IIFL Wealth & Asset Management

Q2 FY22 Earnings Call

The presentation for the Quarter is hosted on the website – Link.

We have re-arranged parts of the transcript for greater lucidity

- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**

- A very good afternoon ladies and gentlemen, and good day and welcome to IIFL Wealth and Asset Management's Q2 FY 22 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, the Managing Director and CEO, Mr. Anshuman Maheshwary, the Chief Operating Officer, Mr. Sanjay Wadhwa, the Chief Financial Officer, and Mr. Pavan Manghnani, Head Strategy and Investor Relations. I now hand it over to Sanjay to take this conference forward.

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

- Thank you so much Anil and a very good afternoon to everyone on the call today. Firstly introducing myself, I've joined the company this quarter as CFO. It's an exciting time to be part of this prestigious organisation and what better way to kick start my journey here! On the backdrop of the previous quarter, we report yet another exciting quarter performing exceedingly well and showing good improvement across all key metrics, both on the revenue side in form of AUM and steady retentions, and by exercising good control over expenses and keeping an overall check on our cost to income ratios, thereby improving our profitability. This has been possible due to our relentless efforts on core drivers across clients, products, people and technology.

- Let me start with a brief overview on the financial performance of the company for the quarter ended September 30, 2021. At the outset, Q2 FY22 has been another record setting quarter for us, as we report another all-time highest revenue, operating profit before tax, profit before tax and PAT. In terms of our total assets under management, it has been a quarter of key milestones. Our total AUM is now above 315,000 crores, our wealth management AUMs have surpassed 200,000 crores and our asset management AUMs have crossed 50,000 crores. In addition, our tangible ROE is at 23.7% for the quarter. Some specific financial numbers, starting with AUM, our overall AUM has increased 9% quarter on quarter and 37% over last quarter to 2.56 lakh crores. With custody assets added, our total AUM now stands at 3.15 lakh crores. Importantly, our ARR assets increased 12% quarter on quarter and over 67% year on year to 1.32 lakh crores. With this, the share of ARR assets in total AUM now stands at almost 52% as we continue our journey towards steadily increasing the pie off ARR assets. Net flows have been extremely steady, currently at 18,000 crores for this 1st half of this financial year and 3,700 crores for the quarter. Our loan book has also increased 7% quarter on quarter, and 25% over the last year to 3,558 crores.

- On the revenues and retentions front, our total revenues have increased 19% quarter on quarter and by 45% year on year to 362 crores, while our revenue from operations was up 11% quarter on quarter, 48% year on year, to 314 crores. Importantly, our recurring revenues have increased 16% quarter on quarter and 59% over the last 12 months to 222 crores. Share of ARR revenue to operating revenue now stands at 71% reflecting our constant endeavour in moving towards assets with recurring revenues. Further, the growth in ARR revenues has come from wealth and the asset management business, both seeing a healthy uptick over the last quarter. Total retentions have also held strong increasing by 4 bps to 59 bps over the last quarter. Retention on ARR assets have also been steady with a slight increase to 72 bps.

- On the expenses front, out total expenses for the quarter increased 13% QoQ to 174 crores. Of this, the total employment cost increased by 16%, while administrative and other expenses were up 4% over the last quarter. However, you will notice that the overall employment cost as a percentage of revenue is 37% as against 38% in the previous quarter. We expect this to remain within this range going forward as we continue to invest continuously on our pivotal assets, which is our people. Another key milestone, our overall cost to income ratio is now below 50%, to be precise at 48% for the quarter. Our constant focus on cost rationalisation across the organisation has seen the operating leverage play out over the last 2 years, and we expect this to continue with growth in the top line.

- On the profitability front, the operating profits before taxes have increased 8% quarter on quarter and 80% over Q2 of the last financial year. It now stands at 141 crores for the quarter, and we have achieved our highest ever quarterly PAT at 140 crores, which is an increase of 19% QoQ and 64% YoY. Importantly, as highlighted earlier, for tangible ROE, which is ROE excluding goodwill and intangibles has increased to 23.7% for the quarter from 20% in the last quarter and 14% a year ago. We aim to further improve our profitability while continuing to return excess capital back to the investors which we demonstrated last quarter by declaring a special dividend of Rs. 35 per share. Further, we have announced an interim dividend of Rs. 20 this quarter. Our guidance on an annual pay-out of 75-80% of our annual PAT as dividend still holds. This is over and above any special dividends that are aimed at making our capital structure lean. With this, I would like to handover the call to Anshuman on his comments on the key highlights from a business perspective. Over to you Anshuman.

- **Mr. Anshuman Maheshwary – COO, IIFL Wealth & Asset Management:**

- Thanks Sanjay. Moving on from the specific financials, I want to highlight a few aspects across our businesses. As Sanjay rightly pointed out, it has once again been a remarkable quarter for us with all key output as well as input metrics trending in the right direction. As highlighted in the last quarter's call as well, I do want to go back to the significant strategic decision taken by the management and the board on moving our business model to the recurring revenue based one. At that time as the leading wealth manager in the country, highly successful with strong growth and financial performance, such a first in the industry decision was a bold one, and possibly not needed immediately. However, in hindsight, it was a remarkable decision that today has disrupted the overall Indian industry. Our success in working through the transition has led all players following suit as well, necessitated by the robustness of the model as well as the ask of the clients. We are very proud of the accelerated success as demonstrated through the share of ARR assets in total AUM increasing to over 50%, share of recurring revenues in revenue from operations increasing to over 70% and retentions on recurring revenue assets holding above 70 bps.

- I want to highlight three specific elements that has driven our success. First is our relentless focus on clients. Even as we went through the transition, how does this benefit the client, was the question always top of the mind of not just the management, but the entire organisation. This is reflected in the high client retention and stickiness of client AUM that we continue to see. Loss of AUM has consistently been below 2% annually and is at a low of 0.5% for H1 of this year. In addition, 95% of net flows have been in ARR assets over the last 6 quarters, depicting significant confidence our clients are showing, as well as our bankers are showing in the adoption of this transparent structure.

- Secondly, if our relentless focus on product innovation and building the right investment teams. We have consistently been industry leaders on our propositions and funds, right from the industry's first pre-IPO funds to building the IIFL One and advisory propositions. We continue to invest significantly in each of the investment strategy teams with Navin Amarnani on long-short, Amar Merani on real estate and Anshuman Goenka for private equity and so on. We are continuing to build very specific deep expertise in each of the strategies that we are taking forward.

- Third is our relentless focus on execution on each of the strategic enablers. This is actually a standout across all the teams at IIFL Wealth and Asset Management, whether it be sales, service, operations, technology, etc. All working through with a single-minded focus on the client and core input drivers. I believe this has contributed to not only the success of the platform, but also allowed for us to sustain industry lowest attrition at the senior management level. In addition, the execution focus has also allowed us to bring down our cost to income to below 50% which we believe is sustainable going forward.

- Moving on to covering some of the specific parts of the business, on wealth management our momentum and focus on recurring revenue assets remains strong with wealth ARR AUM increasing to 80,000 crores, and within it, IIFL One accounting for 40% of the same. We should specifically see strong client additions on the advisory proposition as well over the next few quarters. Transactional income has also remained strong given the market opportunities and events, and we expect it to continue going on for this quarter and the next. Overall, retentions remain just under 50 bps with retention on IIFL One continuing to remain steady at 33 bps for H1

FY22. We maintain our expectations of wealth sustaining a retention level of 50 plus bps.

- On the asset management side, our alternates focused asset management business continues to scale new peaks and grow from strength to strength. Last quarter I had highlighted this AUM doubling over the last 5 quarters to Rs. 44,000 crores. This quarter we have crossed the key milestone of 50,000 crores AUM and have closed the quarter at about 52,000 crores. Our focus remains steadfast on the identified key strategies with listed and private equity specifically showing very strong momentum. Momentum has also remained strong from each of our client segments, be it institutions, family offices and HNIs, and retentions are at a strong steady state levels of 70 bps plus.

- Lastly, I do want to call out our continued focus on digital and technology. We have made significant progress on completely reimagining our client and banker journeys and exploring tech enabled propositions. The journey for the next 12-24 months has been laid out and we are excited to start seeing it gradually come to life. This remains one of our biggest investment areas for the foreseeable future and we'll speak about it further in subsequent calls.

- So with that, I would now like to open the session for Q&A.

- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**

- Thank you Anshuman. May I remind you, please tap on the Raise Hand icon in case you wish to ask a question. Kindly introduce yourself and the name of your firm before you may ask your question. Thank you. We'll just give it a minute for the question line to assemble. May I request Mohit Mangal to kindly unmute yourself and ask your question. Kindly introduce your firm.

- **Mr. Mohit Mangal – Anand Rathi Research:**

- Yeah hi. Thanks for the opportunity and congratulations on a good set of numbers. This is Mohit from Anand Rathi Research. My first question was around net flows. So net flows was around 37 billion primarily affected by the corporate treasury. So I just wanted to understand, will that be a regular feature, positive and negative, coming to the net flows or will it be a one off?

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

- So I think Mohit, corporate treasuries will always cause a little bit of dispersion in the flows on a regular basis because corporate treasuries can have inflow and outflow every quarter. But in this specific case, we had a large inflow of 5,200 crores in Q1, a large part of which has kind of got mostly reversed in this quarter. So actually, if you club Q1 and Q2 flows, you will have most of the impact of corporate treasuries moved out and the net flow number will be very healthy if you look at both put together. So broadly, of the net flows in the previous quarter, 5,200 crores was from corporate treasuries, part of which has got withdrawn this quarter.

- **Mr. Mohit Mangal – Anand Rathi Research:**

- Secondly on IIFL One yields. Last quarter it was around 28 bps, this time it's around 29 bps. So just wanted to understand, when can we see it going to 35-40 bps? When can we expect that?

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

- I think like I'd explained last time, I think we'll have to look at IIFL One retentions outside of pure corporate advisory, and maybe we'll start reporting that in two different line items from next time. But outside of that, I think retention will move towards the 35-45 bps. The corporate advisory will cause a little bit of dispersion because those mandates really are sometimes large mandates with very low fixed fees, and that drives down the retention. But otherwise I think IIFL One per se, will end up between the 35-45 bps.

- **Mr. Mohit Mangal – Anand Rathi Research:**

- My last question is more towards the industry. You know, we recruit RMs from competitors and our RMs also go to competitors. So, I just wanted to know whether you see a trend… suppose an RM comes and joins in, what time of AUM he actually brings in along with him? And what is the loss to the AUM if an RM goes out to join a competitor?

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

- That's a great question Mohit. I myself have been an RM for nearly 40% of my life, and the reality is, when you move from one platform to another, let's say you have a book of 30 odd clients, clients react in three different ways.

- Every Relationship Manager, out of 30 clients would have 2-3 clients who kind of love him absolutely, and they are willing to move hook, line and sinker from one platform to the other. But that typically represents less than 7-8% of your client base. So assuming 30 clients, maybe 2-3 clients will be of that variety. Then there will be another 4-5 clients, which would be another 10-15% who would be willing to definitely start with you with maybe 20-30% of the AUM they've had with you for a longish period of time. So around 25-30% of your clients will start, of which round about 10% will start with you in a meaningful way, 20% in a small way. Of the remaining 70%, you typically see half forget you. So 35-40% won't even remember you because they have a large stickiness to the platform that you're already in. And the remaining 30-35% will be willing to listen to ideas. So they'll be open, they will say, 'Stay in touch. Get settled to the new platform, and depending on what value addition you're doing, I'm willing to do business with you'. So really I think a Relationship Manager moving from one platform to the other, from an immediate perspective, it's only a small impact of maybe 5-15%. Finally it's going to be about two things which are going to be more critical. a) How is the platform which he is moving to and how is the platform able to add value to the client? b) If the Relationship Manager is moving out, who is the new Relationship Manager coming in from the platform? Because, if the new Relationship Manager is equally good and is able to maybe add more value, you're unlikely in the longer term also to lose the client. So more important than the Relationship Manager moving out, I would personally feel the platform and the ability of the platform plus the new Relationship Manager coming in his place, are going to be two important aspects to decide whether the client remains or doesn't remain with you on the platform.

- **Mr. Mohit Mangal – Anand Rathi Research:**

- Perfect! Thank you and wish you all the best!

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

- Thank you.

- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**

- Thank you. Next in line we have Kunal Shah. Kindly unmute yourself and ask your question.

- **Mr. Kunal Shah – Q&A:**

- My question is, when we look at the inflows into IIFL One… firstly, thanks for the detailed disclosure on equity and debt; But there were outflows particularly on the debt side. So, should we see this to be more of a one-off kind of a thing and it should not happen, and we will see a good growth coming in on the IIFL One side because it was only 3% quarter on quarter? So, how should we read into that? So that was the first question. And second, in terms of the alternate assets, so the private equity AUM for asset management has also gone up. And when we look at maybe in the terms of distribution assets, the managed accounts, that too has gone up, would there be any overlap in terms of alternate assets being distributed, say at the wealth management level and that is also getting accounted in the managed accounts

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

- So I will answer your first question and then I will come to the second. So, in terms of the debt outflows, it is going to be a little bit reflected from the corporate treasury angle but partially it is also a function of the market, I think a little bit of the flows are moving out of fixed income and moving into to equity; but outside of that, there is no long-term trend. I think overall debt flows will stay healthy and between the two I think, in a very longish term, I think 45 to 47 percent of our flows will always move towards the fixed-income side and 55% would move on the equity side. So, really don't see that as a long-term trend. Having said that, the net flows obviously in managed accounts, portfolio managed products as well as alternates put together are substantially higher right now in the market like this, as compared to a let's say a pure IIFL one proposition. In general clients right now, in the last three to six months, specially over the last three months, have been a little bit more oriented towards taking investment decisions rather than set up advisory or engagement platforms. So, the momentum of the market is such, where there is a preference for direct investments, core investments first, followed by funds and then finally followed by setting up long term asset allocation basis principles portfolios. So I think it is just a function of times a little bit, I don't think these a long-term trends. I think just the momentum of markets, where they have been over the last three months has resulted in a little bit more episodic single transaction kind of activities from clients as opposed to what you would see typically. In terms of the products distributed, alternates obviously on the asset management side ends up being distributed, broadly give or take for our alternatives about 55 to 60 percent incrementally of domestic AIFs, is sold by a wealth management business. So, to that extent, obviously we are accruing the management fees as well as the distribution fees where applicable on either side of the business. So, but approximately, if you go back four and a half, five years back, maybe it was 85, 90 percent of the distribution. Today for the domestic alternates, it will be 55 to 60 percent and for the overall asset management pool of 50000 crores, the blended number might be 35 to 40 percent distributed by the wealth business.

- **Mr. Kunal Shah – Q&A:**

- So, the increase which is there in private equity and the managed accounts, there would be and overlap.

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

- There would be an overlap, yes, it is happening.

- **Mr. Kunal Shah – Q&A:**

- And what could be the reason for the decline in the retention rates out there maybe, so no doubt that Q1 itself was slightly on a higher side, okay but again it has normalized in the distribution of managed assets to almost 79 odd in our business.

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

- So, I think the long-term number is around 80 basis points. The number is an aberration in Q1 because one of the large funds had extended its closing and therefore, there was a larger amount of trade commission payable in a Q1, which came in as a bit of a lump sum and therefore for that quarter, on an annualized basis, though the absolute impact was small, it took the annualized attention to 1.2 but the steady state number is around 75, 80 basis points.

- **Mr. Kunal Shah – Q&A:**

- Sure, okay, okay, yeah, that's it, thank you.

- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**

- Thank you, may I remind you, please tap on the raised hand icon if you wish to ask a question. Next in line, we have Prayesh Jain. Yes.

- **Mr. Prayesh Jain – Q&A:**

- Yeah, hi Karan, so there are three questions from my side. Firstly, could you highlight the transition from our kind of a volumes from we have in terms of transition from our traditional assets to the IIFL one? Secondly, is there any carry income that has been reported during the quarter or any thoughts there about? and thirdly, if you look at our guidance which is given in March, we have surpassed some of those numbers already, so how will you stack up your guidance right now.

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

- Thank you, thank you. So, I think, I will take your questions in the order you asked them. To answer your first question, I think the IIFL one moment of 30, 35 thousand odd crores has been encouraging but as I said earlier, I think that is one front, we would have liked to see grow faster on, I think there is a lot of legs there. It's just that the way the market have been for the last three to six months, it's resulted in a fair degree of hectic activity or more single position, single stocks, direct stocks and maybe a little bit of alternates as compared to the traditional segmentation and building of the IIFL one book. But overall we are very enthused because the book is very, very strong and most importantly, if you look at our entire wealth management AUM, the alternates is obviously a smallish portion of the wealth management AUM and it leaves a lot of scope for us to be able to converge slowly but surely a lot of our core assets into platforms like IIFL one, whether on the advisory side or on the non-discretionary PMS side or on the discretionary side. So, I think that is a journey we are fairly excited about and it will yield results through different market cycles, though obviously the current market cycle, over the last three to six months, we have seen a little bit more excitement on the distribution and the alternate side. To answer your second question, the last quarter really doesn't have any carry booked on the asset management business. We did receive a small amount of carry amount of around a million dollars which is reported in the transaction in the TBR revenue but that was more as a distributor of a fund as opposed to manufacturer of the fund. So, we have really not got any carry booked in the financials for quarter two. Having said that, we have kind of given some detailed disclosures in the data table this time around, on details of maybe 9 or 10 funds where we have got the probability of potentially booking a carry which are funds which are essentially closing in the next 12 to 24 months and we have kind of tried in our best possible way to factually represent the names of the funds as well as the size of the funds in terms of a potential to book carry over the next 24 months. Sorry, I forgot your last question.

- **Mr. Prayesh Jain – Q&A:**

- It was on the current guidance that you have…

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

- Yeah, yeah, yeah. So, guidance, I think you are right, we have surpassed our own guidance and expectation in terms of the growth of the business, largely coming on account of both - a faster movement transition to ARR assets most importantly and followed obviously by a little bit of improvement in net flows and thirdly, a little bit of contribution from market to market. All these three have resulted in obviously getting the guidance surpassed. The first two obviously are more permanent in nature and therefore will need us to revise our guidance for the next year and the year after that. Just as a practice, we want to kind of do it at the end of Quarter 3 and that's really very kind of come out of the guidance, both year after that. So, that's where we really are. We definitely see a better guidance because of the three facets which really contribute to the wealth management business - on one side obviously have the number of clients, relationship managers, AUM contributed by net flows, predictably of the business and lastly obviously is mark to market. So, out of these 5, I think all 5 have contributed towards and upward revision and guidance in the last six months. The first four obviously more permanent in nature and therefore we feel confident about having a much better guidance than what we had given end of Quarter 3 last year. So, we will kind of work on that and towards the end of next quarter, post our quarterly results, kind of work on the guidance for the next 2 years. On the asset management side, obviously again there has been a phenomenal growth, much beyond what we had expected in terms of net flows. That itself also has a positive impact. Even there, there is some positive impact on account of mark to market but I think it's nearly a 80-20, 80% of the impact on the net flows and new strategies and 15, 20 percent is on account of the mark to market. We will be conservative in our guidance when we factor in the mark to market but net flows in new clients are definitely variables which are here to stay.

- **Mr. Prayesh Jain – Q&A:**

- Thanks, that's helpful. Just extending the point on the asset management piece, you are talking about new strategies, anything that is lined up for the rest of the year for in future, in the next year or something.

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

- Sure. We have a couple of strategies lined up. I think we are very excited in general on the yields side. I think with rates being where they are, at four and a half, five, five and half percent and AAA plus bonds and AA plus bonds extending maximum between 5.5 to 6.75, I think, post tax returns, fixed deposits being at 2.5, 3, there is a definite need for yield assets, especially for our set of clients and the interesting strategies ranging, depending on the risk from 8.5, 9 percent with 13, 14 percent, so that's a segment we can continue to remain excited about. Within that obviously, we have got to give space, right from a little bit of collateralized credit, all the way to Invits and Reits and so on and so forth. So, that's a space we are broadly excited with and it is also a space where we can add a lot of value as well as deploy a lot of capital, that's from one side. On the other side, we continue to be excited a little bit on some of the strategies, especially on the private equity side, on the fund of fund side, where we are able to kind of navigate with multiple sets of managers. So and thirdly obviously, we have done a lot of work again on the discretionary side to serve as a platform for some of the LRS investments. So, these are some of the two or three things we continue to remain excited about and these are all strategies which most importantly have a fairly long rope to kind of build out on and those are the strategies that we will build towards. In each of these strategies, we have invested a lot in building out teams. In some of them, we are fully complete with the teams and in some, getting there and we will kind of launch them depending on when a platform is fully complete to be able to handle some of these opportunities.

- **Mr. Prayesh Jain – Q&A:**

- Thanks, can I slip in one more?

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

- Go for it, yeah.

- **Mr. Vishlesh Jain – Q&A:**

- Yeah, yeah, okay, just on the loan book side, there is substantial growth in this quarter on a Q-on-Q basis, what is the reason for the same and what is the view going ahead?

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

- So, little bit of the growth if I am not wrong, about 3.5, 4 percent of the growth, so there will be an average addition of about 150 crores, I might be off by 10, 20 crores a bit. The average AUM increase would be 150 - 200 crores on account of the IPO funding. The IPO funding obviously spikes to 1500, 2000 crores, maybe 3 or 4 times in a quarter and therefore kind of contributes for 7 days each. Therefore contributes to average area of booking increased to about out 150-200-250 crores. That's one reason for the increase and outside of that, little bit of traction on the ESOP funding or businesses that are just getting listed, where promoter wants to exercise some shares and so on and so forth. So broadly kind of in the normal course of business, nothing spectacular in in that sense but I feel that the loan book will be more or less, continue to be study around that's three and a half to four and half thousand crore kind of number.

- **Mr. Prayesh Jain – Q&A:**

- Also, just on the IPO funding part, in the new norms, how are they going to impact IIFL wealth in terms of total revenue impact?

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

- Revenue is negligible in IPO funding honestly. So at the end it is practically zero. It's like 30, 40 lacs per IPO and it is an activity which you have to do to service your clients, not really a revenue activity. From a revenue perspective, there is no impact from a regulation perspective.

- **Mr. Prayesh Jain – Q&A:**

- Thank you so much, wish you all the best.

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

- Thank you.

- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**

- Thank you Vishlesh, may I remind you, please tap on the raised hand icon in case you wish to ask any questions. Next in line, we have Shubranshu Mishra. Shubranshu, kindly unmute yourself and ask the question.

- **Mr. Shubranshu Mishra – Q&A:**

- Hi Karan, thanks for the opportunity. So, just wanted to understand, how many individuals do we have been servicing in the wealth management, how many clients do we have and what is the concentration there, what will be the top 20 clients attributable to, what will be the top 50 clients attributing, if you could dwell on that and also what percentage of their owned wealth are we managing?

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

- So, Shubranshu, thank you, for the question. I think in terms of clients, its round about a larger client base is approximately around 10 odd thousand clients that we are dealing with. We are fairly diversified. Unfortunately, I wouldn't have the exact data for the top 20 or top 50 clients but maybe I can help in terms of percentages. I think the top 20% would be accounting for round about 60 to 65 percent or top 25% would account for 60, 65 percent of our revenues, maybe 50% of our AUMs, but 25 to 30 percent would account for 60 to 65 percent, pretty much like it would be in most other businesses. But the interesting thing there obviously is the middle leg is more often than not maturing and getting more and more pregnant with us in the sense that it's a developing base, so it is not as if it remains small, it keeps developing; and both tenure of the client as well as the RM proportionately add both in terms of the AUM and the market share. In terms of the wallet shares we would be managing, typically it would range between 30 to 70 percent and more often than not, most clients have two relationship managers, to wealth managers, specially the clients of the size that we deal with, not necessarily with an equal market share, equal wallet share but they would definitely have two and there is always a third one lurking around in case the first two make some mistake but typically I think, our wallet share would be on an average of, the average would be in the region of 40 to 60 percent where we are dealing with clients. There would be 5% of our clients who may be large and would have 100% of the wallet share with us but more often than not, at least 2 wealth managers are what most plant have and I would really be tempted to say, two and a half but two definitely and half lurking around somewhere or the other.

- **Mr. Shubranshu Mishra – Q&A:**

- Sure, thank you so much. I have no more questions. Thank you for the comparison.
- **Mr. Karan Bhagat - Founder, MD & CEO, IIFL Wealth & Asset Management:**
- Thank you., thanks Shubranshu.
- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**
- Thanks Shubranshu, may I remind you, please tap on the raised hand icon in case you wish to ask any questions. Next in line, we have Prashant Sreedhar. Prashant, kindly unmute your phone and ask your question.
- **Mr. Prashant Sreedhar – Q&A:**
- Okay, I have one question, in one of the slides where you gave the precise break up of clients, how do we interpret percentage loss of AUM?
- **Mr. Karan Bhagat - Founder, MD & CEO, IIFL Wealth & Asset Management:**
- So, basically your percentage loss of AUM from clients who have gone below the relevant number, so basically what we try to say is that any client who has got either exited from the system or has a probability of exit, from those clients, we have lost less than 2% of the AUM.
- **Mr. Prashant Sreedhar – Q&A:**
- Sure, sir.
- **Mr. Karan Bhagat - Founder, MD & CEO, IIFL Wealth & Asset Management:**
- Anshuman, you want to add there?
- **Mr. Anshuman Maheshwary - COO, IIFL Wealth & Asset Management:**
- Yeah, sure, I can add there. Basically, if you look at the number of 10747 relevant clients and we define relevant clients as having a minimum AUM of one crores, so off these relevant clients as Karan said, whose AUMs moved out of the system, that is what is included in the loss of AUM, so that is 0.5 percent for H1 and about 2% last year, and again, about less than 2% the year before that as well.
- **Mr. Karan Bhagat - Founder, MD & CEO, IIFL Wealth & Asset Management:**
- So, what we are broadly trying to say is that, AUM is fairly sticky, the annual retention rate is more than 98, 99 percent typically.
- **Mr. Prashant Sreedhar – Q&A:**
- Okay, so this is by AUM, not by number

- **Anshuman Maheshwary – COO, IIFL Wealth & Asset Management:**
- 0.5% is by AUM, absolutely.
- **Mr. Prashant Sreedhar – Q&A:**
- A few other minor things coming to the P&L, the fee & commission expense, has increased quite a bit. Any specific reason?
- **Mr. Karan Bhagat - Founder, MD & CEO, IIFL Wealth & Asset Management:**
- So, I think P&L commission expense, I think there was a direct referral expense for one of the transactions but outside of that, there is no specific increase, so it would be a direct cost for a referral expense booked on account of a transaction but outside of that, nothing recurring
- **Mr. Prashant Sreedhar – Q&A:**
- Okay, I think last time, you had mentioned on the lending book about one account that was restructured, any update there and how are the delinquencies looking?
- **Mr. Karan Bhagat - Founder, MD & CEO, IIFL Wealth & Asset Management:**
- So nothing really no delinquencies at all on the NBFC, pretty much, as per standard there's no, no surprises at all. On the one account which we discussed I think it's already the underlying asset which we have as collateral has already got sold so it's awaiting CCI approval its realizing more than what we had given out as a loan so that's well on the way.
- **Mr. Prashant Sreedhar – Q&A:**
- Sir, thank you sir.
- **Mr. Karan Bhagat - Founder, MD & CEO, IIFL Wealth & Asset Management:**
- Thanks.
- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**
- May I remind you to tap on the raise hand icon to ask your question. Next in line we have Dipanjan Ghosh, Dipanjan kindly unmute yourself and ask your question
- **Mr. Dipanjan Ghosh - Kotak Securities:**
- Hi, this is Dipanjan from Kotak securities just two questions from my side one is if you look at the variable expenses obviously in line with the good traction markets we have seen the expenses going up so how should one think of it going ahead? this is the first question, on the second part you know transactional revenues have

broadly been flat if I look at the past 2 quarters so how should one think of it incrementally.

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

- So, I think Dipanjan great question and from a variable expense perspective like I pointed out in earlier calls, I think we will see slightly heavier tinge of variable expenses for the transition period essentially as we move from the regime of kind of moving our business from transactional to an ARR perspective, I think more or less in our mind, large part of the journey winds down towards Quarter 1 of next year. I think till that point of time, we would see employee expenses be in the region of somewhere 37 to the 40 percent kind of range, largely being a function of the revenues of that quarter. I think on a steady stage basis, post quarter 1 of next year I think, we would expected to come down to the region of 32.5 to 35 and when I am talking about these numbers, I am not only talking about the variable expenses, I am talking about the total employee expenses which includes fixed and variable. So I think the way to look at it is for quarter 3, quarter 4 and quarter 1 of next year, I think we will be between the 37 to the 39 or 37 to 40 percent range. But from quarter 2 of next year, I think we should be able to get this down to round about 35 and once our transition is over, more or less optimize it at 32.5 to 35. So I think in the longer term on a steady state basis we would like to move to 32.5% on employee expenses and round about 12.5% on other expenses, coming to a cost to income at 45 but I think it will take some time to get there, so the 37, 38 on employee expenses will come down to 32.5 or 33 and other expenses would be brought the in the region of 12%. So, the way to look at it is in the next three quarter, this will be in the range of 37, 38, dropping post that progressively towards 35 and finally down to 32.5, 33.

- **Mr. Dipanjan Ghosh - Kotak Securities:**

- Sure, thanks and on the transaction revenues...

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

- Sorry, what was the question again? Please do repeat.

- **Mr. Deepanjan Ghosh - Kotak Securities:**

- Sir, basically on the transaction revenues that have been around 92 to 100 crores sort of a range...

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

- Yeah, so I think what we have seen typically is around, 75 crore number is more or less a given kind of. So, we have 30, 40 crores coming of pure brokerage itself, 75 crores are a fairly steady number of transaction revenue. So I think that is not a number where we will typically see a large variation on. The extra 10, 15 crores is obviously is a bit of the function of the market, so it can become higher but unlikely to go massively below 75. I think as a percentage for our overall revenues, today it will be about, give or take 20, 25 percent of our revenue, maybe 25% of our revenues. Ideally speaking, over the 12-to-24-month horizon, we want to be closer to 15% or 20% of our revenues, maybe towards the 15 ish but I think we will get there over the next seven odd quarters and we will not see the transactional revenue increase much but the ARR revenue will move substantially higher. So, effectively as revenue moves up from the 1300 crores number to let's say, whatever 2000 crores number over the next X number of months, I am not defining it but let's say X number of months, it will be largely driven by the growth in the ARR revenue and not growth in the upfront revenue or the transaction revenue. So, transaction revenue will remain more or less in the same region while the other revenues essentially go up from whatever 1300 odd crores to 2000 crores. So that will get the percentage of transaction revenue down from 25 to 15 over a period of time.

- **Mr. Deepanjan Ghosh - Kotak Securities:**

- Sure, just one question, if I look at your inflows for the last few quarters, how to use stack up in between inflows from new client addition versus clients who's monies are getting churned by the erstwhile upfront model out there

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

- No, clients who is not, no so those...

- **Mr. Deepanjan Ghosh - Kotak Securities:**

- I mean, there will be some portion of the money which will, on which income would have been booked upfront back then.

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

- Yeah but that won't come into net flows mostly Deepanjan because that is mostly cancelling, that is not net new inflow. It's just changing from one category to the other but that is not resulting in a new net flow. So net new flows would be money new into the system; but to answer your question, I think 55 to 60 percent, I think in the last 6 months it will be higher, 60 to 75% of all our old assets where revenue was booked earlier is finding its way into either new products or into ARR assets for sure. So that transition has been good.

- **Mr. Deepanjan Ghosh - Kotak Securities:**

- Sure, sure, thanks, that answers my question, thank you, thanks and all the best.

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

- Thank you.

- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**

- May I remind you to tap on the raise hand icon to ask your question. We will just wait for a minute, thank you.

- Karan, in case you have any closing remarks.

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

- No, no, that's it, thanks a lot, thanks for the call and do please reach out to our investor relations team, Mohit is here or to Pavan or to Sanjay, me and Anshuman in case of any query. Thanks a lot, thank you everybody.

- **Host - Mr. Anil Mascarenhas - Senior VP Communications, IIFL Wealth & Asset Management:**

- Ladies and gentlemen, thank you. This brings us to the end of the conference call. Look forward to your participation next quarter, thank you once again.

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

- Thank you.