



## **India Infoline Limited**

**Earnings Conference Call for the quarter and year ended**

**March 31, 2010**

***May 09, 2011***

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**Corporate Participants:**

**MR. NIRMAL JAIN** – Chairman and Managing Director

**MR. R. VENKATARAMAN** – Executive Director

**MR. LP AGGARWAL** - Group Chief Financial Officer

**MR. KAPIL KRISHAN** - Chief Strategy Officer

**MS. POONAM SARAOGI** – Associate Vice President, Investor Relations

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**Moderator:** Ladies and gentlemen good day and welcome to the India Infoline Conference Call. We have with us on the call today Mr. Nirmal Jain, Chairman, Mr. Venkataraman, Managing Director. Mr. L.P. Aggarwal, Group CFO, Mr Kapil Krishnan, Chief Strategy Officer and Ms. Poonam Saraogi, AVP Investor Relations. As a reminder for the duration of this conference, all participants' line 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. At this time, I would like to hand the conference over to Mr. Nirmal Jain, Chairman of India Infoline Limited, thank you and over to you sir.

**Nirmal Jain:** Good afternoon friends, and on behalf of IIFL I welcome you all on this conference call and thank you for being here. As the moderator has already introduced, I have my colleagues with me. I will start with my views on the macro environment and about our businesses post which I will hand it over to L.P. Aggarwal for taking us through the details of our financial performance in this quarter.

We start with the macro economic growth outlook. I think for the first time people are now talking about growth being moderated to make sure that inflation gets under control. This time RBI's stance of increasing interest rates by 50 basis point instead of 25 basis point made a lot of difference in the sentiment and it looks like now there is consensus in the financial world that interest rates will continue to have an upward bias. Infact when we did our last conference call three months ago, most of the people were of the view that interest rates might have peaked out in the month of Jan-Feb and will probably go down, but that has not happened. So if this continues obviously there will be negative impact on the capex cycle of the private sector in particular. I mean with this kind of high interest rates some of the



projects will definitely become unviable or will be reviewed or will be deferred and that will have some cascading impact on the economic growth as well. So this kind of scenario has obviously impacted the market sentiment. There has been a long nine days of continuous fall in the market and one day's recovery and that also probably could not be sustained today. This kind of scenario may continue for next couple of quarters. And in our battle with inflation the economic growth to some extent slows down which may impact sentiment of foreign investors or our institutional investors who drive the market. Also the retail participation which is subdued will continue to remain lackluster. On top it appears that crude oil prices and commodity prices in general, we will always remain volatile and will always remain challenging for our policy maker because crude prices will impact everything from fiscal deficit to budget deficit to our current account deficit as well as interest rates.

Coming to our businesses. The most important business is broking which again is passing through a very paradoxical phase. On one hand you see margins as well as the total revenue pie coming down and on the other hand competition is becoming more intense and there are many large new players coming in. Typically, I mean in a classical model we see that as margins expand more players jump in but here we have a situation where on one hand margins are getting compressed and still very large new players are coming and competition is becoming intense putting significant pressure on the salaries as well as people's expectations. But I think these are phases which one has to pass through and they should not become pessimistic about the long term outlook of the business. This is such a scenario which which should settle down in the next few quarters.



Coming to life insurance, which passed through a difficult phase in the last two years, particularly in 2007-2008 and 2008-2009. But now business has been recovering and is on a more healthy growth track now. It won't have the explosive growth of 60-70% from the industry as we had from 2003-2008 but it looks set for a more stable 10-15% growth. In fact last year if you look at our revenues on a full year basis, we had fairly healthy growth in life insurance distribution business. So I think this business will witness a steady continuous growth.

The next important business for us is financing and lending. In this business we have seen that we have two large components which is mortgages and loan against shares and margin funding. While mortgages, i.e. loan against property, will continue to have a steady growth; margin funding and loan against securities will again depend a lot on the market environment and particularly the capital market.

Our wealth management business continues to consolidate and is again a very good long term business from a growth point of view. But just like other businesses that business will also continues to face tremendous competition as well as a huge demand for people manpower.

We got our mutual fund license in this quarter but that is business where we would like to build it up over long term. In this business, we just can't break even or generate significant surplus in short term. This is a business where we will invest steadily over the long term. We do not plan to chase market share in the short term but we have plans to become a meaningful player at least in 2-3 years time. With this now I handover to L.P. Aggarwal to take you through various line item financials and other details.



**L.P. Aggarwal:**

Thank you Nirmal. Good afternoon friends.

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, I will be referring to our consolidated numbers as they give a true and fair representation of our performance. Further, we may make some forward looking statements based on the Management's current expectations during this call. Actual results may vary significantly. The accuracy or completeness of these expectations therefore cannot be guaranteed.

For the year ended March, 2011, our total income was Rs 14.7 bn – an increase of 31% over the previous year. Our Profit before tax for the year was Rs 3.1 bn – 12% lower than the previous year. The net profit after tax and minority interest was Rs 2.11 bn – 9% lower than that in the previous year. For the quarter ended March, 2011, our total income was Rs 3.7 bn - up 19% year on year and down 20% quarter on quarter. Our Profit before tax for the quarter stood at Rs 652 mn – a decline of 18% year on year and 35% quarter on quarter. Our net profit after minority interest was Rs 468 mn. In the last quarter, income from IPO financing business was low, which has resulted in decline in total income on quarter on quarter basis.

Our Earnings before interest, tax, depreciation and amortization (EBITDA) margin for the year was 41% compared to 39% in FY10. However, earnings before tax, depreciation and amortization (i.e after interest cost) is 25% in FY11 as compared to 36% in FY10. The net profit ratio for the year was 14.3% compared to 20.6% in the previous year.

I will now present a review of each of our various business segments and costs.



Equities, Broking and related income. The revenue of this segment was Rs 6.7 bn in the year – down 5% compared to the previous year. The revenue of this segment was Rs 1.65 bn in the quarter – flat year on year and down 11.7% quarter on quarter. It contributed to 45% to our total revenues in the year as well as in the quarter. In equities brokerage, our average daily turnover during the year was Rs 53.4 bn – up 53% yoy. For the quarter it was Rs 61.5 bn – up 67% yoy and down 1% qoq. Our overall market share on the NSE was 4% for the year compared to 3.8% in FY10.

The share of the Futures and Options segment in the overall market turnover on the Exchange increased to 86% for FY11 compared to 76% in FY10. In Q4FY11 it was 89% compared to 86% in Q3FY11. You all are aware that yield from F&O segment is low, which is leading to a further pressure on overall yields. The number of our broking customers increased 2.5% over the previous quarter and 18.4% yoy to about 950 thousand. Across businesses, the no. of our total customers is over 1 million. In commodities brokerage, our average daily turnover was Rs 10 bn during the quarter – up 112% yoy and 27% qoq. Our overall market share in this segment on the MCX and NCDEX was 2% in FY11 and 2.2% in Q4FY11.

Our wealth management business continued its rapid growth with Assets under Advice increasing to over Rs 200 bn.

During the year our Investment Banking team successfully handled many Qualified Institutional Placements (QIPs), GDR, IPO and private placement assignments and they have a healthy pipe line of deals which are expected to be completed in near future.



Financing and investment income for FY11 was Rs 6.2 bn - up 112% year on year. This segment constituted 42% of our total revenues during the year. For the quarter the income from this segment was Rs 1.58 bn - up 63% year on year and down 30% quarter on quarter. Income saw a quarter on quarter decline due to lower opportunities for financing IPOs as compared to the previous quarter.

Our overall loan book increased to around Rs 33 bn as at the year end, an almost 100% increase over FY10. 64% of the book was lent to the mortgage and consumer finance segment and 35% to capital market products and the balance 1% as personal loans. Our mortgage loan book increased by 29% qoq and our capital markets book declined 17% qoq, mainly because of market conditions. Our gross NPAs on our overall portfolio are 0.44% in Q4FY11 as compared to 0.53% in the previous quarter. Similarly net NPAs on our overall portfolio were 0.36% in Q4FY11 as compared to 0.44% in the previous quarter. Our net interest margin for the current quarter is 8% and our loan spread is 5.3%, both are at healthy levels.

Distribution and Marketing. During FY11, our first premium mobilization was Rs 2.75 bn – a 13% growth over the previous year. During the quarter, it was around Rs 783 mn, up 17.6% qoq. Our income from this segment was Rs 1.8 bn for the year – an increase of 43% over the previous year. For Q4FY11 the revenues were Rs 447 mn – down 5% qoq and 6% yoy. The changes made by the regulator have benefited the consumers and will drive industry growth over the long term.

Our direct costs were Rs 2.2 bn for FY11 - up 28%. For the quarter they were Rs 535 mn– an increase of 6% yoy and down 23% qoq which is primarily linked to broking revenues. Direct costs comprise primarily of sub brokerage commission, exchange related costs and provisions for



doubtful debts. Direct costs were 14.6% of revenues in FY11 and 14.9% in FY10.

Employee costs were Rs 3.9 bn for FY11 - up by 23.5%. For the quarter they were Rs 977mn – up 0.5% yoy and down 6.2% qoq. Employee costs were 26.6 % of revenues for the year compared to 28.3% in FY10.

Our administrative costs were Rs 2.6bn for FY11 – and increase of 29% over FY10. For Q4FY11 they were Rs 751 mn in the quarter – up 27% yoy and 14% qoq. The increase is primarily on account of inflation in prices of infrastructure and other services cost. Administrative costs were 17.6% of revenues in FY11 and 17.9% in FY10 levels. Our administrative costs primarily include rent, electricity, telephone and other legal and professional charges.

Interest cost for the year was Rs 2.36 bn compared to Rs 291.3 mn in FY10. Till 2010, the loan book was funded mainly from networth and in FY11, a major portion of the loan book was funded out of long term bank borrowings. Interest cost for the quarter was Rs 647.5 mn compared to Rs 1.04 bn in Q3. Interest costs in Q3 were higher due to borrowings done to finance the IPO financing business.

Our average cost of funds in the quarter was 9.35% – which was up 85 bps compared to the previous quarter. Our short term debt program is top rated P1+ by CRISIL, A1+ by ICRA and F1+ by FITCH. ICRA has rated our long term debt as LAA-.

Our consolidated net debt as at the quarter end was Rs 19.5 bn and gross debt was Rs 29.3 bn. Of this secured long term borrowings were Rs 15.7bn. Cash and cash equivalent position was Rs 13.4 bn which includes fixed deposits of 3.4 bn and mutual funds of 2 bn. Our net debt



to equity ratio was 1.17x as of the quarter end. Currently, our leverage is very low, which is good news for lenders and credit rating agencies; however from shareholders point of view this indicates that ROE levels have room for improvement.

Depreciation cost in the year was Rs 582 mn and for the quarter was Rs 122 mn.

Our Network is close to Rs 16.6bn as of March 31, 2011.

**Other Updates.** During the quarter, IIFL Mutual Fund, the India Infoline Ltd sponsored mutual fund, has received final regulatory approval from SEBI to start operations.

IIFL was also awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Awards, 2011. The award was presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee.

IIFL launched its financial literacy campaign FLAME (Financial Literacy Agenda for Mass Empowerment). FLAME is IIFL's unique CSR initiative to reach out to millions and spread financial literacy amongst masses to help their inclusion in the economic prosperity of India. In the last 2 months, we have made substantial progress and our campaign has received an over whelming response.

IIFL's global investor conference 'Enterprising India – II' held in Mumbai received an over-whelming response. The conference had a participation of over 400 institutional investors, over 75 Indian and Sri Lankan companies and select specialist speakers.



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Mr Sat Pal Khattar who was on the Board of Director of IIFL from 2000 to 2010, was conferred the Padma Shri for his distinguished service in the field of Trade and Industry. IIFL felicitated him at a function attended by leading luminaries from the financial service space, where Mr Deepak Parekh, Non-Executive Chairman, HDFC delivered the key-note address.

With this we leave the floor open for any questions that you may have for us. Thank You.

**Moderator:** We will now begin the question and answer session. The first question is from Aadesh Mehta from Ambit Capital, please go ahead.

**Aadesh Mehta:** What effect will the 50 bps rise in repo rate have on the NIM margins for your financing and investment business?

**Nirmal Jain:** See the interest rate scenario has aggravated so while there is 50 bps increase one doesn't know how much it translates into when we actually borrow. But more or less it will get passed on to the borrower so the effect on NIM margins will be minimal. Our NIM margins will remain more or less similar going forward.

**Aadesh Mehta:** Okay. Thank you sir.

**Moderator:** The next question is from Ritesh Nambiar from UTI Mutual Funds, please go ahead.

**Ritesh Nambiar:** Wanted to know the equity margins for this quarter, how is the trend?

**Nirmal Jain:** You mean the brokerage yield? **Ritesh Nambiar:** Yes, brokerage yield.

**Nirmal Jain:** Brokerage yields are marginally down this quarter because the product mix has further changed in favor of options and futures. But relative to



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market we have slightly higher cash market volumes. Market volumes last quarter was only 10% cash which used to be 20% a year ago.

**Ritesh Nambiar:** So is it 3.5 basis?

**Nirmal Jain:** Yes it is around 3.5 to 4 basis points.

**Ritesh Nambiar:** Second question is regarding your mortgage loan book. How much proportion of that is in loan against property and how much is pure retail housing?

**Nirmal Jain:** Well the retail housing is also property but I think we distinguish on the basis of large corporate lending and retail. The corporate or wholesale lending would be 25% of mortgage book.

**Ritesh Nambiar:** Sir, on the wealth management side, there has been pretty rapid ramp up as far as the AUM is concerned, but what kind of margins you charge on these advisory and wealth management assets?

**Nirmal Jain:** The margins vary from product to product but typically the advisory fee can be around 1-1.5% of asset.

**Ritesh Nambiar:** Because that is not reflected in the income so I am just curious. On an average basis what could be the fee which would be charged?

**Nirmal Jain:** In fact in our wealth we advise equity, debt and all kind of assets. So the revenue gets classified under various heads and on a more broader level we are planning to move our entire retail business to wealth platform. If you would have noticed in our earlier conference calls also, our focus is to move from executionary to advisory. So I think our entire business model of equity broking and debt probably will over a period of time



evolve into wealth advisory. So, our revenue that you have seen in Equity Broking and related income segment includes advisory revenue.

**Ritesh Nambiar:** How much should that advisory be?

**Nirmal Jain:** I think our objective is to make the entire thing advisory.

**Ritesh Nambiar:** Sir lastly on the leverage side right now you are less levered, looking at the trends of players like you who are into mainstream broking and then diversified across the NBFC businesses. So what kind of lever would you on a consolidated basis keep as a business in order to maintain the rating?

**Nirmal Jain:** As the book has grown the leverage has been growing. But in 2008-2009 we were very cautious and that has led to low leverage as well as low ROE in our NBFC business. But it has been improving because if you notice that our leverage today on a gross basis is now close to 2 and even on a net basis is more than 1 and about a year ago we were almost debt free. So I think on a prudential norm basis NBFC, now you take capital adequacy requirement of 15% and a reciprocal of that would be 6.66x so at least 4-5x is the comfort zone, where the NBFC can basically lever. That kind of leverage will still take 18 to 24 months because we are around 3300 crores of book and that kind of leverage will require a book to double or may be triple over a period of time. But we are on the path. If you have participated in our analyst call, quarter-after-quarter we have been reiterating that we are steadily growing this NBFC book, we don't want to grow it at an extra pace where you suddenly land into troubles. About 6 months to 9 months ago we were lending at 70-80 crores per month. We increased to 100 crores, now we are about 120 crores run rate for mortgages. Loans against shares again is market dependant, so that is more volatile.



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**Ritesh Nambiar:** So your strategy on the IB side would remain same? That is high margin business and not compromising on margin at all?

**Nirmal Jain:** No, I don't know what you mean by high margin business but our strategy on IB will remain high quality business and we are more focused on the capital market segment. So we have done some good IPOs and then the QIPs, we will continue to do that.

**Ritesh Nambiar:** Okay, thanks a lot sir.

**Moderator:** Thank you. The next question is from Viraj Gandhi from ICICI Securities, please go ahead.

**Viraj Gandhi:** If you can let me know the incremental cost of borrowing and lending at which we are doing it right now?

**Nirmal Jain:** Incremental?

**Viraj Gandhi:** The cost of borrowing and the lending because it seems that the interest income has gone up pretty well in this quarter, but it has not contributed much to the bottom-line.

**Nirmal Jain:** Our interest costs have gone up but these rates keep varying from day-to-day and week-to-week. What has happened, last year if you noticed then we were borrowing short term whatever little borrowing requirement was there. So from asset-liability committee directive, we were very comfortable in terms of managing our long term portfolio. But in the last year we have increased our debt mix of longer term loan like 3 year and I think the interest cost on an average went up by almost 400 basis point in the last financial year compared to the year before. In the last quarter our weighted average cost of borrowing was little less than a 9.5%. From these levels we think that whatever interest cost



increase happens, we should be able to pass it on to borrowers, also most of our loans have reset clause for our floating rate loan. So we don't see a significant difficulty in passing on the cost escalation. But if interest rates continue to go up, the tempo of growth and demand may slow down. And if we are very choosy and very particular about asset qualities then obviously the good quality demand goes down. So from that perspective it will impact the business but our business is more retail and we are very spread out across the country. So we don't see significant problem on net interest margin going forward.

**Viraj Gandhi:** Can you share the target for the loan book growth in the coming year, 3300 currently?

**Nirmal Jain:** It is very difficult to set a target because we have multiple products and particularly one product which is loan against shares and margin funding, which is almost about 35% of our book is market dependent. See last year we doubled our loan book from Rs.16 billion to Rs.33 billion. This year I think we should be able to make at least 50-60% growth in the book size, under normal circumstances.

**Viraj Gandhi:** Okay, thank you sir.

**Moderator:** The next question is from Aparna Karnik from DSP BlackRock, please go ahead.

**Aparna Karnik:** Just wanted to get a sense from you in terms of the geographic break up of your LAP book in terms of broadly which regions, etc.. And also if you could give a sense in terms of the average loan size both for the whole sale and retail part?

**Nirmal Jain:** Geographically, we are spread across. So I don't think there is any concentration of a particular region or a zone. Relatively we are not



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there in East, so mostly it is in the North, West, and South. And in terms of average ticket size, I think for retail it will be less than a crore, may be Rs. 70-80 lakhs, whereas wholesale will be above Rs. 25 Crores. But I am not sure of these numbers. You can maybe send a mail and reconfirm.

**Aparna Karnik:** Okay alright, thank you.

**Moderator:** The next question is from Sumant Bhutoria from Jet Age Securities, please go ahead.

**Sumant Bhutoria:** The question that I have is on your market share which is at 4%, which has been growing over the last say 4-5 years. So you mentioned that there more new larger players coming in. So if you could just share some thoughts on your market share and also little bit on where the brokerage yields are going to be both in cash market as well as say F&O segment.

**Nirmal Jain:** I think in the last 4-5 years, every year, every quarter we are seeing large players coming in.. What is happening is that the large global players are looking at India as an important country and we need to be there, regardless of cost of entry, cost of establishing a business. Going forward some of them continue and some of them in bad times basically fold up or they defer their plan. I think this has been the trend for a long time. Now having said this there are two important underlying trends that we need to understand. One is that the size of the market will expand. You can't have an economy which is growing at 8-9% in real terms which is about 14-15% in monetary terms and financial services industry is not growing and if financial services industry grows at the pace of GDP or more likely faster than GDP, then there is no way capital market will not grow. If you see market now and 5 years later or 10 years later, or you see market now and 5 years ago



and 10 years ago, then you will see that the markets have always grown. But quarter-to-quarter it is difficult to figure out that what is impacting the market and how the volumes of markets are or what they are moving towards. So the first underlying trend is that obviously the market volume growth will be there. The second more important thing is the brokerage rates and the yield. If you really look at it the impact cost or the cost of transaction for a customer today, 80% of that goes to the government towards the taxes which is a STP or exchange charges. Actually customer is not impacted as much, by the brokerage yield. But what is happening is that the competition might impact the salary cost and peoples expectation about salaries, because if some of them are posted at high salary, say one out of 50, then the 49 start aspiring that it should go up. We have seen this kind of thing happening time and again and they are part of the business and part of the game. So I don't think that is anything extraordinary. The only thing which is a little different this time is that the product mix. You know the market is moving towards options and this is putting lot of pressure on margins. But I think it is just a matter of next 2-3 quarters when the consolidation will happen and I personally think that whenever we have a steady long term growth we will also see retail and HNI investors coming back to the market and that is the time when you see margins expanding.

**Sumant Bhutoria:**

I am trying to understand say 2 years ahead or 3 years ahead. My question is more in terms of, where do you see the brokerage yields going in say a year or two. I mean of course it is not possible to predict but how will you comment on that, which is specifically on the cash market separately and the F&O separately. I mean if you could talk about that.

**Nirmal Jain:**

See brokerages might go down from here by 5-10% but they are already at a level where they can't fall much. So now onwards the decline will



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be slower compared to what we saw in the last few quarters. So there can be a marginal decline from here.

**Sumant Bhutoria:** Can you share number on what your brokerage yield would be on just cash market and F&O separately?

**Nirmal Jain:** No, we don't have those numbers.

**Sumant Bhutoria:** That is fine. So your overall brokerage yield would be how much?

**Nirmal Jain:** As I said 3.5-4 basis point.

**Sumant Bhutoria:** Okay alright, thank you.

**Moderator:** The next question is from Manish Shukla from Deutsche Bank, please go ahead.

**Manish Shukla:** Just a question on your financing book, what would roughly be the LTV for your mortgage segment of the book?

**Nirmal Jain:** 50%.

**Manish Shukla:** 50% on the loan and I think I did not get the number correctly for the wholesale funded part of the book. What is the range of the ticket size that you mentioned? I heard 15 crores, is that correct?

**Nirmal Jain:** 15-20 crores average.

**Manish Shukla:** So I means at 50% LTV this would imply that the collateral is in the region of 30 odd crores.

**Nirmal Jain:** On an average yes, may be more than that.



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**Manish Shukla:** Is it fair to assume that even the retail portion almost all of it is loan against property?

**Nirmal Jain:** No, retail portion I have said that we have loan against shares also, 35% of the business.

**Manish Shukla:** No, no the mortgage part of the retail book?

**Nirmal Jain:** It will be loan against home, it will be loan against property of all kinds which is residential property, commercial property.

**Manish Shukla:** Yes, so basically the pure mortgage as we understand will not.....

**Nirmal Jain:** There is no pure mortgage.

**Manish Shukla:** What would be the indicative yields, if you could give some range of yields on each of the product segments in financing book?

**Nirmal Jain:** As on today, retail would be around 13-14%, the wholesale would be around 17-18%.

**Manish Shukla:** How about LAS and margin funding?

**Nirmal Jain:** 14-15%.

**Manish Shukla:** Okay alright. Thank you.

**Moderator:** Thank you. As there are no questions from the participants, I would now like to hand the floor over to Mr. Nirmal Jain for closing comments.

**Nirmal Jain:** Thank you all of you for being in the call. If you have any more queries or questions, you are always welcome to write it to our investor relations or CFO department. Thank you so much. Have a good day.



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**Moderator:**

Thank you. On behalf of India Infoline Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.