Edelweiss
Ideas create, values protect

Conference Call Transcript

Edelweiss Financial Services

Q4FY13 Results

May 16, 2013 | 02 p.m. IST

Corporate Participants

Rashesh Shah
Chairman

Himanshu Kaji
Executive Director

S. Ranganathan
Chief Financial Officer

Shailendra Maru
Head, Stakeholder Relations

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Edelweiss Financial Services audited FY13 Earning Conference Call. I now hand the proceedings over to Mr. Shailendra Maru of Edelweiss Financial Services, thank you and over to you sir.

Shailendra Maru: Thank you Inba. Good afternoon for all of you and thank you for joining us today as we discuss Edelweiss Financial Services' Audited consolidated financial results for FY13 that ended March 31st 2013. Speaking today with you are Rashesh Shah, Chairman, Edelweiss Group, Himanshu Kaji, Executive Director, and S. Ranganathan, the Chief Financial Officer. Following the reading of safe harbor provision, I will first turnover the call to Rashesh for his opening remarks. Thereafter Ranganathan will take you through an overview of our business performance and the financial numbers. This will be followed by the Q&A session.

A press release. financial statements, an earnings update and an annual investor update for FY13 have been circulated and are also available on our website www.edelweissfin.com.

Certain statements that may be made or discussed at the conference call may be forward looking statements. These need to be reviewed in conjunction with the risks and uncertainties that the company faces. We have outlined these risk and uncertainties in the last slide of our presentations which have been circulated and are also available on our website. Edelweiss has obtained all market data and other information from sources believed to reliable or its internal estimates, although its accuracy or completeness cannot be guaranteed. I will now turn over the call to Rashesh.

Rashesh Shah: Thank you Shailendra and good afternoon to all of you. We have declared our audited results for FY13 and I hope you have had a chance to look at that. To just recap the broad figures, we had a total revenue of 2184 crores as compared to 1671 crores for the last year, which is a 31% growth and profit after tax is 178 crores as compared to 128 crores last year, which is up about 40%. The key indicators that we also look at is profit after tax excluding insurance because our insurance JV is in an investment mode. So our profit after tax ex-insurance has jumped to 243 crores from 146 crores last year, which is a 66% jump. So on this count we are really satisfied with the performance and the return on tangible equity ex-insurance is now at 11%.

So overall it was a good year. We have had consistent improvement in operating metrics quarter on quarter for the last about six quarters in a row and we are hoping that in spite of this challenging environment if we have been able to achieve this improvement we should be able to continue that as we go forward. A large part of this has been because of the diversification strategy that we followed which has allowed us to reallocate resources, allow some businesses to grow faster while others may be are facing environmental and market challenges. But having a broad based mix of businesses has been very useful. In the last few quarters, our profit after tax for the quarter Q2FY12 was 26.3 crores which is now 51 crores. So we have consistently grown 26 to 29 to 38 to 39 to 41 to 46 to 51 now over the past six or seven quarters.

We have invested a lot in improving our capital and operating efficiency, our cost to income ratio have come down as you may have seen in the presentation. The ROE has also improved though we still have some more room to go and we are constantly working on that. Over the next eight quarters we want to improve the ROE consistently. The uptick in profitability has been satisfying, but the interesting thing about the profits was also that this has been without using a huge amount of assets. Our balance sheet has only grown by 10% while the profit ex-insurance has grown by 66% so this is significantly non-linear growth. We may not have the same ratio of the non-linear growth going forward, but our ambition is that if we can grow our balance sheet by say 14-15% and can we grow our profits by 24-25%, so we have the profits to grow at a slightly faster rate than the balance sheet growth so that we don't only depend on asset growth as a way of growing profits.

Our insurance scale up has been as per plan. We collected premium of 52 crores in this year which is the first full year of operation and we now have 45 offices all over India. Our retail capital market business broke even in this year; the integration with Anagram is over. We were able to break even through increase in revenues especially wealth management and other parts and a significant reduction in cost through the integration in the back office. The retail finance business also broke even and has made a small profit in this year. We were originally expecting that when we hit a book of 2000 crores we will be able to break even, currently at about 1600 is what we have and we have already broken even.

On the resourcing side we have strengthened our ALM and profile. We have changed the borrowing a lot from short term orientation to medium and long term oriented borrowings, the example being that about two years ago our 38% of borrowings came from 0-3 months so slightly more than one third of the borrowing came from 0-3 months which is now only 16%. So though we have grown over the last couple of years we have brought down the dependence on short term borrowing significantly which has improved our ALM profile. We continued to strengthen the organization, invest in technologies, risk management practices and build leadership and in this year we have also instituted a project around customer centricity. On the softer side, the four-five things that are on the organization side that we continued to invest in technology risk management, leadership, costumer centricity and organizational processes. So all in all FY13 financially was a good year, but even in the non-financial sense of the organization point of view it has been a satisfying year for all of us. Along with that I will just pass it on to our CFO S. Ranganathan who will take us through the details of the quarter and the year.

S. Ranganathan: Thank you Rashesh. Thanks everyone once again for joining us on the conference call today. As usual I will first discuss the highlights of our financial performance and then give you a business update. The highlight of our performance is the sequential growth in our bottom line in the past six straight quarters despite tough operating conditions. The consistent growth in our PAT is the result of diversification in the businesses, executional efficiencies and cost control that we have been constantly working on. In fact our profitability excluding insurance has improved significantly as I will discuss shortly. On the balance sheet front we continue to reduce our dependence on short term borrowings and strengthen the liability side. Maintaining a strong a liquid balance sheet with a healthy ALM profile continues to be a key focus area. Coming to our results, total revenue for the year is 2,184 crores compared to 1,671 crores for FY12 which is up 31%. Profit after tax is 178 crores compared to 128 crores which is up 40%. Profit after tax excluding life insurance business is 243 crores compared to 146 crores for the previous year, up significantly by 66%. Our group networth stands at Rs. 2,995 crores and the tangible equity is Rs. 2,655 crores. Return on tangible equity for FY13 ex-insurance is 11% compared to 7% in FY12 and for Q4 FY13 it is 14%. The effective balance sheet size at the end of the financial year is Rs. 14,528 crores compared to Rs. 13,289 crores at the end of FY12. While total balance sheet size has grown 10% during the year, the net profit ex-insurance has grown 66% clearly indicating the non-linear growth that we have been able to achieve in the FY13 as a result of operating and capital efficiency improvement that we have been focusing on. We hope to maintain this growth going forward as well.

Among the individual heads of income, interest and treasury income for FY13 is Rs. 1,781 crores, up 35% year-on-year. Growth in interest income reflects the growth in our credit book including housing finance. Agency fee and commission at 319 crores is flat over FY12. We have been able to preserve our fee and commission top line as our retail capital market business has scaled up during the year despite challenging environment and the industry revenue pool remaining static or in fact shrinking in some of the verticals. With the momentum in life insurance business, the premium for the first full year of operation was Rs. 52.5 crores in FY13 compared to 10.7 crores in the previous year.

Coming to the cost, the Opex for the year is higher by 13% year-on-year. Our advertising and business promotion expenses have gone up from Rs. 14 crores in FY12 to Rs. 25 crores this year. Commission and brokerage income has also gone up from 9 crores to 32 crores this year due to scale up in insurance and housing finance. Thus we have been able to keep a tight control over our cost. As we have indicated to you in our Q3 earnings call, beginning this quarter, we have started showing the change in the insurance policy actuarial liability on account of life insurance business as a separate expense item as the insurance business is now scaling up significantly. This will enable a meaningful analysis of Opex compared to prior period. The change in the life insurance policy liability actuarial for FY13 stands at Rs. 31 crores compared to 6 crores for FY12 which is in line with the increase in the insurance premium income during the year.

Our employees' costs are higher by 34% for FY13 as we continued to scale up our new businesses especially life insurance and retail finance and hire new recruits for them. Our employee strength stands at 3,907 as on 31 March 2013 compared to 3,108 on the 31 March 2012.

The financing cost is up 34% year-on-year this year due to total borrowings being higher. Our borrowings were Rs. 11,533 crores as on 31 March, 2013 compared to Rs. 10,414 at the end of the previous year. Our blended cost of borrowing for FY13 is 10.1% compared to 9.7% during FY12 which also impacted the total borrowing cost. The cost of borrowing for Q4 was 9.7%.

Our cost to income ratio ex-insurance had peaked to 72% during FY12 as a result of investment in the diversification phase of our growth. It is now improving successively each quarter and is now 63% during the 4th quarter of FY13.

We have also circulated the annual investor update which gives more color on the financial performance of our businesses based on the way we look at them internally. We hope this will help you in understanding our business dynamics in their true prospective. You would have observed from slide number 7 in the annual update that the financial performance of all businesses except life insurance is either stable or improving compared to FY12.

Now coming to our balance sheet, our total borrowing as on 31 March, 2013 are Rs. 11,533 crores compared to Rs. 10,414 crores as on March 2012. Our total assets include G-Secs and FDs of about 3,166 crores against which we have back to back borrowing. Excluding these G-Secs and FDs from the total borrowing our net gearing at the end of the quarter is a reasonable 2.8x. If you see the broader picture over the last one year, the effective balance sheet size has grown by about 1,240 crores and the borrowings by about 1,120 crores. However during the same period the credit book has grown by about 1,790 crores. Thus you will see that about one third of the total growth in the credit book has come by way of release of assets by the treasury.

As we have been speaking in the earlier earnings call, reducing our dependence on debt markets and especially the short-term borrowing was focus for FY13. As a result our borrowings from debt market have come down significantly to 32% of the total borrowing as shown in the ALM slide in our presentation. At the same time, bank lines constitute 35% of the total borrowings. In addition, bank borrowings in the form of ODs and cash credit lines aggregating 683 crores remained unutilized as on 31st March, 2013. Increased bank lines have provided us a stable long-term liability. We have thus strengthened our liability profile by diversifying our sources of borrowing. We continue to ensure that we have matched ALM profile. We maintain an overnight liquidity cushion of about 500 crores to meet any unforeseen requirement.

Finally turning to our business highlights, the credit business scale up continued. The total credit books stood at 6,572 crores by the end of FY13 compared to 4,785 crores as at the end of previous year, a growth of 37%. The average collateral cover on the collateralized book was around 2.4x as on 31st

March, 2013. As on a recent day, the cover is around 2.5x. The asset quality on the credit book continues to be satisfactory with the gross NPL at the end of the quarter at 0.43% and the net NPL at 0.11%. Our NPL provision cover is healthy at 74%. Additionally, we provide general provision on standard assets as per the prescribed norm. ECL Finance, our NBFC, has a capital adequacy ratio of over 18% as on 31 March 2013. The retail finance business which includes mortgages, LAP, and SME finance continues its steady growth. The book has now touched 1,627 crores including SME finance of 188 crores. We continue to be a leading debt arranger in the country with a market share of around 9% in FY13. We handled 10 DCM transactions this quarter for large and reputed clients as shown in our presentation.

Coming to capital markets and asset management businesses, in investment banking, the deal closure continues to be slow. We however handled three transactions this quarter. The pipeline continues to be strong. On the broking side, our agency ADV for the clients increased to Rs. 2,940 crores in FY13 compared to Rs.2,590 crores in FY12. While the markets recorded marginally higher ADV in quarter four or in FY13 over FY12, it has not resulted in any increase in the industry revenue pool. Our securities broking revenue forms 6.4% of the total revenue for FY13. The broking yield on client transaction continues to slide on the back of higher options volume. Our retail broking businesses now have over 4,03,900 clients through our online portal www.edelweiss.in and through the offline model. Including our other wholesale and retail businesses, Edelweiss Group now has a client account base of around 4,50,000. In addition, we maintain over 2,50,000 DP accounts. In our alternative asset management businesses we have AUMs/AUAs of around USD 685 million equivalent at the end of this year including the structured product portfolio of about 1,085 crores.

Our commodities business continues to build scale. It deals in agri-commodities with the client base of around 400. It also sources and distributes precious metals at 13 centers to over 450 clients.

Our insurance business continues its planned scale up. It continues to expand the retail foot print and in a short span of less than 21 months since launch, we have written over 29,000 policies. Our customer base has expanded to include policy holders in 1,200 villages. During the fourth quarter it expanded operations to three more large cities and now has 45 branches in 38 cities. The agency channel buildup continues with the number of personal financial advisers reaching 3,400 compared to 825 a year ago. We have entered into a Banca tie-up with The Catholic Syrian Bank recently. The cash burn in this new business is as per the plan.

Treasury book size at the end of the quarter was lower at Rs. 2,995 crores compared to 4,871 crores at the end of the previous year. Yield for FY13 was around 11.3%. The treasury book now mainly comprises of G-Secs and bank FDs and operations focus on managing liquidity and balance sheet as in any commercial bank.

To sum up, we continue to implement our core strategy of strategic diversification in financial services and de-risk of the business model. While the core business operations remain robust newer businesses like retail capital markets and retail finance have now broken even. We will continue to focus on improving efficiencies and productivity in FY14 while we wait for the return of growth in the industry. We will continue to build a culture of customer centricity and invest in leadership technology and risk management. Given the strengths of Edelweiss, we are confident that when growth returns we will be able to fully translate the upside into solid business performance. With this I would like to conclude and will be happy to take any questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Von Buch from Standard Advisors.

Von Buch: Okay, so question was how many shareholders are there among staff now and what percentage do they make up?

Rashesh: The internal ownership is close to 51% on the current shareholding basis and with the outstanding options which we expect that employees will convert over the next four to five years, which is the exercise period, it will increase by another 5-6% in our estimate. So what is currently 51% without ESOP should become 56% with options.

Moderator: Our next question is from Sudhakar Prabhu of Span Capital.

Sudhakar Prabhu; First of all let me congratulate the team for a great set of numbers. You guys have done a great job in this difficult environment. My first question would be on your asset book. Out of your asset book of 6,500 crores how much would be the wholesale part?

Shailendra Maru: Rs. 1,627 crore is the retail finance book of the housing finance as well as the SME. Rs. 507 crores are the retail loans against share and all the rest is the wholesale, which is around Rs. 4,400 crores.

Sudhakar Prabhu: When you say these 4,400 crores is wholesale book, what exactly is it, what kind of lending is this?

Rashesh Shah: As we have spoken in the earlier conference calls, these are mainly corporate loans from either operating entities or holding companies against collateral. The collateral cover on an average is between 2.5-2.6 times and very often almost half the loans are to corporate entities or operating entities, but collateralized with the assets of either the promoter or the holding company.

Sudhakar Prabhu: Sir, the collateral would be largely the shares?

Rashesh Shah: It can be any asset. We do make a call, a large part of this collateral is basically liquid collateral - can be shares, can be mutual funds units, can be even very often other liquid assets like bonds and all, but it can also be real estate. Only about 10-15% of the collateral would be illiquid like real estate but the large part is liquid collateral in this.

Sudhakar Prabhu: Right, and sir what kind of growth do you see in this lending book next year? This year you have grown almost 35% in line with the market, so do you think a similar growth is possible next year also?

Rashesh Shah: Our idea is, as I said earlier, to grow by 20-25% a year and our retail book might grow slightly faster, so wholesale, my expectation would be about 15%. But again we don't have a very specific target that we have to hit because we are very careful on risk and underwriting and the environment. So if the environment changes, liquidity condition changes, we will calibrate it up and down, but given the appetite of market to grow credit book wholesale cum retail by 20-25% should be possible and our aim is to be in that range.

Sudhakar Prabhu: And lastly on the credit risk part, do you think that you can maintain similar kind of NPAs or you think can you improve on this?

Rashesh Shah: Obviously, we have been doing this business for about six years now, we have seen all environment and there is always a risk out there, but since we have a strong underwriting processes, collateral cover is also as I said more than 2.5 times and we do ensure that there is very strong risk management and oversight on this portfolio all the time. So given that the liquidity conditions are improving, we do think the economic situation in India has improved with inflation coming down, interest-rates coming down, government fiscal deficit also coming in control, we are positive given the global liquidity. So I would hope that the period of asset stress for all banks and NBFCs in India in the last two years going forward it should ease off, but for us given that we have no project finance or credit exposure in those areas and all this is mainly collateralized we hope that we will be okay.

Sudhakar Prabhu: Sir, coming back to this wholesale lending as you said around 500 crores is loan against shares, just to understand how does this work in case the share prices fall by 50-60% then how do you manage it, because we have seen that in last one-two years even the large blue-chip stocks have fallen by 50-60% so in those situation how do you manage the risk?

Rashesh Shah: Well, in all of them we have strong top up clauses and very often we have the option of asking for cash top up. We have an option to sell the shares, we can recover the loan. We can do a combination of things and each one is a case to case because these are wholesale loans and we do a quarterly review of all the collateral and the underlying cash flow and the status of those companies and all. So case to case basis. We also have an option to take additional stock, we can take other collateral, sometimes we also take property, so all kinds of instruments. Our expertise has to be in how do we manage the book.

Sudhakar Prabhu: Right and sir my last question would be let say 2-3 years down the line, how do we see your profit segment wise because right now we see that almost 80-85% of your PBT coming from your lending business so 2-3 years down the line how do you see it, will it be more or less similar or do you think there will be significant change in that?

Rashesh Shah: If you see for this year, Slide #7, out of about Rs. 324 crore in terms of pre-insurance 199 crore comes from the credit side and I would assume the same proportion should be there with the caveat that capital markets will come back and when capital markets comes back their proportions should go up. So broadly I would assume that half would come from credit and half would come from all the other areas a few years from now, but again this is just indicative. I don't think there is any specificity in this.

Sudhakar Prabhu: And lastly on the insurance part, what is the burn rate as of now?

Rashesh Shah: If you see our PBT has been (-65) crores in the presentation slide #7.

Sudhakar Prabhu: Yes and do you think this will come down next year or it will be more or less similar?

Rashesh Shah: It might go up because we will open branches and hire new people. Our expectation is that this should be 80-100 crores a year.

Moderator: Thank you. Our next question is from Tirath Muchhala of Elusividya Capital.

Tirath Muchhala: Two questions on the commodities business. The first is regarding the agri unit, could you talk a little about the current competitive landscape and again pertaining to the agri unit, what would allow us to scale up this business over the next five years or so?

Rashesh Shah: See actually, the large part of the agri is also credit oriented or credit based because our entire commodities business there is a large credit element that is embedded in that, but it is not pure credit only, it is credit along with a lot of other services including sourcing. Currently India imports pulses, now a lot of this import of pulses you can import on credit as you have cheap credit available. So you also have some interest cost advantage on that or you have ability to manage logistics and the warehousing. So we work with more than a 100 warehouses in India so you have that collateral management. We have collateral managers all over India. We also procure things from small traders in mandis in India and aggregate and consolidate so there is a financing part of it, there is an interest advantage part of it, there is logistic warehousing part of it. There is obviously hedging part of it, it is also like on the gold and the bullion side. So all of this put together along with the fact that you have capital to hold inventory or you have capital to fund your clients so some of the clients on this are purely only funding clients. Some of them are, where we hold the stock against the LC by them and they will take the goods from us three or four months after that until then we will hold the collateral; we ensure that we keep it in good order. So it is just combination of all this.

Tirath Muchhala: Okay and going back to that question so how do see this scaling up over next five years, not about numbers, but just in terms of business dynamics?

Rashesh Shah: Overall, we strongly believe and over the last four-five years we have believed that there is a strong conversion between financial markets and physical markets in commodities. As an aside, the same thing is happening in real state also where real state is increasingly becoming financial asset, but we are not in that. In commodities though physical world of commodities and the financial world of commodities with exchanges coming up and with a lot more international throughput, a lot of all counter parties are also other global banks, it makes it all the more easier for the physical world and the financial world to converge. In India it is converging slightly behind the way it is converging everywhere else globally, but if you have seen firms like Glencore and Olam and Wilmer and Cargill and all, a lot of them have been able to be in the middle of it. Some of them have a slightly higher physical angle, some of them have a slightly higher financial angle. So having a balance through physical and financial part of it is a good one, but second important aspect will be your capital and your ability to handle capital, source capital and manage it carefully because as I said earlier a lot of this will be credit based. So if credit and a lot of things around this like hedging services, warehousing services, import services all of that combined along with the fact that you have capital on which you can import a large amount of inventory helps you.

Tirath Muchhala: Just one more thing regarding the commodities business, what are the chief business risks that we are open to in both units, in precious metals and in agri?

Rashesh Shah: See in all of this we do not take price risk, so we ensure that we are completely hedged back to back either with a customer order or a customer LC or we hedge in the market where the market prices are there. So we do not take any proprietary risk on this. Our risk is very similar to counterparty risk or default, any fraud risk when the goods are in the warehouse and any fraud happens from that we carry that risk. We carry the risk of sometimes goods getting spoiled, we obviously have insurance for that, but it is also an additional risk that we carry. We sometimes carry risk where we have physical gold and the market spread can go up and down. So there is business oriented risk outside of any propriety position risk which we are not taking in this business.

Moderator: Thank you very much. The next question is from Vibha Batra of ICRA.

Vibha Batra: Just wanted to understand the distinction between the normal housing and low cost housing, how are you distinguishing these two and are there separate teams addressing these two segments?

Himanshu Kaji: Just to give you a slight flavor on the small housing business. We started this project in Tamil Nadu in five three-tier cities. We have a separate team headed by a gentlemen who has experience in similar function for over 15 years in the same business and we are planning to expand that line within Tamil Nadu and then to a couple of other states in the coming year. Small ticket housing loan is a ticket size which is generally less than Rs. 20 lakh and it is also the definition of NHB basically.

Vibha Batra: Okay and first of all why Tamil Nadu, that’s not really your geographical area and how would it be ramped up and if you are to compare ROEs across your businesses, ROEs on corporate versus retail is it uniform or is there a distinction and of course if small ticket housing also would depend a lot on NHB line because I guess that is the cheapest line, so if you can throw some light on that. How you are progressing on those lines?

Rashesh Shah: On your first question Vibha why Tamil Nadu? We obviously did some amount of research and we identified three or four states. We have been very clear - even our insurance expansion was very straight, we don't want to be in all India very quickly in any of the businesses because our idea would be to go into a particular state, use hub and spoke kind of a model and once you get experience in that then you go to an adjacent state and then become stronger in a region and after that go into other regions because India is a large country. Second reason was that the team we hired had experience in Tamil Nadu and so as a result of that and it’s a fairly robust market in one of the top three markets for mortgage and housing loan. And the second one is why there is what you called low ROE business versus high ROE business, you should understand the scalability, sustainability and the size are very-very different. We do think on the next 15-20 year basis, housing finance is an asset class in retail credit which will be one of the biggest ones. In the current year we expect about 2.5 lakh crores to be disbursed for housing loan and LAP, so it's a large market and it will grow as India grows. Also the margins like spreads on a housing loan are 350 basis points which is versus say 500 basis points on the wholesale, but an average wholesale loan is only for 18 months while average housing loan is for say about 5-8 years, so overall life cycles of the loans in order of the margins are fairly interesting.

Vibha Batra: Okay, if you were to compare on ROE basis, of course small ticket housing will be too premature because on pilot basis OPEX would be different, but if you were to compare your retail versus corporate, how does it look for you?

Rashesh Shah: Eventually after we get scale we think ROEs will be fairly similar and again we are looking also for our diversification, we don't want concentration, we are very careful about that. You have quite a lot of housing finance companies which are also there. Quite a few of them have decent ROEs out there so we do believe that housing finance is also a good ROE business once you get scale and you have established yourself. We are only two and a half years old in that business, but our idea is we taking a 10-20 years view on this.

Vibha Batra: Okay, but you have NHB lines in place or no?

Rashesh Shah: They are happening now because as per one of their guidelines we should have that three years of completed financials, which we have achieved in the current year i.e. FY13.

Vibha Batra: So you will have to mobilize much longer funding. From the borrowing mix it appears that you have been able to reduce your reliance on possibly very low tenure this thing, but even one to three years the reliance seems to have gone up, even actually six to twelve months also.

Rashesh Shah: ALM is something which we manage very closely so we will continue to manage that.

Moderator: Thank you very much. Our next question is from Ritesh Nambiar of UTI Mutual Fund.

Ritesh Nambiar: Just some color on your treasury book, how has this quarter been and how is the coming quarter for you?

Rashesh Shah: We have a small book on equity arbitrage where the spreads are now very small, we have G-Secs also, but even in that we hedge interest rate away so that we are not taking a lot of interest rate risk on that and then we have our FDs which are part of our liquidity management strategy. So overall on our entire treasury book it is very similar to the treasury of the bank and we make spread of about between 80-90 basis points or NIMs of about 120-130 basis points on this entire book.

Ritesh Nambiar: And the debt instrument which you mentioned it's the leverage part of the book, how is it different from treasury or have you answered for both?

Rashesh Shah: I have answered for both. Actually our entire treasury as you know has the G-sec FDs, and other assets.

Ritesh Nambiar: Okay and how has the quarter been for ECL Finance, the NBFC?

Rashesh Shah: If you see the slides on the credit business, it will give you an idea on ECLF. It has been the same for ECLF overall also like our wholesale credit book which is there on Slide #26, it should give you a little bit of an answer. We have grown our wholesale book from 3,600 crores to 4,400 crores, so about 800 crores worth of assets were added and the profit has been also largely on there because the retail finance book has just broken even and made a small profit.

Moderator: Thank you. Our next question is from Kajal Gandhi of ICICI Direct.

Kajal Gandhi: I wanted to know what is the exposure to gold that we carry in our book - either balance sheet or loans.

Rashesh Shah: We don't have any exposure to gold from an open position point of view and also from a loan point of view because in India you are not allowed to give a loan against gold so we don't have any exposure to that. We import gold and sell it to jewelers against LCs or against cash.

Kajal Gandhi: Okay, sir recently some of the things that happened where LCs were getting revoked, did we have any instances of that?

Rashesh Shah: No, that happened with a few banks, we have not had any of that at all.

Kajal Gandhi: So what is the total amount that is there in the balance sheet relating to these LCs as of now?

Rashesh Shah: As I said, we import gold and we sell it either against cash or against an LC of an Indian Bank from the customer so if you are a customer you place an order with us and if you give us an LC and we will import gold and give it to you.

Kajal Gandhi: Okay. Sir, what kind of margin do you make in these transactions?

Rashesh Shah: It actually varies. As I said we have sourcing advantage, we have cost of capital advantage that depends on how much are you buying 5 kilo, 10 kilo so it keeps on varying, but overall on this business of commodities as a whole we have shown in Slide #7, we are making a pre-tax ROE of 22% on this business.

Kajal Gandhi: Sir what is your view on the volumes now because your client volume has increased, but the yields have shrunk in this quarter?

Himanshu Kaji: On broking charges I guess it's a function of the market and the product mix that they have, options obviously earn low yields rather than the cash or the futures. So quarter-on-quarter I don't think we should compare it because it is a yearly trend that is more significant and meaningful in these cases because in a quarter if you have had large options deals on behalf of your institutional clients your yield will suddenly look different. So my humble submission is that we should look at a yearly trend and there also there will be a drop for a simple reason that as more and more transactions move to DMA by the institutional investors the rates are getting affected.

Kajal Gandhi: Sir, on the total volume of your around 3,500 crores on the external customer what would be the proportion of institutional?

Himanshu: We don't give this break up Kajal.

Moderator: Thank you. Our next question is from Nikhil Paranjpe of ICICI Prudential Asset Management.

Nikhil Paranjpe: My question was basically some more clarification on the ALM side while you have given it on the overall book basis, but if I have to look at the NBFC book per se which is your lending book of about 6,500 crores so I guess not a lot of percentage of your assets would be maturing in the short term, but I guess then about 40-45% of your liabilities would be maturing in the short term. So is there a significant mismatch there in let's say less than one year kind of bucket?

Rashesh Shah: No, if you see Slide #21, it also gives you our asset profile - 44% of assets are on the short end and our wholesale book which is about 32% of the balance sheet is currently on the medium side. Our wholesale book has an average tenure of about 18 months and retail credit and the other corporate assets like office building are on that 21st Slide. So it gives you a flavor of that and Slide #20 gives you asset and liability profile where there is a fair amount of matching in all these tenures.

Nikhil Paranjpe: No, but in Slide #21 the NBFC book essentially would start from this corporate credit portion right?

Rashesh Shah: Yes.

Nikhil Paranjpe: So essentially the NBFC book would be having medium to long term assets?

Rashesh Shah: No as I said it also has 12-18 month assets and all, average is 18 month. If you see our entire mortgages also we are almost 25% of our liabilities funded by within a 6 to 12 months 12%, one to three years 24% in three years and above so when you add of all that, we do look at all the loans and what is the tenure of the loans and have the liability profile that is also matching.

Nikhil Paranjpe: In your corporate credit book, how much of that book would sort of get rolled over either let's say if it is backed by property, the property prices would have gone up or backed by shares if the share prices gone up so it is kind of gets rolled over and how much actually gets prepaid let's say.

Rashesh Shah: Our experience has been that only the good ones get rolled over because usually any roll over is like a fresh underwriting proposal. In fact we also charge a processing fee for that just to ensure that its not a habit that you constantly keep on rolling it over. So very often we will insist on repayment and then reprocess the application so it does vary, but on the whole that is not more than 20-25% of the portfolio gets rolled over. The balance usually gets repaid.

Nikhil Paranjpe: Okay and one last question on the retail finance side, how much would be home loans and how much would be LAP?

Rashesh Shah: It's about 50:50, 50% the home loans and 50% is LAP.

Moderator: Thank you. Our next question is from Ravi Mittal of BNP Paribas.

Ravi Mittal: Could you give us the breakup of your debt capital market borrowing in terms of investor wise, may be banks, insurance, just a broad breakup?

Rashesh Shah: It is there on Slide #18 of the annual investor update.

Ravi Mittal: That shows the total debt market borrowing is around 32% as of March, but can you give us investor wise breakup of this 32%, approximately what percentage will be coming from mutual fund, insurance, banks because these all can all invest in the NCDs?

S. Ranganathan: This is all mutual fund.

Ravi Mittal: So it is primarily mutual funds?

S. Ranganathan: Yes it is.

Ravi Mittal: The other borrowing which is shown is primarily retail NCDs, am I right in my understanding?

S. Ranganathan: It will be from insurance companies, corporates and retail, all three.

Ravi Mittal: And what is our yield on loan book because this time it was not there in the presentation?

Shailendra Maru: It is a 16.3% for full year FY13.

Ravi Mittal: What is the commodity finance book size? We include that in the wholesale finance?

Shailendra Maru: It is on Slide #**7,** but that's a total capital employed in commodity book which is 2,347 crore.

Ravi Mittal: Okay, but that basically means that that is our borrowing for that business, but how much have you lent from that business? Would be approximately same amount?

S. Ranganathan: This is a capital employed, there will be some equity and the balance will be borrowing.

Moderator: Our next question is a follow-up question from Tirath Muchhala of Elusividya Capital.

Tirath Muchhala: If we can go to Slide #35 and following from where the previous caller spoke regarding the capital employed over the last three years it has moved quite dramatically so can you explain what causes this significant movement year-on-year?

Rashesh Shah: It is opportunity based and it is also end of the period. So for example, FY12 end we did not see a lot of spread and premium on sourcing and selling, so we scaled it down. Usually all this is on 3 month LC, it is like any other business with working capital kind of a cycle. A large part of this asset, the capital deployed are working capital so sometimes you are building up inventory because you think it will be a good month and sometimes we see the forward spreads are not there and if in April we don't expect demand to be there you will not have the inventory on 31st March. So I would say two caveat one is this end of period because the capital employed from a working capital point of view it does go up and down all through the year and B, it is also a function of the opportunity and the market environment.

Moderator: We have Chandan Gehlot of Deutsche Asset Management for the next question.

Chandan Gehlot: We have seen the collateral value has basically declined from 2.6 FY12 to 2.4, so just wanted to know what drives this.

Rashesh Shah: See there are a couple of things, all of these are listed shares, they go up and down. We have sometime top up which will kick-in in some loans at 2.5x, some at 2.25x, also some of the old credit which may have got repaid. I will give you an example, if we had a loan at 3x collateral that's got repaid and we did one more loan of another quality collateral at 2.25 - so it keeps on changing. My suggestion would be 20-30 basis point of collateral cover is not significant because the loan portfolio is undergoing change all the time.

S. Ranganathan: As we speak it has gone back to 2.5.

Chandan Gehlot: The reason why I am asking, in FY11 it was 2.8 and then it declined to 2.6 and then 2.4, so I was just worried if this trend is going to continue or we are going to stabilize at this level?

Rashesh Shah: No in April-May it has again come back to 2.5-2.6.

Shailendra Maru: In fact if you remember Chandan towards the end of March, there was a sharp fall in some of the midcap and other stocks, so that also might have temporarily led do a lower collateral cover. But as the markets have come back, the collateral cover has also come back.

Shailendra Maru: Thank you Rashesh, Himanshu, Ranganathan, and Inba. 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 email directly at shailendra.maru@edelweissfin.com . Have a great day ahead. Thank you very much.

Disclaimer

Caution: The information contained here is an edited textual representation of the Edelweiss Conference Call and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the audio presentations. In no way do we assume any responsibility for any investment or other decisions made based upon the information provided in this transcript. Users are advised to check the information independently before making any investment or other decisions. Management, while analyzing the results of various businesses of the Group, looks at the businesses from which the relevant income is generated rather than the nature or accounting head of the income. This could at times result in some numbers being different from the numbers as presented under the accounting heads.