EDELWEISS CAPITAL LIMITED
QUARTER 2 FINANCIAL YEAR 2009 RESULTS
CONFERENCE CALL TRANSCRIPT

24th OCTOBER 2008

Moderator: Good afternoon ladies and gentlemen. I am Triveni, the moderator, for this conference. Welcome to the Edelweiss Q2FY09 conference call. After the presentation, the question and answer session will be conducted for participants connected to India Bridge. After that, the question and answer session will be conducted for participants in International Bridge. Now I would like to handover to Shailendra. Thank you and over to you, sir.

Shailendra: Thank you, Triveni. I am Shailendra Maru, Head of Investor Relations for Edelweiss Capital Limited. Good afternoon to all of you and thank you everyone for joining us today as we discuss Edelweiss Capital Limited's unaudited consolidated financial results for the quarter and half year ended 30th September 08. We have with us Rashesh Shah, Chairman Edelweiss Group; Rujan Panjwani, Head of Prinicipal Businesses; and Deepak Mittal, the Chief Financial Officer.

Following the reading of safe harbor provision, I will first turn over the call to our Chairman, Rashesh, who will deliver his opening remarks. There after Deepak will take you through an overview of our performance and financial model and then we will open the lines for Q&A. The press release on Q2FY09 results of Edelweiss Capital is available on our website, **www.edelcap.com**.

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Rashesh Shah: Thank you Shailendra and hello to everybody. First of all, thanks a lot for taking the time out for this call. I am sure we are in fairly unprecedented times and I think what is happening in the markets all around us especially today, these are not the easiest of times. So thanks a lot for participating on this call. I am sure many of you would have seen the financial details of the Q2FY09 that we have released.

We had revenues of about Rs.249 crore, close to Rs.250 crore with expenses of Rs.167 crore which gave a pretext profit of Rs.82.4 crore and after providing for Rs.32.5 crore of tax, we have a profit after tax of Rs. 49.9 crore and then we take out the minority interest and we have ended up the quarter with Rs.43.6 crore of profit after tax which results in Rs.5.5 quarterly EPS on a fully diluted basis. Obviously, more than just the quarterly figures I think what has been weighing on everybody's mind, all investors, everywhere in the world is that these are fairly unprecedented times. I don't know a lot of people who have seen Indian markets fall by 35% in one month, and we are in the middle of that but I am sure everybody is aware there is a lot of uncertainty, challenges, and I think things like business model and balance sheet are getting tested as we speak now. So in the middle of all that, I just wanted to highlight on what are we doing, (a) what has happened in the quarter, (b) what are we doing, and basically on the short term, we are very clear we are going to focus on cost, and risk and liquidity.

On the longer term, I think the world is undergoing a change or has undergone a change which will have impact on business model, evolution, you know, the entire regulatory environment and then we all are introspecting around that and I think these are the times business models in all industries, especially ours will evolve and modify themselves.

In terms of impact on Edelweiss as we had mentioned in the last call also, things are slowing down. I think they are slowing down a lot faster than we think, and overall capital market activity is down, IPOs are almost to a standstill and what we have seen is a complete market fall and this threatening market is leading to lower volumes and overall much lower activity. As a capital market facing firm, we are obviously in the middle of it. We do get impacted on the business performance because of that which is reflected in our overall quarterly figures.

The other notable thing in the quarterly figures when we compare on the Q2 of the last year is the operating cost. In the last year same quarter, our operating cost was about Rs.49 crore which has gone up to Rs.72 crore, but this Rs.72 crore includes about Rs.25 crore of STT which, for those of you who are familiar with STT, from April 1st this year, STT has now become an expense as compared to an advance tax. So we have now taken that as part of the operating cost and Rs.25 crore has been added as a result of that. If you take that out, then on an operating cost and other expenses basis, we were slightly down on Q2 FY '08 to Q2 FY '09. So as we analyze the result we should understand the impact of STT which has been unfortunate and has come about in a year in which, you know, all other things such as growth and market activities are slowing down and it is hitting everybody. Our approach to this particular environment is still the same; for ongoing business, it is business as usual.

As we have spoken earlier, we do put a lot of emphasis on our balance sheet side, keeping it very liquid. Our entire group net worth is about Rs.2400 crore before minority interest and we have aggregate borrowing of about Rs.1000 crore on top of that so we are about Rs.3400 crore balance sheet. This has shrunk a little bit from what it was last quarter which was about Rs.4,500 crore. So the balance sheet has shrunk a little bit because of commercial paper market coming to a standstill and we are staying fairly liquid. We have been able to shrink the balance sheet as the market environment demanded that and our focus on the businesses goes on.

We do monitor our market share and our market volume activity and we are as per market. In our analysis in this quarter, we have not gained market share nor have we lost any market share. As the value has fallen in the market, obviously in our estimate the institutional equities commission market has fallen by about 40%. If it was 100% a year ago, it is now about 60% and we have seen the same impact in our brokerage volumes.

On the business side, we still are episodically looking for growth. We have started on the distressed asset business including applying for an ARC license. We think there is a large opportunity in that. It is an adjacent market and it is along the same expansion in the credit businesses that we have been embarking upon.

We started our asset management company. We have launched a few debt schemes. This is not the best of times to hugely scale up these businesses and I think it is a great time to be launching it because historically we have seen when businesses start off in hostile environment, they usually end up becoming a lot stronger. I think our AMC has started off this way.

We are very keen on developing this platform and grow it in an incremental manner. We were anyway not looking for a huge impact and a large growth and that is why we didn't spend a lot of money on advertising. Our idea is to start a few schemes and we are looking at equity schemes and with this kind of markets, if you continue to be bullish about overall long term growth opportunities in India, I think these are good times to start equity asset management business.

We also collaborated with Union Bank of India to provide wealth management solutions to their HNI clients. Our retail financial products distribution business has started. We are now distributing insurance and other financial products for other manufacturers and we are going to keep on investing in that. Overall for us a lot of things have been business as usual – in investment banking we have closed about 6 transactions in the first half, 3 were in this quarter; we were also awarded the Best Merchant Banker award by Outlook Money and NDTV Profit recently this month.

On the institutional side, our coverage goes on and we have maintained all the coverage that is there. Asset management, we still have about $600 million under advice or management; for most of the asset managers, as the values have fallen in the market, their AUMs have also fallen in line with fall in markets. We have been more or less stable because our asset management is more on the alternative side which is more linked to arbitrage and other products.

We have been fairly consistent in our approach and have huge focus on risk management, with a conservative approach to balance sheet. Our gearing is also at a very manageable level and so on the business side, we believe the next couple of quarters, everybody needs to hunker down, focus on risks, liquidity, cost, episodically look for opportunities here and there, but I think the coming year will test all the businesses. We do believe that this is not the time to focus on only the profit and loss account; I think margins will get compressed. Volumes will go down and you cannot fight that, but what you really can focus on is on the balance sheet side and we are focused a lot on keeping the balance sheet clean and liquid and flexible and that has historically been one of our key strengths and we have just maintained that and enhanced on that.

As we look forward, we do believe that ultimately for a financial services firm like ours the 2 core resources you have are your people and your capital. That is why there is a much more intense focus on the balance sheet as compared to the P&L. On the people side, we have still invested in HR processes, identified new leaders & been coaching them, mentoring them, and on to organization side, we do feel that we have been very robust and we have used the opportunity to strengthen it and as people go through this trying times, we do believe that we will have a fairly large bench of good leaders coming out through this. In terms of the outlook, all of us know that challenging times will continue for some time. We do believe the next maybe couple of years will be, you know, very challenging.

India growth story will get questioned and tested. The India story has been a growth story but I think a lot of emphasis on cost and profitability and risk management would be required as we go along and we have always believed that if you have some control on costs with a variable component, you can manage. We still have about 50% of our overall cost which we call as basically variable.

So as long as we can do that, I think in the next 3 or 4 quarters we can ride it out, put our head down, focus on strengthening the organization, and we should be okay, and maybe episodically look at some acquisition opportunities because obviously in the coming year there will be some acquisition opportunities, valuations will be down, and if we have a solid balance sheet, there will be a time to use that. So I think that is the key and the senior management of the company is focused on basically hanging on, keep the outlook subdued, not be trying to score many boundaries but focus a lot more on cost flexibility, make sure your revenue stays as diversified as possible; coincidentally if you have analyzed, our current revenue for this quarter is 30% from fee and commission, 30% from treasury and arbitrage, and the balance 30% from interest income and 10% is others. So we have achieved the one-third, one-third, one-third distribution that we have spoken about on the earlier calls and we think that if we can maintain that, then all parts of the businesses are fairly stable and then keep the gearing low, keep the balance sheet extremely flexible and clean and then we should be okay.

And I think with that, I will handover it over to my colleagues Deepak Mittal, our CFO who can just give a little bit more color on the financials and then we will be open for questions and answers.

Deepak Mittal: Thank you Rashesh. Just before we open for questions, I thought we will just run you briefly through our results. As you would have already seen the total revenues for this quarter have increased by around 16% on a year-on-year basis and are Rs.2496 million and our profit after tax for this quarter is Rs.436 million which is down 23% over the same quarter last year. Just to look at the break up of the revenues, our fee and commission revenues, which include revenues from broking, investment banking, asset management, and other fees, are Rs.678 million vis-à-vis Rs.925 million for the same quarter last year. These numbers of course have been impacted by the slowdown in capital market activity and more specifically in the primary issues.

Our treasury business has been reasonably stable despite the impact of STT and general slowdown in the market. The total income from this particular stream was around Rs.853 million. This compares to Rs.758 million for the same quarter last year and, as I have said on various calls, our focus in this particular part of business has always been on preservation of capital and we continue to monitor risk strongly and focus on liquidity across this business. The wholesale financing business, which was one of the fastest growing businesses, has stabilized and currently has an asset base of around Rs.11 billion at the end of quarter. The total interest income as a result has increased to Rs.844 million compared to Rs.316 million for the same quarter last year. Just a point to note, the interest income includes income from financing business and interest on various deposits which we keep at the bank for our broking business.

If we look at the overall results for the half year, our pretax margin is still around 36% and this is despite, you know, what has been a very difficult environment for the first half year as well as a point which Rashesh also made is the impact of STT on our business…that is securities transaction tax. If you look at the half yearly results, the total securities transaction tax amount was Rs.496 million.

Coming back to our balance sheet and Rashesh spoke about it briefly, but I think I would also like to touch upon that. Total group net worth stands at Rs.24 billion now and we have a leverage of around Rs.10 billion which makes the total balance sheet size as Rs.34 billion or so.

I think one important thing is also to note on the asset and liability management side. We were able to manage our liquidity very well and during the entire liquidity tightening processes, I am happy to report that we have no problems on the liquidity side; we were very liquid throughout and that has helped us a lot in managing the businesses during this relative timeframe. I just want to repeat what Rashesh said…our focus going forward would be (a) on cost control, (b) risk management continues to be our top priority and over and above that liquidity management. Thank you for spending your valuable time and we would be open for taking questions now.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session for India participants. The first question comes from Suresh from Deutsche Bank.

Suresh: Hi Rashesh. I just had a question on your loan book which is of Rs.1100 crore, this is basically promoter funding and you know loans against ESOP funding, etc. How are you able to manage risks in this environment, particularly when the market is so volatile, they have crashed in fact completely? Just wanted your perspective because I think what would be the collateral at the time of origination versus what would be the collateral value currently, do you see more risk on this particular book?

Rashesh Shah: Yes, this is obviously the foremost question that everybody would be contemplating. We have… as we spoke on a couple of earlier calls, we have been very focused on maintaining high collateral coverage and I think even when the market was very robust, we did walk away from a lot of opportunities where there were many opportunities for getting collateral cover of only 140%-150% times the loan amount. The average collateral cover we have is between 2.5 times to about 4 times of loan amount.

Suresh: That is at the time of origination.

Rashesh Shah: No, no, being from the market side, we have a daily top up that we monitor on an intra-day basis also. For example if a loan was at 2.5 times, then at 2.25 times there is a top up call that automatically goes out and you get the additional shares; if you don't get them then, then you know there is a risk and it is an event of default. Most of the companies have maintained collateral cover and so we even today after the fall, today that happened, we are still at about 2.75 times the loan value because it gets constantly topped up and we follow that. There were a lot of opportunities where, you know, people didn't want to do constant top up and offer only one time of collateral. But our product has been designed with a constant top up. And everyday we keep on getting more and more collateral. We get cash top up also. We also have some rules on getting cash top up.

Suresh: Yes, that's fine. Thanks so much.

Moderator: Thank you very much sir. The next question comes from Ashish from Lucky Securities.

Ashish: Good afternoon Rashesh. I just wanted to get your sense on what would be the targeted ROE during these kinds of dog days; I mean would you be able to surpass 15%-16%, what is your target in these kinds of times?

Rashesh Shah: I think in this kind of times, there are 2 things you do. One is focus on the balance sheet versus P&L. We have been a lot more focused on making the balance sheet liquid and flexible which some times affects ROE. Even 3 or 4 months ago, when there was a lot of borrowing available by a weekly and a monthly commercial paper, we have stayed away from that because we didn't want to overly leverage the balance sheet and to push up the ROE. So we have been actually shrinking the balance sheet while all this has been going on only to maintain liquidity and solidity of the balance sheet. However, I think a good target would be 10%-15%. If you cut very sharply and give away some of the growth initiatives, you can theoretically go to 14%-15% also, but I think if you can maintain a 10%-15% kind of a range, you are doing fairly okay. Along with that ROE if you are also maintaining the balance sheet and maintaining your other resources like people development, etc. it should be fine. We are still investing in people development. We have not cut down on training because we think this is a good time to invest in training.

Ashish: Okay and the second question is what about the investments in the retail business and all that - is that now an agenda item or it is slightly to be kind of away from what is out there?

Rashesh Shah: No, we are going after that. In retail, there are 2 parts, one is the retail brokerage business and the other involves the retail financial products distribution business. Our retail financial products distribution business is being rolled out fairly aggressively but the way the retail financial products distribution works is we work on a lot on what is called the feet-on-street (FOS) model and a lot of the costs are borne by the manufacturers so we have back to back arrangements with insurance companies who pick up the cost. We, ourselves, are not investing a lot of money. There is a lot of management bandwidth that is going in that and we now have about 400 or so agents out there and we are ramping it up to go to about 1000 agents by March selling insurance and other products and we will have 8-10 corner shop offices by March. So we are not spending a lot of money. I think we had originally allocated about Rs.32 or Rs.40 crore for this business, we will under spend on that but we will invest on that business because I think it is a growth opportunity. But we are making sure a lot of our costs are underwritten and covered.

Ashish: Thanks for that.

Moderator: Thank you very much sir. We have next in line Srikanth from Nomura Securities, over to you Srikanth.

Srikanth: Yes, hi, just a question on the loan book again. One is could you just refresh us on the composition of the loan book? I mean…what I am trying to get at it is broadly in terms of how much is come out of promoter financing, and how much would be on the retail individual type financing, if you can give us this information?

Rashesh Shah: A lot of that about 80% would be on the promoter funding and the balance we do basically margin funding, we do ESOP financing which has been an innovative product that we had developed. We also do mutual fund financing for investors and so on. So overall it is about 80% promoter funding.

Srikanth: Okay, 80% and the duration would be 12-18 months?

Rashesh Shah: I would say between 6 months to 15 months or so.

Deepak Mittal: I just wanted to add… all our book is collateralized loans. There is no unsecured lending and we don't do any kind of retail loans or any other loans backed by other illiquid collaterals.

Srikanth: Yes, I mean, all our loans against shares and presuming….

Deepak Mittal: Yes, that's right.

Srikanth: But that I wanted to break it between how much is promoter and how much is nonpromoter… basically the perspective I'm coming from is that….my understanding was that these would be typically bridge loans, right where the promoter had some cash flows coming in the next 12-18 months and for that your hedge is in the cash flow. My worry is that in this market where you know, in future 12-18 months whatever event was supposed to happen is probably difficult to happen now. So how are we placed in terms of getting that final repayment… that bullet principal repayment?

Rashesh Shah: Yes, Srikanth, I think that's a good question. It was considered when we designed the product itself and we had focused a lot more on basically repayment of loans, we had focused a lot more on the end use of funds and I am happy to say that we have not had to forcibly rollover or have any of those events of default. We have in this quarter received more than I think Rs.150 crore of repayment from investors and we have always been very clear, even when we are giving out the loans, that we will expect cash repayment from investors and usually we also give it to promoters who value their collateral. They would usually make arrangements and then they would pay it.

Srikanth: But still how are the promoters able to pay up because I mean there is a cash crunch around… either they have to do some asset sale somewhere else, otherwise these are making cash flows tight, you are talking about big numbers?

Rashesh Shah: They have assets and we evaluate that when we give the loan itself at the investment committee level. There is a lot of evaluation in terms of the promoters' ability to generate cash and we as a policy don't fund assets which are you know what you call self liquidating, which means you bought shares and by selling the shares you intend to repay that, we don't do those kinds of loans at all. We look at other external means of financing from dividends and various others and we have a fairly robust process on that to make sure that there is an independent means of repayment which is not connected with the liquidation of the asset.

Srikanth: And what will be the outlook in this turbulent market from the loan book side…would you look to run down this portfolio or are you still doing business and giving out new disbursements?

Rashesh Shah: Well, as we have been shrinking our balance sheet and reducing debt, we are just managing the book as it is. We will start looking at new disbursements when the credit conditions improve because in this credit conditions as I said earlier, we want to keep our balance sheet very liquid. We want to make sure that we are also conserving cash like any other good financial services company; in these times you don't want to lock up any of your assets even on a six month or a one year basis. You want to stay as liquid as possible even if you…. and that is what I was referring to when I was answering to Ashish's question earlier, we are willing to compromise on some ROE and some opportunity cost to just keep liquidity on the balance sheet. So we have a lot of FDs with banks, we have a lot of liquid assets available on our balance sheet.

Srikanth: Okay fine, thanks a lot.

Moderator: Thank you very much sir. The next question comes from Paras from Enam Securities.

Paras: I wanted to know something on the brokerage side of the business. Could you share with us the market shares of this quarter?

Rashesh Shah: I don't have the market share numbers but I think ….

Paras: The average daily volume…

Rashesh Shah: The average daily volumes including everything are approximately about Rs 4700 crores a day, F&O and cash and all client and proprietary both put together for the quarter ending 30th September.

Paras: Sir I also wanted to know what have been the broking yields because most of the turnover now comes in F&O which is around 70%-75%. So how have you seen it at Edelweiss?

Rashesh Shah: The F&O to cash mix has not changed in this quarter. It has been the same and I think our average yields are between 6-7 basis points and that has also been steady. Actually nothing has changed except basically that traded volume has come down in line with the market fall… so market has fallen by 30% i.e. the traded value has fallen by 30% and our market share in terms of the trading volume has also been more or less constant across the last few months.

Paras: One more thing; you mentioned that your net worth pre-minority is around Rs.2400 crores?

Rashesh Shah: No. It is the entire group net worth.

Paras: Sir, that is before minority, no?

Rashesh Shah: It is including minorities. Outside of minorities, we are close to about Rs.1900 crore.

Paras: Rs.1900 crore okay, and sir, something on the ESOP. I think you have given around 67 lakhs as ESOP shares?

Rashesh Shah: Yes, all those are the grants that have been given which have not been exercised, yet.

Paras: Yes and sir I wanted to know the last price at which the ESOP has been granted?

Rashesh Shah: We have actually many schemes… I think before IPO we had given 3 schemes in the last year.

Paras: Correct.

Rashesh Shah: The prices were Rs. 200 which was the last part. And there was Rs. 333, and Rs. 517, then we granted some this year which is at about Rs. 460. Details are available in our Annual Report.

Paras: Okay, sir, thanks a lot.

Moderator: Thank you very much sir. We have next in line Ms. Divya from DawnaDay.

Divya:Hello, sir. I just wanted to know the size of your asset management?

Rashesh Shah: All together… when you put all the funds and everything that we manage together or advice, we have close to $610 million across all the products. That is on arbitrage fund, the real estate fund, private equity, portfolio management, client asset management, structured products everything put together.

Divya: Okay, sir you are planning to launch some equity related funds in the near future, sir?

Rashesh Shah: Yes, it will be a good time to launch equities…equity related funds…but we also think actually our house view is also that interest rates will come down in the next year and I think Indian bonds especially AAA rated and government treasuries will also do well. Fixed income as an asset class would also be a good opportunity maybe in the first half of 09', so we will decide on that but as I was saying that it will be a good time to launch an equity scheme.

Divya: Okay, probably an income fund also, maybe?

Rashesh Shah: Yes.

Divya: And just wanted to know the yield on your loan book?

Rashesh Shah: It actually varies but our average yield is about 16%, between 15%-16%. We also have an EPLR - Edelweiss PLR that keeps on changing from a quarter to quarter basis.

Divya: Okay so that is dependant on the market rates.

Rashesh Shah: Yes.

Divya: Okay, sir, thank you sir.

Moderator: Thank you very much ma'am. Next in line we have Nischint from Kotak Securities.

Nischint: Yes, I read somewhere in your press release that you plan to rollout retail products by the fourth quarter, is this retail lending business or is it the continuation of the retail distribution business?

Rashesh Shah: It is the continuation of the retail financial product distribution business, and the retail online brokerage. We don't intend to get into the retail lending business. We do intend to sell third party products in that.

Nischint: On the loan book, the underlying securities, could you give us some sense as to how liquid are these securities? If we have a lot of top ups and you know, theoretically you have something like you know, 2.5 times cover, but when it comes to actually telling how liquid they are… is it kind of really practical to sell them or have there been any instances where you actually been able to sell them effectively?

Rashesh Shah: When we evaluate any proposal, liquidity is the first defense that you have when you do collateralized loans, so liquidity for us has been very, very important and we monitor that on a constant basis... in quite a few loans we also have requirement for cash top up rather than stock top up where we think getting additional shares will violate the liquidity thresholds that we have. We have structured it that way. We do take a very strong view on liquidity and ability to sell and we also look and constantly monitor who are the other investors who have bought their stock in the last week, so we also keep an assessment on the buyers of that stock if it ever gets to liquidation kind of an event, so we focus a lot on that.

Nischint: Okay sir thank you very much.

Moderator: Thank you very much sir. We have on line Apurva Shah from Prabhudas Lilladher.

Apurva Shah: Yes, hi sir. Couple of questions from my side - one is again on the loan book, can you give us some idea about how concentrated this portfolio is, as in how much would be the top two or three loan accounts as a proportion of your total book, that is one. Second, I just want to know what the total debt right now is on our balance sheet and thirdly on the P&L side, I just wanted to understand at this point, between the capital and the agency businesses how does the profitability stack up, I mean at the PBT level would it be fair to say that much of the profitability right now is actually coming only from the capital businesses while the agency businesses don't contribute much?

Rashesh Shah: I think on the balance sheet side, we have about Rs. 1100 crore of borrowing, out of which about Rs. 500 to 550 crore would be more steady state, including a Rs. 180 crore 7-year loan, and the balance Rs. 500 crore is what we borrow via commercial paper which we issued some time ago. So we have about Rs. 1000 to 1100 crores of borrowing at the moment and Rs. 2400 crores worth of equity with all the minority interest put together.

Apurva Shah: What is the concentration of the loan book? In the sense what is the largest loan that we would have given? What proportion of the total loan book would it be?

Rashesh Shah: If you look at the business in ECL Finance, we have equity of about Rs. 800 crores in that business and borrowings of about Rs. 300 crore. Actually that loan book from Rs. 1100 crore has now become Rs. 1000 crore in October because of the repayments we have got. We follow all the RBI regulations on single borrower limit and even group borrowing limit; we don't have any loan which is more than 7%-8% of the book size. We have an internal threshold of 10%, so there will never be a loan more than 10% and we usually keep it under 5% and that's been our approach. We also have investors in that business and one of the reasons we had invited investors into that business separately was to make sure there was a strong 3rd party risk oversight also, so there is a strong risk committee and a lot of the data is presented to investors and the risk committee on an ongoing basis.

Apurva Shah: Right and my last question was related to the profitability : between the agency and capital businesses that you know how does it stack up and would it be fair to say that the capital businesses contribute much of the profitability at the PBT levels or….?

Rashesh Shah: On the whole in the last year it was almost half and half. Half came from agency and half came from capital. This year I would say maybe 2/3rd and 1/3rd with 2/3rd coming from capital business and 1/3rd coming from the agency business and agency business is actually profitable because we have a lot of flexibility on cost. We have been very conservative on cost even historically in terms of compensation because we don't have a star system, we don't hire very expensive stars, you know, to lead businesses. We have grown a lot of people internally and invested a lot more in training. So our comp cost is fairly under control and even a lot of other costs. Agency businesses, even in times like this, are profitable and we ensure that they are paying for themselves and contributing to the bottom line. But the needle has shifted from say 50-50 to 65-35.

Apurva Shah: Right, great sir. Thanks a lot.

Moderator: Thank you very much sir. We have next in line Vaibhav from VK Capital.

Vaibhav: Rashesh wanted to get some color from you on the broking side … how you see the market panning out in terms of number of players and consolidation opportunities. Have you been approached by people to be taken over or have you been approaching people?

Rashesh Shah: I don't know whether it is good or bad but I think we have been approached by people for us taking them over. We have not been approached by people to take us over because all the global guys, who had made constant approaches in the industry last few years, are busy back home. We have always been very clear that our idea is to build a good quality business. We have realized that financial services are also a fairly localized business and every time a cycle has gone down like this the local players have always become stronger. And even after this particular slowdown or crisis, we think localization will go up because a lot of the larger players who are global players will focus a lot more on their home market because of the kind of destruction that has happened there.

So, on the whole we have looked at acquisition in the last 8-9 months or about a year. We have looked at almost 18 acquisition opportunities. We remain open to looking at acquisition opportunities on the retail distribution side, on the asset management side. Up till now, the valuations have been high. Even in the heydays where we had a lot of euphoria, we had walked away from a lot of deals where ultimately those deals got closed at almost 80%-90% or 100% higher than where we thought the comfort zone for us was. So in the same way when there was extreme euphoria, we had kept a steady head in terms of thinking about valuations. Even now, we are looking at it, but I think we have not seen valuations that are attractive for the quality.

We do focus a lot more on the quality of the management team. So we have not found good opportunities at an appropriate price, but I'm hoping that in the next year which is 2009 we should see a lot more opportunities and we do remain interested on the retail financial product distribution and the asset management side.

Vaibhav: No, I was asking on the broking side, Rashesh.

Rashesh Shah: On the brokerage side, a lot of retail brokers are smaller or very franchisee led, the way they have evolved. Our keenness is not to have any business which has a large focus on franchisee. If 80% of the business is coming from franchisees, it's actually very good from a cost point of view but it's not good from your ability to cross-sell, from compliance and various other points of view and we have not seen good businesses which are solid with a good clientele and a management team on the retail broking side.

Vaibhav: I was asking on the institutional and HNI desk also Rashesh, do we see some brokerages closing down and consolidation happening across the industry or you receiving offers to buy out such firms?

Rashesh Shah: Not yet. But on an average on the wholesale side, very few people will buy out an institutional business. Like for us to buy an institutional business will be a lot of overlap. Our average market share on institutional, on Indian mutual funds and insurance companies and FIIs in terms of volume has averaged between 4%-5% in the last you know couple of years including this quarter. So if we acquire another firm, it's hard to get your market share up because, all the firms also have allocations on how much business they give to all the brokerages. So it is easier to hire good quality individuals than just go and buy.

The acquisition of a business is good for a market entrant, if somebody wants to enter a market. But for existing players it is unlikely that you will see M&A on institutional to institutional or HNI to HNI side.

Vaibhav: Okay, okay great. One more question Rashesh I wanted to get an idea….this volatility in market on a longer term basis, is there some way to stabilize earnings in the equity side of the business? I mean are we considering any options like that to either create some very long term schemes or to have some revenue and income schemes when the markets fall?

Rashesh Shah: I think if you look at adjacent opportunities, retail financial products distribution is one area where we think there is some amount of un-correlatedness to equity markets. Usually the credit business also offers you some kind of un-correlatedness. Ultimately everything is correlated but even the credit businesses do offer some kind of diversification and eventually maybe as you go more and more on the credit side and asset management side, it will get tampered down a little bit. Ultimately everybody is correlated to India as a whole and after that everybody is correlated to the financial services business which is driven by liquidity and optimism and we don't think there are extremely uncorrelated opportunities that are there but you can tamper it down. You can make the cycles a little bit more manageable via asset management, via credit, via retail financial product distribution.

Vaibhav: Isn't there a possibility of having a short type fund or a short portion of your proprietary portfolio to balance out the volatility?

Rashesh Shah: Yes, I think it is a good products opportunity, I don't know whether it is a business opportunity because ultimately there can be a product like a short fund which in other parts of the world people have done, but there has not been a lot of success. We have not thought about it, we don't intend to do it but I think even now as I mentioned that in spite of the market meltdown and in spite of the complete collapse of outlook I think even in this quarter we are reasonably happy with the diversification we have and that is exactly answering your point which is 3 things we have, the fee and commission income, even within that we have investment banking, brokerage, etc; the interest income and the treasury income. We have a fair amount of revenue diversification which has been tampered because it is a 3 prong thing and if you can add a few more things to that, we think the ups and downs will get tampered a bit more.

Vaibhav: Okay, thanks a lot.

Moderator: Thank you very much, sir. Next in line we have Clyton Fernandes from Anand Rathi Finance.

Clyton Fernandes: Hi, Rashesh, you just answered my question on acquisitions. I just missed your numbers on average daily volumes, is it Rs.4700 crores?

Rashesh Shah: Yes, it is.

Clyton Fernandes: Okay, thank you, thanks for that.

Moderator: Thank you very much sir. We have next in line Paras from Enam Securities. This is a follow up question.

Paras: Sir just wanted to know with the current environment and what is our employee strength and how many people that we added in this quarter?

Rashesh Shah: Our employee strength is about 1800 people. I think we have added approximately 60 people in this quarter, mainly on the retail side. We get a lot of entry level people in what is called the Edelweiss Analysts Programme - these are college graduates that we hire and train and this we have done over the years and they all have joined in this quarter which is July and August period after the academic year end.

Paras: Correct.

Rashesh Shah: So we had about 80 of them in this quarter.

Paras: And with our current focus on cost, what do you think this hiring going forward will be?

Rashesh Shah: Up till now we have been a lot more focused on cost containment and I think looking at numbers if you take away the STT element, which is not in our hand, we are fairly content with what we have… what we have been able to manage on the cost front, and this has historically been our approach; we will follow cost containment being very cost conscious and try to be slightly more variable.

Paras: Okay. Great.

Rashesh Shah: And focus on constantly improving efficiency and all that, we will continue to focus on that. As I said cost, risk, and liquidity are the key things for the next couple of quarters.

Paras: Correct, sir.

Rashesh Shah: But I think we are happy with what we have as of now.

Paras: Okay, sir. Thanks a lot.

Shailendra Maru: Can we now open the international bridge and see if there are any questions from there?

Moderator: Definitely, sir.

Moderator: At this moment, I would like to hand over the proceedings to international moderator, Ayesha, to take the questions from participants connected to the international bridge.

International Moderator: Right, thank you. Triveni, there are no questions for you from participants at the international bridge at this time.

Moderator: Thank you very much Ayesha.

International Moderator: Thank you.

Moderator: At this moment, there are no further questions from participants. I would like to hand over the floor back to Shailendra for final remarks.

Shailendra Maru: Thank you Triveni and thank you everyone for joining us today in this conference call. In case you have any other further questions, please feel free to contact us or drop me an e-mail at shailendra.maru@edelcap.com. Have a wonderful day. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentleman, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.