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Conference Call Transcript

Edelweiss Capital

Q4FY11 Results

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Corporate Participants

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Chairman

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Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Edelweiss Capital Audited FY11 Earnings conference call. I would now like to hand the conference over to Mr. Shailendra Maru of Edelweiss Capital. Thank you and over to you Mr. Maru.

Shailendra Maru: Thank you Marina. 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 Audited, Consolidated Financial results for the year 2010-11. Speaking today with you are Rashesh Shah, Chairman Edelweiss Group and S Ranganathan, the Chief Financial Officer.

Following the reading of safe harbor provision, I will first turn over the call to Chairman, Rashesh, for his opening remarks. Thereafter Ranganathan will take you through an overview of our business performance and the financial numbers. Then we will open the lines for question. A press release and an investor presentation on our FY11 results have been circulated and are also available on our website www.edelcap.com.

Certain statements that may be made or discussed at the conference call may be forward looking statements based on current expectation 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 risk and uncertainties; these include the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and the government policies that may impact the businesses of Edelweiss as well its ability to implement its strategy. 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. Rashesh….

Rashesh Shah: Hi everybody. First of all thanks a lot for being on this call and it's good to have all of you to discuss our results and performance and the outlook going forward. I am sure all of you would have had a chance to go through our results by now.

As you would have seen, we have total revenues of Rs. 1491 crores for the year which has a significant top line growth over the last year, almost 53% growth. However, the profit after tax has grown to Rs. 233 crores from Rs. 229 crores last year, which is only a 2% growth. This is broadly because of two reasons – one, while the market environment, especially in the first half of the year, was fairly good, the economic activity was fairly robust even in the capital markets, but post end of October, the last five months have been progressively getting worse on a month by month basis from an activity point of view. So the environment in the last 5 months has not been very supportive of profitability and growth largely because of two broad things that happened, one activity in the capital markets went down significantly and even the volumes that were there started increasingly going towards options, which is trading and very short term high frequency oriented activity. Second, with the short term rise in interest rates post October, as inflation started becoming a much more challenging issue and RBI raised interest rates, the short term liquidity has become a concern and cost of capital has gone up which led to compression of spreads and margins. In the five months we estimate for all NBFCs including us, broadly 100-150 basis points of spread got contracted because of the cost of capital going up faster than your ability to increase yields on your asset book both on the credit as well as other assets because there is always a lag.

So, one was the environment. The second reason for our profit growth not been commensurate with the top line growth is because of the investments that we are making in incubating new businesses. We have been building our insurance business through the year; we just got R3 approval from IRDA. We will start our insurance business by starting the sales of policies very soon. So in the last year we carried the insurance business and partly on a consolidated basis, the cost of the insurance business has been reflected also. Along with that we also invested in infrastructure including the new office building and the Fountainhead training center. So the carrying cost of that has also impacted us as it was not occupied all through the year. We are also investing in our retail businesses, largely on the retail broking, asset management and housing finance. So collectively by our estimates the profit after tax is lower by about Rs. 50 to 60 crores as a result of these three activities, which are more as a result of our decisions to invest for the future of this company and for future growth areas. We were obviously hoping for a fairly good and conducive environment which would have made investment a lot easier but investments are for the long term and we continue on that path. We have not scaled back any of our investments despite these challenges.

Broadly our group net worth is now Rs. 2400 crores. Our total balance sheet size has crossed Rs. 10,000 crores which is a fairly significant milestone for us. Overall for the year interest income has been good; we have had more than 100% growth on the interest income as our credit book and other interest activities have gone up. Now NBFC and credit business becomes one of the largest activities in Edelweiss. Second, we are also very happy that the fee and commission income has grown from Rs. 350 crores to Rs. 500 crores. As you know the second part of this year was not very conducive to growth in fee and commission business but we have still been able to grow especially because of wide range of products and services we have. We have broadly maintained the market share in broking. In our fee and commission income increase of Rs. 150 crores, about half of that is due to Anagram, but the remaining Rs. 70 to 80 crores is actual increase in investment banking, broking and other agency businesses on an organic basis.

We have now structured our company in broadly five areas from consumer point of view which is mainly in credit, capital markets, asset management, housing finance and insurance. We obviously have a retail and wholesale split and I will speak about that as we go along but broadly we have these five activities. Our intention is that in the next three years all five of them are approximately equal in size. These are the five diversified verticals along with which Edelweiss will grow.

Given that these five verticals are very broad based in the financial services space, the board of directors have also recommended to the shareholders to rename Edelweiss Capital to Edelweiss Financial Services Limited. To begin with, we were largely a capital markets firm and in the last three or four years we expanded our portfolio of businesses significantly and along with that if we look at the next 3 years, the capital markets are expected to contribute may be just $1/4^{th}$ or $1/5^{th}$ of our overall business. So in order to reflect that we are also changing the company name.

Along with that, we also now have a fairly good mix of retail and wholesale businesses even within all these verticals. For example, in capital markets we have wholesale business and retail business like retail broking. In asset management, we have alternative asset management, which is mainly wholesale, and we have retail asset management. So along with the name change, we have also restructured the company operationally into a wholesale business and a retail business cluster to create a much more focused execution in both because they are slightly different businesses. For Edelweiss as a whole, our ability to focus on long term strategy and allocation of resources will still be a common one. Only operationally we are splitting the organization into two parts.

Overall on the business side, in investment banking, we have done 47 deals as compared to 33 deals in the last year across ECM, DCM and advisory. In our alternative asset management business, we have more than $360 million under management which has seen a fairly good growth in the current year. Our housing finance subsidiary has started; we currently have a book of Rs. 120 crores. Broadly credit has grown well. The overall fee and commission has been good but costs have gone up also a lot faster because the employee cost and other costs are also going up fairly rapidly. We need to get back to a growth environment where the market pool size are growing, which we think is may be another couple of quarters away.

Our outlook very broadly is that the first half of the year FY12 will still be challenging, the key issue being inflation. As long as the inflation is high, everything else will be following that. The capital market activity, interest rate or the confidence and the investment demand in the economy will be largely determined by inflation, and as long as the inflation is high these will not see a lot of growth. So for the current year also we see fairly subdued expectation at least for the first couple of quarters.

Of all the investments that we have been speaking about, a lot of the infrastructure investment that we made in the year will start becoming productive this year as we occupy the new office. Somewhere in the second half, we will start scaling back on retail investment because they would now get a scale that they would then start investing for themselves and no burn would be required for that. Except for insurance, all our investments will start either coming to a break even or will start becoming productive. We expect this year insurance will have an impact of between Rs. 45-50 crores at the PAT level. In Insurance as you know, we have a strong partner Tokio Marine who brings in a lot of expertise at a product level and at a strategic level and along with that they also contribute to capital which will help us offset the huge investment required in that business. With that, I will conclude my update and hand it over to Ranganathan to walk you through all the details of the year.

S. Ranganathan: Thank you Rashesh. I will first touch upon the FY11 numbers and then spend some time giving you some color on the business overview and also share some of the matrices which you normally track. Our total revenue for FY11 was Rs.1491 crores, up by 53% year-on-year, and our profit after tax was Rs.233 crores, up by 2% on a year-on-year basis. Our total revenue for the fourth quarter FY11 was Rs.386 crores and our profit after tax was Rs.43 crores. Diluted EPS for the year is Rs.3 which was Rs.2.94 in the financial year 2010. This is on a share of face value of Re.1.

Key takeaways for FY11 broadly speaking are that with the strong growth in the first half of the year, we were quick to scale up both our agency and capital business and we have therefore been able to achieve significant growth in our top line during the year. On business front our plans of scaling up the recently launched home finance business in FY12 are on track and we have now extended the operations to the National Capital Region. We have also received the stage three approval R3 from IRDA for life insurance business and are ready to launch this business. During FY11 we acquired Anagram and have also completed its integration.

However, with the environment turning challenging in the second half, the growth was moderated; at the same time we continued to invest in our new businesses with an eye on future growth and diversification. We have also spent considerable sums in building the organization and the infrastructure to be ready to handle the future growth. Carrying cost of our new building at BKC is also acting as a drag on our profitability till we all move in there. All these factors have, therefore, resulted in our bottom line growth being subdued in the financial year 2011.

Now turning to our performance highlights: our capital based businesses continue to generate a larger part of our revenue and account for 2/3rd approximately, 67%, of our total revenue for FY11. In the capital based revenue, interest income has been Rs.754 crores for the year. With the scale up of average outstanding in our credit book during the year together with attractive IPO financing opportunities in Q3, the interest income from credit business has now become a significant revenue stream; it accounts for about 1/3rd of our total revenue for FY11.

Our agency businesses had a strong year compared to FY10 and recorded fee and commission income of Rs.500 crores in FY11. We thus achieved a significant year-on-year growth of 43% in agency income thanks to higher level of activity especially in the investment banking and retail distribution during the early part of the year. We have thus been able to achieve significant growth in most of our agency businesses. This year the broking business continues to face headwinds in line with the industry. Our agency fee and commission income now accounts for 33% of the total revenue.

As we have mentioned in our previous call, with a higher contribution coming from capital based revenue, the concept of net revenue, that is net of interest cost, is becoming more and more relevant for us. For the year our agency fee and commission have been Rs.500 crores and the capital based businesses have had net revenue of Rs.460 crores. Thus the agency income and the capital based net revenue contribute nearly equally to the net revenue. Our net revenue for FY has grown 22% over the previous year.

Our total cost for the year has been Rs. 1141 crores and within the total cost, our operating expenses have gone up by about 28% year-on-year. About half of these incremental costs are on account of the normal costs of Anagram operations. Further, we have spent nearly Rs.20 crores on brand promotion this year. Carrying cost of our new office building has also added to our costs as we have mentioned in our previous calls. We have already moved a few businesses to the new building and hope to complete the relocation in the coming months. We have also passed through the P&L cost of building new businesses with an eye on future growth. We are still in the investment phase and will continue to do so for the next 12-18 months. These additional costs have affected our ROE and the margins this year. Our PBT margin for the year is 23% as compared to 34% last year, the PAT margin is 16% compared to 23% a year ago. With the capital based businesses now contributing 2/3rd of our total revenue, margins are getting aligned to those of the banking and NBFC industry.

Turning to the business highlights, the credit business continues to fare well. Steady state loan book was at Rs.2644 crores in March 11 compared Rs.2966 crores in December 2010, a quarter-on quarter de-growth of about Rs.322 crores. The volatility in the third as well as the fourth quarter has made us focus on risk leading to a de-growth especially in the retail loan book. However, compared to March 2010, this book has grown at 44% from the level of Rs. 1837 crores. The loan book comprises wholesale loans of Rs.2100 crores and retail loans account for the balance. Of the retail loans, the home finance loans were over Rs.100 crores in March and we plan to scale up this book going forward. The retail loans now constitute 20% of the book. With no significant IPO financing opportunities in the fourth quarter compared to the third quarter, you will find that both our interest income as well as interest expense for the fourth quarter are lower on a q-o-q basis.

As we have mentioned in our previous calls, we avoid sector industry concentration in our credit book. At the end of the year the top five sectoral exposures are infrastructure 18%, real estate 14%, media and entertainment 12%, organized retail 10%, IT and telecom 8% of the loan book. The steady state loan book is adequately collateralized with an average collateral cover of over 2.8 times at the end of the year. The Q4 yields are marginally higher at 16.6% as we have been able to pass on a part of the higher interest rates to our borrowers. However, the spreads continue to face pressure in view of the higher increase in borrowing rates. The asset quality of our credit book continues to be satisfactory. Our gross NPLs are Rs.12 crores equal to 0.44% and net NPLs are less than 0.1% of the total book. We now make the general loan loss provision on standard assets as per RBI guidelines; including this general provision, our total provision cover on NPLs is 144%. We continue to look for expanding the credit book especially retail book.

The average treasury book size for the quarter was about Rs. 1250 crores compared to Rs. 1550 crores in the previous quarter. The gross yield for the fourth quarter is 12.8% compared to 16.6% in Q3. The net yield in Q4 is 8.3% compared to 10.8% in Q3. The treasury yields are significantly lower in Q4 due to lack of opportunities and rising capital cost.

Now turning to our agency businesses: in investment banking, while the pipeline for deals continues to be strong, actual deal closures currently are slow. We handled a private equity placement of Rs. 580 crores in Moser Baer Projects and two other ECM and advisory deals in Q4. We were also the arrangers for issuance of NCDs for REC, IFCI, Marico and PTC during the quarter. Thanks to the robust performance in earlier part of the year, we have executed a record high of 47 deals in FY11 across ECM, advisory and DCM compared to 33 deals in FY10. The investment banking fees in FY11 are Rs. 112 crores, a significant growth over Rs.69 crores earned in FY10. We continue to be a significant player in the equity capital markets, which is comparatively a young business to us, as we entered it only 4-5 years back. We are now ranked second in ECM for FY11 by number of issues below Rs. 400 crores as per Prime Database. Overall we are now ranked eighth in ECM by the number of deals in the country in FY11 as per Prime Database. We continue to have a strong presence among both public and private sectors as well as mid and large corporates. With the rising interest rates corporate bonds syndication deal also have been lower in the quarter. We, however, continue to be a major player in this field and are ranked third in the short term bonds placement and fourth in commercial papers issuances in FY11 as per Prime Database. Overall we continue to be among the top ten debt arrangers in the country.

Brokerage business: broking industry continues to face strong head winds. Industry revenue has not grown in the past three years. Yields also continue to be lower due to increase in option volumes with cash and especially cash delivery based volumes being lower. Our total broking income in FY11 is Rs.293 crores compared to Rs.207 crores in FY10, a growth of 40%. It now accounts for 20% of the total revenue for FY11. Our total average daily volumes (ADV) for the fourth quarter have been Rs.5855 crores compared to Rs.5558 crores in the previous quarter. It gives us a market share of 3.7% for the quarter, same as in Q3. Our market share for FY11 is 3.9% compared to 4.1% in FY10. As we have discussed in our previous calls, a higher growth in options volume in the market is leading to a lower market share for us. Out of the total ADV, the client broking volumes this quarter were Rs.2,600 crores compared to Rs.2,900 crores in the previous quarter. Our broking yields on client transactions are marginally lower at 4.2 bps for the fourth quarter compared to 4.3 bps in Q3.

Our research, which provides a strong support to our broking business, now covers 188 stocks across 21 sectors covering over 70% of the market cap. During the quarter, we held our flagship India Conference at Mumbai with the theme of Africa as the emerging investment destination. The conference met with an excellent response with the participation of over 130 investors and 70 Indian corporates facilitating close to 1,800 meetings.

At the end of the quarter our AUMs and AUAs under alternative asset management business are USD 360 million equivalent, compared to USD 348 million equivalent for Q3.

Now to cover our retail growth businesses. Edelweiss continues to build retail businesses both in the retail broking and distribution. We currently have over 325,000 plus customers through our online portal www.edelweiss.in and through the offline model. We continue to add new clients at a healthy pace. We have completed the integration of Anagram and have recently rebranded this subsidiary as Edelweiss Financial Advisors Limited. As at March end, we have 343 own offices and 31 franchise offices. Out of these, 337 offices together with over 1300 sub brokers cater to retail broking.

On the distribution side, Edelweiss has emerged as the second largest mobilizer of subscriptions in IPOs in FY11 in the non-ASBA category. In the individual categories for FY11, Edelweiss is ranked first in the HNI category with 16% market share and is ranked third in the retail category with an 8% market share in the total amount mobilized in the IPOs as a broker as per Prime Database.

The focus of our domestic asset management continues to be on broad basing the product portfolio and building investment track record. Its AUMs at the end of the year were Rs.155 crores under 4 equities and 5 debt schemes.

Turning to the balance sheet: our total balance sheet size at the end of the year was over Rs. 10,600 crores compared to the Rs. 5,184 crores as at the end of Financial Year 2010, a growth of 100% plus. Our total group net-worth including minority interest now stands at Rs. 2,416 crores and excluding minority interest stands at Rs. 2,300 crores. The growth in the net-worth is lower because capital reserve arising out of the consolidation has been adjusted with goodwill on consolidation amounting to Rs. 139 crores during the year. Our borrowings at the end of the quarter have been Rs. 8,207 crores; this implies a gearing of 3.4 times including the minority interest. The amount of bank deposits was Rs. 3,662 crores at the end of the quarter. The bank FDs along with liquid mutual fund investments provide us the required working capital as well as impart the much needed liquidity to our operations. Our average cost of borrowing for the quarter has gone up to about 10.1% from 9.4% in the previous quarter reflecting the current market conditions. The return on average assets is around 2.95% per annum. Our reported return on average net-worth for FY11 is 10.2% per annum. However, adjusting for the funds lent to our Employee Trust and the purchase of BKC office building etc., the adjusted return on the average net worth would come to around 14%.

To sum up, while we continue to scale up our established and mature businesses, we are continually investing in build out of new businesses and we continue to look for opportunities to expand in financial services segment. We are also putting in place necessary organizational changes to become a more efficient organization ready to capture a larger share of growth in the markets in future. With this I would like to conclude and we would be happy to take your questions. Thank you.

Moderator: Thank you very much. The first question is from Nischint Chawathe from Kotak.

Nischint Chawathe: I was trying to understand in the entire equity broking income, how would have Anagram contributed, how has Anagram faired on a y-o-y basis? Just basically trying to get some color as to how the retails business is playing out.

Rashesh Shah: Yeah, broadly our equity broking revenue for the year has been approximately Rs.285 crores. Out of this, approximately Rs.65 crores came from Anagram. So as compared to Rs.210 crores for the last whole year, it is about 220 crores for the current year, excluding Anagram. Retail broking is flat to weaker due to lack of retail participation.

Nischint Chawathe: Just trying to understand the q-o-q trend on the treasury book. Actually I didn't quite follow as to why the treasury income was down on a quarter-on-quarter basis.

Rashesh Shah: As you saw in this quarter, overall opportunities were very low. There were few special situations, open offers were very few, plus even the arbitrage spreads were not there. So for treasury this was not a good quarter. Our gross yield which used to be about 15-16% came down to 12-13% for this quarter. Yields came down and cost of capital had also gone up in this quarter. So overall treasury was not a great business for the equity oriented treasuries in the market.

Nischint Chawathe: Typically we have been saying in the past that when the interest rates move up, especially short term interest rates move up, that is the period in which this kind of business tends to do well. What you are saying is that despite this trend possibly having played out in the fourth quarter may be because it is special situation etc. were not so good. Can we put it in that way because typically that is the correlation of this with the short term interest rates?

Rashesh Shah: Sure. Broadly it is also contingent upon activity in the market place especially some optimism, IPOs, open offers. In the last 3 months, there has been subdued activity especially on the cash side and the futures side and arbitrage in options is hardly there. So given the nature of the activity in the market, we think in steady state you should get about 15% gross yields and about 10 to 11% net yields on the treasury arbitrage business which should just cover your cost of capital if you are borrowing money. But on the excess capital that you have on which you earned about 8%, you can make 10 to 11%. So that is broadly the way economics of this business will pan out going forward.

Moderator: Thank you. The next question is from Ritesh Nambiar from UTI AMC.

Ritesh Nambiar: Sir just wanted color on the increase in the loan book. The increase in debt is not actually reflected in the loan book growth and it is more reflected in the NCA part of it. Could we please clarity on that?

S. Ranganathan: If you look at the balance sheet, you will find that there is a corresponding increase in the Sundry Creditors number as well. So that has actually left a little impact if you look at the balance sheet. This is on account of certain opportunities that we found, more particularly in Q4 closer to the year end, on the commodities front and these are sort of matched businesses. These are all backed by the letters of credit and as and when the maturities fall, it gets cleared. As we speak, the numbers have come down.

Rashesh Shah: As you know broadly, we are one of the importers of gold like the banks who are the largest importers of physical gold in the country. We also have a fairly significant business in importing gold into India and selling it to our customers who are in the jewellary business. What happened in the last couple of months, there is a lot of demand that has gone up because of the way gold prices have been. So what we do broadly is we import on 3-month credit and we sell it on 3-month credit. A large part of our sales are against LCs. So given the opportunity, we were able to scale up that part of the business.

Ritesh Nambiar: How much is that part?

Rashesh Shah: At least about Rs. 2000 to 2500 crores is that which is both on the Sundry Creditors and the Sundry Debtors and it is an opportunity that came up in March. It is now coming down as the LCs are expiring; we are starting to see a scale down in that as Ranganathan said. It is almost down to about Rs. 1000 crores now, but it is an opportunity of importing and selling on a back-to-back basis and earning a spread on that.

Ritesh Nambiar: How much is the spread sir?

Rashesh Shah: Usually on this we have seen historically you make between 10% to 18% annualized spread on import of gold like the banks.

Ritesh Nambiar: And the second part of the question is on a standalone basis you have a debt of around Rs. 3600 odd crores, how much is allocated to each subsidiary especially the Edelweiss Securities and ECL Finance?

Rashesh Shah: Almost all the debt on the holding company is given to the subsidiaries. In fact if I remember correctly, 84% of the capital at the holding company is invested in the subsidiaries either by way of equity or by way of the loans. So increasingly Edelweiss Capital is becoming a pure holding company in that sense.

Ritesh Nambiar: And the remaining Rs. 7000 to 8000 crores, out of that, how much is allocated to subsidiaries on a consolidated basis I am trying to get a picture?

Rashesh Shah: At the holding company, almost all the borrowings we have are given to the subsidiaries. Some of the subsidiaries also borrow on their own. So what do you see in the consolidated is the consolidated borrowing by the holding company and its subsidiaries.

Ritesh Nambiar: So could I get a rough breakup because in your presentation somewhere it is mentioned that Rs. 1200 odd crores of net worth is allocated to ECL Finance and it has a loan book of around Rs. 2600 odd crores. So just making a rough sense of based on capitalization, ECL debt would be around Rs. 2200 odd crores. Where is the remaining debt?

Rashesh Shah: It would be in broking business which is Edelweiss Securities, which is another large subsidiary that we have where we do broking, and some of the treasury operations. We also have another broking entity called Edelweiss Broking Limited where we do retail broking. We have it in that. We also have it in Anagram. So in broking all three entities, Anagram, Edelweiss Broking, and Edelweiss Securities have some amount of that. Along with that, we also have given money from the Holdco to Edelweiss Commodities as I explained earlier for the commodity business. We have got Rs.400 to 500 crores invested in that and then the remaining ones are towards the housing finance business and other business. We have also invested in insurance business. So it goes across all these other subsidiaries.

Ritesh Nambiar: Because given the magnitude of those businesses, Securities would comprise the major part. How much is in both companies together, Commodities and Equity together?

Rashesh Shah: Edelweiss Securities is where we do institutional broking and a lot of treasury operations are also there. So broadly our entire treasury book which is about Rs. 1500 crores as well as about Rs. 1000 to 1500 crores of brokerage related working capital which is largely invested as FDs in the banks is there. So I would say about Rs. 3000 crores would be in Edelweiss Securities. As you said earlier, another Rs.3000-3500 cr debt plus equity is in ECL Finance. We have another NBFC EFIL (formerly Cross Border) which would have another Rs.400-500 crores. So almost about Rs.7000 crores would be in these three entities. I am giving breakup of the overall Rs. 10,000 crores assets that we have. Another Rs.1000 crores would be in the commodities entity, Edelweiss Commodities and the remaining Rs.2000 cr will comprise of corporate assets at the Holdco level, and in housing finance business, insurance business etc.

Ritesh Nambiar: Ok. Just wanted to know you mentioned somewhere your incremental cost of funds is just about 10%. Then should we infer your incremental spreads would be around 5% to 6% in your lending book?

Rashesh Shah: The spread is about 500 to 600 basis points. In the second half of the year broadly, not just for us but for the industry as a whole, there was a contraction of spread by about 100 to 150 basis points. So if we were averaging at 500 to 600 basis points as a range, it came down to almost about 400 to 450 basis points as the end. All of us have been able to recover about 50 basis points of spread. So my broad estimate is that spread currently would be in the range of about 500 basis points or so, but the average in the earlier years was about 550 to 600 basis points.

Ritesh Nambiar: Sir I wanted clarity on the ALM side, in fact how would Edelweiss run this business on a group level basis because you access more to capital markets rather than bank borrowing. So would there be a negative ALM which you are going to carry or there would be some matching which you are going to do wherein you do some long-term funding as well?

S. Ranganathan: The ALM profile looks something like long-term liabilities to the extent of about 20% and the short term is about 80%. This is broadly in alignment with the asset profile of our group. As we grow, we will find that a lot of focus is on housing finance where the asset profile is going to be longer. So to that extent, we are looking out for a longer-term liability. The one thing which we need to also understand is the longer-term borrowings come a little more expensive than the short-term. So to that extent, we need to have an idea on the maturity profile of the assets, how it is growing, keeping an eye on the interest cost.

Rashesh Shah: Also broadly if you see our treasury assets have a horizon of between 1 to 3 months. Our credit book is also approximately of a year to 18 months horizon. On the broking business and the working capital, we have another Rs.1000 to 1500 crores which is almost like cash because there are FDs in the bank and for commodities business also; we have between Rs.500 to 1000 crores which also has a 3-month horizon. So lots of our assets are around 3 to 6 months of average horizon except the credit book which is a year to 18 months and our borrowing profile is also around that as Ranganathan said. As our asset profile keeps on going up, we will also access other loans especially on housing finance. We will be able to borrow from NHB and banks for that and make sure that we are not running an asset liability liquidity risk on that. Currently we have what is called Reverse ALM Mis-match if you take our networth into account.

Moderator: Thank you. The next question is from Viraj Gandhi from ICICI Securities.

Viraj Gandhi: Sir can I get a color on the Anagram numbers. Prior to the last two quarters in Q2 when we merged it, it was having a run rate of around Rs.630 odd crores of average daily turnover, what would it be in the last two quarters sir?

Rashesh Shah: Broadly Anagram had a broking revenue of about Rs.65 crores and other income of another Rs.20-25 crores. So broadly Anagram has been between Rs.80 to 90 crores. The ADV on Anagram has been between Rs.550 to 600 crores in the last 5 or 6 months. So approximately you can say Rs.575 crores ADV for Anagram. As we have merged it, we actually now combine everything into our retail broking. So we look at combined ADV.

Viraj Gandhi: I asked this question because our outside volumes are Rs.2600 crores; if I take out Rs.575 or 600 crores from Anagram, we are at roughly around Rs.2000 crores which at the end of Q1 were also at the same level. So apparently the growth is not coming from the outside volumes, it is the treasury volumes which have scaled up well in this particular quarter despite lower yields?

Rashesh Shah: Broadly for the year as a whole, our ADV has been more or less flat because if you look at the market, the cash volume came down by 10%, future volumes are up by 4% and option volume was up by 81%. So if I adjust for that, our client ADV for the year has been more or less on the flattish side altogether if I take Anagram out. To give you an idea, our client ADV for the last year was Rs.1600 crores which is currently about Rs.2400 crores. So if I take Anagram away, may be it has gone up by Rs.100-200 crores from FY10 to FY11, but broadly it has been flat for the last 3-4 quarters.

Viraj Gandhi: And what is the size of our prop book now; it was Rs.1550 odd in the last quarter?

Rashesh Shah: We call it as treasury book and not prop book because we do have treasury assets in that which are not prop related. So it was in about Rs. 1300 to 1400 crores range for fourth quarter.

Moderator: Thank you. The next question is from Nischint Chawathe from Kotak.

Nischint Chawathe: Just wanted to understand the tax rate came down this quarter, anything extraordinary this quarter?

Rashesh Shah: As you know, we have about 40 subsidiaries like insurance subsidiary, commodity subsidiary, and broking subsidiary and so on. So on quarter-to-quarter basis, our experience has been that there is a 4% to 5% point fluctuation in the tax rate that happens depending on the activity in that subsidiary and how we capitalize it. The more equity that we put in our subsidiary, the more capital efficient it becomes, but then more equity is stuck in that on a permanent basis. So we try to optimize that, but you should expect that going forward also, we will be between 26% to 27% and 32% to 33% tax rate on any quarter and it will move by 3 to 4% from quarter-to-quarter basis.

Nischint Chawathe: And just trying to understand in the retail business, you have been distributing your products to DSAs or anything that if you can share on the retail distribution strategy?

Rashesh Shah: On the housing finance, we have appointed DSAs and about 80 to 85% of the business we have got has been from DSAs. Another 15 odd percentage of the business has come from Edelweiss customers, our broking customers and other customers. We expect to maintain 25-75 ratio between cross selling to in-house customers to new customers. Out of the new customers, we will slowly start getting some tariff business also, but in the first year our idea is to go to market with DSAs.

Moderator: Thank you. The next question is from Megha Gupta from Birla Sun Life.

Megha Gupta: I just wanted to check regarding the split of the loan book, the portfolio between wholesale and retail and if you could give me some more perspective on that split in terms of segments etc.?

Rashesh Shah: Out of total credit book of about Rs. 2600 crores, Rs. 2100 crores is wholesale and about Rs. 400 is the retail, what we call margin funding. Housing finance is Rs.100 odd crore.

Megha Gupta: And most of the Rs. 2100 cr wholesale would be promoter funding?

Rashesh Shah: We do quite a few credit loans to the companies also. Usually they are securitized with shares or other liquid securities. So it is not strictly promoter funding. What we do is we look at collateralized credit. I would assume about one-third of the loans we give are straight to the operating companies, but we take additional collateral of the promoter shares or some other liquid collateral as a risk mitigation tool.

Megha Gupta: And the average maturity of these loans on the wholesale side would be?

Rashesh Shah: About a year to 18 months, average should be about 15 months.

Megha Gupta: And I also wanted to check regarding the liquidity stock and buffer, how much would be your unencumbered fixed deposits and other liquidity buffer available currently as of 31st March?

Rashesh Shah: Our cash and FDs at the end of the year are Rs.3600 crores. Out of this, we keep about Rs.500 to 600 crores as the liquidity cushion on an overnight basis. We use about Rs.1000 to 1500 crores for our broking business and we use another Rs.500-700 cr to open LCs when we import gold.

Megha Gupta: And over and above this, you would also have sanctioned, but unutilized bank lines, what would be the quantum of that?

Rashesh Shah: It keeps on varying depending how we use it, but we have about Rs. 400 to 500 crores of overdraft that is usually available to us over and above the FDs that we have.

Megha Gupta: So that is only in the form of OD, but the other sanctioned bank lines, there is no buffer there in terms of unutilized?

Rashesh Shah: We have that, but we do not count that because usually they are asset backed. So overdraft plus the Rs. 500-600 crores of unencumbered FDs that we keep is a true liquidity cushion in that sense.

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

Vinay Shah: Just wanted to check what kind of run rate we are looking for the housing finance business in terms of disbursement?

Rashesh Shah: In 3 years' time, our ambition is to build a Rs. 5000 crore book. As we started this around end of October, so it has been only 5 months and in these 5 months, we sourced about Rs. 440 crores worth of business and we disbursed about Rs. 120 crores up till now. So our ambition is by the second half of this year to go towards disbursement of about Rs. 100 crores per month. So by October-December quarter if we can hit Rs. 100 crores a month, it will be a good one, but we are not having any strong targets. We are rolling it out as we see our internal systems process is falling in place, our capacity building is going-on in that business, but we have an ambition that over 3 years or so if we can build a Rs. 4000 to 5000 crore book on that.

Vinay Shah: And the other thing is if I see the loans and advances as in March 2011, it increased from Rs. 2600 to 5000 crores YoY. So out of these Rs. 5000 crores, around Rs. 2600-2700 crores is our loan book and what will be the remaining part?

S. Ranganathan: To give you a broad outline, it would comprise of the advance tax, inter-corporate deposits, advances to state agencies, exchanges, associates and application money which we have put in the rights issue as well as the loan to the employee welfare trust that we have.

Vinay Shah: So the second big chunk would comprise of all these things?

S. Ranganathan: Yes.

Vinay Shah: And other thing is the gearing policy, when we look 2 quarters back, it was mentioned that we will be looking at gearing policy debt-to-equity of 3 by FY12, but if we see the current number, it is touching that number. So want to have color on this thing also.

Rashesh Shah: The earlier gearing that we had in mind and which we continue to have is more of a steady state gearing. What we have seen currently is, as I spoke earlier, we have had some episodic opportunities. So by our estimate, we are currently geared towards about 2.5 to 2.75. Our plan in this year is to go towards somewhere between 3 to 4, may be 3.5 on steady state. In this year we also created some Rs. 400-500 crores of FDs because in March we were getting good interest rates and our borrowing cost and the FD rates were almost matching. As you know, we create one year to 18 months FDs for all the businesses that I spoke about. So we took benefit of episodic opportunities. By our calculation our gearing on the steady state business is about 2.75 and in the next year (FY12), we hope to be somewhere between 3 to 4, ideally around 3.5.

Moderator: Thank you. The next question is from Pankaj Agarwal from Ambit Capital.

Pankaj Agarwal: Sir it seems that in this quarter, your brokerage income also includes brokerage from fixed income and commodities, right?

Rashesh Shah: Only fixed income, commodities is actually very little in Anagram.

Pankaj Agarwal: I was just trying to understand in terms of your future opportunity, do you see these fixed income brokerage or commodities brokerage becoming as big as equity brokerage probably 5 years, 10 years down the line?

Rashesh Shah: Five years is hard to say, but you are absolutely right. I agree with you. The activity in broking space in capital markets is increasingly expanding from equities to other asset classes. Fixed income is growing fairly rapidly, though it is still very small. But as FIIs are allowed more into bonds and as the infrastructure and the bond market grows, when credit default swaps are going to be introduced, when all that happens, fixed income will grow for sure. The way we look at commodities activity, it may not grow as much because foreigners are still not allowed in the commodity space. So we still have to rely on Indian retail and HNI investors because Indian institutions as well as foreign institutions are not active in the commodity space. So if you were to make a hypothesis on growth in commodities as a broking opportunity, you have to wait for institutional participation to go up in that. The third one is currencies. Currencies also are becoming fairly interesting because a lot of corporate houses are also becoming active in the currency futures. So between currencies, then fixed income and commodities, I would see a lot of growth. But as I said some of it will depend on institutional participation because that is one of the bigger drivers of liquidity and growth.

Pankaj Agarwal: But from the experience of other countries, do you see the structural opportunity in these spaces?

Rashesh Shah: Fixed income absolutely. Opportunity in fixed income is definitely going to expand as you go along. Currencies also will happen a lot, especially if foreigners are allowed to participate then they will use currency futures for hedging, and then commodities as I said depending on what is the government policy on allowing institutional participation on that. But I would agree that currencies and fixed income is a fairly active opportunity.

Pankaj Agarwal: And if we assume that there is an opportunity, how brokers like Edelweiss would be placed vis-à-vis banks in these segments, or probably banks would have an advantage over brokers in these segments?

Rashesh Shah: If you look at fixed income, if FIIs are going to become very active in this, then it seems for a lot of banks which do not have institutional broking business, it would not be automatic to get this business. For us, the same FIIs, the same insurance companies, the same mutual funds who are currently equity clients will also become corporate bond clients because as the bond activity goes up, it will be a natural market for that. There will be a lot of participation from the corporate sector in currencies and commodities. Because of investment banking and IE, we have a corporate clientele. The banks will also have that, but the banks will have to build a presence in the market part of the business and the banks which are able to do that will obviously be able to offer currencies and commodities to their clients. Fixed income and equities will have a slight more edge for the investment banks overall.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Shailendra Maru for closing comments.

Shailendra Maru: Thank you Rashesh, Ranganathan, and Marina and thanks everyone for joining us on this call. In case you have any other questions, please drop me an e-mail at shailendra.maru@edelcap.com. Have a wonderful day. Thank you so much.

Moderator: Thank you. On behalf of Edelweiss Capital that concludes this conference call.