IIFL Wealth & Asset Management

Q1 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:**

- Very good afternoon, ladies and gentlemen, and welcome to IIFL Wealth and Asset Management's 1st Quarter FY22 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 has given their initial thoughts. Should you require any assistance during this conference, please signal the host by tapping on the raise 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. Mihir Nanavati, the Chief Financial Officer, and Mr. Pavan Manghnani, Head, Strategy and Investor Relations. I now invite Mr. Anshuman Maheshwary to walk us through the key points of the first quarter. Over to you, Mr. Maheshwary.

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

- Thank you, Anil.

- Good afternoon to everyone on the call today. It has been a good quarter for us at IIFL Wealth & Asset Management. Momentum remains strong and we have been able to focus on growth, on executing well on our critical strategic initiatives and also initiating new ones, as we look to sustain the performance and continue our delivery on growth as well as shareholder value. Most importantly I think we are proud of being able to support our clients with advice, product innovation and the required agility as they and we together with them navigate the current environment.

- Let me start with a brief overview on the financial performance of the company for the quarter ended June 30th, 2021. At the outset quarter 1 has been a quarter of key milestones for us. We have seen our highest quarterly revenues, highest profit after tax as well as highest quarterly net flows in the history of the company. In addition, I think importantly we have also hit our targeted 20% tangible ROE.

- Some specific financial numbers - On the Assets under Management side, our overall AUM increased 14% quarter on quarter and 33% over the last year to 2.35 lakh crores with custody assets our AUM stands at 8.3 lakh crores. I think importantly our ARR assets increased 15% over the last quarter and over 60% over the last year to Rs. 1.17 lakh crores. With this the share of ARR assets in our total AUM stands at 50%, a critical milestone in our journey towards the recurring revenue model. Net flows have been extremely strong as well at over 14,000 crores with growth seen across both wealth management with 9700 crores net flows as well as asset management which saw 4600 crores of net flows. Even excluding flows from corporate treasuries Wealth Management saw very healthy 4500 crores of net flows. While our loan book has marginally decreased to about 3350 crores, revenues have strengthened due to significant focus of the team to lower our cost of borrowings by 40-50 bps.

- On the revenue and retention side our total revenues for this quarter increased by 27% year on year, and 6% over last quarter to 304 crores while our revenue from operations was up 43% over the last year and 7% over the last quarter to Rs. 283 crores. Within revenues it is important to highlight that our recurring revenues have increased 20% quarter on quarter and 50% over the last 12 months, to 119 crores. Share of ARR is at 67% for the first time, another critical milestone in our journey. Also, the growth on ARR revenues has come both from the wealth management and the asset management businesses. Both the businesses have seen about 20% recurring revenue growth in the last quarter.

- On the retention side, while total retentions have largely been steady reducing by 2 bps to 55 bps on an aggregate basis, retention on ARR assets have held strong with an increase of 4 basis points over the last quarter to 71 bps.

- On the expense side, our total expense for the quarter remained flat at about 153 crores, of this total employee cost increased by 4% while administrative and other expenses were down 8% over the last quarter. This is again in line with our strategic focus on hiring and retaining the right teams in wealth as well as asset management, while sharpening our spends on administrative and marketing and other expense heads. Accordingly, our overall cost to income ratio decreased from 53% to 50.4% for the quarter, and we expect it to sustain at the 50 to 51% level for this financial year.

- On the profitability side, the operating profits increased 15% quarter on quarter and 90% over the last year, to 130 crores. And we achieved our highest ever quarterly PAT at 119 crores, an increase of 16% over the last quarter and 42% over the last 12 months.

- Here I think it is important to highlight once again the tangible ROE - which is ROE excluding goodwill and intangibles, has increased to 20% for the quarter from 17.3% in the last quarter and 12.6% a year ago – another critical milestone for us again demonstrating the continued focus on driving capital efficiency. We remain on track in our journey towards 20% absolute ROE going into FY23. As a further mark of our focus on capital efficiency and shareholder value, we have announced a special dividend of Rs. 35 this quarter. Our guidance on an annual payout of 75 to 80% of our annual PAT as dividend still holds.

- Moving on from the specific financials, we want to share 3 key highlights across on our business front, I think firstly and very importantly at the beginning of, all of you are aware, at the beginning of 2019 we took a bold decision to transform our business model from a transactional revenue orientation to a sustainable recurring revenue based model. And we have been speaking about it pretty much every quarter thereon. We were the first wealth management company to initiate and attempt such an ambitious transformation in India and in many ways, this allowed us to be better prepared for many of the regulatory as well as industry changes that have happened since then. When we initiated the journey the split between our recurring revenue or what we call ARR assets and our transactional or TBR assets was 35 to 65, 35% being the ARR AUM share, and our revenue mix between recurring revenues and transactional revenues was 40 to 60%, 40% again being the recurring revenue nature. Today we are 27 months into this journey and our AUM split between ARR and TBR assets is equal at 50:50, and our revenue mix between recurring revenues and transactional revenues is at 67% to 33% which is very much in line with our guidance of getting to approximately 70 to 75% of revenues being ARR in nature by the end of FY22 which should be 36 months into our entire transformation journey. Also, to highlight over the last 5 quarters about 36,000 crores or 96% of our net flows have been ARR in nature. And we expect this momentum to continue going forward as well.

- Secondly, again important to speak about IIFL-One, our momentum and focus remains very strong on IIFL-One covering advisory and our PMS both the DPMS and NDPMS propositions. Under IIFL-One we have seen healthy growth in assets, we have crossed the 30,000-crore mark as far as AUM is concerned in this particular quarter. The proposition continues to gain acceptance across clients and the broader industry, and we continue to sharpen our propositions very clearly to remain the market leaders in this space.

- Couple of points specifically to highlight. One on retentions, our retentions in IIFL-One has seen an improvement of 5 basis points to 33 basis points with our DPMS offering tending towards 50 bps for the quarter. This is again in line with our expectations of IIFL-One overall yielding 40 plus bps in steady state. The second is, I think, we continue to invest in the right sales product and advisory teams, hiring as well as up skilling of our existing teams to meet emerging client as well as industry requirements.

- The third aspect of our business that I just want to highlight is our alternate focused asset management business which continues to go from strength to strength with AUM doubling over the last quarter to 44000 crores. As we had stated earlier our focus here remains on 5 to 6 key strategies that we believe can scale to upwards of 2 to 3 billion dollars each in the medium term. Momentum remains strong from each of our client segments, institutions, family offices and HNIs and retention continue to be strong at approximately 70 basis points. This is also an area where we are investing significantly in each of our investment strategy teams to support the growth aspirations that we have highlighted above.

- Very quickly covering two specific strategic focus areas for us, one, as you would recall we had highlighted our focus on the cost side as well as capital efficiencies. Our focused efforts on reducing cost continues to show benefits as you can see from the lower cost to income ratio for the quarter. It is important to highlight that we remain sharp and selective in our spends with certain spends actually going up, specifically in the areas of digital and technology, balanced with other spends where we are able to tighten and sharpen our spends space.

- The second area which is a big strategic thrust for us is digital and technology, it continues to be a big investment area for us across all aspects of our business from comprehensively reimagining our client and banker journeys with the new age lens to deploying technology to drive operational efficiencies and greater integration even with our external service providers. We continue to also explore digital first approaches to drive future growth.

- With that, that summarizes our financials as well as some of our strategic thrust areas. And with that I would like hand it over to Karan to take us into the Q&A. Over to you, Karan, thanks.

- **Host:**

- Thank you, Karan, for joining us now. May I remind you please tap on the raised hand icon in case you wish to ask a question, kindly introduce yourself and your firm and then proceed to ask your question. We will give it a minute for the questions to line up. The first question is from the line of Mr. Mohit Mangal, kindly introduce your firm and proceed with your question.

- **Mr. Mohit Mangal:**

- Thanks for the opportunity, and congratulations on a good set of numbers. My first question is that this quarter we saw the company earning a carry income of around 13 million which although small but was recorded for the first time in last two years. So just wanted to know as to what schemes or strategies did help in this carry income, and how do we see this going forward in the coming quarters.

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- Thank you, Mohit. I think the 13 million of carry income essentially is the carry which was earned from the sale of our co-investment in Nazara. We have not really still ended up booking any carry on our asset management schemes yet. Most of them will come up for expiry or maturity rather between September/October of this year all the way to the next 24 to 36 months. All the schemes continue to be pregnant with carry today, and therefore assuming markets stay at current levels, I think there is a high likelihood of most of our private equity funds including the pre-IPO funds yielding us a good benefit on the carry side in terms of the blind pool investments. What you see in the last quarter is only from a specific investment in the form of Nazara.

- **Mr. Mohit Mangal:**

- Okay, fine. Now moving to NBFC, we saw that the capital employed increased from around 1130 odd crores to around 1230 crores, just wanted to know as to why we are increasing the capital employed in the NBFC business.

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- That's just a function of retained earnings, Mohit, nothing else, so not really, no increase in capital really.

- **Mr. Mohit Mangal:**

- Okay, and any guidance in terms of the NBFC book, it is pretty much stagnant, so just wanted to know a little bit on that front.

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- I think the NBFC book will be as I have kind of pointed out earlier will not be proportionately growing to the AUM. I think it will be kind of, there are two things which are there on the NBFC and the investment side. I'll address both together. On the NBFC books I think we will stabilize over the next 6 to 9 months in a range of around 4 to 4500 crore book at around equity capital of 1100-1150 crores. At best the book might move towards the 5000 crore mark. But mostly likely to remain in the 4 to 4500 crore mark. Obviously 3 to 400 crores of addition on an average right now is happening because of the buoyancy on the primary market side. But on a steady state basis I think 4 to 4500 crores is the book we have to look at. I think the improvement on earnings is a function also of the lack of excess, or rather an optimization of the excess liquidity which was there last year. And on the investment side also we are seeing a lot of efficiencies in being able to reduce our sponsor and non-sponsor investments in our own AIFs historically tended to be in the region of 1.75 to 2.25% but as we are becoming larger and the brand is more powerful in the sense where we don't need to put that amount of money to show our alignment of interest with clients. We are hoping to get it down to around about 1 to 1.25% of the overall AUM on the alternate asset management side. So I think that the investment book should also over the next 6 to 9 months see a reduction of round about 200 to 250 crores.

- **Mr. Mohit Mangal:**

- Perfect, my last question is more generalized one. So I just wanted to understand how a junior RM in your company is groomed. Is he given a specific training or a senior RM shares some kind of portfolio with him, just wanted to get a sense as to how a junior RM is groomed in the company.

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- So we really have for the lack of a better word, two profiles, one I can call as a banker and the second is a senior banker. The banker really for us would be an individual who spends 7 to 8 years in a priority bank already. So in that sense it is not his first exposure to managing money, he would have spent at least 6-7 years on the priority banking side. But I think his largest exposure in that sense therefore comes around three things, first I think and the most important is on the ground training while sharing portfolios with the senior banker. The senior banker would traditionally have at least 10 to 12 years experience and the ability to have managed at least 5 to 10 relationships above a 100 crores over the last 5 to 7 years. The second one is we run a structured kind of training program more on the softer skills, so that's kind of run through the year. And that's fairly focused and especially through times like the last 15 to 18 month I think it has been extremely valuable because it allows people to kind of stay fairly focused. And lastly we run a fairly tight program on domain knowledge, but that's something which is I guess in some ways fairly standard but keeps all our relationship managers fairly well engaged. But from a product standpoint and our ability to kind of communicate, I think one of the things which we have been able to build well is we do very, very regular town halls with all our bankers, senior and junior, and that serves as a very important place for all of us to engage and it is a forum where everybody is able to contribute to new ideas and make it a big success. So in that sense I think there is a fair degree of ability in spite of us now having 250-300 bankers for everybody to learn and also contribute.

- **Mr. Mohit Mangal:**

- Perfect, that's all from my side, all the best.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- Thank you.
- **Host:**
- Thank you, Mohit. We now move to the next question, we have a question from the line of Mr. Prashant Shridhar, Prashant, kindly unmute yourself and introduce your firm and ask your question.
- **Mr. Prashant Shridhar:**
- So just wanted to check, in the NBFC as on FY21 we had some NPA of around 80 crores, any details around this, as to how many accounts it spread over, the value of collateral, what will be the status as of today.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- No, Prashant, I don't think the number is correct. NPA of 80 crores?
- **Mr. Prashant Shridhar:**
- Right, we just read this in some Rating Rationale...
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- No, no there is no NPA of 80 crores, there was one loan of 75 crores I think to one of our clients I think, it is basically was through one of the promoter entity, so effectively there was a restructuring which we entered into. It is not an NPA. And on account of the restructuring we had taken a 5 crore additional provisioning, that's the only loan which is there, there is nothing else.
- **Mr. Prashant Shridhar:**
- And this would be unsecured?
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- No, no, it is fully secured, fully secured.
- **Mr. Prashant Shridhar:**
- And what was the collateral around?
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- So it is fully collateralized against shares, so it is not an issue at all.
- **Mr. Prashant Shridhar:**
- The other question was generally in your PPT there is some details around number of families, RMs, attrition rates, etc. any details around that, any change.

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- So we typically kind of update it once every 6 months, but because there is no large change in terms of employees but there is no significant change in either the attrition numbers at all, it is all business as usual. I think from an attrition perspective continues to be fairly low. Now over the last quarter I cannot think of a single senior banker who has exited the firm. I think from an employer perspective from the wealth management side we continue to be the employer of first choice, we continue to attract good talent, and we continue to kind of invest heavily towards ensuring that the platform is the most optimal for all our wealth managers. On the asset management side I think we are beefing up our team substantially, I think we have got a very strong and complete team on the listed equity side. On the credit and real estate front side we have added one person who has kind of come in over the last quarter. On the credit side we will be building a substantially larger team over the next 3 to 6 months and we have also got a CIO for the private equity business joining us over the next couple of months, so on the alternate asset management side I think we continue to beef up the team and on the wealth management side I think it is pretty much business as usual. We would want to 10 to 15 senior bankers through the year and I think we are well on our course to do that, that's going to be important from our perspective to be able to kind of ensure that we are able to consistently meet our net flow targets.
- **Mr. Prashant Shridhar:**
- And the current count of senior bankers would be around 60-70.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- Yeah, around 70 senior bankers.
- **Mr. Prashant Shridhar:**
- Thank you.
- **Host:**
- Thank you, Prashant. The next question is from the line of Saptarshi, kindly unmute yourself and introduce your firm.
- **Mr. Saptarshi:**
- This is Saptarshi from Centrum, and congratulations on a super quarter. My question is related to asset management the debt side, although the debt is very good, but yield has been around 16 basis points versus somewhere it used to be around 40-50, is there any structural change here?
- In the asset management when I see under mutual fund debt side, the yield seems to be slightly lower on the 16 basis points, 1-6, versus it was 40-50 earlier.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- So on the fixed income side on the bond front we just reduced the management fees, nothing else.
- **Mr. Saptarshi:**
- Okay, and on the asset management side only in the listed equity space when I see your last year Q3, it was around 4300 or 4500 kind of equity, listed equity, but last six months have been very good run for the equity space but our AUM has not increased in that way it has been reduced, is there any movement from listed equity to other assets.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- Saptarshi, which specific section because listed equity has increased substantially from 4300 crores, are you specifically referring to a subsection there or?
- **Mr. Saptarshi:**
- Yeah, 4300 crore current number regarding to that I think 3700 right, 3670?
- **Mr. Anshuman Maheshwary – Chief Operating Officer, IIFL Asset Management:**
- I think Karan, here the reference is specifically to AIF excluding the discretionary as well as the mandates that gets covered under listed equities.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- No, I think, Saptarshi, that's just a vehicle issue. The larger collections have happened either in PMSs or in AIFs, or in institutional segregated managed accounts. As a consolidated, I think the entire pool has moved from around about 3400 crores to really 15-16000 crores of listed equities over the last 7 to 8 months. It is just a specific vehicle issue, it really may have moved from one vehicle to another, nothing else. Overall there's a very good growth. And in the AIF structure there was a specific fund which was long term growth fund reorganization which matured and a large part of that new flows has essentially moved into other vehicles, that's about it.
- **Mr. Saptarshi:**
- And just a broader question, like we are seeing a huge increase in the passive sides in the mutual fund space, mostly on ETFs and index funds, and therefore the question is on the large cap funds and their yields and mutual fund space and exponential issues, so just curious does that impact on our mutual fund yield in any which ways.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- No, so I think the impact of lower fee possibility in active mutual funds because of ETFs is something which is real, and it will play out over a period of time. But at the same point of time, our overall dependence of our business on actual mutual funds is fairly, fairly small. As we go along I think it is a trend which the entire industry will have to look at on the mutual fund side. If and when we build our mutual fund business, I think that's something which we will be very, very cognizant of and we will have to build the business keeping in mind the fact that active mutual funds even on the equity side

may on the longer term move towards a 50:60 basis points yield, and ETFs will become a larger portion of the net new money in the market. So I think both those points have to be considered while building out a large mutual fund business. We obviously over the last 2 - 2 and half years have not kind of invested massively on building a distribution vehicle on the mutual fund side. But as and when we do it, we will need to build it differently because the economics on the mutual fund business are surely going to be impacted by ETF flows, as we go along.

- **Mr. Saptarshi:**

- Okay, just one last question is we have seen a lot of disruptions both in terms of AMCs and broking industry in terms of Fintechs acquiring the market shares, not so much on the lending side but in these cases in the AMCs and both in broking we have seen a lot of Fintechs or maybe convenience-based players are getting market shares. Do you see any kind of threats although it is a human intensive business it requires handholding of the clients, but do you see any kind of disruptions because new players let's say IndMoney kind of players, do you see any disruption coming in our space?

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- So Saptarshi, I think globally and in India what we have seen is the following, I think brokerage businesses are the first to adopt, I think they move online very quickly and get disrupted also very quickly which we have seen in many formats over the last couple of years. For the lack of a better word the lower end of the wealth management pool which essentially if I am going to use let's say 10 lakhs to a crore also typically has moved online much faster globally. And in India also even today that segment is not well serviced by anybody so that 10 lakhs to 1 crore is ripe for disruption from a good Fintech player which can build a good interface. The 1 to 5 crore segment today is largely serviced by, or maybe 1 to 10 crores is largely serviced by priority banks. So all your large retail banks have very, very good effective priority banking teams which cover the wealth management needs of a client between a crore to 10 crores. I think that's where again we have seen the evolution of, for the lack of a better word, phygital models which is a combination of physical and digital assist models globally where financial advisory with some bit of assisted touch has really worked well. Above the 10-15 crores globally and even in India, I think continues to be a fairly heavy touch model with the client. I think the ability to adopt and execute large fund trades above 10-15-20 crores has typically not happened. What has happened however is the interface with the client, the CRM package, the ability to provide analytics, the entire what-if analysis for an investment. All of that moves very quickly to a better user interface but the actual execution of the trade and the interaction with the client globally and also in India I think is far away from moving to a full-fledged digital model. So I think I don't want to kind of overture by saying that it will never happen. But I think the pace of adoption is at least the highest in the zero, lakh to the crore category, between the crore to 10-15 crore will be kind of digital assist model. And I think in the segment we operate which is broadly 2 million dollar plus category, I think the largest impact of digital evolution will be on the way we manage the clients rather than them actually going online and executing the trades, those are the trends we have seen. Also in India it seems to be that way. And that's the way I think it will kind of head towards.

– **Mr. Saptarshi:**

– Okay, thank you so much for the detailed answer, and all the best.

– **Host:**

– Thank you, Saptarshi. May I remind you to kindly tap on the raised hand icon to ask your question. Next in line we have Sanjay Kumar, kindly unmute yourself and ask your question. Please introduce your firm too.

– **Mr. Sanjay Kumar:**

– This is Sanjay from iThought PMS. Karan, first question on the top line, we are paying out dividends and shrinking balance sheets so we are not looking at acqusitions, I guess. So in that case what would be a medium term growth guidance say 2025-26.

– **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

– So I think from a growth guidance perspective and paying out dividends in that sense both are not necessarily massively correlated in that sense. I think from a dividend perspective as we have pointed out earlier I think from the core business perspective we felt that there was an ability outside of acquisitions to payout two tranches of dividends Rs. 40 and Rs. 35 this year which is what we have more or less done. The second part of the dividends obviously is something which is coming out of the operating profits every year. I think there we are fairly clear from a continuous perspective of growing our business and adding AUM both on the wealth and asset management side. We really don't need an addition of capital. But if you were to get into let's say growing a new business at some point of time, let's say we want to build out a mutual fund we may want to kind of maybe use 5 to 10% of our profits. But outside of that really 85 to 90% of our profits should be kind of able to be distributed as dividends without really impacting our growth projections for 2025-2026. As far as the projections for '25-26 I think both the businesses we are in, wealth management as well as alternate asset management continue to have a fairly long growth and if we can maintain our edges in terms of kind of ensuring that we are a top of the line both in terms of the advisory piece of the business on the wealth management side, and the product innovation on the alternate asset management side, there is no reason why the AUM cannot grow at a clip of around 12 to 15% and correspondingly profits don't grow by 18 to 25% every year. I think that's the way I would look at it. Obviously there will be elements of operating leverage kicking in at different points in time. But I think 12 to 15% AUM growth and 18 to 25% profit growth is possible given the two businesses we are in.

– **Mr. Sanjay Kumar:**

– Okay, so good that you mentioned operating leverage, in the recent times, we are back to FY19 levels in terms of PPT margins, it was 50% in 2019, we are back at 50% this quarter. So are we doing any initiatives to work either on our costs or to enhance our competitive edge. You did mention about tech and digital but if you could speak a bit more in detail it would be more helpful in terms of building a more enhanced business.

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- I think that's a great question and I will address it both from actually from 3 angles, from a revenue angle perspective, from a productivity perspective and also from a cost perspective because all three parts are equally kind of relevant. Let me start with the revenue piece itself, I think from a revenue piece itself the wealth management industry itself is going through a fairly large change with advisory being at the forefront as compared to distribution. I think within advisory we have all different facets to offer. The pure advisory business, the non-discretionary PMS business as well as the discretionary PMS business. As our AUM converts from transaction to stock even at a retention of 40 to 50 basis points on the pure advisory assets, the overall revenue actually increased because the overall yield on transactions are obviously kind of structurally headed downwards. I think from an overall revenue perspective the size of the revenue pool we will be able to get on the wealth management side will largely be a function of our ability to be able to move away from the pure distribution transaction income to moving towards the building assets and our advice in any of the three formats which I discussed earlier. I think overall that will increase the revenue pool substantially. From a cost perspective I think a lot of our costs are slightly front ended and front loaded in that sense because as we are going through this journey, our relationship managers need to be slightly overcompensated for the change they are making from distribution all the way to advice. While the firm goes through this transition process, it can be a slow, it needs to be a slow transition process for the relationship managers. So I think the employee costs have continued to be elevated relative to the quantum of revenue for the last two years and we see it elevated for the current year and for the next financial year. Post that we see it coming down as a percentage of our overall revenues. So in the current years for example it is nearly goes to around about give or take it is close to about 40% of our 38 to 40% of our revenues. I think on a stable steady state basis I see it somewhere between the 32 to 35% of revenues. But it is not going to happen in '21-22 it is not going to happen in '22-23. But subsequent to that I think the employee costs will kind of be more in the region of 32 to 35% as opposed to being in the region of 38 to 40% for the current year and next year. And the large reason for that is the fact that we are kind of front ending some of the RM compensation for the assets we are moving from distribution to advisory. Lastly coming to the productivity side, I think that's where digital comes in, in a big way. I think our ability to [a] change the engagement from distribution to advice, as well as make the RM and the client more digitally enabled for the lack of a better word. And when I say digitally enabled it can be a slew of things from analytics all the way to execution all the way to account opening. As we make both the entire ecosystem in that sense digitally enabled, I think our ability of senior bankers to handle 35 to 50 relationships as compared to let's say today 25 to 30 relationships with the assistance of one junior banker will be real and their own productivity will be nearly 50 to 60% higher as compared to what it is today. So in that sense I think the operating leverage is going to be a function of all these three things. It is not going to be a function of one thing. And I think there is a lot of operating leverage in the business but we will have to work very hard on all these three aspects to ensure that we are able to get the best out of it.

- **Mr. Sanjay Kumar:**

– Okay, thank you for the detailed answer.

– **Host:**

– Thank you, Sanjay. Kindly tap on the raised hand icon to ask your question. Next on line we have Mr. Shubranshu Mishra, kindly unmute yourself and ask your question, please introduce your firm.

– **Mr. Shubranshu Mishra:**

– I am slightly new to the business model as such, fairly basic questions. So first part is how many RMs do we have, what's their vintage with our firm and what's the average ticket size and relationships that they carry, that's the first. I just want to understand the business driven by them. Second is you did explain about the Fintech part, any kind of that tech initiatives that we ourselves are doing in order to minimize some amount of human intervention. Just two questions, fairly basic because I am slightly new to this business model.

– **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

– No problem at all. I think the answer to the first question is we have approximately a 300 odd bankers interfacing with clients. We service around about 6500-7000 families across the country. So broadly speaking a banker is interfacing with round about 20 to 25 active families, we would have round about 68 to 72 senior bankers which effectively means we have 3.5:1 ratio in terms of senior bankers to junior bankers. Typically the cost economics work in a way where the minimum cost to serve ratio for a client to be profitable for us in the longer term at a retention of round about 50 basis point works to round about 2 odd million dollars. So that's typically north of 2 million dollars in terms of financial assets with us is typically our target segment which would represent those 5500 to 6000 families. And from an economic perspective broadly speaking on a steady state basis employee cost would be in the range of 32 to 35%, and the remaining cost would be in the region of 15 odd percent leading to a cost to income ratio to round about 48 to 50%. That's the broad economics. And in terms of the ability of bankers to handle relationships I think what we have seen globally with the aid of technology it can move up from 20-25 to round about 35 to 40. But that's on the bankers' side. I think one of the key abilities to see a proportionate growth in the number of clients relative to the banker is also the ability to hire senior bankers because really the junior bankers are able to go out and get the right set of clients only if they have the right set of assistance within the firm. So that's something which needs to go hand in hand along with the addition of junior bankers for us to be able to multiply that number by 25 or 30 or even 35 or 40 in the long term to arrive at the right size of number of families which we can service. On the technology side, I think there's a full, there are a lot of opportunities across the entire stack so when you say reduce human intervention that's absolutely correct. While we don't expect clients to go and execute and actually take decisions online it does not reduce their expectation or their desire for human intervention in terms of processes and analytics to become the best possible. So whether it is our own relationship managers, bankers as well as our clients, the expectation is very large from us to be able to have all the processes, all the analytics, all the review processes as digitized as possible. We are running a fairly large project with Accenture over the last 3 to 4 months which will extend over the next 12 to 18 months. Through which we are hoping to achieve close to maybe 85 to 90% digitization as much as possible all the way from account opening to portfolio analytics and review decision making with clients. So we have been ahead of the curve especially in terms of our portfolio aggregation tools with clients with the acquisition of Altiore which we made a couple of years back, but I think a lot of improvement is possible. And as Anshuman pointed out in his initial opening notes, that's where a disproportionate part of our incremental spend is being invested in.

– **Mr. Shubranshu Mitra:**

– Thank you, that was very helpful.

– **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

– Thank you.

– **Host:**

– Thank you, Mr. Misra. Kindly tap on the raised hand icon to ask your question. Next on line we have Atul Mehra, kindly unmute yourself and introduce your firm and ask your question.

– **Mr. Atul Mehra – Motilal Oswal Asset Management:**

– This is Atul here from Motilal Oswal Asset Management. Thank you for your time, Karan.

– **Mr. Atul Mehra – Motilal Oswal Asset Management:**

– So this one question to begin with in terms of how do you see the risk of fragmentation in wealth management industry because given it's all very, very large, say for example each RM is managing 1000 crores. We have seen that over the years some RMs have moved out and been on their own and they are doing fairly well in some sense. So how do you see the risk, especially now that we are listed, most of the ESOPs are in the money are and so on and so forth. It is not like the young stage that we had 10 years back when a lot of ESOPs weren't in the money to a very large extent. So how do you see that risk for you in the next 3 to 5 years?

– **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

– That's a great question, I think if you see globally also I think at the end of the day the number of private banks is being consolidated. I think if you also see across maybe Asia the private banks which are really large are only 4 or 5. India is also seeing a similar consolidation of the private wealth firms. The largest competition eventually may end up coming from independent financial advisors or external asset managers which essentially is what you are referring to in terms of disaggregated relationship managers who have quit from their earlier jobs. However, having said that what's happened is the following. These relationship managers end up working with the clients but really need a platform to execute. And the ability of each of these clients to go and out and set a platform is really, really difficult. 9 times out of 10 or maybe 8 times out of 10 we still ended up seeing all these ex-relationship managers who are running family offices for clients still ending up appointing 2 or 3 wealth managers to be able to execute pretty much everything. So what that does more often than not is not substitute our work but maybe formalize the process for the client a little more, help him set up more processes but is not really eliminating us. Because the dependence of all of those individuals who come to us in terms of both deal access as well as execution access continues to be very, very high. It is not something which is kind of which can be built by every individual in every family office in his own way. That's going to be a really tough, and when I say the platform that means everything, it means everything from products teams to investment team, the entire technology piece, aggregation of the portfolios, it is not possible to be done by one individual sitting in one client's office. So I think in that sense you will see more and more of that happening but it unlikely it is going to substitute the 4-5 of us from an advisory perspective with the client. I think we will be interfacing with one more individual in the client's office who is slightly more savvier than let's say what the client was traditionally. But outside of that I don't see too much of an engagement change. On your specific question in terms of IIFL wealth and ESOPs and so on and so forth, honestly we have cross that curve because a large part of the ESOPS were even vested to the employee nearly a couple of years before we listed. And even prior to listing we have had 3 rounds of private equity raised from GA and a second round just before listing and a third round which was close to listing, so I think in that sense employees had the option to exit their ESOPs at different prices over many, many years. I think what's really kept our attrition rates low is not either a big participation or a low participation of ESOPs, it is essentially the ability of the platform to allow the relationship manager to go and get the highest wallet share from the client. And I think that's the true test. Everything else is a function of that. I think when the relationship manager feels that he is representing the platform where he is going to be able to get the highest amount of business from the client that's the platform he wants to be in. Once he has made up his mind on that then everything else needs to fall in place, then it is about compensation which can either be in the form of ESOPs, incentives, bonuses, salaries. But that's a subset, it is not the primary set in itself. I think that's the way I would look at it and if you ask me what our biggest threat is over the next 3 to 5 years on the wealth management side, I would not necessarily say people, I would not necessarily say size of the market. I would say it is internal to us to ensure that our platform is the most efficient and represents a platform where relationship managers find it easiest to get the highest wallet share from their clients and that's a positioning that we cannot really lose.

- **Mr. Atul Mehra – Motilal Oswal Asset Management:**

- Very interesting, thanks for that. Just one other question you talked about it in one of the questions during the call, so the target today for IIFL Wealth is primarily around 2 million dollars plus in terms of clients but the mass of India in a way is less than that in a way. And given that you have technology being such an enabler today, so would you have any thinking or thought process to have that as a target at some point in time because that is a very large addressable tool as well, so maybe a differentiated product or maybe a Fintech oriented product, anything on those lines.

- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**

- Great question, Atul, and I think we continuously keep grappling with it ourselves. There are three thoughts which I can share with you and these thoughts are neither conclusive or not complete because you keep evolving as you go along. But I think the first thought is the size of the market of 2 million dollars plus is increasing in a very, very large way. So I think while there is no doubt about the fact that a larger number of clients and the larger quantum of wealth will be there between a crore to 15 crores, just the sheer size and the number of increase of number of families and clients above 15 crores is also fairly humungous. The reality is competition set there is lower. And the number of people and players who have been able to get a successful proposition out there to these set of clients is also a smaller number. We feel that there is a very, very long rope out there, now that's the first thought which we have. Now the second thought obviously is while doing that, why can't we address the set of a crore to 15 crores. There I think we have been traditionally, and I am using the word traditionally very repetitively a couple of times because traditionally we believe that the distribution economics don't really work out in that segment for standalone non-banking firms like ours because the crore to 15 crores purely on an advisory fee basis if you see at 35-40 basis points, from a cost to income ratio might be really, really difficult to service. From a transaction perspective, the transaction income is going to go lower and lower and we have seen that over the last 3-4 years how mutual funds and the direct plans have kind of replaced the mutual funds through the distributors on a net sales basis. It first happens in the larger categories 2 million plus, but eventually will find its way even to the crore to 15 crore kind of segment, and the ability to collect fees there is something which is not easy. Plus we don't have the normal lines of banking revenue, we don't have the current account, saving account revenue, we don't have the ability to book revenue on account of either home loans or mortgages, you don't have the ability to book income on account of forex, you don't have the ability to kind of have a salary account plus the cost of origination is much higher than that is there for a bank because in the case of a bank, this individual between a crore to 10 crores is 9 times out 10 entering the bank because of a salary account. So I think both on the cost of origination as well as the ability to book different lines of revenue. A pure wealth management firm will be a little bit more challenged than a bank so therefore the distribution economics is not easy. Can it now be, can all of this be now improved better, and more efficiently delivered through a more digital Fintech platform to make the distribution economics work, I think is the bolder question. That's something which we are all solving for, how to solve for it, either through a more product format, either through the mutual fund format, or through pure Fintech advisory format is the question we are all grappling with. I don't think we have the right answer just yet, but it is something which we keep working and sooner than later once we have the right answer we will think about it. But as we speak right now, a pure, pure Fintech advisory for a client segment between 1 to 10 to 15 crores is something which is not immediately making sense from a pure economics perspective. I think we can package it in some constructive format where it can be offered as a product we can make the right economics on it and yet we are able to kind of offer a phygital kind of service where it is a digitally assisted platform. I think it will work but it needs a little bit more of thought and approach from our side.

- **Mr. Atul Mehra – Motilal Oswal Asset Management:**

- Great, that's very insightful and all the best. Thank you.

- **Host:**
- Thank you, Atul. We have the last few minutes to wrap up the call. Karan, would you like to say any closing remarks.
- **Mr. Karan Bhagat – Managing Director & CEO, IIFL Asset Management:**
- Thank you, Anil. Thanks for all the questions. I think from an industry perspective we are extremely excited. The wealth management business as well as the alternate management business has a lot of runway. I think in both the businesses we have built a competitive edge and a platform which is unique. We will continue to work very hard to use technology to enhance both of these platforms, and continue to build on our leadership position. I think there are two other interesting businesses out there which we will continue to evaluate, one is obviously the advisory piece or the financial planning piece between the 1 to 15 crore client segment, and the second is obviously the mutual fund piece. But both these businesses are something in their own unique ways have different sets of challenges and as we go along and continue to kind of build out our dominance on the wealth and the alternate management side, these two businesses continue to always be on our left brain and as and when we find ourselves having some USPs to be able to get into the market for these two, we would look at it. So with that thanks a lot for joining in the call and for any other clarifications at all please feel free to get in touch with Pavan and team and we would be happy to come back with details. Thank you.
- **Host:**
- Thank you, Karan, ladies and gentlemen, this brings us to the end of the conference call, stay safe and look forward to your participation next quarter. Thank you all once again.