"IIFL Wealth Management Q4 FY2020 Earnings Conference Call"

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For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-results conference call. We have edited and rearranged the transcript for greater lucidity. This Q4 presentation is available at *https://www.iiflwealth.com/Investor-Relations*

MANAGEMENT: **MR. KARAN BHAGAT – MANAGING DIRECTOR AND CEO – IIFL WEALTH MANAGEMENT**

MR. ANSHUMAN MAHESHWARY - CHIEF OPERATING OFFICER – IIFL WEALTH MANAGEMENT

MR. MIHIR NANAVATI – CHIEF FINANCIAL OFFICER – IIFL WEALTH MANAGEMENT

MR. PAVAN MANGHNANI – HEAD STRATEGY AND INVESTOR RELATIONS – IIFL WEALTH MANAGEMENT

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Wealth Management Limited Q4 FY2020 Earnings Conference Call As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah from ICICI Securities. Thank you and over to you Sir!

Kunal Shah: Thank you Neerav and good afternoon everyone. This is Kunal Shah from ICICI Securities. Today on the call for IIFL Wealth Management we have Mr. Karan Bhagat, Managing Director and CEO, Mr. Anshuman Maheshwary, Chief Operating Officer, Mr. Mihir Nanavati, Chief Financial Officer, and Mr. Pavan Manghnani, Head Strategy and Investor Relations; to discuss their business highlights, trends, and strategies. I would now like to handover to Mr. Anshuman Maheshwari for his opening comments. Thank you and over to you Sir!

Anshuman M: Thank you Kunal. Good afternoon everyone and welcome to IIFL Wealth and Asset Management's Q4 and full year update call. Over the next hour Mihir will take us through the financial performance for the quarter as well as for the full year FY2020. I will share other key highlights and then Karan will give his thoughts on the key trends in the market and the business. We will then open it up for Q&A. Over to Mihir.

Mihir Nanavati: Thank you Anshuman. I will now proceed to give a brief overview on the financial performance of the company for the quarter and the year ended March 31, 2020. We have seen stable operating metrics for this quarter and for the full year although, the last two weeks of March 20, 2020 have caused significant MTM impact on our closing AUM and AIF holdings on our books.

To begin with I will give a quick overview of asset under management. Our overall AUM decreased 11.1% Q-o-Q and increased 1.6% Y-o-Y to 138,762 Crores. This excludes custody assets. Our ARR assets decreased 11.1% Q-o-Q and increased 7.4% Y-o-Y to 62,595 Crores. Within this, IIFL-ONE proportion continues to gain significant traction, asset increased 10.2% Q-o-Q and 103% Y-o-Y to Rs.17,720 Crores. Our loan book has decreased from 12.2% Q-o-Q and 26.3% Y-o-Y to Rs.3,536 Crores. The annual average on loan book remains around Rs4,000 Crores levels reflecting regular disbursement and high opening balances.

Coming to revenues, our revenues from operations for this quarter has increased 16% Q-o-Q and 4.8% Y-o-Y to Rs.256 Crores. Revenue from operation for the year stood at Rs.920 Crores. Our ARR revenue for this quarter has increased 1.9% Q-o-Q to Rs.142 Crores with the full year ARR revenue having increased 20% Y-o-Y to Rs.535 Crores. Other income for the year stands at a loss of Rs.69 Crores, primarily due to MTM losses on our sponsor and non-sponsor investments, into our proprietary and distributed AIFs.

Now to expenses, our total expenses for the quarter increased 12.8% Q-o-Q, at Rs.163 Crores and by 6.6% for the full year to Rs.564 Crores. This increase is primarily due to higher variable cost including for the ESOPs, as well as provision during the year. Admin and other expenses have decreased 12.4% Q-o-Q and 30.5% Y-o-Y to Rs.40 Crores for the quarter and 6.8% for the full year to Rs.180 Crores. Accordingly, our overall cost to operating income ratio stands at 61.4% for the year versus 51.8% for FY2019. As we had shared earlier this increase is due to the change in revenue model as well as higher ESOP cost during the year and the quarter.

Now to profitability. Our operating PBT for the quarter increased 22% Q-o-Q to Rs.94 Crores and decreased 28% for the full year to Rs.356 Crores. Profit before tax for the year after including other income decreased 46.6% to Rs.286 Crores and PAT accordingly decreased to Rs.206 Crores.

With this now I hand over back to Anshuman to take us through the key business highlights for the last quarter as well as the whole of FY2020. Thank you and over to Anushuman!

Anshuman M: Thanks Mihir. On our last call when we spoke in January, we had spoken about improvement in client sentiments and our steady progress on our strategic priorities. Unfortunately, there was no way at that time to know what the last quarter had in store and we remain very much in the thick of what has been happening even today. Accordingly what I wanted to do was cover three areas in the next three to four minutes. Firstly, I want to highlight our response to the COVID-19 situation. Our focus here has been on three fronts - ensuring the safety of our employees, seamless continuance of our business operations and services to our clients and ensuring that we are able to monitor and mitigate any adverse risk to our client portfolios and our own balance sheet due to the high market volatility. I am happy to say that we have been successful in achieving these objectives with the help and support of our employees and we have been operating at almost full capacity throughout this lockdown period with no notable slippages on any front. We rolled out robust BCP mechanisms early in the lockdown to ensure tight risk control, covering the business, technology and all other relevant aspects.

During this period we have continued to extensively engage with clients via multiple outreach channels and also effectively using our technology platforms to provide clients a very seamless digital experience ranging from portfolio discussions, reviews to portfolio analytics to providing them the complete access to our entire platform as well as senior management interactions. Further, as a part of our social commitments, we have contributed Rs. 3.5 Crores to various COVID relief funds and continued to access our client and partner networks to promote further contributions. Secondly on business priorities, at the start of the year we had outlined our strategic priorities to be two-fold. Firstly increase ARR assets with a specific focus on IIFL-ONE and secondly to look at a reduction in cost and increase in our productivity levels. Now ARR assets as Mihir shared, have grown over the last year despite the mark-to-market impact in March and our ARR revenues have increased by over 20% for the full year. Importantly, retentions have also held steady at upwards of 80 bps on our ARR assets including the NIM. Also net flows remained strong at upwards of 12,000 Crores for FY2020 and 3,527 Crores for Q4 itself. We have continued to acquire clients adding approximately 680 relevant new families in the year and our client retention continues to be north of 98%. Specifically our IIFL-ONE proportion continues to gain client approval and trust and this has been growing at a substantially faster pace than the overall business. Assets have grown by 103% and importantly net flows into the IIFL-ONE portfolio was 2,821 Crores in Q4 itself. And all of this while retentions continue to hold steady at about 42 bips. One of the key underlying reason has also been the performance of our IIFL-ONE funds which has been stellar over all mark-to-market impact on IIFL-ONE portfolio was minus 7% in Q4 versus minus 13% impact on overall AUMs in the same period. This gives great confidence not just to us, but most importantly to our clients.

In our asset management business, the focus over the last year has been on scaling up AUM across our existing strategies and products, AIFs, mutual funds, and especially in the PMS category. Again, the stellar performance across all listed equity schemes have supported the strong AUM growth trajectory. Net sales for FY2020 stood at 5,736 Crores driven by our AIFs and PMS offerings. We continue to focus on adding to our product platform to maintain the leadership on the alternate segment, also looking at enhancing our distribution coverage and in line with all the other things happening in the company improving our processes and technology use. On the second aspect of cost and productivity, we have made significant progress across all relevant heads including employee cost and other administrative costs. These have been done using a combination of direct reduction initiatives, deployment of technology to improve productivity as well as taking judicious calls on outsourcing of select activities to derive scale benefits. We expect to see the full impact of the initiatives over the course of this year with a significant improvement in the exit cost to income ratio for FY2021. Thirdly, a quick update on our acquisition of L&T Wealth which has been completed in April 2020. We welcome the clients and teams from L&T into our fold and are excited by the growth prospects this offers. The assets being on boarded are approximately 10,800 Crores from which approximately 6,000 Crores are ARR assets. The assets and revenues will start getting reported within our consolidated numbers from Q1 FY2021 onwards, it will be with effect from April 22, 2020.

With this I want to handover to Karan to share his views on the market business and outlook for us. Over to you Karan!

Karan Bhagat: Thank you Mihir. Thank you Anshuman. I will start of by talking a little bit about the client appetite over the last quarter of the previous financial year. I think the trade was really the risk of trade. I think for the last 16 to

18 months had been low on equity allocation especially on the high network side and potentially second during the financial, year one post the IL&FS crisis and now there have been extreme risk aversion and large tilt towards short-term high quality liquid instruments and in case of long-term investments, a big swing towards sovereign or quasi sovereign papers, if not for bank deposit. This has kind of seen a bit of reversal in the current quarter but still client tend to be substantially cautious and the return of capital versus return on capital continues to be the highest priority.

As wealth managers we continue to work extremely closely with clients to ensure an optimal return rather than the highest return and ensure capital preservation and safety of capital as the primary objective. On the asset management side, the entire industry including mutual funds as well as us as distributors have had to work hard to ensure that there is no incremental or substantial erosion or exposure to credit funds. As in a franchise we have been lucky, over the last decade our exposure to credit funds and therefore our exposure of our clients to credit funds has been extreme low. Overall our clients have less than 2,000 to 2,500 Crores exposure to credit fund and primarily those being HDFC and ICICI which has seen less, next to negligible impact on the NAV. On the asset management side on our debt fund as well as on our alternate asset management side, credit continues to perform well. We need to work slightly harder on the real estate side of our alternate asset management business which has, obviously post COVID, seen a little bit of stress and incremental delays in terms of payments from some of the borrowers from the real estate funds. Otherwise our credit funds remain extremely high on quality and more or less have 90 to 95% exposure to AAA bonds as well as PSU papers.

Our primary offering and focus area IIFL-ONE continues to gain a lot of traction and that is given us a lot of confidence in further enhancing the proposition. We spent a lot of time over the last three to four months to develop a very focused fund management practice there, a process driven approach and most importantly build a very strong platform consisting of the right investment counselors as well as enhanced technology. These are all investments which need to be made in tough times and I strongly believe as the platform enhances scale and builds scale we will be able to reap the benefits of this. Documentation in IIFL-ONE unfortunately has been challenge since the end of March all the way till now as the offering is through the portfolio management services platform with each client being a segregated client. The ability to actually do the documentation digitally is not possible and as a result of that, though flows over the last quarter has been fairly decent, we would have expected the flows to be substantially larger. We are confident we build a very strong pipeline through virtual calls, communication with clients over the last 2.5 - 3 months. Clients have especially appreciated the entire process of having discipline on asset allocation and credit in tough times like these, and we believe that these conversations will result to a lot conversion as soon as things open up and gives us flexibility to complete the documentation.

Overall, the wealth management industry last year has seen a tough year driven by a big squeeze on margins initially by regulatory pressure. Post that, ILF&S and the market impact both on the credit side as well as the equity side, large amount of portfolio of clients have been skewed towards fixed income and there have been fair amount of intense pressure on compensation of senior bankers. In the short term, this has resulted in us relooking at our business model. We were fortunate of having made this change early enough and move towards a higher ARR model. We strongly believe we have driven change successfully albeit not as fast as we would have wanted. I believe that as we drive change in the medium term we have already seeing healthy consolidation in the industry and it will ensure that we are able to gain a much larger market share as things stabilize because of our continued investment on the platform as well as the people and as things emerge we will see there will be more consolidation of clients who potentially moved away at different points of time to slightly riskier instruments or even in some cases with some independent brokers. We see a lot of consolidation in that sector and we believe a process driven approach will enable us to consolidate and lead market shares soon enough. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Saptarshi Chatterjee from Centrum Portfolio Management. Please go ahead.

Saptarshi Chatterjee: Thank you Sir for the opportunity. Sir my first question is on the net flow side. Part A is how much has been the net flows for FY2020 excluding the custody asset and part B is we have given some color on the sentiment but for full year FY2021 what is your expectation on net flows?

Karan Bhagat: Net flow, like we typically valued earlier, will be in the region of approximately 10% to 15% of our stock which effectively means in a region of roundabout 15,000 to 20,000 Crores which effectively would be in the region of roundabout 4,000 to 4,500 Crores a quarter. I think in the year of demonetization there was a larger jump where we saw 25,000 to 30,000 Crores come through I think in a year like this where I think we have kind of seen the first quarter in some ways go; we are lucky that our revenues continue but obviously our ability to collect a huge amount of net assets in this quarter has been limited but I think over the next nine months there will be a substantial catch up and we should be able to do justice to come back to the 15,000 to 20,000 Crores number for the next year.

As far as the net flows outside of custody, net flows outside of custody is more or less similar number, custody assets has more or less been flattish for the year it is plus about 1,000 odd Crores. So most of the flows for the last financial year has been on the non-custody side.

Saptarshi Chatterjee: Okay my second question is on the variable cost side so this quarter has seen a high provision of variable cost so for a full year basis, for next year, what kind of variable cost one can assume for the full year?

Karan Bhagat: On variable cost there are three components for previous quarter one is the bonus component, the second is the ESOP component and third is that we had a small portion of the exit cost as we rationalize part of our workforce. The way to look at the bonus on a sustainable basis would be approximately give or take 20% to 25% of the fixed compensation for the year. So effectively for last year for example on a fixed comp of 300 odd Crores the variable cost on a consistent basis will be in the region of 15% to 20% of that number which would be approximately give or take 45 to 60 Crores. The ESOP component last year was 22 Crores and there is an exit cost of exit paid to employees which are voluntary exits from our side which aggregates to round about 13 odd Crores. So the breakup of 85 Crores for last year is 22 Crores ESOP, approximately 13 Crores of exit cost and another 50 Crores of incentives and bonuses. For the next year, the ESOP cost will increase because of the acquisition and build up of two strong teams one on the asset management side and the other is on the operations and strategy side, so we expect the ESOP cost next year to be 45 Crores as compared to 22 Crores of last year. We expect the fixed cost of 300 Crores to come down by close to roundabout 20%, to about 240

Crores. We will add 20 Crores of cost on account of L&T accusation fixed cost which is going to roundabout 260 Crores in total fixed cost.

Variable as I said will be roundabout 15% of that which is 40 Crores so I think overall ESOP would be around 45 Crores for next year. Fixed employee cost in the region of 260 Crores down from 300 to 240 plus the 20 of L&T which is 260 and the variable expenses are expected to be in the region of 40 Crores. So including L&T and including an additional ESOP cost of 23 Crores we expect the employee cost to be down from 385 Crores last year to roundabout 350 Crores this year.

Saptarshi Chatterjee: Thank you so much for this detailed answer. Last question is on the real estate funds that we have, any kind of loss provision do you think we should make and therefore similar impact on the P&L?

Karan Bhagat: On the investment side, if you look at our investment they are broadly broken up into three big categories, one is on the equity side, second is on the fixed income side and third really is on the real estate side. Now these are valued conservatively on a mark-to-market basis quarter on quarter. On the current quarter where you see close roundabout 66 odd Crores mark-to-market arising on account of alternative investment funds. It broadly broken up and largely coming out of the deterioration and NAVs on the equity side. We have an exposure of roundabout 240 Crores in a combination of listed as well as quasi unlisted equity in the form of pre IPO fund. So on 240 Crores in the previous quarter which is January to March we have seen an erosion of roundabout 55 Crores net mark-to-market basis on equity. We have an exposure of roundabout similar amount of roundabout 230 to 240 Crores to real estate where we have seen a net erosion of roundabout 15 odd Crores in mark-to-market NAV. Our real estate NAVs are marked extremely conservatively unlike the rest of the real estate fund industry, we typically mark-to-market it as if it is an

NBFC so the provisioning norms are tighter and everything is mark-to-market accordingly. So the NAVs on the AIFs are extremely, extremely conservatively valued and we believe a large part of the real estate NAVs would come back through the next 12 to18 months. The equity NAVs would more or less move in line with the market.

Moderator: Thank you. The next question is from the line of Yashodhan from PPFAS Mutual Fund. Please go ahead.

Yashodhan: Thank you for taking my question. So I just have two or three questions to ask. Firstly I just wanted to get a sense of your ARR and TBR breakup because I was just going through your presentation and there seems to be some line item in your TBR asset called mutual funds and direct code and there was some revenue generating out of it so just wanted to get a sense of what exactly is that?

Karan Bhagat: There would not be any revenue coming out of the direct code, let me have a look, which slide you are referring to?

Yashodhan: Sir in your consolidated Y-o-Y I mean in your breakup of the asset given ARR and TBR where the breakup of the assets are given besides that there is the breakup of the revenues arising from those assets so I do not know some portions seems to kind of some MF direct codes/feeders just wanted to understand what exactly it is?

Karan Bhagat: Those would be coming out of the feeders because they would be getting some fee coming out of the feeder income not out of the direct plan.

Yashodhan: Secondly what I wanted to ask was if I just take a brief analysis of your balance sheet you know dilutions are happening almost Year-on-Year and because of which our return on equity is slowly going down and roughly till 2019 if I see the total cash raised from all the issuance of equity as well as ESOPs somewhere comes to around 1800 Crores out of which if I calculate acquisition still L&T Wealth Management is around 1,500 Crores is this the correct way to look at it and it is the strategy going to be you will be looking out at this strategy going forward as well?

Karan Bhagat: Acquisition how much you say?

Yashodhan: So till 2019 I think on cumulative basis it is 1800 Crores the cash raised against which I think the acquisitions were around 1500 odd Crores are so?

Karan Bhagat: I will just correct them. I will just give you the numbers. I think broadly we raised capital three times, we would have raised capital right at the beginning from IIFL which is roundabout 25 Crores. We subsequently raised roundabout 950 odd Crores, 925 to 950 Crores from General Atlantic which may be 950 odd Crores and subsequently we had at $100 odd million round from secondary investors just before we demerged, so all put together capital raise is roundabout 1600 to 1650 odd Crores what you will need to net off from this obviously dividend paid over the last x number of years and what you will also need to net off is the acquisitions done. We have done two large acquisition one is in the form of Wealth Advisors and other is in the form of L&T Wealth. All the others have been really relatively smaller acquisitions, I think all of them would aggregate to close to roundabout 500 odd Crores over the period of last 11 odd years. So I think acquisitions total up to roundabout 500 Crores. The return on equity, you are right, I think we can do better on that metric I think part of it is to do with the revenue number itself which in the current year is kind of compressed both from a mark-to-market basis. The operating ROE if I look at that and just remove the mark-to-market to make it kind of effectively similar would have also come down roundabout close to 18 to 19% last year to roundabout 13 to 14% this year. That is largely on account of the fact that, I would attribute again two things there one obviously is again the change in the business model which is seen as reduction in transaction revenue last year from 560 odd Crores to 350 Crores in the current year. So I think as we just kind of detailed earlier I think the switch from transaction revenue to roundabout the ARR revenue will take roundabout two odd years. I think we finished a year of that, we kind of come down from the transaction revenue from 560 Crores to roundabout 360 Crores in the current year, we effectively added 150 Crores of transaction revenue. So it bridged, if I can put it in a crude way, we bridged 60 to 65% of the gap of the reduction from transaction to ARR. I am fairly confident over the next nine months a large part of the gap would be bridged and we would have inverted our ratio of our ARR revenue and transaction revenue in favor of ARR. I think once that happens, I think we will more or less be close to target ROE. The second reason is we need to I think improve a little bit of capital allocation from our balance sheet that is something which we are working on, I think our investment book can be substantially smaller and we are making a conscious effort at an appropriate time to reduce our non-sponsor investments and get our investments down from 650 – 700 crores to round about 250 - 300 odd Crores. And I think if we are able to do that, that itself will add round about 150 - 200 basis points to the ROE.

So I think it is three things put together one is the revenue itself, second is the split between the revenue, and third is the improving the balance sheet in terms of effectively kind of reducing the investment book. So these three things put together I think should push the operating ROE back to the late teens.

Yashodhan: Just a last question, because unlike as a private wealth managers who have the bank network advantage to them, what sort of channels are we taping to source clients is it the internal structure which we are dependent upon or something external?

Karan Bhagat: See our business, honestly we really do not approach any channel it is all direct because our investment is in high quality relationship managers so we really do not disintermediate and most of the client contacts are largely driven from a very strong referral program from our existing client base.

Yashodhan: So that is even for the IIFL-ONE program you are talking about.

Karan Bhagat: Yes.

Yashodhan: Okay, and the clients which are not part of IIFL-ONE, it is like the asset which are not part of IIFL-ONE we will be continuing to receive the trail commission from the manufacturers directly.

Karan Bhagat: Yes, provided they are in the broker plan.

Yashodhan: Got it. Thank you and that is it from my side.

Moderator: Thank you. Next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Congrats on the quarter. I have a couple of questions. Firstly did you mention that the MTM impact on your IIFL-ONE was lower versus -13% for the overall portfolio.

Karan Bhagat: The answer is yes, but the way to look at -13% is that it includes everything, including custody assets, and distribution assets and IIFL-ONE assets. So, if you actually breakup the mark-to-market the highest quantum of impact is on the custody assets, followed by a broad impact of round about 9% - 9.5% on the distribution assets. So IIFL-ONE is kind of close to round about 80%, 85% on the fixed income side, the distribution assets are close to round about 60% in distribution 55% to 60% in fixed income 40% to 45% equity and the custody assets obviously most of it is 100% equity.

Piran Engineer: Okay, I get about the custody assets but why should there be a difference in the debt equity allocation between IIFL-ONE and your distribution business?

Karan Bhagat: Because most of them come over the last 8 to 12 months and therefore have been a little low on equity. Within IIFL-ONE we follow a price to book and a price to earnings multiple method to allocate money to equities. And broadly speaking north of round about 2.5 times book and north of round about 19.5, 20 times multiple allocation to equity falls dramatically. And most of last year that is the way it has been and since IIFL-ONE is more or less a newer program the allocation to equities have been substantially lower. Distribution assets obviously more or less represents a broad allocation of 60/40 and it is not as tightly possible or easily maneuverable as the IIFL-ONE program because you need to go back to the client measure it with his own asset allocation and in a sense work with the relationship manager and the client to make the changes. So it is never going to be as nimble footed as the IIFL-ONE.

Piran Engineer: So if I understand with IIFL-ONE you all have more discretionary power compared to distribution?

Karan Bhagat: Absolutely yes, yes.

Piran Engineer: My next question is sir you are expecting 15,000 – 20,000 Crores of net flows in FY2021 and beyond annually; how much of that should come from existing clients and how much from new clients?

Karan Bhagat: So I think it is fair to say broadly, give or take 15% of new clients, again on a stock basis; so effectively we should add about 700 to 800 families, which should aggregate to round about give or take on an average of 8 to 10 Crores which is 6,000 to 7,000 Crores. The remaining 7,000 to 8,000 Crores should come in from existing families.

Piran Engineer: So raising money from existing families should not be an issue with the lockdown right?

Karan Bhagat: No, that is not an issue, but obviously you do not end up getting new clients.

Piran Engineer: And even with the new clients?

Karan Bhagat: Yes, but see even for existing clients you can get new money for either of the three reasons right - They have a liquidity event and therefore the end of this new money; They have reduced the allocation of money to the business and therefore want to invest; or third you are moving money away from a different wealth advisor to yourself. I think all three during the lockdown, are really difficult to get because the first two are virtually impossible to happen during lockdown - which is remove money from business as well as the monetization event; the third one which is removing money from another advisor to you is also close to impossible during the lockdown period because it involves just way too much documentation. So I think addition of money even from existing clients during lockdown would have been a challenge. But most offices for us apart from Bombay, Chennai and Pune are more or less getting back on its feet, barring Delhi which is 50%. I think it is fair to say over the last 8 to 10 days most of the offices are back on their feet.

Piran Engineer: So that gets me to my next question how confident are you of these net flows given that so called liquidity event or HNIs and promoters is unlikely to happen in FY21. You would not see them selling the businesses because; others may not look to buy that. So how confident really are you of this number. And even your treasury money will move out so in that sense wouldn't it be difficult?

Karan Bhagat: Treasury is a small portion for us but here we will have to dig a little deeper because here you are right, it is possible that the quantum of money coming from a single client is lower and typically if you would see, you would have typically let us say 20% of our clients give 50 Crores and above and the remaining 80% clients being on an average of 5 Crores to start off with. I think we will have to work slightly harder to improve it; it might end up being in the ratio of 90:10 we are 90% clients start up with 5 to 7 Crores and only 10% clients start off with 50 to 75 Crores because monetization events are lower. And we should also hopefully benefit from the fact that we have recruited 7 - 8 really senior bankers over the last couple of years and I think they should be able to migrate a fair degree of portfolios from competition. So I think given combination of those two, I think we should get there but you are absolutely right we will have to dig deeper.

Piran Engineer: I have some more questions, but I will get back in queue. Thank you and all the best.

Moderator: Thank you very much. Next question is from the line of Sagar Jethwani from Phillip Capital. Please go ahead.

Sagar Jethwani: Sir my question is based on some corporate and bank guarantees which we have offered and this put together is around 350 Crores which is roughly about 12% of net worth, if you can give me some idea about what are these corporate guarantees your disclosures would be helpful and whom have we offered is?

Karan Bhagat: I will request Mihir to help me here, but I think most probably they would be just offered for broking margins. Mihir can you step in here.

Mihir Nanavati: Yes thanks Karan. It is only for broking related bank guarantees and a corporate guarantee being given for IIFL Wealth Finance to raise money from the banks other than that there is nothing.

Sagar Jethwani: Thank you that is all Sir.

Karan Bhagat: I think 70%, 80% of it would be broking margins on 31st of March because they had gone up a quite a lot and we had a couple of large clients trading with us.

Sagar Jethwani: Okay, thank you Sir. Thank you for the opportunity.

Moderator: Thank you very much. Next question is from the line of Nihar Shah from New Mark Capital.

Nihar Shah: Congratulations on good set of number in tough conditions. Just wanted to get your sort of thoughts on the lay of the land and the competitive intensity post COVID. There are quite a few small guys as well and sort of smaller organizations that are giving the same services that you are giving. How are they coping with the current situation and do you believe that there is a lot of consolidation potential either organic, inorganic as the COVID plays out?

Karan Bhagat: See I think it is a great question, but I personally feel it is becoming really really difficult to be able to earn that 70 basis points of fee from the client, either in the nature of an advisory fee or a discretionary management fee or potentially from a distribution fee. I think in either of the three formats it requires the following investments to be done correctly - It requires an extremely strong and extremely innovative product team which not only understands the features of the product, also understands tax implications, also understands the ability to package, as well as understands the mindset of the consumer. So I think investment in to a strong product team is extremely important. Getting a great set of investment counselors is extremely critical; plus you need the entire platform there and when I say you need the platform you need to have a strong brokerage execution desk you, need to have NBFC to support you in case the client requires and you need a very, very strong research desk plus you need a very strong sales team to work along with you to support those relationship managers. So overall I think yes there are lot of smaller firms providing the services but I think the ability to go out and charge the right fee versus just charging a small monthly fee; will get distinguished by the robustness of the platform and I think that is really difficult to build and need certain economies of scale to step in otherwise it starts kind of really showing up in the bottom-line and I think we have crossed that hump and we successfully built a very good moat around the platform and I think that is what will continue to distinguish us. I think competitively from a landscape perspective I think it is fair to say a couple of us have been able to definitely cross the hump I would not rule out many others but it is going to take some time and it is a much more difficult business to build today relative to what it was 10, 11 years back when we started out.

Nihar Shah: Great, that is all from my side. Thank you.

Moderator: Thank you. Next question is from the line of Saptarshee Chatterjee from Centrum Portfolio Management Service. Please go ahead.

Saptarshee Chatterjee: Sir my question is on the platform side you have said a greater emphasis on the platform if you can give some color why you are so confident on the platform side and what the value addition does it provide to the clients so that the client should be attracted to IIFL?

Karan Bhagat: So there are factual parts of the platform and secondly then there is culture and then third is the delivery right and it is a combination of all of these. So I will try and answer your question to the best of my capability. So I said as a platform I think there are certain factual things which you may could take off right, you need to have the brokerage, you need to have the NBFCs, you need to have a trust platform, you need to have investment counselors, you need to have a little bit of business advisory and tax advisory for your clients. So all these six, seven things make up the factual platform. Now it is obviously possible to create six, seven of these tick a box right. Post that you need the entire middle layer, which for the lack of the better word, I will call it culture and innovation; where you need a culture and innovation of the same sort of people sticking together working extremely hard to continuously innovate and build a culture of delivery among the platform and relationship managers which is a 24x7 kind of service model to clients; because at the end of the day we are dealing with high network families where expectations are high and variables are multiple. So the entire middle layer of the culture is extremely, extremely important. And finally it’s the delivery right. So you need to be engaged you need to be communicating some decisions are right some decisions are wrong all we can do is include the probability of the right decision. But delivery is extremely, extremely important and I think that kind of shows up in our low attrition numbers both on the relationship manager side as well as on client side. And I think it is a combination of these three things which really makes me fairly confident that as long as we are able to continue with these keepings together we have superior play and a differentiated platform.

Saptarshee Chatterjee: Second is on the RM side so here if the attrition rate for say the leadership for the RMs how has been the attrition and how do you see the risk of attrition in RM and therefore is it that sustainably we have to maintain high amount of ESOPs every year?

Karan Bhagat: So, ESOPs are not sustainably very high at the relationship manager level. I think ESOPs were largely an episodic recruitment last year in an effort to build our asset management business as well as strengthening our operations and strategy units prior to listing. So actually a large part of the ESOPs last year were invested on the asset management investment side of the business as well as on strengthening the entire financing operations; I am talking about the entire products, legal, compliance piece. So that is the place where we have really made a lot of investments last year. Large part of the employee compensation actually gets covered in the variable bonus, that would make up less than 20% of the ESOP pool on a sustainable basis. Attrition obviously within relationship managers is a constant challenge. We have done well, we value what we have, we appreciate the hard work at the same point of time, we provide them with the live platform to take to the clients and I think that is the right symbiotic relationship which is needed for us to be able to retain our relationship managers. We also strongly believe that if we do lose a few people, the fact of whether we will retain the relationship or not, will be as much a function of us losing that resource; as much as the new resource we add to the relationship. So we believe the client has a strong hook to the platform and if we are able to add the right relationship manager to the relationship, our threat of losing business from that client will go down dramatically. So I think it is a combination of these three things which gives us fair degree of confidence.

Saptarshee Chatterjee: Very helpful thank you.

Moderator: Thank you. Next question is from the line of Nikhil Walecha from Sundaram Mutual Fund. Please go ahead.

Nikhil Walecha: Just wanted to understand our yield on IIFL-ONE is coming down each quarter, because I remember you have guided that it is a fixed fee and that would be in the range of 35 bps currently it is in the range of 25 bps so where do you think that this would settle?

Karan Bhagat: So actually I pointed out last time our current yield on IIFL-ONE is at 42 basis points. Basically what is happening in the current 18,000 Crores round about 5,500 Crores is non-chargeable because it is essentially something called stocks in basket, which is essentially when the clients signed up for IIFL-ONE but as and when they move out of the earlier broker plan or in the earlier AIF, where they are being charged normal management fee; as the products finish their maturity, it will automatically move into a normal fee plan. So as we speak out of the 18,500 Crores, the chargeable AUM is 12,800 or 13,000 Crores, which is broadly translating into round about 42 basis on an annualized basis taking into account opening, closing as well as average. We can potentially from next time or post the call give a breakup of the exact AUM split. To answer your question, I think it will remain at the 40 basis points number.

Nikhil Walecha: Secondly how are you looking at the revenue side especially the recurring which is the 25% of the core revenue is coming through the loan so given the sentiment so how are you look at the overall revenue as especially the lending part of the opportunity?

Karan Bhagat: So I think going forward as I have guided before I think if I take a revenue tool of Rs.100 for example I think out of the Rs.100 in the longish trend 20% to 25% would be broadly coming as the net interest margin, round about 20% odd, 20% to 25% would come from transaction revenue and 55% to 60% would be the ARR revenue approximately. Going forward, a year forward, after that we would like to ARR revenue to move to round about 65%, 70% and the remaining 30%, 35% will be an equal mix between transaction revenue and loan revenue.

Nikhil Walecha: I understand the mix, I am asking how are you looking at the trend especially in this kind of weak environment when the AUM had declined, there is a pressure in the industry?

Karan Bhagat: So the way we look at our loan book typically it tends to be in the region of 2% to 4% of the AUM we manage. It typically goes down to 2%, 2.5% in times like these. It would go up to a maximum of 3.5%, 4% where clients would like to borrow more. So give or take on a AUM base of 136,000 Crores, our current loan book is round about 3000, 3500 Crores which is round about 2.5%. In a fairly different environment this could go up to a maximum of 5000, 5500 Crores. So the way if you look at our loan book is at the south it will be around about 2% of our wealth AUM, on the north it will be approximately 4% of the wealth AUM.

Nikhil Walecha: Also could you give some color on the structured note, it is slightly it is more volatile part of the business so how do we look at going forward in FY2021.

Karan Bhagat: See structure notes for us actually has no impact on the profit and loss account, it is more a source of borrowing for us. So all the structured notes from a market perspective, the ups and the downs in the market we are not taking any kind of mark to market risk. We are fully hedged on all our structures. We essentially effectively use 80% to 85% of all the structures we raise for our borrowing program and effectively that kind of helps us borrow somewhere between the 8.75 to 9 quarter hilt. So there is no impact on the profit and loss account apart from the cost of borrowing.

Moderator: Thank you. Next question is from the line of Piran Engineer. Please go ahead.

Piran Engineer: I just had one follow-up on that attrition rate that previous participant spoke about that has actually gone up quite a bit in the past two years from 1.5%, 2% to 6% now so is that a cause for worry or how do we read it?

Karan Bhagat: No, it is a good point I think I have got feedback on this in the Board presentation also. We want to break it up in to voluntary and involuntary attrition. I think involuntary attrition makes up a large part of that 6%, voluntary attrition actually is potentially equal or maybe even lower than the previous years. So we will make that distinction in the graph from next time.

Piran Engineer: What is the difference between your structured note and your others that you have talk about in TBR.

Karan Bhagat: Other syndication is essentially if we are selling any - so for example just hypothetically we sold 600 Crores of NSE to our clients, so that is syndication because we are just kind of syndicating it, we are broking it.

Piran Engineer: And in the structured notes also you broke it right?

Karan Bhagat: We could, but structure notes we more or less only specifically raise money for IIFL Wealth Finance. So the syndication income is fairly low. We more or less use it more as a platform to kind of raise liabilities for our own NBFC. Yes, we are broking it through the wealth manager business to our clients, yes.

Piran Engineer: Okay got it. That is all from my end. Thank you.

Moderator: Thank you very much. As there are no further questions, you may now disconnect your lines. Thank you.