IIFL Holdings Limited

Consolidated Financial Results - Q2FY16

Conference Call Transcript

October 26, 2015

MANAGEMENT: MR. NIRMAL JAIN – GROUP CHAIRMAN – IIFL HOLDINGS LIMITED
MR. R. VENKATARAMAN – MANAGING DIRECTOR, IIFL HOLDINGS LIMITED
MS. RAJASHREE NAMBIAR – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER, INDIA INFOLINE FINANCE LIMITED
MR. PARAG SHAH – CHIEF FINANCIAL OFFICER, IIFL HOLDINGS LIMITED
MR. MILIND GANDHI – CHIEF FINANCIAL OFFICER, INDIA INFOLINE FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Conference Call to discuss the Consolidated Financial Results of IIFL Holdings Limited for the quarter ended September 30, 2015. 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 assistance during the conference call, please signal an operator by pressing * then 0 on your Touchtone phone. I would now like to hand the conference over to Mr. Venkataraman – Managing Director, IIFL Holdings Limited. Thank you and over to you, sir.

R. Venkataraman: On behalf of team IIFL, I thank you for joining us on this call. I am accompanied by Mr. Nirmal Jain – Our Group Chairman; Ms. Rajashree Nambiar – CEO of India Infoline Finance Limited; Mr. Parag Shah – CFO of IIFL Holdings Limited and Mr. Milind Gandhi – CFO of India Infoline Finance Limited.

In today's call, we would be referring to our consolidated number, unless otherwise specifically stated, as it provides a true and fair representation of our performance. Further, any of us may today make some forward-looking statements based on management's current expectations. However, the actual results may vary significantly. Therefore, the accuracy or completeness of these expectations cannot be guaranteed.

It appears India is on a path of a gradual economic recovery aided by an accommodative monetary policy, benign inflationary conditions, lower global oil and commodity prices. The Reserve Bank of India cut Repo rate by 50 basis points on September 29, 2015 and we expect further downward adjustment to RBI's both interest rate and inflation trajectory. Although India remains a bright spot in the emerging market basket, the US Fed may increase the interest rates by 25 basis points in the coming year, which may cause a shift in global investments from emerging markets and might affect India as well.

Our consumer finance and wealth businesses continue to show steady traction. The capital markets related activity is remained volatile although long-term potential remains sanguine given the low level of a penetration of financial assets in our country. The pickup in the overall macro-economic activity should also translate to an increase in the capital market activities in the medium to long-term.

Update on Fairfax offer: As per the information received from ICICI Securities Limited (manager to the offer), the letter of offer for the open offer with reference to acquiring 26% of the post offer equity share capital of the company from public shareholders made by the Fairfax Group, after due SEBI approval, has been dispatched by ICICI Securities Limited to the shareholders of the company. The open offer tendering period is scheduled to commence on October 29, 2015 and will expire on November 13, 2015.

Strategic growth investment in IIFL Wealth Management by General Atlantic Singapore Funds Limited: The board of directors of the company and its Wealth management subsidiary have approved, subject to obtaining the necessary regulatory and shareholder approvals, investment by General Atlantic, a leading global private equity growth fund firm at a pre-money valuation of about Rs. 4,000 crores on a fully diluted basis. On full conversion of warrants, which may take up to 18 months, the proposed transaction will result in an aggregate investment by General Atlantic of up to Rs. 963 crores in IIFL Wealth.

Additionally, General Atlantic will also buying bank shares worth approximately Rs. 160 crores from the employees through secondary transactions, which results in a total investment of about Rs. 1,122 crores from General Atlantic. This will translate to an equity ownership of GA of up to 21.61% in IIFL Wealth on a fully diluted basis, considering full exercise of all the warrants and stock options. The proposed transaction would provide IIFL Wealth the additional capital for existing operations and for other general corporate purposes. The money being raised will also be used for growth and expansion of the wealth business.

With this I handover to Ms. Rajashree Nambiar for overview of the NBFC business. Thank you.

Rajashree Nambiar: Thank you, Venkat. In line with an encouraging economic environment, NBFC has registered another quarter of steady financial performance. Our quarter end loan books stood at Rs. 15,472 crores up 19% year-on-year. Profit-after-tax stands at Rs. 81.4 crores for the quarter, up 8% y-o-y. This consistent financial performance comes on the back of a well-diversified product suite comprising home loans, LAP, gold loan, capital market loan, medical equipment finance and commercial vehicle finance.

On the home loan front, we have seen strong impetus from an increased demand for affordable housing in Tier 2 and 3 cities as well as in the peripheries of the metros. What has also helped is the government's focus on financial inclusion and favourable policy regime. At IIFL, we are well placed with 600 approved projects and our recent investments in sales capacity and infrastructure in this business is paying off.

Commercial vehicles – Overall, the industry has recorded a y-o-y growth of 12.1%, as on Sep-15. Industry growth is largely driven by the medium and heavy commercial vehicles and the LCV segment while the HCV has de-grown by 18.4% y-o-y. Again, at IIFL we are strategically positioned because the 80% of our portfolio comprises the growing segments.

On the gold loan side, the quarter has seen a further optimization of branches and operational efficiency. In addition, concerted collection drive is in line with the sharp drop in gold price for the quarter. We have also forayed in to digital acquisition on the back of strategic tie-up that we have done with large marketplaces for seller financing. Currently, we have festive campaigns in place with Flipkart and Snapdeal covering 10,000 sellers who have been pre-selected basis analytics.

Coming to liquidity and cost of funds - In addition to improving profitability, the liquidity profile has improved, wherein our dependence on short-term borrowings has reduced further this quarter. Our cost of funds has dropped marginally to 10.4%. On the risk management front this quarter, we have contained the NPA numbers and we have seen a reduction of 20 basis points. We expect NPA to be stable in the coming quarters through the initiatives that we have put in place, namely, investment in collection infrastructure and people. We now have more than 550 dedicated collectors. We have also invested in technology. We have seen collection through tablets and e-auctions; also, online collections as we tied up with payment aggregators.

On the cost front, strong discipline has been maintained. Our cost-to-income ratio has reduced to 38.5% from 40.5% in the previous quarter. We have merged and rationalized some of our gold loan branches, which has resulted in fees and rentals. The rationalization of our gold loan staff in these merged branches has provided room for adding much needed head count support to front-end staff and key support functions like collections and risk.

Therefore, in summary for the NBFC, a diversified products suite, stable liquidity position, strong cost discipline and a contemporary approach, we believe places ourselves in a great position to capitalize on a conducive external environment as we embark on a phase of sustained growth.

With this I now handover to Mr. Milind Gandhi for an overview of the group's financials.

Milind Gandhi: Thank you, Rajashree. For the quarter ended September 30, 2015 Q2 FY16, our total income was at Rs. 1,031.9 crores up 15% y-o-y and 7% q-o-q. Our profit before tax was Rs. 216.3 crores up 24% y-o-y and 15% q-o-q. The net profit was Rs. 140.3 crores up 28% y-o-y and 30% q-o-q. For the half year ended September 30, 2015, the consolidated income stood at Rs. 1,995.8 crores up 18% y-o-y with PAT at Rs. 248 crores up 22% y-o-y.

Now, I will take you through the NBFC financials. For Q2 FY16, income was Rs. 721.9 crores up 18% y-o-y and 3% q-o-q. Interest cost was Rs. 380.1 crores up 12% y-o-y and down 2% q-o-q. This segment constitutes close to 70% of the total income for the quarter. For the half year ended September 30, 2015, the consolidated income stood at Rs. 1,423.9 crores, up 22% y-o-y and PAT at Rs. 154.6 crores, up 8% y-o-y.

Our quarter end loan book stood at Rs. 15,472 crores up 19% y-o-y. Our loan book comprises home loan, loan against property, gold loan, capital market, medical equipment and commercial vehicle finance. Mortgage loan portfolio stood at Rs. 7,839 crores this quarter, up 31% y-o-y and forms a dominant part of the loan book at 51%.

Our gross NPAs and net NPAs have fallen to at 1.4% and 0.5% respectively as on September 30, 2015 against 1.6% and 0.8% in the previous quarter. Against gross NPA of Rs. 219.3 crores, we have non-standard asset provision of Rs. 140.2 crores. Besides this, we have a provision of Rs. 66 crores for standard assets. As per statutory requirements, total provision coverage including standard asset provision as a percentage of gross NPA stands at 94%.

Now, I will take you through the financial product distribution business. During the quarter, our income from this segment was Rs. 151.8 crores up 16% y-o-y and 20% q-o-q. This segment primarily includes significant part of wealth management income besides, income from distribution of insurance and mutual fund products, realty and property advisory services. Total assets under advice distribution and management were Rs. 77,615 crores compared with Rs. 75,521 crores in the previous quarter.

I now move on to capital market activities business. Revenue for the quarter for this segment was Rs. 110.8 crores down 1% year-on-year and up 4% q-o-q. The average daily equity turnover was Rs. 7,007 crores in Q2FY16 down 4% y-o-y and 9% q-o-q, while exchange turnover was down 9% y-o-y and up 2%, q-o-q. IIFL Markets, our proprietary mobile trading platform, has received overwhelming response with 250,000 downloads since February 2015.

Now I shall take up major cost heads. For the quarter, our operating cost was Rs. 122.3 crores, up 32% y-o-y and 21% q-o-q. Employee cost for the quarter was Rs. 176.9 crores up 10% y-o-y and 11% q-o-q. Other cost primarily including admin costs were Rs. 103.9 crores for the quarter. Depreciation cost in the quarter was Rs. 16.7 crores.

I now leave the floor open for any questions.

Moderator: Thank you very much, sir. We will now begin the question and answer session. We have the first question from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: My question is the capital, which you are getting now about Rs. 11.2 billion, will that capital be strictly utilized only for IIFL Wealth or is the capital also available for other businesses of IIFL? There has been sharp drop in gold prices as you mentioned. So going forward, do we see any impact on the NPA side on this segment?

Anita Rangan: On the sharp drop on the gold prices, do we see any impact on the NPA side, going forward?

Nirmal Jain: Answering the first question - No, I do not think that we have any such plans or we can do this from a governance perspective that you raise money in one business and use it in the other business. Moreover, it is not an efficient way of raising and using capital. So, the money that is raised will be exclusively and entirely used only for Wealth business. In addition, I think the valid question in the minds of many analysts would be why does wealth, a fee-based business, would need this kind of capital. In terms of the construct of the transaction, I think most of you would be clear by now that we are getting Rs. 316 crores into the company and there is another Rs. 600 crores, the balance warrant money that will come over in next 18 months. Employees are selling some shares to General Atlantic but IIFL Holding is not selling any of its stake or any of its shares to the private equity investor.

Now this money, which will be raised over 18 months, there are three main uses. One is alternate investment fund that we plan to have in our family offices. In alternate investment fund construct where, as a sponsor, we need to contribute 5% of capital or up to Rs. 10 crores per family or per fund that we set-up as a family office.

Second, over time, may be next 12 - 18 months, we would look for another NBFC license for our Wealth business and separate the HNI customers funding from the retail funding that is a focus of our existing NBFC business. HNI clients' funding is or maybe almost entirely is loan against shares. Therefore, from a risk and margin perspective, that would not fit in our existing NBFC. However, this is subject to us getting another license for NBFC in IIFL Wealth or as a subsidiary of IIFL Wealth. Thirdly, we will also look at inorganic growth opportunity in Wealth business and some acquisition opportunities.

Coming to your second question, I think gold loan prices have not fallen in recent quarter but they have been falling in previous quarter and they fell a year ago also. If you look at our gold loan portfolio, it has come down significantly - almost 18% of our book. So this is in line with our strategy, where we wanted gold loan to be around 20% of our books and it might hover between 18% - 22%. Gold loan is a volatile product but if you lend at 60% or up to 75% of CV and collect your interest with a disciplined approached then I think you are fairly immune from the volatile prices. There can be impact but it is not so significant.

Moderator: Thank you. The next question is from the line of Gokul Maheshwari from Allard Partners. Please go ahead.

Gokul Maheshwari: Again a question on the gold loan book. More from a three-year perspective, how are you thinking about this business? Is this more like a fill-up business for you or is this something where you want to be strategically placed for the longer term? And if you could also give a color on what is happening at the ground level, at the industry level, within banks versus NBFCs with respect to gold loan?

Rajashree Nambiar: So first, I will tell you about what is really happening on the ground level. This quarter, we have actually lost about Rs. 500 crores of the gold loan book and part of it has been strategically driven. We have spoken about this before that gold will not exceed 20% of the overall portfolio. However, during the quarter, there was a period of about 50 odd days when the gold prices really sunk, because of which the sentiment has really subdued and the retail uptake has slowed. That is why it has been little difficult to write new gold loan business. In addition, on the ground because of the price volatility, there has been a lot of effort on collection and especially on the mark-to-market process, which is essential to insure that our margins are safe.

As far as IIFL is concerned, over the next three years, we will consolidate the gold book and it will stay within 20% of our portfolio. However, the business model has been extremely profitable and efficient. Many steps we have taken to bring down our cost of operations, to digitize our sales service and collections, to bring in MTM processes. Essentially all of this and the biggest part to really retailize book so, look at small ticket gold loan, which is profitable will ensure that this is a profitable model but which is sort of constrained and kept to 20% on portfolio.

Gokul Maheshwari: And just a follow up on this. Would you be actually, because this business requires the retail branch network franchise, would you be leveraging your other existing branches, the Wealth branches, or as you scale down the business strategically, you will also be reducing the branch network?

Rajashree Nambiar: Actually, we have been doing that. We had 1,400 gold loan branches; as on September 30, we have 1,007 gold loan branches. That distribution footprint in our view is adequate for us to cover the catchments and the markets that we are looking at. We would not really need any more branches. The idea is to grow the retail book.

Moderator: Thank you. The next question is from the line of Vignesh Srinivasan from Unifi Capital. Please go ahead.

Vignesh Srinivasan: My question is regarding a news item wherein Fairfax has decided to restrict its voting rights up to 25%. I would like to know how long is the arrangement, is it forever or it is for a period?

Nirmal Jain: No, it is forever. Fairfax is a passive investor and in any case, they did not have interest in taking the control or management, so this is forever that whatever be their shareholdings, their voting rights will be either the shareholding or 25% whichever is more. So, it will never exceed 25% of the total capital.

Vignesh Srinivasan: So it will be formalized by an agreement or it is just an understanding?

Nirmal Jain: No, it is a part of their Letter of Offer, and it will be formalized. We are not in the part of the open offer, but as a part of their commitment to SEBI, they have given this.

Vignesh Srinivasan: Okay so in case they would like to exercise their complete voting rights they have to get approval from SEBI in the future.

Nirmal Jain: Yes, that is right. I think they will need SEBI's approval also and of course, the company's approval also.

Moderator: Thank you. The next question is from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.

Vinay Shah: This is actually the question on the Wealth side. So, what would be the shareholding post this transaction because as per the presentation, 54% roughly would be IIFL Holding and 22% on fully dilution business would be GA. Who would be the major stakeholder here?

Nirmal Jain: **E**mployees will be around 24.5%, the remaining part. Employees have been given some more ESOP in the last quarter. Before GA investment, we have made employee stock option scheme to take care of the existing employee and provide for some future employees.

Vinay Shah: Okay so this 22% does not include the employee share.

Nirmal Jain: No, this 22% includes employee shares sold to GA but, employees have sold only a small part of their shareholdings, so after this, employees will be still left with around 24% - 25% of the total capital.

Vinay Shah: And this money will be used, as you mentioned, for the Wealth business. How about NBFC? When we can see the next infusion for the NBFC?

Nirmal Jain: So if you see our NBFC, our leveraging is not extraordinarily high, because we also have a housing finance business that is growing rapidly and the leveraging includes that too. If you look at most of the housing finance companies, their leverage is almost 10 to 12 times. And our capital adequacy is now 19% plus. So in the previous quarters there was some anomaly because inter-group advances or balances were knocked off from the Tier 1 capital, which we have corrected now. However, NBFC will be raising capital and our plan is to raise capital in this financial year. Maybe next six months, we should do some transaction.

Vinay Shah: Fair point, I agree there is sufficient cushion in the capital adequacy. But considering the fact that you may require infusing more equity in the housing finance arm and standalone NBFC capital adequacy is around 17% right now?

Nirmal Jain: It is 19% not 17%. But you are right; we plan to raise capital in NBFC in next 6 to 9 months.

Vinay Shah: And there has been reduction in the NPA. What would have been the absolute amount that would have moved quarter-on-quarter gross NPA?

Nirmal Jain: Our NPA in gross amount has come down from Rs. 238 crores to Rs. 219 crores.

Vinay Shah: And this reduction would have been largely because of which product?

Nirmal Jain: Largely on account of LAP. As Rajashree has mentioned, we have tightened our collection and put more resources there. Hopefully, we will see some more improvement over next one or two quarters.

Vinay Shah: And there is a growth in the mortgage portfolio - the overall proportion in the portfolio has increased to 51%, so this growth has come from which segment, the wholesale or the retail piece?

Nirmal Jain: So our entire growth is from the home loan segment and within the retail piece, small Home Loans. In last quarterly call too, we had mentioned that our thrust for growth is through a small ticket home loan.

Vinay Shah: Just one data entry point. If you can update on the auction that we have done in this quarter and this first half?

Nirmal Jain: In IIFL Wealth or IIFL?

Vinay Shah: IIFL gold loan portfolio?

Nirmal Jain: It is in the normal course of the business, every quarter we do about Rs. 80 crores to Rs. 100 crores. So, it is in the same range.

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

Nishchint Chawathe: I was just curious to understand the utilization of funds and somewhere you mentioned that you are setting up an NBFC for some specific lines of activities. I did not quite catch that, so maybe if you could just repeat.

Nirmal Jain: I think the question was that would this Wealth money be utilized for other group companies? So the answer was no, the Wealth money will be utilized only for Wealth and for no other group companies. Then the second question is that where will this be utilized. So, in the company Rs. 300 odd crores will come in now and Rs. 600 crores will come on full convergent of warrant, over say next 18 months. There are three things that we are planning and focusing on for the use of funds. One is there may be a separate NBFC set up for Wealth because HNI lending is different from Retail lending and from a risk perspective as well as client confidentiality perspective, we will separate it. But this is subject to we getting a license for NBFC as a subsidiary for Wealth or as Wealth itself. Secondly, we plan to do our family operations in AIF structure where our family office is converted into an AIF where as a sponsor you are putting 5% of capital subject to Rs. 10 crores as the upper limit. So, that is another activity, which, we may take up, and if we push this product aggressively then this will require capital. Thirdly, we will look at inorganic opportunities to acquire and grow our Wealth business. These are the three usages of funds, apart from general corporate purposes, technology, etc.

Nishchint Chawathe: Just a clarification the Fairfax open offer is all set to open on 29th, there are no approvals pending or anything like that.

Nirmal Jain: So approvals are pending but they are in due course. I think the offer will open and will close hopefully in time. There is no problem there.

Nishchint Chawathe: Whatever are the approvals should be kind of done by 29th that is what you are saying?

Nirmal Jain: Yes, the offer opens on 29th and will close on 13th of November because they should be open for 10 working days; with Diwali, there are few holidays. I think the closure will be another week after that. Before that, all the approvals will be in place hopefully.

Nishchint Chawathe: Any sense on the Insurance premiums that you would have written this quarter? Any color in terms of y-o-y growth or a specific number that you can share?

R. Venkataraman: This quarter, we have written about Rs. 42.7 crores of insurance premium and the previous quarter was about Rs. 41.2 crores. The similar figure for the previous year was about Rs. 49 crores. So there has been some year-on-year de-growth.

Nishchint Chawathe: From the existing loan book of the NBFC based on the way you are going to do division of the business, how much could be transferred to the new NBFC that you would setup?

Nirmal Jain: No, actually it would not be transferred as such, but maybe new loans of that type. When you look at the HNI clients' loan against shares in the NBFC book, it is around Rs. 2,000 crores out of around Rs. 16,000 crores book. So it is 1/8th about 12.5% of NBFC book. This is a low margin business because if you look at our NIM, it is around 6% - 7% and typically, to HNI investors you cannot really lend at more than 11% - 12%. From a NBFC's perspective, this does not fit into the overall strategic growth plan. At an appropriate opportunity, we can separate it and as I mentioned that from client confidentiality, risk management perspective, it is a completely different business. Our NBFC is increasingly focused on retail small ticket business.

Nishchint Chawathe: Sir, actually just on this particular point on the leverage front you are setting up various companies which will obviously help you to leverage to different levels. But if I look at the rating rationales that rating agencies have put out, what they are essentially saying is that they are looking at your overall net-worth or your overall business on a consolidated basis. So I was just curious if that will actually work out when your leverage is pushed to the edge.

Nirmal Jain: No, but our leverage is not pushed to the edge. If you look at our book, housing finance is where most of the growth or the entire growth is coming from. And if you look at most of the housing finance companies, then their leverage is almost 10 to 12 times. Secondly, when you look at the rating rationale, they derive comfort not from the net-worth of the consolidated group as much as they derive comfort from the fee-based income, and the diversity of income. So you look at then we are unique in terms of a very significant share of income coming from fee where there is a Broking or Wealth Management or Insurance, or our Mutual Fund Distribution. So that gives more stability to the earnings compared to net-worth alone and I think, the entire leverage will come from NBFC and that is a separate business by itself.

Nishchint Chawathe: I have just one last question and that pertains to the net interest income number. I have two net interest income numbers. One is reported for the NBFC business, and the other is interest income minus expenses on a consolidated basis. And as I am able to see, there is a sharp difference between the two. I guess the difference between the two last year used to be like around Rs. 30 crores, Rs. 50 crores, and this year in the first and the second quarter each it is somewhere close to around Rs. 80 to Rs. 90 crores. I would assume that this is essentially the return that you would be getting on your treasury or some of the other investments. But I was curious to know as to why the difference has increased so much on a y-o-y basis specifically in an environment where interest rates are going down?

Nirmal Jain: Not clear. Which numbers are you referring to the NBFC number in the NBFC slide or?

Nishchint Chawathe: So I am referring to the NBFC interest and NBFC expenses this is one number that is there. The other is if I look at on a consolidated basis you have our interest income and interest expenses. So I am just doing like a B minus A trying to understand what the income is or what is the net interest income that you are generating within IIFL excluding the NBFC business and that number seems to have widened on a year-on-year basis?

Nirmal Jain: So that may be a dividend from the subsidiaries, which has come in the parent company this year earlier. However, I think maybe the processing fee which is in NBFC's other income might be getting excluded in this. There are more liquid assets on treasury income but I do not see a reason for that widening in a significant manner. But net interest margin has moved up in this quarter a little bit primarily because the cost of funds has gone down. And in the last quarter as in the transition phase, we ended up with lot of liquid money staying in our books because we could not repay the bank loan earlier for negotiation. We had mentioned last quarter as well so we suffered a little bit on that account which has been set right in this quarter. And the mix of business, although gold loan is going down, commercial vehicle is rising which protects our margins.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: So my question was on your NBFC. This 20% of your book, which is capital market, is it fair to assume this will completely roll down on a one-year basis now.

Nirmal Jain: Nothing will happen to this in the immediate future because as of now, we do not have any licenses for NBFC and of course, the process will take time.

Saurabh Kumar: Okay, but I am guessing these are short-term loans right, this will be like 3 to 6 months loans?

Nirmal Jain: Most of the HNI loans are short-term loans and they are loan against share most of them. Yes, you are right.

Saurabh Kumar: Okay, so whenever you get the license there then maybe in six months that book can.

Nirmal Jain: Maybe, a more elegant way of doing is that, incrementally it will be done there. But I think this is again contingent upon getting the license.

Saurabh Kumar: And sir, second question is on your yield on the portfolio. Assuming that this capital market business remains for the next one year, your mortgage will continue to grow and your gold will continue to decrease. So is it fair to say that your yield on loan should continue to trend down at the similar levels we have seen in the last one year?

Nirmal Jain: There are two, three things. One is that gold I think now should stabilize. It should not decrease further but it may grow. And in last quarter just for the clarification, we did about Rs. 150 crores - Rs. 200 crores of securitization in gold. So the book has gone down by Rs. 500 crores, but the organic decline is just about Rs. 300 crores. Secondly, of course, mortgage will continue to grow and our cost of fund should go down. Then cost-to-income ratio should also go down. Because if we really see cost-to-income ratio is significantly lower in mortgages as compared to gold loan and other products.

Saurabh Kumar: No, I was just asking about your yield. So the yield should continue to at least trend down, right.

Nirmal Jain: That is right.

Saurabh Kumar: And one final question on your cost of funds, I think you had a one rating upgrade last quarter. So that full impact would not have come in this quarter, right?

Nirmal Jain: No, I think cost of fund should further go down since the impact would not have come by now.

Moderator: Thank you. The next question is from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.

Vinay Shah: So if I understood correctly since capital market would eventually move to the Wealth business once you get the license and all.

Nirmal Jain: That is right.

Vinay Shah: And out of this 20%, which is probably Rs. 3,000 crores of the total portfolio, how much would be Retail cum HNI and how much would be promoter funding here?

Nirmal Jain: We do not do promoter funding. And retail would be relatively very small part of it.

Vinay Shah: So large part of it would be HNI only?

Nirmal Jain: Yes, of the loan against share portfolio.

Vinay Shah: And on the open offer by Fairfax - basically, right now, their stake is 9% and they intend to make an open offer of another 26%?

Nirmal Jain: Their stake is 9% directly and 5% is through P-Notes, so it is 14% and they made an open offer of 26%, yes.

Vinay Shah: So if they have 100% subscription, then it may eventually will be go to 40%.

Nirmal Jain: Theoretically, yes.

Vinay Shah: Which will be higher than promoter's stake in the company?

Nirmal Jain: That is right.

Vinay Shah: And that may include Carlyle shares?

Nirmal Jain: No, I mean how I would know that. It is up to Carlyle to decide. But as I explained in the earlier question that regardless of their shareholding, they made a public announcement that their voting rights will be restricted to 25%. So there is no change in the management or control of the company.

Vinay Shah: Okay that was the point, right. And I just want to understand your sense on the present developer-funding portfolio at the industry level because there has been a lull in the market and there has been lot of inventory being piled up?

Nirmal Jain: So one has to be extremely cautious on developer funding particularly in the high price pockets of mostly Mumbai and maybe Delhi also.

Vinay Shah: So you see any particular stress building in specific region or something.

Nirmal Jain: No, I think sales are slow so there is a stress and one has to be cautious in this portfolio.

Moderator: Thank you. The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla: My question is on your mortgage book. Could you give the absolute value of your Retail Mortgage and LAP book separately and just comment on the competitive intensity and growth outlook for both these segments?

Rajashree Nambiar: Retail mortgage is about 36% of the total portfolio and corporate should be a little less than 15%. If you want just in mortgage, retail should be about 75%, which includes Home Loans and LAP.

Manish Shukla: And LAP separately, would be how much?

Rajashree Nambiar: Half the book is LAP.

Manish Shukla: And how about the competitive intensity in both the segments separately and what do you expect in terms of your own growth outlook for these segments?

Rajashree Nambiar: Obviously, it's a no brainer that there is extreme competitive intensity especially in the housing finance space in particular but we think that we do have what it takes for us to given our business plan. So what we have really done is our USP come from the direct sales team that we have created, it is a proprietary sales force, we now have about 500 people who are on that team. Secondly, on the ground, we think our builder relationships are quite strong, we have (+600) approved projects which we have signed up.

Also, we think that from a competition point of view, given our focus on technology, quick turnaround approval and principles, door step services etc., gives us the edge and we seem to be getting the business as you would have seen from our loan volume. As far as LAP is concerned, we do face competition because our pricing is 25 to 50 bps higher than many of the players there. But on the LAP, we have been doing this business for almost 7 years now. We have localized underwriting and what is really helping us is that as we are building up the distribution infrastructure, we take decisions in a decentralized manner because we place senior resources across the distribution footprint especially in our key catchment markets. So this entire put together, we think we do have what it takes - the edge.

Manish Shukla: Okay, my last question is the recent risk weight reductions in order to get housing loan. How much does that add to your capital?

Milind Gandhi: See, we have done some calculations, which is based on the guidelines which NHB has given so that could be around 60 to 65 basis points of our capital adequacy will improve to, and to that extent we may require lesser capital.

Moderator: Thank you. The next question is from the line of Rishindra Goswami from Locus Investment. Please go ahead.

Rishindra Goswami: Just a quick few data question one is what is the size of the developer book now?

Rajashree Nambiar: So I just mentioned that the book we have about 15% of the overall portfolio.

Rishindra Goswami: So 15% of Rs. 15,472 crores?

Rajashree Nambiar: Yes.

Rishindra Goswami: And what is the total borrowing in NBFC now?

Milind Gandhi: Total borrowing at a consolidated level would be around Rs. 13,900 crores.

Rishindra Goswami: Right and in the NBFC?

Milind Gandhi: It is at a consol level.

Rishindra Goswami: Consol NBFC or the consol overall entity?

Milind Gandhi: I am talking about consol NBFC.

Rishindra Goswami: And, what is the total employee number in NBFC now?

Milind Gandhi: It is around 7,799 so you can take it around 7800.

Rishindra Goswami: Does this include the HFC staff as well?

Milind Gandhi: Yes, it does include.

Rishindra Goswami: And what is the employee strength in the HFC alone?

Milind Gandhi: Around 1,200.

Rishindra Goswami: And just one last question, there was a little bit of a quarter-on-quarter jump in the OPEX in the overall NBFC for last two quarters. So anything, in particular that is driving it.

Rajashree Nambiar: No, as I had mentioned to you that essentially we have two of our key growth engines, which are mortgages and commercial vehicles. They are in the growth space and that is the reason we have invested in capacity, so there has been addition of headcount both in the HFC as Milind just told you we have 1,200 people. We were just about 140 of them about a year back. So, we have added capacity in these places like commercial vehicles and in mortgages. We have also created a dedicated collections infrastructure. Plus, we have also invested in infrastructure because we now have 45 dedicated HFC branches and we are adding some 15 more this quarter. Plus some investments that we have done on the backend systems, technology platform. So all of that, while the volumes are also paying off as you can see, but the operating expenses in the short run will obviously sort of move up a bit.

Rishindra Goswami: And what are the total branches in the NBFC business now?

Rajashree Nambiar: 1,007 and add to that we have 45 dedicated HFC branches.

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

Nishchint Chawathe: One was on the NBFC business, what were the employee expenses?

Milind Gandhi: Employees' expense for the quarter is around Rs. 67 crores.

Nishchint Chawathe: And it was like Rs. 66 crores last quarter?

Milind Gandhi: Yes, so it is almost flattish.

Nishchint Chawathe: And just a clarification your securitization income is booked in the other income line item, right?

Milind Gandhi: No, it is booked in the interest income.

Moderator: Thank you. That was the last question from the participant.

R. Venkataraman: Thank you very much for participating in the call. Have a nice day and if you have any further queries please, feel free to reach out to us or to our Investor Relations department. Thank you so much and have a nice day.

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