February 10, 2022

The Manager,
Listing Department,
BSE Limited,
Phiroze Jeejeebhoy Tower,
Dalal Street,
Mumbai 400 001.

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.

BSE Scrip Code: 542772

NSE Symbol: IIFLWAM

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

Dear Sir/Madam,

Further to our earlier intimation regarding the earnings call scheduled on February 3, 2022, for the unaudited financial results for the quarter and nine months ended December 31, 2021, please find enclosed herewith the transcript of the earnings call held on February 3, 2022.

The transcript and audio recordings of the said earnings call shall be available on website of the Company at www.iiflwealth.com.

This is for your information and appropriate dissemination.

Thanking you.
Yours truly,
For IIFL Wealth Management Limited

Rohit Shriniwas Bhase

Digitally signed by Rohit Shriniwas Bhase
Date: 2022.02.10 12:04:32 +05'30'

Rohit Bhase
Company Secretary
ACS: 21409
Email: secretarial@iiflw.com
Encl: a/a

IIFLWAM Investors Call

Q3 FY22 Earnings Call

The presentation for the Quarter is hosted on the website – Link.

We have re-arranged parts of the transcript for greater lucidity

– **Host:**

– A very good afternoon ladies and gentlemen, and good day and welcome to IIFL Wealth and Asset Management's Q3 FY 22 Earnings Call. 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. Sanjay Wadhwa, the Chief Financial Officer, and Mr. Pavan Manghnani, Head Strategy and Investor Relations. I now hand it over to Sanjay to take this conference forward.

– **Mr. Sanjay Wadhwa, Chief Financial Officer:**

Thank you, Anil, and good afternoon to everyone on the call today.

On the backdrop of the previous quarter, we report yet another exciting quarter with robust improvements across most key metrics – in the form of growth in AUM's and steady retentions, and thereby improving our profitability. This has been possible due to our relentless focus on core drivers – across clients, products, people and technology.

Let me start with a brief overview on the financial performance of the Company for the quarter ended December 31, 2021

In Q3 FY22 we continue to scale new highs, reporting another strong set of numbers across Revenue, Operating Profit, PBT and PAT.

Some specific financial numbers:

- In terms of our Total Assets Under Management, our Total AUM is now above Rs 328,000 crore. Excluding custody, our overall AUM increased 2% QoQ and 31% over last year to Rs 2.62 L Crs, with Wealth management AUM at Rs 207,000 crore and Asset Management AUM at Rs 55,700 crore
- Importantly, our ARR Assets increased 5% QoQ and over 54% YoY to Rs 1.39 L Crs. With this, the share of ARR Assets in total AUM stands at almost 53%, as we continue our journey towards steadily increasing the pie of ARR assets.
- Happy to share, that our Net flows have been relatively strong. For the quarter, we added Rs 6.4k Crs. in Net Flows, with both Wealth and Asset Management showing good momentum. For the 9-month ended period, we are already above Rs 24K Crs in Net Flows. Our loan book also increased 17% QoQ and 38% over last year to Rs 4,151 Crs.

- Our Total Revenues increased 16% QoQ and by 50% YoY to Rs 420 Crs while our Revenue from Operations was up 20% QoQ and 58% YoY to Rs 378 Crs

- Importantly, our Recurring Revenues have increased 10% QoQ and 59% over last 12 months to Rs 245 Crs.
- Further, the growth in ARR revenues has come from the Wealth and the Asset Management businesses – both seeing a healthy uptick over the last quarter
- This quarter has also seen strong transactional revenues at Rs 133 Crs, reflecting the market opportunities
- Total retentions have held strong, increasing by 6bps to 65bps over the last quarter. Most importantly, retention on ARR assets have also been steady, with a slight increase to 74 bps.

- Our Total expenses for the quarter increased 28% QoQ to Rs 222 Crs.
- Of this Total employee costs increased by 26% while Administrative & Other expenses were up 33% over last quarter. Two points to note here –
    - Higher employee variable costs driven by the business model transition, which is expected to conclude in March 2022. Certain one time costs arising out of L&T acquisition will be completely absorbed this year. Further the esop costs are expected to be lower going forward; and all of this will allow for a steady state employee cost structure Q1 FY23 onwards. While the revenue will continue to grow, the overall employee costs are expected to fall a bit, thereby improving our cost income ratios significantly.
    - There has also been an increase in our administrative costs, largely on account of increase in technology, client engagements and marketing spends.
- Our Cost to Income for the quarter stands at 53%, on this has largely been on account of the incremental costs as explained above. Our 9M Cost to Income still holds at 50.5%, which at 9M FY21, was at 54%. We continue our constant endeavor to focus on cost, through Digital and Productivity enhancement initiatives and expect to continue seeing benefits of operating leverage and efficiency, along with the robust growth in top-line.

- Operating Profits before taxes increased 10% QoQ and 78% over last year to Rs 155 Crs and we have achieved our highest ever quarterly PAT at 155 crs, an increase of 10% QoQ and 59% YoY
- Importantly, our tangible ROE (i.e., ROE excluding goodwill & intangibles) has increased to almost 27% for the quarter from 24% in last quarter and 14% a year ago. We our on course to further improve profitability and capital efficiency, as committed earlier.

Another notable point is on the guidance that we have provided for FY23 and FY24 – similar to the practice we initiated last year. I'll hand it over to Anshuman to cover that area as well as key highlights from the business.

– **Mr. Anshuman Maheshwary, Chief Operating Officer:**

Thanks Sanjay. Moving on from the specific financials, I want to speak through our Guidance before sharing a few key highlights across our businesses:

- On the guidance front as you would have already seen in our document, the deck that we've released, we have done an upward revision on our guidance for the full year FY22 and FY23, based on Firstly, our actual performance and momentum seen over the last 9 months, and Secondly, our industry leading position across both Wealth and Alternates – driven by client service, product innovation, strengthened teams, and agility to effectively capture the market opportunities.

- Do note that this guidance is based on management estimates and an assumption of continuing prevailing market conditions. Significant fluctuations in markets can have an adverse mark to market impact on AUM, projected net flows and overall projected incomes.
- That said, we expect to sustain a 17-20% growth in AUM, with Recurring revenue assets increasing at a faster pace. The share of ARR assets in total AUM is expected to increase to 55-60% over the next 12-24 months.
- Net flows, at 35-40k Crs, are expected to be robust across both Wealth and Asset Management – this is a reflection of the increasing monetization events, our sharp wealth propositions, as well as deepening of our current alternates strategies alongwith the introduction of new ones
- On Revenues, we expect Recurring revenues to reflect the increase in ARR assets, with share of ARR to Revenue from Operations increasing to around 75% in FY23 and towards a steady state level of 80% by FY24. Retentions on ARR are also expected to remain strong and sustain at upwards of 70bps
- Overall retentions are expected to stabilize around 55bps, reflecting a normalized state on transactional and other income
- As Sanjay highlighted, we expect to conclude the transition on the business model from an employee cost standpoint by the end of FY22. Accordingly, we estimate a significantly revised steady state cost structure for FY23 and FY24.
- The Total Cost to Income ratio is expected to reduce to around 45% in FY23 and trend marginally downwards for FY24. Employee costs are expected to stabilize at the 32-33% level with other costs at around 12%, given specifically the increased spends on technology
- Based on the growth estimates and the shift to a lower cost structure, we expect to show healthy 20%+ YoY growth on profitability. In addition, our sharp focus on capital optimization & return on equity is expected to continue with tangible ROE improving to over 25% in FY23 and trending towards the 30% mark in FY24

Moving on to select business highlights for the last quarter, I want to highlight three specific points:

- Firstly, overall sentiment continues to remain upbeat, with allocations towards risk assets still increasing, albeit at a slower rate. Global macro-economic factors and geo-political events do need to be closely monitored and our clients continue to maintain a steady balance on asset allocation across portfolios
- Secondly, our focus on product innovation and building the right investment teams continues to remain extremely strong – As a part of the same, I'm very happy to share that Aakash Desai has joined us to lead the Private Credit strategy and be a part of the leadership team of the Asset Management business. We are excited by the opportunities we see on this strategy and expect it to add to the momentum being seen across Listed Equity, Private Equity and Real Estate.
- Thirdly, our progress on Digital as a key strategic enabler for our Wealth & Asset Management business remains very strong. As I had shared, we are undertaking a significant transformation with technology & data-based intelligence embedded in all parts of our client and RM journeys. We expect the next 12 months to be a very exciting phase in this part of our journey and we will keep you updated on the specific progress through the next few quarters.

With that, I would now like to open the session for Q&A and I'll request Karan to come in for the same.

- **Q&A**

- **Host:**

- Thank you, Sanjay and Anshuman. We now will have the Q&A session. May I remind you please tap on the raise hand icon in case you wish to ask a question. Kindly introduce yourself and the name of your firm before you ask your question. We'll just give it a minute before the question line assembles.

- First online we have Mr. Sanjay Kumar kindly unmute yourself and ask your question, please introduce your firm.

- **Mr. Sanjay Kumar, ithought Financial Consulting LLP:**

- Hi Karan this is Sanjay from ithought. Congrats on a very good performance. My first question was on the guidance. Two parts to it. So, we are factoring 18%-19% kind of growth in AUM which is an increase from the previous 12% to 15%. And the net inflows target is ambitious I would say. So, from the current quarterly run rate of say 6,000 – 7,000 crores can we jump to a run rate of say 9,000 – 10,000 crores if yes, what will drive this?

- **Mr. Karan Bhagat, Managing Director and CEO:**

- Fair enough Sanjay. I think thank you for the question. I think there are two parameters really which are driving the net AUM growth for us. And obviously the entire AUM numbers itself has a small portion of mark-to-market of 3% to 5% is what we assume typically. The remaining is largely dependent on the net flows number. And coming to the net flows itself I think there are two parts, first, the wealth management piece and then secondly come on to the asset management piece. I think on the wealth management side monetization events from one-time activities continue to be very strong specially on the unlisted side, the listed side obviously has seen a fair degree of IPOs and offer for sales but there is enough traction on the unlisted side. I think from the pure deal pipeline we see and the quantum of clients who are coming into different degrees of capital over the next three to nine months. We are fairly confident that net number will increase. Our market share in terms of conversion of these clients continues to be fairly strong.

- Secondly, in our kind of focussed client base where we have $3, $3.5 millions AUM plus we've consistently seeing increase in wallet share over the last three to four quarters. And I think that's a trend which will kind of continue. So, we feel some bit of deepening of the wallet share that one is also going to happen. And third I think the increase in net flows and net ARR on the wealth management side will be substantially more sharper over the next 12 to 15 months as compared to the last 12 to 15 months. The business model, the changed fee structure with every passing day is becoming more and more acceptable to clients. And though it starts of slowly given the fact that it's a new chance. And as I say starts of slowly it's nearly 18-to-24-month process but the adoption by the client is slightly slow but we are becoming more and more confident with every passing day that clients, relationship managers and us are becoming much, much more amenable to that thought process. So, I personally feel on the wealth management side, the net flows on what we broadly call as IFL One will give us some surprise elements over the next 12 forward months. There is a regulatory change there which is helping us in terms of the accredited investors especially on the portfolio management and the non-discretionary portfolio management side. If the clients contributing in more than 10 crores there's a lot of flexibility in being able to invest into instruments which are either unlisted or even alternative investment funds from the PMS platform that will effectively a loss to make that as an umbrella proposition to the client as opposed to kind of breaking out his proposition into advisory and non-discretionary PMS.

– On the asset management side, the net flows is going to be a function of really two big activities, the first activity is obviously to kind of diversify into… if I can put it multiple asset classes, I think we've built some kind of a leadership position both on the private equity side as well as on the listed equity side. The listed equities piece for us has grown from a very small 400 – 500 or 350 million pieces over the last four years to close to round about 3.5 odd billion over the last three and half, four years. similarly, private equity we've been able to establish ourselves not only in the pre-IPO strategy but also our couple of mid-market funds as well as fund… the funds has done extremely well. We've recently also raised a large late-stage tech fund which is nearly 4.5, 5,000 crores in size. So, it's given us a lot of confidence in terms of net flows where over the last 12 forward months we nearly returned give or take 500 odd million or maybe 550 million of moneys out of our earlier pre active funds. Despite that our net collections have remained extremely, extremely strong. So, overall, the third strategies which Anshuman spoke about is the broader credit and yield strategy, we are very well positioned for that. We've recently raised a fund of $150 million on that strategy which is more of less fully deployed. We believe that strategy itself has another $300 million – $400 million for the next financial year to add. So, overall, on the alternate asset management piece and the PMS piece.

– I think our ability to diversify into strategies will be very critical. Second important aspect there is acceptability by selling through other distributors has improved rapidly over the last six to eight months. It's fair to say that outside of six or eight private banks we are today in panel pretty much with every distributor who has a product on the recommended platform. And as time goes by the acceptability of that increases and we will be in a situation where we started out two years back with less than 10% of our asset management collections coming from outside distributors. Today we are in the situation where nearly 35% - 40% is coming from outside distributors. And I see that number only steadily increasing and potentially reaching a point to 60% - 65% coming from outside distributors over the next 12 to 18 months. So, I think that's something again which will allow us to kind of increase our net flows of the asset management side. And third on the asset management side, we've not really built institutional distribution network till now. That's again the need of huge amount of interest as well as a good potential area of expansion. We've seen a lot of insurance companies, a lot of domestic mid-sized institutions European offices, and US family offices come into a lot of alternative investment funds in the country. From a track report performance intelligence perspective, we score very well across all parameters for us to be able to receive money from these institutions. We need to build an effective distribution channel to reach out to them.

- So, I think lot of work to do but I think these are the broader thoughts which we believe will allow us to kind of push up our net flows from what we've typically seen 6 crores – 6.5,000 crores to around about 8.5,000 crores – 9,000 crores over the next financial year.

- **Mr. Sanjay Kumar, ithought Financial Consulting LLP:**

- Excellent thanks Karan for that, so just continuing on the guidance piece, so previously you had guided for operating leverage to play out only in FY24 starting FY24 but now we are expecting it in FY23 itself. So, can you please explain this?

- **Mr. Karan Bhagat, Managing Director and CEO:**

- So, earlier I'd said it was broadly moving into quarter two of next year not the whole of FY23. So, it was basically quarter one and quarter two. And that was largely on account to some amortized bonuses for the team. Subject to them being in employment for the first six months of the next financial year. So, that we feel given the good performance we'll be able to remove the lock in this year itself. And effectively absorb it in the next quarter itself. So, that's really it, but that's a small amount to 15 to 18 odd crores outside of that I think we've kind of, we were anyway planning to finish the larger business model change by FY22 in terms of cost.

- In terms of revenue, I think we still got another six to eight months to go. So, I think the moment of all our AUM which should ideally move from distribution to ARR will ideally be achieved towards the end of FY23 more or less in quarter three, quarter four. So, I think from a cost perspective we are more or less done with the transition. Our relationship manager's bonuses from next year effectively move on to a trail kind of basis. And we'll kind of more of like mimic in a symmetrical fashion, the performance of the business.

- **Mr. Sanjay Kumar, ithought Financial Consulting LLP:**

- Okay, second, on the sensitivity of our ARR while it is recurring the underlying value of the asset can decline market correction like in Q4 FY20 closing AUM declined by 9% partly cushioned by the inflows also. So, in your guidance even the contribution of mark-to-market is kind of half. So, what if we have sustained market have you done any studies…

- **Mr. Karan Bhagat, Managing Director and CEO:**

- Yeah, we have, so I mean two, three things there. I think number one I think the assumption of a 5% growth is maybe 4% to 5% growth is maybe half of what it has been in the long term I think the portfolio over the longer term from mark-to-market perspectives more than 9% to 10% a year. And in our own thought process and models we typically like to look at it as 4% to 6%. Having said that, obviously in a specific year, the variations might be larger. The variations being very large in our case it's kind of buffered a bit because of more or less and equal split between debt and equity. I think we were close to around about 45% in equity two and half, three years back with 55% on debt.

– Today we are more or less reverse from 55% in equity and 45% in debt. The average retentions on the ARR side between equity and debt is not as sharp as it is let's say typically in a short-term debt fund versus and equity fund. That basically kind of buffers it. So, I think if the markets were to correct let's say 15% - 20% it's not to say that we won't see a mark-to-market we will definitely see a mark-to-market but I think that mark-to-market and a 20% market correction will be closer to the 8% to 11% number as opposed to a 20% number. And I think the yields for us from the debt side are also fairly decent. So, I think in that sense it does give us some buffer compared to the rest of the market from a mark-to-market perspective. Having said that, yes, a 20% market fall would result in a 8% to 11% kind of correction on the AUM from a fee perspective.

– **Mr. Sanjay Kumar, ithought Financial Consulting LLP:**

– Thanks for that Karan I'll come back in the queue.

– **Host:**

– Thank you. May I request you to ask your questions. Kindly tap on the raise hand icon. Next online we have Aejas Lakhani. Aejas kindly unmute yourself and ask the question.

– **Mr. Aejas Lakhani, Unifi Capital:**

– HiKaran this is Aejas Lakhani from Unifi Capital. We are a PMS based at Chennai. Karan firstly congratulations to you and the team for fantastic quarter. Couple of questions. The first being, if you could speak briefly about what happened in IFL One assets this quarter because in the past 11 quarters actually this has been the first quarter where there's been a POQ decline. So, if you could first talk a bit about that?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– I think nothing exceptional to report there. I think just some accounts of what translated off to this quarter, nothing else really honestly. It'll kind of on an quarter-on-quarter basis average out between this quarter and last quarter. Nothing special at all.

– **Mr. Aejas Lakhani, Unifi Capital:**

– Okay and the trajectory here continues to be…

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Yes, I think it'll be much sharper over the next 12 months in my view.

– **Mr. Aejas Lakhani, Unifi Capital:**

– Got it, okay. Second, also the AIF private equity business has seen significant yield improvement so, could you speak a little bit about that?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– I think from a private equity yield improvement perspective I think a little bit, two or three basis points happens because of the multiple closings of the new scheme in quarter. So, effectively the average AUM remains a little lesser because the AUM is coming towards the end of the scheme but you are charging the management fee from the first day when you started accepting the AUM. So, that all the investors are on equal footing. So, typically when you are closing a large scheme and if you get some amounts of flows towards the end, it may increase the retention by one or two basis points but outside of that I think it's fairly steady state.

– **Mr. Aejas Lakhani, Unifi Capital:**

– Got it, thanks for that. And you've spoken about the fact that distribution assets which are not earning trail fees, you are going to be converting them to recurring revenue. So, this quarter that figure reduced by 1000 crore so just wanted to understand that how much could we convert to recurring?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Wouldn't have an exact map to map for the that 1000 crores but I think it's the trend, it's been the region of 40% to 55%.

– **Mr. Aejas Lakhani, Unifi Capital:**

– Okay, and the variable pay increase, I heard Anshuman say it but so the variable pay increase this time was on account of the L&T cost and certain ease off cost as well right?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Yeah, but those were accounting for let's say 20% of the increase or 30% of the increase, the 70% of the increase is largely on account of the fact that the relationship managers are being paid bonus on an upfront revenue design as opposed to a trail revenue design. So, the firm's booking revenue on a trail basis. And the relationship managers are continuing to be paid on as if the firm's booking revenue on an upfront basis. So, effectively the way to look at it as if you've done 8.000 crores or 10,000 crores of AIF sales the firm's booklet say 0.75% trail or 0.5% trail or 1% trail whatever the case might be partially but the relationship managers are being paid bonus as if they booked an upfront. So, that's the mismatch in the variable bonus which will now discontinue from 1st of April.

– **Mr. Aejas Lakhani, Unifi Capital:**

– Got it, thanks a ton. And also could you explain that our investment book today, sitting in the balance sheet is about 3,300 crore so what comprises that book?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Yeah, so the investment book obviously I think the 3,300 crores are part of the liquid funds also they had reported this, Sanjay I don't know what's the exact number maybe we can put it out. I think around about 500 crores – 600 crores, 45500 crores would be liquid funds. Then we have another close to 650 odd crores of perpetual bonds which were issued against structures raised from clients. Those mature in February-March.

– So, those are not really investments, they are shown in investments, but they are really back-to-back structures issued with clients. That's round about 1000. Then they got round about 750 – 800 odd crores in the share in our own long-term investment funds. Part of which is temporary, part of which is permanent around 50% is kind of sponsor capital which is 450 crores, the remaining 350 crores is kind of gradually going to reduce over the next quarter or two. And the last 700 – 800 crores are largely bonds which keep going up and down yeah, so they are mostly Triple A bonds which we are helping client source and ourselves. So, that's really the break up over the book.

– **Mr. Aejas Lakhani, Unifi Capital:**

– Fair enough. And Karan just one last more strategic question that today high touch businesses and we have seen this in the macro environment, technology is sort of transforming the game. And given your industry which is still got to do with a physical interface, do you see technology in any way meaningfully disrupting this business say two, three years down the line? And how do you sort of navigate around that?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– So, I would divide technology in to three parts. I think first part is the client behaviour. Second is the relationship manager behaviour. And third I think is really the impact on productivity, right? So, I think the first one is what we've seen across the globe, not really change in terms of execution behaviour. So, we are not really seeing clients anywhere across the world and not even in our space. Going up and buying a product for \$2 million - \$3 million or discussing it's IPS with a bot in that sense, right? So, there I think the human interaction still continues to be very important. What however is expecting is a sharp improvement in the kind of analytics and delivery he wants to see. So, our ability to cut his portfolio, dice his portfolio, review his portfolio against the pre-defined benchmarks, all that expectation is substantially higher. Having said that, it's not resulting in behaviour where he is becoming absolutely self-dependent in terms of speaking to a platform electronically and executing a trade which is what I think will finally prevail over the next three to five years. I think clients will continue to be dependent on individuals for advice and IPS, setting up the investment portfolio statements. And for execution also but they would expect better portfolio analytics to come from us.

– On the relationships financial side I think huge amount of need - both on the asset management side as well as on the wealth management side. On the asset management side obviously the fund managers. There's a huge need to be able to kind of capture data effectively, right? So, building the platforms correctly to be able to slice, dice, cut the data. And be able to respond to situations or to clients effectively very, very critical right from the process of trying to source the client, all the way to onboarding the client, all the way to onboarding the client, all the way to servicing the client and then finally reporting. That entire platform, we've tried to kind of over the last 18 months we've moved a large part of that to sales force with some good benefits. I won't say we are anywhere close to 100% completing our journey but that's something which we need to kind of adopt slightly more. There I think technology both more from a productivity perspective, both on the fund management side and relationship management side would make a big difference. And lastly, I think the third portion obviously in technology is going to be a little bit about understand client data, client profiles, what are they liking, are there any trends? And being able to kind of pick that big data to figure out even things like probability of losing a client, inactivity in the client accounts and stuff like that. So, there I think our systems can become much more intelligent and we can end up getting more out of it. So, I think these three things we'll have to work on substantially. And is there any history of… or is there any [Inaudible] 00:32:01 of large wealth management clients moving on to tech platforms to execute the answer is no.

– **Mr. Aejas Lakhani, Unifi Capital:**

– This is very helpful. Thanks a ton. All the best.

– **Host:**

– Thank you Aejas for your question. May I remind you. Kindly click on the raise hand icon to ask your question. Next in line we have Mohit Mangal. Mohit kindly unmute yourself and ask your question.

– **Mr. Mohit Mangal, Anand Rathi Securities:**

– Yeah. Thank you so much, Mohit Mangal, Anand Rathi Securities. And congratulations on a good set of numbers. To start off with if you look at the net flows within the AMC, in AIF we saw that the net flows very pretty low this quarter. And the discretionary PMS very pretty high. So, any colour on that?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Yeah, so basically, we returned close to roundabout, I don't have the exact number, so I won't give a range but we've returned down about $200 - $250 million from our earlier pre-IPO funds which came from maturity. So, that's impacted the net flow number a bit. So, all the new flows which came in and kind of got netted off from the… money will return for our earliest funds, that's the only reason there's nothing else there.

– **Mr. Mohit Mangal, Anand Rathi Securities:**

– Understood. Now coming to this discussion on existing client's net flows and new client's net flows. So, going forward with the guidance that you have given you know, how do you foresee the existing client's net flows versus the new clients net flows?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– So, I think it's a great question. I think you know, typically in many years we've seen new client's net flows being substantially higher but I think in this year specifically in the next year. I think it's going to be a kind of an equal mix, because a lot of clients that have come in in the last 6-9 months have still not ended up allocating a huge amount of their monies; they're still getting around to doing that. It's still not moved into active instruments, it's still stuck in things like bank account, current accounts and so on and so forth, and in liquid funds. So I think for the next year, the mix might more of less be equal, but typically we've seen a 65-35 kind of mix in favour of new clients.

– **Mr. Mohit Mangal, Anand Rathi Securities:**

– Understood. My last question would be in terms of IIFL One. If I see IIFL One as a percentage of total AUM, it is around 11-12%. Now, the guidance of 3.8 billion for FY24, I mean, where would you be more comfortable seeing IIFL One?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– See, it's a… for me to give a number is tough on that, but I'll tell you how I'm looking at it. So obviously there are 2 or rather 3 portions of the ARR business, right? On one side you've got the Asset Management assets, and then within Wealth Management you've got the distribution trail and you've got the IIFL One piece. So effectively if I'll put everything together, I think we should see a significant increase of the ARR wealth number from round about 85,000-86,000, which is the current number, maybe increase by round about 50% odd, right? So, 45-50% there. Now within this, there will be a portion which will come through IIFL One and a portion which will come through just increase in distribution and trail. Now that becomes a little difficult to quantify at the beginning of the year, but I was to take a bit of a guess, I think it would be close to a 50-50 kind of number. So, 50% of the increase would come on account of IIFL One and 50% of the increase would come on account of the distribution ARR. So, if 86 goes upon to 125-130, I would believe that the IIFL One piece would grow by round about 20,000-22,000 crores.

– **Mr. Mohit Mangal, Anand Rathi Securities:**

– Okay. Just one follow up question on this IIFL One. In earlier calls you said that just the bigger clients are subscribed to IIFL One. So now, for the last 6-9 months have we seen a mid-sized client also…

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Yes yes. So, acceptability in increasing, I think that's the key word and that's what gives me confidence. I think, that's really what's happening. I think over the next 12 months we've seen much more diversity both in terms of size of clients, number of clients, engagement between non-discretionary, discretionary and advisory. I think, just everything is kind of coming much better into place in terms of documentation, our split of the product research technology teams; it's much better set than where we were 12 months back.

– **Mr. Mohit Mangal, Anand Rathi Securities:**

– Perfect! Congrats once again and wish you all the best.

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Thank you.

– **Host:**

– Thank you Mohit. May I request you to kindly click on the Raise Hand icon to ask your next question. Next in line we have Shashank Savla. Shashank, kindly unmute yourself and ask your question.

– **Mr. Shashank Savla, Somerset Capital Management:**

– Hi. I'm Shashank Savla from Somerset Capital Management in London. Thanks for the call and the opportunity. My first question is regarding your guidance of total retention falling to 55 bps from the current year. So, I was just trying to understand why the total retention would be falling when you're ARR asset which are earning like 74 bps is increasing in the overall mix. So typically, your total retention should be trending up over time.

– **Mr. Karan Bhagat, Managing Director and CEO:**

– I think that's a good question and the answer to that is, it may fall a bit if we see a subdued capital markets, because the problem really in the transaction income is, it can or it's still a little dependent on the capital market activity. So if you see, for example, for this year, you've seen a little bit of uptick in the retentions on the transaction and brokerage income. So while the ARR retention are most likely to continue with a fairly straightish line trend, the transaction revenue retentions can move a little bit up and down depending on the capital market volatility. So that's really the assumption there that our entire transaction income, or rather the gross sales on transactions will be lower than what it is this year, and therefor the retention falls. Because, on transaction and brokerage income, the percentage really needs to be multiplied by gross sales, not only by the AUM. So the assumption really there is the gross sales next year would fall for transactions, and therefore the retentions on the AUM would decrease. Does that answer your question?

– **Mr. Shashank Savla, Somerset Capital Management:**

– Yes. And in terms of the Other Income line, I'm just trying to understand what is there in the other income.

– **Mr. Shashank Savla, Somerset Capital Management:**

– So other incomes are largely our incomes coming out of our treasury operations which would be broadly outside of the NBFC capital, round about, give or take, 1,000 odd crores. And, a large portion of that is invested in our own AIFs; close to round about 65-70% on an average for the year would be invested into our own AIFs, and 25-30% would be largely just bonds which we just buy and sell for clients with less than 10-15 days holding. So, these are the two big components of other income.

– **Mr. Shashank Savla, Somerset Capital Management:**

– Right.

- **Mr. Karan Bhagat, Managing Director and CEO:**
- So Other Income, in that sense, might kind of fluctuate between 60-70 crores at the bottom, to round about 120-130 crores for the year.
- **Mr. Shashank Savla, Somerset Capital Management:**
- Right, okay. And you've had a good growth in the last 2 quarters, and this year. How are you compared to the rest of the market? So, in terms of the market share, is there something you can share? Are you gaining market share? How is the overall market doing?
- **Mr. Karan Bhagat, Managing Director and CEO:**
- It's not easy to measure it, honestly, in a very scientific way on a quarter on quarter basis. But yes, I think from a feel on the ground perspective, I think we continue at the 65-75% conversions for all large episode transactions on the Wealth Management side where clients are ending up with large pools of capital. On the client demographics, I think we could have done slightly better on the 5 to 15 crore client size where we need to kind of reinvent ourselves a little more. I think 15-30, 15-50 crores we are at a fairly strong position, and 50 crores plus we are very very very strong. There our retention ratios and client attritions are next to negligible. So I think from a competitive landscape perspective, I think we feel very very strong on 15 crore plus kind of category.
- On the 5 to 15 crore category we need to do a little bit more work. I would say on the Balanced on the Wealth Management side, I would believe we're gaining a little bit of market share, not losing for sure. On the Alternate side also, definitely gaining market share. But market share on the Alternate side we need to look at with a pinch of salt because we're fairly large. For money drawn down, we would be close to round about 8-9% of the industry. So from a percentage perspective, I think over the longish term, difficult to be at that number, especially as more and more independent managers join the fray. So it becomes a very diversified industry. But I think from a size of the business perspective, it will continue to grow. But just a percentage of market share on the Alternate side might come down over the next 3-4 years. Though currently over the last 3-6 months we may have increased it a bit rather than it coming down.
- **Mr. Shashank Savla, Somerset Capital Management:**
- And a final question on the employees. So, you mentioned about the change from upfront to trailing, but some of the bonuses you have paid to the employees upfront. So, what stops them from leaving, given that they've earned a lot of that bonus already? And in terms of going forward, are they happy with the transition?
- **Mr. Karan Bhagat, Managing Director and CEO:**
- See, actually the trail bonuses for the employees work better in the long term; it's a much larger number over a 3-5 year period, as it is for the firm. So from a retention perspective, trail revenues actually work out better. It's just that, in the first 2 ½ -3 years of transition, you have some fairly large amount to give up, and that's really

where we've handheld the RMs for the first 2- 2 ½ years, and in some senses, given them the best of both the worlds, where for the first 2 - 2 ½ years we've kind of ensured that the landing is super smooth. And we've given a good 2 ½ years for a reasonable part of their own business to move to ARR, so that, by the time we move from 1st April next year, a large part of their variable bonuses are already cushioned in the form of ARR revenue.

– **Mr. Shashank Savla, Somerset Capital Management:**

– Right. Thank you.

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Thanks.

– **Host:**

– Thank you, Shashank. Next in line we have Dipanjan. Dipanjan, kindly unmute yourself and ask your question.

– **Mr. Dipanjan, Kotak Securities:**

– Am I audible?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Yeah, absolutely Dipanjan.

– **Mr. Dipanjan, Kotak Securities:**

– Hi Karan and team. First of all, congratulations on the great set of results. Just two questions from my side. One is, you just touched upon this fact that when you acquire a client v/s when a client starts putting the money into IIFL Wealth, there's some sort of a lead-lag difference out there. Given the fact that you have been expanding your RM team, probably client additions are also on the higher side. When should one really see that inflection point when these new clients really start becoming bigger and bigger? Is there any ballpark estimate based on historical…

– **Mr. Karan Bhagat, Managing Director and CEO:**

– You could also tell me your second question and then maybe I can answer together.

– **Mr. Dipanjan, Kotak Securities:**

– On the second part, competitive pressure which you touched upon in the last question, that while there's no market share movement, but you have been very strong in the 15 crore plus category/segment. Just wanted to understand, how does really scale benefit in this sort of an industry that you're operating in, in the ultra HNI and HNI segment? Does a big kick get bigger, or does competition really sweep away from the lower spectrum, which is as you mentioned, the 5 to 15 crores segment out there?

– **Mr. Karan Bhagat, Managing Director and CEO:**

- I'll answer your first question first. Last year, or rather the last 18 months has been unique in terms of… or especially the last 12 months has been unique in terms of lead time from conversation of a client to actually coming into financial assets. If I see my own career for the last 18-20 years, our biggest to clients on day 0 used to be to put money into liquid funds, because between Friday to Monday they would gain atleast 2 ½ - 3% between keeping their money in the savings bank account v/s deploying it in a liquid fund. In the last 12-18 months, for whatever it's worth, the gap of returns between the money in savings account v/s FD v/s liquid fund has practically become zero. So, the motivation to move money from just a savings bank account to a liquid fund or even an arbitrage fund has been slightly lower than what it's been historically.

- Clients have taken a little bit of time to kind of may be sit more on designing the plan, setting up the investment plan and then taking a step to move towards financial instruments rather than getting it in on day 0. Now things are changing a bit, liquid fund returns have moved up a bit, I think arbitrage returns have kind of moved up a bit. So we've been seeing a bit of change, but I think the last 12 months specially clients have taken slightly longer. So therefore I feel, this time around, the lead effect has been slightly longer. But I think some thing accelerated. So, in case the markets see a bit of a correction, it gets accelerated, clients come in slightly faster. On the fixed income side, generally speaking, consensus view is, rates will go up by 50 to 70-100 bps through the year. So clients would wait a little bit to deploy long term money before it kind of inches up. In the last 5 days it has inched up quite a bit. But those would be the 2-3 things which I think this year will allow them to invest more surely as compared to what they could have done in the last 6 months.

- On the second point, I think it's a function of both a little bit of external, as well as internal. I think the industry globally is fragmented. But at the same time, it's phenomenally consolidated. I think the larger do tend to get larger, especially because the ability to give ancillary services becomes much much stronger as you become a large platform. And most importantly, the ability to innovate on a product side and offer research, also becomes very very strong. Third obviously, tools around technology and delivery… standardized delivery have also become much much more comprehensive. Having said that, when you look at things like 5 to 15, it's also sometimes a function of your own internal focus, what you've been able to do and not do. So it's not… sometimes 50-60% of it is internal, 40-50% is external. In some case where you are slightly weak, it may require some bit of more internal focus as compared to not require. So I think overall, my view is, the markets in India atleast, from a private wealth perspective, will continue to be fairly consolidated. I don't know what's the right number – is it 3 people, is it 7-8, I don't know. But in either case it is very consolidated. And which segments we are able to build our leadership on, would largely also depend on internal things as well as external things. So I don't think anybody can sweep away anything, it's a function of really how much attention and timeliness we also pay to that segment. So that's really the way I would look at it.

- **Mr. Dipanjan, Kotak Securities:**

- Sure, thanks and all the best.

- **Mr. Karan Bhagat, Managing Director and CEO:**
- Thank you.
- **Host:**
- Thank you Dipanjan. The next in line we have Kunal Shah. Kunal, kindly unmute yourself and ask your question.
- **Mr. Kunal Shah, ICICI Securities:**
- Hi! Congratulations on a good set of numbers.
- **Mr. Karan Bhagat, Managing Director and CEO:**
- Thank you.
- **Mr. Kunal Shah, ICICI Securities:**
- Firstly on IIFL One, there have been questions that have been asked. But, if we look at what we articulated 2-3 quarters back and the way the progress has been… in fact, the traction has been slightly slower, and more so when we look at it compared to that of PMS, it is getting more into Advisory, and I think there has been uptick in Advisory as well where key retention rates are also quite low. So what would be the specific reason? No doubt, you have articulated that next 50% of the incremental growth will come from this. But what would have actually led to the lower than anticipated progress on this?
- **Mr. Karan Bhagat, Managing Director and CEO:**
- I think the largest reason for the lower growth in IIFL One assets is… firstly I agree with you. I think our own assessment of net flows in IIFL One is definitely short by maybe 4,000-5,000 crores atleast. We should have been at a 4,000-5,000 crore higher number than where we are. But I think the main reason for that, honestly what I feel is, over the last 6-8 months there has been substantial orientation in the organization, which is not for anybody…it's good and not good in a sense. It's good because it's largely driven by the pace of capital market activity, right? So, the ability to go out and distribute third party products, the ability of clients wanting to do transactions and invest into products has been substantially higher than ever before. And sometimes the approach of the client has been, let's discuss the proposition and platform later, first let's get the investment done. So the pace of capital market activity over the last 6-8 months has resulted in, if I can very loosely say, a more focused product approach as compared to a platform approach. That I would put as reason one. Reason two and three obviously would be little bit of our own ability in terms of just getting the platform ready; it's taken slightly longer than what we would've liked, especially in terms of account opening, demarcation of services between different platforms. But I think we have kind of crossed that path. And third I think, RM acceptance and client acceptance is something which we've achieved well over the last 6-9 months. So I'm not that worried about that. But I think it's that point where you'll see a bit of a sharp uptick, so that's really the way I'm looking at it. Over the last 6-9 months it's just… you've therefore seen kind of an extreme

uptick on the distribution ARR assets as opposed to the IIFL One assets; much sharper than what we would've anticipated. And the largest reason for that really is a relative frantic pace on the capital market side.

– **Mr. Kunal Shah, ICICI Securities:**

– And if the buoyancy in the capital market continues and if this kind of sentiments are there, maybe still that interest would be more towards the distribution and investments compared to that of the platforms?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Possible. So, I think if it's very very hectic and clients, especially the older clients, continue… I think the new clients, today anybody who is 50 crores plus, he's taking a lot of time and he's coming on to a platform as opposed to our products. It's the older clients who are already invested with us for the last 3-5 years who are saying, 'Let it continue, we will look at this'. So that's the… So the products which get matured before we have a full-fledged discussion on the platform v/s this, they've invested in another product. So that's the gap. I think if it continues at this pace, which is very difficult for a very very long period of time, I think you may see a 70-30 split. I don't think it should be as extreme as what you saw this year where it was practically 80-20 in favour of distribution ARR. I think, it will be more of… what I think was 50-50 may still end up at 65-35, but I don't see it outside of that just given the amount of effort and acceptance which is being built with clients in RMs.

– **Mr. Kunal Shah, ICICI Securities:**

– Sure. Secondly in terms of the variable cost, you have given out the guidance as well of 32-33% of the revenues as the overall employee cost. But that too would still translate to almost 500 odd crores. Given that on an average, 300-400 odd crores, 300-350 odd crores is the fixed cost, then still variable will continue to be 35-40 crores per quarter. It's not expected that it will come down very significantly. No doubt in this quarter, because of transactions, the variable cost has been higher. But compared to that of the 1st half, will it still continue to be in that range? Or do we see that the way you are highlighting it, there is a component which will completely move out and it will conclude by March, and that variable component will be significantly less?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– No. So maybe it can explain it again. So, even this year, for example if you see, 32.5-33% is a permanent activity, right? That's not going to reduce. It's not as if there's going to be a reduction in employee cost, that's not happening at all. Employee cost per se is pretty much going to remain in the zone of 32.5-33%. This year, and to a small extent, last year, was slightly higher than the long term average of 32.5-33% on account of the revenue recognition and little bit of the aspects, like we discussion, amortization, identity and ESOP cost. But there is really no reduction in employee cost as such. So that 32.5-33% will continue to be there.

– **Mr. Kunal Shah, ICICI Securities:**

– Yeah, maybe with revenues growing at a faster pace, given that 25-30% is something which is expected in terms of the overall ARR assets, so then that operating leverage or maybe that employee is still getting into that pace. So it's not the coming off iwht the increase in the revenue.

– **Mr. Karan Bhagat, Managing Director and CEO:**

– I think for us to now move to more operating leverage beyond 32.5, I think we need a sizeable jump in revenues. I don't think it kind of happens over the next year or so with a 15… 10% jump in revenues; I think that 32.5% stays where it is. I think the year after that, with a further 7-8% increase in revenues, I think our cost to income ratios on the employee side might fall by 1-1.5%. But I think, just given the two businesses that we're in, wealth and alternate asset management, I don't think the employee cost to income ratio would be as sharp as it is on a mutual fund business, for example, because the dependence on senior wealth relationship managers as well as the senior fund managers will be sharper. So I think there will be limited… there will be good operating leverage, but limited operating leverage on the employee expenses side beyond the 32.5-33%.

– **Mr. Kunal Shah, ICICI Securities:**

– And lastly, in terms of the maturity of some of these funds which are coming up, private equity funds, there's almost 10,000 odd crores getting matured in FY23. So looking at the performance of the funds till date, maybe we would've crossed the hurdle rate, so what is the carry? Would that be anything or would it again be reinvested and should we not expect much to come in from the carry in FY23 and FY24?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– So I think Kunal, definitely there would be carry components both next year as well as next to next year, because the schemes will have to mature in FY24 because they have a maximum 2 year extension. So definitely, there will be a carry element. In our guidance we've kind of factored in about $10 million odd dollars of carry for both the years, which is FY23 as well as FY24. So, it's obviously round about a range of 50-75 crores that is the carry assumption for both the years. Obviously, the current carry present in the schemes is much larger than that, but we've kind of assumed a conservative 50-75 crore number for the next 2 years from carry perspective.

– **Mr. Kunal Shah, ICICI Securities:**

– Okay. So that's already built into our guidance when we're giving the PAT estimate. And maybe looking at the current level, it is still higher than what we have built into the guidance.

– **Mr. Karan Bhagat, Managing Director and CEO:**

– Yeah. 50-70 crores… yeah.

– **Mr. Kunal Shah, ICICI Securities:**

– Okay, thanks. That's all from me. Thank you.

– **Host:**

– Thank you Kunal. Next in line we have Prayesh Jain. Prayesh, kindly unmute yourself.

– **Mr. Prayesh Jain, Motilal Oswal Securities:**

– Yeah, Hi Karan! Thank you for this. Firstly congratulations on a great set of numbers. Few questions from my side. Firstly, if you look at the AMC business per se, we have been seeing a lot of pressure on the yields for asset management companies elsewhere, whether you talk about the mutual fund companies, there's a lot of pressure on the retentions. So what is your thought there? And secondly, these companies are also planning to have a lot of scale in the alternates business in the next few years, so the competition increase is likely to be pretty strong out there. What are your thoughts there?

– **Mr. Karan Bhagat, Managing Director and CEO:**

– I think I would have a limited answer for your first question and a slightly more detailed answer for the next. So I think, from a retention perspective on a long-only mutual fund business, there's obviously a couple of factors which are playing in. One factor which is playing in is the entire ETF pace, and second, obviously, there's a little bit of competitive landscape between mutual fund firms depending on the vintage where some of the firms are able to aggressively price their products. So I think given those two dynamics on the long holding mutual fund space, you're seeing the retentions come down fairly sharply. Having said that, my personal view is, I think it will stick around the 40-70 bps mark, somewhere in between that, on the long only side. However, how you look at that relative to the movement of some of the active money to ETFs, is a separate question altogether. But the money which remains in active funds, I think would be somewhere between the 40-70 bps.

– On the portfolio management side, we've seen the industry settling somewhere between the 75-90 bps, and for the older clients with a little bit less sensitivity towards the 100 bps. So I think the portfolio management schemes are able to get a 20-30 bps higher pricing as compared to mutual funds, and that's largely attributed to the fact that it's a one on one transaction, because the portfolio manager has some bit of connect with the client, he is constantly interacting with him as contrasted to, let's say, a long only mutual fund manager where it's more a B2B service as compared to a B2C service. On the AIFs, again it's a very similar trend compared to what is there to the PMS side. Again, it's 75 to 90-95 odd basis points kind of retention. So I think that's what I see from a retention perspective. From a competitive landscape perspective, two things obviously – I think it's not impossible, but obviously requires a little bit of platform building and cultural shift for domestic traditional mutual funds to actively get into the business of alternates. Having said that, they're all veterans and 100% capable of building out units. So I think that's something which we'll have to continuously keep a watch out and track for. But I think we all have a different space where we can succeed; it's a fairly large marketplace.

– And second and most important is the distribution angle, right? I think the asset management, the traditional mutual funds have a fairly good distribution landscape, more driven toward the retail, mass affluent and maybe the 5 to 15 crore segment. We've largely specialized more on the 15 crore plus segment. So there is little bit of uniqueness on the distribution side also. So while overall, yes, competition in the alternate space will hot up for sure. And therefore as I said earlier, I think in percentage terms the market share will come down, but just in absolute terms there's enough space to grow. So I think that would be my quick response to your three questions.

– **Mr. Prayesh Jain, Motilal Oswal Securities:**

– On the client side, where would there be a penetration with regards to lower tier? I think that was one of the focus areas also, where we wanted to enter into the smaller towns where there's a lot of wealth…

– **Mr. Karan Bhagat, Managing Director and CEO:**

– I wouldn't blow it here as such and still say tier 2, tier 3, because we've been predominantly only in the top 8-10 cities for many years. But the next 15-20 cities has been a big success story for us. I think we've been able to reach out to the top 20-25 families in each city and we have good market share there. Having said that, have we reached out to the 25th, to the 100th family, the answer is no. I think there's still an area of growth for us, and I think we still need to reach out to 10-15 cities more. So I think the job is not finished there. I think we have come a long way from where we were a couple of years back, but I think both in terms of horizontal expansion into more cities and through a hub and spoke model, not necessarily set up offices, and vertically go deeper from 25 families to 100-150 families. I think both those things are still to be done.

– **Mr. Prayesh Jain, Motilal Oswal Securities:**

– Yeah, that's about it from my side. Thank you.

– **Host:**

– I think in the interest of time we'll have to close at this. Karan, in case you have any closing remarks, you could take that and close.

– **Mr. Karan Bhagat, Managing Director and CEO:**

– No thank you. So thanks a lot for the questions. In case there are more, please connect with the IR team. We're happy to come back with as many clarifications as possible. And, best of luck and see you'll soon back in April. Thank you.

– **Host:**

– Thank you, ladies and gentlemen. This brings us to the end of the conference call. We look forward to your participation next quarter when we'll have the annual results. Thank you once again and have a nice afternoon.