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Conference Call Transcript

Edelweiss Financial Services

Q1FY13 Results

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Corporate Participants

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Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Edelweiss Financial Services unaudited Q1 FY13 earnings conference call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shailendra Maru of Edelweiss Financial Services. Thank you and over to you sir.

Shailendra Maru: Thank you Marina. Good afternoon all of you and thank you for joining us today as we discuss Edelweiss Financial Services' unaudited consolidated financial results for Q1 FY13 that ended 30th June, 2012. Speaking today with you are Rashesh Shah – Chairman, Edelweiss Group, Himanshu Kaji – Executive Director and S. Ranganathan – the Chief Financial Officer.

Following the reading of Safe Harbor provision, I will first turn the call over to Rashesh for his opening remarks. Thereafter Ranganathan will take you through an overview of our business performance and the financial numbers. This will be followed by a Q&A session. The press release, financial statements and an earnings update for this quarter have been circulated and are also available on our website www.edelweissfin.com.

Certain statements that may be made or discussed at the conference call may be forward-looking statements. These need to be reviewed in conjunction with the risks and uncertainties that the company faces. We have outlined these risks and uncertainties in the last slide of our earnings update which has been circulated and is also available on our website. Edelweiss has obtained all market data and other information from sources believed to be reliable or its internal estimates although its accuracy or completeness cannot be guaranteed.

I will now turn over the call to Rashesh.

Rashesh Shah: A very good afternoon to all of you. As we announced our results yesterday, you all know that the 1st quarter has been a pretty tough quarter for capital markets, overall for financial services in India, and for India as a whole. Things are getting slower and slower, the GDP growth is slowing down, along with that interest rates are still fairly high, there is a liquidity crunch in the market and there is almost a standstill on the capital market activity side.

However, on the Edelweiss front we have been able to eke out some growth both in the top-line and the bottom-line both YOY and QOQ. As we had spoken in the last quarterly call, around the 3rd and 4th quarter of the last year is when we started stabilizing. We have made all the investments and now through efficiency and through incremental growth we will try and eke out as much growth as the environment allows us and if the environment comes back in a conducive way, we will obviously be able to grow slightly faster also. So our strategy continues to remain the same. We are in the process of diversifying our businesses to de-risk the entire business model which was originally very capital market concentrated. We have moved away from capital markets to a broad-based financial services firm. To give an idea, in 2007 almost 60 to 65% of our total revenues came from capital markets. In this quarter if I see, it is under 20%. So we have reduced our dependence on capital markets not by scaling down capital markets but by growing other businesses and along with that we have invested in growth. So growth and reduction in concentration of any business especially capital market has been the key part of our strategy. Profitability partly has been impacted because of the low capital market activity and insurance which we still are scaling up. We are going to spend about Rs. 18-20 crores every quarter in the insurance business, so about Rs. 80 crores a year is our expected burn in the insurance business this year. We have now occupied a large part of the new office so higher depreciation has also kicked in.

To summarize, our quarterly revenue has been Rs. 533 crores as compared to Rs. 370 crores a year ago, which is up 44% and our profit after tax is approximately Rs. 40 crores compared to Rs. 33 crores a year ago which is up about 20%. And our ex-insurance return on equity, ROE, is about 10% as of now on tangible equity. Obviously, as we spoke last time, our endeavor is to incrementally improve it and take it to a 14-15% range over the next few quarters.

As you know we are broadly organized around five business groups, the first being the credit which is the biggest business group. We have a credit book of Rs. 4,336 crores now, which has grown by about 66% over the last year and within that the housing finance book is about Rs. 946 crores. Our NPLs are under control, 0.15% is the net NPAs for us. Our capital market business is still sluggish because of the environment. Commodity business has grown reasonably okay. We are investing a lot in building systems and processes there. Asset management is the same as it was last quarter. In Insurance we have sold about 2000 policies in Q1 and we now have a fairly steadily growing business out there.

Our balance sheet has become stronger, we have diversified the sources of funds away from the mutual funds towards the banks and our net gearing, which is the gearing after you take out the FDs and GSecs and the bank borrowing there against, is about 2.7x. Overall we have improved our efficiency, invested in risk management and leadership. I would like to conclude by saying that though the 1st quarter has been tough, we have been able to eke out some incremental growth both in the top-line and bottom-line following our core strategy, focusing on cost, efficiency and will just continue to do that. We will do that for the next couple of years at least. So unfortunately or fortunately our effort for the next eight quarters is clearly outlined along this strategy.

Now I will hand over to my colleague S. Ranganathan, who is our CFO. He will take you through the details and the financial for this quarter and then we will open up for the Q&A. Thank you very much.

S. Ranganathan: Thanks everyone again for joining us on this conference call today. As usual I will first discuss the key takeaways of Edelweiss performance and then brief you on our business update. On a positive note, I am happy to inform you that we have recorded a growth both in the top-line as well as bottom-line year-on-year and also improved our bottom-line in each of the last three quarters. This is a result of diversification in the businesses and enhancement in the efficiencies that we have been constantly working towards. Our established businesses continue to hold the ground and in fact increased their market share in certain spaces. On the business front we continued the calibrated growth in the credit book, increased the retail footprint and the planned scale up of insurance business is on track. With all the building blocks in place as per our articulated strategy of diversification of businesses, asset classes and client segments, we are well positioned for growth when the market activity levels actually pick up. Coming to our Q1 FY13 results, our total revenue for the quarter is Rs. 533 crores compared to Rs. 370 crores for Q1 FY12 which is up 44% and profit after tax for the quarter is Rs. 40 crores compared to Rs. 33 crores for Q1 FY12, up 20%. Among the individual heads of income, agency fee and commission is marginally up by 4% in Q1 YOY. Interest and treasury income for Q1 FY13 is significantly higher by 51% year-on-year due to scale up of our credit book from Rs. 2,611 crores as on 30th June, 2011 to Rs. 4,336 crores at the end of this quarter. Within the interest and treasury income, interest income for the quarter is Rs. 368 crores up 57% YOY due to scale up of our loan book and FDs for working capital requirement as well as liquidity management. Treasury and investment income at Rs. 82 crores is also higher this quarter by 31% over the same period FY12, mainly due to the scale up of the commodities business. Premium on life insurance business, which was launched in Q2 FY12, was Rs. 3.5 crores during this quarter.

Within our total cost, our employee costs are higher by about 38% year-on-year this quarter as we continue to selectively hire for our new businesses especially, life insurance and home finance. Overall we added about 94 employees in Q1 FY13 taking the head count to 3,202. The Opex is higher in Q1 YOY due to costs associated with scaling up of insurance and other new businesses. The financing cost is higher this quarter compared to Q1 FY12 due to total borrowings this quarter being higher at Rs. 10,700 crores compared to Rs. 8,110 crores as at the end of Q1 FY12. Our blended cost of borrowing is a ted higher at around 10.5% for the quarter as compared to 9.4% in Q1 FY12 reflecting the current market conditions. If you recall, we had just started moving to our new office in the 1st quarter of last year and most of the building was still unoccupied by 30th June, 2011. With the building now fully occupied, the depreciation is also higher this quarter at Rs. 11.5 crores compared to Rs. 5.7 crores in Q1 FY12. While we achieved a 44% growth in the top-line and a 20% growth in the bottom-line for Q1 FY13 YOY as a result of our constant strategy to de-risk and reduce volatility, our profitability parameters continue to get impacted for the reasons that we have discussed in the past – mainly, low level of economic activity, our investments in building new businesses and lastly higher depreciation. If you see Slide #4 in our earnings update you will find that our ROE ex-insurance is over 10% as compared to the reported figure of 6%.

Now turning to our business highlights, the credit business scale up continued. The total credit book was Rs. 4,336 crores by the end of Q1 FY13 compared to

Rs. 2,611 as at the end of Q1 FY13, a growth of 66%. Within this the wholesale loans are at Rs. 2,899 crores and Retail finance book which comprises of housing loans, loans against property and SME loans is at Rs. 946 crores. The collateralized retail LAS book accounts for the balance of Rs. 491 crores. Total retail loans now constitute 33% of our book. We continue to avoid sector and industry concentration in our credit book. As on June 30th the top three sectoral exposures in the book are mortgages and LAP 22%, real estate 20%, and media and entertainment 9%. The average collateral cover for the collateralized book is now around 2.74 times. The Q1 yields are flat at around 17%. Despite the challenging environment, we continue to maintain high asset quality with the gross NPL at the end of the quarter at 0.53% and net NPL at 0.15%. We are more than adequately covered on all these NPLs with a total provision cover on the NPLs around 122% which includes the general provision on standard assets. ECL Finance, our NBFC, has a capital adequacy ratio of over 22% as on 30th June, 2012.

The housing finance business continues to build scale and has now reached Rs. 946 crores spread across nearly 1,400 clients. It has expanded operations to Surat this quarter taking the total tally of cities where it operates to nine. Average LTV on this book is around 55% taking the residential mortgages and the LAP portfolio together.

We continued to be a leading Debt arranger in the country with a market share of around 13% in quarter 1. We successfully handled nine DCM transactions this quarter, including one advisory transaction, compared to 30 in the whole financial year 2012.

Our second business group is the capital markets and asset management business. In investment banking we continued to invest in building relationships with our clients and look for new opportunities. The level of investment banking activities this quarter as you know was extremely low. We handled one advisory transaction this quarter though the pipeline continues to be strong.

On the broking side our total average daily volumes for the 1st quarter was Rs. 6,540 crores compared to Rs. 5,980 crores in the previous quarter. With this our market share inched up slightly to 4.1% this quarter. Of the total ADV, the client broking volume this quarter is Rs. 2,310 crores. The broking yield on client transactions on a gross basis is 3.3 basis points this quarter compared to 3.7 basis points in the previous quarter. Yields have fallen due to lower cash volumes in line with the market. In our retail broking business, we now have 3,81,700 clients through our online portal www.edelweiss.in and through the off-line model. While we continue to add new clients at a calibrated pace, the focus is also on higher level of activation of the new clients.

In our alternative asset management business, we continue to have AUMs/AUAs of over USD 570 million equivalent at the end of this quarter including the structured products portfolio of about Rs. 700 crores. Our mutual fund managed five equity and seven debt schemes with an average AUM of Rs. 380 crores during the quarter 1. We now have an active base of over 6,200 investors. The focus of this business continues to be on broad basing the product portfolio and building investment track record.

Our third business which is the commodities business continues to scale up its operating footprint. It focuses on sourcing and distribution of bullion at 11 centers to over 400 clients. It is quite active in agri commodities business as well.

The planned scale up of our fourth business that is the insurance business continued this quarter. We recorded a new business premium of Rs. 3.5 crores through issuance of about 2,000 new policies. It continues to offer diverse products to meet different needs of the customers. During the quarter it expanded its operations to include Rajkot and is now present in 23 cities across 32 offices. The business continued to add new Personal Financial Advisors, called PFAs, at a healthy pace and their number has now gone up to over 1,260 from 825 as on March 2012. As we explained during the earlier conference call, the loss in this business passes through our P&L account to the extent of our share. As the pace of scale up of this business goes up, the cash burn would also increase as mentioned earlier in the call by Rashesh, which is as per the plan.

The treasury and related asset book size at the end of the quarter was Rs. 6,950 crores including the commodities assets. The gross yield on this book for the quarter is 13.4% giving a spread of about 2.9%. Treasury allocation continues to be a function of liquidity management need, capital requirement of businesses and opportunities in the market. Our treasury continues to actively manage the balance sheet.

Finally turning to our balance sheet, our total balance sheet size at the end of the quarter was Rs. 15,344 crores with an effective size of Rs. 13,615 crores excluding current liabilities. The total net worth of the group now stands at Rs. 2,914 crores including minority. Excluding the intangibles like goodwill, loan given to employee trust and deferred tax asset, our tangible liquidity stands at Rs. 2,581 crores. Our total borrowings at the end of the quarter are Rs. 10,700 crores. Our total assets include G-Secs and FDs of about Rs. 2,800 crores against which we have back-to-back borrowing arrangements. Excluding these G-Secs and FDs from the total borrowing our net gearing as at June end is a reasonable 2.7x. Our sources of borrowings as on 30th June, 2012 include debt market, basically mutual funds, Rs. 3,300 crores, bank lines Rs. 4,538 crores, corporate, insurance companies and retail segments contributing Rs. 1,649 crores and asset specific borrowings, mainly CBLO borrowings, accounting for Rs. 1,213 crores. Our asset side mainly comprises of FDs about 4,000 crores, G-Secs 1,255 crores, bonds Rs. 1,209 crores, commodities and other assets of Rs. 770 crores, Credit portfolio of Rs. 4,336 crores, insurance assets of Rs. 510 crores and corporate assets of Rs. 1,509 crores as on June 30th, 2012.

Coming to our ALM position, you will see that we have strengthened the liability profile with lower dependence on short-term borrowings over the last one year. We continue to diversify our sources of borrowing as we have indicated in the earlier call. We also continued to match the ALM profile. We have maintained an overnight liquidity of around Rs. 300 crores which is moved to Rs. 400 crores just to make sure we are comfortable even if there is a stress on liquidity in the market. As on June 30th, taking into account the unencumbered assets on our balance sheet, we have an ability to borrow further to the extent of about Rs. 2,000 crores from banks and refinance agencies. We have recently become eligible to apply to NHB for a re-finance against our home portfolio as per their norms and have approached them for the same.

To conclude the discussion on our balance sheet, we continue to maintain strong and liquid balance sheet with comfortable leverage and a matched ALM profile.

To sum up, though Q1 was a tough quarter with the environment continuing to be challenging, we still managed to eke out significant year-on-year growth. We continue to invest in improving our operating metrics, fine tune our risk management processes and adopt new technologies to stay ahead of the curve. As a result of continued emphasis on these enterprise functions, we have established most of our new businesses and our market share and productivity parameters have shown good traction. As far as the macroeconomic environment is concerned inflation, interest rates and monsoon hold the key besides the global developments. We continue to implement our core strategy of planned build out of new businesses of life insurance, asset management and retail finance on the path to a fully diversified group. We strongly believe we are positioned to capture our share of growth when it returns, hopefully in the second half of this year.

With this I would like to conclude and will be happy to take questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from Manish Chowdhary from Citigroup. Please go ahead.

Manish Chowdhary: My question is basically on the loan book growth that you have seen. I know it is coming from a smaller base and it is still also pretty small and a large part of it is also in the wholesale SME business segment. Do you believe the current environment is conducive for such an aggressive growth run over the last year?

Rashesh Shah: If you are careful, if you have good underwriting processes there is still a reasonable opportunity. Obviously you have to be much more calibrated towards risk and if you look at quarter on quarter our credit book has gone up by about 400 crores from 3,900 to 4300, out of which more than half of it is on the retail side. So wholesale has grown by about 100-150 crores and retail including housing has grown by another 300 crores. We have strengthened our entire underwriting process a lot more significantly. The collateral cover that we are asking is a lot higher but given the credit crunch that is there the opportunities are becoming attractive if you have good underwriting processes and if you are able to take high quality collateral. Our approach is that. I don't think we are aggressively growing the book. In fact we are rejecting a lot more proposals than we are accepting even on an average that we used to do earlier.

Manish Chowdhary: I was wondering if you can give me some more details in terms of this wholesale part of the book. What are the average yields, what are the main consumer segments that you are targeting, what are the geographies that you are looking at, etc?

Rashesh Shah: The wholesale book is largely to corporates and to holding companies and promoters and all. We have a collateral cover which is close to 2.7x on that. A large part of the collateral is liquid, sometimes you take secondary collateral which is illiquid in terms of real estate, but largely it is liquid collateral. We have about 45-50 accounts on this and it is not a geographical kind of business. It is a wholesale business where a lot of the loans are loans to companies but with collateral provided by the promoters.

Manish Chowdhary: So this collateral will be mainly in the form of bonds or the equity?

Rashesh Shah: Yes, mainly shares, what we call liquid collateral and sometimes we want to keep more than 2x and so we will take illiquid collateral also in terms of offices and apartments.

Shailendra: And Manish, the yield on the whole book is 17% on a blended basis.

Rashesh Shah: And the average size of the loan is about 60 crores on the wholesale book.

Manish Chowdhary: Since the collateral is more in the form of shares, etc., you would have seen valuations dipping down on that. So how do you monitor the collateral levels, how frequently do you call up for top-ups, etc.?

Rashesh Shah: We actually call up every day for the top-ups. We also do what is called proactive top-ups when we expect that you are getting very close because we come from a point that no sponsor, promoter, no borrower wants the shares to be sold. So we actually proactively also avoid emergencies. So even what we have seen in the last few days I am happy to report that our collateral cover still is about 2.5x overall for the book. So we proactively work. We have an account management concept, where the account manager who originates the loan also manages the top-up and the entire relationship. We ensure that every day morning or evening there is a risk report that is filed on the collateral cover and all. So you have to be extra vigilant, you have to be very careful. We also ask for cash top-ups after a certain fall. We have been in the business for last about five years and we have seen all the volatility in this business. So we have strengthened our systems considerably over the years.

Manish Chowdhary: And then on the retail side it is primarily mortgage financing, right?

Rashesh Shah: Yes.

Manish Chowdhary: So the NPLs that you are reporting, would it be fair to say that most of it is coming from the retail side rather than the wholesale side?

Rashesh Shah: It is a combination. Our retail housing actually is about 1000 crores, I do not think we are starting to see NPLs of significant amount out there so this would be largely on the wholesale side and the LAS book. Actually it is largely LAS book not even the wholesale funding.

Manish Chowdhary: On the LAS side then what would be the yields that you would be getting?

Rashesh Shah: You look at composite yields because very often we get brokerage income. Standalone yields you get about 14 to 15% on that. If there is a client who is giving a lot of brokerage, you might go to 13% also. So you look at composite yields of interest plus the broking side and on that we have about a 400 – 500 crore book.

Moderator: The next question is from Ravi Ratanpal from JP Morgan.

Ravi: What is the total capital base of the entire group and how the capital allocation has been done across each line of business? That is my first question and the second question is what the return on capital for each line of business?

Rashesh Shah: We actually give allocations for the capital on an annual basis, so if you see the last investor annual update, we had approximately a total capital of 2900 crores at a group level, gross net worth and if you take the intangibles out of it, like goodwill, our tangible equity as of 31st March was Rs. 2,542 crores. Out of that about 687 was allocated for the credit business, 410 was allocated for the capital market and asset management business. 300 was for commodities business, 400 was for treasury business, 521 was for insurance and the corporate and unallocated was about 220 crores. The annual investor presentation also gives the estimated ROEs. We give this on an annual basis.

Ravi: I also wanted to understand what is debt-equity of your credit book? And you have allocated how much capital did you say for your credit book, 600 crores, right?

Rashesh Shah: Last year the capital employed was Rs. 3,573 crore out of which about Rs. 687 crore was the equity and balance debt. We operate on 1:4 or 1:5 basis for that business.

Ravi: My point is the total leverage of the company. I am not talking about at the net level, but overall the leverage is somewhere around in access of 5. And out of which maximum capital has gone towards your equity and other businesses and in your treasury business if I include the leverage it is somewhere around 10,000 crores, the total size of your treasury, including the leverage. And what kind of return you are generating on your treasury business?

Rashesh Shah: See our total balance sheet is about Rs. 13,600 crores, out of which about Rs.2,900 crore is equity and Rs. 10,700 crores is our total borrowing. So actually our gross leverage is also about 3.7 and our net leverage is about 2.7. And this is across our treasury, equity, FDs with banks which are what you call the working capital assets and all. Actually in the annual presentation we had given a much more detailed breakup. So overall our internal thinking is to stay at 4 so, we are at about 3.7 on the gearing front and we will continue to stay around under 4 for the company as a whole. And we do believe that for a non-bank 5:1 or 6:1 is a conservative gearing. We want to be extra conservative and trying to keep it at 4:1.

S. Ranganathan: On the question relating to the return on the treasury assets. If you see the Q1 presentation we have made about 13.4% on the gross side and we reported 2.9% spread on the treasury.

Ravi: What is the main business in treasury? It is only G-Sec, CDs, what kind of investments are done there because 13% on a gross side looking in the current environment is like on a higher side unless incremental risk is taken?

Rashesh Shah: Its combination of actually many-many things that are done including liquidity management and arbitrage and all of that. So it's a combination. Basically the idea is that this is run like a treasury of a bank where you actually have a lot of short term deployment opportunities. You do spread. If you look at the spread, a good treasury can make between 1-3% spread. This has been a reasonable quarter and we have been able to achieve spreads on that, but this is something we have been doing for the last few years. The large part of the job is exactly like a treasury of the bank which is focused on the liquidity management, reducing your overall cost of capital and to ensure that you always have ability to absorb capital and release capital for the other parts of the business.

Ravi: But sir the main objective of the treasury book is liquidity management and in the current environment where assuming the repo rate is 8%, it is very difficult to generate a return of 13% unless the group is taking some incremental risk or some illiquid paper.

Rashesh Shah: Well if at all there is any risk, it will show in the risk parameters. We are very focused on risk. The whole treasury activity is there to make sure that there is always enough liquidity because we have a couple of 1000 crores going in and out of the system on an everyday basis and given that there are a lot of business groups which requires large capital, we do have the ability to manage it. Thirteen percent return has been there for the last about four to five years since we have IPOed and we have been reporting. It has been anywhere between 11 to 14% gross we have been able to earn. So it's there because there are arbitrage opportunities, there are a lot of other opportunities. So treasury management is one of the core capabilities of any good financial institution including banks in India and overseas. So we also have learned a lot from other banks on how to ensure that you are always liquid, your balance sheet is always liquid, it is efficient and it is earning a good stable return on an ongoing basis.

Moderator: Thank you. The next question is from Vinay Shah from Reliance Mutual Fund.

Vinay Shah: Sir on the average daily volumes, though the average daily volumes have increased QOQ, If you segregate into client and arbitrage volume, the client volume has decreased from say 2800 to 2300 and the arbitrage volume has increased from 3100 to 4200, so if you can add some color here that what exactly is happening there?

Shailendra: The reduction in the overall cash volumes in the market is also reflected in our own clients' transaction. So that's why the client transactions are lower and which has also led to lower earnings as well as reduction in the yields to about 3.3 basis points on a gross basis for this particular quarter. The treasury arbitrage operations depend upon the market opportunities and that is completely opportunistic.

Vinay Shah: Sir the NPA number which you have shown in the presentation, generally want to understand it is a 90 plus delinquency you consider or how do you consider them?

Shailendra: Right now the rule applicable for the NBFCs is 180 days dpd. So 23 crores NPLs are on a 180 day basis, but if we apply a 90 days norm, these NPLs will go up by about Rs. 3-4 crore. We do have a handle on this situation.

Vinay Shah: Okay, is it possible to share on a 30 plus DPD?

Shailendra: Right now no, but I will share with you later on.

Vinay Shah: One more thing is there any negative sector or something like that we maintain and is it possible to share?

Rashesh Shah: We only maintain a negative client list; I don't think there are any sectors that are negative. We do look at sector exposure, we do look at corporate balance sheets and all. Our underwriting process is not just focused on collateral, but collateral plus counterparty plus the underlying financials of the enterprise also. We have a fairly stringent underwriting process.

Vinay Shah: Okay sir in the resource profile YOY the borrowing from the banks has increased from 22% to 43% of the overall profile. So if you can further guide on that? Has this increase been in terms of CC lines or working capital lines or these are term loans?

S. Ranganathan: These are a combination of term loans as well as working capital lines that is overdraft and cash credit facility. And as we go along we will see more of these things happening because as I mentioned to you in my opening remarks, we have headroom of roughly about 2000 crores and that's where we will be headed towards.

Vinay Shah: Okay let me put it in a little different manner. Out of this 43% of bank exposure, how much would be in terms of term loan and how much in terms of working capital lines?

S. Ranganathan: Term loans should be in the range of about 250 crores. We also have fixed deposits against which we have borrowed, so that should be roughly about 1200 crores.

Vinay Shah: Sir that would be a typical short term borrowing against fixed deposit?

Rashesh Shah: See when we get the bank approval, they all give us an option for either taking a term loan or an overdraft. We usually prefer overdraft given our liquidity requirement which is fairly flexible. In a lot of these loans we have an option to convert the overdraft into a term loan which has slightly higher interest cost and you lose the flexibility. Currently, we prefer an overdraft way of having the loans especially in the housing portfolio and our credit portfolio. We do have a chance of converting it into a tenure of about a year to 18 months at any point of time. We have currently chosen to keep it more as an overdraft on cost considerations.

Vinay Shah: The question was more from an asset perspective, we are growing our book and housing is also growing, SME is also growing, and LAP is also growing. So that asset profile is now increasing. So just wanted to understand the liability profile in accordance to that?

Rashesh Shah: Our expected growth per quarter from now onwards should be about say Rs. 200-400 crores per quarter on the credit book side and we do look at asset liability very closely. As SR said earlier, we are looking at NHB borrowings which are of a much longer term. So we have quite a few resources to also borrow on a long term basis and on the investor presentation slide #15, we have given the asset and liability tenure and we will focus on keeping it as best as it is out there. So we do look at it very closely and as I said we can convert ODs into term loans, also borrow for NHB, and borrow from other sources including bond markets with FIIs and all. As and when we feel that our asset tenure is getting extended, we will extend the liability tenure accordingly. Currently given the asset tenure, we are fairly comfortable.

Moderator: Thank you. The next question is from Chandan Gehlot from Deutsche Asset Management.

Chandan Gehlot: My question is relating to the SME Finance which you have launched recently in the first quarter of FY13. So can you throw some more color on this business?

Rashesh Shah: Basically it's a product that we have started looking at. It's a very cash flow based, balance sheet based product that we have. It can be against collateral or against property. So it is actually more an extension of our housing finance portfolio only. We currently have been giving it to individuals, now we have extended it to businesses also.

Chandan Gehlot: Okay but what kind of customer you are targeting, though SME generally by and large they are retail, but have you set any upper limits for this SME funding?

Rashesh Shah: For any business we have not done anything more than 5 crores so far. So 5 crores is our cap for any loan against property or collateral owned by a business so far. Usually these are small business enterprises which have total revenues between 5 crores to 100 crores.

Chandan Gehlot: As I understand like there are so many participants existing in the market who are actively in the SME funding. So what kind of an opportunity we have seen in this business and why we are late in this business particularly in this line of business?

Rashesh Shah: See unfortunately in any attractive business in India, there will always be existing players. Take insurance - there are a lot players, housing finance - there are quite a few of other players. Our approach has been to find market segments, to find emerging niches, and our SME ambition is not to do more than Rs. 200 crores in a year. So if you are doing small business in a given segment niche that you have identified where you have some amount of competitive advantage either from an origination point of view or servicing point of view, it is a reasonably large business. In India most financial services will be highly fragmented and any good financial services company will have to find a niche that it can conquer and at least be fairly strong as compared to others. Otherwise there can't be any entrance in any business in India because any good business in India already has reasonably good and strong existing players. It was the same story when we started the institutional broking business 10 years ago - it already had so many Indian and an international institutional brokers. But then we focused on F&O**,** we focused on mid caps, we focused on insurance companies and we have been able to create a fairly large and a robust business over 10 years in that. All these businesses will take 8-10 years to grow and become fairly robust, but you enter into market segments where you feel strongly that you have an advantage.

Chandan Gehlot: My second question is related to the fixed deposits which we are having which is currently roughly 3700 crores, so can you give me some break up roughly of how this FD is utilized. How much is for equity business and how much is for the other business, commodities or other businesses or liquidity purpose?

Rashesh Shah: See on an average about 1000 crores are for the equity business, another about 500 to 1000 crores are for the liquidity cushion that we maintain for emergency requirements. So between 500 to 1000 is our average liquidity cushion that we carry. The remaining are in treasury assets, commodity business and others.

Moderator: Thank you. The next question is from Lokesh Mallya from Birla Sun Life Mutual Fund.

Lokesh Mallya: Just a couple of questions, in your commodities book which was as of March 31st approximately 1300 crores of capital employed, what would be the mix between agri and precious metals, if you could just elaborate on that? Secondly if I understood the distribution of your bank borrowing lines you said that you had term loans of 250 crores and FD back borrowings of 1200 crores, so is it correct that the balance of it is overdraft that is approximately 3100 crores?

S. Ranganathan: Yeah that's correct.

Rashesh Shah: It is overdraft against our receivable assets, housing finance assets all of them. As I earlier clarified while we can also take a term loan against the housing finance assets and receivables, it is slightly cheaper and more flexible to have an overdraft rather than term loans. What happens in overdraft is you pay a commitment fee then it's a legal kind of a binding overdraft and we usually pay a commitment fee for all our overdraft and then we keep that option open of using that overdraft as and when required so that we have some more flexibility in the borrowing.

Lokesh Mallya: So this overdraft is clean unsecured right?

Rashesh Shah: It is secured against the receivables in the housing finance asset and other credit book assets.

Lokesh Mallya: Okay, but housing finance assets are hardly 950 crores?

Rashesh Shah: Yeah and we also have other NBFC assets, so all of this are being pledged for the bank loans. Bank loans are usually not unsecured. We might have a few of them, but a large part of them are against our NBFC receivables as well as our housing finance receivables.

Lokesh Mallya: Could you also elaborate on how your commodity book is divided into precious metals and agri?

Rashesh Shah: It actually changes on a month-to-month basis but I would say approximately about 40% agri and 60% precious metals.

Lokesh Mallya: And precious metals would be predominantly gold?

Rashesh Shah: Gold and silver.

Moderator: Thank you. Ladies and gentleman. As there are no further questions, I now hand the conference back to Mr. Shailendra Maru for closing comments.

Shailendra Maru: Thank you Rashesh, Himanshu, Ranganathan, and Marina and thank you everyone for joining us on this call. In case you have any other further questions, please feel free to contact us directly or drop me an email at shailendra.maru@edelcap.com. Have a great day ahead.

Moderator: Thank you Mr. Maru. Thank you gentleman of the management. On behalf of Edelweiss Financial Services that concludes this conference call..