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Conference Call Transcript

Edelweiss Capital

Q3FY10 Results

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Corporate Participants

Rashesh Shah
Chairman

Deepak Mittal
Chief Financial Officer

Shailendra Maru
Head, Investor Relations

Questions and Answers

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

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

Following the reading of Safe Harbor Provision I will first turn the call over to Chairman Rashesh for his opening remarks. Thereafter Deepak will take you through you an overview of our performance and financial model. Then we will open the lines for Q&A. The press release and an investor presentation on our third quarter results are available on our website www.edelcap.com.

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

Rashesh Shah: **:** Thank you Shailendra and thank you all of you for joining this call. I am sure all of you would have had a chance to go through our results and see the investor presentation. Our original idea was to have this conference call a lot closer to the results but we were waiting for the closure of the Anagram transaction which happened only a couple of days ago. We wanted to have the conference call after that deal. For this quarter we have recorded revenues of Rs. 230 crores and profit after tax and minority of Rs. 53.6 crores which gives us a quarterly EPS on a fully diluted basis of Rs. 6.90. My colleague Deepak Mittal will cover the financial results in greater detail and give you all the breakups.

First of all, on the environment, the sentiment has now clearly turned positive, activity levels are up and we are seeing a lot of action on the corporate side and on the investment side. This quarter's secondary volumes have been slowly increasing but there have been quite a few holidays and by our estimate about 5-6% of the number of trading days have been lost in this quarter because of holidays. But overall the average traded volume has gone up, though the large part of increase is still options lead. In the month of January we are seeing a slowdown in the market share of options but until the third quarter options were still gaining market share which may not increase as much now.

So overall commission has not increased in this quarter in spite of the overall ADT going up, largely because of the options led increase where the yields are much lower. The index has been more or less flattish in a trading range. FIIs have invested about $19 billion this year. We have seen quite a bit of investment coming from insurance companies especially in December month end and even in the month of January we are seeing fairly good amount of that. IIP and GDP numbers have been good. Bond markets have been active. As you know we have been scaling up our activity in the corporate bond and the fixed income market and it has been an active quarter on that front also.

For Edelweiss performance broadly, we continue to do what we have been doing - investing in all the businesses. Agency businesses had a good quarter. ECM businesses are only couple of years old but we have had a fairly good quarter. We have done 16 IB deals for the year to date, out of which 10 are in the third quarter, 8 on equity side and 2 on fixed income side. So while our ECM and debt side are doing well, our advisory business is still slow because we are not seeing an uptick in the private equity and M&A volume. We are hoping from now onwards there should be a scale up in the advisory volume. The advisory pipeline is good, the ECM pipeline is good.

On institutional equities also it has been a good quarter and, as you are aware, we have been scaling up IE business with research coverage and along with IE our HNI and the retail broking business has also been scaling up. We altogether, including our treasury and the client agency business, have traded on an average about Rs. 4700 crores per day for this quarter. As some of you may remember, for Q2 it was Rs. 4050 crores and for Q1 it was Rs. 4350 crores per day.

My colleague Deepak will give you the breakup on the prop and the client business out of this as quite a few of you have been asking us for this breakup. So we have started calculating that and disclosing it actively. We have ADT of Rs. 4700 crores, and by our estimate we should be one of the largest brokerage houses on a traded volume basis. This is the aggregate trading that has been done across the two broking cards that we have for Edelweiss Securities and Edelweiss Broking Limited.

On asset management we announced the first closure of our new fund called Edelweiss Special Opportunities Fund. We did the first close at $105 million and we intend to have the final close in the next three to four months on this expected between $250 to $300 million. This is the fund which will invest into special opportunities, structured credit and mezzanine opportunities in India.

Our retail business continues to scale-up on the IPO front and we have been a significant mobiliser; this is an 18-month old business for us and for this year so far we have been ranked second for the HNI category and fifth for the retail category for all IPOs as per the Prime Database.

As you would have seen we have announced the Anagram acquisition which is basically intending to take up our retail broking business to second level. A retail brokerage has two parts. There is a centralized retail broking operation which is mainly online and call & trade driven, and as I have been explaining in the earlier calls, we started off our retail broking's organic business by focusing on centralized broking side. On that we now have about 35,000 customers and we are adding about 4000 customers a month to it.

The reason to acquire Anagram is the other part of the retail broking business which is what we call the decentralized broking business which is mainly the branches and the sub-broker network driven and we see hardly any overlap between our centralized organic business and the decentralized Anagram business. So Anagram acquisition should give us an impetus to expand our retail broking and distribution business. Anagram has 137 offices, 1300+ sub-brokers and around 180,000 retail customers. Along with equity broking, they also have a small commodities broking business. For the first three quarters they did revenues of ~Rs. 100 crores. Our current quarter numbers are not integrated with Anagram because we are still awaiting necessary approvals. Only after that the formal closure of this transaction will happen.

Our financing book, as we had earlier announced, we continue to scale that up. Our end of quarter financing book is Rs. 1030 crores which is up over Rs. 300 crores from the last quarter; but in this quarter there were no IPO financing opportunities, so the entire income on this book has been from the advances book we have consisting of promoter funding, LAS, margin funding and ESOP funding.

On the other hand, our arbitrage business has had a subdued quarter because short term yields are low; arbitrage yields actually have fallen in this quarter by approximately 300 basis points quarter over quarter. In Q2 we had about 17-18% gross yields and about 11-12% net yields on arbitrage that have now fallen to about 14% gross and about 9-9.5% net yields.

As there is a lot of activity in options trading, we are seeing that arbitrage is falling even further on cash and futures side. Along with that there also has been a drag in interest rates on the FD side as we keep quite a few of what we call working capital assets in fixed income instruments and fixed deposits with banks. A lot of our deposits, not all of them but quite a few of them, are usually for a year or so. A lot of these fixed deposits, which were placed last year around October, November, December, when yields were high, have got re-priced in this quarter and we have seen about 100-150 basis points fall in yields on an average basis this quarter because of the FD re-pricing. We expect the FD re-pricing to go on for the fourth quarter as well because in the last year the significant fall in yields happened by March-April after which yields have been steady, so we have a little bit of yield fall going on in this quarter also on the FD side. So arbitrage has been falling, FD yields and yields on the working capital assets have been falling and it has been reflected in the quarterly figures that we have.

In this quarter we also announced our insurance joint venture with Tokio Marine. We have been speaking to them for almost a year now and we are happy that we have finalized our joint venture agreement with them and we have already filed our R1 application with IRDA. It is a significant step for us because we are broad basing our activities from capital markets to capital markets and insurance with this announcement. Going forward we see a significant amount of overlap for retail customers between the insurance, which are quasi asset management offerings, and the capital market offerings. We expect to get the IRDA approval in the next three to four quarters and start operations from there. We expect to invest about Rs. 500 crores in this joint venture over five years starting a year from now. So from 2011 to 2016 we would invest on an average about Rs. 100 crores a year which will come out of our internal accruals and retained earnings as we go forward.

We have our social responsibility arm called EdelGive which has announced the start of the process for Social Innovation Awards for this year and there has been an overwhelming response on that. We have got more than 280 entries for this year which is the second year of these awards. We did Edelweiss Social Innovation Awards a year ago which was also fairly successful but in this year the response has been even more encouraging and we are very excited by that.

So to sum up, we continue to invest in scaling up of the retail franchise, the asset management franchise and about a year from now we will start investing in insurance. Our agency businesses on the wholesale side - investment banking and institutional equities, continue to do well.

I will now hand over to my colleague Deepak for a detailed update on this.

Deepak Mittal: : Thank you Rashesh. I will just run you through three parts in this ConCall script. I will first speak briefly about the third quarter results. Rashesh has already covered it with some details but there are some data points and color which I would like to add and then we will spend some time on the balance sheet and a little bit about some of the longer term initiatives we have taken in the last quarter.

Very briefly speaking, the key takeaways for the third quarter are uptick in the fee and commission income, both in iBanking and on the broking side where we have seen some amount of increase quarter-on-quarter including increase in the market share perspective. The financing book, especially on the steady state side, shows impressive growth. We have grown it by almost Rs. 340 crores over last quarter. However there were hardly any IPO financing opportunities this quarter and we also saw a strong drag on the arbitrage returns as well as fall in the yields on the working capital assets which we maintain in the form of fixed income securities or in the form of bank FDs.

Quickly to cover the numbers for the quarter. Our total revenues for this quarter were around Rs. 230 crores and profit after tax after minority interest was Rs. 54 crores and we have continued to have a diversified revenue mix across the three income streams which we report.

The fee and commission income has gone up to Rs. 86 crores. Just to give you a breakup of this fee and commission income, almost Rs. 54 crores out of the Rs. 86 crores comes out of broking income and Rs. 32 crores is the income resulting from all other fee incomes like iBanking, asset management and other agency businesses incomes.

The treasury arbitrage and trading income for the quarter was Rs. 61 crores. As Rashesh and I have spoken about it, there has been a significant drop in the yields this quarter. The gross returns on the book are down to 14.3% from almost 17-18% for the last quarter and the estimated net yields are down to 9.3% from almost 11.5-12% for the last quarter. The average arbitrage book size for the third quarter was about Rs. 1700 crores.

The interest income for the quarter was Rs. 74 crores. This again has two parts, one is the interest income on the loans which we have on the financing book, which was Rs. 31 crores for the quarter and the other is the interest which we receive on the working capital assets which we maintain in the form of fixed income securities and bank FDs and that number was Rs. 43 crores. On the loan book the yield continues to be reasonably steady around 16%. On the working capital asset side the average yield is down by almost 1% from about 9% for the last quarter to 8% for this quarter. The total working capital asset book which we have at the end of the quarter is steady across the two quarters at almost Rs. 2100 crores.

Our total costs for this quarter were Rs. 155 crores; our PBT margin for the third quarter was 33% and PAT margin at 23%.

Just a few data points on some of the other numbers which you track, on the investment banking side strong activity on ECM, especially on QIPs, a good closure from the debt syndication side and some of the transaction which we closed were QIPs of Bajaj Electricals, Adhunik Metals, Development Credit Bank, Allied Digital, and Parsvnath. We also did term loan syndication for Bhoruka Power and we were the joint arrangers for bonds issue of SAIL and APSFC.

On the Average Daily Turnover breakup, our total ADT for this quarter was Rs. 4700 crores and this was across the two exchanges BSE and NSE. This was Rs. 4050 crores for the last quarter. Out of the Rs. 4700 crores, approximately Rs. 1650 crores was on the client segment and Rs. 3050 crores was on the treasury operations. If you look at the yields on the client segment, these are 5.9 basis points for this quarter, and it has seen a marginal uptick over the previous quarter. Part of the reason why some of the larger broking houses have been losing market share, which we have also touched upon earlier, is a very large increase till last quarter across the options trading book which typically ends up having two impacts, one is much higher proprietary share of transactions and the other is much lower commissions.

Just to finish on the broking side, our research now covers 160 stocks in 18 sectors covering 70% of the market cap and we also had a pretty successful Asia Pacific Conference across Singapore and Hong Kong this quarter.

On the loan book, as I have already spoken, we have Rs. 1000 crore of loan book, Rs. 1030 to be exact, as compared to Rs. 690 crores last quarter. The collateral cover continues to be over 3 times and the yield is just around 16% on the steady state loan book.

On the working capital asset side, we have almost Rs. 1500 crores of bank deposits which is almost in line with what we had last quarter and we have another Rs. 500 to 600 crores of working capital assets in the form of fixed income securities.

On the balance sheet side, our group net worth post minority is Rs. 2260 crores. The total borrowing is just shy of Rs. 2800 crores, actually Rs. 2786 crores, and the total balance sheet size including minority is Rs. 5300 crores. Our gearing is now around 1.2 times and our average cost of borrowing for the quarter is around 7.8%.

Just to cover some of the new businesses which we have launched, on the retail business now we have almost 35,000 clients and we are now beginning to add at almost 4000 clients per month. This is on the organic retail business which we have, this does not include Anagram. And on the distribution side, Rashesh also briefly touched upon it, for the 9 months ended December 2009 we are now number 2nd in the HNI category and number 5th on the retail category on the IPO mobilization.

Now to our announcement which we made just a couple of days back - acquisition of Anagram. It is a pretty significant step in terms of increasing our retail footprint and increasing the retail broking and distribution business. It adds 137 offices, around 1300 plus sub-brokers and 180,000 retail clients to us. The transaction was closed at a valuation of Rs. 164 crores. The current net worth of the company is about Rs.65 crores and the total revenues for the first nine months were around Rs. 100 crores. Their average daily trading volume is around Rs. 800 crores.

The second big announcement which we made earlier in this quarter was entering into a joint venture agreement with Tokio Marine for a life insurance venture. Life insurance is one of the largest verticals now in the banking, insurance and capital market space and has been growing at a very brisk pace. This gives us entry into a very large financial services vertical and it will also help us in further enlarging our retail footprint.

Also in the third quarter we achieved first close of our Edelweiss Special Opportunities Fund at $105 million and we also continue to expand the product portfolio on the domestic asset management side.

With this I will end the presentation and open up for the questions and answer session.

Moderator : Thank you very much sir, ladies and gentlemen we will now begin a question and answer session. At this time participants who would like to ask questions may please press * and then 1 on their touchtone telephone. Our first question is from the line of Elizabeth John of Keynote Capital, please go ahead.

Elizabeth John: Just wanted to understand, is there a decrease in the tax rate because the tax expenses were Rs. 277 million over PBT of Rs. 725 million for Q3FY09 which is 37% and this time it is only 23%. So is there any change in the tax rate?

Deepak Mittal: Over the last few years we have had certain amount of inefficiencies in terms of how we were structured on the tax side across entities and across various business segments and we had certain amount of tax inefficiencies which we are now replenishing or getting back in terms of lower tax rate for this particular year. So we expect for this particular year our average tax rate will be somewhere around 25-26%.

Elizabeth John: This will be continued in the next year as well or then there will be a change in this?

Deepak Mittal: It will be difficult to forecast for the entire year but at least for the next two to three quarters we expect the tax rate to be low.

Elizabeth Jon: Okay. And what is our market share currently in the equity broking side?

Deepak Mittal : On the total ADT basis our market share is now 4.8% for Q3. This was 4.3% for the last quarter.

Elizabeth John: So it has increased?

Deepak Mittal: Yes.

Elizabeth John: Okay and how much is the headcount?

Deepak Mittal: The exact number is 1168.

Elizabeth John: Okay, thanks.

Moderator: Thank you Ms. John. Our next question is from the line of Pankaj Agarwal of Noble Group.

Pankaj Agarwal: Hello sir. Given that retail broking is a fragmented and much more competitive business than institutional broking and you being a late entrant what is your strategy to differentiate yourself in this business?

Rashesh Shah: A couple of points here. If you see from a commission pool point of view, it may appear very fragmented but it is not as much fragmented. In the institutional broking side the top-20 brokerage houses command say 80% of the total pool, on the retail side I think the top-20 command about 50% of the total pool of the retail broking revenues. The institutional broking commission pool according to us is about Rs. 3500 crores a year. Retail according to us is about Rs. 11,000 crores. It is almost three times the size of institutional, but actually can be more than that as we expect a significant growth that is happening there in retail and the market is getting segmented. As I said earlier, there is an online segment, there is a call & trade segment, there is a sub-broker segment, and there is a branch segment, and by our estimate currently there are about 8 million people who have a brokerage account and who are actively trading. We think this 8 million will go by at least three times in the next four to five years. So there is significant market-size growth as well as the current size is also not unattractive. So it is a reasonable opportunity and as the market grows and gets segmented we have identified quite a few segments where we can differentiate our offerings and grow.

Pankaj Agarwal: Okay. And do you see retail broking being consolidated over a period of time like institutional broking?

Rashesh Shah: Not consolidated, in the sense if half the commission pool goes to 20-25 brokers and the other half is distributed across 500 or so, it is fragmented in the other half while even if you let us get say 2% market share of the Rs. 11,000 crore market, it is still Rs. 220 crores which is not bad, right? 2% market share here is equal to 6% market share on the institutional side.

Pankaj Agarwal: Okay. And how much time is it going to take to integrate Anagram with your core operations?

Rashesh Shah: We are not integrating it completely because it is already an up and running business. It is reasonably profitable; the profitability matrices are equal to industry standards of the retail broking business. So we will continue to run this separately, but we will integrate technology, HR, operations and risk management etc. So about three quarters is what we expect for all this to happen and on the whole we will run it as a 100% subsidiary and grow this business.

Pankaj Agarwal: So sir there would be no change in the brand name and it would remain the same Anagram?

Rashesh Shah: It will stay. In this quarter we will talk to a lot to their customers and if customers need the comfort of the Edelweiss brand which is slightly bigger, we might add Edelweiss to Anagram name or something like that, but our idea is to continue the current platform the way it is as much as possible and grow that and add all the things we can add from Edelweiss side from research and technology and the branding point of view and so on.

Pankaj Agarwal: Okay, and coming back to your insurance business, again you are one of the late-entrants, so what is your strategy to grow the business and how you are going to differentiate given distribution challenges all the existing players are facing?

Rashesh Shah: See ultimately where you have size and growth, competition in India is always there. We all have to live with it. I would like to give you an example of institutional broking business, when we entered in 2001 we were among very late entrants. If you look at all the others, even Indian Institutional Brokerage Houses, they were there earlier than us, we were fairly late. When we started ECM business in 2007, we were also reasonably late entrant in that. The market keeps on changing its contours. The product features keep on changing, the market segmentation keeps on happening. By our estimate there is scope for about 25 to 30 insurance companies in India. If you look at countries like Indonesia, Malaysia, Singapore, Brazil, and China each of them have anywhere between 40 to 80 insurance companies operating out there. India is a large growing market, the financial inclusion not just from the banking side but outside of banking, the insurance and capital market, is still to start getting underway. So the next 8-10 years we see a significant increase because household savings are growing and as household savings keep on growing at 14-15% a year there will be a lot of opportunities for everybody. It is going to be execution heavy, we will have to innovate, differentiate and execute but as we have shown in the past and when we put our hearts to that we should be able to do that.

Pankaj Agarwal: Okay. Thank you sir.

Rashesh Shah: Thank you Pankaj.

Moderator: Thank you Mr. Agarwal. Our next question is from the line of Divyanshi Dayanand of Destimoney Enterprises, please go ahead.

Divyanshi Dayanand: Hello sir. Congratulations on acquiring Anagram. I just wanted to know what is the gearing right now in the company?

Deepak Mittal: The gearing in our company currently is 1.2x.

Divyanshi Dayanand: And the chances are that this would be maintained over the next quarter?

Deepak Mittal: Yeah, broadly we will be in line with this gearing ratio.

Divyanshi Dayanand: And what is the current AUM sir?

Shailendra Maru: The AUMs/AUAs on the alternative side is $186 million equivalent and on the domestic asset management side it is about Rs. 115 crores.

Divyanshi Dayanand: Okay sir. Sir, just a color on the RBI policy review that came out today, would it be impacting any of our income schemes majorly?

Rashesh Shah: Well, we are always happy when short term interest rates go up. So we expect a little bit of inching up of the short-term interest rate which is good for us on treasury and arbitrage and our FDs.

Divyanshi Dayanand: Okay sir. Thank you.

Moderator: Thank you Ms. Dayanand. Our next question is from the line of Viraj Gandhi of ICICI Securities, please go ahead.

Viraj Gandhi: Can you just let me know the headcount that Anagram has currently and which we are planning to take over?

Rashesh Shah: Anagram headcount is currently around 1300 employees.

Viraj Gandhi: And adding to our 1168 which we have currently? So our operating cost will be going up by how much sir?

Rashesh Shah: We have not integrated Anagram financials so far and we will integrate it once we get all the formal approvals and then we will start announcing those.

Viraj Gandhi: Okay so we are planning to take all the headcounts which they have at this point of time?

Rashesh Shah: Yes, we have acquired the company with all the people and we are continuing with the current operations.

Viraj Gandhi: Okay. And sir I just missed one point, if you can just repeat it, the difference between the proprietary book turnover and the outside business that we are having of the total 4700.

Rashesh Shah: The client turnover is Rs. 1650 crores on an ADT basis and the treasury operation is Rs. 3050 crores. The total is Rs. 4700 crores.

Viraj Gandhi : Sir broadly over a period of time we have seen arbitrage volumes between 40-50% range and now it is being scaled up significantly. Is that because we are losing a lot of outside business?

Rashesh Shah : No, in fact if you see the clients business has actually gone up. As we said there is a lot of volume in options and we are doing a lot of market making. So you should look at the agency clients business on its own at Rs. 1650 crores and here we are as high as we have been for quite some time. We have generally averaged between 50-70% on prop over the last 7 to 8 years depending upon market environment and we may continue with that. In a trading range zone market prop share usually goes up because you trade a lot more for the arbitrage yields.

Viraj Gandhi: Okay, is this the reason why treasury yields are falling to around 9 to 9.5 % because the cycle is moving much faster?

Rashesh Shah: Exactly. I think arbitrage yields are much lower so you keep on trading a lot more to eke out even slightly higher arbitrage yields.

Viraj Gandhi: Okay, so sir when markets turn volatile as they are at this point of time we expect a higher yield from the market then?

Rashesh Shah: Usually volatile markets have always been good for arbitrage but I do not think there is 100% correlation and I would hesitate to make any forward looking statements on that.

Viraj Gandhi: Thank you sir.

Moderator: Thank you Mr. Gandhi. Our next question is from the line of Raj Gandhi of Principal Mutual Fund, please go ahead.

Raj Gandhi: Can you please elaborate on the Great Offshore deal that we have done and how much have we tendered in the open offer and how much is still remaining with us?

Rashesh Shah: We would not want to answer on specific transactions because you know all these are business specific decisions and the investor call is not an appropriate forum to discuss an individual transaction.

Raj Gandhi: Okay sir. And sir, can you give the breakup of the client turnover for Q2?

Deepak Mittal: For Q2 the client turnover was Rs. 1600 crores and Rs. 2450 crores was the proprietary turnover on ADT basis.

Raj Gandhi: And just going ahead into the future, do you not see any confusion in the minds of customers with two brands operating Edel and Anagram, both targeting retail business?

Rashesh Shah: We will, as I said, get some customer feedback, we will do some customer research and find out what is the best way of doing it and that is why we are not making any decision on that just now.

Raj Gandhi: Okay sir. Thanks a lot.

Moderator: Thank you Mr. Gandhi. We have a question from the line of Paras Nagda of Enam Holdings, please go ahead.

Paras Nagda: Sir Congratulations on a good set of numbers. Sir, I wanted to ask you about our return on net worth which has been in 9 to 10% range. What is it likely to be going forward? How do you want to increase it going ahead because on a Rs. 2500 crores net worth we are earning around Rs. 50 crores a quarter.

Rashesh Shah: See RoE goes up on how do we close up with two or three things. One is as you increase your agency business, because agency business is a high ROE business, so an agency business is what we are growing right now; our investment banking and institutional business have had a good quarter. Retail broking - we have already spoken how we are planning to grow that. We are growing asset management business. What happened to us is that from 2007 to 2009 there was an overall market fall in agency pools. To give you an example of institutional brokerage business, in 2007-08 this business was a Rs. 5500 crores business which fell to Rs. 2800 crores in FY09 and which is currently around Rs. 3500 crores by our estimates, if you see the institutional volume and the yields. The same thing has happened to investment banking from what it was in 2007-08. So as we are growing back our agency businesses we expect that to improve the RoE.

: The second way of improving your ROE is to leverage your balance sheet by scaling up your credit book and even that we have been doing. We did not do it in the last year until March-April 2009 mainly because of the risk in the environment as a whole. We have now been scaling it up for the last three quarters and we will continue to do that.

: And the third part is that we have to maintain short-term assets on the working capital side and the arbitrage side, though the percentage of that will keep on going down over the next few quarters and years; but a yield improvement on that is a good thing. To give you an idea on our FD book, because we did quite a few FDs for the working capital for our institutional brokerage business in the last year - we have a lot of them for three months, one year, and some three years also, and the weighted average yield used to be 11-12%. It has now become 8 to 9% this year. The same thing has happened in arbitrage.

: So the yields going up on your short term assets, your scale-up in the credit book, and your increase in agency business as a percentage of your total overall revenue are the ways of growing the RoE. We are working on all three.

Paras Nagda: Okay. Sir, and if I may ask one more thing, in your agency business, particularly your broking business and your IB business, what kind of cost-to-income do you work with?

Rashesh Shah: Our operating margins on that are as per the industry averages. Average pretext margins on the agency business are between 20-30% depending on business to business. If you see all the other organizations in this business, we are around that.

Paras Nagda: Okay, and could you sir specifically give me separately for broking and IB or will it be in the same range?

Rashesh Shah: It will be nearly in the same range. But we do not break that up as a matter of policy.

Paras Nagda: Got it sir. Thanks a lot.

Moderator: Thank you Mr. Nagda. Our next question is from the line of Pankaj Agarwal from Noble, please go ahead.

Pankaj Agarwal: Sir, can you provide the breakup of fee income of Rs. 80 crores for the last quarter?

Rashesh Shah : Commission on the broking business was Rs. 52 crores for the second quarter and Rs. 28 crores was the other fee income.

Pankaj Agarwal: Okay thanks a lot sir.

Moderator: Thank you Mr. Agarwal. Our next question is from the line of Ashish Mishra of HSBC Invest Direct, please go ahead.

Ashish Mishra: Mr. Shah, good afternoon to you. We learned that there are 40,000 customers in your company right now, so it takes you to somewhere around 400,000 of daily turnover if I consider all 40,000 as active customers. Is it the only base or can you give me some breakup over this 40,000 customers?

Rashesh Shah: Currently we have about 40,000 customers in all, but all are not active obviously on any given day and we are not breaking up our retail and institutional volume. So as we have said, we do about Rs. 1650 crores overall client broking volume per day across all the agency broking businesses.

Ashish Mishra: This is including retail and institution business?

Rashesh Shah: All of them, yes.

Ashish Mishra: Thanks a lot sir.

Moderator : Thank you Mr. Mishra. We have another question from the line of Nischint Chawathe of Kotak Securities, please go ahead.

Nischint Chawathe: Sir, my question is on the yields on the arbitrage business; it appears that the swing in the gross yields for arbitrage have been like almost 4% on a quarter-on-quarter basis. Is it kind of a normal phenomenon or is it something kind of a very extraordinary QoQ movement?

Rashesh Shah: This is slightly extraordinary. I think we have not seen such a sharp fall on QoQ for quite some time. But usually arbitrage business does well when there is either an upward trend in the market which is consistent or there is a high amount of volatility in the market. The third quarter was volatile within a range without any optimism or upward trend in the market. The other thing it is correlated with is short term yields and liquidity in the market as a whole. So all this happened in the last quarter, there was a range bound market, not a lot of optimism or upward trend, it was not highly volatile, the short-term yields kept on falling and the FD rates and overnight rates consistently fell in the last quarter.

Nischint Chawathe: So basically all the things happened at the same time?

Rashesh Shah: Yes, all the things happened at the same time.

Nischint Chawathe: Okay. Actually Deepak you mentioned a couple of data points in the Anagram acquisition, I was just wondering in terms of what kind of valuation was this business acquired, if you could share that in terms of revenue or profits of this company?

Deepak Mittal: These were in line with what we saw over the industry averages across various methodologies which are normally used and it is a profitable company, its numbers in terms of profitability and in terms of various matrices are pretty much in line with most mid-sized broking firms. Even the valuation number, if you do any kind of extrapolation, you will find them to be closer to the industry median.

Nischint Chawathe: Okay, and in terms of their average yields in broking what would that be roughly? I know you have mentioned some numbers but you spoke so fast that I just missed it.

Deepak Mittal: No, we have not spoken about yields or anything on that for Anagram.

Nischint Chawathe: You gave some revenue number if I recollect.

Deepak Mittal: There is total of Rs. 100 crore revenue, which got clocked for the nine months and average daily volume currently is around Rs. 800 crores.

Nischint Chawathe: Okay and this revenue is purely broking or any other business?

Deepak Mittal: These are the total revenue for Anagram.

Nischint Chawathe: Okay, but in terms of broking business - anything major other than the broking that these guys are into?

Deepak Mittal: Typical retail broking firms will have broking volumes across equity, commodities, you will have certain interest income points from margin funding for the clients, so a typical mix to make any good mid-sized retail broking firm.

Nischint Chawathe: Okay fine. Thank you very much.

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

Shailendra Maru: Thank you Rashesh and Deepak and thank you Rochelle and thank you everyone for joining us on this call. In case you have any other questions, please feel free to contact us or drop me an e-mail at shailendra.maru@edelcap.com. Thank you and have a great day ahead. Thank you so much.

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