"IIFL Wealth Management
Q1 FY2021 Earnings Conference Call"

For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-result conference call. We have edited and rearranged the transcript for greater lucidity. The Q1 presentation is available at https://www.iiflwealth.com/Investor-Relations

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Management: Mr. Karan Bhagat – Managing Director and CEO – IIFL Wealth Management

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Mr. Mihir Nanavati – Chief Financial Officer – IIFL Wealth Management

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Moderator: Very good afternoon Ladies and Gentlemen!! Good day, and Welcome to **IIFL Wealth and asset Management Ltd** quarter one FY21 earnings conference call. As the reminder, all participants' lines will be in the listen fully mode and there will be an opportunity for you to ask questions after the management shares the initial talks. Should you need assistance during the conference calls please signal the Operator by clicking on the raise hands icon. Please note that this conference is being recorded. Today on the call we have on behalf of IIFL wealth and asset management, Mr. Karan Bhagat managing director and CEO. Mr. Anshuman Maheshwary, Chief Operating Officer, Mr. Mihir Nanavati, Chief financial officer and Mr Pavan Manghnani, Head Strategy and Investor Relations. I will now hand over to Mr. Anshuman Maheshwary for his opening comments. Thank you and over to you sir.

Mr. Anshuman Maheshwary: Thank you. Good afternoon everyone and welcome to IIFL **Wealth and asset Management Ltd.** quarter one update call, over the next hour we will take you through the financial performance and the key highlights for the quarter and then request Karan to speak on the external environment and business outlook and then we will open it up for Q&A.

Just to give the brief overview for the quarter ended June 30th, 2020

We have seen stable operating metrics for this quarter, even though the entire quarter has basically seen us function through a lockdown.

Our overall AUM increased 14.0% QoQ to Rs 1,58,273 Crs (excluding Custody Assets) our ARR Assets increased 16.9% QoQ to Rs 73,155 Crs. IIFL ONE continued to gain traction and assets increased 13.1% QoQ to Rs 20,048 Crs. Our Loan book has decreased 19.3% QoQ and to Rs 2,855 Crs.

Our Revenues from operations for this quarter decreased 22.5 % QoQ to Rs 199 Crs from Rs 256 Crs. Our ARR Revenues for this quarter have decreased 10% QoQ to Rs 128 Crs from Rs. 142 Crs, due to MTM impact at the end of Q4FY20. Other income for the quarter stands at Rs 40 Crs, primarily due to recoupment of MTM losses in Q4 FY 21 on our sponsor & non-sponsor investments in our Proprietary and Distributed AIF's.

Our Total expenses for the quarter decreased 20.2% QoQ to Rs 130 Crs from Rs 163 Crs. Of this Total employee costs reduced by 21% QoQ to Rs 97 Crs from Rs 123 Crs. Admin and other expenses have decreased 18.8% QoQ to Rs 33 Crs for the quarter. Accordingly, our overall cost to income ratio was 54% for the quarter.

Operating PBT (OPBT) for the quarter decreased 26.4% QoQ to Rs 69 Crs. PBT for the quarter after including other Income, increased more than 670% to Rs 109 Crs and PAT accordingly increased to Rs 83 Crs.

With that financial summary, let me move on to the key highlights of the quarter.

At the outset, Q1 has been an intense and very challenging period. All 3 months saw significant disruption and uncertainty around not only the external environment, but also the way of working for us, the way of conducting our business and engaging with clients across the board.

Before getting into the strategic priorities that we discussed last quarter, I wanted to share three key achievements for this quarter that we are all very proud off:

1. We completed the L&T Wealth acquisition from a process standpoint but most importantly the entire onboarding and integration of clients and employees has been done effectively – through the lockdown period itself. This has added close to 10k crs AUM for Q1

2. Through this period, close client connect has been foremost and our success is reflected by the over 99% client retention seen during Q1. This is also demonstrative of the fact that we've managed to avoid any major incidents including on our loan book which continues to maintain it's zero NPA track record

3. Not only have we managed to remain largely resilient during Covid with all operations up & running, we have used this period to add capabilities around digital, risk, analytics, infrastructure, etc that will continue to be very accretive post Covid as well

Next, I wanted to update you on the progress on two strategic business priorities that we discussed last quarter:

a. Increase ARR Assets, with a specific focus on IIFL ONE,

ARR Assets continue to grow despite the hiccup in Q4 due to the MTM impact and have grown 16.9% in the last quarter. Retentions also continue to hold steady at approx 80bps including NIM.

While the difficulty continued in opening new accounts during the lockdown period, the overall Net New Money for the quarter was positive – at Rs 876 Crs, specifically for both IIFL One and our Asset Management business, the net new money has remained positive. IIFL One net flows were Rs 1,270 crs for Q1 and overall assets have grown 13% QoQ to cross the 20k crs level. In addition, based on questions received in previous calls, we have added details on our IIFL

ONE retentions in the investor deck – as you will see for DPMS and NDPMS, we are tracking at about 37bps and with the currently non-fee earning assets becoming fee earning over next few quarters, we expect the overall segment to be around this level.

On Asset Management, our listed equity schemes continue show stellar top quartile performance and we continue to focus on scaling up and selectively adding to our identified strategies, including the long-short strategy. AUM has increased 12.6% QoQ to Rs 24,702 Crs with a positive net flow.

While on ARR, I wanted to explain the 10% reduction in revenues over last quarter – this is due to three factors – 1. Lower starting AUM due to MTM movement. This should get reversed over this and next quarter. 2. Reduced loan book – we expect our loan book to increase over the next few quarters as we are seeing increased quality opportunities with our clients. 3. Reduction in capital in the NBFC by about 230crs due to completion of the LT Wealth transaction

b. Reduce costs and increase productivity.

On costs, as stated in our earlier call, we have taken a comprehensive view across employee and administrative costs. We continue to look at initiatives for increasing productivity, deployment of technology and selective outsourcing of transactional activities. While our fixed employee costs have reduced by 8.4% QoQ to Rs 65 Crs, multiple initiatives will continue to see positive impact over the course of the year. Administrative cost have also continued to see a decline – reducing by 18.8% to Rs 33 Crs for Q1 and we expect this level to be sustained in the coming quarters.

In addition, we have made significant progress on the capital allocation front with a clear roadmap on improving our ROE levels. While we expect to continue our aggressive dividend policy of 50-75% of PAT payout, we are also optimizing the capital deployed in each of our businesses / entities and exploring other mechanisms of capital release.

Now over to Karan to share his views on the market, and the business outlook for us.

Karan: Thank you Anshuman. Good afternoon everybody, like Anshuman pointed out, we started the last quarter with a fair degree of challenges especially on client sentiments as well as the account opening process. By the end of the quarter I think it’s safe to say, we are in a much better position I think we have navigated the uncertainty and the uncharted waters for both clients and ourselves with the fair degree of conviction. By the end of the previous quarter and beginning of this quarter, all account opening teams' & processes have come back to normal. We expect to be able to make up most of our deficit in terms of AUM collections as well as the entire account opening process being missed out in the last quarter. In this quarter, our clients are also substantially more resilient and much more open to looking at newer transactions. Our biggest competition for the last four months has been savings bank accounts, as the interest rates for a lot of banks has been higher than liquid funds. So for a lot of transactions, typically day zero deployment used to happen in money market funds and consequently get invested to financial instruments over next 6 to 9 months. The money has been lying in the bank accounts with the clients but the trend is beginning to change and we have also seen a lot of activity come back in terms of monetization of businesses. Over the last 30 to 45 days we have seen at least 7 to 8 new transactions which have got culminated, some of them the money is already with the client; some of them, it will come through over the next 2 to 3 months. But we are happy to note, we still continue to be having a very significant market share in completion of all these transactions. As we go along I think clients' sentiments are much better placed and the general level of activity is substantially improved, relative to the last quarter.

On Quarter 1 itself, I think the focus was to sharpen ourselves a little more and when I say sharpen ourselves little more, the first priority was obviously to deal with excess liquidity. We have been sitting with excess liquidity for some time over the last 6 to 9 months. Part of it was driven by a little bit of conservative positioning in terms of being able to get short term liabilities from market participants and part of it came around because of the reduction in the loan book towards the end of March and in the first quarter. We ‘ve successfully been able to retire some of our liabilities early and considerably reduced our liquidity overhang from an average of nearly 1,750-1,800 crores in quarter 4 to about 1100 to 1200 crores in quarter 1; and consequently, that number will come down to a reasonable 500 -, 600 crores in Quarter 2. Together with slight expansion in loan book, we expect to be well optimised on the capital usage by the end of second quarter.

On the asset management side, I think we are facing good tailwinds on the back of healthy performance across all our funds. Not only have our listed equity mutual funds and portfolio managed schemes done extremely well, we have also seen a stellar performance from our large pre IPO fund on all the listed equity positions, with a fair degree of concentration in insurance and asset management companies, together with exchanges; the fund is extremely resilient and I think we are getting a very good response from both new institutional clients as well as lot of new large distributors in the market. I think together with these tailwinds I think over the next 3 to 6 months we expect to be able to win mandates as well as registrations with a lot of larger distributors as well as larger institutional clients. Regulatory clarity is emerging very quickly. I think we have seen most of the regulations come through over the last 3 to 4 months, both in the segregation business between advisory as well as brokerage, availability of feeds, as well as the upfront of portfolio management schemes going away, most of them have become law by SEBI now. The effective dates of some of these things is somewhere in mid-October to mid-November, but there is a substantial degree of regulatory clarity for us to be able to expand our business and bucket it correctly. The only regulation which we might see in next 6-12 months is the ability of paying upfront commissions in Alternative investment funds, which has been as of now held and kept the way it is. Otherwise across the board I think we have reached a fairly evolved state of regulatory clarity. I am to happy say that we have kind of anticipated most of these changes and apart from a little bit of internal restructuring of subsidiaries, none of the regulatory changes really require us to make any kind of large scale changes. We spent the last 18 months making those changes and successfully work from a technology perspective as well as client interface perspective. We are in a situation where most of these challenges are all well kind of taken care of. We still think we have some way to go in terms of making our business overall sharper. That is not only limited to capital allocation, but also extends to employee productivity as well as a bit on the expenses. I think we have got the ability to compress both by 5 to 10 percent further on from here, especially on the employee expenses side. We have done some logical improvement over the last 3 to 6 months and over the next 6 months we hope to make further reductions. The is not only relevant from a productivity perspective, but also gives us the additional resources to be able to attract a newer talent as well as an incentivize the existing talent which continues to do extremely well. So it’s extremely important for us to do that’s, and it’s a process which is ongoing for us.

From productivity perspective it’s safe to say that we are substantially well placed relatively within the industry, where more than 80 to 85 percent of our sales teams are extremely productive and we continue to work hard to ensure how we can take that number from 80 to 85 percent to even higher. Both attrition of clients as well as relationship managers continue to be very-very tiny numbers which gives us a lot of heart, both on our platforms as well as our ability to go out and reach the clients. So overall, I think a tough first quarter, but we kept most of our operating metrics fairly stable and we see the second quarter and third quarter play out much better, than where we were in the first quarter. So that’s really it from my side. I’ll hand it to Anshuman and I think then we can take some questions.

Moderator: Thank you Karan. Ladies and gentlemen will now begin the question and answer session. may I remind you for asking your question, please click on the raise hand icon. the operator will unmute you and you may ask your question. I request you to please introduce yourself and the name of the company you represent. will just give a few seconds before the QA is on.

The first question is from the line of Mr. Piran Engineer. Mr. Engineer please introduce yourself from that you represent and go ahead with your questions. Please unmute yourself and ask your question.

Piran - Ya. thanks. Hi I am Piran engineer work with Motilal Oswal Securities, I have a couple of questions mainly on how clients are responding in this market. So as we have seen the Sensex rebound in last two-three months, do you see clients taking some money off the table as in are they redeeming the money and sort of you know using it for their own businesses or working capital, is that sort of trend being seen?

Karan - I think that’s a fair point. I think especially on the nifty side I think some were in the levels of lot of about 10,200 – 10,300, there was little bit of disbelief, and rightly so in some ways. And I think there was a little bit of shift in asset allocation and clients have moved a little bit away from equity to a fixed income and in some cases even liquid. But we haven’t really seen very large withdrawals for business purposes. I think there has been some movement within asset classes, clients continue to be a little skeptical on equity itself. From a firm perspective we have broadly 65 percent off the optimum equity allocation invested, which means we are also slightly under weight on equities. But I think overall clients have taken off some bit of money from equity’s. But not seen massive redemptions into businesses yet.

Piran - I am sorry; what do you mean sixty-five percent I didn’t get you that?

Karan - So typically on our discretionary portfolios, let’s say for a moderate portfolio, if its 50-50 allocation between equity and fixed income today, off the 50 rupees that should be invested in equity, 65 percent is currently invested. which means you would have 33 rupees in equity.

Piran - And the balance 17 would be just?

Karan - Yeah, it would be idle in cash.

Piran - Idle, Okay Understand. And for this quarter how much off net new money came from new clients or was it all from existing clients itself?

Karan - A large portion of the net new money for the last quarter itself would be from existing clients, a little bit from new clients but kind of getting corrected this quarter, because we didn’t really have a lot of flexibility of onboarding a large amount of new IIFL One clients in last quarter.

Piran - And sir my last question is if you could broadly give us a mix of your clients in terms of how many of them are salaried, you know of course the CXO level versus, how many of them are business families?

Karan - So I’ll divide our clients set in four parts, slightly different from the way you have done it, but helping you answer the question. So our clients would be essentially of four types, one would be essentially entrepreneur's / industrialist, the way you called it, who essentially have created a financial asset portfolio out of dividends they have received over a period of time. That type of client account for typically 20-25% of our AUM. 50% of AUM would be coming from clients who are again industrialists but have monetized their businesses over a period of time and ended up with a large pool of capital, and still haven't really gone into a new business. The remaining 20 - 25% would be from professional entrepreneur's and which and essentially would mean people who are salaried but have got a disproportionate amount of ESOPs and have created or helped build their business out, in the last ten-fifteen years and this will be the most eminent in technology and financial services. The remaining 5-10% percent would be professional's broadly within private equity, consulting and little bit of movie stars and sports people and the last 5-10% percent would be treasury clients. where we are essentially doing corporate advisory. So I think from a pure pure salary prospective, I think within private equity and consulting is a large base of our clients but otherwise it would be a combination of individuals who also have some amount of skin in the game through a large amount of ESOPs.

Piran - Okay fair enough that's really helps me, I will get back in queue.

Moderator: Thank you Mr. Engineer, our next call is from Mr. Kunal Shah. Mr. Kunal Shah please unmute yourself and introduce your company. Mr. Kunal Shah

Kunal – So this is Kunal Shah from ICICI Securities, so few questions, firstly in terms of the retention ratios on ARR, so you passed a comment on that but what's the reason for it actually coming off QoQ; and I think that trend has been there over last one year, if you can just explain it and also where should this retention rate on ARR stabilize?

Karan - So the reduction in ARR as Anshuman explained is on account of three things – Firstly, the largest reason on the Asset Management side is the mark to market on the AUM in March 2020. So we have seen broadly 18 - 20% reduction in the AUM fees on account of that mark to market. That said, obviously large part of that will get reversed in Quarter two, as the market kind of recovered 60-70% of their downfall in terms their NAVs. So 60 - 70% of that will come back. The second is largely on account of the net interest margin, which has seen a reduction of 230 crores of its capital which effectively is reducing the ARR by around about six odd crores and third is the distribution AUM and the IIFL One AUM, that has a lesser mark to market, as compared to the AMC AUM of around about 10 odd percent. So that has seen a reciprocal dip on the distribution commissions we receive on mutual funds. These three things put together is the reason for the dip in ARR as opposed to actually a net reduction in AUM. So actually, on a Corpus basis, there is an increase in AUM, but on a AUM basis there is a reduction because it is mark to market which has resulted in a lower fee and secondly there is a small reduction in the capital allocated to the business of 230 crores.

Anshuman: Karan, just want to highlight that our current retention for ARR, remains at about 80 bps and that we expect it to be around this mark itself. So, retentions itself has not reduced, once we see the recouping on MTM, the revenues will come back up.

Kunal – sure thank you that's helpful and you highlighted in terms of looking out for potential revenues for capital release, so if you can further highlight in terms of what we are looking at it and how do then we expect it pushing the Operating ROE.

Karan - I think the largest amount of capital release can obviously happen from the NBFC piece. Our gearing ratio there is extremely low. Our capital there, outside of the L& T acquisition, and the Wealth Advisors acquisition is close to around 1400 crores on a loan book of 2800 odd crores. So there is an ability to release some capital. And secondly, as we go along, we own the office building and I think that's also a potential area of capital release. So these are the two real buckets where potentially we can look at kind of hopefully working through 350 to 600 crores kind of capital release over the next 12 to 18 months. The only challenge with that is obviously is it does have small impact on the earnings itself, of the 500-600 crores getting multiplied by 6 to 7%. But I think with the corresponding increase in opportunities on the loan book, that should get covered effectively therefore, improving the ROE substantially. So that's what we will be working towards. From a timeline perspective obviously we will have to work through it for the next 6 to 18 months but I think from a business perspective we will have the ability with the very tight leash to be able to release capital between 350 to 600 crores.

Kunal – sure and lastly in terms of the rise which is there in non ARR AUM, in terms of Transactional, this is largely market performance led because maybe we are seeing the rise which is similar to the increase in ARR, compared to maybe obviously our focus is more on sustaining the ARR and improving that as a proportion of the overall AUM.

Karan - see, the transactional income, it's a little market related but it's not necessarily one off right. Because it's a function of all your clients doing transactions with you. So typically over the last 7 to 8 years as we build the business I can't think of a single quarter of three months where we did not have a transaction. Transactional income is kind of repetitive but obviously the quantum of it on a quarterly basis is not extremely predictable, because it's a function of many variables. I think overall if you look at the breakup of the transaction income close to round about 18 to 20 crores is kind of a minimum number which comes out of brokerage across asset classes. which is a function of equity, fixed income, a little bit of commodities and currency, which takes place through every quarter. The rest of it is essentially syndication income which is largely comes around through multiple sets of activities which, typically change on a quarter to quarter basis. So I think on a longer term basis, the way we look at our business and it's typically what we have seen globally also 55% - 60% of revenues will find its way through a pure ARR kind of a fees and I am kind of excluding the net interest margin there. The 10% -15% of further additional income will be really driven by the net interest margin in the form of ARR. So these two put together, the ARR will be in the range of 65-75%. The remaining 25% - 35% will continue to be in the form of transaction income. There, the predictability on a quarterly basis, whether it is 25 or 35 may not be that accurate but through the year it will definitely kind of move towards that trajectory. So I think overall the 25-35 of the transaction revenue will continue as we go along.

Kunal -Okay Thanks, yeah That’s very helpful.

Moderator: Thank you Mr Shah if you have any questions you can click the raise hand icon and we will queue you in. The next question comes from Mr. Saptarshree Chatterjee. Mr. Chaterjee please unmute yourself and go ahead, please introduce your firm.

Saptarshree Chatterjee - This is Saptarshree Chatterjee from Centrum Portfolio Management. Thank you for the opportunity, my first question is on the net flow side so what has been the trend if you can give us some color how has been the month on month and what are the initiatives that we are taking for the new client’s acquisition side, like as you have said that most of the flow has come from the existing clients.

Karan - I think that's a great question. I think we really need to work hard on the new client side, I think new clients can be broadly broken into 3 or 4 subsets. The first subset is what I have already kind of spoken about is the large deal monetization. So for a small period of time between March and April, it had kind of stalled a bit, but again the activity level from May and June has picked up substantially. There are at least 10 or 15 large transactions in a public domain which are kind of consummated; most of them may not have necessarily received the money, but are in the process of getting the money. So that's one place where it is extremely important to be present and be able to win at least 60 to 70 percent of the mandates because if you don't get there then there could be a potential loss in market share. And the second obviously is the increase in the wallet share of the existing client itself and all the new clients who have come onboard over the last 3 to 9 months and set off by some small percentage of clients we lose has, to be incrementally positive because of the increase in wallet share. And third is new to the firm itself, where new clients are acquired by new relationship managers who have joined afresh over the last three to six months. And fourth is existing relationship managers doing references and cold calls to go out and acquire new clients. The third and fourth are very important for a healthy pipeline as you go along for the next 6 to 12 months but on the same quarter the acquisition may not necessarily add a huge amount of net new AUM, because new clients typically start with 10% - 20%, of the wallet share and sometimes even lower. And as they experience with you and test you out, they keep building it out, but the first two play a large role in increasing the net AUM on a quarterly basis. Which is effectively the large monetization events and as well as upscale by your existing clients. In both of those we have been fairly strong, the third and fourth, the fourth category is being the weakest in quarter 1 because going out and doing cold calls and referrals to new clients was virtually a bit of a standstill. But we have been working hard again on it from the beginning of this month onwards and I think we can catch up that quickly. And the third one from a new relationship manager perspective, obviously it is also taking up a little bit of time because even the new relationship manager who joined us, is not easily able to move the entire portfolio through this time period. So I think the third and the fourth, as well as the first which is the monetization level activity has been a little tepid over the first quarter, but we have seen a lot of that picking up in steam and momentum over the last 45 odd days.

Saptarshree Chatterjee - Okay, secondly on the AUM side only we have seen the news, one of the big players, BNP Paribas, is exiting this market, what is our thought how much of the market you can capture and how much is the potential that you can do.

Karan - so I think from perspective of the BNP Paribas exit itself I think it's a fairly sizeable business but from a wealth management franchise perspective it's again got its own breakups in terms of custody assets and active AUM, as well as a lot of NRI assets, given the fact that it's a very strong franchise in the region. We are not looking at anything strategic there but as we meet clients and engage with them, and I think our ability to be one of the leading players to be able to acquire that market share is quite high. But there is really no specific design strategy for the BNP AUM as such, it’s something which is relatively, smallish pool of clients and as we go along in our natural course of business, we would end up overlapping with them and hopefully we will be able to get a larger market share.

Saptarshree Chatterjee - Okay thank you and third question is on that last call that you have said that there will be 20 crore opex cost on the LTFH acquisition, is it happened in the other opex or it will be over the quarters?

karan - it will be over the quarters

Spatarshree Chatterjee - so like one fourth of that 5 crore maybe have happened this quarter, rest 15 crore yet to come

karan - it will be over 8 quarters.

Saptarshree Chatterjee - Okay. Thank you will come back in the queue.

Moderator: thank you Mr. Chatterjee, our next question would be from Ms. Monica Joshi, Ms. Monica Joshi please unmute yourself.

Monica Joshi- I am from Hornbill Capital and thank you for taking my questions. Mr Bhagat I want to hear your thoughts on how do you see the wealth management industry panning out after you know hopefully this whole this pandemic thing settles down, particularly in terms of how technology and digitization would be used and employed in the wealth management and asset management industry. That's the first part of the question and the second part is how is IIFL deploying and investing in digitization and to really face this new world as we go along on because, I see that your RMs are not able to communicate or be there and capture this market. At least that's what I hear, so how do you really go out and capture this and how do we connect to the clients in the new world?

Karan - so I think that's a great question. I think from our own efforts on the digital side, both on wealth and asset management, there is a large impact on business and there is not something any of us can really go away from. The clients set we end up dealing with on the wealth management side have shown typical behavior in terms transitioning first to a process where the delivery expected, the quality of analysis expected, the quality of the interaction expected with the relationship managers is largely driven on a better digital platform as opposed to necessarily the order execution happening on a digital platform.

So I think there has been a lot of emphasis from our side on building the CRM system. I think we have got a very good interface through SalesForce, which was built over the last 12 to 18 months. I won’t say we are anywhere close to where we want to be but it's a good place where we are in. We want to make much-much more larger strides. So I think on the wealth management side as of now it's been about better information display, better analytics. Clients really don't still want to execute large orders by themselves. So it's a slightly different from what are seeing on the retail, and the mass affluent and priority banking side of clients. But it's the similar behavior that we see

across the world where the larger clients continue to want to execute in a physical format or through an order instruction on the phone as opposed to actually executing digitally. So we will have to wait and see but as of now I think that's our understanding on the of the client traits. As money moves through to the next generation, will that thought process change is something which is also going to be interesting to see. From our side we are not taking any behavioral trends for granted and continue to invest strongly on the technology side. I think, we would not be comparable to a pure fintech play, but from a customer experience and from an ability to execute over a 12 to 18 month period, we'll be fairly efficient, where clients are able to execute large trades also, if they wish. Though if you ask me today I don't see that change behaviorally happening.
On the Asset Management side again, our business today is focused more on the alternate side of the business and on the alternate side of the business the client segment that we are dealing in is largely institutions, family offices and select high net worth individuals together with 7 or 8 very sophisticated market intermediaries, who function as our distributors. So there, again the digital interaction and overreach, currently it's been limited to largely product education, knowledge, analysis of the product decision making, as opposed to actually the sale being completed digitally. If and when we expand our mutual fund, I think digital will become extremely important. We, instead of going out and building out physical offices in every location may decide to do a digital first strategy, even in terms of acquisition as well as building an interface with the end client. But again, both the businesses, mean the entire wealth management piece on the 50 lakh to the 5 crore category as well as the large retail penetration on the mutual fund side, we've not really gone into both of those businesses heavily till now. And I think both those businesses are kind of really seeing huge amount of digital change. On the ultra-high net worth side as well as on the alternate asset management side, I think the processes will improve to a much larger digital revolution. The final delivery itself I think will still remain largely driven by a little bit of physical contact and deeper understanding.

Monica Joshi: I am sure; I was actually not referring to the final execution and sure, on the ultra-high net worth individual side, I would rather be talking to a human being than a machine, when there is a large amount of money at stake. But there must be some sort of investments that are happening from your end, when you know you have a lot of research or maybe a lot of information that is going to be consumed digitally now versus as opposed to a year back or even 6 months back. And, that is the transition I think companies would need to do for the better.

Karan: I agree with you fully. I think there's a big opportunity there and I think it will be safe to say that I'm not going to say for a minute that we are kind of leading the change there. But there's a huge amount of information which is available both on consumer trends as well as behavior. I think we are working on this. I think the only head which is seen a disproportionate increase in our administration and other expenses over the last year is technology. Both in terms of data protection, building the right security layers, as well as improving the customer experience and most importantly as you're saying, capture the data extremely well. I think we'll continue to invest there and it continues to be our most important headline item as we go ahead.

Monica Joshi: Any number you would like to share, in terms of capital allocation or anything specific?

Karan I think technology expenses as such has moved from about 1.5% to 1.7% of revenues to round about 2.5% to 3% of revenues over the last two years. I think as we go along over the next two, two and a half years I won't be surprised if it continues to move towards the 4% - 5% number.

Monica Joshi: Just a quick book-keeping question, after all the ESOPs are exercised what will be the total equity outstanding?

Anshuman: About 9 crores.

Karan Yeah. So, round about 2.3 million shares unexercised. Round about 8.8 plus another 2.2 million so more about like 9 crore shares.

Monica Joshi: Thank you so much.

Moderator: Thank you Ms. Joshi. Next question comes from Mr. Harshad Toshnival. Mr. Toshnival, please unmute yourself.

Mr. Harshad: This is Harshad from Premji-invest. Couple of questions, this is more with regards to IIFL One. Now, unlike the previous distributor model, in an advisory model when we scale up a client, the incremental money has a lot stiffer bargaining power. And that is a very different challenge versus a distributor mode, where the bargaining is not that high. So, how should we look at the IIFL ONE, yields, that is one. And the second one is also with respect to the IIFL ONE transition. Now, we have seen a lot of growth in the mutual fund, the Non IIFL AMC mutual fund piece and the broking assets but, the growth in the IIFL ONE categories is a bit slower and if I exclude the institutional money out there then it's roughly around 7-8% of the overall assets at this point of time. If you can throw some light on how should we look at the transition of money to the IIFL ONE piece itself?

Karan I think I'll just answer the question on the yields and then I can just move on to the transition a little bit. The yields, like we have pointed out earlier I think, the Non-discretionary side which is the consult side sees the maximum amount of to's and fro's from clients and especially if our clients have more than 100 crores invested, everybody wants to really push at some point of time for a fixed fee rather than a percentage of fee based on AUM. So, if you break up the offering into three parts one is the treasury mandate, second is the consult which is the non-discretionary mandate and third is discretionary. The highest amount of pricing pressure is coming on the non-discretionary side. So, there I think we believe we will be at the region of 30-35 odd basis points or even 40 basis points as we go along. I think a discretionary is where the client's kind of a little less worried about pricing because we're kind of ensuring that we'll be remaining within the 100 basis points on an all-in basis. There I think we are able to get around about 60 to 65 basis points. So the eventual mix which we will end up with, will depend a little bit on how much assets were we able to collect in discretionary and how much we are able to collect in consult. If, for a moment, I'll just kind of ignore the treasury piece because it contributes a very small percentage in terms of revenues, but I think on the blended basis between non-discretionary and discretionary, I still feel we will end up between the 45-ish, 40 to 50 basis points mark in terms of retention on IIFL ONE. On the trend in AUM itself I think within the entire AUM piece, IIFL ONE continues to grow on the delta base to the highest. Obviously last quarter for the increase in the assets you'll have to just knock off the L&T numbers because all of that is just got added only to the distribution piece and as time goes by those assets will also hopefully move towards the IIFL ONE piece. In terms of the ARR AUM numbers itself I think we continue to remain committed towards meeting our overall target and growing that number at the fastest kind of clip.

Mr. Harshad: Okay, one more thing, the cost to income piece even if we look at global players, somehow we have seen the operating scale does not play a lot in a wealth management firm because RM sharing is something which happens at around reasonably each day so how should we look at our cost to income going forward this should be around 60%-65% on a sustainable basis?

Karan I don't think so Indian market has as much challenges as the Asian markets as well as some of the European markets in terms of the payouts overall. I think overall if you see the platform pay outside in the region of 30% to 35% of revenues and I think on a steady state basis I think our cost to income ratios should drop down to round about 50% on a consolidated basis. So even AMC actually for that matter on the alternate asset side does not have the same amount of operating leverage if you see another typical retail mutual fund because each strategy is a unique fund management team in that sense. But I think overall the 50% cost to income ratio over to the next 18 months is something which we will definitely kind of move towards.

Mr. Harshad: Okay, last question on the AMC piece, so we have really been in the ultra-HNI category till now. Do we aspire the AMC going down the curve to serve the 50 lakhs to 5 crores customer range?

Karan On the AMC side, the retail penetration strategy will have to be a really well thought of as we speak today we have not gone down that road. If and when we go down the road that will be supported by some bit of management depth also, and as and when we decide on the strategy I think we have to be fairly clear on three things: a) it has to be a little disruptive, it can't be another me-too retail asset management player in the country, b) it has to have a very strong management bandwidth supporting it and c) most importantly I think there on the retail distribution side digital will have a very unique role to play as opposed to the historical brick-and-mortar branches kind of model. So I think our ability to go down that path on the retail AMC side will be a function of this. If you meant retail wealth which is 50 lakhs to 5 crores, I think that business model continues to be a bit of an enigma for a non banking player because the cost of the acquisition of the client is fairly high and again unless and until you have a great digital overplay and you're able to increase the span of control for a RM to move from handling 30 to 35 relationships to 80 to 100 relationships, it's very difficult to enter into that segment on a profitable basis. So I think we continue to study both the segments but unless we believe that we have something disruptive and something which can incrementally be profitable over a long-ish period of time. It's not that we're interested in profits only in the short term, but it has to, atleast on a unit economic basis, make sense over an 18 - 24 month perspective. Till that point of time I think we will continue to be relatively focused on the two large buckets we continue to build out right now.

Mr. Harshad: got it got it Okay thanks a lot.

Moderator: Thank you. Ladies and gentlemen, in the interest of time will take one last question from the line of Sanskar. Sanskar please unmute yourself and introduce your firm.

Sanskar: Hello. I'm Sanskar calling in from Robo capital. There's been some regulations from RIA that same clients can't be offered both advisory and distribution services. So how do you plan to handle impact to these regulations particularly for IIFL one clients?

Karan IIFL one clients are really coming under different platform under the Portfolio Management Services. So they are regulated and run by a separate fund management unit. Our entire wealth team itself works on a distribution mandate, under the brokerage piece as a distributor and the end up referring clients to IIFL One on the Portfolio Management side. So that's really the way it's going to function. The core primary relationship of the Wealth manager with the client will be that of a distributor and IIFL One will be one of the Portfolio Management products, which will be distributed by the relationship manager to the client.

Sanskar: Okay, then also I came to know that lot of managers, they are not generating alpha. In this type of environment, for clients that opt out to go via the ETF or the index route, what value can IIFL Wealth add to that?

Karan: IIFL One especially on the non-customized mandates of 100 crores and below, it's not really largely based on pure instrument selection. It's largely a function of asset allocation…

Sanskar: No, no the question was not for IIFL One but IIFL wealth?

Karan Same for IIFL Wealth. So when the RMs actually take on a mandate of a wealth manager they are serving really three functions in that sense. The first function is helping set up an IPS (investment portfolio statement) in detail, being able to understand where the asset allocation risk profile, setup some of the floors and ceilings for them, maximum allocation of specific scheme, maximum allocation to specific fund house, what is the review, what is the monitoring mechanism, what is the succession plan those are the things we setup in the IPS which is the investment portfolio statement. The second role we play is that of an asset allocator. So what are the systems-balances-checks, where we can move money between equity fixed income and so on and so forth. And lastly is the instrument selection, where which fund house should we select which schemes and then I agree with you fully I think the instrument selection activity will more and more become simpler and simpler, and will kind of converge at least a part of it will definitely converge to ETFs, especially on the fixed income side for example the Bharat Bond ETF, or even on the Equity side.., so that instrument selection will move little bit towards the ETFs, but the first two roles, are really the reasons why we get mandated as Wealth Managers. The last one remains in some ways a fairly commoditized approach, even today, because even on the active space we have 10 or 15 funds or schemes, which are doing extremely well and therefore each wealth manager is kind of recommending those 10-15 schemes. But the ability to actually get everything on the first two parts together, is really what distinguishes one firm from the other and we continue to work hard together to sharpen that proposition as much as possible.

Sanskar: Okay thank you, that's all

Moderator: Thank You Karan, any closing remarks from your end?

Karan No, thanks everybody, thanks for being on the call and we'll see you soon again after the second quarter for the quarterly results call at that point of time thanks Mihir, thanks Anshuman, thanks Pavan, thanks for coming. Thanks everybody. Thank you

Moderator: Thank you Mr. Karan Bhagat once again and the entire team from **IIFL Wealth and Asset Management,** have a good day. Thank you and stay safe.