

June 23, 2021

<b>The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai 400 001. BSE Scrip Code: 542772</b>	<b>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. NSE Symbol: IIFLWAM</b>
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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 to be held on April 22, 2021 for the audited financial statements for the quarter and year ended March 31, 2021, please find enclosed herewith the transcript of the same.

The transcript and recordings of the earnings call are available on website of the Company at [www.iiflwealth.com](http://www.iiflwealth.com)

You are requested to kindly take the aforesaid on your record.

Thanking You,

Yours faithfully,

For IIFL Wealth Management Limited



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CIN: L74140MH2008PLC177884

## IIFLWAM FY21 Q4 - Earnings Call

### - **MODERATOR**

- A very good afternoon ladies and gentlemen, and good day and welcome to IIFL Wealth and Asset Management's Q4 and FY21 Earnings. As a reminder all participant lines will be in listen only mode. There will be an opportunity for you to ask questions after the management shares their thoughts. Should you require assistance during the conference, please signal the host by tapping on the raised hand icon. Please note that this conference is being recorded. On the call today we have with us Mr. Karan Bhagat, the Managing Director and CEO, Mr. Anshuman Maheshwary, the Chief Operating Officer, Mr. Mihir Nanavati, the Chief Financial Officer, and Mr. Pavan Manghnani, Head Strategy and Investor Relations. I now hand it over to Anshuman to take this conference forward.

### - **MR. ANSHUMAN MAHESHWARY – COO, IIFL WEALTH**

- Hi, thank you Anil. Hope all of you are keeping safe. Pleasure to be here to share the highlights and the financial performance for quarter four and the financial year ending 2021. So overall it's been a fairly disruptive and uncertain financial year for all of us. And in the face of this we as the IIFL Wealth and Asset Management family are very proud of where we are today. A big call out to all our clients, our people and all our ecosystem partners who have enabled us to show sustained strong performance across financial and other metrics.
- Overall client sentiments have remained positive over the last quarter and we continue to see high levels of liquidity. However uncertainties emerging from the continuing pandemic situations are still an overhang and we are as I am sure all of you are as well, closely monitoring for any impact and when we see situations getting back to normal. But let me start with a brief overview on the financial performance of the company. Unfortunately Mihir is facing some network issues so I will take this part from him.
- So for the quarter ended March 31<sup>st</sup> as well as financial year 2021, firstly on the assets under management on the AUM side, our overall AUM increased 3.2% quarter on quarter to Rs. 207,044 crores from Rs. 200,494 crores in quarter three. Our overall AUM increased 3.2% QoQ to Rs 207,044 Crs from Rs. 200,494 Crs. in Q3 and up 31.9% for the full year. Our ARR Assets increased 12.7% QoQ to Rs 1,01,969 Crs. from Rs. 90,500 in Q3 and up 62.9% for the full year.
- Our Total Revenues for this quarter increased 2.7 % QoQ to Rs 287 Crs. Our ARR Revenues for this quarter have increased 4.3% QoQ to Rs 161 Crs. Other income for the quarter stands at Rs 22 Crs, and for the full year at Rs 137 Crs. On a 12-month basis, we reported an overall revenue of Rs. 1,053 Crs, up 23.74% YoY.
- Our Total expenses for the quarter remained flat at Rs 152 Crs. Of this Total employee costs increased by 2.8% QoQ to Rs 112 Crs. Administrative and Other expenses were down 6.2% QoQ

to Rs 40 Crs, from Rs 43 Crs in Q3. Accordingly, our overall Cost to Income ratio has reduced to 53% for the quarter. On a 12-month basis, our overall expenses have also remained flat at Rs. 568 Crs

- Operating PBT (OPBT) for the quarter increased 29.8% QoQ to Rs 113 Crs, from Rs 87 Crs and was up 20.9% YoY from Rs 94 Crs in Q4 FY20. PAT for the quarter, increased 5.3% to Rs 103 Crs from Rs. 97 Crs. On a 12-month basis, PAT for FY21 was up 78.9% at Rs 369 Crs from Rs 206 Crs in FY20
- So having covered the financial performance, let me move on to sharing some of the key business highlights for the quarter as well as for the full year. I think specifically to start with three specific highlights on the AUM and retention side -
- Firstly we have seen strong net flows for the quarter at Rs. 5800 crores. Total net flow for the year was in excess of 14000 crores organically without including the flows that came in as a part of the L&T acquisition done completed in April of last year. This 14000 crores as you recognize is only marginally below our pre-COVID full year target of Rs. 15000 crores. Through the year client acquisitions have also been robust.
- Secondly our asset management business has seen extremely strong traction with 70% increase in AUM for the full year and over 15% increase in the last quarter as well. We continue to see strong flows into our listed and unlisted equity strategies driven by the strong performance of our fund, the differentiated offerings, as well as large institutional mandates. We have also strengthened the team last quarter with Amar Mirani joining us to lead to the real estate strategy.
- Thirdly total retentions have held up at 57 bips, vis-à-vis the 54 bips for last year. We remain confident that this will sustain at the 54 to 55 bips level for this year as well. With wealth being close to 50 bips, and asset management at around 70 bips. So while I covered the financials earlier, I just want to highlight that our total revenue is back at the FY19 levels. Now why that is important is because that was the period prior to our transition to the recurring revenue based model. And we have taken this 24 months to come back to the same level as far as total revenues is concerned. But very importantly the mix has changed significantly. With the share of ARR in the revenue from operations increasing from 43% in FY19 to 63% in FY21. And this is on track to get us to the steady state of about 70 to 75 % over the next 12 to 18 months.
- The other highlight has been our dividend payout. We maintained our aggressive dividend policy by paying out 70% of our FY21 PAT as dividend into Rs. 30per share. This is in addition to the special dividend of Rs. 40 paid as a part of the capital release initiatives that we have spoken about every quarter.
- Overall our profit after tax for the year at 369 crores and cost to income ratio at 54% are both comfortably ahead of the guidance that we had given. Our testimony to our focus on increasing productivity as well as the cost optimization initiatives that we have been undertaking over the last 12-18 months. This is also allowed us to revise upwards our guidance for FY22. Specifically we expect net flows at approximately Rs. 20000 crores next financial year. Largely equally split between wealth and asset management.

- With the increase in top line and our continued focus on cost optimization. We expect the cost to income ratio to tend towards the 50% mark over the next 12-24 months. Capital allocation continues to remain a key focus area for us. And we expect to maintain our aggressive dividend payout policy. Accordingly we expect to improve our absolute ROE to over 15% in FY22 and tend towards the targeted 20% mark by FY23. As you would have seen the ROE this year vis-à-vis last year has itself seen a significant jump.
- Some of the other aspects of the business that are very critical are first we believe our focus on digital remains imperative. We have traditionally been on the forefront of adoption of technology with Sales Force as our preferred CRM solution, Altior as our held away consolidation platform, and other early stage adoptions. However I think we all recognize the pace of change both from the client side as well as on the technology front remains high. And we remain committed to investing heavily to make digital a part of everything we do. Basically embed digital in our organizational DNA. And as a part of this we are embarking on a transformational journey to reimagine our client and banker journey. How do we embed intelligence through the entire journeys as well as upgrade our overall tech and data architecture. We will keep you posted as we progress in this particular front. We are also continuing to deploy technology to drive efficiencies in our internal processes. Things like robotic process automations we have had success in our pilot and are looking now at scaling up.
- The point on retention of senior people and clients again very critical for us as an organization and our business. As a reflection of the firm values and culture we have undertaken multiple initiatives to be engaged with our clients and employees through the last 12 months more than ever before. Our attrition of employees at the senior level remain low. On wealth and AMC sales we have had five departures out of a total of 80 plus partners, team leaders. On the investment side the number is as low as 1 out of over 10 senior investment professionals. And the clients' stickiness also continues to be high with less than 2.5 to 3.5% of clients leaving the firm and AUM being lost at around 1%. We have a slide on this in our quarterly presentation.
- One last point before I hand over, as we have done each quarter, we continue to enhance our level of detail provided in our investor presentation. Happy to inform that from this quarter onwards an excel data book that contains all previously published data across quarters will be available for download on our website. I am hoping that for a lot of you this will make life a lot easier to understand and handle our information. So with that I request if we can move on to the Q&A section and I will hand it over to Karan to take us through the same.
- **MODERATOR**
- Thank you Anshuman. I now invite Mr. Karan Bhagat to join us for this session. May I remind you, please tap on the raised hand icon in case you wish to ask a question. Kindly introduce yourself and your firm and then ask your question. We will just give it a minute for the question line to line up. The first question we have from Prashant. Prashant could you just unmute yourself and ask your question? Kindly introduce yourself.

- **PRASHANT – SBI MUTUAL FUNDS**
- Hi this is Prashant from SBI Mutual Funds. Sir just wanted to check you have a total debt of around 4700 crores. How much would be backed up by investments?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So all of it more or less. And a lot of it is liquid fund investments. So we have got a large kind of a MLD maturing in the month of June and July close to around 1400-1500 off crores. So that kind of gets paid at that point in time. So for the last quarter it is reflecting slightly higher liquid investments. But everything is more or less backed by investments.
- **PRASHANT – SBI MUTUAL FUNDS**
- Sure. And the entire, all of them would be MLDs or would there be any other type of borrowing?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So 97 to 98% of our borrowing is in the form of MLDs. And kind of 2.5-3% would be in the form of CPs. But 97-98% is in the form of MLDs. It obviously gives us the leeway of having a much longer term borrowing. The cost is slightly higher than CPs but it ensures that we are never exposed to any kind of asset liability mismatch.
- **PRASHANT – SBI MUTUAL FUNDS**
- Sure, sure. And just another question, I think you had around 30000 crores of assets that were under advisory that you had to sort of classify by March. So how has that panned out?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So a part of it is obviously kind of got reclassified under distribution. But most of it is going to move to advisory. So I think from a client perspective we have got a good feedback. And I think more or less most of the corporate treasuries are happy to kind of move into the advisory program. So I think over the next 3 to 6 months you will see more or less all those assets kind of moving under advisory. I don't see any loss of assets there.
- **PRASHANT – SBI MUTUAL FUNDS**
- Sure, sure. And just a last question. What do the other income, 137 crores what would that be?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So largely other income is for last year obviously is a function of nearly 2 years combined put together because last March you had a significant fall in the other income largely on account of the steep correction in the last quarter of last financial year. So a large part of that has kind of got reversed in this financial year. So a 137 crores in that sense is made

up of broadly if I can put it in the sense two elements. Now the first element really in some sense is if you see our capital outside of the NBFC, now we would have round about 800 to 900 odd crores of equity capital which would generate anywhere from 7-8% a year being invested broadly and liquid debt instruments and so on and so forth. And the rest of it would really be a function of the alternative investment funds which we have got another 1000 crores invested into which are basically the sponsor investments and the non-sponsor investments. So those that would really kind of add up to the other income. And this would obviously get netted off for some of the borrowing which is kind of reflected on this.

- To give you an exact breakup I think Pavan can come back in the next 10-15 minutes. But I think the AIFs contribute close to around about 85-90 crores of that 137 crores for the last financial year.

- **PRASHANT – SBI MUTUAL FUNDS**

- Thanks a lot. Thank you so much.

- **MODERATOR**

- Please tap on the raised hand icon if you wish to ask a question. Next in line we have Mr. Mohit Mangal. Mohit kindly unmute yourself and ask your question. Please introduce yourself.

- **MOHIT MANGAL – ANAND RATHI SECURITIES**

- Yeah, thanks for the opportunity. This is Mohit Mangal from Anand Rathi Securities. So I have got 2-3 questions. So the first question is in terms of the IIFL One Assets. So I think IIFL One Assets we ended the year with around 28000 crores. And I am sure that you know if the pandemic was not there then the number would have been much higher. I think few quarters back we guided for around 40000 crores. So you know considering the current situation, what would be our strategy to increase the IIFL One Assets? And any ballpark figure for financial year 2022?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- So I think what's really happened is a combination of two things. I think honestly between Jan to March we saw a fairly strong momentum towards some distribution based products, annuity driven, but distribution based. And kind of from a firm perspective ended up resulting in some long term funds being raised but not necessarily on the IIFL One platform because momentum was extremely, extremely strong in the market. So I think there was a little bit of a diversion of attention between the two. But within the overall set I think we have been able to get to the 100000 crores of ARR. But within the mix of the ARR I think IIFL One for the last quarter has been a little slow. I think three reasons really if I were to kind of look back. The first reason is like what I pointed out, which is a little bit of a diversion of attention towards the products at hand.
- Second I think was really a function of a little bit of adoption. I think we still kind of I think getting all the licenses, the certification, right I think it is still going to take another 2 to 3 months. It is a long process. We need all our relationship managers very soon to

get certified. Our technology piece on the advisory side is also nearly there. But I think we will be well-settled over the next 2 to 3 months. A little bit of I think slippage is there on account of that. And third you know from adoption perspective with the relationship managers, I think we are still 2/3rds of the way there. We would have liked to be from an IIFL One perspective to be the top priority for every relationship manager. But I think that is around about 65-70% of the way there. So I think overall from a next year perspective, I think this should be the biggest delta. I think I see the existing stock also moving there. And more or less large part of the new AUM all of it will come under this program. It is not really going to come under the distribution program. All new clients we have signed over the last let's say couple of quarters are largely coming here. What is taking a little bit of time is the movement of the existing stock from distribution to IIFL One. So I think from a next year perspective, the IIFL One plan itself, I mean it is fair to assume should grow by at least 50 to 55% from the current plan.

- **MOHIT MANGAL – ANAND RATHI SECURITIES**

- Okay. Yeah that's great. My second question is in terms of releasing the capital, so I think in quarter one 2021 you said that the office that we owned in Lower Parel, we would like to sell that office and maybe lease it back so that we can have an equity of ROE effect. So any new developments on that front?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- No so I think from a dividend perspective we are fairly keen to figure out the right method and way either to borrow against the building optimally or we would like to ideally release another Rs. 35-40 per share of capital this year, sometime during the course of this year, similar to what we did last year. And I think post the release of Rs. 35-40 per share, it more or less gets us down to a 2000 crore net worth outside of goodwill. And 2000 and which we believe is more or less the standard capital which we will require in the business. So I think from a dividend perspective another Rs. 35-40 of a special dividend from a capital release perspective through this year, either driven by the sale of the office or by the right debt restructuring of the equity against that office. And ensuring that we continue with our 75-80% of the current year profits as dividends, will kind of continue. So I think this year we will look at the right time and opportunity to look at the special dividend of Rs. 35-40 which will get us down to then our stable capital of 2000 crores.

- **MOHIT MANGAL – ANAND RATHI SECURITIES**

- Fantastic. My last question is more generalized. So you know now that we have completed a full year of pandemic, so how has been the experience in terms of client behavior? Are they still fearful? Are they withdrawing money or are they increasing the portfolio as to how your experience has been over the last one year.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Actually it's very interesting. I think there are two parts to your question and I think it is lesser to do with the pandemic honestly. I think clients are looking slightly beyond the pandemic at least in terms of investments. So I think the fear factor is surely not as high

as it was in April, May, June of last year. I think clients are willing to look beyond. I think from an asset allocation perspective also I think it is fair to say 15-20% of the equity allocation continues to be on the sidelines. But outside of that people are willing to invest. We have seen a very interesting trend over the last 6 to 9 months on two sides. One I think given the low interest rates at 4, 4.5, 5%, the post-tax return more or less is down to 2.5-3% on the fixed income side. And that is kind of requiring the clients to think beyond the box. For some clients it is resulting in a slightly higher direct equity large cap high quality stock allocation. For the other clients they are willing to be a little bit more for the lack of a better word I won't call it adventurous, but they are willing to take a little bit longer term risks in terms of alternates and so on and so forth. So I think in that sense we are going to see a structured credit, unlisted equity. A part of all of this becomes more from typically 3 to 4% of our clients' portfolio to around about 7, 8, 10%. And I think these two behavioral changes are very obvious and I think as interest rates continue to remain fairly low, I think there will be enough appetite for investment opportunities which are slightly differentiated.

- **MOHIT MANGAL – ANAND RATHI SECURITIES**

- Perfect. That's it from my side. All the best.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Thank you.

- **MODERATOR**

- Thanks Mohit. The next question is from the line of Saptarshi. Saptarshi please unmute yourself and introduce yourself.

- **SAPTARSHI – CENTRUM**

- Yeah hi this is Saptarshi from Centrum. Good afternoon and thank you for this presentation and good round of data. My first question is on the variable cost side. Like in the beginning of the year you had guided that variable cost should be in the range of 20 or maybe 25% of the fixed and high cost. But I think now for the full year it comes to around 40% of the fixed and high cost. Is there any one off or is it going to be the run rate going forward?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- So I think from an employee cost perspective, it will be in the region of 33 to 37%. I think we would ideally want it to be closer to the 35% range. Now, obviously depending on how the year is, it can kind of move let's say between 33 to 37 or maybe 32.5 to 37.5. Now from a last year perspective you see it at close to around about 40% odd which is essentially a function of two things. Largely a function actually mostly of one thing. But it is essentially ESOP cost. So we had last year is the year where we have taken the largest amount of ESOP cost in one time allocation to the entire corporate team and asset management team we had recruited 2.5 years back. So out of the entire employee cost of 410 crores, nearly 45 odd crores is on account of the ESOPs which is not going to be a repetitive number every year. Now ESOPs will obviously be there but the overall impact



and cost will be substantially lower than the 45 crores repeating every year. So I think that is the big kind of a delta and I think there is an increased variable cost of round about 10-15 crores composite which has been accounted in a blend of quarter 3, quarter 4 which is largely on account of the incremental performance and a little bit of the incentives given on the ARR assets as compared to the projection revenue. So I think overall if I was to see you kind of break up the 410 crores, I think on a stable basis this would be in the region of round about 350 odd crores plus another 20 odd crores of ESOP cost. 20-25 crores of ESOP cost. That is really where I would have liked it to be. I think we have got another 30 crores additional ESOP cost last year and another 10 to 15 crores extra variable cost. But from a business perspective I think 33 to 37% on account of employee expenses and another 15% odd in terms of admin expenses.

- **SAPTARSHI**

- Sure, great. And secondly I think last time you had talked about that as you are replacing some of the high interest borrowings and therefore the cost of funds have reduced. But when I see your NIM for the loans it seems that it is lower quarter on quarter. So is there anything I am missing on this?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- So cost of borrowing is coming down fairly quickly but as I said last time our incremental cost of borrowing is down to round about 77 quarter and even in some cases 675 for 12, 24 and 36 months. But like I said we have a large repayment coming in through in – one which has already happened in May. Another portion which is happening in June and a large partition in July. So we will see a quarter on quarter down I think this quarter on a closing basis we will be down from round about 865-872 round about 815-820. And I think from an incremental basis the next quarter will be down to round about 785-790 on the borrowing side. But we have also been a little competitive on the lending side. So we have seen a 30-40 basis points decrease on the lending rates. But the contraction on NIM is largely a function of the fact that the loan book has grown towards the end of the quarter as opposed to at the beginning of the quarter.

- **SAPTARSHI**

- Great. And lastly my question is slightly on a longer term basis, maybe kind of a decadal story. So you have seen that for last couple of years because there have been events and our yields have come down. My question is going forward for a stable medium to longer term, what will be revenue and PAT for this kind of a wealth management business? Because we will have multiple events like ETFs and passive funds coming out and moving to products like IIFL want customers moving to fixed fee structure. So all of these put together, trends put together, what will be the kind of the revenue and PAT yield maybe you can foresee for this business?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- So I think we are kind of moving there quite quickly. It is – I personally feel it won't take a decade. It might be 12 to 18 months but it will head there fairly quickly. And I think the broad math is fairly kind of well-defined in that sense. I think Rs. 100 odd is essentially –

I am just going to take an example of an asset at Rs. 100 odd. I think broadly fees on something like IIFL One which will keep moving into advisory because the ability to actually put it into the broker plan for either PMS scheme job, mutual fund schemes will become really difficult and next to impossible. And the fees there will really kind of be in the region of 45 to 50 bips. But it has to be a fairly right combination of large accounts, medium large accounts, discretionary, non-discretionary and advisory. Only then you will reach the 45-50 basis payouts. If it is only large accounts I think you will hit the 35 basis points in terms of fees. So number one I think the fee itself will be in the region of 45 to 50 basis points. But the ability to get to the 45-50 will be a function of the mix of some of the variables that we pointed out. Because if it is only the large accounts you are right, they will at some point and some size move to a fixed fee which will get it down on an average to 30-35 basis points. Second obviously there is an element of 10 to 15 basis points of transaction fee which will always remain. It is virtually impossible to kind of rule that out from the system. And finally you will have another 10 odd 8-10 basis points coming from net interest margin. So typically globally also effectively broadly seen a 75 to 80 basis points. I think that is where we will settle down here also. We will see a 70 to 75 basis points overall retention broken into those three sets. The cost to income ratio I think will settle down depending on the operating leverage we can drill in the system, will settle down between the 50-52% range over a period of time. I think in the mix between the wealth and the asset management business it will head towards the 50%. Purely on the wealth management business it might be closer to the 52-53%. And on the blended basis it will head towards the 50%. And broadly from the PBT perspective I think it will be in the 35-37 basis points range. Then obviously adjusted for the tax maybe in the range of round about 27-28 basis points.

- **SAPTARSHI**

- Understood. Basically a kind of a mix as well as increasing our AMC assets will be a key to increasing the yield.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- I think yield and more importantly cost to income. Obviously the operating leverage is slightly higher on the asset management side as compared to the wealth management side. So I think though it is not as high as it is in mutual fund, on the alternative investment side it is not that high, but it is definitely higher than it is on the wealth management side. So I think the ability to hit the 50% cost to income ratio will be a function of being able to grow both.

- **SAPTARSHI**

- Wonderful. Thank you so much for the detailed answer. Thank you and all the best.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Thank you.

- **MODERATOR**

- Thanks Saptarshi. Just a reminder to all participants, in case you wish to ask a question, please click on the raised hand icon. The next question is from the line Sukriti. Sukriti please introduce yourself and you may ask your question.
- **SUKRITI – LABURNUM CAPITAL**
- Hi Karan, this is Sukriti from Laburnum Capital. Actually I am going to start off from the last point you made in the previous question. So could you talk to me in some detail about how operating leverage could play out in your wealth management business over the next couple of years? And specifically you know if you could break this down a little bit into unit economics. So for example per client facing team, what is the multiple of non-direct or overhead costs and how do you expect that to go over time?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So broadly speaking I think from a function of overheads within the wealth management team itself I think each team broadly speaking has a senior banker with a fixed cost somewhere in the region of 80 lakhs to 1.25 crores. And typically it is made up of 2-3 more junior bankers together with a small service team. So typically speaking if you look across a system I think one such team would be from a salary cost perspective in the region of 2-2.5 odd crores. Typically speaking the associated direct costs would largely be around two other or rather three other kind of associated verticals. The first would be essentially the investment councilor or the advisory vertical which is kind of needed for the larger clients. Second you have obviously got the product team which kind of helps in deep vertical specialization across each asset classes. And third obviously you have the execution team on the brokerage side. Now typically these three kind of get loaded onto each team's cost and then obviously you have the other expenses around admin cost and so on and so forth and finally the variable bonus. So this would really be the four components of cost in that sense.
- So I am kind of breaking it up into the direct salary cost and the remaining three kind of cost. Now typically in our experience a direct salary cost of 2 to 2.5 crores would additionally if I include all these three elements which is the product team, the advisory team as well as the execution team, plus the variable bonus, I think it would work out to give or take approximately another 2.25 to 2.5 crores. So effectively a team which is got a salary cost of 2.25 effectively to break even, assuming all of these factors would be effectively at 4.5-5 crores which effectively on a reverse math basis of the 70-75 basis points, would mean approximately a 100 million dollars of ARR AUM or chargeable AUM is effectively what will be needed for the team to kind of break even. So round about 700 to 750 crores is what would be needed for the team to kind of break even. And obviously post that it starts becoming profitable. Now the operating leverage obviously comes in the fact of the associated indirect cost both in terms of the advisory product and the execution team which does not move proportionately. And even the variable bonuses while they move up, they don't move as proportionately as compared to the fixed salaries. So effectively I think from an operating leverage perspective it is in the remaining four portions post the break even. But it is not easy to get a 100 million dollars of AUM chargeable at 70-75 basis points. So depending on when you have done the recruitment and when you have retained the – when you have got the team to

move, typically the team might take anywhere between 2 to 2.5, 3 years to kind of break even.

- **SUKRITI – LABURNUM CAPITAL**

- Got it, got it. And overall how – so this 1:1 ratio of direct non-direct cost per team now, what's that in your steady state or optimal scenario? Or let's say even how would you see us 3 years down the line?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- So I think it will come down to round about 65-70%. As I said earlier I don't think from a pure wealth business we will ever have an operating level where the cost income comes down to 30-35%. I think it will come down towards the – if I was to kind of dissect the two businesses today, I think wealth by itself will be closer to the late fifties in some ways. Or 56-57, and asset management will be closer to the 50. 52-53. I think there is a scope of improving 5-6% in both places. And therefore I think you typically see a 1.7-1.75 kind of multiple come through.

- **MR. ANSHUMAN MAHESHWARY – COO, IIFL WEALTH**

- Karan if I may just add a point on that, I think in addition to just the reduction in multiple as far as cost is concerned, it is a question of how do we provide all the tools and bring in digital that will increase the number of clients that the team can handle. And therefore the productivity of the team going up. So instead of doing 700-750, can they do higher? And that I think will be a big, big focus area for us in the next 12 to 24 months as well.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- No I think that is a very good point and I think span of control is something which kind of most of the global firms have been able to work well on. And I think 2-3 things have contributed to span of control. I think the first one as Anshuman is pointing out is digital. Obviously building the entire workflow well is important. And second thing which has really contributed to span of control is the ability to build the right platform on the advisory and the discretionary side. So the RMs find it substantially more easier to manage larger relationships. So I think span of control is going to be definitely a key variable to getting the operating leverage right. And within span of control I think both these things are going to be important.

- **SUKRITI – LABURNUM CAPITAL**

- Super, super. That's it. Thank you.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Thank you.

- **MODERATOR**

- Thanks Sukriti. The next question is from the line of Mr. Parag Jariwala. Parag please unmute your line and introduce yourself
- **PARAG JARIWALA – WHITE OAK CAPITAL**
- Yeah hi Karan. So this is Parag from White Oak Capital. My question is with respect to one earlier participant you mentioned that 70-75 odd basis points of revenue and post stakes around 25-27 basis points of PAT yield. Are you referring this only to a wealth management business or the combination of both wealth as well as asset management?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- No, the wealth management business.
- **PARAG JARIWALA – WHITE OAK CAPITAL**
- Okay so the asset management would be on a sustainable basis could be slightly better?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- I think from a yield perspective again asset management is going to be a function of – obviously if the growth continues to be largely driven by alternates then it would be slightly better. If the growth is let's say through a mix of some bit of institutional mandates as well as let's say growth on the listed equity side in terms of the mutual funds or let's say some debt products, then also yield can come down. So in that sense right now obviously out of our 35-37 thousand crores, a large portion is really in the first segment I spoke about. And therefore the yields continue to be fairly attractive there. I think if a large part of the collections is there I think you are right, the yields will continue to be fairly attractive and I think the cost to income ratio will improve substantially. I think on the asset management side if you see we have added some senior 4-5 investment professionals over the last 2 years. I think we maybe one person short or maybe 1.5 people short. Otherwise we are more or less there and it kind of has its own impact both in terms of the ability of the team to manage that quantum of money as well as our ability to kind of collect more money. So I think some bit of operating leverage on the asset management side is also going to happen because we have only really got maybe 70-80% of our team over the last 12 months. We are still not 100% there. But we are 70 to 80% there. And most of the senior team members in that sense have come in over the last 6 to 18 months.
- **PARAG JARIWALA – WHITE OAK CAPITAL**
- Fair enough. The reason also I am asking this is if you look at the guidance which was shared by you guys, in FY23 if I just back calculate the PAT yield, it comes out to be around slightly less than 20 basis points. So broadly even if you go by our arithmetic, the PAT should be at least around 20% higher than what you guys are guiding. So...
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So I think I am just making a distinction there. You know the transaction assets obviously are yielding a lower number. So when I am talking about – so transaction AUM will have

to be kind of looked at slightly differently. I think the ARR AUM will yield what I am saying. The transaction AUM will be slightly lower in terms of yield. That's the reason you are seeing the 20 bips. Actually if you just do it on the ARR, you will arrive at the yields what I am saying.

- **PARAG JARIWALA – WHITE OAK CAPITAL**

- Understood. Thank you Karan. Thank you.

- **MODERATOR**

- Thanks Parag. The next question is from the line of Nischint. Please unmute yourself.

- **NISCHINT – KOTAK**

- Yeah hi this is Nischint here from Kotak. Thanks. Just trying to understand did you mention that you want to take the net worth down to 2000 crores?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Yeah so I mentioned that Nischint two quarters back also I think net worth outside of the goodwill and intangibles. So effectively we have got around about – today we would be – we would have taken two steps around basically 350 crores of broad dividend payout last year and a 350 crore kind of – 300 to 350 crore optimal kind of dividend payout this year. Which takes us down to 2000 odd crores of net worth outside of the goodwill and intangibles. That is additionally there.

- **NISCHINT – KOTAK**

- And you would possibly look at another 350 crores this year assuming that you will be able to kind of monetize that.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Yes, yes. Either monetize it or get the right debt structuring around it. Because now the cost of borrowing is also at effectively 675 to 7 or 7 quarter. So at some point it will be a decision on whether borrowing is at 7 versus the price we are getting which one makes more sense. Because even on the balance sheet side we are absolutely unlevered on the NBFC side. So we will take the right decision around it.

- **NISCHINT – KOTAK**

- Sure. Got it thanks. That was my question. Thank you.

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Thank you.

- **MODERATOR**

- Thanks Nischint. We have the next question from Prashant. Prashant you may please unmute yourself.

- **PRASHANT – SBI MUTUAL FUNDS**

- Yeah Karan so just a follow up. So around 1400-1500 of MLDs in June-July. So what is the plan around that to refinance or repay? And how would the maturity for the balance debt stack up?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- So I think from our perspective of getting it refinanced is fairly simple. There is a huge amount of demand on our MLDs. So that is not a problem at all. I think we have already kind of from a repayment perspective we have already had the money sitting in liquid form from the last 30 to 45 days. Actually honestly last 15 to 18 months is from an asset liability mismatch perspective. It is kind of the liquidity buffer is really costed us in that sense. So that will get fully corrected also in this quarter because from a borrowing perspective, a new borrowing perspective will obviously end up borrowing substantially a little much more conservatively than what we had done historically. But from a cost of borrowing perspective as I had said earlier it will come down to the 675 – 7 versus all these MLDs historically and being in the region of 860 to 875.

- **PRASHANT – SBI MUTUAL FUNDS**

- Sure. And just on this net worth point, so how should we look at it? What would be the kind of leverage you would want to maintain on the NBFC?

- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- So I think the leverage on the NBFC will be in the region of on a pure net worth of let's say 1100-1150 crores. If outside of this dividend let's say the net worth is at 1000 crores the net worth would be in the region of 4.5-5 times. So broadly 4000 odd crores of loan book in addition to the net worth.

- **PRASHANT – SBI MUTUAL FUNDS**

- Sure, sure. Thank you so much.

- **MODERATOR**

- Thanks Prashant. Just a reminder. In case anybody wishes to ask a question, please click on the raised hand icon. We will just wait for a couple of minutes in case questions come up.

- **MR. PAVAN MANGHNANI – HEAD STRATEGY & INVESTOR RELATIONS, IIFL WEALTH**

- Hi just a quick addition to that previous question. Out of the 137 crores of other income, broadly 100 crores comes from the AIF and PMS net off borrowing and the rest is the other items.

- **MODERATOR**

- Sanjay you may please unmute yourself and ask the question.

- **SANJAY**

- Hi guys. This is Sanjay from iThought PMS. So this is regarding the special dividend. So over and above the special dividend of 300-350 crores, FY22's PAT also will be distributed along the similar lines of 75%-80%?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- That's right, that's right. So I think we guided similarly when we did the special dividend last year. I think there will be two kind of opportunity to do a special dividend. One last year and one this year. After that we are back to our stable capital of round about 2000 crores. And outside of that obviously 70 to 80% of our dividends which will be coming out of profits every year, we will look to distribute.
- **SANJAY**
- Okay thank you.
- **MODERATOR**
- Thanks Sanjay. We have the next question from the line of Devvrat. Devvrat you may please unmute yourself and ask your question.
- **DEVVRAT – CAPITAL GROUP**
- Hi Karan. Devvrat from Capital. How are you?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- All well. How are you?
- **DEVVRAT – CAPITAL GROUP**
- I am good as well. Hey just one quick question. So on your guidance that you all have put out for FY22 and FY23, if I look at you know your closing AUM of 207 lakh crores, going to 245 next year and then 285 the year after that, and if I add the net new flows which you all have which is 20 and 25 thousand crores, I thought there were a lot more assets which were locked up in the where you had already made a trail commission historically which would have gotten added into the recurring asset bucket. So what am I missing there? Am I missing anything there?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- No so I think on the total AUM bucket if you see, on the 207 and 20000, it broadly kind of takes into account three things. It takes into account transaction assets also. On the ARR side I think we will end up seeing a larger movement as compared to the 15-20 thousand crores anticipated on the total AUM. I don't know if I am answering you correctly but 6-7% is the growth in net flows on an overall basis. But on the ARR side we see a much stronger growth. I think the 100000 crores should grow by at least 15 to 20 thousand crores next year.
- **DEVVRAT – CAPITAL GROUP**
- Understood okay. Thanks.



- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- Yeah.
- **MODERATOR**
- Thanks Devvrat. We have the next question from the line of Alpesh. Alpesh you may please unmute yourself and ask your question.
- **ALPESH**
- Yeah hi Karan. Just one question on the net worth side you mentioned around 2000 crores. Do you have any rough breakup in mind that how much would go towards the AMC wealth for your lending business?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- No absolutely I have a good breakup in mind. So I think round about 1000 odd crores in the NBFC, 500 odd crores on the asset management side, 400 crores on the wealth management side and 100 crores would basically be the cash balance requirements in the holding company and some of our offshore subsidiaries.
- **ALPESH**
- And this 400 and 500 crores, 900 crores put together, that would be largely invested into the as a sponsor investment into AIF.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- Yes sponsored investments into AIFs is coming down fairly quickly. We had to do large investments 2.5-3 years back or 4 years back when we started out the business. In all our new AIFs we are only committing the minimum sponsor capital of 5 crores. So actually if we break up our investments over the last 1, 2, 3, 4 years our new investments into our AIFs is very, very low. And I think these numbers of these 800-900 crores will come down dramatically over the next 24 months as these get redeemed. Obviously it has kind of got increased a bit over the last couple of quarters because of mark to market. Not because of really – so the last three schemes we have raised, we raised a 6 year private equity fund which was called market monopoly in financial services last quarter. So it was 1800 crore fund. But we have put in only 5 crores. Similarly we have raised another two funds this quarter of 2000 crores and another 800 crores. Our contribution is only 5 crores each. So from now on we are really able to put in the minimum amount of 5 crores. We don't need to put in the larger amount. So I think we will at the right point of time settle at somewhere between the 1.5% odd of contribution into our own AIFs, relative to the size of our funds. So today for example, we would be at close to around about 28-30 thousand crores of AIFs under management. Ideally if all things being equal, we should not have more than 350-400 crores invested in our own AIFs.
- **ALPESH**

- The rest 500 crores would be for what? In the sense this business basically does not require any capital. So why do we need to keep 500 crores.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- It is just for this, just for this.
- **ALPESH**
- Okay so whatever the capital that we have into wealth management and AMC that would be largely invested into our own funds.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- Absolutely.
- **ALPESH**
- Including minor working capital related requirements.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- Nothing, nothing really. Working capital is only two things really. Broadly speaking if you just look at all the three businesses put together, in some cases the management fees comes at the end of the month and in some cases it comes at the end of the quarter. In some cases the interest comes at the end of the quarter and in some cases the end of the month. So broadly speaking your current assets tend to be close to around about 2.5-3 months at the maximum. So on a revenue base of 1000-1100 crores you would have a current asset number of around about 230 to 250 odd crores. You would have fixed deposits with the exchanges approximately 100-125 crores because we are fairly conservative there. So that would be 350-400 odd crores and another 400 crores, 450 crores of investments into AIFs. That is broadly the capital requirement. There is nothing else really.
- **ALPESH**
- Okay. And just one more question. In this quarter based out of the net flows that you received, there seems to be one chunky investments that has come into your PMS business. If I write off that then what gives you the confidence on the very strong net influence for FY22 now? Because if net of that then the net influence in this quarter are also not very, very encouraging as such.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So I think it is approximately 3000-3500, 4000 crores outside of that. So 5800 odd crores is the net flows for the previous quarter. And if I was to exclude this institutional mandate of around about 1500 to 2000 crores because all of it also is kind of coming through last quarter and part of it this quarter. But overall I think 3500-4000 crores of net flows for the last quarter. And the way we are kind of getting kind of the response to some of our products on the asset management side, I am fairly confident we might end up at a fairly decent number close to the 20000 crores.

- **ALPESH**
- Thanks and all the best.
- **MODERATOR**
- Thanks Alpesh. The next question is from the line of Nihar Shah. Nihar you may unmute yourself and ask your question please.
- **NIHAR SHAH**
- Hi Karan, just a quick clarification to one of the questions asked previously. You know you already have close to about 22000 odd crores sitting in either mutual funds or the managed accounts or upfront fees received earlier. Assuming if that was the flow through more or less completely into the ARR bucket, shouldn't your ARR increase by more than the 15 to 20 thousand crores you are guiding towards or is there something that I am missing here?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- Well I think it won't fully flow through for sure. I think it flows through from whatever recent experience has been in broadly a region of 60-65%. So I think on a 20000-22000 crore kind of output I would expect round about 12000-14000 crores to flow through into the ARR bucket. Obviously the 22000 crores has got varying degrees of maturity. So we have approximately 50% of that maturing in this financial year. And we have got approximately 35% odd maturing next financial year. Only another 15% odd in the year after that. so if you broadly take the 22000 crores into a 50% odd at 11000-11500 crores and approximately two thirds of that I think it should add at around about 6000-6500 crores into the ARR bucket this year. In fact we had a very large kind of a similar product of 1800 odd crores maturing 15 days back. And as of now from where we are seeing that approximately 60-65% of that is kind of moved back into the ARR bucket. So that is really what I think would happen.
- **NIHAR SHAH**
- Great that's great. What happens to the other 30-35%? Do you lose the asset or does that move to another transaction?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- It remains transactional so I think our clients take some time. See fortunately I think we just added that slide but loss of assets continues to be touchwood fairly low. I think from a client perspective attrition has been in the region of 3-3.5%. And quantum of assets lost from existing clients is less than 1.3-1.4% over the last financial year. So AUM loss continues to be fairly low across the transaction piece as well as the ARR piece.
- **NIHAR SHAH**
- Great that's great. Thank you so much for clarifying.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- Thank you.
- **MODERATOR**
- Thanks Nihar. We have the last question from the line of Kunal. Kunal you may please unmute yourself.
- **KUNAL**
- Yeah hi Karan. So sorry again touching upon this question on the distribution assets maybe wherein trail fee has already been received or upfront fee has been received; So the only thing is maybe in FY21, how has been the conversion rate? Maybe you have highlighted in terms of the outstanding but what has happened in last year, how should we look at that in terms of how much actually poured into ARR Assets?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- So the same number in the region of that 55 to 60% maybe worthwhile. We can do some analysis and maybe try and see what has exactly happened last year and maybe include it in our next presentation so that it gives a good visibility of the next 2 or 3 years. But it is in the same region. It is in the region of 60%.
- **KUNAL**
- Yeah surely that would be helpful. Maybe just getting the sense in terms of what has happened actually.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- Done, done.
- **KUNAL**
- Yeah and second question was on the expense. So what we had given of say 620 odd crores, I think still in terms of the admin costs that would still be sustained at 150-160 odd crores or maybe at 170 odd crores. But still then employees is around about 450-460 and when we look at it in terms of ESOP there will be delta of 20-25 crores variable and not sure from 110 how it moves. But then that suggests quite a bit of an increase from the fixed side as well. so is it again on the ESOP we can see it in that range of another 10-15% kind of an increase over the next 2 years again on this higher this?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- No. ESOP won't increase higher than 45...
- **KUNAL**
- Sorry employee. Overall employee.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**

- No I think overall employee cost is some components to it. So on the fixed portion we had a bit of a salary reduction from April to January last year. So in that sense the fixed employee cost is from January this year which is effectively including quarter 4. Seen a bump up of approximately 2.5-3% which is already included in the Q4 numbers but it is not included in the Q1, Q2, Q3 numbers. So our average employee fixed cost which is broadly along the Q4 lines I think we are adding some 3 or 4 fairly large important teams on the wealth management side and on the asset management side we are looking to add two very senior managers on two strategies. So there will be some increase on the fixed compensation side as far as salaries go. But it will be kind of – we are not looking at recruiting absolutely fresh juniors or laterally. We are more or less looking at fairly senior resource level hiring. On the variable side you know as I said earlier all put together it will aggregate to around about the 35% number on the revenues. Depending on the year to year it will be very difficult to segregate that 35% exactly into fixed. But it will be give or take a percent here or there around the 35% range.
- **KUNAL**
- Okay. And just one thing in terms of 65 Wealth RMs moved to 75 so there were like 10 recruited or there was some maybe reclassification that has happened out there compared to last presentation?
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- No so there were 10 recruited and we lost 5 RMs out of which two went out or rather three went out to setup their own businesses. And out of 75 only 2 have actually kind of moved out to competition.
- **KUNAL**
- Okay. So 65 to 75 in this particular quarter...
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- No, no, no, no. 65 to 75 on this particular quarter, partners I think Anshuman includes AMC.
- **MR. ANSHUMAN MAHESHWARY – COO, IIFL WEALTH**
- Yeah just to highlight that number that I spoke about was AMC and Wealth sales. We can again, we have shared now that information as well. You will see the detailed information in the investor presentation. We have just added that as well.
- **KUNAL**
- Yeah. So I was looking at the closing count of 75 for wealth management which was 65 last time. So that was the only question yeah.
- **MR. ANSHUMAN MAHESHWARY – COO, IIFL WEALTH**
- No so that would also include not just the people that got recruited but also some of the folks that internally have gotten promoted as well.

- **KUNAL**
- Okay so that is the reason.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- Yeah that is the right thing. So that would be at least 6-7 principals who got promoted to partners.
- **KUNAL**
- Yeah that is what I thought that there has to be some – yeah. Okay. Okay thanks yeah.
- **MODERATOR**
- Thank you, ladies and gentlemen. That was the call. We hand it over to Karan for the closing comments.
- **MR. KARAN BHAGAT – FOUNDER, MD & CEO, IIFL WEALTH**
- No thank you, thank you everybody. I think as an industry and as a firm I think we did evolve. I think one of the best silver linings is a large part of the regulations already in place. And while things do take a little time to get the right engagement model set with the client, I think we are on a good stand from a regulatory perspective. And I think fairly soon the business model will look fairly set both on the asset management side and the wealth management side. Thank you.