IIFLWAM Earnings Call Q2 FY23 - October 20, 2022

- **Moderator:**

- A very good afternoon ladies and gentlemen, and good day and welcome to IIFL Wealth and Asset Management's Q2 FY 23 Earnings Call. As a reminder all participant lines will be in listen only mode. There will be an opportunity for you to ask questions after the management shares their thoughts. Should you require assistance during the conference, please signal the host by tapping on the raised hand icon. Please note that this conference is being recorded. On the call today we have with us -Mr. Karan Bhagat, Managing Director and CEO, Mr. Yatin Shah, Co-Founder of IIFL Wealth & Asset Management and Jt. CEO Wealth, Mr. Anirudh Taparia, Co-Founder and Jt. CEO Wealth, Mr. Anshuman Maheshwary, Chief Operating Officer, Mr. Sanjay Wadhwa, Chief Financial Officer. I now hand it over to Sanjay to take this conference forward.

- **Mr. Sanjay Wadhwa – Chief Financial Officer, IIFL Wealth & Asset Management:**

- Thank you, Anil, and good afternoon to everyone on the call today.

- The financial markets during the quarter ended in the positive territory, however, came in with elevated volatility as strong DII flows competed and countered net outflows from FII. The macro factors remained relatively resilient amidst weakening global environment, with performance parameters indicating recovery in domestic activity and INR holding up "relatively" well in the environment of free fall of currencies. With that said, the sentiment continues to remain cautious on the back of headwinds from extended geopolitical tensions and tightening global financial conditions.

- Amidst all that, we are happy to give an overview of the current quarter at IIFLWAM. Diversified portfolio mix, healthy net flows for the quarter and continued focus on recurring revenue streams, have held us in good stead. From that aspect, jumping into our financials, we have seen growth across all the key metrics – in the form of AUM's, Net Flows, Revenues, Steady retentions, and Profitability.

- Happy to report, we clocked our highest ever PAT in this quarter – Q2 FY 23.

Some specific financial numbers:

- **Assets Under Management (AUM)**

- Our Total AUM is now more than Rs. 333,000 Crs, up 5.8% YoY, up 6% QoQ. Excluding custody, our overall AUM increased 5% YoY and 6% QoQ to Rs. 2.68 L Crs, with Wealth management AUM at Rs. 212K Crs and Asset Management AUM at Rs. 56K Crs .

- Importantly, our ARR Assets increased 8% QoQ and 17% YoY to Rs. 1.55 L Crs. With this, the share of ARR Assets in total AUM stands at almost 58%, as we continue our journey towards steadily increasing the pie of ARR assets.

- Happy to share, that despite the market volatility, our Net flows have been relatively strong for the quarter at Rs. 6,104 Crs.

- Our loan book also for the quarter was at Rs. 4,284 Crs, marginally up by 3% sequentially.

- **Revenues & retentions**

- Our Total Revenues increased 12% YoY and 10% QoQ to Rs. 405 Crs. As compared to Q2 FY22, our Revenue from Operations was up 22% YoY and 2% QoQ to Rs. 382 Crs.

- Importantly, our Recurring Revenues have increased 5% QoQ and 17% YoY at Rs. 261 Crs. As a percentage of operating revenue, recurring revenues comprise 68%.

- This quarter has seen stable transactional revenues at Rs. 122 Crs.

- Our Retentions across Wealth and Asset Management segment hold steady – with Wealth Management Retentions at 54 bps and Asset Management Retentions at 79 bps. At an aggregate level, our overall Retentions stand at 59 bps.

- **Expenses**

- For the quarter, our Cost to Income has improved to 44% from 45% in Q1 FY23 as we continue our focus on costs.

- Our Total expenses for the quarter are up 7% QoQ and up YoY by 3% to Rs. 179 Crs.

- Administrative & Other expenses is up 12% QoQ at Rs. 48 Crs.

- **Profitability**

- As stated earlier, we recorded our highest PAT at 173 Crs, an increase of 23% YoY and up by 8% QoQ.

- Importantly, our tangible ROE (i.e., ROE excluding goodwill & intangibles) has further improved at 28% for the quarter from 24% levels in Sep 2021.

With that we come to the end of the Financial highlights. I'll hand it over to Anshuman to cover key business and strategic highlights.

- **Mr. Anshuman Maheshwary – Chief Operating Officer, IIFL Wealth & Asset Management Limited:**

- The last few months have continued to be dominated by geopolitical events and global macro-economic events. Amidst this, the three core tenets of our strategy – Growth, Resilience, and Agility – stands firm and we continue to measure our decisions as well as performance against these strategic principles.

- At the outset, as Sanjay shared, our overall financial performance – the final output metrics – remains strong. Specifically highlighted by the continued ARR AUM and ARR revenue growth of 17% and 23% respectively for the first half of FY23 and the strong Profit after Tax which stands at Rs. 333 Crs for H1, a growth of 28% over last year.

- Some key positives underlying the final financial performance gives us confidence to sustain the positive momentum.

- Not only have net flows at over Rs. 6,000 Crs remained strong in the current environment, specifically retentions have held firm at 71 bps on ARR and over 60 bps on aggregate. Specifically, we have seen our highest ever quarterly net flows in IIFL One at Rs. 3450 Crs. To put in perspective, our full year net flows for last year was around Rs. 3500 crs. This is a reflection of the robust build up of our advisory proposition and strong client traction for the same.

- While overall net flows for the Asset Management business is low at Rs. 53 Crs for this quarter, it is important to note two specific aspects underlying this – We had planned distribution from some of our older AIFs of ~Rs 465 Crs in this quarter and liquid MF, which we know will remain volatile, saw net outflows of over Rs. 300 Crs. Adjusting for these two, flows remained healthy, driven by the strong traction on our Credit strategy which saw net flows of over Rs. 750 Crs. We understand market cycles and our diversified strategies on alternates – across listed, unlisted, credit, RE & Infra – allow us to go through these cycles with a higher resilience.

- We continue to invest significantly on talent acquisition and technology. We are seeing senior people join us across Wealth Sales, Investments as well as the operating functions, specifically technology and digital. However, we are doing this with a judicious view on sustaining our cost to income to around the current level of 44-45%.

- As you would recall, we have had a strong focus Capital Efficiency over the last couple of years. Accordingly, we are happy to report that our tangible ROE is at 28% and absolute ROE is at 23% vis-à-vis 12.5% at the end of FY21 and 20% at the end of FY22. We expect to sustain this at the 23-25% levels. In line with the above, we are pleased to announce the third interim dividend of Rs. 17 per share– this aligns with our Dividend policy of 70 to 80% PAT pay-out to our shareholders and also continues to position us fairly uniquely as a high growth and high dividend yielding company.

- Mumbai Angels – We await SEBI approval given that Mumbai Angels has a Cat 1 AIF license and expect to complete the transaction in the current quarter. We are developing strategic plans for taking this remarkable platform forward and will share further details post the completion of the transaction.

- Mid-market Segment – Our work on developing a strong, digital lead proposition for the next segment of Wealth clients continues and we are on track to showcase further by the end of the financial year.

- With that, I would like to handover to Karan and open the session for Q&A

- **Moderator:**

- Thank you Anshuman. I request all of you, please click on the 'raise hand' icon in case you wish to ask any questions. We will give it a minute for the questions to queue up.

- First in line we have Mohit Mangal. Kindly unmute yourself and ask your question. Also request you to please introduce your firm before you ask your question. Thank you.

- **Mr. Mohit Mangal – BOB Capital Markets Limited:**

- Good afternoon everyone. This is Mohit from BoB Capital. So congratulations on reaching the Rs. 170 Crs net profit mark. I have specifically three questions. First is in terms of the net flows, I believe that even if I take that two outflows that were planned, I believe that it would be lower than your expectations. So can you elaborate on plans so that we have a higher net flows for the H2 FY23?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth & Asset Management Limited:**

- Yes Mohit. I think that's a fair statement. I think the net flows are slightly lower than what we would have ideally liked. I think on a full year basis, we would ideally like net flows of somewhere between the Rs. 35,000 - 40,000 Crs. But most importantly, I think we are striving to ensure that the ARR net flows, which is the AUM giving us a recurring revenue, should be closer to the Rs. 30,000 odd Crs mark. With this figure in mind, we are close to Rs. 10,000 – 10,500 Crs for H1 which means we are short about Rs. 3000 – 4,000 Crs. But given the focus we have, I feel we will be fairly close to that Rs. 30,000 Crs for the full year. Maybe Rs. 1,000 – Rs. 2,000 Crs short but not dramatically lower than that.

- **Mr. Mohit Mangal – BOB Capital Markets:**

- Perfect! In terms of the net flow, just a follow up on that, what are the flows coming from the existing versus new clients?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth & Asset Management Limited:**

- I think it's a combination. Honestly, I think it continues always like it is in every financial year. I think our market share with most of our older clients is fairly high. It is in the region of somewhere between the 40% - 70%. In terms of new clients, lumpy flows kind come in. So typically, if you see on a quarterly basis, the split would be closer to the 2/3rd - 1/3rd. So 65% to 70% would be coming from new clients. 30-35% would be coming from the older clients.

- **Mr. Mohit Mangal – BOB Capital Markets Limited:**

- Perfect! My second question is on the carry income. So we saw Rs. 35 Crs of carry income in the first half and I think in the earlier calls you have guided for around Rs. 75 Crs. So, I mean, something you stay with your numbers or…

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth & Asset Management Limited:**

- Yes, I think carry of round Rs. 70-75 Crs is a fairly predictable number and more or less a given number over the current year and the next couple of years. Outside of the Rs. 75 Crs of carry income every year, there will be potentially some more lumpy carry income which can come in the next year and the year after that. But on the Rs. 75 Crs number, there's a fairly high probability and degree of certainty of accrual over the next 6 months and also over the next two financial years.

- **Mr. Mohit Mangal – BOB Capital Markets Limited:**

- Okay. My last question is broadly industry based. So I was reading somewhere that a lot of HNIs and UHNIs have shifted their geographical base outside India post-COVID. How our business is affected by this and what are the results, what are the return expectations of these clients?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth & Asset Management Limited:**

- So I think I'll answer your question in three parts, Mohit. I think the quantum of such people over a base of our entire client population is still in single digit percentages. So it's not a disproportionately high number. It would still be in the region of 2%-7%. Most of these clients are not themselves fully shifted out. In some senses they have their left leg outside the country. So in some cases it's a spouse or in some cases it's a brother who may have become an NRI in those cases of 7-8% of our clients. Within that you essentially have two kind of flows which go out. One you have the capital flow and the other is the current income flow. So capital flow is also subject to a cap even once you become an NRI of close to a million dollars per financial year. So even though you end up becoming an NRI, the quantum of money moving out will take a fairly long period of time. What goes out obviously is the current income. So effectively any dividends, rent or interest post you becoming NRI effectively kind of starts moving out.

- If you kind of combine both, which is the 7-8% of the broader client set and the fact that it is going to be more current income as opposed to capital, the quantum of money moving out of the existing base is fairly low

- **Mr. Mohit Mangal – BOB Capital Markets Limited:**

- Right, that's very helpful and wish you all the best.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth & Asset Management Limited:**

- Thank you Mohit.

- **Moderator:**

- Request you to please click on the 'raise hand' icon to ask your question. Next in line we have Prayesh Jain. Kindly unmute yourself and ask your question.

- **Mr. Prayesh Jain – Motilal Oswal Institutional Equities:**

- Hi, everyone. This is Prayesh Jain from Motilal Oswal Institutional Equities. Karan firstly, Anshuman mentioned about the advisory business in IIFL ONE. Could you elaborate more as to what it is and how do you think that this would scale up because that is kind of dilutive to your overall IIFL ONE yields, and I think we had guided for 40 bps kind of yield for IIFL ONE over a medium term. So then both of them don't kind of corroborate with each other. So what's the thought out there and could you give us more details as to what is this advisory?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth & Asset Management Limited:**

- So I think there are lots of terms which are being used in some senses fungibly. So maybe I can kind of help clarify. There are two kinds of segments and three levels of service. So effectively in terms of levels of service, it is discretionary and nondiscretionary/advisory services. So typically we've seen retentions on the discretionary side being closer to the 60-65 basis points whereas on the nondiscretionary advisory side they are closer to 35 basis points and on a blended basis they are close to 40 basis points. Where the equation really breaks is, if you are doing advisory for corporate treasuries. That really happens more for a nominal fixed fee as opposed to having a retention of 35 to 60 basis points. So the 40 basis points guidance for us is excluding the corporate treasuries. Outside of that, we really don't see any change to the hypothesis. On the nondiscretionary advisory side, we continue to see around about a 35 basis points retention. On the discretionary side, we continue to see a 60 basis point retention. So stripped for the corporate advisory portion, retention will continue to be in the region of 40-45. So maybe we'll take an input from your question and also start reporting corporate treasury separately within IIFL ONE so that you get a better idea of the ongoing yield.

- **Mr. Prayesh Jain – Motilal Oswal Institutional Equities:**

- Yeah, that would be a helpful. And secondly Karan, just extending the previous participant's question on the net flows, what gives you confidence of getting to that Rs. 30,000 Crs kind of a mark? Given that the kind of environment we are in, whether you look at the global scenario or even in India, we're talking about high interest rate environment, what gives you confidence of reaching that Rs. 30,000 Crs for the full year?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth & Asset Management Limited:**

- So there are two elements to the net flow. On the ARR element of reaching the Rs. 20,000 Crs incremental, we've got around about 30% to 35% of that net flow essentially coming from AUM which sold earlier where upfront was received but essentially maturing over the next 18 odd months. We've seen a very high ability to convert a large part of that AUM into the ARR AUM bucket. And we believe that over the next 6 to 18 months, if I just break it up into 6 months and the 12 months bucket, we have at least 30% to 40% of that AUM maturing, and we are fairly confident nearly 2/3rds of the AUM we would be able to move into the ARR bucket. So if I would just see out of the incremental Rs. 20,000 odd Crs, I think Rs. 4,500 – 5,000 Crs or maybe Rs. 6,000 Crs across the next 6 months would be a kind of a function of our ability to convert some existing non-revenue bearing AUM to revenue bearing.

- The remaining Rs. 13,000 - 14,000 Crs is something we'll have to get out and get the net flows. There it's going to be a combination as I said earlier, between 2/3rds coming from net new clients and 1/3rd essentially adding volume share from our existing clients. I think to a certain extent obviously that is subject to a little bit of market volatility. But typically, what happens is a lot of these transactions have already got consummated or are in the process of getting consummated. So, I think our ability to add close to around Rs. 5,500 to Rs. 6,000 Crs of quarter net new flows with a little bit of volatility in the market should be there. So, I think if I look at the Rs. 20,000 Crs of incremental ARR assets, I would break it up into saying Rs. 5,000 Crs to 6000 Crs is going to come from older assets which are going to move from assets which are non-revenue bearing to revenue bearing and I think we should reach the current quarter numbers of Rs. 5,000 Crs to Rs. 6000 Crs net new flows coming 2/3rd from new clients and a third from existing clients.

- **Mr. Prayesh Jain – Motilal Oswal Institutional Equities:**

- Just last question this is more on RM count basis, have you seen any increased attrition with regards to complete new model in terms of pay-outs. So, have you seen any increased attrition or what would have been the attrition in the first half and any thoughts going ahead as to how do you see the entire industry panning out given that there is a lot of money which has been invested in your competitors where they would go in for RM acquisitions, so any thoughts around that would be helpful.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**
- Actually, attrition for us on the relationship side has been fairly low single digits and that's continued. And as we go up the tree in terms of seniority it falls even further. We did see a little bit of attrition before but that was largely on the corporate functions, we have not really ended up seeing too much attrition either on the sales relationship side or on the investment side. Having said that, I think most of our larger competitors now appreciate the importance of advisory as we go along. And I think where maybe 3 years back there were only two firms largely talking about advisory and non-discretionary. Today I think that number definitely has reached to 6 to 7 firms. I think from a relationship manager perspective, finally it is going to be about working for a platform where they can get the highest wallet share from the client as opposed to necessarily a platform which is able to get a slightly quicker distribution revenue. So, I honestly feel a change of the business model given the fact that in last two and half years most of our relationship managers today have close to around 40% to 60% of the revenues coming from ARR assets. They are actually feeling more comfortable in the existing platform as opposed to going out and building all of that afresh.
- **Mr. Prayesh Jain – Motilal Oswal Institutional Equities:**
- Great, thank you and wish you all a happy Diwali and happy new year.
- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**
- Same to you, thank you.
- **Moderator:**
- Thank you. Next in line we have Kunal Shah, kindly unmute yourself and introduce your firm.
- **Mr. Kunal Shah – ICICI Securities**
- Hello.
- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**
- Hi, Kunal.
- **Mr. Kunal Shah – ICICI Securities**
- Hi, Karan, how are you.
- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**
- All well, all well.

- **Mr. Kunal Shah – ICICI Securities**

- So, firstly again with respect to the inflows into IIFL One and you spent some time in terms of discussing about the non-discretionary advisory, but would it be fair to assume that maybe the correction in the discretionary will continue to be relatively on the lower side. And as the overall proportion of the pie maybe the AUM in discretionary PMS would be coming off within the overall IIFL One assets.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- I wouldn't think so, if one would remove the corporate advisory I think the split would remain 1/3rd and 2/3rds with a third coming from discretionary and 2/3rds coming from non-discretionary. I think there is very good acceptance from our discretionary platform what we call internally is IIFL One Mandate. I think in all our new client wins we are able to see at least 15-20% of the portfolio getting on the discretionary side. If you ask me today, I think it will be a broadly a 3rd discretionary and 2/3rds advisory or non-discretionary. But over a longer period of time what we have seen at least in the developed markets including US and Europe the proportion kind of moves away from 35:65 to 50:50. So actually discretionary moves up over a period of time. But I think we are sometime away from that. I think we will end up being closer to the 30:70 or 35:65 kind of proportion.

- **Mr. Kunal Shah – ICICI Securities**

- Sure. And second, with respect to overall cost to income, so again this quarter there was some element of say other income compared to last time which also provided the benefit. But would that also translate into any kind of variable component and if we have to adjust for that then maybe still on a stable state basis we expect cost to income to still be sustainable maybe if there is no further support coming in from the other income going forward.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- So, I think from an other income perspective, Kunal, the way to look at it is - broadly outside the NBFC our investments are in the region of Rs. 700 to Rs. 800 Crs and then adjusting a bit for working capital. So effectively at any point of time we would have broadly Rs. 550-600 Crs invested either in a range of things right from fixed deposits to bonds to some of our own alternative investment funds. So, I think that on a yearly basis, it would be largely 75-80% or maybe 70-75% to fixed income kind of instruments and 25-30% into equity- related instruments. So, I think the other income number will aggregate somewhere between Rs. 60-65 Crs on the lower side and Rs. 85-90 or maybe a max of Rs. 100 Crs on the upper side. So, I think on a quarter to quarter basis it will fluctuate a bit. But the overall annual number will be between the Rs. 60 to 100 Crs. I really don't see any large movements in cost to income either, may happen if there is a sharp movement in one quarter. But on an annual basis Rs. 60 to 100 Crs is broadly what I would see as the number which we see on the other income side. In terms of the modelling, we are slightly on the conservative side, we look at the other income in the region of Rs. 60 to 70 Crs in terms of a broader thought process.

- **Mr. Kunal Shah – ICICI Securities**

- Sure, as we are already done with H1 or 6 months and looking at the overall capital market environment, are we willing to tweak any change in the guidance which you have highlighted post March 2022 be it either in terms of flows or maybe the AUM growth, or on any other aspect, yeah.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- From a guidance perspective, ideally, we try to tweak and revisit it typically at the end of the 3rd quarter with relative focus on the next year. But in terms of the current year itself I think we would be very, very keen to meet the entire ARR net flows guidance which is closer to the Rs. 28,000-30,000 Crs. Overall net flow AUM which really doesn't have an impact on the business itself may not be closer to the Rs. 35,000-40,000 Crs but maybe closer to Rs. 30,000-35,000 Crs, that's the only thing I would say. But outside of that we don't really see any big reason to revisit any of the other numbers over the next two odd quarters.

- **Mr. Kunal Shah – ICICI Securities**

- Okay, thanks and all the best.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- Thank you.

- **Moderator:**

- Thank you. Next in line we have Avinash Singh, kindly unmute yourself and ask your question.

- **Mr. Avinash Singh:**

- Am I audible?

- **Moderator**

- Yes, Avinash you are audible.

- **Mr. Avinash Singh:**

- Hi, Karan. Two questions, the first one is not so much at the moment I mean in the focus area, in mutual fund business I mean in the scheme of things is still kind of not much of scale, and the fact of the matter is that building an active business in the India market context is a long journey and a challenging task. But I mean gradually probably the passive is where the focus is coming also in India. So do we, I mean, does this passive led growth fit into your strategy or is it like, what are your thought process I assume of your multiyear journey when it comes to mutual fund business, that's the first question. After that I will come to the second.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- So, Avinash, honestly as we speak right now the mutual fund industry itself in some sense can get largely divided as you rightly said between actives and passives. I think as we kind of pointed out earlier in the immediate short term we really don't see a right to win on the active mutual fund space. And effectively there will be a little bit of friction in us going out and building the last mile on the mutual fund side, and that's really till we don't establish a clear right to win and hence, we have not really kind of gone out and invested in the business substantially. On the passive side, you are right, I think as a segment it is going to be fairly large. And it obviously comes with two challenges, the first challenge obviously is how you build out the cost economics for a passive business. If you end up building a good passive plus business which I would broadly say are things like index strategies with a little bit of modification where you can end up with 15-20 bps in terms of retention. But you will have to build a cost economics very carefully on the passive business between just doing pure simple plain vanilla index funds versus index plus kind of strategies. And secondly, I think we will have to consider economics also because you know while you build out passives and you build out a very strong alternate investment book the kind of fund management expertise and the kind of sales teams you are building internally are fairly varied and different for both the businesses. So honestly if you ask me and I am kind of trying to break it up into 3 parts - One, we are just going to focus on the alternates and the public market business. The second is really the active business which is mutual fund and third is the passives. Honestly, I think for the next 12 to 24 months we see a huge amount of potential on the alternates and the public market business. And that's really where I think we are going to be spending a large part of our time and energy both in terms of new product ideas as well as new asset classes. That's really where a large part of our focus is.

- **Mr. Avinash Singh:**

- Thank you, that's clear. My second question is more industry specific, I mean there's a huge amount of operating leverage in your wealth management business and of course that comes with the scale. So basically, the top 3-4 players will be a different profitability zone vis-à-vis a newcomer. And of course, it takes a lot of time. Now where industry stands today of course, we have sort of a movement at each end. So, going forward over the next 12-24 months do you see scope for further consolidation with some of the top players kind of acquiring the bottom ones, how do you see the industry dynamics if I have to look.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- I think to answer your question on the asset management side and on the alternate side, there is fair amount of operating leverage. We spent a lot of time over the last three-four years building capabilities in each of our strategies. I think today to scale up all our strategies to maybe 3 to 4 times the size of what we have today would not really require us to invest massively on the investment teams. A little bit of additional investment on the distribution and the sales side of the business would be needed. You are absolutely right, the operating leverage on the asset management side should show up fairly high, fairly in a meaningful manner in the next 3 to 5 years. On the wealth management side also you are right, I think there is a lot of operating leverage especially in light of the fact that today if you want to go out and be the wealth manager of choice with the client, you need the full investment on the platform. The platform today is fairly large. It needs a lot of expertise in everything starting from products, building out a family office structure, building out the right governance mechanisms, having a small NBFC to support the clients, ensuring that you are able to give them advice on multiple things, right from succession plus planning, having the right advisory team in place, having the right quasi asset management structure for the discretionary business. So, all of these things effectively need to be amortized over the wealth management AUM you are handling. And today we would be among the few players who've got all of these things in place. And in that sense obviously the operating leverage kind of shows up. Having said that there will be wealth managers who will be able to service maybe individually 4-5-families, but those would be relatively fragmented businesses. They really won't be businesses which would achieve scale. I think to achieve scale and finally become large, you would need to make these investments. And therefore, there will be sooner than later a discovered minimum AUM needed to be able to do this business profitably. I think it is too early in the journey of wealth management India to decide what the AUM is. But as you go forward both technology and regulatory costs would also come in and effectively the technology, regulatory and the platform cost put together will require a certain amount of minimum AUM to do business profitably, and beyond a certain AUM obviously the operating leverage will start kicking in very appreciatively. But we are still in a fairly nascent stage on the business to be able to discover these numbers perfectly. From an IIFL Wealth perspective I think we are more towards the north side where we have some bit of capacity on the relationship manager side, they are fully invested and built into the platform, so ideally we will see some benefits of operating leverage over the next 2-3 years.

- **Mr. Avinash Singh:**
- Thank you.
- **Moderator:**
- We will move onto the next question. Next in line we have Aejas Lakhani, kindly unmute yourself and ask your question.
- **Mr. Aejas Lakhani – Unifi Capital Pvt Ltd.:**
- Hi, Karan and team, congrats on the results. Karan, you have made two acquisitions over the last 5 years and there has been fairly some time since you have made these

acquisitions. So could you just walk me through you know how these acquisitions have done, in terms of how clients have grown, or have the RMs who you acquired stayed on, how is their journey been and your key learnings from these two. Thanks.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- I think both the acquisitions have been slightly different experiences to be honest, Aejas. The wealth advisory acquisitions really held up extremely well, I think both in terms of people, in terms of clients. Also, in terms of the people, they have expanded their own roles and responsibilities. They have been able to add more to the business in terms of their own skill sets, clients have expanded their wallet share in a substantial larger manner, and obviously the profit metrics and the AUM numbers have followed. In the case of the second acquisition, I think the story is slightly different. I think the profit numbers and the revenue numbers have held up in the second acquisition. Just from a pure financial perspective the numbers are there. But from a people and a client platform perspective I think we have not really had the same leverage benefits what we would have assumed to which we had in the first acquisition. Ideally speaking I think the second acquisition could have done slightly better compared to the first one. In terms of pure numbers, it is stacking up, but in terms of the scale up benefits and the synergy benefits we would have liked to see something which we have not really seen. And consequently, even in terms of attrition of people the second acquisition has seen a little bit more attrition. The first one has practically seen next to zero attrition altogether. So ideally speaking I think if you ask me from a pure learning perspective, I think the first acquisition got integrated into the system extremely well. Second acquisition honestly was through Covid in some ways, so integration could have been potentially.

- **Mr. Aejas Lakhani – Unifi Capital Pvt Ltd.:**

- Got it and the attrition that had to take place from these acquisitions is behind you already?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- Yeah. Some of them are in this quarter but yes most would have been behind us.

- **Mr. Aejas Lakhani – Unifi Capital Pvt Ltd.:**

- Got it. And the opening comments you know Anshuman mentioned that there's been a planned distribution of about Rs. 465 Crs. Is that the reason for the decrease in AUM on the private equity side and the gradual taper off?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- I think if you just look at the broader strategies we have got, we continue to make distributions through the sunset period of the funds. Obviously, we have a large fund which is the special opportunities which was raised in 2017-18. It was close to around about ~Rs 7,000 Crs in terms of size, and they matured starting 18 months back all the way to 18 months forward. So, we have already returned capital plus close to maybe Rs. 2500-3000 Crs to clients. And obviously all of it, all the distribution in the last year more than got offset by the new funds which we had raised on the private equity side. In this current quarter obviously for a small, now we are left with Rs. 5,000 to 5,500 Crs of the older funds which will get matured over the next 18 to 24 months. And of that Rs. 5,000-5,500 Crs, Rs. 450 Crs of redemption came in this quarter. And our credit funds raised round about Rs. 800 to 1,000 Crs which got offset by the Rs. 465-500 Crs of redemption in the private equity side and round about Rs. 300-350 Crs redemption on the liquidity side.

- **Mr. Aejas Lakhani – Unifi Capital Pvt Ltd.:**

  That makes a lot of sense. And your ability to get the monies that have exited or reinvested remains very high, is that understanding correct.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- Yeah, so I think you have to break it up into three parts. I think, one, our clients were associated with us on the Wealth Management side. I think there essentially is a huge amount of ability for us to be able to retain the asset. We've typically seen it being as high as 60% to 70% where essentially there's a Third-Party distributor, you know, it needs a good new product idea. If there is a good new product idea, I think, there is a 30% to 50% probability of the AUM coming back. So, that's really where it is. In our experience, I think, if I just look at the funds over the last 12-18 months, we've seen broadly 55% to 60% of the AUM stay with us.

- **Mr. Aejas Lakhani – Unifi Capital Pvt Ltd.:**

- Got it, that makes a lot of sense. And, Karan, last time, I think a quarter or two back when we spoke, you were quite enthusiastic about the multi-Asset product but that's been sort of flattish, so any thoughts on that?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- The Multi-Asset category is a new category. I think in terms of volumes it will take time as it is fairly bespoke in nature. In terms of the AUM we will see larger flows coming through credit, infra and so on and so forth spaces, especially the inflation-based assets over the next 6-12 months. I think, the Private Equity side in terms of new flows will remain a little tepid while the public market flows may pick up over the next 6-12 months. The Multi-Asset bespoke strategies on the Asset Management side will be kind of a derivative of the strategies we build out on the credit and the infra side. But, I think, the larger growth will come on for the next 12-18 months on credit and infra.

- **Mr. Aejas Lakhani – Unifi Capital Pvt Ltd.:**
- Got it, that's very clear. Just on the Rs. 5,000 Crs of the soft fund that you were mentioning that will mature over the next 18 months, given that primary markets are the way they are do you see any challenges in terms from an exit perspective there?
- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**
- So, actually it's a fairly concentrated position of the Rs. 5,000 Crs-Rs 5,500 Crs. If I am not wrong, 50% of it is or maybe 60% is in National Stock Exchange. We exited all are listed positions 14-15 months back and distributed it out. So, it is largely National Stock Exchange and there is a small amount in Bikaji, in Northern Arc and NSDL e-Governance which are fairly large, good and solid positions. So, I really do not see too much of a challenge.
- **Mr. Aejas Lakhani – Unifi Capital Pvt Ltd.:**
- Noted, thanks. All the best.
- **Moderator:**
- Thanks. Next in line, we have Sanjay Kumar. Request you to kindly unmute yourself.
- **Mr. Sanjay Kumar:**
- High, Karan.
- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**
- Hi.
- **Mr. Sanjay Kumar:**
- First is just a clarification. So, you were talking about older sets with upfront fees and of this you're expecting the convert Rs. 5000 Crs, is that understanding correct?
- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**
- Yeah, Rs.4000 Crs-Rs.5,000 Crs in the current financial year.
- **Mr. Sanjay Kumar:**
- Okay-okay, got it.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- So, you will have a roundabout half of it getting matured this financial year of which we should be able to convert 70%-75%.

- **Mr. Sanjay Kumar:**

- Got it. Thanks. So, next one. Given that two-thirds of net new flows come from new clients, so in terms of sales and leads what do we have to do differently to push the Rs. 6000 Crs run rate that we are seeing currently in the last three quarters? Or is it because of scale i.e. at Rs.2,00,000 Crs AUM 10%, growth from flows is Rs.20,000 Crs but we're hitting Rs.3,00,000 Crs and 10% on that AUM higher base will be Rs.30,000 Crs. So, is it because of scale or do we have to do something differently in sales and lead generation?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- I don't think we have that scale or size too to feel that 10% of 2 lakhs or 10% of 3 lakhs will be a challenge. I think we are some way away from that in terms of the size of the market. I think we need to do a little bit more on the sales side. Both in terms of expanding geographically as well as improving our conversion ratios from 60%-70% of new deal wins to maybe 75%-80% is what we need to do.

- So, the answer is more on the sales side. It's not really on the size of the market. I think for that we are still far away in terms of Market Share to really say that Rs. 20,000 Crs versus Rs. 30,000 Crs of net flows is a function of the size of the market.

- **Mr. Sanjay Kumar:**

- Okay-okay. Second question is related to Rs. 5 Crs to Rs. 25 Crs net worth clients, so is the customer acquisition or the sales process be any different from the existing setup? So, please share in detail the strategy on how we are generating leads and how we are converting clients. Where are we on that process?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- So, honestly, right now we are not focused on the generating leads side at all there. I think our focus there right now is to build a much more lighter, more efficient digital delivery tool and understand the strategy of the business. I think we have spent a lot of time and energy on that and we are fairly confident that we have a right to win. In terms of onboarding clients and really reaching out to them and kind of getting them to start looking at doing transactions, it's only by the end of the current financial year where we’ll really go LIVE in that sense. So, it's only in March-April we really go into the segment where we start onboarding clients and so on and so forth. But as we speak right now, on the planning side it's a function of looking at what differentiates us and I think in order of what differentiates us we will have to take a three-pronged approach both in terms of the entire product distribution piece, the ability to understand the client and convert a product offering into advice as well as the ability to be able to reach out to him in an effective manner and work on an effective delivery mechanism.

- So, in terms of just the conversion we haven't really started that process. That's still kind of slated for an April launch but in terms of the thought process design, the build out and all of that is happening aggressively.

- **Mr. Sanjay Kumar:**

- Okay and any color or some commentary on who are the competitors in this space and what will be our go-to-market strategy, our right-to-win?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- So, from a competitor's perspective, I think, pretty much most of the larger banks today are servicing those segments in the largest manner. So, pretty much all the retail large banks in India would be servicing those segments. The challenge for us is, obviously, acquiring those clients because those clients kind of walk into the bank in some ways either through a salary account or through a home loan or through a mortgage or through some credit card and so on and so forth. So, the ability to acquire those clients is substantially higher. The ability to also make fee income out of things like FOREX and Net Interest margin is also substantially higher. So, those are our two challenges.

- The opportunity, obviously, is the maturity of this client is increasing dramatically. He wants more and more to engage with Wealth Managers, have a structured process around his investments and third, you know, he wants to look at all the ancillary services and most importantly focus on the newer product ideas.

- So, there are certain challenges and there are certain opportunities. It's really going to be a function of how well we can merge these two while managing the Cost to Income ratios in the right way to be able to drive success out of it.

- **Mr. Sanjay Kumar:**

- Thank you, Karan. That's it from us.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- Thank you.

- **Moderator:**

- Thank you. We have Prayesh Jain with the follow up question. Kindly unmute yourself, Prayesh.

- **Mr. Prayesh Jain – Lead Analyst, Motilal Oswal Financial Services Ltd.:**

- Yeah, Hi. Thank you for the opportunity again. Firstly, just extending the last point and also in the Broking industry we saw that if we're trying to do the same thing in the same entity we see a lot of challenges, you know, trying to do a discount broking as well as the traditional broking in the same entity. For example, I'll just give you an example if ICICI but on the other hand IIFL has been able to set up a traditional broking as well as the discount broking separately and done well. Do you see that kind of a challenge while working in the smaller AUM category in the same entity will lead to some challenges with regards to, you know, the brand value that you have created amongst the Ultra HNIs?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- No. So, just maybe as a clarification, we're really not looking at going into Retail in any way, right. So, I think we will still be focused more on the Rs. 5 Crs-Rs 20 Crs category. So, in some senses I understand your question fully and I kind of agree with you. I think if you were to go down the path of trying to build a competitive efficiency of either doing broking or maybe syndicating Mutual Funds in direct plans, we will be kind of directly coinciding with people like Zerodha or Groww and so on and so forth. And, I think, from a culture perspective as well is what we are building out it's not really the same. I think there is a mid-segment there between that versus what we are doing which is largely the Rs.5 Crs-Rs.25 Crs segment where I think from an aspiration and understanding perspective they are slightly more skewed towards the Wealth Management side as opposed to the current service which they are getting with most of the financial institutions they are dealing with.

- So, I think from a service delivery perspective from our side, it's more akin to the Wealth Management delivery we give to our Ultra high-net-worth clients. It's just that we have to offer that service and distribution on a slightly easier, more effective, light touch digital platform as compared.

- So, I don't think we're changing the core of what we do. It's just the delivery platform which needs to change. If you were to change the core of what we do and try and go down to a segment below that, I think, I would agree with you. It would require a lot of cultural changes within the firm and which obviously kind of in some senses reduces the probability of success.

- **Mr. Prayesh Jain – Lead Analyst, Motilal Oswal Financial Services Ltd.:**

- Secondly, you know, account aggregation is being highly spoken about in the entire industry, so first of all do you think that this would be a big leverage to you in that Rs. 5 Crs-Rs 25 Crs segment category and the digital tools that you are going to implement? And secondly, how does that play out on the Ultra HNI segment as well?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- So, I think both the segments are quite important for us. The entire asset aggregator tool started off with banks and then it's now moved to Demat accounts and Mutual Funds. It will take some time for all of it to come together. But for Ultra high-net-worth clients, you know, we bought a small technology company called Altior four years back and we've been using that software like Perfios and Banking to be able to aggregate all our client portfolios across advisors very successfully for the last 4-5 years.

- So, we spend a lot of time and energy on building analytics across our client portfolios on the Ultra high-net-worth side for many years and, I think, we'll be in a very good position to leverage all that we've learned over the last 4-5 years and transcend them to the output which we get from the account aggregator report both for the Rs. 5 Crs-Rs 25 Crs segment as well as the Rs.25 Crs segment plus.

- **Mr. Prayesh Jain – Lead Analyst, Motilal Oswal Financial Services Ltd.:**

- Okay. Last question, with Bain coming in do you think any broader level strategy or anything that would, say from 5-10 years perspective, changes or incremental things that they are thinking about to implement differently what you would have seen say possibly in the last 5 years?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- Not really. In some senses, I think, it's a secondary purchase between General Atlantic, Fairfax and Bain. So, obviously I think it's up to us to be able to get the best on global benchmarks and global advisors which large shareholders have to offer and outside of that, you know, like before it continues to be driven largely by the direction of the Board and the management along with the right council and advice by the right shareholders who are represented on the Board.

- **Mr. Prayesh Jain – Lead Analyst, Motilal Oswal Financial Services Ltd.:**

- Thanks.

- **Moderator:**

- Thank you. We'll move to the next question. Next in line we have Abhijeet Sakhare. Kindly unmute yourself to ask your question and please introduce your firm.

- **Mr. Abhijeet Sakhare – Vice President, Kotak Securities:**

- Hey, hi. This is Abhijeet from Kotak. Just couple of clarifications. Karan, if I heard it right did you actually say that you are able to bring in new clients directly into IIFL ONE?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- Yes, absolutely.

- **Mr. Abhijeet Sakhare – Vice President, Kotak Securities:**

- Oh! Is this a recent phenomenon? What has really changed here in terms of client behavior or your proposition pricing? Anything that you can elaborate.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- No, so I think the newer clients all really, honestly, want to come onto the Advisory platform for the last 6-9 months especially. See, what happened is 2.5-3 years back post changing regulations maybe we're only a couple of us talking about Advisory. Now if you go out all the top 8-10 Wealth Managers the first pitch honestly is graduating towards advice as opposed to distribution. So, even from a client perspective it is becoming more the normal lay of the land as opposed to an exception lay of the land and, therefore, I think as time goes by more and more clients will move towards Advisory from day one rather than heading to it on month six or month nine. What it is also resulting in is a little bit of stability in pricing. Still very-very early days but, I think, clients will end up with some bit of stability in pricing and seeing the benefits of that at least from our limited client set. We are seeing early shoots of some stability happening there on the pricing side.

- **Mr. Abhijeet Sakhare – Vice President, Kotak Securities:**

- Just a couple of follow ups. Are RM incentives different when they're able to bring in a client directly into IIFL One? And the reason for asking is that probably I think elsewhere the Cost-Income ratios tend to be at the higher end when you're looking at your Advisory model. Correct me if I'm wrong but is this true?

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- No. So, if you just look at pure-pre recurring revenue, obviously, the Cost-to-Income ratios will end up being slightly higher even for us right if you kind of strip out the transaction brokerage revenue. But it's an evolution. So, I think, for anybody else the Cost-to-Income will keep improving as they move a large portion of the income from transaction and brokerage to recurring revenue.

- I think we are 60%-70% of the way in that journey and others might be 30%-40% of the way to the journey. But typically speaking, in very good markets if you've got a very high transaction brokerage revenue, your Cost-to-Income will look very attractive but in tougher markets it will start looking very sharp. Whereas for us it will be slightly more normalized. In tougher markets, it will look better and in really good markets it's not as if we will improve phenomenally because transaction brokerage revenue will continue to be relative to competition or smaller portion of the number.

- **Mr. Abhijeet Sakhare – Vice President, Kotak Securities:**

- Got it. Last one is that on the new client wins which are happening, which is essentially driving the flows every quarter, are these clients were like new to this kind of a setup or are you kind of acquiring clients from competition? Any sense of that would be helpful. Thanks a lot.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- I think it is a combination of both, Abhijeet - clients from competition as well as new. It's just that the clients you acquire from competition takes slightly long to scale up. So, the immediate impact on the AUM is slightly lower because nobody is able to transfer everything in mass. It takes some bit of time for them to move AUM. Obviously, a client who's coming in afresh with a new liquidity event is more or less investing everything afresh. So, in that sense it becomes a slightly more disproportionate part and, therefore, though if you look at clients from competition and absolutely new clients the ratio will be maybe 70:30 in favor of clients acquired from competition. In terms of AUM, it becomes the reverse because the client who is kind of getting a liquidity event is investing the entire money today and therefore it's kind of becoming 60%-65% of the AUMs coming from there and 35%-40% is really coming from the existing clients.

- **Mr. Abhijeet Sakhare – Kotak Securities:**

- Got it. Thanks a lot.

- **Mr. Karan Bhagat – MD & CEO, IIFL Wealth Management:**

- Great. Thank you everyone for the call and I wish all of you a Happy Diwali and festival greetings. Thank you.

- **Moderator:**

- This brings us to the end of this investor call. Thank you, ladies and gentlemen, for joining us this evening. Have a nice evening.

END OF TRANSCRIPT