



**“India Infoline Limited Q3 FY-13 Earnings Conference
Call”**

January 31, 2013

**MODERATORS: MR. NIRMAL JAIN – CHAIRMAN, INDIA INFOLINE LIMITED.
MR. R VENKATARAMAN – EXECUTIVE DIRECTOR
MR. DHYUV JAIN – CFO
MS. SHRADDHA KAMAT – MANAGER INVESTOR
RELATIONS.**



Moderator

Good Morning Ladies and gentlemen, welcome to the India Infoline Ltd Q3 FY13 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note this conference is being recorded. We have with us today Mr. Nirmal Jain – Chairman, Mr. R Venkataraman – Managing Director, Mr. Dhruv Jain – CFO and Ms. Shraddha Kamat – Manager Investor Relations. At this time, I would like to hand over the conference over to Ms. Shraddha Kamat. Thank you and over to you ma'am.

Shraddha Kamat

Good afternoon, on behalf of Team IIFL, I thank you for joining us on this call. I am Shraddha Kamat, Manager Investor Relations accompanied by Mr. Nirmal Jain, our Group Chairman, Mr. R Venkataraman, our Managing Director and Mr. Dhruv Jain, our CFO. As you are aware, we are a diversified financial services company and have multiple businesses which are carried on in various subsidiaries. In today's call, we will be referring to our consolidated numbers unless otherwise specifically stated as they give a true and fair representation of our performance. Further any of us in today's call may make some forward-looking statements based on the management's current expectations, actual results may vary significantly. The accuracy or completeness of these expectations therefore cannot be guaranteed. I will now hand over to Mr. R Venkataraman, Managing Director, IIFL Group to give an overview of the macro-environment and discuss our financial performance for the quarter. Over to you, sir.

R Venkataraman

Thank you Shraddha and good afternoon friends. After a lengthy wait, Reserve Bank of India has finally cut interest rates by 25 basis points couple of days ago. More importantly, it also gave a pleasant surprise by cutting CRR by 25 basis points. Consequently, we expect liquidity in the system to improve and funding cost should start moving southwards. We have witnessed some easing of liquidity in the last few weeks and have also seen early signs of interest rates softening. As we step into calendar 2013, outlook for the Indian economy remains mixed. The main challenges faced by the Indian economy are linked to deficits, be it fiscal or on the current account front. Although, the current account deficit has primarily to do with oil imports, subsidies are putting pressure on the fiscal front. After Mr. Chidambaram has taken charge as the Finance Minister, the Government on its part is showing some urgency to move ahead. The state of legislative reforms announced shows that



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the Government is finally getting it back together. The Finance Minister in his recent road shows in Singapore, Hong Kong and London has spoken about fiscal prudence and a responsible budget. We have to wait and watch and see what the Finance Minister has actually to offer in the budget which will be announced in the latter part of February and that no doubt will have implications of the markets going forward. Postponement of GAAR, increasing diesel prices etc. are all steps in the right direction, however core inflation still remains a concern and that has more to do with rising oil prices and food prices which are linked to supply side constraints and not to monetary policy. It seems that relatively high inflation rates will remain till the base effect starts kicking in. Overall, on the macroeconomic front, the worst seems to be behind us. The stock market seems to be pricing in a turnaround in overall growth and earnings cycle, sharp easing of interest rates as well as an environment of denying global liquidity. The last quarter we have seen large FII interest and in calendar 2012, FIIs have pumped in almost USD 25 billion. In the month of January itself, FII have pumped in about \$4 billion. Unfortunately, domestic institutions and retail participants have not yet made their presence felt as it is evident in equity outflows witnessed by the domestic mutual funds. The broking industry continues to be challenging with pressure on yields accentuated by increasing share of options trading and competition, having said that, there are reasons to be optimistic that the worst may be behind us. Retail participation always comes with a lag and now with most analysts forecasting uptrend to continue this year and next, we can expect volumes to only pick up.

Our NBFC business continues to show good traction and we want to become a multiproduct retail-focused NBFC. As of now, we give loans against securities of property, gold jewellery, capital market instruments and medical equipment. In the future, we might add one or two product lines as well to diversify our product portfolio. In the last financial year, our results were impacted as we were rapidly expanding our retail branch network. Our strategy is to maintain high quality of assets and steadily improve profitability and return on equity. Our focus will be on asset based retail lending where we can leverage our distribution strength. We have built a process-driven organization with a culture of compliance and audit. NPAs at levels must lower than the industry averages reflect our strong processes and credit culture in the organization.

Coming to wealth management, insurance, mutual funds and financial product distribution, the last one year has seen plethora of regulations, be it mutual funds, insurance, or investment advisory. This industry is witnessing a turn as it comes to



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grip with the new regulations and pricing structures. In a tough environment, we have been able to consolidate and increase our market share. We are now one of the largest wealth managers in the country and our assets continue to show healthy growth. Recent insurance regulations have impacted the industry and in this sector, we are sellers of private life insurance and we are glad to say that we have increased our market share in the corporate broker segment. This is a strategically important business line for us and we continue to invest in people, technology, and processes to build a long-term edge. I now hand over the mike to Dhruv Jain, our CFO for his comments. Thank you.

Dhruv Jain

Thank you Venkat. Good afternoon friends. For the quarter ended December 2012, our total income was Rs. 696 crores or close to 7 billion up 7% quarter-on-quarter and up 45% year-on-year. Our profit before tax for the quarter stood at Rs. 107 crores, was up 11% quarter-on-quarter and up 116% year-on-year. Our net profit before minority interest was Rs. 75 crores up 12% quarter-on-quarter and up 106% year-on-year. Our consolidated net worth stood at Rs. 1963 crores as of December 31st, 2012.

I will now present a review of each of our various business segments and costs. I will start with broking and the retail income. The revenue of this segment was Rs. 143.5 crores in the quarter up 7% quarter-on-quarter and up 14% year-on-year. It contributed to 21% of our total revenue in the quarter. In equities broking sub-segment, our average daily turnover during the quarter was Rs. 5148 crores up 3% quarter-on-quarter and marginally down year-on-year. Market share on NSE was at 3.7% in Q3 FY13, a shade lower than 3.8% in Q2 FY13. In commodities brokerage, our average daily turnover was Rs. 1617 crores during the quarter which was down 11% quarter-on-quarter and up 4% year-on-year. Our overall market share in this segment was 3% in quarter three FY13. In currency brokering, our average daily turnover was Rs. 647 crores, brokerage yields continue to remain at absolutely low levels.

Now I come to the financing and investment segment. For the quarter, the income from this segment was Rs. 470 crores up 63% year-on-year. This segment constituted 67% of total revenue during the year. Interest costs have increased in tandem and were Rs. 222 crores up 63% year-on-year. Our overall quarter ended loan book increased to Rs. 8936 crores at the quarter end of 45% increase year-on-year. Our loan book comprises secured lending against collateral of mortgages, properties, gold jewellery, capital market products and financing of medical equipment. Among the



mortgages or loan against properties and gold jewellery loans are the largest segment, each accounting for about 36% to 37% of financial assets. Liquid and other financial assets such as cash, bank, fixed deposits, mutual funds, bonds investment portfolio etc., account for 12% of our total financial assets and 15% of our total borrowing. We continue to maintain high quality of assets as evident in gross NPA on our overall portfolio, was at 0.69% and net NPA was 0.25% as on December 31st, 2012. During the last seven years of NBFC's operations, we have maintained NPAs at significantly lower than the industry averages undefined by robust time tested credit appraisals and collection process. Our loan book is predominantly retail and disbursements take place from 1500 branches across the country. The wholesale segment accounted for 9% of the loan book in the quarter under review. Our NIMs and spread are in the range of 8% to 9% owing to retail nature of the book. However, retail loans also entail higher origination, distribution, and operations costs. We have been able to bring down our cost-to-income ratio as there has been hardly any growth in the branch network. Our strategy is to enhance the productivity of the existing branches till they reach optimal capacity.

Finally, distribution and marketing income. This segment primarily includes distribution of insurance, mutual funds, alternate asset products, bonds etc. Our income from this segment for Q3 FY13 was Rs. 81 crores up 36% quarter-on-quarter and up 23% year-on-year. In life insurance business, our product portfolio is dominated by long-term endowment plans. Our mobilization during the quarter was Rs. 89 crore, the group's third-party mutual fund AUM was over Rs. 12,000 crores. In wealth management, we have over Rs. 36,000 crores assets under advice.

Now I shall take up major cost heads. For the quarter, our operating cost was Rs. 85 crores, a marginal increase quarter-on-quarter, an increase of 59% year-on-year. Operating costs were 12% of revenues in Q3 FY13 as against 13% last quarter. Employee cost for the quarter was Rs. 136 crores, at that lower quarter-on-quarter and up 4% year-on-year. Other costs primarily include administration costs for Q3 FY13 was at Rs. 119 crores, in the quarterly marginally up, Q-on-Q and up 30% year-on-year. Our average cost of fund in the quarter was around 11.7% about 50 bps lower than the same in the previous quarter. Our short-term debt program is top-rated A1+ by ICRA. ICRA and CRISIL have rated our long-term debt as ICRA LAA- and CRISIL AA- respectively. Our consolidated net debt as at the quarter end was Rs. 7081 crores and gross debt was Rs. 8816 crores. Of this secured long-term borrowings were Rs. 4259 crores. Cash and cash equivalent position was Rs. 990 crores. Our gross debt equity ratio was 4.5 and net of cash or cash equivalent and



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debt to equity ratio was 3.6 as of the quarter end. The company has a board constituted Asset Liability Committee, ALCO which meets at regular periodicity to review the asset liability management on a quarterly basis. Thank you.

Moderator Participants, anyone who wishes to ask a question you may press '*' and '1' on your touchtone telephone. We have the first question from the line Nitin Paranjpe from ICICI Pru Mutual Fund. Please go ahead.

Nitin Paranjpe My question is on the larger ticket LAP, basically the funding to the builders or the corporates, what proportion of your LAP book would be this much and how has been the performance of this book?

Nirmal Jain Wholesale lending accounts for 9% of our total book and performance has been till now pretty good and we did not have any defaults or delinquencies in the large ticket items.

Nitin Paranjpe And how are the early delinquency indicators like let's say 30+ and 90+ in the mortgages or the gold loan book?

Nirmal Jain In the mortgages gold loans 30+ also there is no disturbing trend, in fact, our numbers month after month are similar, and at least at this point in time, we're not seeing any stress in any of these retail portfolios.

Nitin Paranjpe What kind of asset mix are we looking going forward, as in the opening remarks it was mentioned that probably one or two products might be added going forward. So what sort of an asset mix you are looking at, let's say, at the end of FY14?

Nirmal Jain In fact, our gold loan book relative side has come down from 41% in Q1 to 37% now of total financial assets. So by FY14, I think, gold loan share will go down and that one or two new products that we are evaluating might fill that gap and mortgages will maintain, mortgages in LAP which is around 36% probably we will try and take it to 40%.

Moderator We have the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe Could you give a sense on the insurance distribution business done during the quarter?



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- Nirmal Jain** Insurance distribution, we mobilized Rs. 89 crores of first-year premium income and so on aggregate basis, we have done Rs. 217 crores in the first nine months. The last quarter is seasonally a peak quarter as you know and in fact, while the industry has not been growing, we expect to improve our market share in this segment.
- Nishchint Chawathe** In terms of, if I look at your total distribution income, if you could give a sense as to what proportion of this comes in from insurance distribution and what would be other sources?
- Nirmal Jain** It is very difficult to give a breakup because insurance also have the renewals and nodal income but roughly half of it would come from insurance. Mutual fund, also we have AUM of Rs. 12,000 crores and there was a significant rise in last quarter also and besides that we have the wealth management fee income is also part of this.
- Nishchint Chawathe** What you are saying is that out of the Rs. 80 crore odd income, roughly half of it pertains to the insurance distribution business and the balance would pertain to wealth and mutual fund distribution?
- Nirmal Jain** Yes.
- Nishchint Chawathe** And just on the margins front for the NBFC business, I am trying to understand as to why there was a kind of a moderation in margin on a quarter-on-quarter basis?
- Nirmal Jain** There are two reasons, one is that the gold loan portfolio has come down and secondly, the yield on gold loan book also has come down. Now in gold loan, what happens is that typically when your LTV is lower then you charge a lesser rate to the customer and when LTV was aggressive, you charge higher rates. So most of the gold loan companies will have products with 60% LTV get charged at say 'X' then 80% LTV get charged as X+2 or X+3, so both the things have happened. The gold loan yields have come down and the relative share of gold loan also has come down, but I think that is going forward we expect this will stabilize and maybe more than made up by the savings and cost to income ratio.
- Nishchint Chawathe** Actually, I was just wondering maybe I have got this wrong, the gold loan portfolio, wasn't that same around 37% for both the quarters?
- Dhruv Jain** It is in the range of 37%.
- Nirmal Jain** So if you compare the first quarter, it was 41% and now is 37%.



Nishchint Chawathe But second to third quarter it was stable?

Nirmal Jain Second to third quarter stable on our book, yes.

Moderator We have the next question from the line of Gurvinder Wasan from Principal Mutual Fund. Please go ahead.

Gurvinder Wasan Actually, there is no slide on your funding profile, what is it for funding on how it looks like, the borrowing part?

Dhruv Jain Just to give a profile on the borrowing part, on a current book of Rs. 8816 crores, which is our gross debt, we are funded primarily through a mix of commercial papers, bank loans and non-convertible debentures and a small portion of overdraft. So if you look at it as a percentage as on December, the commercial paper percentage is close to about 35%, the bank loans is about 30% and the rest of it is NCDs.

Nirmal Jain In terms of our assets, we have almost 50% of our assets short-term assets which we have on an average about 90 to 220 days of tenure and 15% of our borrowing on the asset side is in the form of liquidity which is cash bank mutual fund portfolio, so that as a percentage of our borrowing should be almost about 15%.

Gurvinder Wasan So I presumed basically the incremental mortgage portfolio is getting funded by mainly bank loans or NCDs and you cap your CPs to the short assets?

Nirmal Jain Yes.

Moderator We have the next question from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi Is the number of average daily volume which you have given includes BSE futures?

Nirmal Jain That is right.

Kajal Gandhi What is your market share then now?

R Venkataraman In BSE futures, we have fairly relatively insignificant share.

Kajal Gandhi No, overall market share and the market volume which you are reporting this quarter

R Venkataraman The market share on the NSE was about 3.7%.



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Nirmal Jain BSE, we have not tracked but it may be similar.

Kajal Gandhi 3.7 on NSE?

R Venkataraman Yes.

Kajal Gandhi What is your margin funding book as of now?

Nirmal Jain Our margin funding and all capital market put together is about 12% of our loan books.

Kajal Gandhi What is the outlook on that whether we are concentrating on building that book now or other areas are our focus areas?

Nirmal Jain That book is more linked to the capital market activity, so it will be more volatile as compared to other areas because other products will have a steady growth whereas margin funding will be relatively more volatile depending on stock market and commodity market.

Kajal Gandhi Now Rs. 8900 crores of the loan book, 36% is mortgaged and LAP, gold loan is around 37%, 10% is margin funding and others are personal...?

Nirmal Jain Margin funding and capital market is 12% and medical equipment financing is about 3% and remaining is as we mentioned our liquid and financial assets.

Kajal Gandhi Incrementally, what is your cost of funds now?

Nirmal Jain On aggregate, cost of fund is around 11.7%, we are seeing borrowing cost, the cost of funds falling in last few weeks.

Kajal Gandhi 11.7%?

Nirmal Jain Was aggregate cost including bank loans, NCDs everything that we have.

Moderator We have the next follow-up question from the line of Nitin Paranjpe from ICICI Pru Mutual Fund. Please go ahead.

Nitin Paranjpe I just wanted to know what would be the Tier-1 capital and in case the draft guidelines that have been put up on by RBI will come through then what would be



the impact of the higher risk weight on the capital market and the real estate exposures?

Nirmal Jain

We don't have any real estate commercial exposure as such which will have a higher weightage and the draft guidelines comes on the capital market exposure, the weightage may increase to 125%. So the asset book in effect goes up by 3%, our capital adequacy actually is 50% more than what is the statutory requirement and it is split roughly around 14 % to 15% in Tier-1 and remaining 7% to 8% Tier-2, so that way we are quite comfortably placed.

Nitin Paranjpe

The LAP, which is let's say to the builders that won't get classified as real estate for this purpose.

Nirmal Jain

We don't have a final guideline but I understand the way it is done for banks that the loans which I give for residential purposes, they do not have a higher risk weightage, unless RBI decides otherwise for NBFC. Forum of NBFC is represented to RBI as to clarify this particular issue.

Nitin Paranjpe

What was the Tier-1 capital percentage?

Nirmal Jain

15.4%.

Moderator

We have the next question from the line of Abhishek Soni from Pramerica Asset Management. Please go ahead.

Abhishek Soni

Just one question, when we say we are looking to a couple of products in our overall financing offerings, so if you could tell a bit on that, what could be the products you would be trying to get into?

Nirmal Jain

We are evaluating few products, it is too early to conclude that what would we ultimately getting into but from NBFC point of view SME, commercial vehicles, tractor financing, two- three wheelers, all of them we will evaluate to do a pilot and we will work out our strategy for this.

Moderator

As there are no further questions from the participants, I would now like to hand the floor back to Ms. Shraddha Kamat for closing comments. Over to you ma'am.

Shraddha Kamat

Thank you all for participating. If you have any more questions, you can send it to our investor relations. Have a good day, thank you.



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Moderator

Ladies and gentlemen, on the half of India Infoline Ltd. that concludes this conference call. Thank you for joining us.