November 7, 2020

The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai 400 001. Tel no.: 22721233 BSE Scrip Code: 542772	The Manager, Listing Department, The National Stock Exchange of India Ltd., Exchange Plaza, 5 Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. Tel No.: 2659 8235 NSE Symbol: IIFLWAM

Dear Sir/Madam,

Sub: Disclosure under SEBI (Listing Obligations and Disclosure Requirements Regulations, 2015 – Transcript of earnings Call

Further to our earlier intimation regarding the earnings call on unaudited financial statements for the quarter ended September 30, 2020 held on October 30, 2020, Please find enclosed herewith the transcript of the same.

You are requested to kindly take the above information on your record.

Thanking You,

Yours faithfully,

For **IIFL Wealth Management Limited**

AMIT BHANDARI

Digitally signed by AMIT BHANDARI
DN: c=IN, o=Personal, postalCode=400028, st=Maharashtra, 2.5.4.20=ea2d69168e4b5448a59f40c2df5ddf1a450e2c68e34adce108118dbab2051486, serialNumber=8a6b93e37485b68420e335b3a11319c3b3d28f393fd74258ee87618bc5418d3f, cn=AMIT BHANDARI
Date: 2020.11.07 20:02:30 +05'30'

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Enclosed a/a

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"IIFL Wealth Management
Q2 FY2021 Earnings Conference Call"
– Q2 FY 21 October 30, 2020

For a deeper insight into the company's performance and the management's expectations,

we present extracts from the post-results conference call. We have edited and rearranged

the transcript for greater lucidity. This Q2 presentation is available at

https://www.iiflwealth.com/Investor-Relations

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

Mr. Anshuman Maheshwary - Chief Operating Officer – IIFL Wealth Management

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

Mr. Pavan Manghnani – Head Strategy and Investor Relations – IIFL Wealth Management

- **Moderator:**

- A very good afternoon ladies and gentlemen, and welcome to IIFL Wealth & Asset Management Quarter 2 FY21 Earnings Conference Call. As a reminder, all participant lines will be on listen-only mode. You will get an opportunity to ask questions after the management shares their initial thoughts. Should you need any assistance during the conference call, please signal the operator by clicking on the 'raise hand' icon. Please note that this conference is being recorded.

- Today on the call we have with us, 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. The flow of this afternoon is, Mihir will first share his thoughts on the financial performance, Anshuman will share the other key highlights and Karan will walk you through the thoughts on macro trends in the market. I now handover to Mr. Mihir Nanavati to take the call further. Thank you and over to you Mihir.

- **Mr. Mihir Nanavati – Chief Financial Officer, IIFL Wealth & Asset Management:**

- Thank you, Anil. I will now give you an overview on the financial performance of the company for the quarter ended September 30th, 2020. We continue to function seamlessly through the trying times, and having seen steady growth and stable operating metrics for the quarter.

- <u>Assets Under Management:</u>

- Our overall AUM excluding custody assets increased 5.6% Q on Q to Rs. 1,67,090 crores. Our ARR assets increased 8.2% Q on Q to Rs. 79,142 crores. Within the ARR assets, IIFL One continued to grow, and its AUM increased 11% Q on Q to Rs. 22,259 crores. Our loan book decreased marginally by 0.7% on Q on Q basis to Rs. 2,836 crores. Our Net flows for the quarter were Rs. 6,442 crores.

- <u>Revenues:</u>

- Our revenue from operations from this quarter increased 6.7% Q on Q to Rs. 212 crores from Rs. 199 crores in the earlier quarter. Within this, our ARR revenue for this quarter increased by 9.7% on Q on Q basis to Rs. 140 crores up from Rs. 128 crores in the previous quarter. Other income for the quarter stood at Rs. 35 crores primarily due to recoupment of MTM losses in Q2 on our proprietary and distributed AIFs. On a half yearly basis, we reported an overall revenue of Rs. 486 crores up 13.5% over H1 of the previous year.

- <u>Expenses:</u>

- Total expenses for the quarter increased 3% Q on Q to Rs. 134 crores from Rs. 130 crores. Of this, total employee cost increased 1.4% Q on Q to Rs. 99 crores from Rs. 97 crores. Accordingly, our overall cost to income ratio was 54% for the quarter. On a half yearly basis, we reported an overall expense to the tune of Rs. 264 crores up by 2.5%.

- Profitability:

- Our operating PBT for the quarter increased by 13.4% Q on Q basis to Rs. 78 crores from Rs. 69 crores in the previous quarter. PBT for the quarter including other income increased by 3.2% to Rs. 113 crores and PAT accordingly increased by Rs. 86 crores. On a half yearly basis, our PBT stood at Rs. 222 crores up 29% YoY and PAT stood at Rs. 169 crores up 29.5% YoY.

- With this, I hand over to Anshuman to take us through the key business matters. Over to Anshuman.

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

- Thanks, Mihir. Good afternoon everyone. I'll touch upon some of the key themes that stood out for this quarter. I think, firstly at the outset, it's important to highlight that our operations have continued to run seamlessly throughout the last few months without any redundancies or downtime, and with no impact on transactions or interactions and engagements with the client. With the phases of unlocking across the country, we are also gradually getting our employees back to the office and expect to have near normal operating environment as we head to the end of the calendar year. We also expect to stabilise the work culture, which will be a blend of work from home and work from office, and this will help us build further productivity and efficiency gains over a period of time.

- I think secondly, overall, it's been a better quarter for us. From an activity perspective, quarter 2 has definitely seen far more traction than quarter 1. Transactions and flows that had been put on hold due to the lockdown have increasingly been completed in Q2. Accordingly, this quarter has seen a sharp rise in new client acquisition with 500 plus new relevant families added over the first half of the year. This is excluding the 900 plus relevant families that came in as part of the L&T acquisition.

- Net new flows also were very healthy at over 6,400 crores for the quarter. These 2 metrics coupled with low client attrition and a broadly stable equity market has allowed for strong AUM growth.

- ARR and IIFL One continue to be the big focus areas, and both have seen strong traction in the last quarter. Specifically, IIFL One proposition continues to grow and gain client as well as employee acceptance. Not only have the assets grown by a healthy 11% Q on Q to reach Rs. 22,250 odd crores, but majority of the increase in AUM as well as new net flows in IIFL One has been in Discretionary PMS. If you recall, this was one of the things we had spoken about in the earlier quarters as well. In addition, we had highlighted in our last call that we expect retentions to improve on IIFL One. So, for quarter 2 retentions on DPMS and NDPMS together has improved to 40 bps from 37 bps in quarter 1. On the asset management side, our AUM has grown by over 8% to 27,000 odd crores with positive net flows and our funds continuing to demonstrate sustained first quartile performance. We've also onboarded and integrated our long-short strategy team in Singapore, and are seeing positive tractions, specifically on institutional mandates.

- I think thirdly, the client risk appetite still remains low. While equity markets have moved back to almost pre COVID levels, we still see the asset allocation for HNI and Ultra HNI clients to be higher towards the fixed income side. The preference is still on high quality debt as well as on specific high conviction ideas that clients believe in. As an example, we recently raised 1,300 crores in less than a month for our recently launched PE fund focused on the financial services space. Overall though, we believe that given the continued uncertainties at a macro level, it will still take some time for risk appetite to return to levels seen at the beginning of the year.

- On the regulatory changes since the Investment Advisors Regulation has come into effect in quarter 2, we have in the current investor presentation, tried to highlight the various engagement types and licenses under which we engage with our clients. Namely, as a portfolio manager, as an alternate investment manager, as a mutual fund manager, as a registered investment advisor, as a broker, as a distributor, as a depository and as a lender. You would see in the investor presentation on slide 7 and the subsequent slides, a detailed breakup of our AUM revenues and retentions for each of these engagement types, and this should provide the required clarity to all. Currently our engagement with clients as registered investment advisor is approximately Rs. 5,300 crores of AUM, and the revenues constitute less than 0.5% of our revenue from operations.

- On the medium-term targets, in this quarter's investor presentation, for the first time we have given guidance on our expectation for FY21 and FY22. This is to transparently indicate to all our stakeholders where we think the business will be over the coming 18 months. We will continue to review our guidance each quarter, and report on our performance against the same. Also, the management remains focused on driving both top line and bottom-line related initiatives that we've spoken about in the earlier calls, and the focus is on enhancing productivity and efficiency across the firm, which will allow us to achieve and potentially improve on the guidance over the coming years.

- So, with that, I would like to hand it over to Karan to share his views on market, sentiments, business and overall outlook for us, over to Karan.

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

- Thank you Anshuman, thank you Mihir. Good afternoon everyone. The last quarter has seen a broader recovery in client sentiments largely guided by recovery in their own operating businesses. From a client perspective, there is much more semblance of normalcy which has emerged in the last 3 to 4 months. Having said that, individuals as well as corporates continue to be cautious in their approach. A large part of the new flows continue to go towards fixed income and that too towards the safer fixed income basket. It’s fair to say that around 60 to 65 percent of the new flows are broadly going in the fixed income side.

- Having said that clients are substantially more open to newer ideas as well as doing trades which make and represent good risk-returns trade off. Correspondingly, we have seen some increase in activity and gains in momentum over the last quarter. Overall vision continues to be a little conservative and we believe that over the next 6 to 8 months, there will be constant volatility which will allow clients little room to take a one-sided approach in terms of their investments. As managers we continue to be slightly conservative and therefore, we expect the next 12 to 15 months, while much more active compared to the first quarter, to be moderately active as compared to 2019. Growth on IIFL One and most importantly in our core focus areas on ARR assets continue to be fairly strong. We started out on a path two - two and a half years back to move a large part of our business from transactional to recurring revenue natures and streams. I think it is fair to say that we are 75 to 80 percent there. In retrospect, we would have been happy to have finished this year, this financial year with a hundred percent movement towards ARR but I think we will be about 15 to 20 percent short over the last 24 months, given the multiple variables which have emerged, both from a regulatory perspective as well as from a market perspective. But we are happy that 75 to 80 percent of our movement by the end of this financial year will be complete and we will be in a situation where 60 to 65 percent of our revenues are essentially coming on account of ARR revenues.

- Last quarter was also special because it saw return of M&A activities, both on the listed as well as the unlisted side. On the listed side also, we saw a spate of IPOs, some of which had a part where promoters also had an offer for sale. All these liquidity events added a little bit of net flows over the last quarter. There were multiple transactions on the unlisted side also. Some of them have got consummated last quarter, some of them will get consummated over the next 6 months as approvals come through. We are glad to share that in all these transactions, we still continue to maintain a 60 to 70 percent market share, where it is safe to say at least six to seven out of ten transactions, we continue to be one of the two or three managers that clients deal with, post receipt of such money.

- The release of the new RIA guidelines we believe is an important landmark because most importantly, it’s kind of, heralds the completion of the guidelines across different regulations including distribution, brokerage, advisory, as well as portfolio managers; and most importantly gives us the flexibility of reorganizing our business into those four or five streams. As per client needs and requirements and objectives, we will continue to do business across these licenses. We are well positioned over the last 12 to 18 months, to build the requisite platform, talent as well as the robustness, to deal across each of these businesses and as we go forward, we will spend some time on reorganizing our business within these categories. But we are extremely well prepared to be able to grow each of these, whether it is the alternative investment fund platform or the portfolio management platform or the RIA platform. Distribution and Brokerage will obviously continue for us pretty much in the same stream.

- From a theme perspective, I still believe we have some space to optimize costs. I think we have done well over the last 12 months, we have kept costs in good control; partly obviously helped by a bit of reduction in administration cost on account of Covid, but overall we still believe there is some space to optimize cost and most effectively, most importantly, optimize resources; and given the nature of our business, optimization of our resources would essentially imply getting people more productive; and I think that's something which we could spend a lot of time on. Getting people for productivity is a continuous exercise which pretty much starts from span of control to segmentation, all the way to adoption of digital strategies. We continue to spend a lot of our time on that.

- We continue to focus and ensure that we can rationalize capital more effectively. Over the last six to eight months, with a lot of efforts we were able to do a one-time special dividend of 40 rupees. We will continue to do that and over the next 12 months, I think we still should be able to effectively rationalize our capital required by another 10 to 15 percent. Some of our challenges, due to excess liquidity as well as a fairly benign loan growth, given the level of investment activity over the last three to four months, continues to impact our profitability a bit. This would continue for the next three to four months, but obviously post that, the new borrowing that we are doing is effectively coming at a much lower cost; and after six months, we will kind of be in a position where this will turn away from a negative carry to a substantially positive carry. So that's really it from my side and I think the tailwinds on the industry as a whole continue to be fairly positive. We as a large market participant have a lot of opportunities to be able to play in each of these segments very effectively. Thank you.

- **Host:**

- Thank you Mr. Karan Bhagat, ladies and gentlemen, we will now begin the question and answer session. May I remind you, for asking your questions, please click on the raised hand icon on your screen. The operator will unmute you and you may proceed to ask your question. I request you to please introduce yourself and the name of the company you represent. We will just wait for a few seconds as the line queues up.

– The first question is from the line of Mr. Saptarshi Chatterjee, Mr. Chatterjee, I would request you to please unmute yourself and ask your question. Also mention the firm you represent.

– **Mr. Saptarshi Chatterjee - Centrum Portfolio Management:**

– Sir, this is Saptarshi Chatterjee from Centrum Portfolio Management. Thank you for disclosing the very detailed AUM as well as yield break up. My question is as you have put out that your going forward targets is around 53 bps. Now when I see your breakup of the handful of products like discretionary strategies or the private equity, which has a higher yield than your blended yield. But as you have talked about reorganizing your entire portfolio, which are the products you are focusing more on and do you think that this 53-54 bps of yield, is sustainable or does it worry you in terms of product mix and therefore blended yield?

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

– I will answer the second question first Saptarshi. You see our presentation on slide seven and eight, it has actually given a retention breakup on account of every segmentation level as a portfolio manager, as an alternative investment manager and as an advisor, as well as a broker, as well as a distributor, I think the place where margins will continue to be a bit under pressure which we have been guiding for the last year to two years is in the distribution segment because if the client continues to look at it as a distributor, you will have continuous challenges on things like direct plans and so on and so forth. If you just go back to the year 2015, 2016 and compare it to 2020, 2021, that line item itself would be 50, 60 points basis, come down to 17, 18 basis points as you can see in our presentation here. I think that, that line would continue to be under pressure.

– The broker and the arranger is a little bit of a combination of the ability to kind of get transactions going, which means that you have to have the right size of clients as well as the right platform to be able to execute as well as innovate. There, I think we continue to have a significant moat, and I think our ability to beat 30, 40 basis points even on a yearly basis, will continue. The first three or four which you are highlighting, which is the portfolio management, the alternative investment funds as well as the mutual funds piece, the ability to be closer to the 40 to 50 basis points retention will largely be on the fact that whether you can add value to the clients, both in terms of ideation, little bit of returns in terms of alpha as well as if the client is able to look at you as a portfolio manager as opposed to looking at you as a distributor. I think that is the key change that needs to happen. If he is looking at you as a portfolio manager, where he can allocate say a hundred rupees and you are managing that for him, either on a discretionary or on a non-discretionary basis, I think the retention of 40 to 50 basis points is here to stay. If he is going to look at you as a distributor who is going to invest in a single mutual fund for him, I think the question on pricing will continue. And that is really the transformation in the business model that we have made in the last 24 months. Again, I think, as I said earlier, we have been able to do that on round about 45 to 50 percent of the assets and I think if we can do that on a sustainable basis at the same pace that we have done for the last two years, I think our retention will be in the range of 50 to 55. If we are unable to do that and the platform remains largely distribution oriented, I think the retentions will continue to be under pressure.

- **Mr. Saptarshi Chatterjee - Centrum Portfolio Management:**

- Thank you for your efforts and second question is, it is very heartening to see around Rs. 6,000 odd Crs of our net flows in the quarter. So if you can give some flavor of how much is it from the new clients and how much is it from the old clients and how are you seeing the demands, how much of it can be in the pipeline, in the going forward quarters, how can be the net flows coming in, whether it is a kind of recovery of net flows or you are still cautious?

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

- Saptarshi, unfortunately I don't have the exact breakup between the existing and the new trends but approximately I think the breakup would be 60/40 or 50/50 in favor of new clients, I think 50, 60 percent would be new clients given the fact that there are three or four fairly large M&A transactions which got consummated last quarter. See, the reason why new clients tend to be 60% is two reasons, right because typically the new clients end up getting a large block of money together and they start off with three or four managers. In 60 to 70 percent of the cases, we will continue to be one of the two or three managers. So that is a big source of new net flow to us. And secondly, while we win money, clients from competition, typically that flows come in over a period of time. Clients usually don't necessarily transfer the entire portfolio all at once. So, therefore from a long term trend perspective getting top up flows from existing clients is extremely, extremely important but from a short term quarter on quarter perspective, the flows really see a big jump once you see new AUMs coming in from new clients. For the other question, M&A market activity continues, in fact there are seven or eight transactions which are already concluded, many more on the way, so I think, that's a long term trend which is here to say and that will continue to kind of increase the overall base of the wealth management market.

– **Mr. Saptarshi Chatterjee - Centrum Portfolio Management:**

– Thank you and my last question is, in the lending book, so we are seeing some of the growth in the lending book like MTF & ESOP books of other brokers. But why is it a muted growth in terms of our high yield lending book? What is happening here?

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

– Saptarshi, so fortunately or unfortunately, depends on the timing when you look at it, but we are not very active both on the margin funding or the ESOP book, for two reasons, we have kept the book fairly sanguine and the ESOP book on the listed side typically tends to be a fairly retail-ish in nature where you need to kind of open loan accounts for multiple set of smaller employees, we have typically not done that. On the unlisted side, for 12 to 18 months before the company goes into listings, we stayed away from doing unlisted funding on the ESOP side, we have not been very active in that segment. And margin funding obviously, we use our equity brokerage platform more as an enabler for our clients. So, our clients typically would not kind of, in a slightly buoyant market necessarily go out and borrow massively to invest and take margin funding. So, really in that sense, those two books are not really representatives of our lending book profile. Our lending book profile is little more a linked to our wealth management AUM, and I think, we will see a little bit of activity pick up, but it needs a more sustainable pickup in the overall operating businesses and so on and so forth our clients, for our loan book to increase.

– **Host:**

– Thank you, our next question is from the line of Gokul Raj. Gokul Raj, please unmute yourself and introduce your firm, thank you.

– **Mr. Gokul Raj – Bavaria Industries Group:**

– Hi, this is Gokul from Bavaria Industries Group. Karan, could you just speak a little about how the market share trends are and how do you see that evolve for IIFL Wealth over the next three to five years?

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

– I can layout a market in itself and then talk a little bit about the market share. I think from a market perspective obviously, you have a couple of or three banks which have been fairly large in space and on the non-banking side, its potentially been a couple of other firms which have been fairly active. We have seen a lot of new firms, new banks trying to kind of expand the wealth management platform. As of now, not really seen a massive intrusive growth from there. So, in most of the larger mandates and when I say larger mandates, I am talking about let's say 15 crores and upwards, I think we see the same two or three names competing to be among the top two, three managers and typically you would have a fourth or fifth name; but it would be a third managers.

- Another emerging class of competition is mostly the independent financial advisors or the multi family offices. So we see a few of them, in a few mandates, but few and far between. And a lot of them also need to finally interact with us for product execution.

- So, I think a very quick, bottom up market share would be 1 to 2 percent, given the fact that only about 10 to 12 percent of relevant clients are financially getting their money managed. The remaining 80, 85 percent are still focused more on fixed deposits, real estate and so on and so forth. In the active, professionally managed segment, we believe that our market share would be closer to 10 to 14 percent, which is essentially representative of round about 10 to 15 percent of the actual size of the market.

- **Mr. Gokul Raj – Bhageria Industries Group:**

- Thanks, and Karan, my second question would be on the scalability of the business on the asset management side, its relatively easy to understand, on the wealth management side, is there a point at which you start thinking that okay, scale becomes an issue?

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

- Scale doesn't become an issue actually, scale is very important because a lot of the products we offer clients, a lot of the opportunities we get, actually are not possible without scale and without scale, you can't get access to those opportunities. At the same point of time, you are right, scale gets challenges on standardization of the platform, ability to a standardize delivery to a platform; how do you ensure that the right set of products reach your clients. But all of those things can be managed as an organization becomes older and builds processes. The answer to that is really, number one is to have the right set of processes and controls. For example, we have a very strong product approval committee internally, using a huge amount of digital adoption in terms of right from account opening, all the way to managing and reporting. I think, last SEBI, through its measures over the last six to nine months has made account opening possible digitally for everything, even PMS is headed there. And lastly I think a little bit of good segmentation in terms of, for example, our IIFL - One offering can ensure that the span of control for relationship managers can increase from 20 -25 clients all the way to 45 - 50 clients. So, it is a combination of all of these but I think, on an average, I would definitely say it helps.

- **Mr. Gokul Raj – Bhageria Industries Group:**

- Right, last question would be on the dividend vs share buy backs; how do you think around it?

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

- I think we have a space of potentially, once we are in an absolutely steady state, on capital, to look at another 30, 40 rupees as a potential dividend which would effectively kind of match the one-time dividend that we gave earlier. But we will have to kind of get our capital efficiency a hundred percent for that which we will be working over the next 8 to 12 months, and potentially once we are there, we will kind of look at potentially one more special dividend. Outside of that really then we are very well organized from a capital perspective and then we need to kind of continue to run a policy, where 75 to 80% of our profits given everything being equal in the market, we are able to continuously declare those dividends.

- **Mr. Gokul Raj – Bhageria Industries Group:**

- Thank you that is it from my side.

- **Host:**

- Thank you. May I remind you, for asking your questions please click on the raise hand icon on your screen. Our next question comes in from the line of Mohit Mangal. Please unmute yourself and introduce your firm.

- **Mr. Mohit Mangal – Anand Rathi Wealth Management:**

- Thanks for the opportunity. I am Mohit Mangal from Anand Rathi. My first question is towards the medium-term guidance that you gave for FY 22. So, we are expecting from Rs. 1,80,000 to Rs. 2,00,000 crores. So that Rs. 20,000 is just the net flows that we are expecting or it also includes the MTM performance?

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

- So, what we have broadly done for now, we have assumed our MTM calculation, basis a very conservative broad liquid fund kind of growth; so it assumes a 3-3.5-4% growth in the MTM; and the remaining Rs. 13, 000 – 14, 000 crores essentially are funds coming on account of net new flows. The same MTM assumption used to be 6.5-7% a couple of years back. I think that assumption is a little conservative and all things being equal I think the portfolios on an average will grow at 6.5-7%. But for our modelling purposes on a conservative basis we broadly take a proxy to money market instruments as the growth in AUM.

- **Mr. Mohit Mangal – Anand Rathi Wealth Management:**

- Okay. So basically, it is including of MTM performance that we are expecting around 12 % growth right for the FY 22?

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

- Yeah, so Rs. 12, 000 – 13, 000 crores are the net flows for the next year, outside of MTM.

- **Mr. Mohit Mangal – Anand Rathi Wealth Management:**

- Outside of MTM, okay. And the next question is in terms of the employee attrition. So, I mean, we have spoken about the cost rationalization and other things over the past few quarters. Now do you think that you know with cost rationalization in space, the attrition of TLs will increase going forward?

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

- Not really, actually I think at the team leader level the firm is phenomenally productive. I think it is so fair say out of our 66-68 team leaders more than 95% have done extremely well. The remaining 5% who might have joined over the last 1 to 3 years, may have not necessarily come up the curve but maybe getting there. But the numbers…there are less than 2 or 3 out of 66. I think on the relationship manager side, which is another around about 190-195 people, I think that is where a little bit of productivity aligned attrition had to be done. I think there; it is fair to say 50% of it is done. We potentially have not much more another 10% potentially which is another 15-20 people. Obviously, some people are on the board and we would like to give them some time. But essentially, I think if I was to look at the entire team of around about 290 people, I think on a steady static basis, a number of 265-270 we would be fairly established in productivity parlance.

- The larger cost rationalization I think is going to come from things like digitization of service, getting the service to relationship manager ratios in the right amount of control, seeing how to kind of make trade execution a much more seamless process, the ability to handle clients queries on the CRM platform like sales force, improving all of those things internally, things which we spent a lot of time on over the last 12 odd months; as and when that kind of gets done I think there is an automatic degree of rationalization in terms of our productivity. And obviously, we have got some amount of rental cost which can come down over the next 3-6 months automatically. As we go along, we have kind of reduced certain office spaces especially our off shore offices and those will start reflecting over the next 6 months.

So, I think overall we still got a little bit space to go but I think 60-70% of the cost rationalization is also done.

– **Mr. Mohit Mangal – Anand Rathi Wealth Management:**

– Okay. Thanks, that is all from me.

– **Host:**

– May I remind you, for asking your questions please click on the raise hand icon on your screen. We will just wait for a minute in case there are any more questions. We have Saptarshi back with his question. Please go ahead, unmute yourself and ask your question.

– **Mr. Saptarshi Chatterjee – Centrum Portfolio Management:**

– Just a follow up on the earlier Lending point. I have seen that the yield, the NIM on the lending book has come down quarter-on-quarter. What is the outlook there? Because cost of funds is reducing?

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

– So, as I explained Saptarshi earlier I think we were running a larger liability book borrowed earlier, compared to the asset book. The newer borrowings are at a substantially lower cost as compared to the earlier borrowing; it is a gap of nearly 200 odd basis points. So, our earlier borrowing was an average on 9-9.25% now we are now borrowing at 7.25% ish. As this book gets replaced effectively you will see the benefits for the next 12-24 months after that. For the next 6 months as the book gets replaced till May-June, the lending to the client may have come down by 25 bps but the cost will remain the same. So, for the next 6 months till around about May-June, we will see an impact of this, if I can call it a negative carry on account of a larger old borrowed asset book, and hopefully, given our replacement borrowing we will see the benefit of that continue over the next 24 months from June. So, a large portion of our book nearly 30-40% kind of gets up for redemption before June which effectively is already getting replaced by a low-cost borrowing of nearly 150-175 bps lower and in most cases 200 bps.

– **Mr. Saptarshi Chatterjee - Centrum Portfolio Management:**

– Okay. On the market share side, that you were saying that three of the banks were at the top of the table and then we were the 4th or 5th player. Did I hear it correctly?

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

– No, no I didn't say that. I said there are typically two or three players who end up getting all the mandates, and are there in all the mandates. We are in one of those

2-3, I was explaining that there are 2 or 3 banks which are active in the market; 2 and 3 non-banks and a few multi-family offices.

- **Mr. Saptarshi Chatterjee - Centrum Portfolio Management:**

- In our target segment, mostly in the Ultra HNI segments, which are not like bank customers, what is our market share - whether we are in the top two players or top three players?

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

- I would like to believe we are the largest but from a market share perspective definitely be between the 12-15% number. And in terms of the large deal sizes, as I said earlier for more than 60-70% of the cases, we will definitely be in the deal as among the top two or three managers.

- **Mr. Saptarshi Chatterjee- Centrum Portfolio Management:**

- Yeah. Thank you.

- **Host:**

- Thank you Saptarshi for you question. We will move to the next question from the line of Vibhuti Jain. Request you to please introduce your firm and ask your question.

- **Ms. Vibhuti Jain – Quest Investments:**

- Yeah, I am Vibhuti Jain from Quest Investments. I had two questions. So, in the past concalls, management has spoken about the strategy to go in to the newer cities for net new inflows, so what is the status of the strategy, what is the company doing for that? One question is that.

- Second question is on the IIFL One AUM - in the last one year it has seen a very good growth of almost double the AUM. So going forward over the next 3-5 years where do you see this AUM growing?

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

- No, so I think our overall exercise of going into newer cities is really playing out extremely well. From a market share perspective even when I talk about new transactions and new deals at least they are not as large in size as the ones in Bombay, Bangalore and Delhi in most cases and some in Calcutta; but the smaller ones are also of this range of Rs. 40-50, 70-80 crores and you know we have had three such transactions if I can call it in the next 10 cities; and you know, we are happy to say that we are there in all those transactions. So, I think the market share from there will be keep continuing to grow. And in terms of the AUM itself, I think at least for the next 5 years and still be a 70-30 game where 70% will come from the top 8 cities and 30% from potentially the next 12-15 cities. But 30% is a large number because if I was just to look back at the last 10 years. The number would have been 90-10 where 90% I mean, from these 8 cities and 10% from the rest of the cities.

– **Ms. Vibhuti Jain – Quest Investments:**

– Right, and does the company have any plan to open office in other cities or you plan to first scale up the current offices which are open in the last financial year?

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

– No, we are not in a hurry to open offices outside the 20-22 cities we are already in. I think in those cities, we would like to follow the hub and spoke model. I think we are focused on ensuring that in these 22-24 cities the top 50-100 families in each of these cities are definitely dealing with us. And I think over the next 12-18 months that would be the focus. Obviously sometimes it happens that a city outside these 20-22 cities ends up having a large transaction or some kind of monetization which may take us there and get us to open an office or branch there; but otherwise I think we are kind of a focused on ensuring that we consolidate and build our base around these 20-25 cities.

– **Ms. Vibhuti Jain – Quest Investments:**

– Okay, and on IIFL One AUM?

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

– So IIFL One AUM you know, is something which is has grown, it is done extremely well, yields have moved to 40 basis points. I think over the next six months you'll see a further three to five basis points improvement automatically. As stocks in the basket kind of move and there's a good adoption from clients. The pace of AUM however unfortunately given where were in April to a large part of the second quarter - documentation has not been that easy. We would've wanted to be closer to the 25,000 to 27,000 crore number as opposed to the 22,000-crore number we are at, but we are hoping over the next six odd months in quarter three quarter four we are able to kind of bridge that gap of 2000-3000 crores. We'll definitely want to end closer to the 26,000-30,000-crore number or at least closer to the 30,000-crore number for the end of this financial year as opposed to the 35,000 we had kind of thought through earlier. So, we'll still be a little tad lesser than what we had planned for earlier but I think reaching a number closer to the 30,000-crore number on IIFL One is something we'll be working towards for sure.

– **Host:**

– Thank you Vibhuti. Next in line we have Nihar Shah. Nihar, please introduce yourself and ask your question.

– **Mr. Nihar Shah – Newmark Capital:**

– This is Nihar Shah here from Newmark Capital. Just a quick question, if I take a look at your presentation and slide 10 and you have these third-party products which are about 47,000-48,000 crores in AUM but that don't earn any revenue. My understanding is a part of this might be the products where you've had some transactional revenues earlier which you used to upfront. Can you just tell me how much of that is liable to get recycled over the next maybe 12-18 months, that would probably start earning you fee again, if as long as they come back and subscribe to new products.

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

– I think it's a great question Nihar. I think from our earlier experience and expectation I would believe 80 to 90% of that will get recycled, if not close to 100%. We typically don't have too many experiences or instances where client's withdraw assets. Now essentially the question is which segmentation does it go into. So obviously priority one is to move it into the IIFL One segment where effectively we can charge the client a fee. Outside of that obviously is the ability to kind of capture that asset in a distribution-based model without up fronting. And third essentially is to kind of ensure if it doesn't fit into those two is to at least ensure that it's a part of the overall brokerage AUM. But I would believe a large part of it would still go back into the first category. So, we are hopeful that over the next 12 to 24 months, as a large part of that AUM kind of comes out, most of it gets recycled back into the first two levels of engagement.

– **Mr. Nihar shah – Newmark Capital:**

– And would that be the full 48,000 crores or there will be some sort of direct mutual funds that you would be not charging your customers for as well; and which would be a part of it; which we should remove?

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

– You should remove. I think the full 48,000 won't come into play. For example, even if you look at today you've got roundabout, I think fair to say 15,000 to 18 000 crores of direct mutual funds would remain in the system and it's kind of getting blended into the overall distribution yield in some ways. I would say in some ways 50% to 60% of that would definitely move into fee bearing assets, 30% to 40% might remain in the direct plan of mutual funds but 60% would definitely move into the fee bearing portion.

- **Mr. Nihar shah – Newmark Capital:**

- Got it. So, on the 48,000 crores we should take about 60% which over the next 12 to 24 months should start earning you fees.

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

- Very much, yes.

- **Mr. Niharsha – Newmark Capital:**

- Great. Thanks, you Karan for that.

- **Host:**

- Thank you Nihar. Next is line we have Mr. Manish Poddar. Manish please unmute yourself and introduce your firm, thank you.

- **Mr. Manish Poddar – Nippon AIF:**

- Hi, thanks for taking my question. I am from Nippon AIF. Just wanted to understand where does this cost to income stabilize in the medium term?

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

- It depends on medium term but if you're broadly looking at a 3 year period 50% for sure I think. We would have liked it to be at closer to 50% next year itself, but I think it's more a function of revenues as opposed to costs in that sense between the numerator and the denominator So, I think it definitely should stabilize at the 50% mark over the next three years. We would push towards it being at the 52-53% mark next year, heading towards the 50% over the next three-year time period. A little bit also will depend on how the asset management business grows. I think if that grows as per our plans, I think we might see a further 200 basis points reduction to 48% but I would kind of think through 50% given the current mix between the two businesses.

- **Mr. Manish Poddar – Nippon:**

- And let’s say if you get generally a high single digit sort of AUM growth, let’s say 3% to 4% mark to market which you are planning, so at this 10% to 12% kind of overall AUM growth, would you still get let's say margin improvement? Or let’s say what is your fixed costs increase or like to like sales growth which you need to absorb your fixed cost growth?

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

- Manish, fixed cost growth is not a very large, both on the wealth side as well as on the asset management side. So on the wealth management side outside the relationship managers, so if you see wealth if I can loosely call it wealth sales, I am just trying to kind of put all the relationship managers and the investment counsellors in one basket, it would represent roundabout give or take 25% to 28% of the overall cost of the firm. So, I think the remaining costs which is effectively round about 70-72% is not necessarily really linked to the growth in AUM. And it's not as inflationary as the first 28%. So, I think even from here on, I think we are already in a position where every 10 to 15% addition in AUM marginally improves our cost to income ratio.

- **Host:**

- Thank you. This brings us to the end of the Q&A session. I would request Karan to give his closing remarks.

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

- Thank you everybody for being on the call. As I'll just kind of summarize, I think we have some great tailwinds in the business and in the industry. I think the industry is set for a good period of growth for the next three to five years; especially on the back of the growth in financial assets as well as a large number of liquidity events over the next three to five years. We continue to be in an enviable position as far as market share goes. At the same point of time we will need to be cautious especially on asset allocation and the fact that the world's going to be a fairly volatile place for the next 18 months. So, on that backdrop thank you everybody for attending this call.

- **Host:**

- Thank you, Karan. On behalf of IIFL Wealth and Asset Management we thank you all for joining this conference call. Thank you and have a nice day.