IIFL Securities Limited

FY-20 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to be IIFL Securities Limited FY20 Earning Conference Call. As a reminder all participant 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 an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to the management. Thank you and over to you all.

R Venkataraman: Good afternoon everybody and thank you for joining the analyst call of IIFL Securities. I am R Venkataraman Co-Promoter & MD of IIFL Securities. Along with me aremy colleagues Ronak Gandhi, CFO and Pooja Kashyap who handles Investor Relationships. I'll start with a a quick overview of our strategy. The pillars of our strategy, are research, technology and our talent pool. The foundation of IIFL group has been research and content, which started with Probity research many years ago and which later transformed to the 'Indiainfoline' website. We believe that research is critical to financial planning and investment. Later when we scaled up our institutional broking business, when the CLSA team joined us, our content edge was sharpened. We have an edge in capital markets because of research and our understanding of economy and corporates and that helps our business lines because all our business lines are centered around capital markets. The next pillar is technology. We have invested in proprietary technology be it front office, back office, risk management or mid office. Right from the time we started internet trading way back in 2000 till now we have developed and maintained key components of the trading platform in-house. Over the years, our trading interfaces, Trader Terminal for internet, IIFL Markets app for mobile or Advisor Anytime Anywhere, which is AAA for the IIFL sub broker segment, have become very popular. These platforms have been tested in live market and have shown to be capable of handling high volumes and are stable without outages. Our technology initiatives have enabled us to quickly switch to work from home mode during the pandemic, for front office, risk, back office almost seamlessly. Even in volatile markets our terminal and settlement function smoothly. The IIFL market app in a AAA for IFAs were used extensively by not only our relationship managers but also partners and customers and all of them enjoyed uninterrupted service. Account opening was carried out completely digitally and customer service was also automated using the Ask IIFL chat bot. Manpower, all our businesses are staffed with people with vast and relevant domain experience. We have been able to attract and retain talent over years and across multiple business lines.

Based on these three pillars we have three revenues and customer segments. The first is retail which is targeted at mass affluent and tech savvy millennial customers. We offer them not only broking execution but also other products like mutual funds, insurance, PMS - everything on an open architecture model. The next segment is institutional; we are one of India's leading domestic institutional brokers and have emerged as the port of first call for many domestic and foreign institutions. Basis our research credentials and our execution capabilities. Investment banking, in investment banking we are focused on equity capital markets, IPO and QIPs. We are uniquely placed because of our ability to garner subscription in each of the buckets, be it retail, HNI or institutional. Post the restructuring of the IIFL group we are clearly focused on agency business on open architecture distribution model, focused on client requirements. We want to build a high ROE business with inbuilt prudent risk management systems and processes.

Now coming to our results for the full year March 31, 2020, consolidated revenues came at 717 crore, which was down 14%. The other income was 72 crore which was up almost 80%. The other income comprises interest and related income, including IPO funding. The major reason for the fall of revenues is because of a decline in retail broking revenues, which was down almost 11% year-on-year. We also had a lower cross sell income, which was due to COVID led reduction which impacted the fourth quarter cross sell income and that income was down almost 13% for the full year. Investment banking was virtually unchanged. Institutional broking rose from Rs.130 crore to 160 crore and there was a reduction in rental income because of the sale of Kamala Mills property in the first quarter.

Employee costs also came down almost 14% to 221 crore because of reduction in manpower, from close to almost 2600 levels to now 2000 levels. Depreciation rose 32% to 55 crore because of AS16 implementation whereby lease agreements have been recognized as right to use assets. Now, we had an exceptional item which we have been talking about in the first quarter, and that was because of sale of Kamala Mills IIFL center and we had a deferred tax reversal of 14 crore in the second quarter the net impact of exceptional items being almost 87 crore. Now, coming to the quarter ended, which is the fourth quarter ended March 31st, 2020. Consolidated revenues were 190 crore virtually unchanged, which was down 8% on an year-on-year basis. Quarter-on-quarter the reason we had a decline in investment banking income from 20 crore in the previous quarter to 3 crore this quarter, which was down significantly, but that was also offset partially by the increase in cross sell income because of insurance broking, which typically happens in the fourth quarter. And we also saw some marginal growth in the retail broking revenues in the fourth quarter. On an year-on-year basis, cross sell income as I mentioned earlier fell because of the COVID-19 impact which impacted our insurance distribution business in the fourth quarter and incidentally, in the fourth quarter of last year, which is March 19.we had a large distribution income because of NCD distributions. Now other income for the quarter was 19 crore which is down 4% on a quarter-on-quarter basis, and up almost 100% on year –on-year basis during the quarter other income as well as interest both of them have gone up because of this SBI card IPO. However, for the quarter it was impacted by the mark to market loss of about 13.5 crore, primarily on holdings of certain AIF funds. These investments were made prior to the demerger and we hope that we will be able to liquidate them soon. IIFL Securities has, as a part of its strategy post-merger is focused entirely on client business. Employee costs also came down by almost 10% to 51 crore because of rationalization of bonus payment in the last quarter. And admin costs rose to a 59 crore for this quarter primarily because of our Enterprising India conferenceand other marketing events which were held in this quarter focused on customer acquisition. With this, I have come to the end of my talk and I'll be happy to take any questions that you will have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.

Rajeev Agrawal: My first question is in the past we have talked about monetization of real estate asset. So, can you talk a little bit about how much are these real estate assets, and what is our plan around that?

R Venkataraman: Okay. Actually, yes, you're right we have been talking about monetization of real estate. As you know, we have large number of properties, not only in Bombay, but also in other places like Ahmedabad, Pune, Gurgaon, Hyderabad and Chennai. And historically we had bought this properties in the days gone by and as of now, part of it the group uses and part of it is we generate rental income from outside and although we have got a REIT approval from SEBI the monetization plans have been impacted in the recent past because of COVID impact, As and when the economic and the real estate scenario situations we'll be looking to monetize them either by sale or by REIT

Rajeev Agrawal: Yes, so either by sale or by REIT you said right. So, I looked at your facilities and ancillary income so that is like 160 crore is that the right understanding for financial 2020?

R Venkataraman: Yes.

Rajeev Agrawal: Okay. And on that you have a segment result is 111 crore, so that means it's a very high, there are hardly any expenses, most of it directly falls to the bottom line. And if I just take your statement results number and put a cap rate and this is obviously pretax, but I'm assuming that if I just apply a 10 multiple on that, is it reasonable to say that these properties would be worth at least a 1000 crore if not more?

R Venkataraman: Actually, we estimate the property should be around 750 crore, 750, 780 crore.

Ronak Gandhi: ~~to~~ To add to that, so the PBT you're referring to ~~a~~ in segment result ~~that~~ includes ~~that~~ exceptional item of sale of Kamala Mills property. So, that's not included in revenue but that included in the profit before tax, that's why it is showing higher. ~~So, y~~You can also to refer the note ~~also we have written~~given in segment result.

Rajeev Agrawal: Got it. And then can you talk about on your balance sheet, what is your net, what is your gross debt, net debt and net cash on the balance sheet. I mean, I have a number but I just want to recheck that and ensure I have it correctly?

R Venkataraman: We have a gross debt of about 458 crore.

Rajeev Agrawal: What about the cash?

Ronak Gandhi: Cash we have around 340 crore and 680 crore were in ~~LP~~ FD which we have placed ~~for~~ with exchange for margin purpose.

Rajeev Agrawal: Got it. So, this money that we have kept for the margin purpose is actually belonging to IIFL and these are not the client's money, right?

Ronak Gandhi: No, that's the client money so basically, we've collected from the client and we placed into FDs and same is mark to exchange ~~levy against the~~for margins purpose.

Rajeev Agrawal: Okay. So, the cash that belongs to us is around 850 crore and we have a debt of around 450 approximately right that's what you are saying?

R Venkataraman: Yes.

Rajeev Agrawal: And then 650 is the client money that is sitting on the balance sheet, that is not ours?

Ronak Gandhi: Yes.

Rajeev Agrawal: Okay, great. Now can you, in the capital market space I think of you and ICICI Direct as the two listed players, is that the right way to think of it or what is the best way to compare IIFL Securities to other businesses out there?

R Venkataraman: So, if you look at the listed space, I think we and ICICI Direct will be similar because Motilal has other businesses also. And maybe you can add Geojit also in the queue.

Rajeev Agrawal: Got it. And can you compare how you are positioned across those two players like, can you just give us some comparison of how you see yourself versus other two listed players?

R Venkataraman: Okay, if you see the recent past then Geojit has become more of a distribution entity in the broking space, coming to ourselves, I think as I articulated earlier, the elements of our strategy is, we want to be focused on the three businesses which we spoke about retail, institutional as well as investment banking. And we want to leverage our research technology to make sure that we cater to not only retail customers, primarily to whom we were catering the broking execution. Now you want to get, now you want to target them with other financial products also and we have seen some traction going in the past, we want to invest a lot in our platform, be it the IIFL markets app or the IIFL app which is invest anytime anywhere, and make sure that we cater to the millennials also because if you see the retain pass a large number of broking customers are coming with who are first time customers or who are the millennials who want to use the technology to trade in the markets. So effectively, we want to leverage both not only our research but also in technology to acquire more customers and service them better through multiple products and we want to sell not only our in-house products, but also sell products best suited for them on an open architecture platform.

Rajeev Agrawal: Got it. And would you say that we have a technology edge versus of our peers right now in that?

R Venkataraman: Yes, I think so because if you see the Google rating of our IIFL markets app, then we enjoy a very good rating in terms of downloads also, we are quite high and the reason is that we have been investing technology for ages, right from the time when we started, then we started internet trading way back in 2000. So, given the fact that we have understanding of markets, and we have our in-house proprietary team. So, not only the front end, but also the back end as well as the risk has been built in-house through using our team and this has technology is test of time because it has handled volumes with minimal outages. So, I think we can say that we have an edge.

Rajeev Agrawal: Got it, and then just lastly, you have not given any guidance or financial 21 of knowing how much of a dislocation is in the markets currently. Can you give us some sense of what to expect?

R Venkataraman: Actually, it is not proper for me to give an outlook but I'll just share with you my views as I said earlier also, there has been a surge in Google for keywords like open a Demat account, internet trading and stuff like that. So, what we believe is that demand for financial products like broking as well as mutual fund life insurance is quite high, because India is under penetrated in these segments. And, we believe that there's a great opportunity for us to reach out to this vast population using technology. And more and more people will be buying protection products like insurance or investment products like mutual funds as well as self-directed investment, as there is some amount of mindset to save more especially in these types which have got disrupted. So overall demand for all our products which he offer is good and we should hopefully acquire more customers leverage technology to service them and gain market share.

Moderator: Thank you. We take the next question from the line of the Shubhranshu Mishra from BOB Capital Market. Please go ahead.

Shubhranshu Mishra: My first question is, why do we have this facility management, I understand we are a business further around the capital markets. So, have the retail brokerage and investment banking institution equities, and product distribution makes sense. But, why do we have this particular business and if I go through your subsidiaries data as well, we've got multiple subsidiaries for example, we've got an ARC what kind of business levels do we have and if we don't have, if we do not want to scale it up, why not hive it off. So, if you can highlight why do we do these businesses which are non-congruent to our capital markets play which is our forte and if we do not want to do it what are the timeline that we should look at the exits from these businesses?

R Venkataraman: Actually, I just want to give you a historical perspective of the facilities. historically we wanted to own the properties from where we operated and that is the genesis of the property which we own because we operate out of the Ahmedabad office in Mumbai the offices we own in Chennai we have the office, so this was the origin so facilities is like it owns and houses the real estate assets of the group. And as I said earlier also now at this point in time we want to monetize it either by selling or by REIT. Unfortunately, we got hit by the disruption within the economy because of the corona pandemic. So as and when the sentiments of real estate improves we would monetize it. Now coming to other question of ARC it's a defunct company we applied so it's a defunct company and as an opportunity comes, we will exit it. So, there's no such plans.

Shubhranshu Mishra: If I have to go back to your opening comments of this particular call. I completely get it that we are a company which is fund around the capital markets?

R Venkataraman: Yes.

Shubhranshu Mishra: And I respect that, we have built a name around it. My only question is, why should the investor pay for these facilities management, of course we have a historical thing but why should we pay for it now that we are going to center ourselves around the capital markets. And ARC is a very crowded market, only a few players have a decent amount of EM**,** the IBP process takes a longer period of time and even they are facing issues. And, I won't name the names, I'm sure you would know it yourself. So, why are we doing it, my question is very fundamental why are we doing it?

R Venkataraman: Okay. I understand your question, if I understand your question, your question is broken into three parts, one is that we are capital markets business so for which you have no objection, so, I am assuming that is done and dusted. So, your other question is about facilities management, as I said earlier also this is a historical legacy, because in 2008 we wanted to own the businesses, own the properties from where we operated. So, that is the reason why we are having it. So, it is not that we are going to buy new properties as and when the situation improves we will exit it. So, that is the stated objective of the management. So, there is, it's just a matter of time because unfortunately we got a REIT approval, the markets turn then on top of that the corona pandemic. So, to some extent we have been unlucky, now coming to you so, as and when the situation improves, as and when the real estate market improves or the REIT improves we will monetize it. Now coming to ARC, the ARC is a shell company, we don't have any plans to get into a ARC. So, it is just a historical legacy because of the part of restructuring of the IIFL group and we got this company a subsidiary, it is a nonfunctional business and, and we don't have any RBI license.. So, don't worry that we don't have a plan to get to the ARC business

Shubhranshu Mishra: Sure, sir makes sense.

R Venkataraman: And just to reiterate our commitment to IIFL we sold Kamala Mills in the first quarter of this. And we have been scouting for buyers for the property as and when a deal happens we'll do it.

Shubhranshu Mishra: Sure sir. And sir how do we compete against the new age brokers like Zerodha today. Though we have legacy retail broking with us. But how do we compete today in today's scenario with a guy like Zerodha who has entered with market share**?**

R Venkataraman: See as you know, broking is a competitive space and we should look at the competition not only from Zerodha from others also who are full-fledged brokers. So, as I said earlier, we have invested in research. So, we believe that research we have researched in the marketplace. We one technology platform which is at par with the best so we have invested in mobile trading engine, we have invested in the internet trading engine, we have a sub-broker platform. We have a distribution presence, we are present in almost 40 towns and cities across the country through our own and if you include Gold Loan Branches which is a sister company we are present in 500 towns and cities, so we have the reach also. And as I said, we have a good team of people so I think these are the pillars of our strategy and we leverage these pillars to make sure that we compete in the marketplace. And, I think Zerodha has a very I would say a price led strategy so for that, we also are competing on price also. So now it's like a so now it's like a competitive market and we have to compete on all parameters and win the customer.

Shubhranshu Mishra: Sure sir. And a few data keeping questions sir, I see that your investment is going to 230 crore as of March 31st, 2020. Can you please elaborate on this particular line item on the balance sheet sir?

R Venkataraman: Actually, it's a temporary investment which will be down sold to our customers in days to come. So, it was not a holding, it is not a core holding, it's an asset held for sale.

Moderator: Thank you. We take the next question from the line of Vivek from JS Investment. Please go ahead.

Vivek: Yes sir, I have some queries regarding we had a company our own company 5paisa.com.com and I think that the subsidiary separated now. So, is it adversely impacting our business because for the top line for us in the brokerage business has been going down consistently for the last three years. Despite of the mode which you mentioned, so are they modes in real sense or Zerodha customer how do we tackle them because most of the young lot, who are having a lot of time with them and they go in for a discount brokerage and 5paisa we've already separated that's the first part?

R Venkataraman: See actually to be fair the reason for why we separated 5paisa is because to have a better focus on a tech platform no branch discount broking model. So, as you know, our origins have been in full-fledged, full service broking. So, to have a sharper focus and to make sure that there is no internal conflict it was separated. So, yes to some extent obviously, there has been a competition for all brokers why 5paisa, include the other brokers on the street as well like Zerodha and others. So, there has been a segment in the market which is millennial segment or whatever you call which is once a discount broking and no RM lead model. So, as a part of our strategy, we are also strengthening a technology platform to make sure that we compete with that. So, if you see our customer acquisition numbers also where in the past it has been quite low but now we are seeing some uptick and hopefully with better focus and we should now regain our loss space.

Vivek: Because currently COVID quarter our business has not been much impacted I believe people are sitting at home sitting idle so they open up the laptop or mobile and do the trading. So current quarter is expected to be better than the last one?

R Venkataraman: Actually, it's not possible for me to make a forward looking statement so I will not comment.

Vivek: Okay. Now coming to our subsidiary consolidate, our standalone result were good and subsidiary result were, consolidated result were not that good at all. So, what was the reason for it and any force majeure clause inflected by one of your tenant?

R Venkataraman: I think there has been in the standalone there was a dividend income of 28 crore.

Ronak Gandhi: 28.5 crore.

R Venkataraman: So, that got netted off in the consolidation.

Vivek: Okay and any force majeure clause invoked by any of our tenant and sort of and this people are working from home other commercial rental properties is also being adversely impacted?

R Venkataraman: No, nothing, no nothing as of now.

Vivek: Okay, because I'm just trying to understand the mode because the technologically I know that you're interrupted years back, long back much ahead of the competition in cloud and so many other infrastructure, but still the impact is not coming in terms of more and we are sort of coming down and top line and bottom line year-on-year in our core business of brokerage?

R Venkataraman: Actually, we have been invested and unfortunately the fruits of this investment has not delivered results. So, if you see the numbers in terms of customer acquisition also we have seen some uptick. So, hopefully this year we should get back into get back our focus on acquiring more customers and service them better.

Vivek: With the advent of bull market, hopefully it should happen. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Shiva Kumar from Unifi Capital. Please go ahead.

Shiva Kumar: My question is with regard to the finance costs on the consolidated results, we see a sharp uptick in the finance cost, but there was no commensurate increase in any of the interest income or other income. What explains that?

R Venkataraman: No, as I told in my opening remark, this during the quarter both other income and interest had risen because of the SBI cards IPO. But unfortunately, the income size was impacted because of a mark to market of about 13.5 crore because of holdings in our historical AI funds. So, these investments are made prior to the demerger and we hope to liquidate them soon. So, this is the reason why you don't see that.

Shiva Kumar: Okay, if not further MTM even the other income would have grown by another 14 crore, right?

R Venkataraman: Yes.

Shiva Kumar: Okay, great. Sir and what is the reason for the increase in the distribution income?

R Venkataraman: Distribution income has increased because of the spike you see, typical spike in the fourth quarter of insurance sales, although we did not do as well as expected.

Shiva Kumar: Okay, you are saying this is seasonal and every Q4 you see every this?

R Venkataraman: Yes, every Q4 you see a spike. But, I wanted to highlight to you that it was down because of the COVID impact.

Shiva Kumar: Okay, and the institutional brokerage we see that on a sequential basis it has come down. Are you seeing any stress in that particular segment?

R Venkataraman: Not particularly. Because if you look at there, one quarter was not so good but, on a year, -on-year basis we have grown, it has risen from almost a 130 crore to 160 crore. So once, I think we should look at it on a on a longer timeframe.

Shiva Kumar: Year-on-year right. And in your opening remarks, you said that now it's entirely digital the onboarding of clients and you have added about 48,000 clients over the last quarter. So, are you continuing this run rate even after Q4 and is it entirely digital now as it?

R Venkataraman: Yes, it's entirely digital and we hope to may continue the trend.

Shiva Kumar: Even the POA is now digital?

R Venkataraman: No. The POA is not digital because it requires a law change. So, what is that, there is something called EDIS, electronic delivery instructions slip so that is a workaround.

Shiva Kumar: Okay, so the onboarding client doesn't do a POA but you do an EDIS?

R Venkataraman: Yes,

Moderator: Thank you. We take the next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: So, one thing on the property side you said that 750 crore but I think that was the market value prior to the sale of IIFL center. So, what is the current estimated market value sir?

R Venkataraman: No, this number which I told you 750 was post sale of IIFL center.

Sarvesh Gupta: No, sir. For 750 crore we have done an estimated 57 crore sort of rental yield also but now we are tracking much lower rental income as per the current quarter is?

R Venkataraman: No, 43% or 44% of that comes from.

Ronak Gandhi: So, basically that rental income what we have given of 54 lakhs is for all the properties put together ~~the total~~received ~~as a~~ in facilit~~y~~ies ~~total~~, but as we are owing the ~~properties it~~properties within the group as well, that portions gets eliminated ~~gets~~ on ~~consolidated~~consolidation ~~and get netted off~~. So, what you see in the P&L is basically ~~what~~ the rent ~~is~~ charged to the outsiders

Sarvesh Gupta: So, 750 crore is the current worth of the property's post the sale of IIFL center?

Ronak Gandhi: Correct.

Sarvesh Gupta: And what is the rental yield that we are getting on this 750 crore?

Ronak Gandhi: So, basically, we are getting a yield of around 7 to 8%.

Sarvesh Gupta: 8% on this?

Ronak Gandhi: 7 to 8%.

Sarvesh Gupta: Okay and then how much of this 750 crore worth of properties is occupied by the group companies?

R Venkataraman: Roughly you can take 55%.

Sarvesh Gupta: Okay. And secondly since you mentioned REIT but since it's a very small asset of just 750 crore so how did we possible for doing a REIT. I mean, you're mentioning a private you talking about a private REIT?

R Venkataraman: Yes.

Sarvesh Gupta: Okay, understood.

R Venkataraman: When we applied for REIT that time the situation was different, now the situation is different we are living in a dynamical changing market.

Sarvesh Gupta: So, now you have sale option maybe post COVID crisis is over and you see upside here.

R Venkataraman: Yes.

Sarvesh Gupta: Okay, understood. And sir if you can on your institutional broking side we are seeing some stability, but on the retail side, there is some decrease which has been happening. So, of course, we understand the COVID crisis, but post that any guidance on how we can take the retail brokerage and financial product distribution revenues going forward?

R Venkataraman: See, actually we have seen some amount of the degrowth happening in both retail broking as well as financial product distribution the year before that was quite decent when we saw some good numbers from this segment. So, as I said now, we are we are trying to leverage our technology, reach, to acquire more customers and service them better using an open architecture platform. So, I hope that this year is better.

Sarvesh Gupta: Okay. And this cash of 850 crore that you mentioned which is excluding the margin cash of 650 crore. So, this 850 crore is completely free from any encumbrance if you basically?

Ronak Gandhi: No, there is a mistake in your figure I think so, we have 340 crore.

Sarvesh Gupta: So, 340 crore is completely free from encumbrance, we can even decide to give dividend out of this?

Ronak Gandhi: Cash at bank we have but in that we have 300 crore in client's bank account. So basically, ~~if~~ this balance is in the ~~prime~~ client bank account because it becomes due on T plus 2 day so we don't know the settlement how many of the payment will come. So, we keep ~~some~~ sufficient ~~points~~ funds i~~f~~n the client bank account to meet this obligation and rest we invest in FD and place that to the exchange for margin purpose.

Sarvesh Gupta: No, so what is the cash that we have which is not owned by the clients?

Ronak Gandhi: 43 crore.

Sarvesh Gupta: 43 crore only. So, basically then we have a debt of 450 odd crore basically, that is the net debt also in a way because the cash is very low.

R Venkataraman: Just money with the exchanges.

Ronak Gandhi: We have money with exchange.

Sarvesh Gupta: Yes, but that is perennial use of that's like your long term assets, it is not like a free cash. I was trying to get at your free cash book can be used to pay down the debt.

Ronak Gandhi: So, we have 43 crore the free cash available with us additionally. We have investments of around 200 crore which we can liquidate against the debt so there is no problem for the liquidity as such, we have around 200 crore of investments.

Sarvesh Gupta: Where is this 200 crore invested?

R Venkataraman: As I said we have about 70 crore in the PTC which will be down sold soon. And we also have some about 80 odd crore in AIF which was historical which was hope to liquidate now in other mutual funds and things like that.

Sarvesh Gupta: Okay, understood. So, then we have 200 crore of liquid instruments plus 50 crore of cash so 250 against 450 of gross debt.

R Venkataraman: Yes.

Sarvesh Gupta: Okay, understood. What is the split of the within the investment banking and institutional segment what is the investment banking revenues that we had in this quarter?

R Venkataraman: In this quarter we had about 3 crore of income and for the full year we had about 33 crore.

Moderator: Thank you. Next question is from the line of Ritika Dua from Elara. Please go ahead.

Ritika Dua: So, my question was a little basic one, just from the previous question. What is the nature of the debt firstly, in terms of the type of instruments that we have there and my apologies, but then if you could help me understand why do we have such a high debt, what is this combined with the nature of business we are in?

Ritika Dua: Is this for MTF piece of funding, do we some MTF book or do we do ease of funding or what is in this nature that we have such a high borrowing?

R Venkataraman: Basically, the borrowing is primarily for the real estate asset of the group. So, effectively it is for that otherwise we have close to roughly about 75 to 100 crore this is for short term working capital requirement.

Ritika Dua: And just one clarification. Did I hear it correctly that sometime in the call you said that now maybe the employee number is 2000, which probably came down from 2600?

R Venkataraman: Yes.

Ritika Dua: And sir when was this 2600?

R Venkataraman: Last March one year ago

Ritika Dua: Sir, any color on this number that we have been able to come down to, where is the 600 been largely been done away with, what is the management strategy there?

R Venkataraman: No, as I said from last one year we have some from 2600 we have come down to 2000 so effectively of course both retail broking as well as insurance.

Ritika Dua: Okay, and sir if you don't mind can you just maybe roughly share like what is the breakup of this 2000 across your businesses?

R Venkataraman: So close to, roughly about, broking at about 1800 and the rest is around others.

Ritika Dua: Okay, so the retail would be like?

R Venkataraman: Roughly I'll give you, the retail is about 1700, institutional will be about 100 and rest is others.

Ritika Dua: Sure sir. And sir do we have, do we do MTF or do we have esop funding as product?

R Venkataraman: margin funding we have.

Ritika Dua: And any concerns which you might have faced in the month of March because one of the peers while even they didn't have it in the month of March but then they have provided access because the way the book is volatile what is our view on the same?

R Venkataraman: Touch wood, the book has also come down significantly. So, we have been conservative.

Ritika Dua: Are we disclosing that number what is it, I can find it on the PPT. What is our MTF outstanding today?

R Venkataraman: As of March, it was about 20-25 crore.

Moderator: Thank you. We did the next question from the line of Rohith from Marshmallow. Please go ahead.

Rohith: On the employee reduction and the consequent reduction in the cost do you see any scope to do that further or do we think that we will reached the baseline here?

R Venkataraman: we are living in a very uncertain world because of the pandemic which has happened in the name of coronavirus. So, at this time, it's very difficult to say how much more we can do but I think we are optimally staffed.

Rohith: Great, and we have a pretty large ESOP program in comparison to many other companies that I have observed, so over what period do you think will it be carried out and is the rough dilution you foresee per year going forward?

R Venkataraman: This will get implemented over the next four years. I don't have the figure right in front of me about the ESOP dilution. Actually, can you send an email to our analyst so I will answer that question with precise numbers.

Rohith: Okay, sure sir I'll do that. Thank you. The next question I have is broadly on the FPD so the financial product distribution assets and the DP assets. So, we have this chart which shows the DP assets are coming down while the FDP assets are going up, but I had so, the DP assets they include only the stocks held by the customers in IIFL account, am I right or does it also include any mutual fund if I as a customer purchase through the IIFL platform as well?

R Venkataraman: No, its only stocks is there.

Rohith: Okay, fair enough. And from my observation over the last few quarters ever since you've got listed I understand that the AAA is a major strategy for growth going forward. Could you explain the whole AAA product and what you are gearing towards over the long term for this product a little more?

R Venkataraman: AAA is a tab based order entry risk management back office for independent financial advisors, including sub brokers, so this is one tool in which you can not only do stock broking, but also buy mutual funds, buy insurance, debt products and it has all encompassing comprehensive solution. Then it has reporting, monitoring and including a training module section. So, we think that this will be a great opportunity for us to reach out to the length and breadth of the country because this does not using a simple tap you are virtually carry an office in your pocket and you don't need any other investment and we have a central engagement team which handles the partner which is new and trains him and helps him to grow his business. So, this is effectively a platform or a technology to help us to reach and acquire a larger number of customers because as you know IIFS and sub brokers are quite active in the length and breadth of the country.

Rohith: Will I be right in thinking that whatever, whoever the assets that the IIFAs and sub brokers manage through a AAA will the assets under that would be accounted for under FPD segment is that the right way to think about it?

R Venkataraman: Yes.

Rohith: Okay, perfect. And I see that under FPD again, while the insurance numbers have improved quite noticeably the mutual fund numbers have been stagnant or declining. And this is sort of contrary to the fact that I think the mutual fund numbers otherwise year-on-year industry wise has grown, so is it because our process were physical and we didn't have a backend distribution platform of MSA, BSA something or is there any other reason?

R Venkataraman: Actually, the mutual fund number has not kept in pace with the rest of the industry although we have also grown, its simply because focus has been on other products like PMS and AIF and bonds. So, we want to get back our focus in to mutual funds because as you rightly pointed out this is a great product to reach out to the retail customers and grow assets.

Rohith: Okay, great. And the next question I have is on capital allocation sir. We have this huge real estate asset we intend to divest as soon as it makes financial sense for us, what is the intent with the cash, why not consider a buyback instead of a dividend given at so cheap and promoters have historically including you, you have historically shown your willingness to buy back, buy shares from the open market at much higher prices. So, any further thoughts on capital location, be it buy back or dividend payment and what the plan is to do with the cash that will come out of the real estate sale?

R Venkataraman: First and foremost, we are waiting for the situation on the ground to improve because as you rightly pointed out, our aim is to dispose of these assets. And first and foremost, as a part of an optimal capital allocation strategy we will reduce debt and make it debt free and then as and when surpluses is there all options will be considered including buyback, dividend everything. So, my first and foremost if I can make a statement my first and foremost aim is to sell these assets and become debt free and then we can see what is to be done. I hope that I answered the question

Rohith: Yes, perfectly and there's a 127 crore CWIP on the balance sheet that I see, what is this regards too?

R Venkataraman: See actually what has happened is that post demerger IIFL Securities balance sheet has integrated certain real estate properties, which included flats in Mumbai and Pune, for which OC has not come. And that is why this has been showing as WIP. But however, as I've said earlier also, we want to sell and monetize all our real estate assets.

Rohith: So, you mean to say that of the total real estate asset portfolio around 127 crore is flats apartment in Mumbai in Pune, it's not all commercial?

R Venkataraman: It won't be like that; it will include some other properties in Chennai or Madurai where we wanted to build a call center so it will include a mix of all that.

Rohith: Perfect sir. My last question is, you have mentioned very clearly, articulated very clearly your intent to become debt free as soon as possible. In that context, could you help us understand why do we have, why have we raised this enabling solution for non-convertible debentures for 500 crore?

R Venkataraman: I think, it's just enabling resolution because last year also it was there, but we didn't raise any debt.

Rohith: Sure. So, it's just to in case you needed, you just want to keep that option, okay.

R Venkataraman: Otherwise, because if you see the AGM, if you see the annual report last year also it was there, and we didn't raise any money.

Rohith: So, you don't expect overall over the long, short, medium or long term for the debt to rise going forward and the interest cost will broadly remain stable full year?

R Venkataraman: Stable and long term debt hopefully, if we can monetize the assets they should come down.

Moderator: Thank you. Our next question is from line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Some of my questions have been answered I just have a couple, firstly in slide #14, our average daily turnover is down in 4Q versus 3Q, whereas for the industry it's actually quite up. Given the volatility, in March and April so is there a particular reason why we have lost the market share?

R Venkataraman: Yes, actually, you're right we've lost market in the month of March specifically, what had happened was in the month of March, there was steep volatility and as a part of a prudent risk management practice also we stopped or we restricted giving limits to customersand that has affected volume and the other thing was that the bulk of the volumes and derivatives happens in options. So, close to about 95% happens in options and where we put the brakes because we wanted to be prudent and that is a reason for the loss in market share. So, it was an outcome of a thoughtful action.

Piran Engineer: Okay, fair enough. And after the episode Karvy and IndiaNivesh and maybe a few others might be on the line. Do you see a migration towards the larger brokers the ones that are backed by banks, consolidations basically?

R Venkataraman: The incidences like Karvy and IndiaNivesh has actually helped all brokers so well capitalized brokers are seeing some amount of benefit from the unfortunate events that has hit Karvy and IndiaNivesh.

Piran Engineer: So, you think you will be a beneficiary or a victim of this migration?

R Venkataraman: We should be a beneficiary because we are well capitalized

Piran Engineer: But generally, a retail person will not know who is capitalized, who is not they will just go by brand like ICICI, HDFC or that is my thinking.

R Venkataraman: No, it's okay in the sense that I agree that we have not reached the levels of HDFC and ICICI but we think that in the retail customer mindset, we also have a brand.

Piran Engineer: Okay, fair enough and lastly like ICICI Securities over the last year has come up with a lot of schemes in the retail brokerage, like subscription schemes, et cetera. And that has actually helped them retain clients and grow their market size. We also have, many such scheme or is it just plain vanilla?

R Venkataraman: So, as of now we have certain schemes but we not marketed them aggressively. So, as you rightly pointed out in this coming year, we should market our schemes and become much more aggressive on the pricing front.

Moderator: Thank you. Our next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.

in your segment reporting you had shown facilities and ancillary income as 159.74 crore so what all does it include? Sir, I was asking you facilities and ancillary revenue of Rs.160 crore reported in the segmental information, what exactly does that, what all is included under. Your September presentation says rental income would be about 50 to Rs.53 crore. Therefore, I'm asking you this?

R Venkataraman: Okay, this is rental income plus IPO funding income also is booked in that entity.

Karthikeyan: Okay, I see and your net of the interest cost and so inter segment revenue that you have netted off?

R Venkataraman: Interest is also in that entity only.

Karthikeyan: Sure. The other question I had was within your retail customer segment what number would be inactive customers currently and what specifically are you doing to make them active customers?

R Venkataraman: See actually we have about close to about 2 lakh. We have close to about 2,10,000 or 2,15,000 active customers end of March.

Karthikeyan: Okay. What percentage of that would have been inactive customers?

R Venkataraman: No, these are active customers.

Karthikeyan: These are active customers, and as part of your cross sell initiative do you work with 5paisa customers at all, is there any kind of understanding between you and them?

R Venkataraman: They are separate.

Karthikeyan: So, there is no transactions between the two entities?

R Venkataraman: no

Moderator: Thank you. Our next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: So, this was regarding the capital allocation only so, I think what you said is that before considering any buyback, et cetera you would want to sell the property. So, that is well understood. The second question is, because we are earning like 30% ROE now we obviously don't need so much of cash. So, what is the expected dividend payout going forward, considering that we are earning like 150 crore on the operation?

R Venkataraman: Actually, our stated dividend we have been giving dividend almost 33% payout, including DDT, so our first aim is to repay debt and then maybe we look to increase a payout ratio.

Sarvesh Gupta: Understood, so if you are running like 150 crore, 50 odd crore dividend and then going forward once that?

R Venkataraman: So, we can look at increasing that also.

Moderator: Thank you. Our next question is from the line of Kajal Gandhi from ICICI Securities. Please go ahead.

Kajal Gandhi: Sir, most of the questions were answered just what do you think now like volumes to regain back what, over the market and for yourself, how will you pick up now?

R Venkataraman: See, as I said earlier also we think that volume should pick up and as some kind of semblance of stability comes back to the market. And be had, as I said because of our risk management practices, we had lost markets in the month of March. So, as the market has stabilized we also restored our original limits. So, hopefully we should see some kind of uptick in the days to come.

Kajal Gandhi: Sir and in your distribution platform now, what do you see in terms of mutual fund people are looking more at direct plans or how they are now incline to and or is it ETFs what is the inclinations?

R Venkataraman: Actually, in our platform also we are seeing some amount of migration to direct plans. So, what you say is correct that's an industry trend.

Kajal Gandhi: Sir can you give some percentage like how much of that?

R Venkataraman: I don't have the percentage right now it's for us, it's quite small but it's increasing.

Kajal Gandhi: Okay. Sir and MTF book which you said of 20 to 25 crore is the book which you have in your balance sheet, but margin funding provision you must be making from the IIFL finance which should be a larger proportion?

R Venkataraman: So, that is also quite small if you see theIIFL, book also that has also come down significantly.

Kajal Gandhi: So, what will be that type?

R Venkataraman: Roughly about 250 to 300 crore not more than that.

Moderator: Thank you. Our next question is from the line of Manan from Equirus PMS. Please go ahead.

Manan: Sir on balance sheet front I had one question. So, you have other financial assets, which is around 450 crore. So what amount would be attributable to receivables from exchanges or customers?

Ronak Gandhi: 222 crore is receivable from ~~exchange~~ client and on the last day due to volatility, we have placed up to 170 crore cash in margins.

Manan: Okay, so out of 450, 222 is receivables from exchanges and is that right?

Ronak Gandhi: 170 is placed as margin

Manan: Okay and also 1000 odd crore other financial liabilities what would be payables to exchanges our customer?

Ronak Gandhi: So, 550 crore is what is payable to clients and around 400 crore what is payable to exchange.

Manan: Okay, understood. So, sir my next questions is so you mentioned that regarding AAA strategy so you have significantly large sub broker base across the country so what percentage of that sub broker have you been able to tap with this AAA?

R Venkataraman: Actually, we have been trying to get new sub brokers into the fold using this strategy. So as of now, I don't have exact figure of sales, but we are close to about 1000 sub brokers on this network, on this platform.

Manan: Okay. And is that an active effort to like tap in more from that segment itself?

R Venkataraman: Sorry?

Manan: Are you trying to tap more customers from that segment itself?

R Venkataraman: Yes. Because we think that India is a large country and this gives us a platform to reach out to a vast geography.

Manan: Understood. Sir my next question is regarding FTD revenue. So, like we had a significant de-growth in FY20 like it was almost equal to FY18 revenues. So, I understand the SEBI regulations and all came in play. So, going forward, how do you think about this part of the business?

R Venkataraman: As I said, we want to cater to the needs of the retail customer not only with broking, but from other products also, like financial planning, mutual funds, life insurance and things like that. So, as you rightly pointed out, SEBI guidelines are there, which is making things much and more stringent, but given the fact that the overall penetration is quite low and so, we think that the base can be increased significantly.

Manan: Understood. And sir my last question is on again capital allocation. So, just to understand what you said, you said that after selling the real estate, whatever is left when the market conditions improve, you will pay down the debt. But, so my question is your standalone entity itself generates around 150 crore of profit every year for you mentioned like around 30% might be dividend. So, and it's not a capital intensive business. So, like what are the plans for remaining 100 crore because if you're not planning to include that 100 crore in the facility subsidiary?

R Venkataraman: No, there won't be any infusion of capital in facilities, but it should be a, I would say we should get some free capital from that. So, as I said the original plan is to make us debt free and then we can considering higher dividend payout.

Manan: But sir debt will be in the facility subsidiary right most of it?

R Venkataraman: Yes, but facility is 100% subsidy, so I cannot, I am looking at the number on a consol basis.

Manan: Okay, understood. And sir we also in the last year AGM, so we have taken a approval for corporate, around 1000 or 1500 crore for inter corporate deposits with IIFL finance. So, do you have any outstanding as of now and do you plan to increase that?

R Venkataraman: No, nothing is outstanding as on March 31st.

Manan: So, that resolution is there and are you planning to include that in the future?

R Venkataraman: That resolution is enabling resolution So, it's there.

Moderator: Thank you. Our next question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra: I had two questions. One is that you took a write-off of 13 crore on the investment portfolio can you please elaborate on that?

R Venkataraman: It was not a write-off, it's a mark-to-market so basically as I said earlier, they have some AIFs which are being in the books for historical reasons. And so last quarter, we just took a MTM, it was not a write-off.

Shubhranshu Mishra: Right. And investment portfolio, how much would be in direct equities and direct debt or is it in equity?

R Venkataraman: It's like funds, it's not in direct equity.

Shubhranshu Mishra: It's not into direct equity. And these AIF are owned by us or by someone else?

R Venkataraman: Owned by us means they're manufactured by a sister company, which is IIFL Wealth and as I said, it is a historical legacy we're carrying, because these are part of the sponsor allocation when we were a consolidated entity.

Shubhranshu Mishra: Sure sir. And sir on your slide where you are describing the retail broking, you have quarterly customer acquisition, is it a cumulative number or it's a quarterly acquisition?

R Venkataraman: Quarterly.

Shubhranshu Mishra: Right sir. And out of them, how many would be, do we have a track of how many of them would be active customers?

R Venkataraman: See, I don't have the quarter number, but typically you can take a rule of thumb about 50% become active.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you sir.

R Venkataraman: Thank you so much for participating in today's call. And please feel free to reach out to our Investor Relations Department at investor.relations@iifl.com, and if you have any query or follow on, we'll be more than glad to answer that question. Thank you so much and have a nice day.