"IIFL Holdings Limited Q4FY15 Earnings Conference Call"

May 8, 2015

MANAGEMENT: **MR. NIRMAL JAIN – GROUP CHAIRMAN, IIFL HOLDINGS LIMITED.**
MR. R. VENKATARAMAN – GROUP MD & CEO, IIFL HOLDINGS LIMITED.
MR. PARAG SHAH – CFO, IIFL HOLDINGS LIMITED.
MR. AMIT MEHENDALE – CFO, INDIA INFOLINE FINANCE LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Holdings Limited Q4FY2015 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. R. Venkataraman – Group MD & CEO. Thank you and over to you sir.

R. Venkataraman: Good afternoon. On behalf of team IIFL, I thank you for joining us on this call. I am R. Venkataraman. I am accompanied by Nirmal Jain – Our Group Chairman, Parag Shah – CFO of IIFL Holdings, Amit Mehendale – CFO of India Infoline Finance Limited.

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

The past 2 months have been volatile for the equity markets. The SENSEX touched the psychological mark of 30,000 after a second surprise rate cut on 4th March. Soon after market started losing steam due to a variety of reasons such as weak corporate earnings and outlook, MAT issue for FIIs, fears of monsoon, rising food prices, depreciating Indian rupees, Fed rate hike, problems in Eurozone and so on. It seems on the eve of Modi Government's first anniversary, euphoria has given way to despair. In our opinion, the government has been laying the ground for the Indian economy to recover. Few building blocks for long-term structural reforms are underway including Make-in-India thrust, GST implementation. The government has successfully passed the insurance bill, the coal and minerals bill and carried out coal and telecom auctions which will set the ball rolling for other resource auctions in the future. Also direct benefit transfers through Jan Dhan Yojana, Aadhar and mobile with minimized leakages benefit the needy and cut down the government subsidy bills.We expect the economy to go on the recovery path sooner than later.

Amongst other updates :

- IIFL hosted the 6th institutional investor's conference Enterprising India 6 in February 2015. More than 90 corporates and 700 investors participated. Many specific speakers like Dr. Jim Walker, renowned economist, Chris Roberts – Market Technical Expert along with Mr. Mundra – Deputy Governor of RBI shared their views with the investors.

- IIFL has been ranked as a number 1 trusted brand in the Financial Services Space by Brand Trust Report 2015.
- IIFL Private Wealth was presented the best private bank for Innovation Technology Asia by the Euromoney Innovations in the Wealth Management Technology Award 2015.
- IIFL will complete 10 years of listing on 17th May 2015 and our website, www.indiainfoline.com will complete 16 years on May 11, 2015. We have grown from strength to strength in the last decades and transformed from a retail broking and mutual fund life insurance distribution outfit to a multiproduct offering financial services company with the presence in consumer finance, wealth management, retail and institutional broking as well as distribution of financial products. We have significant market presence in various businesses and cater to over 2 million customers across the length and breadth of the country.
- We would like to take this opportunity to thank all the stakeholders, be it shareholders, employees, bankers, regulators, and also the analyst community for supporting us during our journey. We look forward to similar support in the future as well. With this, I will now hand over to Amit Mehendale for the overview of financials.

Amit Mehendale: Thank you. For the financial year ended March 2015, our total income of 3,666.4 crores up 29.2% year-on-year. Our profit before tax was 723.9 crores up 72% year-on-year and net profit was 447.3 crores up 60% year-on-year. For the quarter ended March 2015, our total income was 1,056 crores up 34.1% year-on-year and 14.3% quarter-on-quarter. Our profit before tax was 236 crores up 80.8% year-on-year and 26.4% quarter-on-quarter. Net profit was Rs. 131.7 crores up 61.8% year-on-year and 17.3% quarter-on-quarter.

For the NBFC business for financial year ended FY2015, income was 2,513.8 crores up 27.6% year-on-year and PAT was 301 crores up 43% year-on-year. For Q4 FY2015, income was 696.3 crores up 32.6% year-on-year and 7.6% quarter-on-quarter. Interest cost of 369.7 crores up 28% year-on-year and 2.4% quarter-on-quarter. This segment constitutes more than 65% of our total income for the quarter and quarter end loan book increased to 14,668 crores up 34.7% year-on-year. Our loan book comprises secured lending of mortgages, capital market products, gold loans, loan against medical equipments, and commercial vehicles. Mortgage loans formed the dominant part of our loan book at 48%. It continues to grow steadily and become our focus area.

We continued to maintain high quality of assets. It is evident in low level of NPA. Our gross NPA and net NPA stood at 1.27% and 0.54% respectively as on March 2015. Against gross NPA of 186 crores. We had nonstandard asset provision of 107 crores hence our net-NPA stands at 0.54%. Besides this, we have provision of 55 crores for standard assets as per statutory requirements. Nonstandard asset provision of 107 crores includes 28 crores of provision based on regulatory requirements. Our average cost of fund in the quarter was 10.6%

down from 11% last quarter. Falling cost to income ratio indicates better utilization of branch network.

In financial product distribution, our income from this segment for the quarter was 208 crores up 21% year-on-year and 45% quarter-on-quarter. This segment primarily includes distribution of insurance, mutual fund, alternative assets, bonds etc. In life insurance business, our product portfolio is dominated by long-term endowment products. Total assets under advice distribution and management were 70,889 crores.

I now move on to capital market activities. The revenue for the quarter was 129.7 crores up 73% year-on-year and 31% quarter-on-quarter. This segment has witnessed substantial growth from March 2015 onwards. IIFL's average daily equity's turnover was 7,938 crores in the last quarter. For the quarter, operating cost were 146.8 crores, an increase of 49% year-on-year and 42% quarter-on-quarter. Our operating cost remains 14% of revenue for the quarter. Employee cost for the quarter was 155 crores up 19% year-on-year and 1.6% quarter-on-quarter. Other costs primarily include admin cost were 127 crores for the quarter. Depreciation cost for the quarter was 15.8 crores. I now leave the floor open for any question.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Arijit Malakar from Ashika Stock Broking. Please go ahead.

Arijit Malakar: Sir I have a couple of questions. First question is that capital market during the quarter has posted strong growth. So which segment is driving the growth for this business, is it cash, F&O or private equity?

Nirmal Jain: I think it is brokerage mostly because investment banking last quarter was not much. We did not have any significant deal in investment banking. So of all the segments, cash future and options basically primarily the broking, equity broking.

Arijit Malakar: Equity broking is driving the segment and it is the majorly led by the F&O segment or cash segment?

Nirmal Jain: Both.

Arijit Malakar: Both, so sir my second question is as you said in your presentation does your cash segment participation was up by 50% year-on-year. So do you think that the retail clients are again coming back to the market?

Nirmal Jain: No, we operate in all segments, retail HNI, intuitional segments, FIIs, mutual fund also. So retail clients are coming back to market very slowly but generally **is** more mutual funds, intuitional clients, and also HNI.

Arijit Malakar: Sir my next question is regarding the service tax. As we know sir service tax has increased to 14%. So do you see any impact on your broking volumes as well as the investor's sentiments?

R. Venkataraman: Actually at this point in time, the service tax increased which has gone up from 12-14%. It is difficult to say how much of that will have a direct impact on trading volumes. Our trading volumes are more to do with outlook on the economy, corporate earnings, foreigner participation, domestic institutional participation, and overall interest of retail investors in capital markets. So we are not apprehensive of this 2% change in service tax having a significant impact on the trading volume.

Arijit Malakar: My last question is sir how you are looking the capital markets to perform in the coming years and would you be able to sustain this robust growth in this segment going ahead?

R. Venkataraman: See actually if you compare fiscal 2015 to 2014, there has been a surge in trading volumes primarily due to the euphoria of the new government and the so called reforms and as well as the pickup of the overall macroeconomic activity. At this point in time, it is very difficult to forecast exchange volumes because a number of factors play in determining exchange volumes. That is a combination of outlook on the economy, investor interest, foreign interest, and so on and so forth, however having said this, we believe the economy. As I said in the opening remarks to show signs of recovery in the next 6 months and as the economy revive and earnings comes back to corporate sector, I think there will increase in capital markets namely equity's broking and volumes should be well over the medium and long term. It is very difficult to take call on quarter-on-quarter basis how volumes will pan out?

Moderator: Thank you. Next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Sir I just wanted to ask sir the average daily volumes over the FY2015, they have grown by around 60% I guess but our brokerage revenues have grown only by around 30% if I am not mistaken. So where there any one-offs in FY2014 or there has been some changes in the yield, some decline the pricing which we have seen, or some decline in our market share?

R. Venkataraman: Actually if you look at the way the exchange volumes have evolved over the last so many years, the bulk of exchange volumes happen in the options. If you see 96%, the total exchange volumes happen in derivatives out of which roughly about 80% happens in options of which a significant portion happens in index. So because of changing mix there has been some impact on yields because as you know absolute brokerage of options turnover is less.

Adesh Mehta: Sir just wanted to get your sense on sir how are we seeing competition from this discount brokerages impacting us like how are we protecting our turf against their own slot sir?

Nirmal Jain: they cater to different segments of customers and our strengths research and advisory capability. That is the discount brokerage of product we also have a flat brokerage product but we have not seen much traction there. So I think I would like to believe that the segment of customers which they cater to and we cater to are different.

Adesh Mehta: Sir in terms of distribution fees sir what could be the proportion of distribution fees which we have earned in FY2015 from selling close-ended mutual funds?

Nirmal Jain: We will not have the break up but we have been one of largest incremental mobilizer of mutual fund. We have precise data for that your question is related to spread cap, that will definitely have impact but then one is at 1% and there is a trade income which we start from year one instead of year 2 so which would be around 15% basis points. Actually there is some minor impact but we expect that will be made up due to higher volumes and better product mix.

Adesh Mehta: But sir are you seeing that spread cap coming through like what we are also hearing is that some of the mutual funds are also lobbying against that. So like should we really expected to come through or this could be just be avoided.

Nirmal Jain: It is not something which is even we do not support but we really do not know how regulators will take another. So my guess would be as good as yours whether this would actually happen or lobbying will work. but personally I would like to believe that instead of having the cap, this would also do both the things one is that, they do the cap away and also they allow the discount thing, then it becomes easier first there should open transparent disclosure what is the upfront cast to the customer but with that I do not mean there is a cap as needed but I really have comment on this.

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

Nishchint Chawathe: Just wanted to get a sense of the capital market related income. You have been sharing this breakup in the past, how much of it would be in terms of percentage would be from broking for the quarter?

Nirmal Jain: No, we had a breakup in this.

R. Venkataraman: Commodity spreads this currency is only 4 crores rest is broking.

Nirmal Jain: You have the capital market in the segment resulting, what are the commodities and what is the equity breakup that is what you say?

Nishchint Chawathe: Yes, that is right.

R. Venkataraman: Out of 129 crores, 4 crores is currency and commodity, the rest is equity.

Nishchint Chawathe: For the year?

Nirmal Jain: It is similar ratio commodities and currency is just about 2%-2.5%.

Nishchint Chawathe: Sure and the mutual fund distribution I believe comes in this wealth segment.

Nirmal Jain: It comes in the financial product distribution.

Nishchint Chawathe: That is it. Just wanted to get a little bit of color on your dividend policy, I believe you have not distributed dividend this year so.

Nirmal Jain: No we have Rs. 3 dividend which are distributed in the interim. So we have not given. So if you look at our last so many years, we have been consistent and we have given Rs. 3 dividend. We have not increased it this year but because the NBFC business is growing but we have maintained 3 rupees dividend for last several years.

Nishchint Chawathe: Coming to the NBFC business, what kind of optimal leverage do you think the business should be in a position to absorb, I believe there is some preference capital as well.

Nirmal Jain: Yes if you look at our tier-1 capital adequacy is around 11.8%. So that is again indicative how much dividend because that can go down up to 7.5 but we would like to be maintain at level of 10 because that is not the future is I terms of leveraging we have made room but more than that we securitize asset create more room for growth without leveraging.

Nishchint Chawathe: Fair point and **o**n the NPL side, there was I think around 20% of Q-o-Q rise in NPAs, do we read anything into this?

Nirmal Jain: So there is one large account which has been classified as NPAs in this quarter and that account, that is CDR has got a much larger exposure to bank and so I think this is one off hit that has come. We are still hopeful that it will recover significant part of that account but I think for the time being it is classified as NPA because it has crossed the threshold of number of days.

Nishchint Chawathe: Which segment does this come in, this comes under loan against property or?

Nirmal Jain: No, this come in capital market loan against shares.

Nishchint Chawathe: Do you think is in that sense it is sort of temporary thing or whatever depends on this CDR, etc.?

Nirmal Jain: I think there will be some hair cut ultimately because this is into large CDR, it is Rs. 2,500 crores CDR and so we will have to wait and see. I really cannot comment on that but the account for the time being is classified as NPA and of course that was a reason for…..

Nishchint Chawathe On the wealth management side, can you just give a breakup of the AUMs?

Nirmal Jain: So our AUM is above 70,000 crores.

Nishchint Chawathe: That is right and I think in the past you gave some numbers about how much is the distribution assets?

Nirmal Jain: 40,000 crores are distribution assets, 20,000 crores would be under custody and management or whatever. Broadly I said giving the approximate numbers and 10,000 crores would be advisory asset globally and 1,000 crores would be advisory asset domestic.

Nishchint Chawathe: Sure and finally just one last question and that was on the insurance AP. If you could give some number or some Y-o-Y growth in that?

Nirmal Jain: Insurance last year we consolidated and we tried to get the profitability back I will give you AP number what is the number roughly, 210 crores compared to maybe 10% growth in terms of Y-o-Y growth.

Nishchint Chawathe: This is for the fourth quarter.

Nirmal Jain: No actually for full year.

Nishchint Chawathe: Full year. Sure, thank you very much and all the best.

Moderator: Thank you. Next question is from the line of Mohit Pandey from CRISIL. Please go ahead.

Mohit Pandey: Sir you mentioned in your opening remarks that the cost-to-income for the NBFC business has declined on account of better utilization of branches. So how do we see this going ahead and could you please share, is there any branch additions in the recent quarters, and what is the plan on that front?

Amit Mehendale: The cost-to-income income has trended down if you see in last few quarters and in terms of branch additions, we have not added any significant branches, maybe 1 or 2 but nothing significant and in terms of going forward, we expect this to remain more or less at the similar levels going slightly down but it will not have a significant improvement.

Nirmal Jain: See we do not plan to expand our branch infrastructure. So our idea is to spread the existing distribution network more but at the larger base the decline will taper off but obviously it should be heading southward only, the cost-to-income ratio.

Mohit Pandey: Sir in your mortgages, what would be the share of the LAP and construction funding part?

Nirmal Jain: So I think LAP and construction finance will be around 70-75% of the book.

Mohit Pandey: Sir equally split between LAP and construction funding.

Nirmal Jain: No, LAP will be more.

Mohit Pandey: LAP would be more.

Nirmal Jain: Construction base is around 15%.

Mohit Pandey: Sir you have mentioned about new product launch of SME lending. So could you please give some color on that? What kind of potential you are seeing on that?

Nirmal Jain: So it is the product has been incubated and we are just trying to the pilot testing of that product. So we are looking at opportunity. Actually we are developing a model to do this. It would not contribute significant in this year but if we look at SME as a longer term opportunity. So we are just trying to build the product there. Like some of commercial vehicle is built over 2 or 3 years and now this year I think it would grow to share of 10% of the book.

Mohit Pandey: Sir earlier you use to share the loan book breakup also for the CVs, gold loans, and capital market activities. What would be their share in this quarter?

Nirmal Jain: So out of total 1500 crores book, 7,000 crores is mortgages.

Amit Mehendale: 7000 is mortgaged, 2500 is capital market, 3,800 with gold, 426 is medical equipment, and 900 is commercial vehicles.

Mohit Pandey: Sir what kind of impact on your NPAs do you foresee from the transition to norms towards 90 days?

Nirmal Jain: So this year it will be 150 days and the next is 120 and going forward within three years it will be 90 days. So this year the impact will be smaller. There could be may be 30-40 basis points increase in the NPA at the current level but will try and make sure that we will mitigate the damage by tightening our collection system.

Mohit Pandey: Sir in terms of the borrowing profile. So we expected to remain similar to for the fiscal?

Nirmal Jain: Yes, it remains similar. I think going forward our dependence from bank loan is further decrease.

Mohit Pandey: Sir one last question on the FPD segment. So historically this quarter has been good and this was case this year also. So should we assess this in that line or there was something else also?

Nirmal Jain: No, actually FPD will always be a little seasonal and the last quarter it was much better actually and therefore in the first quarter we were selective. So I think the trend will continue.

So even though when we expect year-on-year growth to be healthy, the Q1 or Q4 can always be a decline and there can be a drop. So the seasonality continues in this business.

Mohit Pandey: Just one last question on these custody assets, what kind of fees do we receive?

Nirmal Jain: No, so FPD comprises of many things. There is a transection revenue in mutual and insurance business and then there is a family office advisory fee. So if you look at our wealth management on an average we get about 60 to 70 basis points fee on the assets.

Moderator: Thank you. Next question is from the line of Neil Bahal from Negen Capital. Please go ahead.

Neil Bahal: Just wanted to ask you one simple thing. Our business model is amazing at the moment. It is kind of a low risk kind of model, why we are getting into SME lending?

Nirmal Jain: It is a good question actually and so just while I said that we are incubating and we are learning from this product and so when you look at SME lending from bank's point of view, it has not been a good product because most of the banks are settled with a lot of NPAs in the SME but we are looking at this product a little differently. We are looking at this product – one is that even our LAP has been to SME segment. Two, we are looking at digital approach to this product where the entire process is automatically done in the algorithm driven and third is we are trying to look at opportunities in the e-commerce space where we can finance the suppliers of e-commerce large player. From a longer term prospective as we keep growing, 3 to 5 years later, we also want to diversify further because otherwise mortgages will become much larger piece and also I must share that we have an ambition to become a bank someday. Nobody can ever predict that when the RBI will be generous enough to grant the licenses but we need to start doing our homework and because understand as a bank that product will be very significant. You cannot ignore that product.

Neil Bahal: Right. So it is now going to be like a direct bank. So you are going to take it slowly and understand it?

Nirmal Jain: But more like we are learning.

Neil Bahal: Secondly sir how do you see our EPS growth on a consolidated basis over the next say 3-5 years? I just wanted to understand what is the normalized growth rate that we can expect considering you grew 62% this year?

Nirmal Jain: I would say that last year was a bit of an exception because it was on a base year before which was not a great year for financial services as such. So if you see not this year but earlier year was a little flattish and of course the growth has been a little subdued between 2008 to 2015 on an average. I would say that it will all depend on the industry growth which you as an analyst will have much better perspective. So if the industry grows as 20%-25% we can try and grow at few percentage point more than that. But this momentum will slow down because the base will become much larger. Our posted profit before minority is around 476 crores which is close to 500 crores so on a larger base obviously the growth rate will moderate from this year's level. But still in the good market if the industry grows at 20-25% then 25-30% is what conceivable.

Moderator: Thank you. Next question is from the line of Prerna Lotlikar from Allard Partners. Please go ahead.

Prerna Lotlikar: Sir I wanted to know we have seen that your gold loan portfolio has been reducing from around 40% of the entire book to around 26-28%. So I just wanted to know the outlook of the gold loan portfolio going forward and also what would be the yields on this product currently?

Nirmal Jain: So in fact if you are there in our Analyst Call for last few quarters, we are very consistent in last 4 quarters that we want to reduce the relative set of gold loan portfolio and because the gold prices are volatile one. Two, the typically gold loans are for 3-4 months. So it is not a longer term asset, so you don't have a steady growth, it can be very volatile. Gold prices are going up, then you see a spike in the volume and then suddenly there is decline and the market is a little lackluster. Secondly many banks also became aggressive competitors in this. We realize that for a long-term sustained growth, mortgage may be a better bet than gold loan.

Prerna Lotlikar: Sir are you seeing any competition from other NBFCs or banks in this, any specific?

Nirmal Jain: Not really actually. That has not changed, that has continued. So there are a few gold loan companies and there are banks that compete in this.

Prerna Lotlikar: Sir what would be the yield in this product?

Nirmal Jain: You do a mortgage loan, then you are locked in asset for 10 years. If you do a gold loan, then you are locked in asset for 3-4 months. After 4 months, again you have to book or get new customers or new loan kind of a thing but from the base it appears that the margins are much higher in gold loans. It may be around 8-9% in gold loan but the origination cost or the related cost which related to auction, write-off this it is also similar or higher. First of all I would like say it is not that we are withdrawing from this product. So this product is a good product. We will continue at long term but its relative sale will be contained at 20-25% of our overall book.

Prerna Lotlikar: Sir what would be the typical yields on this product?

Nirmal Jain: 20-25%.

Prerna Lotlikar: You outlook also would be around 20-25% of the overall portfolio.

Nirmal Jain: 20-25% of the yield which the interest rate on this. What we charged on broad basis to customer.

Prerna Lotlikar: Sir going forward how?

Nirmal Jain: It varies from 18-22% but I am just trying to give you out here average kind of a thing.

Prerna Lotlikar: Sir going forward, this portfolio would continue to be around 20-25% of the portfolio?

Nirmal Jain: I would think so.

Moderator: Thank you. Next question is from the line of Kunal Bhakta from Lastaki Advisors. Please go ahead.

Kunal Bhakta: So I have a question on the loan book. So how much of the mortgage book would be loans to developers?

Nirmal Jain: See the developer, we have 10-15% of our book.

Kunal Bhakta: That is entirely indeed parent. The housing finance company would do only housing loans, right or that also does something?

Nirmal Jain: See in housing finance also typically 70 will be retail loan and 30 could be builder loan but typically all are residential builders and in many cases what happens is that these builder's project become APF that is approved project of financing. So we finance those and we get tie up with the builder or a preferential statement so that when builder sales those flats or he needs to retail then we get a preference to finance them.

Kunal Bhakta: So incrementally how do you differentiate in terms of which loans you would take on the housing finance subsidiary books and which you would take on the?

Nirmal Jain: It depends on the regulation also because the housing finance subsidiary, you can take loans which are approved. You can take the project which are approved so if you are talking like if you are familiar with how the builders work? So if you have got an IOD and PC then only they can be booked in HFC.

Kunal Bhakta: So you also do loans to projects which are not approved but that you will have to do from the parent books?

Nirmal Jain: But what has happened is that I do not know whether you are aware we already have fund and in fact already we have raised about Rs. 3,000 crore of fund for real estate. So incrementally we are booking those, there should be higher risk and higher reward thing in the fund.

Kunal Bhakta: As far as the pure retail housing loans are concerned that purely depends on which branch network originates it or how does it work?

Nirmal Jain: If it is a home loan, then housing finance company will have a preference to book it. If it is a loan against property, then NBFC books it.

Kunal Bhakta: In terms of the network, is that like an independent network which is created?

Nirmal Jain: Yes, independent now and so people are independent. It completely at arm's length, the division of business is more or less also clear and as I said that the home loan is booked in housing finance company and LAP is booked in NBFC. In terms of residential project which are approved and there we can have a tie up for our home loan for retail customers, they are booked in housing finance company. All other projects are in the NBFC.

Kunal Bhakta: Right but essentially it is the same branch which is disbursing multiple products.

Nirmal Jain: Same but the people are different. So there is an arrangement between other finance company and this thing, they are using our network, they pay the rental and the cost for that and also we already had now certain dedicated branches for all the finance company and going forward, the network will become more and more detached and independent.

Kunal Bhakta: Do we already have some dedicated branches?

Nirmal Jain: We already have.

Kunal Bhakta: How many would they be?

Nirmal Jain: 15.

Kunal Bhakta: As far as the gold loan product is concerned, is this distributed across our branches or there are certain specific branches which are being…?

Nirmal Jain: Most of the branches, 90-95% branches are distributers.

Kunal Bhakta: Understood and as far as securitization goes most of our securitization would be on the mortgage side or how is it?

Nirmal Jain: No commercial vehicle and mortgage loans.

Kunal Bhakta: Understood and you said going forward you want to focus more on commercial vehicles also?

Nirmal Jain: Commercial vehicle is always a technical business. So we try and accelerate as the economy recovers, then there is most profit is in this sector.

Kunal Bhakta: Right but you will also get into personal vehicles, two-wheelers and four-wheelers ?

Nirmal Jain: No very unlikely. So we are restricted to commercial vehicles. We are not getting into passenger cars, we are not getting into construction equipments, and we are not getting into two-wheelers, and at this point in time we don't have plan to get into tractor also. We have evaluated these sectors and at least our purchase risk is higher and these things change we can take a call but at this point in time we have no plans.

Kunal Bhakta: These SME loans which you said you want to get into one is of course you mentioned about this e-commerce service providers and all but they would also be retail SME loans. The smaller SME loans which are backed by collateral like gold and stuff, is it?

Nirmal Jain: So mostly SME loans are backed by property. So they classify under LAP. Some of the SME loans are also backed by gold but the new SME loans are backed by inventory, it is something that you have not done and that is what we are exploring but the inventory can be in the godowns of the e-commerce companies. So of course it depends upon the…..

Kunal Bhakta: Is their anybody doing that as of now?

Nirmal Jain: So there are quite a few specialize companies that are got into this thing but it is new evolving space. So people also have to gather experience before they understand that how and what is happening.

Kunal Bhakta: How big could be the market be for that?

Nirmal Jain: Flipkart, Snapdeal, and Amazon.in all these 3 people put together, they must be doing about $4-5 billion of business in a year. Even if you assume that 50% of that is coming from that dedicated companies like WS Retail or in-house this thing, then also very big market but it is very scattered because there are lakhs of supplier but it is a market which can grow but it is a little complicated market because the people really do not understand how the quality of product and the purchasing of the product and the payment and everything will be secured and it will flow from the e-commerce to the lenders. So a lot of work is being done on this. There are a few NBFC companies that has a set up for this purpose, some of these companies have their own NBFC companies, they are planning and targeting because they are getting funded very generously and aggressively. So they can look at opportunities of setting up an NBFC to do this. So I think there is a lot of action is happening but it is very early days.

Kunal Bhakta: Understood and in terms of our average yield across products what would be the average yield for the mortgages as of now?

Nirmal Jain: 14-15%.

Kunal Bhakta: And gold will be 17-18%.

Nirmal Jain: It is closer to 14% now but yeah between 15-15%.

Kunal Bhakta: Gold would be 18%.

Nirmal Jain: Gold I said it is around closer to 20%.

Moderator: Thank you. Next question is from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.

Sarvanan Vishwanathan: As regards SME lending portfolio, are you looking to grow it organically or are you also considering SME in organic opportunities?

R. Venkataraman: Actually at this point of time as we discussed earlier or so, our strategy on this SME piece to grow the book slowly and steadily and to test the water. So at this point in time, it is unlikely that will be acquiring something.

Sarvanan Vishwanathan: You are also ruling out getting into consumer durables right, through the e-com sites, funding purchase of consumer durables?

Nirmal Jain: No, actually so that is not at this stage and we are evaluating various this thing but there is no plans though the product has not developed a launch. Again these are all very specialized different kind of businesses than what we have been doing till now.

Sarvanan Vishwanathan: Got that sir and last question, there is a new set of asset class that is emerging from alternate investment funds. So are we planning to get into the distribution of those segments also besides mutual funds?

Nirmal Jain: We already have launched alternative investment funds and as we have raised about almost 3,00 crores in that. So we had been distributing those products. We have raised funds, we raise funds for real estate, we have raised fund equity, we have raised fund for debt and the real estate mix, and we invested also.

Sarvanan Vishwanathan: So after change in FMP taxation from 1 year to 3 years, so it regards long term. So are you seeing money moving from mutual fund FMPs to EIF?

Nirmal Jain: So this has happened actually last year then so money had moved to all over. So the EIF has also got a different and new kind of money and a lot of money had moved to 3–year debt fund as typically the FMP money moves from fixed income to fixed income. So instead of 1.5 years I am getting now 3 and 5-year product.

Moderator: Thank you. Next question is from the line of Kajal Gandhi form ICICI Direct. Please go ahead.

Kajal Gandhi: Sir if you can share what is the reason for your wealth business, admin cost doubling from 36 to almost 60 crore because employees cost has already risen we believe to take care of the increase sales?

Nirmal Jain: No, it has not doubled.

Kajal Gandhi: See your IIFL Wealth Consolidated Results, P&L tables.

Nirmal Jain: You are looking at year-on-year.

Kajal Gandhi: Yes sir both if I look year-on-year or quarter-on-quarter, it is both ways that.

Nirmal Jain: So wealth business has scaled up the infrastructure so that primarily comprises of in fact that business will be scaling up and we have scaled up last year significantly.

Kajal Gandhi: Because the employee cost has not increased to the same extent. It has just gone up by 30%-odd whereas the other costs have gone up by 90%-odd?

Nirmal Jain: Employee cost also has gone up by 33% Q-o-Q at 46% on a Y-o-Y basis right. The administrative cost has gone up because we have set up new offices and we have scaled up our infrastructure, we have also invested heavily in technology in this.

Kajal Gandhi: So what is the outlook of that you see in this wealth segment or concentration is in which segment?

Nirmal Jain: wealth is thrust for growth. We have been investing in this business for last few years. So we have been scaling up our infrastructure and we invested hugely in technology last year and we also invested in people. So there is a lot of growth in such businesses.

Kajal Gandhi: Sir how big will be your team in wealth?

Nirmal Jain: We are already about I think 400 people.

Moderator: Thank you. We have follow up question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: I just want one number. What is the employee expense in the finance business?

Nirmal Jain: Finance business is 54 crores in last quarter.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Venkat for his closing comments. Over to you sir.

R. Venkataraman: Thank you very much for participating. If you have any more queries, you can please send it our Investor Relations. Have a nice day and thank you so much.

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