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Conference Call Transcript

Edelweiss Financial Services

Q4FY15 Results

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Corporate Participants

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Chairman

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Executive Director

S. Ranganathan
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Shailendra Maru
Head, Stakeholder Relations

Questions and Answers

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Edelweiss Financial Services Audited FY15 Earnings Conference Call. As a reminder, for the duration of the presentation, all participants are in the listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. I now hand the proceedings over to Mr. Shailendra Maru of Edelweiss Financial Services, thank you and over to you Mr. Maru.

Shailendra Maru: Good Afternoon to all of you and Thank you for joining us today as we discuss Edelweiss Financial Services Audited Consolidated Financial Results for the year FY15, that ended 31st March 2015. Speaking with you today are Rashesh Shah – Chairman Edelweiss Group; Himanshu Kaji – Executive Director, and S. Ranganathan – Chief Financial Officer.

Following the reading of Safe Harbor provision I will first turn over the call 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 the Q&A session. Our Press Release, Financial Statements, and an Annual Investor Presentation for FY15 have been circulated and are also available on our website www.edelweissfin.com.

Certain statements that may be made or discussed at this 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 Investor Presentation, which has been circulated and is also on our website. Investors are requested to please refer to that slide. I will now turn the call over to Rashesh.

Rashesh Shah: Thank you, Shailendra, and Good Afternoon to all of you. I am sure you have had a chance to look at our results that we announced on Friday and FY15 has been an overall good year; we have been able to grow our businesses as well as strengthen the organization as a whole. As you would have seen we had FY15 total revenues of Rs.3,912 crores, and a profit after tax of Rs.329 crores which shows up as 49% growth on a YOY basis. Even our Ex-Insurance growth has been close to 40%, the Ex-Insurance profit has been closer to Rs.381 crores. With this FY15 performance we have now clocked a 3-year CAGR of 37% in terms of profit growth. One of the other things we are happy about is this year our Ex-Insurance ROE is now 15.6%, this was about 12% a year ago, so there is a significant improvement in the ROE and we do maintain our eventual goal of closer to 18% Ex-Insurance ROE in the near future. We now have an asset base of Rs.27,000 crores, out of which close to 15,000 crores is in our Credit businesses. We have strengthened the balance sheet; we have borrowed a lot of long-term funds as you would have seen. And importantly, we have also been able to diversify the sources of funding in this year, so we now have our funding coming from various sources including mutual funds, banks, insurance companies, pension and provident funds, retail bonds, NHB, etc.

On our business model as a long-term strategy our approach remains the same. We aspire to build a diversified set of businesses, we want a diversified set of businesses in the Agency bucket as well as in the Credit bucket, and as you would have seen in the Investor Presentation we have about five verticals in the Credit businesses and about six verticals in our Agency businesses, and even at a net revenue basis, our ambition is to keep our Credit revenue and the non-credit revenue at a healthy proportion and I am happy to say that we have been able to manage that. So we continue to focus on growth with efficiency as we have done for the last three years.

On individual businesses, this was one of those years where all businesses did well. Our Capital Markets business obviously had a good year; on an average we saw about 35% growth in top line in overall activity, and we are happy that through investment banking, equity capital markets, debt capital markets, brokerage all of that, we have shown significant growth in the Capital Markets business. Our Credit book has grown well; we have had almost 68% growth in our Credit book for the year. This was the year of aggressive growth for us, but it was helped by two things; one was, we had a long pipeline in the last year, that we closed in this year, and as we strengthened our ALM we actually were able to capitalize on a lot more credit growth opportunities that were available to us. On a long-term basis we do believe that growing at consistent rate of about 25% on the Credit book is available to us, and we would aim to grow now at about 25% in our Credit businesses, though Individual Credit businesses might grow faster, but for the book as a whole our target would be that.

Our Insurance company was one of the fastest growing insurance companies in India. Insurance industry had a degrowth year again and there was a significant slowdown in total premium for the industry, but for our insurance companies, we saw almost 74% growth in premium and it was one of the fastest growing insurance companies and we also have our agent productivity and branch productivity as one of the highest in the industry.

On our ARC on Distressed Assets Credit business also had a fairly good year in spite of the change in the RBI rules, we are still able to manage to acquire assets and by our estimates of all the assets which have been sold by banks after the 85:15 rule change, we still continued to buy about 40 to 50% of the assets that were sold by all the banks put together. So we maintained a fairly good market share even after the rule change. We are happy that we have the capital and the ability to cherry pick and get really the high quality recoverable assets, which are being sold by the banks.

On the Asset Management also, we closed our first fund which was ESOF, we have returned capital to the investors in this year, and we are in the process of raising our next structured credit fund as well as our real estate fund and hopefully in this coming year we will be able to give you more information on that. Our Mutual Fund business as well as our AIF business has had a good year; they both were able to clock more than 100% growth through the year from a last year basis. So it is still of a smaller base, but we have seen fairly rapid growth in our AIF as well as the Mutual Fund business.

Our Retail Credit business also had a good year and we are seeing a fair amount of demand for the Mortgages and LAP also.

We continue to invest in our Commodity business, we are very innovative, and very creative in terms of how we capitalize on the financial intermediation and opportunities for the Commodity business and our own ambition in the Commodity business is to straddle the physical world of Commodities and the financial world of Commodities because we think the financialization of Commodities business is one of the more interesting Financial Services opportunities in the coming year. We have integrated backwards in a gold refinery to handle processing and it is now producing bullion. We would rather import Dore and process it out here to increase the margins and obviously reduce risk on that part of the business. We also expanded in the Agri Warehouse Management business, which allows us a lot more risk management on Agri Financing with collateral management. So as I said, we have been fairly innovative and creative in how to build a very innovative robust model for financial intermediation in Commodities.

As you would have seen in the presentation, we have quite a few awards that we have won, but the most important award we get every year is from our clients who allow us to grow, and as I said the last three years having grown at 37% CAGR is actually the best award our clients and customers have given us.

Overall, the long term India story looks very intact, in spite of the last few weeks, where there is a little bit of questioning, a little bit of faith in India's story is being shaken up, but we continue to remain fairly bullish. We think India's story over the next eight to ten years is intact and all our horizon of the businesses that we are building is keeping in mind the coming eight to ten years and we are very bullish on that.

We also think FY16 will be very challenging because we think FY15 was the year of expectation, a year of promises, but FY16 will be the year of reality and delivery. So as we go through this year, we expect equity markets, currency markets, interest rate markets to show a fair amount of volatility within the range, and our clients' ability to manage the volatility and capitalize on that, which we think is going to be the key highlight. The secular growth trend which we saw last year, which led to a fairly volatile consolidation zone this year, while all this is happening, we will truly continue to focus on our customers' needs, our aspiration is that we understand and respond to the needs of our customers and create products and solutions and we are fortunate with the large breadth of businesses we have, we should be able to offer almost every product and solution that our customers would need.

As we had spoken earlier, friends, we continue to focus on profitability, scalability, sustainability, quality of management, and governance, and over the last five years we have continued to invest and improve incrementally in each of these and we remain committed to improving, and from all of you, if we get more inputs on what more we can do to improve our profitability, scalability, sustainability, management quality, and equally importantly, the governance practices that we have, we would greatly appreciate.

We invest in our people. Our leadership team is very stable. Our senior attrition rate has been one of the lowest in the industry, and we continue to invest in that. We also think that technology will be a game changer for the next five to ten years when we look at Financial Services, and we have initiated quite a few steps to invest in that, and we invest significant amounts every year in strengthening and furthering our technology footprint which we will continue to do and also maybe enhance, because our Financial Services will get integrated with technology in the coming years.

Overall, I am happy to report that from a risk and compliance point of view, it has been a reasonably good year. We hope that all years are reasonably good on risk and compliance because we do not want any mishaps and adventures on that and our whole organization is committed to make sure that we are constantly ensuring that risk and compliances are under control.

So along with that I will hand over to my colleague our CFO Mr. S. Ranganathan to give color and more details on businesses for the year.

S. Ranganathan: Thank you, Rashesh. Thanks, everyone once again for joining us on our conference call for discussing the FY15 Performance. As usual, I will start with the Financial Highlights and then give you a Business Update.

The year FY15 has been clearly a year of growth for us with the intended result of our long-term diversification strategy falling in place. Our total revenue for the year is Rs.3,912 crores compared to Rs 2,556 crores last year, a growth of 53%. We maintained the growth trajectory in profits which went up from Rs.220 crores in FY14 to Rs.329 crores in FY15, a growth of 49%. Our PAT has grown at a CAGR of 37% in the last 3-years. Profit after tax excluding Insurance is Rs.381 crores compared to Rs.272 crores for 2014, up 40% with the 3-years CAGR of 39%. We have also been able to improve our operating and capital efficiency and our ROE Ex-Insurance for the year has already improved to 15.6% compared to 12.3% in the previous year. Our balance sheet is further strengthened as we tapped retail liabilities, reducing our dependence on short-term borrowings. We have also tapped funding from new lenders, thereby diversifying our sources of borrowing.

Edelweiss is now an Rs.27,000 crores asset base company with a gross net worth of Rs.3,375 crores and a tangible equity Ex-Insurance of Rs.2,485 crores at the end of Financial Year '15.

Among the individual heads of income, our Fund based income has grown 50% year-on-year reflecting growth in our Credit book. Agency Fee and Commission this year is up significantly at 61% year-on-year on the back of a turnaround in Capital Markets where we have been able to quickly capture the opportunities that came. Life Insurance business continues to be one of the fastest growing life insurance companies in India, and recorded a gross premium of Rs.193 crores compared to Rs.111 crores in FY14, a growth of 74%

Now, let us look at the costs: OPEX this year is up 51% due to higher levels of operations as well as higher advertising expenses, legal cost and stepping up of provision. During the year we have also invested significantly in setting up our Agri Services business which has also resulted in higher OPEX. Our employee cost is higher by about 55% year-on-year as our head count has gone up to 5,555 compared to 4,001 at the end of previous year. We have significantly scaled up our hiring this year for future growth as also for setting up the Commodity and Agri Services business as well as for strengthening the organisation. During the year, we have hired about 110 senior level employees, largest in any year. Financial cost is higher by about 51% year-on-year due to higher borrowings. Our borrowings stood at Rs.23,540 crores at the end of FY15 compared to Rs.12,950 crores, a year ago reflecting a scale up in our operations during the year.

Coming to our balance sheet, we have taken a number of steps to strengthen our balance sheet. We issued Rs.800 crores of medium to long term retail bonds, thereby reducing our dependence on market borrowing. We added subordinated debt qualifying as Tier-2 capital of Rs.850 crores; this has improved our capital adequacy ratio in our NBFC and the HFC which issued these bonds. We continue to add stable bank borrowings as we contracted fresh lines aggregating to more than Rs.2,100 crores from bank. We have added our medium term borrowing by way of private placement of NCDs of Rs.1,000 crores with a leading mutual fund and Rs.400 crores with LIC. We have securitized over Rs.300 crores of Mortgages and SME portfolios till date releasing funds for fresh lending. We have diversified our sources of borrowings by adding new lenders from insurance companies, pension, and provident funds, FIIs and banks. Our consolidated capital adequacy at the end of the year was 19.3%. Having a matched ALM profile and managing liquidity over the short and medium term continued to be our focus area. Our blended cost of borrowing for the year is marginally up to 10% compared to 9.8% for FY14 as we contracted more of medium and long-term liabilities. We continue to manage our cost of borrowings by having a judicious mix of borrowings.

Now turning to Credit Business Highlights: The total Credit book stood at Rs.15,036 crores at the end of FY15 compared to Rs.8,953 crores as at the end of FY14, a growth of 68%. The average collateral cover in the structured collateralized book was 2.3x. As in the past we continue to avoid sectoral concentration in the book. The blended yield in the Credit book for the year was flattish at around 15.7%. The asset quality of the Credit book continues to be under control with gross NPLs at the end of the year at 1.31% and net NPLs at 0.38%. Our provision cover including provisions for standard assets is close to 94%. ECL Finance, our NBFC has a capital adequacy ratio of 17.8% with Tier-1 ratio of 11.7% and net worth of Rs.1,737 crores. The addition of Tier-2 capital in the financial year has given us the confidence to add assets as we going forward. The Retail Finance business which includes Mortgages, LAP, Rural Finance, and SME finance continues a steady growth. The outstanding loans now are Rs.2,900 crores including SME Finance of Rs.762 crores. AUMs are Rs.3,242 crores including the securitized assets. The Credit book also includes our loan of Rs.1,226 crores to our Asset Reconstruction Company. Our ARC with a portfolio of Rs.20,300 crores at the end of FY15 continues to be the largest ARC in India. Our ARC is an important player in the industry as it helps release productive assets for the nation's economy, and also reduces the burden on commercial banks.

Coming to our Agency businesses: On the Broking side, our agency ADV for clients was Rs.5,000 crores in FY15 compared to Rs.3,100 crores in FY14, a growth of 60%. The broking yield on the client transactions stands at 2.5 basis points for FY15 on a gross basis. Investment Banking handled 17 transactions in FY15 compared to 8 transactions in the previous year. Our Retail Financial markets business now has over 4,55,000 clients. Wealth AUA have crossed a milestone of Rs.10,000 crores. In IPO distribution, Edelweiss is Ranked No.1 in Retail and HNI category in FY15. Our Mutual Fund has crossed AUMs of Rs.1,000 crores recently and our Liquid Alternatives Asset Management business has crossed AUMs of Rs.500 crores. Our Commodities business has further diversified in Agri Services business including procurement, financing, warehousing, and distribution. International and Domestic Agri Commodities sourcing and distribution business continues to scale up. Our Fixed Income advisory business improved its market share this year, having handled 91 transactions compared to 53 in the previous year. Edelweiss is ranked #1st in Public Issuances of NCDs in the financial year 2015. Our Insurance business continued its planned scale up with growth of 74% in gross premium in FY15. Focus of this business continues to be on constantly improving performance which is corroborated from the fact that 5 of its funds out of 6 individual ULIP funds have been rated as 5-star as on 31st March 2015 by Morningstar. Its current net worth is Rs.569 crores and is well capitalized for future growth.

To sum up, we continue to implement our core strategy of diversification in Financial Services while improving efficiency and productivity. With the gradual return of growth and turn around in the capital markets, our core businesses have demonstrated by their performance that we are ready to capture not only our share of growth but also increase market share. We are thus ready for future growth.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prashant Poddar from Abu Dhabi Investment.

Prashant Poddar: Can I please know how does this Distressed Assets Credit lie as Rs.1,226 crores in the credit book as such, is it the piece that is going to as your share to the Distressed Assets business?

Rashesh Shah: Yes, actually it is an important question Prashant. Our contribution for that business is what we call our exposure to the Distress Credit business because we see Distress Credit as a combination of credit with our own money and asset management which is Securities Receipts (SRs) that we manage for the banks, and overall the idea is to, it is almost like you are an LP and GP in the fund. So the most important parameter for us is how much of our capital has been deployed in this business.

Prashant Poddar: So Rs.1,226 crores is the total investment that you have made in that business?

Rashesh Shah: Yes by way of loan to the ARC.

Prashant Poddar: And there would be additional capital lying at the asset management company level also?

Rashesh Shah: Yes, there will be a small quantum because we have a couple of funds that we manage which also contributes to capital in some of the deals, and there is an equity capital of the ARC, which is about Rs.150 crores.

Prashant Poddar: Rashesh, just to understand like other credit lies in this business, Mortgage, Restructured, etc., you will have interest income every year and interest expense accordingly. When we look at the annual numbers, what will get reflected as income and expense for Distressed Assets Credit?

Rashesh Shah: On this business, Prashant, we get two kinds of income; we will get fee income, which is based on the SRs and the other assets that we manage, which are the third-party assets in this, and we also get interest income which comes out of our own loan contribution. So on the Rs.1226 crores that you see, we will earn interest income, that interest income varies from asset-to-asset, but we expect we will make anywhere between 12% to 18% on that as interest income and the remaining we will get some fees from the other assets that we manage.

Prashant Poddar: The fees will be housed in the ARC?

Rashesh Shah: Yes.

Prashant Poddar: The income that you will receive in this Credit business, for ARC it will be an expense?

Rashesh Shah: Yes.

Prashant Poddar: The second question, Rashesh, was on the low return on equity on the BMU & Corporate. Is it usually low because of risk management or it was unusually low this year?

Rashesh Shah: For two reasons; as you know we have some excess equity capital, our estimate is between Rs.200 to Rs.250 crores, so as you know in the last year we tried to do a stock buyback, for which we had allocated Rs.135 crores, but the stock buyback did not happen, because the stock crossed the threshold price that we had indicated. So we still have some amount of excess capital, which is one reason, and this is coming down. The other reason is that we maintain some kind of liquidity cushion through this business also. So we expect this even in a best case, about 11 to 12% kind of ROE given all these other things, but on a long-term basis, this becomes a smaller and smaller component of our total capital employed, it is currently about 20% of our capital employed, which will slowly-slowly become about 10% of our capital employed. Our estimate is on steady state we should make 10% to 12% ROE, and it should become about under 10% of a total asset base.

Prashant Poddar: So incrementally, we should expect this proportion to reduce, but the ROEs should improve on a yearly basis?

Rashesh Shah: Yes, and as I said, almost about half of it is because of the excess equity that we have.

Prashant Poddar: Related to the cost-income ratios, very interesting that you guys have been investing a lot in people and technology, Rs.80 to Rs.100 crores for a young company is a very large number for technology investment, and on a high base, 55% increase in employee expenses also speaks a lot. So just wanted to understand this 59% cost-to-income ratio for the overall business, how should this number look like in more medium term, because most other businesses though not comparable with you, but operate at much lower numbers than these?

Rashesh Shah: As you all see, at Edelweiss, we are a combination of Credit and Agency businesses, and as I said in the earlier remarks, we are currently about half of the net revenue comes from the Credit side, and half of the NR comes from the Agency side. On the Agency side, we are currently at close to 80% cost-to-income ratio, our ambition is to be close to between 65 to 70%, because a good agency business, if you can run at about 65 to 70% cost-to-income ratio, that is very healthy. On the credit side, our hope is to run this at about 50% cost-to-income ratio given that we have Wholesale and Retail. So if you do about, between 30 to 35% on the Credit side, and about 65 to 70% on the Retail side, then on an average we should be close to 50% cost-to-income ratio. We are slightly way off, so we expect another 10 percentage point improvement on this as we build scale and as we grow the businesses. But as I said do not compare us only to a Credit business, and do not compare us to only an Agency business, we are a hybrid of the two, and you will find in the market that most of the Agency businesses are operating at 75% cost-to-income ratio, we are slightly higher at 80% because of the businesses are fairly young. And on the Credit side, we are currently by our estimate about 40% or so, which should maybe come down to 35% as we go along. So to give the exact numbers on Credit, our cost-to-income ratio is 38% and Agency is 78%.

Prashant Poddar: Cost-to-income, when you say 65, 70% is good for Agency, yours is a very unique Agency model where you also have Commodities business herein, and therefore it becomes not so much comparable to other companies in India at least, and when I look at how the Commodity business has been delivering, so this year has been very high on ROE for this business, but this year also is relatively higher on cyclicality side of the equity market. So if you were to really look at the Commodity side and adjust this cost-to-income ratio or a medium-term, 65 to 70%, is that a fair number?

Rashesh Shah: I would think so, because the cost-to-income ratios I am giving you, Prashant, are on net revenue, so what we do is from the total revenue we take the interest cost out of it, so Commodities also has a fairly high amount of capital employed in that, because a lot of working capital, my estimate is close to Rs.2,300 crores of capital is deployed in the Commodities as the working capital for that business, when we do Procurement and Agri Financing and all.

So overall on an NR basis even Commodities will operate at about 60% cost-to-income ratio, and our other Agency businesses should operate at about 70% odd cost-to-income ratio.

Prashant Poddar: And we used to get profit and revenue numbers for this Commodity business separately earlier. Incrementally, you are not going to disclose that?

Rashesh Shah: We have actually regrouped our businesses into Credit and Agency, because what has happened, Commodity also has an Agency component and a Credit component, a lot of our businesses like even Broking has a Credit component through margin funding as well as an Agency component as a Broking Fee and Commission, so the classification we now have are Credit, Agency, the entire Corporate balance sheet management, and Insurance, and the reason for that is, truly, the business model is that we have Credit business and we have various verticals in that Credit business, some are commodity-related, some are equity-related, some are housing-related. So the idea is that we want to build various verticals on the Credit side and various verticals on the Agency side.

Prashant Poddar: And operationally also Agri is becoming a part of agency, so the gentleman who runs the Commodities business, is he running it still independently as an owner of that business or CEO of that business or how is it happening now?

Rashesh Shah: Yes, all our business heads are actually running the businesses independently, and hopefully, as owners of the businesses and what I would say is, custodians of that businesses, yes, in Commodities they have an agency component, they have a Credit component embedded in that, the entire service is part of that, he is the overall head. So how we are internally structured we keep on changing, because we have various business units and kinds of business that we keep on changing as per what is the most efficient way of doing it, but as of now to answer your question, yes, he is in-charge of all Commodities-related businesses.

Moderator: Thank you. The next question is from the line of Yash Agarwal from Crest Capital.

Yash Agarwal: Recently there was some news about this Bharati Shipyard, the lenders filing up a winding up petition. So any status on that as such?

Rashesh Shah: No, it is actually all part of recovery, in fact we are the ones who have gone to court, because there are a lot of unsecured creditors out there, who are trying to force the company into liquidation, so we have gone to the court and said it should not be liquidated, because we think there is a possibility of at least completing a lot of ongoing projects, and recover as much money for the banks as possible. So all that is part and parcel of the Asset Reconstruction business.

Yash Agarwal: Any timeline as to when Tokio Marine will increase the stake in Insurance business?

Rashesh Shah: We are in the process, it should happen sometime this year.

Yash Agarwal: On a quarter-on-quarter basis, your gross NPAs are down, but your net NPAs have gone up. So is there less provisioning done this quarter?

Rashesh Shah: Marginally, that is correct.

Yash Agarwal: You are not seeing any pressure on the asset quality going forward?

Rashesh Shah: No, we are comfortable, as we have always indicated, we expect our GNPLs to be about 150 basis points, and our NNPLs to be about between 40 to 50 basis points. And given the spreads and the NIMs we have, this is in the business cost itself.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management.

Anita Rangan: First question is, regarding the ARC business, the loan which is given which is in the Credit book, which is about Rs.1,226 crores, so is that a part of that 15% equity or is it like additional borrowing which the ARC business would have undertaken?

Rashesh Shah: The way it works is the ARC business is like an asset management company, and when they buy an asset, they have to put in 15% of their money and 85% is SR receipt to the bank, so the 15% that goes from the ARC is the one we give them as credit on a back-to-back basis, so effectively we have invested on that 15% part of that, and that is why we call it as part of our Credit book, because that is a Credit exposure to the Distress Asset class, and as I said earlier, our expectation is to make between 12 to 18% return on that.

Anita Rangan: What is the expected timeline of the returns because this business has been going on over the last one year, and we have seen like significant increase in AUM.

Rashesh Shah: It is still the first year, because usually all these cases are about 3 to 5-years horizon but we are in the range that we spoke about, that on an average it should come to around this, and you would all remember there is a Fee income that also comes in as part of that, so the way we also look at is, we look at composite returns between Fee and the Credit returns on this business, because in this business you are LP and GP at the same time.

Anita Rangan: My second question is end of this year the leverage seems to have gone up significantly to around 8x, last year it was around 5x with the overall business. So what is your sense around your comfort zone of leverage?

Rashesh Shah: If you take GSecs out of it, our leverage is about 5.8x, and we think up to 7x we can go, so as we have also shown that our capital adequacy is also fairly high, so we have enough room on that. So we think given the internal accruals, and the growth rates that we expect for the next about couple of years, we have enough extra capital, which will allow us to grow.

Anita Rangan: In the Credit side, are there any restructured assets in the book?

Rashesh Shah: No.

Anita Rangan: And the NPAs are at 180 days DPD, right?

Rashesh Shah: Yes, it is 180 days. This year onwards we will follow 150 days from the first quarter.

Shailendra Maru: And for the Housing Loans, it is already 90-days.

Moderator: The next question is from the line of Vinay Shah from Reliance Mutual Fund.

Vinay Shah: While looking at the presentation there seems to be some alignment in terms of classification of the AUM, because earlier the Retail piece, as on December used to be Rs.2600 crores, and there used to be Retail Margin Finance business of Rs.876 crores, but when we look at Mortgage AUM as on March '15, it is Rs.5700 crores, and then there is SME and Agri. So can you please help with how the portfolio would look like between Retail, Corporate Loan? Has there been a sudden jump in the Retail portfolio from Rs.2600 crores to Rs.5700 crores in a quarter's time?

Rashesh Shah: What we are showing the mortgages that we have explained is both the Retail part and the Commercial part of the Mortgages business. We have some amount of Retail in the SME business also, which is internally classified as Retail. So overall if you ask us, approximately, and this is not the exact numbers, Retail is now about Rs.4000 crores across all the products, SME, LAP and in the Mortgages part. But we currently classify this more in the five categories that we have given, which is Mortgages, Structured, Collateralized Credit, Distress Credit, SME & Agri, and LAS & others.

Vinay Shah: So this growth which has come in this quarter, which is nearly 20%, this has come in the form of Structured Credit by and large?

Rashesh Shah: No, Retail has also grown in this quarter, Retail is actually growing at about 40% on an annualized basis, so in this quarter Retail would have also grown by about 10 to 15%.

Vinay Shah: If I have to see the Corporate Loan portfolio which was Rs.7,700 crores as on December '14, the similar number would look like as on March 15, how much would it look like, Credit plus whatever part of Mortgage is there, in terms of Corporate Loan?

Rashesh Shah: As I said Rs.4000 crores is Retail and then we have Agri, which is another Rs.200, ARC Rs.1200 crores, so overall I would stake about Rs.9,000 odd crores or so.

Vinay Shah: You mentioned in the initial remarks, capital adequacy around (+17%), is it the right number that I heard?

S. Ranganathan: No, the capital adequacy for the group is 19.3%, and for the NBFC which is ECL Finance it is 17.8%.

Vinay Shah: So how do we arrive at group capital adequacy, because Edelweiss Financial Services is not an NBFC, right?

Rashesh Shah: But you could use the same principles of NBFC, so we also for our internal reporting to our board and we calculate capital adequacy of EFSL also as a whole.

Vinay Shah: Since this year we have seen a good growth in the Credit book, what shall we expect in terms of future for the growth?

Rashesh Shah: As I said, our different parts of Credit can grow at different rates, we will be happy between 20 to 30% growth rate for the credit book going forward from now onwards.

Vinay Shah: This Distressed Asset that you mentioned of Rs.1200 crores, we have an equity of around Rs.140 to 150 crores there, right?

Rashesh Shah: Yes.

Vinay Shah: So rest would be what component – this is again equity or how the structure is there?

Rashesh Shah: As I said, it is actually borrowed from the group itself, so when we consolidated, if we look at it in the same way, so they use their equity and the balance has to go through the ARC, so we will give the ARC loan, and the ARC will invest in the SRs.

Vinay Shah: So if I understand correctly, some of the group companies would have given intercompany loans to ARC?

Rashesh Shah: Yes.

Vinay Shah: And Sir, earlier, we used to give our top-10 sector exposure, which is missing in this presentation. Can you help with the major sectors?

Shailendra Maru: Vinay, I will connect with you offline.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe: The Loan growth on a quarter-on-quarter basis seems to be kind of high, and you have not given the detailed breakups, but just trying to understand which were the segments that have delivered highest growth in this quarter and what could possibly be the drivers for this – is it just like sectors like Structured Credit growing, and it is just one odd quarter, or is there any specific trend that we are seeing out here?

Rashesh Shah: Actually, it is a combination of various things like this is the quarter we also expanded our Agri Financing business, because we started that only in October onwards, so Agri has grown, even LAS has grown in this quarter, Structured Credit obviously has grown so I would think it is fairly broad based, even Distress this quarter was a good one after RBI changed the rules from August onwards, August to December there was not a lot of activity, but as you would have seen between January, February, and March, again there was an activity in the ARC business also. So the growth you are seeing from December to now is I would say fairly well balanced across all the five categories we have. I do not think any one category has grown significantly faster than the others in this quarter.

Nischint Chawathe: In terms of Agri Financing and Structured Credit, if you could give some broad guidance in terms of the tenure of the loans?

Rashesh Shah: Agri is usually short-term, it is usually between three months to maximum one year, because a lot of this are self liquidating assets, this is basically similar to Warehousing Financing, where we do Warehouse Financing of goods which are stored in our warehouses, and that is why we started the Warehouse Management business so that we can control the risk. So our whole strategy of this is that we become warehouse managers and collateral managers, and after that we fund goods which are in our warehouses. So usually it is between 3 months to a year, I would guess average would be about 5 to 6-months. And on the Structured Collateralized our average is about 24 months.

Nischint Chawathe: Were there any specific short term loans, etc., kind of for the quarter?

Rashesh Shah: We have not done any short term in this quarter at all.

S. Ranganathan: Or any episodic kind of thing.

Nischint Chawathe: The other part was more on the liability side, if you could broadly explain a) where you stand in terms of liability breakups and what is the plan going forward in terms of banks, bonds, etc?

Rashesh Shah: Slide No.9 out there, so currently banks constitute about 27% of our total borrowings, we have short term borrowing in the debt market which is mainly through mutual fund, which is another 30%, and it has remained about 25 to 30% for the last whole year. We have also done a lot of borrowings in the long term debt market which is now expanded to 8%, and then Retail has been also another 14%, and then assets specific borrowing, which is basically back-to-back again in the GSec that you hold is also 17%, so the Gsec is mainly through CBLO, Retail has been mainly through the bond issuances that we have done. We have more than 30 banks in the consortium, and for the long term and short term debt market it is mainly insurance companies, mutual funds, and pension funds.

Nischint Chawathe: Would it be possible to broadly share the incremental borrowing cost in some of the at least larger segments?

Rashesh Shah: It varies from tenure-to-tenure, so short term is closer at 9%, and long-term is closer to 11%.

Nischint Chawathe: A little bit on the Insurance side, maybe if you could talk a little bit in terms of key product segments, and some of the contribution of the larger distribution channels?

Rashesh Shah: So for Insurance, we had an NBP, which is the new business of premium equivalent of close to Rs.108 crores for the year, which has been a significant growth, about 54% growth in that. As you would have known, we are largely Organic Agency-led, so about more than 50% of that comes from our

Organic Agency across 59 branches, so about Rs.55 crores odd came from the branches. We already have clocked an average productivity per branch of a crores of rupees, obviously, internal target is to more than Rs.2 to 2.5 crores per branch on that, but quite a few of these branches are still new, but on a 3-year basis our ambition is that. So half of it comes from our branches, another 10 to 15% comes from the Banca relationship we have with Catholic Syrian Bank, about 18 or 20% comes from Edelweiss internal channel, so we are also at 20% of that, and the remaining 15-20% from corporate agents and others. So we are a fairly well-diversified. Obviously, the Banca part is a smaller one. So I would say 50:10:20:20 is how I would add it up.

Nischint Chawathe: In terms of product breakups?

Rashesh Shah: Almost 80% of our products basically are traditional which is par and non-par and the remaining 20% odd is on the ULIP side. On the ULIP side our performance has been very good, we have 5 funds out of 6 have got 5-star rating, but our idea is to keep ULIP not more than 30% of our overall, because the profitability on ULIP is not very high. So currently it is 80% on the non-ULIP side, and 20% on the ULIP side.

Moderator: The next question is from the line of Saurabh Dhole from ICRA Limited.

Saurabh Dhole: Two questions: One is related to the Insurance business. You said that there would be a stake increase this year. So I just wanted to know how is that going to happen – will it be a step wise thing, or will it directly go to 49% for Tokio? And if there is a shareholding pattern change, then how exactly is it going to happen – will it lead to higher equity infusion, or will it be a share transfer between the two parents? Second, you said you expect about 25% credit growth during the year. I just wanted to know which segments you think are going to grow faster than what you have predicted for the overall book?

Rashesh Shah: The first one is an easier one, we have a very simple agreement with our partners, and we truly believe in capitalizing the company. So as and when it happens, it will happen as their stake going to 49%, with capital going into that company straight away. We are hoping that in the next three to four months we will be able to announce all the details. So Insurance, as I said, we have followed a very simple straightforward and transparent structure in our agreement with our partner. The second one on the Credit side, as I said, we hope to grow at about 25% per year, our feeling is Wholesale business should grow at about 20% and Retail businesses will grow at about 30% going forward, so it will be around that range, because the Wholesale business are the older ones, which have already got some kind of scale, whereas the Retail Credit businesses are still in the growth phase.

Moderator: The next question is from the line of Adesh Mehta from Ambit Capital.

Adesh Mehta: We have seen quite a robust growth in our Mortgages portfolio. How are you seeing the competitive landscape evolving in this segment?

Rashesh Shah: We have seen a fair amount of opportunity, obviously, sales has been slow, but we have expanded a lot outside of Mumbai, so we are now present in Pune, Chennai, Bangalore and other cities also, and we are seeing a fair amount of growth on that. We are also seeing a fair amount of growth on the LAP side, so LAP as well as Commercial Mortgages have been growing fairly well, and in all our Credit businesses, we are largely Collateralized Credit we feel comfortable, because the value of collateral is still fairly intact.

Adesh Mehta: What part of our Mortgages book could be Loan against Property?

Rashesh Shah: Our developer LAP and all that put together should be about 20% of the overall book.

Adesh Mehta: What kind of yields would we be earning on LAP?

Rashesh Shah: It is usually between 13% to 14%.

Moderator: The next question is from the line of Vinay Shah from Reliance Mutual Fund.

Vinay Shah: If we look at current gearing including the GSec position we have is 7.5x at the consolidated level. If we remove the GSec liquidity which we have available, even then the gearing comes to around 6.3x, and you have mentioned we have a target of keeping it to near to 7x and considering the credit what we are witnessing, so we are looking for an equity in the near-term at the ECL Finance level also and the parent level also?

Rashesh Shah: No, Vinay, our gearing excluding GSecs is 5.8x as of 31st March, so if you want, Shailendra will show you the calculation. We can go up to 7x as per our internal norm that we have put. So with internal accruals as well as the space we have for growth, we think for the next 18-months to 2-years we are fairly okay on the equity side.

Vinay Shah: You mentioned you added some 100 to 110 employees this quarter. If I heard correctly, this was largely for the SME and Agri business, is it correct?

Rashesh Shah: Yes, it has been SME and Agri business as well as a little bit on the Insurance side.

Vinay Shah: So shall we expect a very sharp growth in the SME and Agri book compared to other segment of the Credit book?

Rashesh Shah: I would not say sharp because as I said we are seeing this business over the next 8 to 10-years so we will do this surely and steadily, but people for the Warehouse Management part of it, because that is the most important part from a risk management point of view. So we will keep on fixing that. Overall for this year we started the year with about 4,000 employees and we are ending the year at about 5500-odd employees, and all through the year we have added people across all the businesses. Agri obviously has been a growth area, my count is close to 500 people have been added on that side, but we also added quite a few people on the Retail Capital Markets also in this year, and we also added about 250 people on the Insurance side. So overall it has been steady growth and it is something that I keep on saying that all our business arms are growing, we are all growing at slightly different paces, but each one of them is going forward, and growing steadily and increasing their market share in their particular business.

Vinay Shah: And you mentioned that LAP book is around 20% of overall book, this is pure LAP book, or it also includes SME and Retail Housing?

Rashesh Shah: That is out of the Mortgages book, 20% of the mortgages book is LAP.

Shailendra Maru: That was the last question. Thank you Rashesh, Himanshu, Ranganathan, and thank you Margareth. Thank you everyone for joining us on the call. In case you have any other questions, please feel free to contact us directly, or drop me an e-mail at shailendra.maru@edelweissfin.com. We will now speak with you again after the declaration of our second quarter FY16 Results. Have a great day ahead and thank you so much.

Moderator: Thank you. On behalf of Edelweiss Financial Services, that concludes this conference. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines.

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