



“India Infoline Limited Q2 FY14 Earnings Conference Call”

October 25, 2013

MANAGEMENT: MR. NIRMAL JAIN – CHAIRMAN, IIFL
MR. R. VENKATARAMAN – MANAGING
DIRECTOR, IIFL.
MR. DHURUV JAIN – CFO, INDIA INFOLINE LTD.
MR. AMIT MAHENDALE – CFO, INDIA INFOLINE
FINANCE LIMITED.
MODERATOR: MS. SHRADDHA KAMAT- MANAGER (INVESTOR
RELATIONS), IIFL.



Moderator Ladies and gentlemen good day and welcome to the India Infoline Ltd. Q2 FY14 Results 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 after the presentation concludes. Should you need any assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. We have with us today Mr. Nirmal Jain – Chairman; Mr. R Venkataraman – Managing Director; Mr. Dhruv Jain – CFO for India Infoline Limited; Mr. Amit Mehendale – CFO for India Infoline Finance Ltd and Ms. Shraddha Kamat, Manager, Investor Relations. I now hand over the conference to Ms. Shraddha Kamat. Thank you and over to you ma'am.

Shraddha Kamat Good morning, on behalf of team IIFL I thank you for joining us on this call. I am Shraddha Kamat – Manager, Investor Relation accompanied by Mr. Nirmal Jain – our Group Chairman; Mr. R Venkataraman – our Managing Director, Mr. Dhruv Jain – CFO for India Infoline Ltd and Mr. Amit Mehendale – CFO for Indian Infoline Finance Ltd.

As you are aware we are a diversified financial services company and have multiple businesses which are carried in various subsidiaries. In today's call we will be referring to our consolidated numbers unless otherwise it is 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 during the call, actual results may vary significantly. The accuracy or completeness of these expectations therefore cannot be guaranteed.

I will now hand over to Mr. Nirmal Jain, Chairman, IIFL Group to give an overview of the macro environment and discuss our financial performance for the quarter. Over to you, sir.

Nirmal Jain Welcome all of you and thanks for being here. In the last quarter a lot has changed. In terms of sentiments, I think the feel good factor in the stock



India Infoline Limited
October 25, 2013

market has come back and whatever steps the new governor has taken have worked, at least for the rupee and for the broader indices in the stock market. But as we all know in the stock market has, in its journey from the previous peak to current peak, only 10 or 15 stocks have participated significantly more and rest of the market particularly, the small cap and mid-cap has not participated in a significant manner. But more importantly, in other businesses especially NBFC, credit off-take continues to be growing at a steady pace and similarly life insurance distribution and wealth management businesses continue to grow. I think, it is important for me now at this stage when the composition of our business has changed so significantly over the last 3 to 4 years, to discuss it a little bit. NBFC operations i.e. consumer finance where we give loan against home, mortgages, gold jewellery, commercial vehicles as well as medical equipments, that business accounted for 74% of our top line in this quarter and therefore obviously that business becomes more significant going forward and will be a significant driver of our growth as well as our profitability as well. Besides this, the financial product distribution which covers mutual fund distribution, life insurance distribution as well as certain structured and other products that we do under our wealth advisory also has grown. So for the first time we see that capital market activity has become the smallest and financial product distribution has overtaken capital market as well. For clarity of grouping, in capital market we now have equity, commodity and currency and other businesses which include mutual funds, insurance they are all part of financial product distribution, so this classification has changed a little bit. Earlier we had marketing and distribution as a head, now it is FPD, which is Financial Product Distribution. All the fund based activities that earlier were under the head Financing and Investing, are now called Fund Based Activities.

Before I hand over to Amit, I also wanted to clarify, as there have been a quite a few rumors about NSEL. Although we have clarified to exchanges and have clarified to media as well, but I would just like to reiterate that as a Group, none of our companies, none of the promoters individually or any of the companies have any exposure - proprietary or financing to NSEL. So neither we have taken any prop position nor have we funded any transactions. Some of our broking clients have exposures and we are just trying to help



them to recover their money. But as far as our balance sheet is concerned there are no risks whatsoever. So with this I would hand it over to Amit Mehendale to take us through to NBFC operations first and then Dhruv Jain for the rest of the Group.

Amit Mehendale

For Q2 FY 14 the income from fund base activity was Rs.507 crores up 6% QoQ, up 11% year-on-year. Interest cost was Rs.283 crores, up 6% QoQ, 44% YoY. This segment constitutes 74% of total income for the quarter. For H1 FY 14 income from this segment was Rs.984 crores and interest cost was Rs.549 crores. Our quarter end loan book increase to Rs. 9935 crores, up 5% QoQ, up 27% YoY. Our loan book comprises secured lending against mortgages, capital market products, gold loans, loan against medical equipments and commercial vehicles. Share of gold loans in financial year has fallen from 38.4% to 26.9% year-on-year. The share of mortgage LAP has risen to 41.2% during the quarter. We continue to maintain high quality of assets as dividends in gross NPAs on our overall portfolios at 0.66% and net NPA at 0.3%. Against gross NPA of 65.9%, Rs. 65.9 crores we have non-standard asset provisions of Rs. 35.8 crores and hence our net NPA stands at 0.3%. Besides this we have a provision of additional Rs. 27.2 crores for standard assets as per RBI requirements. Our average cost of funds for this quarter was 11.9% similar to previous quarter. I will now hand over to Dhruv for an overview for other businesses.

Dhruv Jain

For the quarter ended September 2013, our total income was Rs. 683 crores, marginally up QoQ and up 5% year-on-year. Our profit before tax was Rs. 101 crores up 9% QoQ and 5% year-on-year. Net profit was Rs. 66 crores up 5% QoQ and marginally up year-on-year. For half year ended September 2013 our total income was Rs. 1360 crores, profit before tax was Rs.193 crores and profit after tax was Rs.130 crores.

I will now present a review of our other business segments and costs. I will start first with the financial product distribution. This segment primarily includes distribution of insurance, mutual funds alternate asset products, bonds etc. In life insurance business our product portfolio is dominated by long-term endowment product. Our income from this segment for the quarter



was Rs.91 crores up 3% QoQ and up 54% year-on-year. Mutual funds AUM mobilized by IIFL Group is close to Rs. 14,500 crores. IIFL wealth has emerged as one of the leading players in this space with asset under advice of over Rs. 45,500 crores. IIFL is one of the leading brokers of the life insurance product and insurance WAPI for the quarter was Rs. 53 crores.

I now move on to the capital market activities. Revenue for the quarter for this segment was Rs.83 crores down 23% quarter-on-quarter and 38% year-on-year. Capital market activities comprised income from equities, commodities, currencies, investments and banking etc. Retail cash market volume witnessed further de-growth continued to put brokerage income under pressure. Commodity and currency markets volume also declined in the quarter under review post imposition of commodity transaction tax and trading restrictions on currency futures.

Now I will take up major cost heads. For the quarter our operating cost was Rs.73 crores a decrease of 18% quarter-on-quarter and 13% year-on-year. Operating costs was 11% of revenues for the quarter. Employees cost for the quarter was Rs.123 crores with 2% decline quarter-on-quarter and 12% decline year-on-year. Other costs primarily including administration costs were Rs.83 crores for the quarter, marginally down quarter-on-quarter and around 27% year-on-year. The depreciation costs in the quarter was Rs.18 crores. Our consolidated net debt as at the quarter end was Rs.7944 crores and our gross debt was Rs.10,419 crores, of this secured long-term borrowings were Rs. 5364 crores. Cash and cash equivalents position was Rs.2476 crores which included fixed deposits of Rs.367 crores and mutual fund, equity shares, bonds of Rs.747 covers. Our gross debt to equity ratio was 4.94x as on quarter end and net debt to equity ratio was 3.76x as of the quarter end.

Among other updates. The public issue secured bonds by India Infoline Financial Ltd which closed on September 23rd, 2013 received an overwhelming response from retail as well as institutional investors. As per BSE and NSE website bids for Rs.1154 crores were received for the issue of Rs.525 crores with a green shoe option to retain an additional 100%, this was



*India Infoline Limited
October 25, 2013*

the largest mobilization by public issue of NCDs, bonds by any private sector company in India in the last four years. The NCD's were rated CARE AA by CARE and DWR AA outlook stable by Brickwork. Mr. S Sridhar, former Chairman of National Housing Bank and Central Bank of India has been appointed as Non-executive Chairman while Mr. Kranti Sinha – former CEO of LIC Housing Finance Ltd and Director of India Infoline Ltd has been appointed as an Independent Director of India Infoline Housing Finance, over HSC arm. Mr. Sridhar is an eminent personality in the banking and finance industry and has held several senior positions in retail, corporate and export and import banking in his carrier of over 35 years, culminating as a Chairman of NHB and Central Bank of India. Mr. Kranti Sinha is a renowned person in insurance and housing finance industry. He served as a Director and Chief Executive Officer of LIC Housing Finance Ltd and concurrently as Managing Director of LIC HFL Care Homes. Mr. Keki Dadiseth, former Chairman of Hindustan Unilever Ltd and former Director of Unilever Plc and Unilever ND have joined the advisory board of India Infoline Group. IIFL group constituted an advisory board last year with a view to benefit from the advice of eminent professionals from diverse fields. The other members of the advisory board of IIFL Group include luminaries from various fields like law, banking, financial services and government like Mr. Keki Mistry, Mr. Ashok Jha, Mr. Sat Pal Khattar, Mr. Somasekhar Sundaresan and Mr. S Ventetachalam. During the quarter IIFL wealth management was awarded the Best Wealth Management House in India by the Asset AAA Investment Awards 2013, third year in a row. IIFL Wealth was also awarded Fastest Growing Wealth Management Company in India by UTI and CNBC TV 18 Financial Advisers Award 2030. Three of IIFL's research analyst won India's Best Market Analysts Award 2013 by ZEE Business in their respective categories. I now leave the floor open for any questions.

Moderator

Participants we will now begin with the question and answer session. We have the first question is from the line of Sudhakar Prabhu from Span Capital, please go ahead.

Sudhakar Prabhu

My first question would be on your loan portfolio, right now it is Rs. 10,000 crores and gold has come down to almost Rs. 2700 crores, so what would be



*India Infoline Limited
October 25, 2013*

the outlook on your gold portfolio, do you think the gold portfolio has bottomed out and can we see growth from here?

Management Gold portfolio, as a percentage of the overall loan book will remain constant over the next few quarters. So it is currently at 27% of financial assets. It will remain in that range and it can come down to about 25% in a couple of quarters.

Sudhakar Prabhu So in case if you're saying that this would be more or less stable than what would drive growth for you, largely the mortgage portfolio?

Management Yes, that is right.

Sudhakar Prabhu And what kind of growth do you see, do you think 15% to 20% growth is possible?

Management Yes, I think 15% growth is possible.

Sudhakar Prabhu What is your outlook on the NIM, do you think NIM would be more or less stable at this rate, 7%?

Management That is right; in fact this is what we said in the last conference call as well.

Sudhakar Prabhu If you could give us your borrowing profile, how much would be from bank borrowings, NCDs etc?

Management We have term loans of about Rs. 5200 crores, NCDs of Rs. 2760 crores and commercial paper of Rs. 2033 crores.

Sudhakar Prabhu And what would be the average cost?

Management Average cost for the quarter was 11.87%.

Sudhakar Prabhu My second question is regarding this transfer of capital market and other business to your subsidiary, so what will the thought process behind this?

Nirmal Jain In fact when we put in our application for new bank, we have just tried to make the structure compliant. Other than that the capital market activity,



which was the core activity and which used to account for 60% to 70% of income, has now in the last quarter, accounted for only 6% of our top line. So this business is being put in a separate subsidiary, just as all our other businesses are and will be ring fenced through a separate entity. So from a managerial focus point of view, if you see, all our businesses are into separate subsidiary companies and as this was the only business which was there in the parent company. This too is proposed to be moved into a subsidiary company, which makes it easier to build the management team and have a clearer focus.

Sudhakar Prabhu My last question would be on this NSEL exposure, you have clearly mentioned in a press release that you do not have any direct exposure to NSEL but what would be your client exposure NSEL?

Nirmal Jain The client exposure to NSEL, at that time when this entire episode happened, was Rs.326 crores, out of which I think Rs. 32 -34 crores has come back. So the net exposure as on date of all the clients, I think there are some 1400 clients, will be close to Rs. 290 crores.

Sudhakar Prabhu Had this episode had an impact on the volume because I see overall volume has been down across all commodities, equity etc, so have the clients reduced or lost interest in trading or something that has happened?

Nirmal Jain Actually not because if you look at NSEL impact, it was very insignificant. In our business mix commodity, currency put together accounted for 1.5% of the top line but within that I think most of the broking income was from MCX and NCDX. A greater impact has been for two reasons, one is the imposition of CTT, Commodity Transaction Tax, I think this was the first quarter of CTT, and so that has impacted volume. And secondly I think the entire episode of NSEL has impacted MCX volumes also because open positions have come down. So while the exchange volumes seem to be impacted to a lesser extent but I think the open position has come down by 60%. Now, what is the relevance of this? I think from retail customer point of view, the interest has come down significantly. The non-open position volume may be due to the arbitrage and traders and our business is more



*India Infoline Limited
October 25, 2013*

retail client specific, so to that extent it is impacted. But I think the impact is much greater because of the ban on the currency futures by the Regulator and secondly due to CTT which has been imposed from 1st July.

Moderator We will take the next question from the line of Jimit Doshi from Reliance Securities, please go ahead.

Jimit Doshi I see that you all have focused on your fund-based activity in view of the upcoming banking license and you all have curtailed your broking business because of the challenging times and you mentioned Mr. Jain that the retail broking fees contribute 6% of the top line, what is the insti business contribute to the top line?

Nirmal Jain Around 4%-4.5%.

Jimit Doshi So insti plus retail contributes 10% of the top line, is that right?

Nirmal Jain Yeah, equity part.

Jimit Doshi If you can give us the breakup in terms of the cost as well, so what is the sub broking costs if you can just give us the break up on the personnel expenses in the broking part, it would be really helpful

Nirmal Jain It is difficult because both these businesses are part of one entity and one group.

Jimit Doshi Because we have heard that you had a lot of retrenchment in broking, so we would just like to have a ballpark figure in terms of percentage also it is okay, percentage of revenues, sub broking, personnel expenses?

Nirmal Jain Broking personnel expenses, if you see our standalone data that is our broking business. Most of corporate expenses including myself we are part of this company, but I can give you a broad estimate. The broking personnel cost would be around Rs. 35 crores for the quarter.

Jimit Doshi Rs. 35 crores you mean the operating expenses?



India Infoline Limited
October 25, 2013

- Nirmal Jain** No, that is the employee cost for the quarter, it has come down from Rs. 42 crores in the last quarter.
- Jimit Doshi** And your sub broking expenses?
- Nirmal Jain** If you see the operating cost decline which is 17% this quarter it is generally because of the sub broking and related cost as the volumes come down The volumes have come down only in broking, so the decline of the savings is primarily because of that.
- Jimit Doshi** So you have shut down any branches as such?
- Nirmal Jain** What happens is that we have multiple businesses. If you say that we have shut down or we have reduced the broking activities or in terms of our broking operations, we have shutdown/withdrawn from 75 branches in the last quarter.
- Jimit Doshi** Also you all have curtailed your marketing and promotion expenses as well?
- Nirmal Jain** Yeah, I think we will do further cost saving exercise over the next 2 to 3 quarters and primarily maybe we can discuss this a little bit and yesterday's press release has a comment from Venkat also. Market has changed fundamentally in the last five years and prior to that if you go back to 2003 to 2008 era then retail investors could have sort of made money in small cap mid-cap and played there but I think market now is driven by only FIIs in the last five years. The risk reward ratio for investors who are coming with smaller assets, say less than Rs. 2 lakh, would not actually merit direct equity investment. So it'll be better for them to take exposure to direct equity, even if they want to, through mutual funds and this is something which we have been telling our investors through our investor education and investor meets also. Maybe we will actively pursue this and that would mean probably that we can consolidate our broking operations significantly in terms of the number of the accounts, the number of branches and everything else, the retail part of it. In this quarter also you see the decline is significant in the retail broking and that is, I think, an industry wide phenomena.



*India Infoline Limited
October 25, 2013*

- Jimit Doshi** And what about your insti part, insti part is it steady or are you cutting down on that as well?
- Nirmal Jain** Insti part is steady, there is no question of any cutting down there, I think that business has been fairly steady.
- Jimit Doshi** So you're getting business from the FIIs and DIIS?
- Nirmal Jain** We have market share and we maintain focus on research and servicing clients, so that business has absolutely no issues.
- Jimit Doshi** You mentioned that Rs. 35 crores personnel, so that includes your retail and insti expenses, broking overall?
- Nirmal Jain** Yeah.
- Jimit Doshi** What is your AUM on the wealth management as of 2nd Quarter?
- Nirmal Jain** Rs. 44,500 crores.
- Moderator** The next question is from the line of Nischint Chawathe from Kotak Securities, please go ahead.
- Nischint Chawathe** Can you share the provisioning number for the quarter?
- Amit Mehendale** The provisioning number for the quarter is already mention in the Power Point, so for the quarter rate is 7.46 at the consol level for NBFC, out of which Rs. 4 crores is the NPA provision and balance is against standard assets.
- Nischint Chawathe** And what would be the WAPI for the 1st half?
- Nirmal Jain** The quarter WAPI is Rs.53 crores and it is close to Rs. 99 crores.
- Nischint Chawathe** I'm also looking at your broking income and swing in broking income on year-on-year basis or for the matter even on a quarter-on-quarter basis and I am just trying to kind of understand this basically. I'm looking at the capital market activity income that has come down from around Rs.135 crores to Rs.



82 crores and since I believe these are like to like numbers and I am just trying to understand as to what is it that has caused such a large swing, you did say that you have kind of recently withdrawn from around 75 odd branches and insti business remained stable, so what is it that has happened on the retail side?

Nirmal Jain

If you see the market volumes and the brokerage have come down. The retail equity brokerage is down, on a YoY bases, almost close to Rs. 30 crores and the commodity and currency is also down by another Rs. 12 - 15 crores. There is some reclassification because within the wealth also we are trying to segregate the income which is not from equity and put that now into financial product distribution. So earlier the activity head was a little different, so maybe around Rs.10 crores has shifted in terms of the classification but other than that I think the Rs. 40 - 45 crores is the real impact of the lower brokerage and as I said that the equity is down by around Rs. 30 crores and commodities down by around Rs. 15 crores.

Nischint Chawathe

Because even if I look at it on a quarter-on-quarter basis there is this particular income I believe you can have a Rs.5 crores to Rs. 10 crores swing your entire on a QoQ basis, this number goes down from Rs. 107 crores to Rs. 82 crores and I believe on our quarter-on-quarter basis at least the headline volume was up around 7% to 8%?

Nirmal Jain

But I think the cash market volume was down and that is what basically causes the difference. On quarter-on-quarter basis there was some minor decline in institutional volumes also and I think the equity brokerage quarter-on-quarter has come down by about Rs. 15 -16 crores and the commodity has been the bigger problem as all of us know, so that has been done by another Rs. 10-12 crores.

Nischint Chawathe

What could be the market share for this quarter?

Nirmal Jain

In fact market share will be maintained, 3.4% is the market share on NSE.

Nischint Chawathe

And this would be like around 3.9 or so?



India Infoline Limited
October 25, 2013

- Nirmal Jain** Yes, that is right so there is some marginal decline there but the decline is bit conscious because strategically what we are doing is that we're trying to get retail customers out of futures and options. Whatever analyses we have done of our own clients, we realized that the smaller clients are better off investing directly through mutual fund and not through direct equity. Now the transaction costs might see some impact on the revenue but I think over medium to long-term this will be good for the client also, good for us also because we will have smaller clients investing into multiple products rather than just getting into equities.
- Nischint Chawathe** Through how many branches would you be operating the retail business right now?
- Nirmal Jain** We are operating from around 225 branches, the retail equity brokerage business and we will consolidate this further over the next two quarters.
- Nischint Chawathe** And these are company-owned branches?
- Nirmal Jain** They are company-owned branches.
- Nischint Chawathe** And franchisees?
- Nirmal Jain** We have over 1500 franchises. There also we plan to consolidate by focusing more on larger ones and smaller ones will be phased out.
- Nischint Chawathe** Just to give you an order of magnitude of the proportion of business that is getting driven by franchise versus owned branches, just a broad ratio?
- Nirmal Jain** The franchisees are around 15% of our retail brokerage income.
- Nischint Chawathe** And 85% would be coming in from the 235 odd branches?
- Nirmal Jain** That is right. And last time also we had discussed in the last call also, so strategically, from a managerial band with point of view, we had decided to focus on our NBFC business, wealth business and in our equity business, the smaller customers, we would like them to be part of our financial planning and financial advisory. So as a Group, in fact, broking will evolve into



India Infoline Limited
October 25, 2013

financially advisory over some time and broking by itself will become irrelevant and very insignificant.

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

Kajal Gandhi You said that with respect to the NSEL exposure, you said you do not have a direct exposure but would we be having exposure to those clients in our NBFC book via any other product?

Nirmal Jain Actually we had clarified this. We have absolutely no exposure and even indirect exposure we do not have. So it is not that client has borrowed from us against some other security and invested in NSEL. Even that is not the case here, so in fact, none of the NSEL customer has any exposure whether on NSEL or non-NSEL, for financing.

Kajal Gandhi Can you just throw some light on this issue as such what can be the expectation going forward in this recovery?

Nirmal Jain Whatever you have read in the newspapers I have nothing more to add.

Kajal Gandhi What are the growth prospects you are looking for the NBFCs for your next couple of years?

Nirmal Jain I think good growth prospects. Maybe the last quarter was a bit subdued because of the high interest rates and liquidity concerns but if you look at Indian market then the credit is under penetrated. As our economy grows the credit penetration can improve as well as opportunities for banks and NBFCs to grow the loan book. We have a network all over the country, so I think the sector has a good potential and we should participate in this sector growth.

Kajal Gandhi Any growth targets you would like to mention?

Nirmal Jain We would not like to make any forward-looking statement

Kajal Gandhi What kind of margin you are trying to see that will be sustainable margin for long-term period in the business?



*India Infoline Limited
October 25, 2013*

Nirmal Jain Interest margin of around 7%.

Moderator We have the next question from the line of Hitesh Jhaveri from Birla Sunlife, please go ahead

Hitesh Jhaveri My question pertains to the mortgage book that, you have grown so well over the last couple of years and I'm sure would look to grow even more. The question is that how do you see the competition here over the next couple of years as you see this vying for market share and as you have grown this business over the last couple of years, have you been having any surprise in terms of how well the book is holding up in terms of not showing you the NPAs at bad times etc and in this answer if you could also touch to bit on your risk management processes in doing that business that will be helpful?

Nirmal Jain So first the clarification- this book has not grown over the last two years but has been there for the last seven years and it has been growing. This was the first product that we started. We got our NBFC license sometime late in FY2005- 2006 and we started our operations. Mortgage has been a product since then. In between 2008-2009, of course, the growth was subdued and then we caught up. Secondly, the risk management processes over the last 6-7 years have evolved very well. We had a good team and we obviously started the business by hiring people from the industry who have done this for the last 10-15 years at least. And also we invested a lot in technology, in terms of the various risk scoring models. We also rely a lot on CIBIL and there is another software – Experian, which basically helps with fraud detection. This is a very elaborate process which involves various documents, risk scoring and there are various levels of approvals based on the size of the loan. There is a central hub also. Actually, for each and every loan, personal discussion is also a must so that we get a feel of the customers. And if you really look at our business, of course, gross NPA in the last quarter has gone up marginally from 0.5 to 0.6 but we have consistently maintained very low level of NPAs throughout. Our experience is that when you are lending to primarily the retail client against home, against property that is owned and if you take care of the basic thing which is the loan to value as well as the debt burden ratio or cash flows i.e when is the loan going to be repaid. These two things are



*India Infoline Limited
October 25, 2013*

critical to make sure that your risk is taken care of. Our experience till now has been fairly good. So in terms of businesses, we started expanding our gold jewellery business but I think, RBI has clearly indicated that they don't want that business to grow, they are not happy with the product. So we have again set our focus back to mortgages and I think, this is the business which is there for the long term. We are also a housing finance company and housing finance company assets were over Rs. 700 crores as of September end which is part of the overall book, so you have HDFC, you have LIC Housing Finance, you have Dewan, you have India Bulls, so all of them are focusing on mortgage and home loans and of course they compete with banks also. But if you look at the NPA level in this segment of the banks vis-à-vis specialized housing finance companies then you will find that the housing finance company's NPA, in this product itself, is lesser. So I'm not talking about the bank's overall NPAs. If you look at bank's NPA in mortgages and home loans then it will be much more than what housing finance companies have. So obviously the focused attention of NBFC and HFC pays in this. I think market is very large. Vis-à-vis bank we have a small disadvantage in terms of cost but that is made up by being flexible in terms of the product, in terms of the tenure, in terms of turnaround time and everything else. The mortgage-to-GDP ratio in India is just around 7%-8% and which most analysts and experts will say that can be many times more and that is what is the long-term driver of this product.

Hitesh Jhaveri

Could you also talk about the growth plans on the wealth management side which has been growing pretty nicely overtime, so in terms of business model how can it be more rewarding for you and again actually one of the sub-question here is when the equity market revive and we have been seeing what is going on for last couple of months in terms of mid-cap say reviving again and at time like this the broking revenues at least in 2006-07-08 cycle did well, so on both terms in case would you have some kind of disproportionate gain in case this business revives and how are you geared in case market has I should not call may be a great bull run but in a very healthy scenario, how do you stand to benefit from this?



India Infoline Limited
October 25, 2013

Nirmal Jain

Capital market and stock market businesses are cyclical and they are very volatile. We have seen that in a good market one can make a lot of money and then it comes down but if you look at our business model, in the last 6 quarters or 8 quarters, we have consistently and significantly now derisked it. So the wealth management is more like an annuity business. The equity assets are very limited, I don't have the precise number but would not be more than even 10% or 15 %, so almost 70% would be the fixed income investment there. So wealth management will grow steadily. It is not as much driven by equity broking, it is more driven by the size of assets and that can grow at a particular pace but the good part or the positive side is that it is not negatively impact when the market goes down like last two years because it is more of the advisory fee that you get on the assets that you are advising and which is steady. So our fees are nominal, they are reasonable and they can be maintained so I think this is the first part of your question. The second is that broking when it revives, will there be a disproportionate gain? Your guess would be as good as mine but if you look at the overall scheme of things now it will not make much impact on the company because the relative share has already reduced significantly. So it'll make an impact but it will not make such a significant impact that the whole thing looks very different.

Moderator

We have the next follow-up question from the line of Jimit Doshi from Reliance Securities, please go ahead.

Jimit Doshi

I'm just looking at your press release right now and just correct me if I'm wrong the stand-alone piece is the broking business, right, that is what I understand, so it is Rs.114 crores including the other operating income? So the standalone is Rs. 114 crores but if I look at your consolidated piece and if I look at the capital market activities it is Rs.82 crores, so I just wanted to know what is the balance amount?

Nirmal Jain

So the parent company will have certain other income also like some part of the mutual fund income comes there which is classified in financial product distribution.



Jimit Doshi So that is including, the stand-alone is including the distribution or no, it is just the broking part?

Nirmal Jain We have two mutual fund codes, so one was our retail part which was there, so another mutual fund code we have in our wealth management also. So the larger part of the income will not come here but small part of the income comes here. Other than that the other charges, the margin funding income that comes there is also consolidated in the financing, the delayed paying charges from the client etc. The margin funding charges or income that comes in the securities business is also classified in financing income. Rental income as well, where some of the premises that we have extra that we put out on rent, so all those income also comes there.

Jimit Doshi Second question is, your administrative expenses if you look at it in the standalone piece it has risen quite a bit, it is now Rs. 38 crores versus sequentially it was Rs. 25 crores and year-on-year also it was Rs. 25 crores, so what is the reason for such an increase in the administrative expenses, that is all I want to know?

Nirmal Jain We had our technology outsourcing contract with IBM and which was terminated and settle in this quarter. Part of that cost has come in this and part of the expenses are now reclassification. And another thing, many of the branches and offices that we are just closing, there is a settlement and these things come as a part of this cost.

Jimit Doshi Because it has impacted your OPEX-to-income ratio and everything, so I was just wondering. In future also if you consolidating your branches and your distribution as in terms of franchisees?

Nirmal Jain What will happen, as when we consolidate, some of the write-offs of furniture, computers and all those things will come there.

Jimit Doshi But that would be insignificant, right, in terms of?

Nirmal Jain That can be lesser than this but you know what happens is we are closing the branches, the furniture, the computers either you have to sell them and there



will be some losses or some write offs on that and other than that when you have settlements and closure of the branches sometimes you have to pay the notice period and all those things.

Jimit Doshi

You explain the scenario in 2003, there was a lot of retail participation coming in, a lot of cash business was there now mostly the market is options market but now Nifty at a all-time high at least not a all-time high but closer to that, now suppose let us say for example if Nifty goes to 7000, now again the retail participation comes in assuming, so would you again focus on your broking or you're just consolidated right away? Would you be opportunistic there or it is just conscious strategy to shut it down and focus on your lending business?

Nirmal Jain

What we believe, and others can have a different opinion, that the entire market structure has changed. So the broking in the earlier form is unlikely to come back. The regulatory framework has changed and also the way the market is structured has changed. So what happens, from a small customer's point of view, although everybody is populous to say that they should be encouraged to invest in equity, but today the stocks that are doing well will be like Sun Pharma, TCS, HCL Tech or whatever, you cannot build a portfolio with these stocks if you are the direct equity investor with say Rs. 1 lakh or Rs. 2 lakh or Rs. 5 lakh. You need a larger sum of money. This is very different from the way stock market was 10 -20 years ago when even a small-cap, mid-cap portfolio would have worked. That apart, even the regulatory framework and the compliance costs has become so significant that it is very difficult to service very small customers by direct equity product, that's what our belief is. Also another thing that has happened is, over the last 10 years, a number of new mutual fund products have come and they have evolved. Now they have got a track record, and what we think based on our experience of last 10 years of this market is that the small customers they want to participate in the bull run. It is very good and they should, but they should do it through a mutual fund rather than direct equity. Although, an opportunist will say that when the market is doing a very well you can drive brokerage revenue from smaller customers because they tend to churn, they will some money, sell it again, buy something but that is not good



*India Infoline Limited
October 25, 2013*

for them because at the end of the day market will not remain bullish forever. Whenever market comes down, they end up losing more than what they made or at least a significant part of it. So based on whatever we have seen, we had 10 lakh retail customers, we believe that smaller customers should not come to direct equity. They should take equity exposure through mutual funds because that is more prudent for them. In today's scenario, even mutual funds because the entry load and everything else has been taken away, is not a great rewarding product but if you look from customer's point of view that is the smartest thing to do.

Moderator

We have the next question is from the line of Mithun Soni from GeeCee Investments, please go ahead.

Mithun Soni

I have couple of questions on your financing in the NBFC business, trying to get a handle on the strategy like what is the direction in which we are looking to take this business over the next 4 to 5 year period. We have mortgages and couple of other mostly consumer related but within mortgages also from what I understand it is more on the LAP side, so how should one see if I've to look at it from a 3 to 5 year period?

Nirmal Jain

I think strategy, we had articulated in the earlier calls also, we are very clear that we want to grow this book. The strategy we have acronymed as "ROBUST". So basically let me elaborate on all six elements of it. So "R" is the Retail part of it, our focus to will remain on retail. So even if you look at LAP or even if you look at home loans both the products are retail products, we are targeting individual customers and that will remain the key focus. So the first element of our strategy is retail and why it makes sense for us is because we have a 1500 branch network vis-à-vis many others that are operating from a smaller number of branches. We are already present in 900 cities across the country and that is what allows us to mobilize retail assets better than others and the advantage of that is that the risk is dispersed. Over long term this is a steady growth business which can give you good margins also. The second element of our strategy is "O" which is Operational Excellence because Retail again is not subjective and it has to work more like a factory, more like a process where we have risk scoring model and because



India Infoline Limited
October 25, 2013

when we are processing thousands of loans everyday then obviously it has to be done in a manner which is operationally very well tuned, very well settled and operational excellence is what we try and achieve. The third element is “B” or we say “Bouquet of products,” we want a diversified asset mix. So this is in contradistinction to mono line NBFCs, like so many of them like Shriram, Muthoot or HDFC for that matter. Ours is a multiproduct diversified mix that we are going to have because when you look at it from a longer term perspective, you have to build your business for next 10 to 20 years. We do not want to get overly concentrated in one asset class and we saw that like gold suddenly had huge termers and jitters in the last couple of quarter. We do not want to get into a situation where there is overdependence on one product or one asset class and where it can risk the entire business. Then the “U” part of is “Under banked segment” so when we say “Under banked segment” in case of borrowers we focus more on self-employed people, we focus more on smaller areas where banks may have branches but they do not disburse credit and focus more on mobilizing deposits. So we are looking at customer segments or geographies which are not overly penetrated by banks. Then I said “S” and “T”. “S” is the secured. We focus only on secured lending. We do not want to get into unsecured product and the last is “T” which is the Technology. All our branches are connected by Internet technology. To give you an example, we have around 1500 gold branches but all of them are centrally controlled in terms of the price, in terms of risk monitoring, in terms of even the picture of the customer and the jewellery. MIS, the monitoring, the risk managing everything is on real-time basis through technology. So we have invested a lot there and will continue to invest there. I hope that clarifies.

Mithun Soni

When you say retail focus in particularly you said there are under banked segments, if you're talking about self-employed people, now wanted to understand which segment again within the retail, so you're saying that the mortgages you are going to target not towards the salaried class but the non-salaried class again within that so we're focusing more on Tier-1, Tier-2 or metro customers, that is one question? And the second is, when we provide the other products like say gold loans or other financial assets or CVs ,is it the same customer whom we will be targeting in terms of the different products



or are we saying that the customer by itself is going to be different from each of these products?

Nirmal Jain

The branches are same but the customers are different. There may be some customer who may take more than one product, and secondly when we say self-employed and salaried class, it again depends on the geographies because we are targeting everything – Tier-2, Tier-3 and Tier-4. We are there in Tier-4 also and the larger cities the relative focus is more on the self-employed people and the SMEs which is Small and Medium Enterprises.

Mithun Soni

But when we target through a variety of customers, will we be able to bring a scale because understanding each and every customer is different and particularly when we talk about retail and that is fine that we may have a diversified asset profile but will it give a scale in understanding each and every customer and reaching that customer?

Nirmal Jain

Yeah, see we have a fairly large loan book, it is just reaching Rs.10,000 crores and above and every individual customer is different in that manner because every customer has to be case-by-case appraised for credit. The scale is in the process. Supposing you have got a mortgage product and once you have a risk scoring model it will basically profile the customer and give you a score. I do not think that it is really a big issue that you need to have a separate team for separate sets of customers.

Mithun Soni

What would be our net worth for this financing business as of now, about Rs.1800 crores?

Amit Mehendale

Rs. 1793 crores.

Mithun Soni

So broadly in terms of the ROE approximately we should be in the range of 12% to 15% in this segment business, right now?

Amit Mehendale

That is right.



*India Infoline Limited
October 25, 2013*

- Mithun Soni** So what would be the way, how are we targeting to increase our ROE for business like they should be in the range of (+20%), so with 20% capital adequacy ratio we already there, what is our strategy over there?
- Nirmal Jain** If you see 20% capital adequacy ratio leaves adequate room for growth of loan book because from 15% it is higher by 33%.
- Mithun Soni** But usually everyone keeps it in the range of 15% to 17% some buffer?
- Nirmal Jain** Even then there is a 25% growth potential but other than that I will answer your question. I think the key element of this will be -- till now we have not sold much of the asset. As we can down sell the asset, and most of our assets also qualify for priority sector lending, we plan to do that in the 2nd half. Basically that will boost the ROE. The way it grows is that as the loan book grows and you are sweating your branches and infrastructure more then your total margin and these things go up. What happened in our case is, we expanded our gold network and typically if you see other gold loan companies their average assets will be around Rs.5 crores per branch, our average assets are lesser, they are at around Rs.2 crores for branch. The difference is that the same gold branches now we are utilizing for other products also which is commercial vehicle, mortgages and also for distribution of life insurance products. It will take a little bit longer but it catches up so in terms of growing the loan book and we can sell down our assets and most of the other NBFCs have significant assets which are sold out, so that allows you to grow and retain the margin. What you are saying is correct, that the target would be around 20% ROE and I think we should move towards that in the next few quarters.
- Mithun Soni** So let us say in arriving at the target I want to know do contribution of three parts, one is the cost of funds do you expect it to improve there. That is one? The second is the cost to income side, what is your comfort level that this is a reasonable cost of funds and what is the credit cost you are expecting in the business profile what we are targeting?
- Nirmal Jain** So the cost of fund last quarter was excessive. Cost of fund went quite high and the liquidity was tight. Also our credit rating has just been upgraded to



AA from AA- very recently, so that should also benefit us in our cost of funds. And the third part is, our cost of fund looks higher than what it ought to be because it has a component of subordinate debt that we raise last year where our the effective cost was more than 13% per annum and that obviously is impacting our cost of fund but that is the subordinate debt which goes towards our capital adequacy and allows us to grow the book. So we believe that the cost of fund will go down. Primarily as they go down in the entire system as well as with our rating and track record, we should be able to negotiate better. Secondly cost-to-income ratio, as we said, as loan book grows, as the assets grow, the cost-to-income ratio has to come down and apart from that wherever cost-effective or cost savings methods we can adopt, we are working on that. The third is credit cost, I do not see any significant change there in terms of NPAs. I think we would continue to monitor and manage our credit risk. Again, it depends upon the macro environment but it is unlikely to be very significantly different.

Mithun Soni One last question in the capital adequacy ratio and what is the Tier-1 debt capital as of now?

Nirmal Jain 14%.

Moderator We will take the next question from the line of Rishendra Goswami from Locus Investment, please go ahead.

Rishendra Goswami Just a quick clarification what do you mean by insurance WAPI, is that the premium income for the company?

Nirmal Jain Weighted Annualized Premium Income that is the premium income.

Rishendra Goswami What were your revenues from these premium that you collected, if you can disclose that?

Nirmal Jain I think we have disclosed all this put together, so it is there in the presentation but that is insurance, mutual fund all product put together. About in Rs.91 crores in a quarter.



India Infoline Limited
October 25, 2013

Rishendra Goswami I just wanted to know disclosing what is the insurance income out of that Rs. 91 crores was?

Nirmal Jain Could be around 30% - 35%.

Rishendra Goswami Just a smaller clarification if I look at the quarter-on-quarter numbers including broking as well as distribution it is down about Rs. 20 crores to Rs. 22 crores, so the entire Rs. 22 crores quarter-on-quarter is from the equity broking side?

Nirmal Jain And commodities also.

Rishendra Goswami What I'm trying to say is from Quarter 1 to Quarter 2, what was the hit that you took in the equity broking and the commodity broking pool, the absolute crore amount versus what did you make up in the distribution, the absolute crore amount?

Nirmal Jain So there is Rs. 15- Rs. 16 crores drop in the equity broking, around Rs.12 crores in the commodity and currency also there was a drop and the distribution income is up marginally on the whole but of course our cost is down basically if you look at our operating costs is down from 89 to 73. So the drop has been made up not by distribution alone but by the cost-cutting.

Moderator We have the last question from the line of Nikhil Paranjape from ICICI Prudential, please go ahead.

Nikhil Paranjape My question is on the asset quality although the increase is not really much but in terms of the segmental incremental NPAs that are coming, do you see any trend in that is it from a particular segment or a particular asset class?

Nirmal Jain So there is some rise in NPA in the mortgage segment primarily.

Nikhil Paranjape Not from the gold loan?

Nirmal Jain No, gold loan is a very marginal movement nothing much. But on the whole the difference is very small but it is just the movement of the quarter-over-quarter.



*India Infoline Limited
October 25, 2013*

Nikhil Paranjape Basically within the mortgage segment essentially the large ticket and the real estate or builder portfolio continues to be about 9% to 10% or has that increased?

Nirmal Jain Yeah, it is in that range.

Nikhil Paranjape Actually another interesting point that you mentioned the you are diversifying in terms of very asset class so that there is no dependence on one particular but as I see right now actually mortgage is becoming larger and larger proportion of your book and incrementally I assume that that is going to see higher growth as compared to let us say a definitely not gold loan will grow with that amount but I am not sure if CV or medical equipment will grow as the mortgage will grow, so essentially is not the exposure to real estate or really the property prices, the risk with respect to that is increasing as we go ahead?

Nirmal Jain In case of the commercial vehicles, the last two quarters have been exceptionally bad because there has been a de-growth and also the collection efficiency has fallen to almost multi-year low. So we have set up the segment, we have been doing a lot of work on it for quite some time and I think as soon as you see the turnaround in the economy then commercial vehicle can grow much faster and it can contribute more than that. Within mortgages also, although the mortgage is one term, so there is home loan and then there are the SME loans. They are different products because the underlying variables are different in terms of their capacity to repay and everything else. So will have to split that but I think as the economy turns back, commercial vehicles can be a more significant part of the overall business. We do not distinguish SME but SME home loan will also be a part of this mortgage so they will also grow simultaneously and they are different products.

Nikhil Paranjape Basically I see the other financial assets have actually increased quarter-over-quarter basis and what would be the yield actually on these other financial assets?



*India Infoline Limited
October 25, 2013*

- Nirmal Jain** What happened is that towards the end of the quarter we raised Rs. 1,050 crores. Allotment was done on the last day. That money cannot be used on one day, so I think that is the key reason.
- Moderator** I would now like to hand the floor back to Ms. Shraddha Kamat for closing comments. Thank you and over to you ma'am.
- Shraddha Kamat** Thank you all for participating, if you have any more queries you can send it over to our investor relations. Thank you and have a good day.
- Moderator** Ladies and gentlemen on behalf of India Infoline Ltd. that concludes this conference call. Thank you for joining us, you may now disconnect your lines.