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Conference Call Transcript

Edelweiss Capital

Q2FY11 Results

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Corporate Participants

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Chairman

Mr. Himanshu Kaji
Chief Financial Officer

Mr Shailendra Maru
Head, Investor Relations

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to Edelweiss Capital's Second Quarter FY11 Earnings Conference Call. I would now hand the proceedings over to Mr. Shailendra Maru of Edelweiss Capital. Thank you and over to you Mr. Maru.

Shailendra Maru: Thank you Rochelle. I am Shailendra Maru – Head of Investor Relations at Edelweiss Capital Ltd. Good afternoon to all of you and thank you everyone for joining us today as we discuss Edelweiss Capital Limited's unaudited consolidated financial results for the second quarter FY11. Speaking today with you are Rashesh Shah – Chairman Edelweiss Group and Himanshu Kaji, the Chief Financial Officer.

Following the reading of the Safe Harbor Provision, I will first turn over the call to Chairman Rashesh for his opening remarks. Thereafter Himanshu will take you through an overview of our performance and the financial model. Then we will open the line for questions.

A press release and an investor presentation on our second quarter 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 expectations of the management of Edelweiss Capital Ltd. or any of its subsidiaries and associate companies. Actual results may vary significantly from the forward looking statements contained in this conference call due to various risks and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and outside India, volatility in interest rates and in the securities markets, new regulations and government policies that may impact the business of Edelweiss as well as its ability to implement these strategies. 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: Thank you Shailendra and again thanks to all of you for being on this call. We announced our results this Saturday and I hope by now you would have had a chance to see the results and the investor presentation that we have sent out.

The highlights for this quarter have been investment banking continues to do well as has been shown in the fee and commission income. The current pipeline and the activity are fairly heartening. As you know, we have a broad portfolio of investment banking products from M&A to private equity to IPOs to QIPs and in all of them we have done fairly well in this quarter and going forward also, given the state of the markets and the activity, we are fairly optimistic about this.

Second, Anagram integration has happened. We have had about two and half months of integration in this quarter and I am happy to say everything has gone well. The integration is going on smoothly and over the next three or four quarters step by step we are going to accelerate the integration process with Anagram.

Thirdly, our credit business continues to grow well, as you would have seen in the last three or four quarters. The credit book has been growing which is also reflective from the interest income growth. Interest income is now becoming more and more important than the treasury income on the capital side of the business.

Fourthly, the corporate bond business has been seeing a lot of activity. We had started building this business about 8 to 10 quarters ago and we are starting to see fruits of that. There has been a lot of activity in that business, in the private placement of bonds, now even public issues of bonds and the broking and trading on that. We have also had a good participation in that.

Broking business as a whole, both institutional and retail, continues to be under a little bit of head winds as you would have seen for the industry as a whole in the last few quarters. Pure broking business hasn't been as great as it used to be or not even as great as other businesses are and the reasons for this are that the market is not growing and client additions have not been happening on both the institution side and the retail side though there is a lot of activity. Secondly, there is a lot of activity in the futures and options segment, especially in options segment where yields are not very high. Actual cash, especially cash delivery volumes have not gone up significantly in spite of the market volumes having gone up significantly.

And the third reason has been that costs have been under pressure because as everybody is investing and growing, competition is also accelerating. So no industry growth, no yield growth or at worst yield compression along with the growth in cost have been the reasons for most of the people in the broking part of the business to face head winds and struggle. And I do think this will continue for the next couple of quarters. Total broking revenue for us for this year would be close to about Rs. 300 odd crores or so which will make it about 20% or 25% of our total revenue. So for us broking is about 1/4th of our overall business both institutional, retail, Anagram all of them put together and hence we are fairly hedged on that, but it is the part of the business that will continue to have some struggle for everybody for the next couple of quarters.

We continue to invest and grow our offshore asset management business. In this quarter we did the final close of our Edelweiss Special Opportunities Fund. We have large institutional international investors in that fund and we have started investing on that.

Our treasury business has been flattish. The yields are more or less the same as in the previous quarter. Though yields have gone up by 100 basis points as I told you last quarter, cost of capital has also gone up by 100-150 basis points, so your spreads are still steady, and as we are building our credit book and other uses of our capital go up, we are slowly-slowly scaling down the treasury book given the yields and the need for capital on the other businesses.

In this quarter we also stepped up our investments in the areas that we have been investing, such as insurance and retail.

In this quarter we have increased the head count in insurance because we expect to launch the insurance business around March/April 2011 and we have to start scaling up the entire management team for that. We have been hiring aggressively and the results of this quarter also incorporate our share, which is about 74% of the insurance company. The insurance business is a 74-26 JV between Edelweiss and the Japanese insurance company Tokio Marine. So our 74% of the burn has also come into the accounts in this quarter and it is being scaled up.

We also stepped up our advertising and marketing brand building exercise and we expect to spend between Rs. 25 to 30 crores for this year on marketing and brand building and on a pro rata basis we have spent equally in this quarter.

We continue to invest in our retail businesses. On our customer additions we are averaging about 5000 customers per month in our online business and the cost of that has been absorbed by us. So across all these investments in the insurance, in marketing & branding and the growth of the retail online business, we would have spent about Rs. 20 to 22 crores in this quarter. So if you look at the accounts you should keep in mind that there is some investment in the cost that has not been capitalized and has got captured in the employee cost and the operating cost in this quarter and we will continue to invest in insurance, brand building and retail for the next couple of quarters.

The other thing is the office that we have acquired in BKC. The interiors and all have started and we expect to move there in March-April next. We continue to carry the carrying cost of the office building which is a Rs. 400-crore investment for us. The interest cost of that goes through our books. So about Rs. 7-8 crores of that office building carrying cost is additional because currently it is an empty building until we surrender the current leases and relocate there. This is acting as a drag on our earnings.

We have grown our asset size to Rs. 8900 crores and so there has been a significant scale up on the balance sheet in this quarter. We ended the last quarter at Rs. 7100 crores. Out of this Rs. 8900 crores, about Rs. 1000 crores is IPO funding which will go away and another Rs. 500 crores or so is what we can reallocate from our treasury business into our credit businesses as we go along.

We have also started the housing finance business in this quarter and early response has been good and we are planning to scale that up. We expect in the next three to four years to have about Rs. 4000-5000 crores book on that.

Overall the market outlook remains good. From an activity level the pipeline we are seeing on investment banking and other things is fairly good, so very optimistic view on activity going forward. Broking and treasury are the current drags which we think will continue as we go along and things may not change much for the next two to three quarters for them.

We just had a conference in the US and we saw quite a few institutional investors out there and what we are seeing is that there is a big reallocation happening to India. A lot of investors are moving out of US dollar assets into the emerging markets and in this particular reallocation India is at the center stage. So India is the first choice amongst emerging markets for a lot of the international money to come and that is very heartening to see. We do believe that the President Obama's visit, which is over a week from now, is going to be a key catalyst for a lot of international spotlight coming into India and after that there are a few more events in India with Mr. Sarkozy coming and all that and we think all this will act as a catalyst for putting India even more in the spotlight from the global investors perspective.

We will continue to scale up our credit business and we continue to invest in our retail business as we go along.

So these are broadly the highlights that we have for the quarter. With that I will hand over to Himanshu to add more color and give you details on this financials for the quarter. Over to you Himanshu.

Himanshu Kaji: Thank you Rashesh. Thanks everyone for joining us on this conference call. I will briefly touch upon the second quarter numbers and then spend some time in giving you some color on the business overview and also share some of the matrices which you normally track.

Let me quickly touch upon the quarter two financial performance highlights. Our total revenues for second quarter were Rs. 376 crores, up 44% on year on year basis and up 32% on quarter on quarter basis. Our PAT was Rs. 66 crores up 2% YoY and up 8% QoQ. We continue to have a diversified revenue mix from our three main revenue streams.

Our consolidated numbers for Quarter 2 FY11 include the financials of Anagram with effect from 16th July, 2010.

For the quarter, the fees and commission income has gone up to Rs. 144 crores, a YoY growth of 79%. Out of this about Rs. 80 crores was our broking income and the rest Rs. 64 crores is other fees including iBanking, asset management, distribution and other fee income.

The treasury operations income for the quarter was Rs. 48 crores primarily on account of reduction in book size with yields remaining more or less unchanged from the previous quarter.

The interest income for the quarter was Rs. 179 crores which is a 103% YoY growth. The interest income includes an amount of Rs. 121 crores as interest on steady state loans, the balance being largely interest on our working capital assets and a smaller number for episodic IPO financing.

Our total costs for this quarter have risen to Rs. 278 crores, a sequential growth of 43%. Within the total cost our operating expenses have also gone up by a similar percentage. About half of these incremental expenses are expenses which are part of the Anagram business. Then we have spent about Rs. 5 crores on the brand promotion. Carrying cost of our new office building has also increased our cost as mentioned by Rashesh earlier. However, on a like to like basis our costs are under control.

Our PBT margin for the quarter was 26% with PAT margins at 18%. While comparing our margins this quarter we need to keep three things in mind: Second quarter of the last year was a very good quarter which was a post election quarter for the entire industry. In the second quarter this year we have stepped up our investment in building new businesses as mentioned by Rashesh earlier, and the costs also include the carrying cost for our BKC property.

Now let me give you a few other data points which you normally track. Investment banking continues to witness strong activity in ECM, Advisory and DCM. We managed 16 deals this quarter compared to 3 deals in Quarter 2 FY10 and 10 in Quarter 1 FY11. Some of the marquee deals of this quarter include one of the most significant PE transactions of this year Rs. 1350 crores raised by Moser Baer projects from the Blackstone Group, a PE placement in Thriveni Earth Movers, and the IPO of Hindustan Media Ventures.

On the debt syndication side we were the arranger for bond issues of PFC, Bank of India, Canara Bank, State Bank of Hyderabad, SBI Global Factors, Sundaram Finance and Infotel Broadband. As mentioned by us in our previous calls, we have placed long term bonds for large Indian corporate houses like the Tatas and Reliance and large PSUs like SBI, Power Grid Corp, REC, PFC, Bank of India etc.

The corporate bond syndication desk continues to be a major player in debt market and is ranked second in the commercial papers placement and third in short term bond placements by amount mobilized in Q2 FY11 as per Prime Database.

With this, we have had a total of 26 deals in the first half of this year compared to 33 deals in the entire last year across ECM, Advisory and DCM. We continue to have strong presence among both public and private sectors and mid to large corporate. The deal pipeline continues to be strong.

Brokerage businesses: On the broking side our average daily volumes for the quarter have been Rs. 5388 crores compared to Rs. 4080 crores for the previous quarter. Within this, the client broking volumes this quarter were higher at Rs. 2894 crores compared to Rs. 1870 crores in the previous quarter. This includes Anagram’s clients’ broking volumes of around Rs. 630 crores. We continue to grow market share in this business.

Our broking yields on client transactions are lower at 4.25 bps for the second quarter compared to 4.60 bps in quarter one due to higher proportion of options in our product mix. This has in fact resulted in an increase in our market share for the options sub segment. Our total ADV at Rs. 5388 crores gives us a market share of 4.4% for the quarter compared to 3.7% in quarter one.

Our research, which provides a strong support to our broking business, now covers 179 stocks across 18 sectors covering over 70% of market cap. During this quarter, we held our sector specific EdelPulse Conference on CAPEX. The conference drew tremendous response with participation of about 50 investors, facilitating over 500 meetings in the day-long event.

We have also hosted the prestigious 7th India Investment Forum at New York earlier this month in association with Institutional Investor followed by our annual UK-Europe conference in London. It drew participation from a large number of institutions and direct investors from across the world, government representatives including the honorable finance minister Mr. Pranab Mukherjee, and senior executives from Indian and global corporates.

Capital businesses: Our steady state loan book at the end of the quarter was Rs. 3112 crores compared to Rs. 2562 crores at the end of the previous quarter. In addition, we had an episodic funding book of Rs. 919 crores at the end of this quarter. The loan book comprises of loans granted against securities. In this quarter we have revised the way we present the composition of our loan book. As on 30th September this year our steady state loan book comprised of loans to promoters of Rs. 179 crores, loans to corporates of Rs. 1924 crores and retail loans account for the balance Rs. 1009 crores.

With the sentiments in the IPO market improving Edelweiss has been quick to convert opportunities into business. During the second quarter, we have financed 12 IPOs apart from being active in giving short term loans. The steady state loan book is adequately collateralized with an average collateral cover of over 2.7 times at the end of the quarter. As we mentioned in our earlier calls, we avoid sector or industry concentration in our financing book. As of 30th September the top three sector exposures are construction and realty at 15%, IT and Telecom at 12% and entertainment at 11% of the book. The yield on the steady state loan book is stable at 15.6% for this quarter. The health of our financing book continues to be satisfactory with gross NPLs at less than 1%. The 50 bps prudential general loan provisioning continues.

Our housing finance business has been launched this quarter and we expect to see it scale up in FY12. We are also diversifying into SME and infrastructure loans. We continue to look for expanding the finance book especially the retail margin funding book.

The average treasury book size for the quarter was about Rs. 1300 crores with gross yields of about 14.8% per annum and net yields of 9.6%. The amount of bank fixed deposits and other bank balances was Rs. 1505 crores at the end of the quarter.

Our total group net worth including minority interest now stands at Rs. 2809 crores, and excluding minority interest it stands at Rs. 2236 crores. Goodwill on consolidation has been adjusted against the capital reserve during the second quarter. Our total balance sheet size at the end of the quarter was Rs. 8916 crores with borrowings of Rs. 6106 crores. This implies a gearing of 2.17 times including the minority interest. If we remove the episodic funding book, the gearing is at 1.85 times. Our average cost of borrowing for the quarter has gone up to about 8.5% reflecting the current market conditions.

Now to cover some other business updates for the quarter. Edelweiss continues to build retail businesses both in retail broking and IPO distribution. We currently have about 75,000 customers through our portal www.edelweiss.in and we continue to add new clients at a healthy pace. Our internet portal now also offers a facility of investment in mutual fund units online. We have also launched mobile trading on BSE in September 2010 and hope to launch the same for NSE soon. During the month of July 2010 we completed the acquisition of Anagram Capital. As we have mentioned in the previous call, this would help us in expanding our retail broking and distribution businesses with minimal overlap with our current operations. As of September, 2010, Anagram has 140 own branches, 53 franchisee offices and 1300-plus sub brokers. It has over 2,11,000 clients now. Thus the total number of our retail clients now is over 2,85,000.

We continue to build our wealth advisory and investment services business. Under this new strategic initiative we offer a truly multi asset class bouquet of various products.

On the distribution side, Edelweiss continues to be a leading player. For the half year ended 30th September, 2010 we are ranked third in the HNI category with a 17% market share and are ranked fifth in the retail category with a 6% market share in total amount mobilized in IPOs as per Prime Database.

At the end of the quarter, our AUMs or AUAs under the alternate asset management business are at US $321 million equivalent compared to a quarter one number of USD 264 mn equivalent. ESOF, our latest fund, has achieved its final closure. The focus on 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 quarter were Rs. 223 crores under four equity and six debt schemes.

On the organizational front, we have regrouped our businesses into strategic business units to reflect the commonality of the business drivers, resources and back end. The new structure would help us more in focusing on the performance of various businesses.

To sum up, while we continue to scale up our existing businesses we are also confidently looking to invest in new initiatives in financial services with an eye on building for future growth. With this I would like to conclude and open the bridge for your questions. Thank you.

Moderator : Thank you very much. Ladies and gentlemen. Our first question is from the line of Viraj Gandhi of ICICI Securities, please go ahead.

Viraj Gandhi: Can I get the blended yields without Anagram volumes for this quarter?

Shailendra Maru: It is 4.21 bps.

Viraj Gandhi: And sir in our loan book what is the net interest margin we are targeting because we are scaling up the size very rapidly and the NIMs expansion should not be a problem. So the NIMs if we are targeting going forward would be what sir?

Rashesh Shah: See our strategy on that has been to get NIM between 4 to 6%. But what has happened in this quarter - the yields have not gone up because we are still getting only 14% to 15%, and the cost has gone up by about 100-150 basis points. So we will average between 4 to 5% points as the NIM. This quarter it might have been closer to 4%.

Viraj Gandhi: What is the interest cost that we are carrying on our book for our new office building for this quarter, if we can quantify the same out of the total Rs. 121 cr?

Rashesh Shah: We have not currently exactly borrowed against that building but about Rs. 400 crores is the purchase price of that building. So on Rs. 400 crores you just calculate interest at say 10% a year, it will be Rs. 40 crores a year and so that comes to about Rs. 10 crores a quarter. As I had said we estimate that about Rs. 8 crores a quarter is the earnings drag at the PBT level.

Viraj Gandhi: And sir this office building is expected to get completed by the last quarter of this financial year, right?

Rashesh Shah: Yeah we expect to move there somewhere between March or April of 2011.

Viraj Gandhi: And sir our present employee strength will be what?

Shailendra Maru: Our employee strength now is 2383 including the Anagram employees.

Viraj Gandhi: And that number will be what excluding the number for Anagram, the employee strength?

Shailendra Maru: We have 1304, Anagram has 1079, so that makes it a total of 2383.

Viraj Gandhi: Okay, and sir one last question. Can I get the break-up of our loan book on the Rs. 3100 crores in terms of LAS/margin funding?

Shailendra Maru: Rs. 179 crores is the promoter funding, then there are the corporate loans of Rs. 1924 crores and the margin funding is all clubbed under the remaining retail loans.

Viraj Gandhi: Okay. Thank you.

Moderator: Thank you Mr. Gandhi. Our next question is from the line of Sharanya R of TickerPlant, please go ahead.

Sharanya R: What is the revenue mix for the Tokio JV at this time?

Rashesh Shah: In insurance business we have not even started the operations. The JV with Tokio Marine is for the insurance business which as I said we expect to start by March or April 2011. We are awaiting regulatory approvals for this. But we are investing in that by hiring people and building the team and investing in the systems and processes and technology now. So, the cost is coming now which is like an investment but we are not capitalizing that cost. So this is going through our quarterly earnings.

Sharanya R: Okay. And in the presentation you have mentioned the fee income as a percentage of total revenues for the quarter has been reported 38% and for the half year it is 36% flat and the other thing is your interest has gone up from 35% in FY10 to 46% for the half year. Could you please justify on that?

Rashesh Shah: Our interest income has grown because the asset book has grown from Rs. 7100 crores to Rs. 8900 crores during the second quarter. So as we are building the asset side of the business which is largely happening in the loan book, the interest income as a percentage of total income has gone up.

Sharanya R: Okay. The acquisition of Anagram Capital, how is the company performing since it has been acquired and going forward how much does this company expect in terms of revenue?

Rashesh Shah: As we have earlier said, Anagram integration has been going well and in this quarter from what you see in the results, which is about two and a half months, Anagram has about Rs. 28 crores of revenue and Rs. 24 crores of costs. So about Rs. 4 crores of the pretax profit has come from Anagram for two and half months. So we expect Anagram to do about Rs. 18 to 20 crores of pretax profit annually which is what we have indicated when we made the acquisition and it has come true in spite of the problems in the broking industry.

Sharanya R: Okay. Thank you sir and all the best.

Moderator: Thank you. Our next question is from the line of Megha Gupta of Birla Sun Life, please go ahead.

Megha Gupta: I wanted to check on the gross NPAs in ECL Finance which you mentioned less than 1%, what would be the absolute quantum of gross NPAs as on September 30th?

Himanshu Kaji: It is Rs. 33 crores.

Megha Gupta: This is up from around Rs. 13 crores as of March 2010, is that correct and what would account for the increase?

Shailendra Maru: Megha I will just clarify that Rs. 33 crores is on a consolidated level.

Rashesh Shah: ECLF is Rs. 13 crores and Rs. 33 crores is Edelweiss as a whole consolidated.

Megha Gupta: Okay but what would have been Edelweiss as a whole consolidated as of say March level?

Shailendra Maru: That was Rs. 13 crores as you correctly mentioned.

Megha Gupta: Okay. So basically if we exclude IPO financing book and just take the steady state loan book into account what really is the driver of these NPAs in this segment? Is it the corporate loans because retail LAS and promoter funding may not have those kind of NPAs?

Himanshu Kaji: Yeah, based on the RBI's provisioning policy we have a particular account on which we have made a requisite substandard assets provision.

Rashesh Shah: Because even in cases where we have the collateral with us as long as interest payment is not happening, we have to call it NPA. In all the cases we have enough collateral on hand. So when we liquidate the collateral and recover the loan it comes to us but as per RBI rules for NBFCs we still have to provide for the NPA. We have enough collateral cover even for the one that has been classified as NPA.

Megha Gupta: Okay. Thank you sir.

Moderator: Thank you Ms. Gupta. Our next question is from the line of Aparna Karnik of DSP BlackRock, please go ahead.

Aparna Karnik: You had mentioned that your total asset book has grown to around Rs. 8900 cr, and you also gave the breakup in terms of about Rs. 179 crores being loan to promoters, about Rs. 1900 crores being loans to corporates, around Rs. 1000-odd crores being retail funding, and you also said you have a treasury book of around Rs. 1300 crores. This is roughly around Rs. 4400 crores, so could you just give us a sense of the balance assets, where would they be sitting?

Rashesh Shah: I will give you the exact break-up, by the end of the quarter about Rs. 1400 crores was the treasury book, Rs. 4000 odd crores is the credit book, which includes as I said episodic book of about Rs. 1000 crores. Episodic is mainly IPO funding. Then we have working capital assets, which are used for the broking business and everything else, about Rs. 2200 crores. it is largely things like FDs we have with the bank for exposure management on the broking side because as you know our average trading volume is about Rs. 5300 crores a day and so we need to also manage large exposure with the exchanges. So the working capital assets are mainly for the agency businesses. The remaining about Rs. 1200 crores are our investment in corporate assets including the Rs. 400 crores in the office building.

Aparna Karnik: Okay. Thank you.

Moderator: Thank you Ms. Karnik. Our next question is from the line of Manish Shukla of Deutsche Bank, please go ahead.

Manish Shukla: You said the loan book will come under new classification for this quarter. Can you give it for the previous quarter and year ago period also?

Shailendra Maru: Manish, as on 30th June promoter funding book was at the same level of Rs. 179 crores, the loans to the corporate were Rs. 1711 crores and the balance were the retail loans at Rs. 672 crores.

Manish Shukla: And September of last year?

Shailendra Maru: We have not reclassified it that backward but we will continue to give this break-up now onwards in future. I may add that our September ’09 total loans were just under Rs. 700 crores.

Manish Shukla: Okay. And just continuing with the previous question, about Rs. 7250 crores is the loans and advances number on the balance sheet. So this includes loan book and episodic funding, right and your treasury book as well.

Rashesh Shah: The way to add it up is Rs. 1400 crores in the treasury assets, Rs. 4000 odd crores are the loans, Rs. 2200 crores are the working capital assets and the balance Rs. 1200 odd crores is in the corporate and fixed assets.

Manish Shukla: Are the cash and bank balances separate from your working capital?

Rashesh Shah: Working capital assets include the cash and bank balance because a lot of working capital is either as FDs in the bank or cash in the bank.

Manish Shukla: Okay got it. Thanks.

Moderator: Thank you Mr. Shukla. Our next question is from the line of Ambrish Sukhani of Amansa Capital, please go ahead.

Ambrish Sukhani: Just a quick clarification on this balance sheet on the loans to corporates, obviously this is a segment which is growing significantly, could you just give some color on both the nature of the reclassification as well as, have you seen a significant change in the nature of the loans that you are giving to these corporates over the last couple of quarters?

Rashesh Shah: See a large part of all the loans are collateralized by some liquid collateral or the other. Our average collateral cover continues to be between 2.5 to 3x of the loan value. Some of the loans are loans to the company but collateralized with the stock from the promoters. Some of them are to the holding companies of groups where they are using the money to invest in newer businesses that they are starting. But all the loans are collateralized and the average collateral cover is between 2.5x to 3x. So the collateralization part has not changed at all.

Ambrish Sukhani: So Rashesh also from the nature of funding then if I understand this is pretty much what you used to be doing even in the last few quarters. Is this that now you are making a segmentation between direct loan to an individual promoter entity versus maybe a holding company or a company or the company level lending basically but the nature would only remain same?

Rashesh Shah: Absolutely right.

Ambrish Sukhani: Okay, fair enough. Thanks so much.

Moderator: Thank you Mr. Sukhani. Our next question is from the line of Shrey Loonker of Reliance Mutual Fund, please go ahead.

Shrey Loonker: You mentioned in your opening remarks that significant client additions are still not happening in the retail space. What in your view would be that trigger or what is restraining the increasing penetration there? That is questions #1. Question #2 is on the working capital assets you mentioned we have something in excess of Rs. 2000 odd crores for our brokerage business. What in your view is this steady state working capital requirement that can be demanded by a broking business given the fact that going ahead increasingly more amount of treasury assets will be reallocated to the credit book thereby overall volumes coming down? Third, just wanted to get some sense on the pricing power on the credit book that we have, you did mention that quarter-on-quarter there has not been an increase on the yield side but just wanted to understand how easy or how difficult it is to pass on to the customer that we have?

Rashesh Shah: : The first one, we think currently the rally that has been, a lot of the retail investors are still skeptical of the rally and for a lot of investors they have got back their own cost prices. So everybody is exiting because the scars of 2008 are still fresh in everybody's mind. Once the market stabilizes around the 20,000 level and another couple of quarters go by and plus if in some of the IPOs people make money, is when the confidence and the optimism for the retail investors will come back strongly and after that we will start seeing growth of client base on both retail and institutional also. So we are two to three quarters away from that happening. As you may be aware, our estimate is that there are about 8 million brokerage customers on the retail segment and that segment has not grown for the last almost 3 years. So may be another couple of quarters and we should start seeing growth coming back in that. The other trigger will be the fall in interest rates because currently FD rates have also gone up so it is easier for somebody who wants to be safe to just keep the FD in the bank instead of investing into equity markets. But hopefully if inflation comes down and FD rates and all start coming down, equity investing will start becoming attractive again. We think it is about two to three quarters away. That is our hypothesis.

Second question, Rs. 2200 crores of working capital assets out of which we actually maintained a liquidity cushion of about Rs. 300-400 crores so about Rs. 1700-1800 crores is used up largely in the brokerage business and the balance about Rs. 100 crores other working capital assets, receivables and all of that. For the kind of broking volumes we do, and especially given the peak requirement because this also keeps on changing everyday, I would say Rs. 1000-1200 crores will be the amount required for the broking business as we go along and may be Rs. 300-400 crores fluctuations may be there as we go along. As you know we have a fairly large market share of institutional F&O business. Institutional F&O business is good and a profitable business but is also highly working capital intensive. Especially in the last 8-10 days of the month, the expiry week as we call it, it is actually very capital intensive and you also have the uncertainty of requirements. Suddenly in the morning you will get quite a few orders of rolls and you need to have your own capital and exposure available to be able to execute that.

And the third question was the pricing power of the credit book - the pricing power will not come back. What will happen is interest rates will go down. As you know in the last year or at least the last 7 to 8 months short term rates have gone up by 200 to 250 basis points while the yields have not gone up, at best certain yields have gone up by 40 to 50 basis points. So there is a compression of spread between the short term rates and the yields of about 150 to 200 basis points at least. Out of that at least 100 bps should come back once we start seeing short term rates coming down. We are about 3 to 4 quarters away from the rates starting to go down. So over the next few months the spread will remain the same and then you will start seeing your cost of capital come down. I do not think your yields will go up as of now from the indication we have in the marketplace.

Shrey Loonker: Sure, but sir on the working capital I just want one clarification, the Rs. 1000 to 1200 crores plus-minus Rs. 200 crores is the number after factoring in the allocation of assets from the treasury book to the credit book?

Rashesh Shah: Actually the treasury asset that we say about Rs. 1300-1400 crores include their own requirement for exposure. So this working capital is for client business alone.

Shrey Loonker: Okay. Thank you very much sir.

Moderator: Thank you Mr. Loonker. Our next question is from the line of Ritesh Nambiar of UTI Mutual Fund, please go ahead.

Ritesh Nambiar: Just wanted to know the liquidity of the shares which you are funding, in the past you have mentioned the liquidity pattern. As your book has grown, has the liquidity quality deteriorated by any chance?

Rashesh Shah: I hope not. As you see the liquidity in the market has gone up and we have a strong appraisal process where we look at the credit worthiness of the borrower, the liquidity of the collateral, the underlying fundamentals of the business, and all of that has been the same as it was. We have not relaxed our credit or underwriting standards if you are asking that.

Ritesh Nambiar: Okay so based on the turnover what kind of liquidity, how many days it would be?

Rashesh Shah: It actually varies from company-to-company, collateral to collateral. There is no standard that we have but we have adequate liquidity and as I said for the last three years, through good market and bad markets we have not had any problem on liquidity of shares as collateral up till now.

Ritesh Nambiar: And the second part of the question was regarding as you have mentioned that the short term rates have actually shot up in the quarter. What exactly happened on the treasury book carry side, in fact that yield has slightly compressed or it is flattish on that side?

Rashesh Shah: See if you go back to the fourth quarter of the last year, the gross yield on treasury book was about 11.5% and after cost the net yield on that book was about 7.5%. So we were having a 4% spread on that. What has happened now is that the cost has gone up to about 10% and the yield has gone to 14-15%. So as your cost has gone up, yield has also gone up on the treasury book, so we still have a 4 to 5% spread on that business.

Ritesh Nambiar: Okay but do you borrow for your arbitrage book?

Rashesh Shah: We have a global balance sheet because the treasury book is like the heart in the body, it keeps on absorbing capital and releasing capital as people need. So we do not do any specific borrowing for the treasury book. It is the excess capital that we either borrow or the capital for liquidity management and all. That is how it works for all the banks. If you see how the treasury is operated for a bank, we operate our treasury philosophy on the same lines which should be the liquidity management arm of the institution.

Ritesh Nambiar: Okay. Earlier a couple of quarters before you had mentioned that the liquidity of your balance sheet, 33% of your assets could be liquidated in few months. Is it the same currently?

Rashesh Shah: I would assume so because the treasury assets are very liquid, our working capital assets are liquid and out of the credit book of Rs. 4000 crores almost Rs. 1000 crores is episodic, which is IPO funding which obviously comes back fast and I would assume out of steady state book of Rs. 3000 crores almost Rs. 1000 crores will be due in the next six to eight months because usually the tenure of the loans is about 18 to 24 months. So a large part of our balance sheet is very liquid.

Ritesh Nambiar: Okay. Thanks a lot.

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

Vinay Shah: I have a question about our loan book expansion plans by or leverage by year end?

Rashesh Shah: See currently we are at about 1.85 times leverage, we should be somewhere between 2 to 2.25 times by end of this year. As we had said in the last quarterly call we expect to be three times by FY12. 3 is to 1 is our internal target by FY12.

Vinay Shah: That is 3 is to 1 in absolute term?

Rashesh Shah: In absolute terms, our net worth will be let us say over Rs. 3000 crores by FY12, then we should have about Rs. 8500 to 9000 crores of borrowing. So asset base of about Rs. 11,000 to 12,000 crores by FY12 is what the internal target we have. Currently we are at 1.85:1.

Vinay Shah : Okay and considering a foray into housing finance and other SME financing, will all these financing be through a separate subsidiary or ECL Finance?

Rashesh Shah: For all the wholesale financing even SME, we might do it through ECL Finance only. For housing finance we have a separate subsidiary which is approved by NHB. It is an HFC, Housing Finance Company through which all the housing finance activity will happen.

Vinay Shah: Okay. Thank you.

Moderator: Thank you Mr. Shah. Ladies and gentlemen, this was the last question. I now hand the conference over to Mr. Shailendra Maru for closing comments, please go ahead sir.

Shailendra Maru: Thank you Rashesh and Himanshu and thank you everyone for joining the call. Thank you Rochelle. In case you have any other questions please feel free to contact us directly or drop me an email at shailendra.maru@edelcap.com. Have a great day ahead. Thank you so much for joining. Good bye.

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