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Conference Call Transcript

Edelweiss Capital Limited

Q2FY10 Results

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Corporate Participants

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Chairman

Deepak Mittal
Chief Financial Officer

Shailendra Maru
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Questions and Answers

Moderator: Ladies and gentlemen, good afternoon and welcome to the Edelweiss Second Quarter FY10 Earnings Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Shailendra Maru from Edelweiss, thank you and over to you sir.

Shailendra Maru: Thank you Melissa. I am Shailendra Maru, Head of Investor Relations at Edelweiss Capital Limited. Good afternoon to all of you and thank you everyone for joining us today, as we discuss Edelweiss Capital Limited's unaudited consolidated financial results for the second quarter of the financial year 2010. Speaking today with you are Rashesh Shah, Chairman, Edelweiss Group and Deepak Mittal, the Chief Financial Officer.

Following the reading of safe harbor provision, I will first turnover the call to Chairman, Rashesh, who will deliver his opening remarks. Thereafter, Deepak will take you through an overview of our performance and the financial model. Then we will open the lines for Q&A.

The press release and an investor presentation on the second quarter results of Edelweiss are already available on our website, www.edelcap.com.

Certain statements that may be made or discussed at this conference call may be forward-looking statements based on current expectations of the management of Edelweiss Capital Limited or any of its subsidiaries and associate companies. Actual results may vary significantly from the forward-looking statements contained in this conference call due to various risks and uncertainties. These risks and uncertainties include, among others, the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities markets, new regulations and government policies that may impact the business of Edelweiss as well as its ability to implement its strategy. Edelweiss has obtained all market data and other information from sources believed to be reliable or its own internal estimates, although its accuracy or completeness or continuing updation cannot be guaranteed. Rashesh……

Rashesh Shah: Thank you Shailendra and thanks to all of you for joining us on this conference call. I am sure all of you have had a chance to look at the results release and the presentation, which are available on our website. I will briefly highlight the key financial numbers and then go into some more qualitative details about our performance and strategy.

Overall we have recorded profit after tax of Rs. 65 crores on total revenues of Rs. 260 crores for this quarter, which is a growth of about 49% on a YoY basis, and our fully diluted EPS is now Rs. 8.41 for this quarter. My colleague, Deepak, will put more color on the financial results.

On the whole we feel the environment is positive, secondary market volumes have been going up, though, as many of you would have also seen, a lot of the volume growth is also being options led and not just cash equities and futures. Earlier we use to look at cash equities and futures, but now there is a third segment of the market which is options and options have scaled up a lot in this quarter also.

The markets have been up in this quarter. FII and FDI flows are good. DII flows have also been fairly okay and the bond markets have been very active and we have been a very active player in that. Overall we continue to scale up the current businesses in a structured manner as well as invest in new business opportunities simultaneously.

The key takeaways of the performance in this quarter, as I am sure it is visible from the results, are the fee and commission income and financing book. There is an uptick in what we call the agencies businesses which are coming back; this is mainly broking, some amount of asset management and investment banking. The financing book has been scaled up as we had spoken in the last conference call. Given the change in the environment we had scaled down the financial book in the last year, which we are now scaling back again and we are seeing a fairly good appetite as companies and promoters are again starting to borrow for their various needs.

On the other hand, the one downside in this quarter has been the arbitrage yields and the treasury yields. As you know on an average we have a treasury book of between Rs. 2500 to 3000 crores, which includes the arbitrage assets and our Bank FD assets, which are mainly used for the working capital requirement, and on a YoY basis we are seeing at least 3% fall in the yields on these treasury assets combined. This acts as a drag on our financial results.

Our initiatives in retail business and alternative asset management are progressing well and we will keep on scaling them up for the next 3-4 quarters. We will keep on growing various businesses. The fee and commission business has grown by 18%. We have a fairly healthy investment banking pipeline. In the last quarter we had said about a pipeline of about Rs. 70 crores, now the pipeline is about Rs. 100 crores after some closures also. In asset management we are both onshore and offshore, we will continue to invest in building the product portfolio first, before we go out and scale up marketing and distribution on this.

On the financing book we now have a book, which is about Rs. 690 crores and this quarter there were episodic opportunities in IPO financing also. Our average trading volumes were about Rs. 4050 crores for this quarter, which are down from the earlier quarter's average volumes of Rs. 4350 crores. This has been partly because of arbitrage and partly because of options as Deepak will explain when he elaborates on this. At the same time, interest yields have been under pressure, especially the short-term yields. A lot of our treasury assets, the FDs in the bank and arbitrage, are correlated to the short-term rates and we have seen almost a 3% fall in the yields on the short-term side of the market, and this continues to act as a drag on us.

In terms of our strategy - we are still investing in retail and asset management as we had spoken earlier and we are building our corporate bond desk as we also want to expand out of equities to other asset classes. We had announced that we have got an approval from Reserve Bank of India for setting up the Edelweiss Asset Reconstruction Company and we already have a fairly good management team and we are now commencing that business after getting the approval.

In the retail business, we have done very well on the retail IPO distribution. We are ranked number 2 and number 4 in the various IPOs in the non-institutional bidder category and retail category respectively. On an average we have between 5% to 10% of the forms collected for every IPO in the last 4 or 5 IPOs. We have started this business about 18 months ago and we are very happy the way it has progressed. Our online broking portal is progressing well, it is called www.edelweiss.in and we are continuing to acquire customers every month and scale up that business.

Our core strategic approach of course remains the same, we look for synergistic diversification across the businesses, we do believe that having 5 or 6 business units, which are synergistic but still separate in their own right is very important from a stability point of view; Control and flexibility of cost and capital and our balance sheet, organization build up by developing leadership in bench and investing in culture which rewards thinking about long-term in a partnership cohesive approach.

We have managed to retain the revenue diversification - our three businesses are broadly 1/3rd, 1/3rd, 1/3rd the agency businesses, the interest business and the treasury business. Our balance sheet is still fairly liquid; Deepak will give you some more details on the size of the balance sheet. And as we have spoken earlier, given what happened in the last year, we are now at a stage that I think India has come out very well, India growth story is intact and has got rearticulated, re-understood by a lot of local and global investors. I think there is stability and growth. There could be short-term hiccups because there are always issues around the corner, but on a 5-7 year basis, the capital market business and the financial services business, we feel strongly about it.

I will now hand over to Deepak to give you a more detailed update on the financial and operating parameters.

Deepak Mittal: Thank you Rashesh and thanks everyone for joining us on this call. As most of you would already have gone through the press release and the investor presentation, I will spend just a couple of minutes on the broad numbers and then spend some more time on adding a little bit color and overview around those numbers. Some of this might overlap with what Rashesh has already covered. Just to set the tone for this particular quarter, after the slowdown last year, we have had the second consecutive quarter at Edelweiss for both top line and profit growth sequentially and that is giving us confidence in terms of what we see stability and optimism leading to sustained growth in the capital market activities.

And if I were to just try and capture the key takeaways of the performance for this particular quarter, first of course, is the significant uptick in fee and commission income, we will add some more color on how the trading volumes have changed. Then of course the second thing, which we have covered in detailed in the last call, was scaling up of the financing book and this is reflected both in terms of what the book size is and what the revenues have been. This also includes some of the episodic opportunities which we saw in IPO financing, and third and definitely not the least is the secular fall in yields on the treasury assets both on the fixed deposit side and on the arbitrage yields. On a year-on-year basis our estimated yields are down almost 300 basis points and that is what has brought down both the revenue side as well as on the profitability side numbers.

The other important thing to note for the numbers for this quarter is that it also shows the healthy mix in terms of what we have been able to invest in some of our growth businesses and still eking out operational efficiencies to continue to grow profitably, even while we continue to invest in some of our longer term business initiatives.

Just to quickly cover the financial performance, our total revenues for this quarter were INR 2605 million, which in the same period last quarter were INR 2496 million and the profit after tax more importantly was up to INR 651 million, which on a year-on-year basis was up almost 49%.

More importantly, we continue to have a diversified revenue mix with nearly equal contribution of our three revenue stream, which we track. The first is the fee and commission income pool, which includes broking, investment banking, asset management and other advisory and distribution services. The revenue for this particular stream has gone up from INR 678 million for Q2 last year to INR 802 million, which is almost an 18% increase. This is largely on account of both investment banking and broking revenues increase.

The treasury arbitrage and trading income, the second revenue stream, for the quarter was INR 718 million, which is actually down from INR 853 million for the same quarter last year and as always for this particular business segment, our focus continues to be on liquidity management and preservation of capital. We are currently bearing the brunt in terms of a lower treasury yield both in terms of fixed deposits as well as on the arbitrage side of the business.

The interest income, the third steam, has increased from INR 844 million for the corresponding quarter last year to INR 880 million for the quarter. This includes interest on steady state loans, interest on IPO financing, as well as on bank fixed deposits, which are part of our working capital.

Our total costs for the quarter were INR 1643 million compared to INR 1672 million in the same quarter previous year and that has allowed us to have PBT margins of 37%, which are up from 33% for the same quarter last year.

Quickly to some of the data points, which some of you track on a normal basis.

On the investment banking side we have closed three transactions. This was a quarter where QIPs made a comeback, while advisory closures were still slow. The two QIPs which we closed were PSA and Orbit. On the broking side our average volumes for the quarter, as Rashesh covered just now, were over INR 40 billion every day. This includes both clients' broking as well as our treasury business volumes and Rashesh has briefly touched upon two things, which have driven these volumes down both on a year-on-year basis as well as on a quarter-on-quarter basis. One of them is the reduction in the arbitrage activity on our treasury book and the other is a steep increase in the options volume in the markets, which by nature tend to be more proprietary and also tend to have much lower commissions and we are not as big in options as we are in the futures segment from a market share perspective. We internally track our market share across three segments now, cash, futures and options and are pretty much stable across cash and futures but on options yes, we have not been able to get our market share largely because of the proprietary nature of the options business.

Our loan book size at the end of the quarter was INR 6.9 billion as compared to INR 4.5 billion at the end of previous quarter and this is the business which we continue to look to expand. The financing book comprises of loans largely granted against collateralized securities and our overall collateral cover was around 3.1x. The current yield on this business is slightly north of 15%. The amount of banks fixed deposits were pretty much in line with what they were at the end of last quarter, which was around INR 16 billion. On the total balance sheet size our group net worth now stands at INR 22.3 billion, this is after minority interest, and the total balance sheet size is just over INR 40 billion, which implies a gearing of around 0.7 times.

One important announcement which we have made recently - Edelweiss Asset Reconstruction Company Limited, which is an associate of Edelweiss, has received its certification of registration from RBI and this is a part of our strategy where we continue to invest in long-term business opportunities.

Just to sum up what this quarter is all about, we continue to scale up our existing businesses and we continue to invest in new business initiatives including some of the growth businesses namely retail and asset management. About 250 employees out of 1200 are engaged in the new business activities, which are either giving very low or no revenues to the firm currently and that is our investment into the growth of the company.

With this we would like to conclude the opening remarks and we will now open the bridge for questions.

Moderator: Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Nischint Chawathe from Kotak Institutional Equities, please go ahead.

Nischint: Yes, what is the reason for quarter-on-quarter jump in the fee and commission income?

Rashesh: It is mainly brokerage and investment banking. Broking as you know has picked up and we have also done quite a few block placements. Along with that, investment banking also has been a lot more active as compared to the earlier quarter.

Nischint: But if I look at the overall broking volumes on a quarter-on-quarter basis numbers have not been very different, so?

Rashesh: No, it is not volume led, as I said we have been very active on the blocks, so from a commission point of view, there has been a scale-up and investment banking also has been more active.

Nischint: Can you just quickly take us through the balance sheet again, both the asset and the liability sides?

Deepak: Our group net worth post minorities is INR 22.3 billion and total debt of INR 16.2 billion. There will be a minority of about INR 2 billion, so total liabilities will be north of INR 40 billion, which will also be the total balance sheet size, and the gearing ratio is around 0.7x.

On the asset side we have almost INR 16 billion of fixed deposits and we have a loan book of about INR 7 billion. We have other treasury assets, other than fixed deposits, which by way of the order of magnitude are about INR 11 billion or so at the end of quarter and the rest would be corporate assets.

Rashesh: On the whole, our treasury assets are approximately Rs. 2500 to 3000 crores, which includes FDs, which are used for the working capital and the arbitrage assets. Our other assets including financial and corporate assets are about Rs. 1000 to 1400 crores.

Nischint: Okay thanks.

Moderator: Thank you Mr. Chawathe. The next question is from the line of Manish Chowdhary from Citigroup, please go ahead.

Manish: Hi, I just had a question, to understand your overall capital usage over a medium to longer term perspective, basically your current gearing is about 0.7x which is dragging down your ROEs to a pretty sharp extent and arbitrage is one which could be cyclical, we can be at troughs or we can be at peaks at different points of time. But on a sustainable basis how do you over a period of say next 2 to 3 years look to increase your leverage so that the ROEs can be a little bit higher?

Rashesh: Manish, broadly the ROEs will increase on 2 or 3 parameters; one will be the increase in the agency businesses where we are already investing in retail brokerage as well as in the asset management side of the business. The second increase would come from as you rightly said scaling up the asset side of the balance sheet and in that our idea has been to scale up the financing business. We had been in the process of that a year and half ago, when the world went into a complete spin and we just held back and paused in that and we are now scaling it back. We are again looking at doing promoter funding, margin funding, ESOP funding and so on. We are also looking at a few other asset classes in the financing side where we understand, we have a good team and where there is a good enough market opportunity to scale that up. I think on a long-term basis our ambition would be to have a leverage of 2:1 to make sure that we are sweating our equity enough so that ROEs get an uptick.

Manish: And secondly I just wanted to check, is there any impact that you see on the arbitrage business because of the increased DMA/Algo in India, and structurally overall say from medium-to-longer term prospect do you see arbitrage business going up significantly from the current levels?

Rashesh: Arbitrage returns are a function of two or three things. One, there is always a quarter in a year where arbitrage returns are fabulous and the ability to scale up the book at that time with short-term borrowings or so is critical to getting the annual yield which is more than optimal. The second is any market dislocations, where there is a market crash or a huge upsurge in the market with great amount of euphoria and optimism; those are the periods that the arbitrage yields expand. The third is liquidity and interest rates in the system. What is currently happening is that a lot of options trading is going on via automatic trading and direct market access and a lot of the investors, institutional investors as well as others, are now using algorithmic trading and DMA on the options side. There is a lot of market making in options because of low STT and I am sure all of you have seen options volumes going up by 5 to 6x in the last year. So, a lot of the algorithmic stuff is happening on the options side. I think arbitrage is not getting outdated because of technology, but arbitrage is just a fairly stable, slowly rising market.

Manish : Okay thank you Rashesh.

Moderator: Thank you Mr. Chowdhary. The next question is from the line of Pankaj Agarwal from Nobel Group, please go ahead.

Pankaj: Sir, while your interest income is up on Q-on-Q basis 29% but your net interest income is down sequentially, any reason?

Rashesh: The way our balance sheet is allocated is fairly fungible and in this quarter while we were scaling up the financing book, we also had the IPO funding. So we had borrowed episodically for that. But what has happened is that the yield on all our treasury assets have fallen and part of treasury assets income also comes in our interest income. Treasury assets are two, the arbitrage trading part of the assets and the second are the FDs and others. And as I said earlier, there is nearly a 3% fall in yields across all these assets compared to a year ago. A lot of these FDs have got re-priced lower compared to what the FD rates were a year ago - 11%, 12%, 13%. Now those FDs are expiring and we have been renewing those FDs where the yields are much lower. So, treasury yields have fallen. On the balance sheet leverage, we have approximate borrowing of over Rs. 1500 crores, that plus the episodic borrowing for the IPO funding is what the interest cost is, but what we have suffered is a lot more on the FD interest side as well as on the arbitrage side.

Pankaj: And in terms of your debt - it has gone up by around Rs. 630 crores during the quarter and where have you deployed it, because your financing book is up only Rs. 250 crores and your arbitrage portfolio is fairly stable vis-à-vis last quarter, so where have you deployed this extra money?

Rashesh: See, a lot of these borrowings are usually done when we borrow for spiky needs and we have been having spiky needs at the end of the months very often. So if you see the overall balance sheet, within FDs we are not breaking the older FDs for spiky needs because they are still at fairly good rates. Out of the Rs. 1500 - 1600 crores or so borrowings we have, almost Rs. 800-900 crores is more or less steady state and the balance being episodic and opportunistic for three days or four days or a month. So, our balance sheet size varies from Rs. 3500 to 4500 crores at any point of time.

Pankaj: And finally any comments on SEBI approving longer trading hours on the exchanges?

Rashesh: On the whole for arbitrage business, it will be good because there will be more opportunities to flip but I do not think that the overall market traded volume will go up because as all of us know, the key part of the trading is the first hour and the last hour. So, so as long as there is a first hour and a last hour, the average trading volume for the day might not go up a lot more. There will be a little bit of increase but I do not think it will make any significant difference.

Pankaj : Thank you sir, thank you very much.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Mr. Santosh Kamat from Franklin Templeton, please go ahead.

Santosh Kamat: Hi Rashesh. I wanted some more information on the debt of Rs. 1620 crores, firstly on the tenure of the debt, how long are the liabilities and what is the ALM policy of the company to take care of the asset liability mismatches?

Rashesh: Hi Santosh. We in fact have a strange problem on the asset liability mismatch because actually a lot of our assets are on the short end and some of our liabilities, especially equities are on the long end. Thus we have reverse ALM mismatch. But out of the borrowings of Rs. 1600 crores, about Rs. 180 crore is for a residual period of 3 to 4 years and there is another 18 months remaining on the other borrowing of Rs. 200 crores. About Rs. 300-400 crores would be anywhere between a month to 3 months kind of borrowing and the balances should be between a week to a month of borrowing.

Santosh: So, do you not want to kind of elongate the maturity of the liabilities rather than keeping it so short, because if you are able to deploy it meaningfully over a period of time, then out of Rs. 1620 crores only Rs. 400 crores are of 18 months plus. So are you not able to get opportunities and therefore you are not borrowing long or as a policy, you do not want to borrow long?

Rashesh: See our idea would be that as we scale up the financing book we will obviously borrow long, but we have currently Rs. 2500 crores of equity, which is a very high tenure right? I mean it is permanent. So, it also comes down to efficiency, because ideally you want to have a longer term tenure, but you also need to then build the longer term assets. About Rs. 2500 to 3000 crores of our assets are what I call treasury assets, FDs and arbitrage. We now have to build the financing business, a lot of other businesses on the back of that. So, as we increase the tenure on the asset side, we would want to build on the liability side too. But currently our actual situation is that our average maturity on the asset side is very short, and our average maturity on the liability side is very long, which is unlike other banks and financial services institutions.

Santosh: Okay, just one last question on this. You have always been saying that the preservation of capital is a prime concern of your treasury investment. At any given point of time what could be the maximum limit on open position which you keep either directly in the market or through options or derivatives or anything like that?

Rashesh: We try to keep that as low as possible, but we also do some arbitrage like open offer arbitrage and other stuff, where there is some embedded risk. What is approved by the board is a VaR of approximately 1% of our equity, which is Rs. 2500 crores. So approximately Rs. 25 crores should be the overnight VaR at 95% confidence level. But in real life situations we do not even hit that, our average is about 0.2 to 0.3% max. Currently the board risk committee has approved up to 1% of that and I think that is quite a bit for our current needs.

Sant Santosh: Okay Rashesh, thanks a lot.

Moderator: Thank you Mr. Kamat. The next question is from the line of Ashwani Kumar from JM Financial, please go ahead.

Ashwani: Sir, what is your yield in the loan book?

Deepak: The loan book yield is almost 15%.

Ashwani: And sir what is the cost of your debt?

Deepak: Cost of debt varies from maturity to maturity. Currently the blended cost will be almost 9%.

Ashwani: Sir, do you have any plans of repaying this debt because around about Rs. 1600 crores is parked in FD and you must be getting at the most 9%, or 9.5% on FDs.

Rashesh; Yeah but you should remember that part of these FDs are also used for the working capital on the broking businesses, and we have spiky needs. They are also used for liquidity management. So we cannot just scale it down because there is always a week in a month or there are 8 days in a month on an episodic basis where we do need a lot of working capital to post margins with exchanges etc.

Ashwani: Okay, sir in the treasury book is that the entire equity or it is a part of debt also?

Rashesh: Actually, it is a consolidated balance sheet. As I said - a Rs. 4000 crore balance sheet of which Rs. 2500 to 3000 crores are treasury assets, which is arbitrage as well as the broking working capital assets held as FDs in the bank.

Ashwani: And sir, in the broking business, what are your net yields?

Deepak: Our blended yield would be around 5 to 5.5 basis points; this is on cash plus F&O.

Ashwani: Okay sir and in the loan book what is the growth which you expect in the coming year for FY10 and FY11?

Rasheh: See Ashwani, we do not want to make any forward-looking statements and our idea is to give the broad target like I said 2:1 gearing over the next couple of years, and we do not like to have a quarter-to-quarter target because we do not like to pressurize the business heads by saying that they have to disburse so much of money. There is a marketing team that keeps on originating opportunities, there is a credit committee that looks at it and we do not try to meet quarterly growth targets and just scale up the book for that reason.

Ashwani: Okay sir thank you.

Moderator: Thank you Mr. Kumar. The next question is from the line of Alpesh Mehta from Motilal Oswal, please go ahead.

Alpesh: Just a single question sir, your tax rate over the last two quarters is 30% whereas if I see the trend for quarters before that it is around 35% plus, any specific reason?

Rasheh: The reason for this is that we have restructured our operations to some extent of late. What used to happen earlier, say in the last year especially when arbitrage was very active, we would end up making profits in one subsidiary, whereas there were other subsidiaries that were either in investment mode and making losses. So, internally we have optimized, capitalized the subsidiaries where the investments are required so that they also have some interest income. We have just become more efficient in allocating capital across these subsidiaries.

Alpesh: So, going forward can we safely assume it would be around 30%?

Deepak: It should be a fair number to assume, it could change year-on-year but that is a fair number to assume.

Alpesh: Okay and right now you mentioned that your average blended yield is around 5.5, so if I just calculate based on this your brokerage revenue comes to around Rs. 1.4 billion, am I right?

Rasheh: We have not broken it up as of now that way, because we combine all fee & commission under one head.

Deepak: And the volumes which are reported are both treasury as well client volumes.

Alpesh : Do you give the bifurcation of the same?

Deepak : No.

Alpesh: Okay and what is the average arbitrage book for the quarter?

Rasheh: As I said our treasury assets are between Rs. 2500 to 3000 crores out of which arbitrage would have varied between Rs. 1000 crores at the lower end, when there was IPO funding, and it would have gone up to Rs. 2000 crores at the peak.

Alpesh: Okay. And just wanted to get some sense about the strategies of the retail expansion?

Rashesh: The idea on that is to get two parts of retail, one is the distribution business, especially IPO distribution and we have scaled it up in the last 3 or 4 months. The other is the retail broking side where we are currently online led, we have a site called www.edelweiss.in and we also have a call and trade facility and we have a few branches. So, the idea is to slowly and systematically get good quality clients and our main approach is very research based and advice based.

Alpesh: So, we would not be going to be a branch based model or a franchisee kind of a network or are we planning to scale through on that also?

Rashesh: We will evaluate it as we reach later stages. The business is fairly young and we do not want to do everything at the same time, but I think eventually you have to look at all the channels. The four channels are franchisee & sub-broker, branch, online and phone and the idea is to have all four channels eventually but what and when - we will allow the business to evolve.

Alpesh: Okay and can you just throw some sense on the loan book that is of Rs. 6.9 billion, how much of that would be the margin funding or the IPO funding and what is our strategy to grow that book?

Rashesh: As of now there is no significant IPO funding in the book at the end of the quarter. So it is basically a combination of margin funding, promoter funding and ESOP financing. This is what we call as the liquid collateralized book, in which we give finance against liquid collateral and we are not breaking it up, as to what is margin, what is ESOP, what is a promoter funding.

Alpesh: Okay, so any sense on the kind of growth that you are expecting on this book?

Rashesh: We will not make any forward-looking statement. We obviously want to grow this business. There is a fairly good opportunity, there is a fairly healthy market pipeline, but we will just allow it to grow as it evolves.

Alpesh: Okay and do you disclose the employee headcount?

Deepak: Our employee headcount was almost 1200 people at end of September and that was almost same as previous quarter.

Alpesh: Okay and that was I guess 1500 at the end of 3rd quarter of last year?

Deepak: Yes.

Alpesh: Okay and what is the AUM size right now?

Rashesh: Our total Assets under Management/Advice if we add up everything including the real estate and all, it is closer to $100 to 125 million. But this excludes the Blue River PE fund.

Alpesh: Okay thanks a lot sir.

Moderator: Thank you Mr. Mehta. The next question is from the line of

Divyanshi Dayanand from Destimoney Enterprises, please go ahead.

Divyanshi: Sir, could you please tell me your market share in broking and if you could just give me a break up of cash and F&O?

Shailendra: See, our overall market share is 4.34% including broking as well as our treasury operations. We do not break up the share that way.

Divyanshi: Okay and sir this is something to do with the news that came a few days back, the Galleon issue, they have a stake of 7.3% in your company. They are planning to liquidate and something, so is there any further development on that?

Rasesh: We have the same information that all of you have from the newspapers and other sources and as a matter of policy we do not get involved in investor buying and selling. So, if they sell there will be some buyers, but I think we will all hear about it at the same time.

Divyanshi: Okay and sir, could you please give me the number of customers that you would

have currently in your retail broking and distribution?

Rasesh: We are not yet at a stage where we want to announce it. We want to build the business, make it a good robust number and then we will announce it.

Divyanshi: Okay sir. Thanks.

Moderator: Thank you. The next question is from the line of Rahul from Geojit, please go ahead.

Rahul: I have two questions on the retail IPO distribution sir. What is the projection that you are looking at in your IPO distribution wing? What is the headcount as on quarter end, what kind of recruitment are you looking at?

Rasesh: We have about 30 people currently and we are recruiting good people as the opportunities come. I do not think there is any formal statement on what kind of expansion we have planned.

Rahul: And you have started 18 months back this IPO distribution team, have you started fetching any profits out of it?

Rasesh: Well, we are not currently giving business line wise profits, but we obviously will do things which are strategically important and profitable on a long-term basis. Also as we all know there has not been any worthwhile IPO activity since January 2008 till recently.

Rahul: Okay thank you sir.

Moderator: Thank you. The next question is from the line of Vinay Shah from Reliance Mutual Fund, please go ahead.

Vinay: Sir, regarding your leverage in the near-to-medium term for taking it to two, your CRISIL rating rational says that you have a gearing policy of one time, so will this taking the leverage to two affect your short-term credit rating and accordingly your yields?

Rasesh: No, it will not affect. As I said, currently our aim is to at least take it to 1. We currently have not even taken credit rating for some of our subsidiaries which are also fairly well-capitalized, so we will review when we come to that. As we all know in financial services business even 2:1 gearing is fairly low.

Vinay: Very true, so is there any timeframe that by which you look that it should be at that level?

Rashesh: We do not want to make any forward-looking statement but obviously we are all anxious to grow the business.

Vinay: Okay sir, all the best for that.

Moderator: Thank you Mr. Shah. The next question is from the line of Kajal Jain from ICICI Direct, please go ahead.

Kajal: I have a few questions. What is the latest employee base?

Shailendra: Around 1200.

Kajal: Okay sir and as you have already said the arbitrage activity was low this quarter, so if I break up the total turnover it will not be 50%-50% as it used to be?

Deepak: What we have always said was more from a directional point for the year, and on a quarter-on-quarter basis the mix will be different for different segments.

Kajal: So, this quarter it will be more tilted towards agency clients business than…..

Rashesh: We would not want to make any statement on that, we do not split it.

Kajal: But the reason being if we do not do that then your yields if we take even 50%-50% it appears to have taken a good increase. That is why I just wanted to ask because otherwise if we take 50%-50% or so in this quarter your yields will be approximately 6 basis points.

Shailendra: But you know 50-50 is on a long-term basis as Deepak mentioned but on quarter-to-quarter basis that kind of thing can happen either way.

Rashesh: You would want you to make your own assumptions and build your models.

Kajal: Okay and if you can give me what is your latest number of branches?

Shailendra: There are 53 branches across 17 cities.

Kajal: And broad breakup on your cash and F&O percentages?

Deepak: We do not disclose that Kajal.

Kajal: Okay sir and you told your total loan book is Rs. 690 crores; I just wanted to confirm that?

Shailendra: That is correct.

Kajal: And how much would be LAS in this amount of funding?

Deepak: Almost everything is loan against securities, it can be in various form whether it is promoter funding, loan against shares, or margin funding or ESOP funding.

Kajal: And total cash and cash equivalents on the book?

Shailendra: About Rs. 1600 crores, including FDs in the bank.

Kajal: Sir I just heard you mentioning that your total treasury book is Rs. 2500 to 3000 crores, is it including your FD?

Rashesh: The FDs yes.

Kajal: So, then is the arbitrage books say Rs. 1400 crores if we exclude FDs?

Rashesh: Currently, the arbitrage book is about Rs. 1100-1200 crores and the FD base is Rs. 1400-1500 crores.

Kajal: Okay and sir, does your total investment book include liquid mutual fund?

Rashesh: We keep from time to time money in liquid mutual fund also. It is akin to having FD in the bank for us because that is how we move money in and out and it is also used for liquidity management.

Kajal: And your borrowing is around Rs. 1500 crore?

Shailendra: Around Rs. 1600 crores.

Kajal: Okay thank you.

Moderator: Thank you Ms. Jain. The next question is from the line of Apurva Shah from Prabhudas Liladher, please go ahead.

Apurva: Hi everyone. Sir, on the debt market what is the kind of activity that we are currently involved in and what is the plan for this business segment?

Rashesh: We currently originate corporate bonds, trading them, also sometimes holding inventories for a day or two days, or three days now that with interest rates futures you can hedge the interest rate risk also in part. So, basically origination, sales, trading, and research all four.

Apurva: Okay, is there any broking opportunity in this?

Rashesh: Yes it very often gets combined.

Apurva: Okay sir thank you.

Moderator: Thank you Mr. Shah. As there are no further questions, I would like to hand the floor back to Mr. Shailendra Maru for closing comments, please go ahead sir.

Shailendra: Thank you Rashesh and Deepak, thank you Melissa and thank you every one for joining us on this call. In case you have any other questions, please feel free to contact me directly or drop me an email at shailendra.maru@edelcap.com. Have a great day ahead, thank you so much.

Moderator: Thank you, gentlemen of the management. Ladies and gentlemen on behalf of Edelweiss Capital Limited that concludes this conference call. Thank you for joining us.

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