

**Operator**

Ladies and gentlemen, good day and welcome to India Infoline Limited Q2 FY13 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 at the end of today's presentation. Please note that this conference is being recorded. We have with us today Mr. Nirmal Jain, Chairman; Mr. R. Venkataraman, Managing Director; and Mr. Dhruv Jain, CFO. At this time, I would like to hand over the conference to Mr. R. Venkataraman. Thank you and over to you sir.

**R. Venkataraman, Managing Director**

Thank you. Good afternoon friends. On behalf of team India Infoline, I thank you for joining us on this call. I am R. Venkataraman, Managing Director and I am accompanied by Nirmal Jain, Chairman and 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 would be referring to our consolidated numbers as they give a true and fair representation of our performance.

Further, we including Nirmal and Dhruv may make some forward-looking statements based on our current expectations during this call. Actual results may vary. The accuracy or completeness of these expectations therefore cannot be guaranteed.

I will now hand over to Mr. Jain, Nirmal Jain to give an overview of the macroeconomic environment and also give a perspective of the Board.

**Nirmal Jain, Chairman**

Thanks Venkat. Good afternoon friends. And welcome to the conference call on IIFL second quarter earnings. So, as Venkat pointed out I shall express my views on macro environment impacting our business and broad overview of performance and road ahead.

On macro front, the sentiment has turned positive. Thanks to pleasant surprise by the new Finance Minister, more specifically on diesel price hike and no roll back and allowing FDI in certain sectors. Encouraged by the positive response, I'm sure the government will now go -- the whole government reforms.

I can summarize that the feel good factor has come back. I think you will witness this in Diwali gift that you receive and getting -- and your dry fruit boxes getting larger. Many skeptics would argue that GDP inflation numbers continue to be dismal and fundamentally things have changed.

They are right. But there are two things to note here, one a positive sentiment and feel good factor is necessary, may not be sufficient condition for fundamentals to improve. Only when you feel optimistic about future, you win a war or a match or come out of a crisis and coming to business only optimism will drive corporates to take up new projects expansions, generate employment, increase output and accelerate growth and so on.

And two, the market does not weight for actual earnings or actual GDP number. And in support of positive sentiment, I would like to add two more things, one globally whether it is China or Brazil, things are not hunky-dory anywhere else. And two, on the whole earnings season so far has been pretty good.

And in this context, if RBI obliges with the rate cut I think the feel good chain will get recharged. About risk and culture, our list is long as usual on certainties about U.S. elections, Eurozone, political fragility and so on. Coming to our earnings, a bit of feel good factor seems to be coming to back, touch-wood.

And net profit for our quarter under review is almost triple of that a year back and about 27% higher than the previous quarter. While our CFO will walk you through more details, I would just like to highlight a few aspects.

The Q2 of previous year was impacted by double whammy of sluggish capital market impacting our equities business and NBFC bearing the brunt of expansion for consumer finance and gold loan branches. In total, we have about 1,500 branches, custom made for consumer loan businesses.

To put things in perspective, while Q2 of FY13 that we are reviewing, our net profit is Rs. 66 crores versus Rs. 22 crores in Q2 of FY12. However, the same, the net profit in Q2 of FY11 was Rs. 55 crores. For the quarter under review, NBFC and financial products distribution business comprising insurance, mutual fund and also significant part of our wealth management, product distributed through wealth management platform have made steady strength.

That equity results of last quarter continue to reach under low volume, low margin curve and hopefully the feel good magic will touch this quarter. If not this quarter then next quarter for sure. We have enhanced our disclosures by adding a few more slides on NBFC's profit and loss account, balance sheet and ratios some of you may be tempted to ask whether there are any plans to raise equity.

Let me clarify, at this point in time, we have no plans whatsoever to dilute equity. We have just raised Tier II capital by way of issue of subordinate debt and taken our capital adequacy to around 20% odd and we are comfortable for our growth for next two years.

But the fact as you can see that in the last four years, our NBFC has emerged as the most significant business and we are trying to meet expectations of investors and analysts and as we go along we shall plan to further improve the information content and disclosures. Before I handover to our CFO Dhruv, I take this opportunity to wish you all a very happy Diwali and a New Year and with feel good factor growing everyday through the year. Thank you.

## **Dhruv Jain, Chief Financial Officer**

Thank you Nirmal. For the quarter ended September 2012, our total income was Rs. 6.5 billion, up 12% quarter-on-quarter, up 59% year-on-year. Our profit before tax for the quarter stood at Rs. 958 million, was up 17% quarter-on-quarter and 172% year-on-year. Our net profit before minority interest was Rs. 672 million, up 27% Q-on-Q and up 199% year-on-year. The revenue for this segment was Rs. 1.3 billion in the quarter, up 7% Q-on-Q and down 4% year-on-year. It contributed to 21% of our total revenues for the quarter.

In equities brokerage, our average daily turnover during the quarter was Rs. 44 billion down 4% quarter-on-quarter and 16% year-on-year. Market share on NSE was at 2.8% in Q2 FY13 as against 3.4% in Q1 FY12.

In commodities brokerage, our average daily turnover was Rs. 23 billion during the quarter which was up by 61% Q-on-Q and up 37% year-on-year. Our overall market share in this segment was 3.8% in Q2 FY13.

In currency broking, our average daily turnover was Rs. 7 billion.

Now I come to the financing and investment segment. For the quarter, the income from this segment was Rs. 4.6 billion up 12% quarter-on-quarter and has doubled if we compare year-on-year.

This segment constitutes 70% of our total revenues during the year. Interest costs have increased in tandem and was Rs. 2 billion, up 3% Q-on-Q and 84% year-on-year. Our overall quarter and loan book increased to Rs. 78.5 billion as at the quarter end, a 7% increase quarter-on-quarter and 56% increase year-on-year.

Our loan book comprises secured lending of mortgages, capital market products, gold loans and loans against medical equipment. Gold and mortgage/LAP loans form 37% and 35% respectively of financial assets of our NBFC company as at end of September, 2012 quarter.

We continue to maintain high quality of assets as evident in gross NPAs on our overall portfolio at 0.6%, a net NPA at 0.3%.

Finally distribution and marketing income, this segment primarily includes distribution of insurance, mutual fund, alternate asset product, bonds, et cetera.

In life insurance business our product portfolio is dominated by long-term endowment product. Our income from this segment for Q2 FY13 was Rs. 593 million up 24% quarter-on-quarter and up 41% year-on-year.

Now, I shall take up major cost heads. For the quarter, our operating cost was Rs. 844 million, an increase of 15% quarter-on-quarter and increase of 46% year-on-year.

Operating cost were 13% of revenues in Q2 FY13 same as last quarter. Employee cost for the quarter were Rs. 1,392 million up 12% quarter-on-quarter and up 29% year-on-year. Other cost primarily include admin costs for Q2 FY13 which was Rs. 1,171 million in the quarter up 26% quarter-on-quarter and up 40% year-on-year.

Our average cost of funds in the quarter was around 12% same as the previous quarter. Our short-term debt program is top rated A1 plus by ICRA. ICRA and CRISIL have also rated our long-term debt at ICRA LAA minus and CRISIL AA minus respectively.

Our consolidated net debt as at the quarter end was Rs. 60.3 billion and gross debt was Rs. 72.4 billion, of this, secured long-term borrowing were Rs. 46.2 billion. Cash and cash equivalent position was Rs. 12.1 billion, which includes fixed deposits of 3.5 billion and mutual funds bond and equity shares of 0.9 billion.

Our net debt-to-equity ratio was 3.2 times as of the quarter end. The company has a Board constituted Asset Liability Committee, which meets to review asset liability management on a quarterly basis. Depreciation cost in the quarter was Rs. 202 million.

Some of the other updates, IIFL was a sole financial advisor to Cox & Kings for \$138 million investment by Citi Venture Capital International in its UK subsidiary. In view of improved market sentiments, outlook for Equity

Capital Markets and M&A is expected to improve.

This issue received an overwhelming response and got subscribed over 2.36 times the base issue of Rs. 2,500 million. All categories were oversubscribed and over 25,000 applications received from all over the country. The company exercised its green-shoe option to retain over-subscription up to Rs. 2,500 million thus raising an aggregate of Rs. 5,000 million.

IIFL won the Best Broker with Global Presence Award at the BAC IPF D&B Equity Broking Awards 2012. The Wealth Subsidiary of India Infoline Limited, India IIFL Wealth Private Limited was awarded The Best Wealth Management House India at the Asset Triple A Investment Awards 2012. This is the second consecutive years that IIFL has won both these awards.

I now handover the mic to our participants' for any questions if they have. Thank you.

## Questions And Answers

### Operator

Thank you very much. Participants' we will now begin with the question-and-answer session. [Operator Instructions]. We have the first question from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.

### Analyst

Good afternoon sir.

### R. Venkataraman, Managing Director

Yes please.

### Analyst

Sir, in the portfolio breakup it's coming as, mortgage portion is 35%. So, this includes the exposure by way of entity?

### Dhruv Jain, Chief Financial Officer

Yes. That's right.

### Analyst

Okay. So, if I compare the same with March '12 portfolio composition there were security ventures of around 7% so which is now clubbed in 35%?

### Dhruv Jain, Chief Financial Officer

Right.

So, basically the overall composition has come down from say 45% to 35%?

## **Corporate Participant**

..loan book.

## **Analyst**

Of the loan book? Hello?

## **Dhruv Jain, Chief Financial Officer**

Yeah, but, okay so just to put in perspective the total book itself has grown as of March 2012 to September 2012.

## **Analyst**

Okay, sir. There is no de-growth per se in this book?

## **Dhruv Jain, Chief Financial Officer**

There is no de-growth per se in the book, there is actually if you see the numbers quarter-on-quarter we have actually grown even from June to September as well as from March to September. The current loan book is close to 78.5 billion.

## **Analyst**

No, no. I am asking about the loan against portfolio book.

## **Dhruv Jain, Chief Financial Officer**

Right.

## **Analyst**

Which maybe around 3,000 crore as on March '12 and considering September number it may be around 2,700 to 2,800?

## **Dhruv Jain, Chief Financial Officer**

Yeah. That's right. So March was 2,700 crore and as of September, this is close to 3,000 crores.

## **Analyst**

Okay. Then sir, there is one more element in the portfolio breakup that is liquid/investments of 17%. What this exactly comprises of?

Okay. Just the other -- apart from loans and advances, we would have cash and bank balances. We would have other investments and we would have debtors and other receivables which would constitute the balance 17%.

## **Analyst**

Debtors and other you include in the liquid/investments, is it?

## **Dhruv Jain, Chief Financial Officer**

Plus it would also have advance of subsidiaries and group companies.

**Analyst**

Okay. What will be the capital adequacy at the NBFC level?

**Dhruv Jain, Chief Financial Officer**

Yeah, about 21%.

**Analyst**

Okay. And if you can further break it down between Tier I and Tier II?

**Dhruv Jain, Chief Financial Officer**

Tier I is close to about 13.75%.

**Analyst**

Okay.

**Dhruv Jain, Chief Financial Officer**

And Tier II is, it's the balance 7%.

**Analyst**

Okay. At this point of time are there any plans to enter into any new business verticals as far as NBFC is concerned? Hello?

**R. Venkataraman, Managing Director Analyst**

Okay. So will it be possible to throw some light on the potential vertical that you may look?

**R. Venkataraman, Managing Director**

Actually at this point in time, it's not prudent on our part to say that it is but as and when we launch a product we will definitely share with all our investors.

**Analyst**

Okay sir. Thank you very much. I will come back for any follow-up question.

**R. Venkataraman, Managing Director**

Thank you very much.

**Operator**

Thank you. We have the next question from the line of Hitesh Nambiar from UTI Mutual Fund. Please go ahead.

**Analyst**

Hi. Good afternoon sir. In fact just if I look into the numbers there has been significant improvement in the IIFL Finance performance

and somehow I see a lot of stability in the funding cost that is on sequential quarter-on-quarter basis. So is the total cost of your NCD, subordinated NCD taken upfront or how is that actually, despite that in fact how is the performance so robust?

**Dhruv Jain, Chief Financial Officer**

No, there is no question of taking upfront cost here. See, the interest, the NCDs were issued in the middle of September so whatever is the proportionate interest applicable from the allotment date till 30th September that has actually been taken into account.

**Analyst**

I meant the overall cost of raising money, the brokerage, commission.

**Dhruv Jain, Chief Financial Officer**

Yeah. See the overall cost of raising money will anyway be a portion over the next six years which is the duration of that bond.

**Analyst**

Okay. Okay and accordingly that 15 days accounting is done.

**Dhruv Jain, Chief Financial Officer**

Yeah, the 15 days has been accounted.

**Analyst**

And what's the cost rough on the fee side of it if you could disclose?

**Dhruv Jain, Chief Financial Officer**

We don't have that with us right now.

**Analyst**

But roughly all-in cost what was the funding rate?

**Dhruv Jain, Chief Financial Officer**

About approximately 13%.

**Analyst**

Okay. Just on this advances to subsidiary in fact, is this is a new line item or it has been there since last few quarters because we have classified on a total asset basis, the breakup is given on a total asset basis. So, just wanted sense on that the breakup which you have shown on the loan portfolio in IIFL Finance?

**Dhruv Jain, Chief Financial Officer**

This is a financial asset as per RBI standard format and specifically the loans and advances subsidiaries et cetera is a moving balance so it is this reporting which has being done is in line with whatever RBI format which are prescribed.

**Analyst**

What I meant is, in fact the advances to subsidiary is, the loan given, is it to a housing finance subsidiary of yours or how is it in fact

or an associate of your company, how is it?

**Dhruv Jain, Chief Financial Officer**

This is to our subsidiaries.

Okay. Because generally it gets written, adjusted on the Tier-I capital or on the capital adequacy. So, just wanted some sense on it because that number looks pretty huge?

**Dhruv Jain, Chief Financial Officer**

No, you see that RBI has a specific format for reporting and what we have done is while computing our capital adequacy requirement, we have taken that into cognizance.

**Analyst**

Okay, okay. Currently your IIFL Finance ALM would have significantly improved post your issue, in fact how is your up to one year bucket looking like?

**Dhruv Jain, Chief Financial Officer**

See, up to one year we are positive and yes ALM bucket has improved post this issuance.

**Analyst**

Okay. Okay. And on the gross NPA side sequentially the rise which we have seen on a percentage term not material but which segment has contributed for the same?

**R. Venkataraman, Managing Director**

There has been no significant increase on the NPA it is in fact, the percentages have remained same and there could be a slight bit of a change in our gold loan portfolio, which is again a very marginal impact.

**Analyst**

Okay. Okay. And RBI's classification of this 51% which, 50% odd which he has classified as a sealing for Tier I maintenance as mentioned in your earlier call, you have no ideas to breach that but does RBI in fact consider that 50% odd on the loan portfolio or on financial assets?

**R. Venkataraman, Managing Director**

I think you mean the percentage of gold loans as a part of the total overall book?

**Analyst**

Correct, correct.

**R. Venkataraman, Managing Director**

So, as of now we are well within the comfortable limit and I don't think we will be breaching that.

**Analyst**

Okay, okay.

## **Dhruv Jain, Chief Financial Officer**

And RBI considers financial actually.

## **Analyst**

Okay. Okay, sir. Thanks.

## **Operator**

Thank you. [Operator Instructions]. We have the next follow-up question from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.

## **Analyst**

Hello.

## **Dhruv Jain, Chief Financial Officer**

Yes please.

## **Analyst**

Sir, employee cost has increased significantly Y-o-Y and it has also increased quarter-on-quarter. So, what I want to understand that our gold loan business is relatively stabilized, we are not aggressively expanding that. So, what could this increase may lead to?

## **R. Venkataraman, Managing Director**

See on a quarter-on-quarter basis, we have the normal annual appraisal cycle which takes place in Bajaj quarter. So, a component of that increase would have been on account of that and as you pointed out our gold loan is more or less stable. So, as of now from going ahead I don't think there will be a significant change in that.

## **Analyst**

Okay. Thank you very much.

## **Operator Analyst**

Hi. Sir just a follow-up this particularly on an overall level that is on IIFL level. As your NBFC business has nearly stabilized but the turn of glory days of equity on a steady state capital market basis, what kind of ROE's and ROA's can IIFL maintain? Hello?

## **R. Venkataraman, Managing Director**

See actually as we pointed out we have seen our NBFC business stabilizing and we have seen some improvement happening in the ROE and ROCE's and going at as the broking business starts doing well, hopefully then we'll see some more improvement in this, but it's difficult on our part to give a forward-looking statement on the exact quantum of improvements that might result.

## **Analyst**

Okay. But will it be in line with any bank or security company, how is it?

## **R. Venkataraman, Managing Director**

See from bank or a security company, the spectrum of the universe of comparison is quite large so I think we hopefully will do better than competition and be on the top quartile.

## **Analyst**

Okay. Okay sir and just one more thing on the distributor, distribution fee side in fact not much traction there this quarter?

## **R. Venkataraman, Managing Director**

Distribution of financial products has seen a traction on a quarter-on-quarter basis on the back of increased sales of insurance as well as distribution of products on our wealth platform. So that has actually increased, it is up -quarter-on-quarter basis and 41% on the year-on-year business.

## **Analyst**

I meant on the PBT contribution there has been on the segment wise reporting, there has been a drop so...

## **R. Venkataraman, Managing Director**

See typically what happens is that if you note, this business is seasonal and we have to keep on investing in manpower and infrastructure for the peak which is the ONG and the GFM quarter so hopefully this will see improvements at year end.

Okay. Okay sir thanks.

## **Operator**

Thank you. [Operator Instructions].

## **R. Venkataraman, Managing Director**

Since we don't have any more questions, I just take this opportunity to thank all the participants' once again. On behalf of India Infoline I wish all of them a very happy Diwali and best wishes for a very prosperous New Year. And if you have any more queries you can send it to our Investor Relations and have a nice day and look forward to answering any other questions that you'll have. Thanks.

## **Operator**

Thank you sir. On behalf of India Infoline Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.