or may be SME segment you can call it.

**Piran Engineer:** Ok so what are the commissions you all pay there?

**Nirmal Jain:** Our processing fee we net off but our commission will never be (under very-very rare so 99.9% cases commission will be) lower than the processing fee that we charge. So, we pay the commission out of the processing fee that we collect from customer. Typically, they can be anywhere from 75 to 100 business points and cap normally. So normally we will have a Rs. 7-8 lakh cap on the processing fee but they are paid out of processing fee that we collect.

**Piran Engineer:** And the asset quality is trending fine or because we heard a lot about SME segment heating up and what are your thoughts on that?

**Nirmal Jain:** No I mean as I said in my earlier this thing that SME or LAP segment is very heterogeneous segment and it cannot be painted using one brush. So even the builder loans come in this, even larger loans of 8 crores, 10 crores, 20 crores come in this 1 crores, Rs. 10-50 lakh also come into this. We are not seeing any significant change in terms of asset quality. On the contrary, I would feel that whatever cues we are getting, things would improve. With the revival in most of the industries, there is actually a revival in SME sector also. Till now, as I said, asset quality might have trough. The numbers may take some lag to show up on the most of the lender's balance sheet but I think this sector should do better from here on.

**Piran Engineer:** And what about home loans you all are disbursing.

**Nirmal Jain:** Between 2011 and 2014 there was a lot of stress in this sector may be up to 2015, they take some time to recoup but hopefully going forward it should be better.

**Piran Engineer:** Okay and on home loans, you are growing much faster 3x, are you are doing at much incrementally much yields or because that kind of much?

**Nirmal Jain:** No actually not. What happens in home loan is that we had our distribution which was never utilized so even now we are just firing from 60 branches out of 1,000. But obviously, one needs people and systems, before you open up, see the experience of some branches and then expand. So it is just leveraging our distribution strength rather than doing anything else there.

**Piran Engineer:** Okay-okay and then just one basic question CV segment do you all do only new vehicles or even used?

**Nirmal Jain:** Broadly we try to maintain 50-50 balance in this.

**Piran Engineer:** And used would be how old?

**Nirmal Jain:** Used are typically 7-8 years old.

**Piran Engineer:** So any trends you see there?

**Nirmal Jain:** Typically tenure of used would be lower; but when we have done lot of data analysis on our customer base and there is no any significant difference in the repayment pattern of used or new.

**Piran Engineer:** Okay but is the demand shifting more towards lesser tenure may be 3-4 years or you seeing strong demand in that 7-8 years' segment?

**Nirmal Jain:** A used vehicle of 7- to 8-years then you cannot lend for longer term of 5 years so lend for a shorter term which may be typically 3 years but not more than 4 years.

**Piran Engineer:** Okay got it. Did I hear one thing correctly after the CDC investment your Tier-1 capital will be 20%, did I get that right?

**Nirmal Jain:** That is yes.

**Moderator:** Thank you ladies and gentlemen that was our last question. I would now like to hand the floor over to Mr. Venkataraman for closing comments.

**R Venkataraman:** Thank you once again to all of you for joining us on this call, should you require any additional information or have more queries, please feel free to reach out to us or to our investor relations department. Thank you so much and have a nice day.

**Moderator:** Thank you on behalf of IIFL Group that concludes this conference; thank you for joining us and you may now disconnect your lines.