

Conference Call Transcript

Edelweiss Financial Services

FY14 Results

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Corporate Participants

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Chairman & CEO

Mr. Himanshu Kaji
Executive Director

Mr. S. Ranganathan
Chief Financial Officer

Mr. Shailendra Maru
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Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Edelweiss financial services audited FY14 earnings 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 to all of you and thank you for joining us today as we discuss Edelweiss Financial Services audited consolidated financial results for FY14 that ended 31st March 2014. Speaking with you today 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 turn over the call first to Rashesh for the opening remarks. Thereafter Ranganathan will take you through an overview of our business performance and the financial numbers. This will be followed by the Q&A session. Our press release, financial statements, and an annual investor presentation for FY14 have been circulated and are also available on our website www.edelweissfin.com.

Certain statements that will 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 risks and uncertainties in the last slide of our earnings presentation which has been circulated and is also available on our website. Edelweiss has obtained all market data and other information from the sources believed to be reliable or its internal estimates, although its accuracy or completeness cannot be guaranteed. I will now turn over the call to Rashesh.

Rashesh Shah: Good afternoon to all of you and good to have all of you back on this conference call. You would have had a chance to look through the results and highlight. We have been able to achieve reasonably good growth rate of about 20 odd percent in profits for the year and what we are also happy about is we have grown. Our PAT has grown faster than the growth in the balance sheet. So our original objective of, what we called nonlinear growth, has been achieved yet again and we hope to continue to achieve that growth because we have a good mix of capital oriented businesses and agency oriented businesses.

As you will recall, our aspiration has always been to be a large financial services company which is in various aspect of financial services and we ideally want to be in all scalable, profitable parts of financial services because we do believe that financial services in India will grow at more than 20%-25% a year for the next 8-10 years and our idea is that we find the right opportunities in that. We should be able to grow that much or even faster than that and our approach has been to do this very selectively one by one, identify the business opportunities and then go after that. This is what we have done in the last 4 to 5 years. We

have been able to make the counter-cyclical investment because even in the businesses which were facing bad market environment, we continued to make investments like in capital markets, like in asset management and we feel good about it. In FY14, a lot of those investments have also started coming of age.

The five business groups that we have, which are Credit, Capital Markets, Commodities, Asset Management, Insurance, I will just give you a brief color on these. Our Credit business which has wholesale credit NBFC and the Retail credit, housing finance, have been doing fairly well. They have grown significantly over the last 2 years. Our entire credit portfolio has grown by 35% CAGR in last two years and we have been able to maintain yields and asset quality in these businesses for the last few years. We hope to continue that.

Our Capital Market businesses obviously still did not have a good year except the last quarter as capital market activities came back, but overall we feel good about these businesses also because we have invested a lot in productivity, in technology. Our scale has also gone up. The integration with Anagram is over and we do feel that if Indian economy comes back on track, capital market is biggest parameter of that and capital market activity will reflect that.

Our Commodities business has had an interesting year. We started off the year with a lot of activity in gold and precious metals which obviously came down significantly in the second half because of the restrictions in India. We have also been investing a lot in agri businesses, international agri as well as Indian agri financing and in the second half, a lot of those opportunities came of age. So now we have a fairly diversified mix of asset classes within commodities from precious metals to agri that we are involved and overall the business continued to do reasonably well.

On the Asset Management side, we had a good year. We were able to increase our AUM especially on the credit side, distress credit. Our ARC has grown significantly in the last year and even asset management should come of age in the coming couple of years.

And Insurance, we are still in the investment phase. We will continue to invest for the next 3-4 years, but this year we clocked collected premium more than 100 crores in the third year which was our original objective. So we achieved that. The productivity in the branches has gone up. Our agents force has become fairly strong and the proprietary sales model we have called VijayPath has been working along well.

So overall for the year, our AUM has gone higher, the balance sheet has become stronger. We also raised 500 crores Retail bond issue and raised some preference capital. Earlier we had a slight over dependency on the wholesale borrowing which has come down significantly. We strengthened the bank lines and other diversified sources.

Our businesses have all stabilized. A lot of investments we have made in our Housing Finance business and our Asset Management business and Insurance. A lot of those are stabilized. The management teams are in place. We invested a lot in strengthening senior management teams in these businesses and we do

feel that we are well positioned if the economy comes back on track in all these businesses.

Our other objective was also to focus on ROE improvement. For this year, the ex-insurance ROE reached about 12.3%. Our objective is to go to 14% in the current year and 16% in the year after that as we had indicated to our investors and we would like to continue on that path by constantly focusing on capital efficiencies, strengthening the businesses, cost efficiency and all that. Though we have our asset quality under control, our NPAs have inched up a little bit as the market environment as a whole has worsened. But compared relatively to the industry as well as our business which is growing, we do feel some amount of NPA is going to be there. Our gross NPAs, we have been able to manage to keep it under control. We will continue to do that and our NPA coverage ratio is also fairly good and we have a lot of collateral in this NPAs also. So we are fairly confident that in the future with our recovery efforts, we will be able to manage asset quality. Overall, we feel good about the asset quality.

So we have been saying the same thing for the last couple of years for those of you who would have heard us that we continue to invest in these businesses. We want to be as counter-cyclical as possible and fortunately the last 2 years gave us a great opportunity to invest in businesses. We have not stayed out in any business in the last 2 years and on the contrary continue to invest in that and we want to continue that over the next few years as the economy also grows, the investment should continue.

So with that, I will give it to my colleague, S. Ranganathan to walk us through the details of our financial performance. Over to you S.R.

S. Ranganathan: Thank you Rashesh. Thanks everyone once again for joining us on our conference call for discussing the financial year 14 performance. As usual, I will first discuss the highlights of our financial performance and then give you a business update.

Our performance for the financial year 2013-2014 clearly indicates that we have maintained the growth trajectory in our profits which has gone up from Rs. 128 crores in FY12 to 178 crores in FY13 and now 220 crores in FY14. The consistent financial performance is a result of diversification in our businesses and our conscious effort to improve efficiency and productivity. On the balance sheet front, this year has been comfortable. We continue to strengthen the balance sheet, reduce our dependence on short-term borrowing and diversify the sources of borrowings.

Coming to the FY14 audited results; total revenue is Rs. 2,556 crores compared to Rs. 2,184 crores for FY13, up 17%. Profit after tax is Rs. 220 crores compared to Rs. 178 crores in FY13, up 23%. Profit after tax excluding insurance is Rs. 271 crores compared to 226 crores for FY13, up 20%. The gross net worth stands at Rs. 3,095 crores. Our return on tangible equity excluding insurance for the year is 12.3%.

The effective balance sheet size as at the end of 31st March 2014 stands at Rs. 16,043 crores including borrowings of Rs. 12,948 crores with a net gearing of

3.56x. While the ex-insurance balance sheet has grown 12% year-on-year by the end of financial year 14, during the same period, ex-insurance net profit has grown 20% clearly indicating the non-linear growth that we continue to achieve as a result of operating and capital efficiency. We hope to maintain this growth going forward too.

Among the individual heads of income, our fund based income for FY14 has grown 16% year-on-year reflecting growth in our credit book. Agency fee and commission for FY14 is up 11% year-on-year. We have been able to improve our fee and commission topline as our Retail capital markets and Asset Management businesses have scaled up despite challenging environment.

Life insurance business continues to scale up and recorded a gross premium of Rs. 111 crores compared to 55 crores in FY13, a growth of 100%.

Within our total cost of financial year 14, OpEx this year is up 16% on a year-on-year basis in line with the increased level of operations. Our employee cost is higher by 26% year-on-year. We continue to scale up our new businesses especially life insurance and Retail finance and hire new recruits for them. Our employee strength stands at 4,001 as on 31st March 2014 compared to 3,907 a year ago. Addition of nearly 100 employees over the past year and the full impact of the addition of 800 employees in the previous year, that is FY13, has resulted in the employee cost going up. Financing cost is higher by 9% as compared to FY13, in line with the higher borrowings. Our borrowings were at Rs. 12,948 crores as on 31st March 2014 compared to Rs. 11,533 crores a year ago, again a growth of 12%. Our blended cost of borrowing for the year is 9.9% compared to 10.1% for the previous year. We continue to manage our cost of borrowings by having a judicious mix of borrowings. Our cost-to-income ratio excluding insurance had peaked to 72% during financial year 12 as a result of our investments in the diversification phase of our growth. It is improving gradually every quarter and now stands at 64% for the year 2014.

Coming to our balance sheet, as we discussed in the previous calls we have been consciously reducing our dependence on short-term money market and also diversifying our sources of borrowings. Towards this end, our NBFC subsidiary, ECL Finance raised 500 crores by way of issuance of 3 and 5-year NCDs in its maiden public issue in January 2014. We have also been adding stable bank borrowings to our liabilities. As a result, our money market borrowings have come down from 50% in FY11 to close to 34% in FY14 and the bank borrowings have gone up from 26% in FY11 to 35% in FY14. During the same period, the Retail borrowings have gone up from 5% to 13% clearly indicating the result of our efforts to diversify the sources of borrowings. Our short-term borrowing, that is maturing in less than 6 months, are now 29% of our total borrowings. In the same bucket, the amount of assets is much higher than the liabilities. During FY14, we have also diversified our sources of funding by adding preference capital in two of our subsidiaries and by securitizing a part of our Retail finance book. Bank borrowings and cash credit facilities aggregating to roughly 1,000 crores were unutilized as on 31st of March 2014 giving us a desired liquidity cushion. Strengthening the balance sheet and

having a matched ALM profile continued to be our focus area.

Our borrowings have gone up by Rs. 1,414 crores in FY14. During the same period, the credit book scaled by 2,056 crores. So the entire incremental borrowing went up to meeting the growth in the credit book. The assets assigned to the balance sheet management unit at the end of the quarter was marginally lower at 2,980 crores. The book mainly comprises of Gsecs and bank FDs and the operation focus on managing liquidity and balancing sheet as in any commercial bank.

We have launched a plan to buyback our shares from the market with effect from 5th May 2014 as announced earlier and the same is in process.

Finally turning to business highlights, the total credit book stood at Rs. 8,628 crores at the end of FY14 compared to Rs. 6,572 crores at the end of FY13, growth of 31%. The average collateral cover on the collateralised loan book was 2.6x. As in the past, we continue to avoid sectoral concentration in the book. The blended yield on the credit book for financial year FY14 was 15.7% compared to 16.3% in financial year 13. Increasing quantum of Retail finance is affecting the blended yield. The asset quality on the credit book continues to be under control with the gross NPLs at the end of this quarter at 0.95% and the net NPLs at 0.25%. Our NPL provision cover is comfortable. Additionally, we provide general provision on standard asset as per RBI norms. The total provision cover including provision on standard is 100%. We continue to grow our book without diluting risk parameters.

ECL Finance, our NBFC has a capital adequacy ratio of over 16% as on 31st March 2014 with a tier 1 ratio of 15.5%. We have ample room to add tier 2 capital by way of subordinated debt to meet capital requirement for future.

The Retail finance business which includes mortgages, LAP and SME finance continues its steady growth. The outstandings have now touched Rs. 2,090 crores including SME finance of 403 crores. During the fourth quarter, we successfully completed two securitization deal of Rs. 150 crores. Our commodities business continues to build scale. The business deals in agri commodities with a client base of around 400. We have made significant investment in building backend and network for market intermediary for agri procurement and distribution in the past 3 years.

Turning to Financial Markets and Asset Management business: On the broking side, our agency ADVs for clients was Rs. 3,130 crores in FY14. The securities broking revenue forms 5.6% of our total revenue for financial year 14. The broking yield on client transaction stands at 2.5 basis points for FY14 on gross basis. Our Retail financial market business scale up continues. It now has over 4,27,000 clients compared to 4,08,000 clients a year ago. Wealth AMA is around Rs. 4,800 crores.

With our other wholesale and Retail businesses, Edelweiss Group now has a client account base of over 4,97,000 at the end of financial year 14 compared to 4,50,000 a year ago. In our alternative Asset Management business, we have AuMs/AuAs of around USD 1.9 billion equivalent or approximately Rs. 11,900

crores at the end of this year. With commercial banks now embarking on the sale of their NPAs to ARCs, Edelweiss ARCs scaled up its AUMs during the second half of this financial year taking its total AUMs to over 9,200 crores. Edelweiss ARC is now one of the leading ARCs in the country. We are also excited by the ARC opportunity as it helps release productive assets for the nation economy and also reduces the burden on commercial banks.

Our insurance business continues its planned scale up. It issued nearly 33,000 policies in FY14 compared to around 23,000 policies in FY13. The agency channel now has 7,255 PFAs compared to about 3,400 a year ago. The cash burn in this new business is as per plan and its loss for financial year 14 was Rs. 69 crores compared to a loss of 65 crores in the previous year. Current net worth is 637 crores and is well capitalized for future growth.

As we have been doing at annual intervals, our FY14 annual investor presentation includes businesswise financial performance details. Slide 23 of the presentation bring out the fact that all of our businesses except life insurance, which is less than 3 years old, are performing well. Further increasingly profits are being contributed from multiple businesses and we have reduced concentration risk in this in our efforts to make profits more sustainable.

We are happy to share that Edelweiss has been voted India's best managed company in the upto \$500 million market cap category by the readers of Hong Kong based Finance Asia, Asia's leading financial publishing house, in its annual poll on India's top companies 2014. It is for second consecutive year that Edelweiss has been ranked in a similar manner in Finance Asia Poll. This accolade is a recognition of our strategy of growing in a calibrated and cost-efficient manner by concentrating on areas like risk management, governance, leadership development and customer centricity.

To sum up, we continue to implement our core strategy of diversification in financial services by improving efficiencies and productivity. Our core business operation remains robust. We will continue to focus on strengthening the organization while building scale in our businesses and improving capital efficiencies in the financial year 15.

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

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

Ritesh N: Just had a question on this, the overall credit book has a sub 1% gross NPA, but the ECL Finance book has a one quarter odd gross NPAs. This recognition is on 180 days or 90 days?

Rashesh Shah: We are following 180 days RBI norm.

Ritesh N: And is the anomaly because of housing finance book which is performing better.

Rashesh Shah: NPAs are lower in the housing finance book, but there are small differentials and overall as I said we expect our gross NPA should stabilize between 1% to 1.5% and the net NPAs to be between 30 to 40 basis points.

Ritesh N: And just on this ECL Finance side, in fact YoY there was any pressure because last year YoY, I see a slight dip on half yearly numbers. So any particular reason for that, for ECL Finance?

Rashesh Shah: No, this is as per the normal process.

Ritesh N: And sir could you share the acquisition which you have done, the terms of the acquisition, the Forefront Capital Management which you have acquired?

Rashesh Shah: We have acquired the business of what is called liquid alternative in asset management. As you know we have a fairly good business on alternative credit side, distress credit side. We obviously have an asset management company AMC. So a space was there, we think in India this space should grow very well and more and more high net worth individuals and family offices and others who would want to access alternative products. So it was a good fit with a good team. There is a strong cultural match with Edelweiss. So we have acquired them and the integration process is on.

Ritesh N: Any similar acquisition, in fact are you trying to grow inorganically in the future?

Rashesh Shah: If you have seen Edelweiss, over the years I would think we are one of the few financial services companies that has consistently grown both organic and inorganic. Thirteen years ago, we acquired a company called Rooshnil Securities which was our wholesale broking business. Then we acquired Anagram. Now we acquired Forefront. Both along with that, we also built our Retail finance business, our asset management business, our wholesale credit business from ground level. So our whole approach has been to have a good mix of inorganic and organic and the opportunities allow this. So we do not have any specific thing that we will go on path A or path B. As and when opportunities come, we will evaluate that, but we are fairly confident and also focused on growing businesses organically.

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

Tirath Muchhala: So last year we had approximately 300 crores invested in unlisted equity and preference shares, there were non-quoted equity and non-quoted preference shares also. The first question is how much would that amount be for this year?

Rashesh Shah: I will get you that number Tirath. We do not have that offhand, but it may end up being the same because I do not remember us having done anything in that either on the acquisition side or the divestment side.

Tirath Muchhala: And just one more question. Some of our investments are quite old like Percept and Rediff. I do not know if I am right about this. They are more than 6-7 years old. So do we plan to hold on to these stakes or what is the plan like?

Rashesh Shah: As and when we get an opportunity we evaluate it. All these are portfolio investments. So when we get the chance, we will then sell them and capital wise we are fairly okay. When markets turn, then these investments will do well. We will hold them, but our idea is that when the balance sheet is growing, the percentage investments into unlisted and all will keep on going down.

Tirath Muchhala: And just one last question. What is the plan with our alternative asset management funds like the SBI crossover fund, etc. What is happening on that front? On the EW SBI crossover funds and some other alternative funds that we have started managing.

Rashesh Shah: We have been investing as the opportunities are coming around. All these are basically the private equity style funds. So we call the money when we find the opportunities. So we had a credit fund called ESOF, Edelweiss Special Opportunities Fund which has been fully invested and we are now in the dis- investment phase on that and we may do a follow on fund to that.

Shailendra Maru: And Tirath, we just checked up. The amount is more or less at the same level.

Moderator: Thank you. Next question is from Anita Rangan of HSBC Asset Management. Please go ahead.

Anita Rangan: Just wanted to understand if the growth in the alternative investments is coming from the asset reconstruction business. So can you give us some color as to how much of capital will Edelweiss Financial Services have put in and what is the outlook to grow this business?

Rashesh Shah: Approximately in this business, the way the model is emerging, you will put in your capital around 5% to 10% of the total AUM because ARC is a very unique business. You are partly an LP, partly a GP and partly work like an NBFC or a bank. So it is a combination of all three. So if you have 10,000 crores of AUM, your capital invested will be anywhere between 500 to 1000 crores in that business overall and I would assume that would be standard for this industry.

Anita Rangan: How much do you intend to like grow this business? Currently it is around 12,000 crores.

Rashesh Shah: Currently 12,000 crores is our overall Alternative Asset Management business. ARC out of this should be approximately 9,300 crores and it is very opportunity led. We will constantly evaluate because the banks are constantly putting out assets for sale. We will evaluate them and we will only buy when we feel that it is at good price and the recovery is going to be high and we can add significant value in the whole process. So we might add 3,000 crores, we might add 5,000 crores. So there is no fixed number because you also do this from portfolio by portfolio. So as and when the opportunity comes and you feel that it is a good portfolio being offered by the banks and you can recover this, there is a high amount of recoverability. Quite a few of these projects also revive. So there may be a high revival possibility and you will go

according to that.

Moderator: Thank you. Our next question is from Vinay Shah of Reliance Mutual Fund. Please go ahead.

Vinay Shah: Just to extend the previous question. So as Rashesh mentioned that the AUM for as the business is 9,300 crores. So what would be the capital employed here and in the presentation of overall capital employment, where does it fall?

Rashesh Shah: It will overall fall in the asset management category and approximately I would think about 600 odd crores is deployed in this particular. As you can see in the presentation, about 700 crores is our capital employed in the Asset Management business overall.

Vinay Shah: Yes, precisely 719 crores is the total capital employment for asset management. So is it safe to assume most of this part would be towards ARC business?

Rashesh Shah: I would say about 600 odd because in the other, we have a little bit of investment, and we are fund managers. So as I said in most of the funds we are GP. In ARC business, you end up being both LP and GP at the same time.

Vinay Shah: Sorry sir, can you come again for the last part. I could not get that.

Rashesh Shah: What happens in an Asset Management business, you are usually a GP, where it is called a General Partners where you are the manager of the fund and you do not invest in it, you hardly invest into the funds. In the Asset Management business, you end up becoming LP, Limited Partners and General Partners both. So you are also investing your money and you are also actually managing the fund to recover the money.

Vinay Shah: Okay, the next question is this AUM of 9,300 crores, you would have acquired it at some discount, but would it reflect in your total balance sheet size or how it would get reflected in your balance sheet size?

Rashesh Shah: It is an asset management structure. So usually what we acquire goes into a trust and the trust is being managed by us.

Vinay Shah: Okay, so it does not come on the balance sheet of ARC?

Rashesh Shah: No, the ARC makes its investment also in the trust and then the ARC manages the trust.

Vinay Shah: Okay fair enough. Sir on the gross NPA side, quarter-on-quarter the number has moved from 62 crores to 82 crores, though it has been fairly under control when we look at overall scheme of things, but even on a quarter-on-quarter, this seems to be a sharp rise in a way, in a relative term. So this would pertain to what our Retail book or the Wholesale book or can you throw some light here?

Rashesh Shah: It is actually both the books and again I do not know whether sharp or not. It is a gradual. As the book size is growing, some amount of NPA will always be there and as I said earlier we expect a gross NPAs to be between 100-150 basis points and the NNPA to be between 30-40 basis points. It will stabilize there as we are growing the book and we are also following a fairly conservative approach to this. So even when we have the collateral recoverability is high, we would as and when required classify it as an NPA and then work on recovering it.

Vinay Shah: Sir on the commodity business, you also mentioned that you also started international commodities. So can you share some thoughts here, what kind of commodities have they included in our portfolio?

Rashesh Shah: We have been seeing that the agri imports and agri exports in India have been growing at more than 30% a year over the last 5-6 years. So agri imports in India have become fairly big opportunity and we have been doing commodities like pulses and other largely protein-oriented commodities because India's need for protein has been going up and there are lot of imports going on. So we play an intermediary role on that. So as you know earlier we had the precious metal business which has then got expanded into agri and then on the India side, we also do agri financing of things like cotton and other agri products.

Vinay Shah: So at present, how the commodity portfolio would like to look like between the precious metals, the agri commodity and probably the liquid part and all?

Rashesh Shah: It keeps on changing and it is a very fungible book which changes almost on a weekly basis, but as you can see in the presentation we have got 1,344 crores of assets in the commodity business and the equity that we have allocated is about 362 crores for the commodities.

Vinay Shah: In the balance management unit, you have mentioned total 2,981 crores of capital employment is there and out of which some 200 odd crores is your FD, other part is your G-Sec and other investments. So at the balance sheet level, what could be the quantum of FD as on March 2014?

S. Ranganathan: FDs predominantly are for liquidity management. We manage the FDs because these have got different usage. One is these are kept for margins for exchanges and in terms of liquidity, we can pledge it with the bankers, we can give it back to the bankers and those can be used for our liquidity management also. So well, in terms of utilization of the FDs, business utilizes about 1,300 crores and rest of them are in the form of liquidity management.

Vinay Shah: So if I understand correctly, total FD lying on the balance sheet is around 1,500 crores?

Rashesh Shah: Yes.

Vinay Shah: Okay and one last book-keeping question. On the average daily volume for this quarter if you can help with that number?

Shailendra Maru: It is about 3,100 crores on the client side and we have another 3,000 crores of the treasury, so total 6000.

Moderator: Thank you. Our next question is from Chandan Gehlot of Deutsche Asset Management.

Chandan Gehlot: With regard to your Alternative Asset Management particularly ARC just wanted to know what kind of return you are making in this business?

Rashesh Shah: Well, we will make the returns as and when we recover the money. We currently get fees of about 1.5% or so on the assets that we manage and then eventually it will be a function of how we recover, when we recover because as said earlier we also invest our own funds into the trust and usually this takes about 3-5 years before a large part of the portfolio is recovered. So for a return you make on your investment will be determined by over the next 3 to 5 years.

Chandan Gehlot: Okay, do we have any past experience of managing any ARC book?

Rashesh Shah: The management team we have is having experience of more than 40-50 years and overall we are confident. We have a strong process to assess the assets we are buying, what is the underlying security, what is the company, what is the revival prospect, and what is restructuring. We have been fairly big in restructuring over the last 4-5 years even from an advisory point of view.

Chandan Gehlot: And also is there any asset which has been transferred by ECL or any of your NBFC to the ARC?

Rashesh Shah: No, the ARCs as per rules can only buy from the banks, they cannot buy from NBFCs.

Chandan Gehlot: And do you plan to scale up this ARC AUM further or is it going to be stabilized at current level?

Rashesh Shah: We will scale it up. As I said earlier as the opportunity comes, we are confidently evaluating. As you have seen in the last couple of years, we have been very growth oriented. So wherever growth is available because we have the capital base as well as we have the leadership base to scale up businesses and historically across all the aspects what we have done is formed the management team aligned to the opportunity and scaled up the business as the opportunities arise.

Chandan Gehlot: And sir can you also throw a light on your equity brokerage and the investment banking business, we have seen the recent election outcome. So what is your outlook on these two lines of business?

Rashesh Shah: The outlook has to be positive. After the last 3-4 years the way capital markets have been sluggish, if there is a change in India's economic growth rate, if things start coming back on track, if the optimism is back, this will grow. Capital market usually is a strong barometer of the state of the economy and a sense of optimism that is there. These are the two things which

are very important for capital markets to do well. So if you think that the sense of optimism will continue and if you think the economic growth rate will come back on track, you should expect that capital market businesses across the board not just for us, but for everybody will do well.

Chandan Gehlot: Okay, so with this regard, are you planning to change your capital allocation from other business to these two lines of business?

Rashesh Shah: We do not change it because currently we have allocated capital keeping all this in mind. So we have allocated reasonable amount of capital and we have adequate capital and that is why we are currently doing a buyback because with our return on earnings and cash flows have improved and also our entire capital currently is based on equity. We have space to raise preference capital and Tier-II capital. So we have capital which is adequate.

Chandan Gehlot: And lastly sir if you can throw some guidance on your credit business, particularly what kind of growth do you see?

Rashesh Shah: It will be as per plans. The way we have been growing for the last 2-3 years, we just continue with this. We are not doing anything new, anything extraordinary.

Chandan Gehlot: Within your credit book, the mortgage book is going to grow faster than the other book?

Rashesh Shah: May grow a little bit faster, but our idea is overall credit book should grow between 25%-35%. So may be the Wholesale will grow at 25 and the Retail will grow at 35, but we want to keep our growth rate within that range.

Moderator: Thank you. Our next question is from Vikas Garg of L&T Mutual Fund. Please go ahead.

Vikas Garg: Can you please give me the breakup of that 12,000 crores of AUM which is there on the asset management side so that is one and second on the corporate loan book on the credit side, if you can broadly give us the breakup of especially on the real estate fund financing side and the construction financing side over there?

Shailendra Maru: Vikas for the alternative asset funds, the AuMs of that is 9,300 crores is in the ARC and the balance amount is in five funds which have been there with us in the past also.

Rashesh Shah: Out of the corporate book, approximately about 1,500 is towards real estate development finance and the balance is towards all the other corporate loans. Our internal assessment is we want to keep between 20%-25% of the overall book exposed to real estate and the others is corporate.

Vikas Garg: And sir SME would be a part of the Retail Financing and how big will that be?

Rashesh Shah: Current SME secured is about 400 crores.

Vikas Garg: Okay and the unsecured portion?

Rashesh Shah: No, that is hardly anything. about 300 is secured and about 100 is unsecured. In unsecured, we do a cap of 35 lakhs per loan and it is called business unsecured loan. So that we do it with a strong credit appraisal process and that business also has been reasonably good.

Vikas Garg: And sir this SME piece would be a part of the Retail finance as being put over here on the presentation.

Rashesh Shah: It is actually in Retail Finance.

Vikas Garg: And sir if you can give us some kind of a commentary on this credit loan book going forward, what kind of a growth rate would you be looking over next 1 year and 2 years and broad mix as well sir.

Rashesh Shah: As I said earlier, we want to grow between 25%-35% on the credit book and it is exactly what we have achieved in the last few years. So between 25-35 and it will be broadly similar between Wholesale and Retail, may be Retail might go slightly faster than Wholesale, but this is the range in which we will be. In credit book in other words what we have done for the last 2 years is exactly what we intend to do for the coming 2 years.

Vikas Garg: Sir, just a small suggestion in terms of the presentation in all, says the loan book is getting quite a significant traction and becoming a major portion of the whole business. it would be good to understand the breakup of the loans, may be every quarter basis both on the corporate side and also Retail side that would give a more insight to the investors and all sir.

Rashesh Shah: Okay.

Moderator: Thank you. Our next question is from Saumya Mendon of ICICI Bank. Please go ahead.

Saumya Mendon: Sir, I was looking at your long term borrowing which has grown up from around 2,000 crores to 3,500 crores. So partly I understand it is because of the NCD issue. What is the other component of the increase?

S. Ranganathan: Saumya, it is largely coming out of the long term NCD issues, the Retail issues as well as the bank borrowings. We have quite a few term loans from the bank which are more than one year old.

Saumya Mendon: That is in your NBFC book sir?

Rashesh Shah: That is largely in the NBFC book.

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

Tirath Muchhala: Just wanted to ask you about the ARC business. What are the chief risks that we are taking on, like are there any big risks that we take on when we manage these assets?

Rashesh Shah: There are couple of risks. The first one is obviously as I said we also invest our own capital into that particular business and we have the skin in the game. So if our estimate as well that of the bank is wrong then we can also lose our money on that. So in almost every portfolio, you buy between 5%-10% is your cash that you invest. So the first is that. Second is that there is a lot of

operational risk because when you have so many items in the portfolio which are close to 300 assets that we have acquired. So we have to follow on the legal documentation, court hearing, enforcement, revival sometimes, restructuring of those loans. So there is a lot of operational risk also there. So that you cannot slip upon that. And the third is obviously if it takes more than 5, 6, 7 years, then obviously the return can also get affected as a result of that.

Tirath Muchhala: And so just addressing the second point, do we have adequate infrastructure in terms of compliance and human resources to be on the safe side?

Rashesh Shah: I would expect so. As you have seen in every business that we head in, we are strongly focused on risk and compliance and we constantly oversee that, manage it. Our effort has always been to invest ahead of the curve in that. As you would have seen even the NSEL kind of crisis and all we had manage to stay away because a lot of that is focused on the kind of risk and compliance approach that we have. Still there is always a risk in any financial services business, risk and compliance is always an issue. You always have to be proactive about it, you have to be slightly paranoid about it, and you have to constantly focused on that. In our organization, the importance of that is never underestimated.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Shailendra Maru of closing comments.

Shailendra Maru: Thank you Rashesh, Himanshu, Ranganathan and thank you Inba. Thank you everyone for joining us on this call. In case you have any further questions, please feel free to contact us directly or drop me an e-mail at shailendra.maru@edelweissfin.com. We will now speak with you again after the declaration of our second quarter FY15 results. Have a great day ahead. Thank you so much.

Moderator: Thank you. On behalf of Edelweiss Financial Services that concludes this conference call.

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