"IIFL Wealth Management Limited Q2 FY-20 Earnings Conference Call"

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MANAGEMENT: **MR. KARAN BHAGAT – MANAGING DIRECTOR & CEO**
MR. ANSHUMAN MAHESHWARY – CHIEF OPERATING OFFICER
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Moderator: Ladies and gentlemen, good day and welcome to the IIFL Wealth Management Limited Q2 FY20 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded. On the call today for IIFL Wealth Management Limited, we have Mr. Karan Bhagat – Managing Director & CEO, Mr. Anshuman Maheshwary – Chief Operating Officer, Mr. Mihir Nanavati – Chief Finance Officer, and Mr. Pavan Manghnani – Head, Strategy & Investor Relations. I now hand the conference over to Mr. Anshuman Maheshwary. Thank you and over to you sir.

Anshuman Maheshwary: Good afternoon and welcome to IIFL Wealth and Asset Management's Q2 Update Call. Over the next hour, Mihir will take us through the financial performance. I will share other key highlights from the last few months and then request Karan to give his thoughts on the overall market, our core business areas, and future outlook. We will then open it for Q&A. Over to Mihir.

Mihir Nanavati: I will now give a brief overview on the financial performance of the company for the Half-Year and the Quarter-Ended September 30, 2019.

To begin with our revenue, our total income was Rs. 212 crores in Q2 down 2% Q-on-Q basis. Of this, our annual recurring revenues or ARR as we call it were Rs. 125 crores, down 3% Q-on-Q and up 21% YOY. The reduction in ARR is primarily due to the reduction in our NBFC loan book which stood at Rs. 3851 crores as on September 30, 2019 compared to Rs. 4159 crores on June 30, 2019. Our transactional and brokerage revenues were at 107 crores, up 30% Q-on-Q. The other income was a negative 19 crores compared to Rs. 6 crores in Q1. The primary reason for this is we took a one-time write-down of Rs. 18 crores on our investment exposure to Reliance Capital. With this, we have made a provision of 62% of the holding value of the instruments of Reliance Capital that we held on our books. Reliance Capital exposure now stands at Rs. 11 crores in our book.

Our total expense was Rs. 130 crores, up 3% Q-on-Q. We largely held our cost. Onto our profitability, our profit before tax was Rs. 82 crores, down 9% Q-on-Q basis. Our consolidated profit after tax was Rs. 70 crores, up 15% Q-on-Q basis. Our effective tax rate for Q2 works out to 16% as against 32% for Q1. This is after giving effect to the lower tax rates announced by the government and applying it to our domestic entities. Consequently, we have also revised our deferred tax position. We had deferred tax liabilities in our books.

Onto our AUM (assets under management) stood at 1,43,856 crores excluding custody assets and AUM have increased 1% Q-on-Q and 20% YOY. Net new money for the half year ended September 30th 2019 was Rs. 7092 crores.

Onto dividend, the company has declared an interim dividend of Rs. 10 per share amounting to Rs. 87 crores. We expect to broadly maintain a dividend policy reflecting a payout of 50% to 75% of our yearly PAT.

I now hand over back to Anshuman to take us through other key highlights of Q2.

Anshuman Maheshwary: It has been a challenging as well as exciting last few months for the company where the company has been reaching key milestones, making significant progress on strategic areas as well as initiating exciting new projects and programs.

Five key highlights to share are - Firstly we completed the demerger process and listing of IIFL Wealth on the exchanges. The transition to be a directly listed company has been seamless as we have had the required governance reporting and other critical functions and capabilities including on compliance and risk in play for the last few years. We continue to further strengthen each area and also build on new capabilities as needed. Secondly, we signed a share purchase agreement with L&T Finance for acquiring their wealth management business. Apart from bringing in the AUM, this further strengthens our already deep presence in select geographies. We have applied for regulatory approvals and subject to the approvals being received, we hope to have the integration underway in Q4 with full synergies realized during the next financial year.

We continue our drive on technology for enhancing our client engagement as well as to drive improvement in our internal efficiencies. Select focus areas include deployment of Salesforce as our preferred CRM solution. We will be the first in Asia to deploy the FSC Cloud platform of Salesforce. We are also digitally enabling key processes like onboarding of clients with the objective of making it seamless for them as well as enhancing the capture of information, risk profiling, and other details more efficiently internally for us. These initiatives put together will allow us to maintain our current industry leadership position on the technology front. There are multiple internal initiatives on cost optimization and productivity enhancements also underway as we drive towards the right economics across all parts of our business. We expect to get our cost-to-income ratio towards the 50% mark leading into the next financial year and further optimize from there.

Lastly, while we remain super focused on our core business segments across wealth and asset management, we continue to explore new areas of growth. We do believe that the industry will continue to offer opportunities. However, we will remain very selective and value focused in all our investments.

With this, I will request Karan to speak about the overall market trends, our core business areas, and shift towards ARR and our advisory platform as well as the future outlook.

Karan Bhagat: Good afternoon everybody. I will try and cover 3 or 4 specific areas before we can get into our question & answer session. The overall market view continues to be fairly weak. Client

sentiment towards investments have improved a little bit post the tax cut but continues to be tilted towards fixed income and a conservative position towards equity. Overall, clients continue to be positioned in a conservative way with a target return in mind more in the region of 7% to 9% and general attractiveness towards investing into new products continues to be a little bit of a challenge. As we look forward, we believe this trend is likely to continue for the next 12 to 18 months and we as a firm are extremely well positioned in our approach of running a wealth preservation approach as opposed to a wealth creation approach and today as we speak, nearly 55% of our assets continue to be on the fixed income side with 40% to 45% on equity with a large bias towards large caps and a small allocation towards mid-caps.

The wealth business continues to do well. It is an interesting market where over the last 6 odd months, there is a large degree of consolidation leading to many opportunities, especially in terms of talent acquisition. Our ability to attract new talent and therefore in a longer and medium term new clients is something which is unparalleled as compared to the last 3 to 4 years. Needless to say, to continue with that process, we need to invest deeper and deeper into building our product channels extremely well. We continue to invest both on the technology side as well as on the product side, whether it is on the brokerage platform or it is on the third-party product platform or it is from the discretionary and nondiscretionary IIFL-ONE platform. We need to build greater and greater vertical as well as horizontal expertise so that we can leverage off the newer RMs who come in and therefore give us the ability to attract newer clients.

The overall market sentiment in terms of new financial assets continues to be strong. There has been a little bit of a relative pessimism in terms of money market as well as fixed income instruments compared to fixed deposits over the last 6 months. Fixed deposits, needless to say, have become relatively a little unattractive post the increase in individual tax rates where the corporate tax rates remaining the same and FMPs still being much more tax efficient after 3 years. In spite of that, over the last 3 to 6 months, we have seen clients move a little bit towards fixed deposits. I think that's the trend which will kind of change over the next 12 to 18 months but the AUM uptick in terms of financial assets continues to grow. On a year-on-year basis, we still expect our financial assets AUM to grow by 15% to 20%. The current quarter AUM uptick is slightly lower but it is on a half yearly basis, we have continued to attract nearly 7,000 to 7,500 crores of net new money for the current year.

The AMC business continues to grow steadily. We have grown 5% quarter on quarter and nearly 40% year on year. Our existing strategies continue to attract a fair degree of institutional interest given the track record and performance over the last 4 odd years. That would be a great area of interest and focus to us.

On the listed equity side, Mr. Anup joining in over the last 12 months, we have already got a couple of large institutional mandates on the listed equity side. On the transition towards our advisory and ARR-focused model, we made a lot of progress. On the discretionary side, we have seen a lot of interest from the large client mandate. We have nearly seen 4 large mandates which we have received, each mandate above $50 million with an all-in fee of 100-125 basis points.

We see that segment of our market growing. We have also launched a managed account pool discretionary PMS which will allow us to scale up that business for the sub $5 million category also on a more pooled basis as opposed to on a customized basis. So, the discretionary business, we believe over the next 12 to 18 months can be a big fillip to our growth.

We have been ensuring that all our enablers with bankers are there and we have spent a lot of time over the last 90 odd days where bankers from a culture perspective have undergone a large training program as well as a shift in understanding of the change in model from a broker-dealer to an advisory model. And the understanding that the span of control in terms of the number of clients handled per banker will be able to increase significantly as we tread towards this approach. Typically, as a broker-dealer banker, the number of clients that a banker is typically able to handle ranges in the region of 30 to 35, maximum 40, because it ends up being fairly transaction intensive. As we shift towards this model, we believe the same number could tread towards the 60-70 number and that will allow us in a lot of ways to be able to increase our operating leverage out of the business. From an operating metrics perspective, our client persistency ratios for our large clients continues to be more than 99% in spite of fairly challenging times which is a great testament to our wealth preservation approach, and even in challenging times like this, we have had less than 1% of our clients reduce their AUM with us. We continue our focus on ensuring that our relationship managers continue with the platform. We continue to see a less than 2% attrition on our relationship manager workforce as we go along on a year-on-year basis.

Diligence and high risk focus on each inclined investment continues and that pretty much remains the pillar of our success. From a product approval process, at the back end, we differentiate extremely tightly between whether we are offering a product on the broker-dealer platform or on the advisory platform or on the discretionary platform. For all three, we maintain the same rigor and discipline from a product approval committee perspective so that we can ensure that every product which goes out from IIFL Wealth is able to maintain the same amount of performance benchmarks it is expected to deliver.

The innovation on the business model investment in platform and products and 24 x 7 focus on client service will dictate the industry from hereon. We expect little regulatory changes in the space we are in. The total expense ratio on mutual funds unlikely to change very quickly now over the next 6 to 12 months. From our engagement with the client perspective with our adoption of RIA as well as our movement to full trail as opposed to upfront, we belief, safeguards us and protects us well from the impending regulatory changes on the advisory framework which may come through over the next 3 to 12 months. So, from our business model perspective, we believe we are well covered for any regulatory changes which might happen on the advisory framework.

With that, I would like to open up the floor for questions & answers and we would be very happy to address the same.

Moderator: Ladies and gentlemen, we will now begin with the question & answer session. The first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: I have 3 questions. My first question is that in the last 5 years, most of the financial assets, be it these exotic bonds or any fixed income or equity products, that 10% to 12% returns is what we used to gun for, for our clients, maybe 2 or 3 or 4 years back. Maybe most of the portfolios may not have done that because of whatever has happened in the last 18 months. So, don't you see that there could actually be a risk that people just move away from financial assets and maybe into asset classes like gold and real estate which have been completely shunned for say last 5 years.

Second question is that in terms of cost to income that we are expecting to reach 50% by next year that would actually imply a lot of reduction in the employee cost because I guess the income in this new IIFL-ONE model will also take time to ramp up. Is that on cards?

Third question is that on our recurring revenue assets, our current yields are close to 80 bps. Is that a number that we can sustain for coming times?

Karan Bhagat: Traditional asset classes in terms of fixed deposits and real estate are actually broadly seeing a decline as opposed to an increase. Clients have realized real estates tended to be extremely ill liquid especially over the last 24 months and the yield on the asset is also extremely low. Fixed deposits as I discussed before now attracted tax rate practically, 43% for our clients. So, broadly, even if a fixed deposit let's say is at 6 to 6.5 or 5.75, on a post-tax basis nearly drops to 3.80 to 3.85. Compare that to a tax-free bond Government of India or even a 3-year G-Sec FMP which pretty much would be on the same risk trajectory if not better, potentially better than a fixed deposit, the returns coming to about 5.75 to 5.80 post tax. So, I think there is still about a 200 basis points gap between a post-tax return on a fixed deposit versus a post-tax return on a Government of India G-Sec paper. So, it is just a question of sometimes education and us being in front of the client from a risk-to-return perspective, obviously. In some senses, the movement from a fixed deposit to a tax-free bond for us is a movement from traditional asset class to a financial asset class.

I do not anticipate at the ultra-high net worth level there will be a big move away from financial assets towards fixed deposits and real estate. People are already overexposed to real estate and on a sample of 100 odd clients, I think I would have 99 clients wanting to sell real estate rather than buy.

In terms of the retention, I think we have guided towards the 70-75 basis points retention on the ARR on a sustained basis, and that I think will kind of continue. It will not necessarily be equaled for every segment. So, typically clients between the 5- to 50-crore mark will be at a slightly higher ARR and as clients go larger beyond the 250-crore mark, I think we will end up at the 35-40 basis points kind of ARR. So, I think it is going to be a good composite mix but I think we will end up at the 70-75 basis points in terms of the average retention.

In terms of the cost to income, we have guided at 50% which effectively for the current year would look more like 60 odd percent purely on account of the fact of contraction of revenues by nearly 20 odd percent on account of a one-time shift from upfront to trail, but basically a movement from 60% to 50% would require a broad 10% reduction in cost and a 15 odd percent increase in revenue both of which we believe are possible. Reduction in cost of 10% is not only a function of RM retention and productivity. Part of it is that which we need to kind of streamline better where the part of it is also to do with reduction of other admin and operating costs which we believe can be reduced by about 15% to 20% over the next 6 odd months. So, on a blended basis, I think cost can be reduced by about 10%. You will see a revenue enhancement of about 15% which will get the cost-to-income ratio down to about 50 odd percent.

Digant Haria: Last question is on the transaction revenue assets. Our yield last year was 70 bps. This year, it is 40 bps. So, I obviously understand it is very much linked to the market activity. Would a 50-55 bps be a broadly sustainable number to build on this based on maybe a 5-year cycle?

Karan Bhagat: No, I think the transaction revenue will not be as high as 50-55 basis points. It was as high as 70 basis points because of the recognition of the upfront income on AIF and PMS. So, I think that number is going to be closer to the 35-40 basis points mark as compared to the 60-70 basis points mark because that is a one-time change which has happened and that is the reduction in the retention which is causing the reduction of revenue in the first place. So, I think transaction brokerage revenue will be slightly lower in terms of yield and I think that will track in the region of 30 to 40 basis points as compared to the 70-75 basis points on the ARR assets. And obviously, your transaction revenue in that sense is a function of the opening assets and closing assets. Typically, we have seen about 15% to 20% of our average assets essentially transact in a year which ends up at the 30-40 basis points revenue.

Moderator: The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: I had a few questions. The loan book of about 3800 crores, what is the composition of this? Is it LAS, MTF, or IPO funding? What is the composition of this loan book?

Karan Bhagat: This entire 3800 crores, close to 97-98% would be pure LAS (loan against shares) and this would not be of the kind of the promoter funding LAS. It will essentially be mostly LAS against the investments clients have with us. It will be mostly a bridge against the client investment with us rather than the traditional-traditional LAS. If I am not wrong, more than 80% of the book would be to clients who are already having large portfolios with us. 15% to 20% would be with clients whom we believe will have a large portfolio with us and we are using this as a facilitator to enter the account. So, we are not really doing any pure-pure LAS also.

Yash Agarwal: I am referring to the slide #15 of your presentation. The ROA on loans out here, it has broadly been stable around 55- to 60-crore mark despite your loans decreasing from last year Q2 of 6200 crores to about 3800 crores. Is this a correct link that basically this is related to these loans?

Because the loans is declining but the ROA on loans, that figure, the recurring revenue stream is not commensurately decreasing. I just wanted to understand this aspect.

Karan Bhagat: For quarter 4, obviously, I think the NIM was down a bit if I am not wrong.

Why don't I just come back on that in 2 minutes?

Yash Agarwal: Okay, sure. My next question is, the interest cost sequentially has gone up despite the decrease in loan book. What is the reason for that?

Karan Bhagat: The main reason for the interest cost going up is essentially till around April of last year, last part of our book was financed through commercial papers. Between April to September of last year which is pre- IL&FS crisis, we have changed most of our books from a short-term borrowing to a long-term borrowing program through structured notes. So, effectively our cost of borrowing from clients through structures moved up in the region of about 10 to 9.25 and most recently in the region of 9.35 to 9.40. So, the basis increase in cost is a reflection of our source of borrowing and source of liability and effectively the average tenure of our liability now is a good 18 to 20 months and the increase in tenure effectively is what is being reflected in the cost of borrowings.

Yash Agarwal: So, you are saying the cost of borrowings has moved up due to the mix change in your borrowings?

Karan Bhagat: Yes.

Yash Agarwal: My last question is, the managed accounts of about 5100 crores. What product is this basically?

Karan Bhagat: Managed accounts are essentially the discretionary PMS which are essentially in the form of customized mandate for clients. Effectively, our large clients, typically about 25 crores and above, give us discretionary mandates to do 3 things. One is essentially do asset allocation between equity and fixed income. Then, between equity and fixed income, instrument-level allocation. And third obviously is, as long as it is within the IPS framework, we are allowed to change the instruments without going back to the client. So, managed accounts essentially makes up the discretionary part of the book and also the third-party PMS.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: A couple of questions. One was, if we really look at the recurring AUMs or for that matter even the PMS advisory line item on the AUMs, that number has been sort of almost stable on a quarter-on-quarter basis. So, just wondering if it is something that you would want to revise the guidance for the year, or we just wait patiently for this quarter?

Karan Bhagat: What's happening is the documentation is what is quite a long process because the accounts are moving from broker-dealer accounts to essentially portfolio management accounts. So, the sales

cycle has ended up being slightly longer than we anticipated. That's on the flip side, but on the positive side, the response has been excellent. So, I think the number of conversions is see-through and the next 2 quarters will be quite good. And I think we are extremely pleased with the response. But the time to conversion of these accounts was slightly longer than we had anticipated because the engagement is fairly detailed in the sense, the first meeting is really a definition of the entire IPF, second is the document. So, it is a slightly longer cycle than we would have wanted but the response from our clients' side is extremely positive to move from a broker-dealer kind of platform to a discretionary/nondiscretionary PMS platform.

Nischint Chawathe: Even on the overall recurring AUM, there is hardly any growth on a quarter-on-quarter basis. So, I believe your net new money was also just around – I think it was a much smaller quantity – I think 500 crores or something.

Karan Bhagat: Yes, that's correct. Net new money this quarter has been soft. We have not got that on the presentation, but I think the money coming from high net worth individuals is positive. It has been in the region of 1000 to 1200 crores. We have seen 3 or 4 corporate treasuries kind of take off a bit of money from liquid and debt instruments which has caused the net AUM to be more or less flattish. We will try and see if we can, from next quarter, segment the AUM split a little better so that we can kind of split it between corporate regime and high net worth segments also, but otherwise it is slightly softer quarter in terms of AUM growth and I think that is largely driven by a broad shift from or rather a slightly smaller appetite to come into newer financial instruments over the last 3 months.

Nischint Chawathe: On the brokerage syndication side, you reported an income of around 78 odd crores. Anything specific that you would want to highlight over here?

Karan Bhagat: On the brokerage syndication side, right now the larger opportunity seems to be on the fixed income side and even in the 1st quarter and 2nd quarter, we had 2 or 3 interesting opportunities on the fixed income side and I think the market is kind of mix priced on that itself. So, I think the opportunities on the transactional brokerage side will be more on fixed income as you go along for the next 9 to 12 months and I think that trend will continue. I think we have got a healthy pipeline over the next 9 to 12 months of such opportunities but we will have to kind of weigh them carefully and go ahead but within the transactional piece, there will be more action on fixed income than on any of the asset classes.

Nischint Chawathe: Just curious, is this like distressed NBFC debt?

Karan Bhagat: No, not distressed NBFC debt. We have not done anything on distressed NBFC debt yet. I will tell you 3 transactions we did in the last quarter. One, we had a small quantum of Embassy NCDs which were the AAA NCDs of the Embassy listed REIT which we ended up doing. Second, we essentially did some gold PTCs which were, again, rated AAA short-term 10- to 12-month borrowings. And third, we have done a small lending transaction against the listed REITs on a

50% LTV. These are the 3 transactions on the fixed income side we have done in the last quarter. In addition to our AAA bond book which continues to trade practically on a daily basis.

Nischint Chawathe: Finally, if you could kind of give some color on your investment book. I know you have given very detailed disclosure, but would you expect any kind of further pain or bruises out there?

Karan Bhagat: Actually, there is nothing at all, because if you see, we have given pretty much every investment out there which is there in our books. Up till, I think, about 2 crores we have disclosed every investment. So, there is nothing at all. There was a Reliance Capital exposure like we discussed in the last analyst call also at about 29 odd crores. That has been provisioned to the extent of 18,000 of current numbers. Reliance Capital is now valued at 11 crores in our books. That is the only thing which would need some kind of flag off. Otherwise, we have pretty much put everything out there in terms of the investments. And Reliance Capital was also an investment which was done to kind of hedge some structures issued to clients and therefore it became a second-order exposure. It wasn't really an exposure which was intended to be taken as a debt exposure but there are no other second-order exposures also, and therefore, we have taken…. The Reliance Financial Limited is already liquidated and we have realized the full cash in our bank. So, effectively, as we speak today, we have practically zero exposure to anything which can be counted as contentious.

Moderator: The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: I had one more question. The question is that in the last 19 or 20 months of this down cycle which started in financial markets, all of us have lost some goodwill in some or the other way. Be it the analysts, be it the brokers, be it the wealth managers, but then when you sit back and think, I think the relative goodwill is far more important and the absolute goodwill here because maybe everybody has lost it. So, in this spectrum of goodwill, where would you rate IIFL versus the other 4 or 5 wealth managers who matter? Because I think that will determine what incremental flows come to you over the next 3 to 4 years.

Karan Bhagat: To be honest, goodwill to a large extent is going to be measured by the persistency ratios of our clients. And the net number of new families we can add. I will come to the slightly abstract part of the answer, but I first want to stick to the numbers itself. As I said earlier, I think our persistency ratio of our clients continues to be north of 99%. So, there is really no client loss at all during this period of 3 to 4 months. And that I think is a function of 2 things which we need to still continue and follow very very…. One obviously is a small front I made right at the beginning saying that the product approval process at the platform level needs to be extremely tight for all 3 levels of engagement whether you are dealing with a broker-dealer client or you are dealing with discretionary client or you are dealing with an advisory client and that rigor and discipline will ensure that we are able to maintain our relative goodwill in the market.

Second, what has really helped us and stood us in good stead is the fact that we have had a large exposure to fixed income and accidents in fixed income for us have been few and far between

and nearly 50% to 55% of our portfolio on an average has been in fixed income. Within equity, we have had a large exposure to large cap. As a matter of process and discipline, not as a matter of saying that we were futuristic to think that mid-caps would correct and large caps would not correct. We are uniformly at any point of time exposed 70% to 75% to large caps. And I think these 2 things have resulted in your overall client portfolio running in a broad return spectrum of about, at the very extreme, -1% to about 3.5% to 4% positive for the last 12 to 18 months. This is coming off 3 years where clients have typically ended up with a range of returns between 10% to 12%. So, I think clients get it. It is not as if in the last 12 to 18 months, a return of -1% to +4% coming off from 3 years where you got 10% to 12% is a big cause for concern. So, on a blended basis, most of our portfolios over the last 4-5 years would be in the region of 9 to 9.5 which is at par for the course and I think on a blended basis, clients are absolutely at peace with it. And I would like to believe our relative loss of goodwill will be relatively low in the market. There may be less than 2% of our clients who have done only one, let's say, mid cap PMS with us and that would be less than 1% to 2% of our clients where the portfolio might be down 15% to 20%. So, there we will have to work harder with those set of clients, but the largest majority of our clients which would be in excess of 98% to 99%, the portfolio is extremely well diversified and is more or less reflective of the picture I put out earlier. And I think that's largely the reason we have added nearly 100 relevant families in the last quarter, and we have been able to retain more than 99% of our clients on the platform.

And the largest testimony of that is relationship managers. I think the ability to keep attracting more and more relationship managers to the platform and being able to retain the existing ones is a testimony to the fact that we have been able to protect the clients' interest.

Moderator: We will move on to the next question that is from the line of Parag from White Oak Capital. Please go ahead.

Parag Jariwala: Two questions from my side. One is about this L&T Wealth Management. There is a media report which says that we have either planned to acquire or we have already acquired the company. Can you just highlight the thought process and the various aspects like money paid for this transaction? Secondly, in the last call, you had highlighted that basically 4th quarter exit PAT would be similar to that of FY19 exit PAT 4th quarter. Do you broadly still retain that comment considering a lot of changes which have happened in the markets?

Karan Bhagat: On your first question, the L&T acquisition continues to be on track. Broadly 15,000-20,000 crores of assets under advice, a broad expected PAT in the region of 17 to 18 crores on our platform, broadly consideration value of 230 crores we believe is going to be accretive even more given our ability to map our product platform to L&Ts employees as well as their set of clients. We believe we should be able to get a slightly higher degree of operating leverage. We have only acquired the sales part of the business and the products part of the business. The operations and the corporate functions, we have not acquired because that kind of seamlessly integrates into our current setup and therefore, that also adds a little bit of operating leverage. We are expecting DA approvals to come through in the next 2.5 to 3 odd months. Till that point

of time, we are working with L&T closely to monitor the progress of the business and as of now, the business pretty much continues to track the metrics which we had set out at the point of acquisition.

From your second question perspective, the exit PAT of quarter 4 what we have essentially suggested the exit PAT of quarter 4 will broadly be reflective of the average. So, the exit PAT of quarter 4 into 4 times should be broadly reflective of our last year PAT. And I think we are on track to get there. I don't see too many changes. Essentially, I think we should be around at a level. The interesting thing or the more important thing for us is while we get to that number, we also want to ensure that the split between the ARR and the transaction income is better than what it was when we got out of the 384 crores PAT last year. So, we are running 2 balanced scorecards in our minds. One is to try and reach the 384 crores divided by 4 kind of exit PAT in quarter 4 as well as improve the ratio of ARR to the overall revenue as compared to what it was last year. Those are the 2 balanced scorecards we would be working with and I think we are fairly confident of being able to reach that.

Moderator: We will move on to the next question that is from the line of Manikya Saiteja, an individual investor. Please go ahead.

Manikya Saiteja: I have a couple of questions. One is regarding the low-cost digital wealth management platform for the retail community. Do you have any plans to venture into that area?

Karan Bhagat: No Manik, not yet. What we are evaluating and studying for the last 3 to 4 months but nowhere close to taking a decision on is the mass affluent digital wealth platform. We will need at least another 9 months to a year of thinking through it before we will be able to take a decision either way. But we are really not exploring anything yet on the retail platform. I think it requires a different set of dynamics, different set of cost-to-income ratios. If you break up the customer life cycle into 4 parts broadly starting from customer acquisition to risk profiling all the way to product choice and then customer profiling and review, I think all four pretty much look fairly different for the ultra-high net worth individual as compared to the retail individual. There are some bit of similarities in the second and third between mass affluent and ultra-high net worth but as of now, we are fairly focused on the ultra-high net worth segment. We are not yet looking at building life cycles on these 4 stages on the retail segment yet.

Manikya Saiteja: The second question will be, you are holding a lot of IRB InvIT Fund in your books for the past couple of years. Is it just a treasury operation or is there something strategic to it? Because I believe we are sitting at more than 40+ crores of loss on it.

Karan Bhagat: We are holding onto 33 crores of IRB InvITs. There is really nothing strategic about it. It is about 33 crores. I think it is just a question of time before we would exit it. It is less than 0.6% of our investment.

Manikya Saiteja: So, it is a treasury operation, that's it, right? In 2018, I can see that you were holding almost 166 crores worth and in 2019 March, you were holding 50 crores, so I was just wondering.

Karan Bhagat: We, in 2018 and 2019, are actively investing in all IPOs. Broadly all our IPOs and our loss on IRB IPO investment in 2018 was more or less squared off in terms of treasury. We were basically doing anchor investment in IPOs in 2018.

Manikya Saiteja: Is it for a fee?

Karan Bhagat: No, not for a fee at all. It was just an investment.

Manikya Saiteja: Third question is regarding L&T Capital. Getting the new team, is there any incremental new AUM that we can get from these people? Currently our net new money run rate is around 7000 crores, right? Can you see any incremental number to it?

Karan Bhagat: For sure. I think as we get the team from the existing platform to our platform, we believe there will be some degree of operating leverage which will be able to enhance the AUM on the platform itself. So, I think we should be able to add at least 20% to 25% to that existing asset base both in terms of AUM as well as in terms of revenue.

Manikya Saiteja: Regarding our NBFC book, in the long run, at least in the next 3 to 4 years, how much percentage of your AUM will be the NBFC one?

Karan Bhagat: The NBFC AUM will be broadly in the region of 3% to 4% of the AUM we manage. Typically, if our AUM is in the region of, let's say, non-custody today 1,46,000 crores, our NBFC book will be in the region of 3% to 4% of that. Today it would be closer to 3% which is about 4000 odd crores. That's the number I think we will more or less track.

Manikya Saiteja: In the L&T Capital book, out of the 16,000-20,000 crores, how much is ARR and how much is the transactional AUM?

Karan Bhagat: I wouldn't have an exact semblance, but I remember a part of the revenue breakup. I don't know the part of the AUM breakup, but I think broadly about 30% to 35% would be ARR, 60% to 65% would be transactional, and revenues would be around 40-60; 40% would be ARR and 60% would be transactional.

Manikya Saiteja: My final question is on cost-to-income ratio stabilization. How long do you think it will take for us to actually reach the expected 50% to 45% range of cost to income?

Karan Bhagat: As we guided in the earlier call, I think towards the end of FY20-21 is when we will see our cost-to-income ratios kind of stabilize back to 50%.

Moderator: The next question is from the line of Chirag Shah, an individual investor. Please go ahead.

Chirag Shah: I had a couple of questions. The first one is you said obviously you have a 99% client retention rate. What would that be for your overall clients. For example, you said 99% is retention for the larger ticket clients. I just want to get a sense of where that stands for the entire book. The second is, what is the average work experience of your relationship managers and the average AUM that a relationship manager is managing vis-a-vis where that as opposed to the industry? I am trying to get a sense of productivity gains here. And the third question is, you mentioned that the shift from the broker model to your advisory model is taking a bit longer. Can you elaborate a bit on that and what are the challenges that you are facing and what time lag are you looking at?

Karan Bhagat: I will just clarify on the third question. It is taking longer in the sense it is a longer sales cycle. It is pretty much on track from a client and RM behavioral aspect. The longer is essentially more in terms of the entire movement of stock from broker-dealer to RIA and the documentation piece. I don't see it being a longer-longer process. I think it is more a 2-3 month delay rather than a long-long delay kind of process. So, it is not a transformational delay. It is more a procedural delay.

From your first question which was overall client retention, I think we average it at about 92 to 93%-odd as compared to 99% above 25 crores of assets. I think above 15 crores of assets, it goes to about 97 odd percent and our overall book is at about 92% to 93% in terms of retention. That's the way we are kind of measuring it; above 15, above 25, and above a crore are essentially the three benchmarks we are using.

Relationship managers, we essentially look at it in 2 blocks. One is essentially team leaders whom we refer to as senior bankers or senior team leaders. There are 66 of senior bankers and senior team leaders in the firm. The breakup of the broad 290-300 relationship managers is spread between these 66. So, on an average, they would have a team of 4 to 5. Each team would have an average AUM of about 2100 to 2200 odd crores. That's the way it is spread and the number of clients on an average would range in the region of about give or take 75 to 80 odd active families.

Chirag Shah: In your opinion, the teams say which are managing 2000 crores, what do you think is the scalability of AUM per team before you add another team?

Karan Bhagat: The scalability of AUM per team, I think again comes back to my initial discussion. With the advisory and the discretionary especially, I think the ability of each team to manage typically what would have been a 100 odd relationships can move up to nearly 50% to 60% extra if we are able to get clients to move away from daily transactional models to more advisory/discretionary model. But having said that, adding of teams sometimes is not only a function of the current team necessarily becoming productive because you add a team may potentially also because they may come with a very different kind of client segment and client set. So, I think from a capacity perspective, I would say each team still would be able to do at least 30% to 40% more relationships than what they are able to do today. So, from a capacity perspective, yes, they can do 35% to 40% more than they are today.

Mihir Nanavati: The question that was pending was while the loan book is reducing, the ROA on loans still remains broadly flat to static. In that, the way to look at it is, if you look at the average loan book that between quarter 4 and quarter 2, the average loan book has fallen by approximately 500 odd crores and the reduction in the ARR if you look at it is 61 to 56 which is essentially a 5-crore or 6-crore reduction in the ARR revenue. That broadly the way to understand that is 500 crores at roughly a NIM of 1.7% or 1.8% divided by 2 will give you a reduction in ARR of roughly 5 crores. That's essentially the reason why the rest everything else remaining constant and NIM being constant, the income has fallen from 61 to 56.

Moderator: The next question is from the line of Devraj Mohta from CapGrow. Please go ahead.

Devraj Mohta: I missed your answer on the reason why AUM growth, net new money growth was weaker this quarter. If you could just repeat that please.

Karan Bhagat: I think the net new AUM growth from an ultra-high net worth client perspective has not been relatively weak. It has been strong. We have added 1500-2000 crores. But we have not kind of given the split between corporate treasuries as well as ultra-high net worth money. Over the last quarter, we have seen corporate treasuries exit from money market funds as well as debt funds and move a large part of the money either to fixed deposits or potentially corporate bonds or even overnight funds from a risk off mode. So, the overall growth in the ultra-high net worth assets has been decent but the corporate treasuries have seen a bit of a come off in the last quarter. Secondly, I think fixed deposits to a certain extent in the last quarter given the consumer sentiment have been at the top of mind of investors and some of the new large stake sales where we have significant market share, nearly 30% to 40% of the clients' new incremental assets have found their way into fixed deposits as opposed to let's say 6 months back going into something as easy as arbitrage or liquid funds. I think these would be the 2 broad trends which would reflect a slightly slower growth in terms of AUM over the last quarter.

Devraj Mohta: This is basically kind of a mix because of whatever happens it happens. So, it is kind of clients just being a little bit more cautious side now versus kind of being willing to take a few more risks.

Karan Bhagat: Correct.

Devraj Mohta: My second question was on the L&T Wealth Management acquisition. By when does this complete and when does it start accreting to your earnings?

Karan Bhagat: Our best estimate, Devraj, is about 3 months but DA approval can typically take about 4 months. We have applied last month towards the beginning. So, I think the best estimate is around December-January. To be safe, I would say February onwards.

Devraj Mohta: So, this incremental 15 to 20 crores of PAT should fully reflect in your earning next year?

Karan Bhagat: Absolutely.

Moderator: The next question is from the line of Saptarishi Chaterjee from Centrum PMS. Please go ahead.

Saptarishi Chaterjee: Most of my questions have been answered. I just wanted to know your thought process on let's take a 3 to 5 years kind of a scenario. Among all the top 5 to 6 wealth managers in India, what kind of competitive advantage do we have apart from the asset allocation you have said on the debt side and most on the large cap side. Other than that, some color on the competitive advantage we have and how do you see the competition to pan out in the next 3 to 5 years?

Karan Bhagat: Saptarishi, the competitive advantage is not on the asset allocation side. That is fairly fundamental. I think any wealth management business needs 4 things to come together. It needs a great platform, it needs good people, it needs processes, and it needs good products.

Now, in a platform, essentially you need 4 things. You need a good brokerage execution desk, you need a good NBFC, you need a good research team, and you need a good solid technology backup. All these 4 things on the platform side today require a great deal of investment, and the investment needs to be amortized over a period of time and that amortization is becoming longer and longer obviously because revenues are no longer possible to be booked upfront in any way. So, effectively in some ways, a lot of the small degree of the competitive advantage comes through with the ability of us having invested a large part of our experience and also capital into building out the platform in a very unique way over the last 10 odd years. So, any new player who comes in will have to do a lot of deep digging and investment of capital in building out the platform.

Second is people and that is where I think we have got a differentiation in terms of culture. I think we have been able to build a very-very open reward/performance driven culture where you have seen people from pretty much every organization from let's say organization A which has a very different culture of operation from organization B where people have been able to come together, work, and yet keep our retention numbers in terms of people very very high. So, I think people are very very important combined with a platform, combined with innovative products because products may not be the only basis for a client to do business with you in the longer term but it is a very important avenue to potentially make an inroad into a client's portfolio. The ability to get into clients' portfolio is very-very important from a product perspective.

And lastly obviously in the process piece. Again, investments into detailed technology products like Salesforce, even our new analytics engine, our investment into **(Inaudible) 1:00:39**, all of that needs to come through. And these 4 things in some senses become a multiplicative function, and if competition or any new player for that matter can get all of these 4 things combined together in a very efficient way, then obviously it can become a legitimate long-term competitor for us. So, I think this is the mix. It is not going to be as simple as asset allocation but I think we need all these 4 things to kind of come together to build a good platform.

Saptarishi Chaterjee: Secondly, on the L&T Finance Wealth acquisition, I just missed the amount of AUM you are saying 15,000 to 18,000 crores assets we are acquiring?

Karan Bhagat: That's right.

Saptarishi Chaterjee: And how many number of RMs we are getting from them on the sales side?

Karan Bhagat: 55 to 60 RMs.

Saptarishi Chaterjee: As you have said we have built a culture on this side, how do you think those acquisitions and getting people sales side on this, our culture, how much time that will take and get synergies out of it?

Karan Bhagat: This is our third acquisition. We did one small acquisition, Finest, in Poona in 2009. Then we did Wealth Advisors last year in September-October and now L&T. And I think we put culture right at the top while doing an acquisition and fortunately for me, I have been meeting all the 3 entrepreneurs behind these 3 journeys for nearly the last 11-12 years. In the case of Finest, I knew Mr. Bhalerao since 2008. In the case of Wealth Advisors, I have pretty much been discussing with Pramod 1 week since we started our business in 2008, and in the case of L&T, Pai as well as Shuja as well as Manoj, I think I have been meeting since, again, 2008-09. So, extremely well known to us, understand our business extremely well. We understand their mindset and culture extremely well. And that pretty much becomes the prefix or the starting point before we look at an acquisition.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Karan Bhagat: Thanks a lot for an interactive conference call and we wish everybody a happy and prosperous Diwali, and we connect again next quarter, thank you.

Moderator: Ladies and gentlemen, on behalf of IIFL Wealth Management Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.