



“Edelweiss Financial Services Limited Q4 FY-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Fourth Quarter FY22 Earnings Conference Call of Edelweiss Financial Services Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priyadeep Chopra – President, Edelweiss Group. Thank you and over to you ma'am.

Priyadeep Chopra: Thank you Inba. Good afternoon, everyone and a very warm welcome to our earnings call. We hope you and your families are well. Today we have with us on the call Mr. Rashesh Shah – Chairman and Managing Director of Edelweiss Group, Mr. Himanshu Kaji – Executive Director and Group COO, Ms. Ananya Suneja – CFO, Edelweiss Financial Services Limited and Mr. Ashish Kehair – MD and CEO of our Edelweiss Wealth Management Business.

We hope you've had a chance to review the investor presentation as well as the addendum on our wealth management business that we filed with the exchanges on Friday. During the discussion today we will be making references to them. Please do take a moment and review the safe harbor statements in our presentation. We will be making some statements today that may be forward-looking in nature and hence may involve certain risks and uncertainties. With that I will handover to Mr. Rashesh Shah to begin the proceedings of the call. Thank you and over to you Rashesh.

Rashesh Shah: Thank you Priya and very good afternoon to all of you. Welcome to this earnings call for the quarter ended and the year ended March '22. First of all, I hope you and your families are keeping well.

I think for everybody FY22 started in a challenging way, improved and also ended in a fairly challenging way. It was in all I think a very interesting year. Q1 saw COVID wave 2 in India which was really a very bleak period. I hope all of you and your family were fairly well in that. It was a fairly very tiring phase for India. Q2-Q3 saw some overhang but things started coming back to normal and Q4 obviously with the Ukraine war and the geopolitical escalations and inflationary pressure is what it has been. So, I think even though COVID overhang is still there I think we are starting this year FY23 with what it appears to be that COVID is at least behind us. Of course, there are a lot more challenges in front of us, including inflation. But I think India as a whole and we'll talk a little bit more about it, is a lot better place than it was in the last few years.

One of the things we talk about in India is the government balance sheet and the tax revenues are very strong. The Reserve Bank of India balance sheet is fairly strong. The bank's balance sheet is very strong and the corporate balance sheets are very strong. The only balance sheets which have got slightly impacted in COVID has been the household balance sheet where households have had to borrow, to just keep up during the COVID time. But outside of that I think corporates and banks have the healthiest balance sheet that we have seen for quite some time.

At Edelweiss our focus has been on building resilience as you know last 3-4 years have been challenging but we have also used these years to become stronger, make the balance sheet stronger but also make the organization stronger by restructuring. We've spoken about that and we'll speak a lot more about how we are restructuring organization going forward. We want to be strong enough so that we shield against short-term disruptions and continue to focus on creating long-term value through our businesses. We are now structured out eight businesses as you would have seen in the presentation and each of those business has got a lot of growth opportunity around that from NBFC to Housing Finance to AMC to ARC to Life Insurance to General Insurance to Wealth Management and Alternative Asset Management. All of these businesses have a fair amount of growth opportunity. All of them have done very well except credit business is where we continue to scale down as part of the stated policy of bringing down the wholesale book and growing the retail book but mainly through co-lending. We have made a lot of progress on that. I think this year we saw a steady performance across all the businesses on the stated objectives. We have culminated in ex-insurance profit after tax of INR 405 crores for the year and INR 104 crores for the quarter. So overall consolidated PAT is also healthy at INR 42 crores for the quarter; still we have a long way to go to what our aspirations for the next few years are. But given the restructuring and the scale down in the credit business, this is the fairly good achievement in this quarter. 4 years ago, credit business accounted for almost 80% of our profits. As the wholesale credit business scaled back post ILFS and we also desired to go asset light we had to rebuild our profitability through different vectors rather than the credit vector. As I said consolidate profit at INR 42 crores for the quarter and INR 189 crores for the whole year (FY22).

Our board of directors have approved a final dividend of INR 1.20 paisa per share which along with the interim dividend will take the total dividend to INR 1.45 paisa per share for the year. This year also saw an interesting milestone for us where our customer each is now at 5 million. We have reached about 50 lakh customers across all the businesses of Edelweiss. This is a 20% growth on a YOY basis. This has also helped us grow the customer assets because as we become asset light our customer assets is one of the most important parameter that we watch. We now have total customer assets of INR 3.6 trillion and it has shown a growth of 30% YOY for FY22.

Our balance sheet is strong. Businesses are well capitalized and our three stated priorities for the year which were EWM, value unlocking process which is underway. The reduction of the wholesale book, which both I think reduces the size of the balance sheet but also unlocks a lot of equity which is embedded in that business. Almost 30%, ~INR 3000 crores of equity is embedded in the wholesale book. The third was to scale up asset management and insurance. On that there has been very good progress in this year. Both of our asset management businesses and both our insurance businesses have shown significant growth. We have also sold the remaining 9% stake in our insurance broking business in this quarter to Arthur Gallagher.

The other 4-5 highlights for this quarter which are there in the investor presentation, I just want to spend a couple of minutes on them. One is significant improvement in asset quality for what we are very happy about is in spite of COVID wave 3, in spite of all the challenges in the

economy, our credit book now is a GNPA of 2.5 and NNPA 1.8 on March '22. If you remember last year our GNPA was 6.7% and then NNPA was 5.8%. In spite of the book growing because the denominator has come down, we have brought down the NNPA from 5.8 to 1.8. This I think singularly is a big achievement for this year. Our total provision cover is also now at 189% which was 70% last year. We continue to be very conservative and proactive in provisioning and impairment as we have seen over the years.

Item two after asset quality is the customer franchise, continues to scale of well. We have invested a lot in digital ecosystem and synergistic partnership. As I said, our customers are now at 5 million, added almost a million customers in this year; our mutual fund doubled the customer base. Wealth customers grew at 22%, general insurance saw 20% growth. Our customer assets are INR 3.6 trillion. On the digital ecosystem, our mutual fund has one of the shortest transaction journey. Our general insurance business, (which is conceived as a FinTech business and in which we've also invested a lot) and across the board, including in retail credit, co-lending partnerships we have done with State Bank of India, Central Bank of India, Standard Chartered Bank. This has also been a very gratifying achievement, though in co-lending it's early days, the numbers are small but we expect our retail credit businesses to grow a lot in partnership with banks. So rather than we borrow from banks and on-lend it with co-lending we will be giving loans to our customers and using the 80-20 model for partnering with banks.

Item three, we have a robust balance sheet, very well-capitalized business. All our credit businesses have capital adequacy of more than 25%. Our DE, consolidated DE is now at 2 times which at the peak about 4-5 years ago was about 5X has come down with 2X and we have liquidity of about INR 5,500 crores which is 23% of our borrowing and three priorities as I said scale down wholesale credit asset, demerger of the wealth management business and scaling up asset management and insurance have done well. I think NBFC as I said asset quality improvement, a big one and the partnerships with banks and especially with Central Bank of India wherein this year we have disbursed INR 100 crores in the MSME book in partnership with them. We are also in advanced stages of discussion with State Bank of India and IDFC Bank. Our MSME retail collection are at 96% for March quarter. Even on housing finance, we have grown quite a bit in that, profit has grown 2.5 times. We have a lot of equity in this business but as we have not grown in the last few years, now scaling up will be the vector for driving profitability. Collection efficiency was actually more than 100%, provision cover is more than 77%. We securitize more than INR 850 crores portfolio in this year. The key other achievement in housing finance has been the co-lending partnership with State Bank of India and Standard Chartered Bank.

Mutual fund has had a big growth in profit but more than that improved market share was 50 basis points. It's a very competitive business. Our rank of AUM for the industry at the start of the year was 15, at the end of the year we are at 13. We have improved quite a bit in our ranking also. Our share of equity AUM for this year was 23%, which was I think phenomenal and equity AUM, earlier we had Bharat bond and all which was a vector for growth but for FY22 the mutual fund has grown with equity AUM. Alternatives asset management also has a strong growth in

profitability. We are currently in fundraising mode for three of our funds. We hope that in this year we close these three funds also. In ARC we continue to focus on building our retail capabilities, wholesale we have been a leader but, in this year, even in retail, we have a large market share. We had robust recoveries. We recovered INR 2,700 crores in this quarter in ARC and INR 6,900 crores for the year. This is collectively over the last 4 years this brings our recoveries to more than INR 30,000 crores. The key focus of ARC is recoveries. We continue to be very strong on that. ARC has a very strong balance sheet and a lot of liquidity. Both our insurance businesses have had a very strong year. Wealth management which is a standalone business getting demerged in this year as now assets under advice of more than INR 2 lakh crores, 30% growth YOY. Strong financial performance for this year and as our borrowings have improved the loan against shared book has grown by 95% on a year-on-year basis.

I think with that we continue to be very unexciting in terms of what we are achieving because we want to be very-very steady. We want, over the next 4-5 years, to continue to grow value and continue to unlock value. The eight businesses we have, each of them has a very strong platform, have strong track record. All these businesses are more than 10 years old but now have a lot of growth ahead of them in the next 10 years. We do think that this is from a macroeconomic point of view the coming year FY23 is going to be a slightly difficult year with inflation, interest rates expected to go up, liquidity tight, foreigners selling in India. We expect it to be a challenging market for financial assets both equities and bonds but things like real assets like real estate and infra-assets those will do well. A lot of our funds are focused on that. We do expect that value of real assets will go up because they are linked to inflation while equity markets and bond markets will see challenges and headwinds as we have already seen that. so, at a macroeconomic level it's going to be a challenging year. Fortunately, at a micro economic level India is very well-poised. The company's balance sheets are strong. Economic growth is coming back. Employment is also scaling up and all the measures government has taken on digitization and the India stack and all, a lot of that is going to drive growth. We are seeing very robust income tax collections for the government. I think at a micro level very strong environment, India is very well poised. But there will be macro headwinds. If you look at last 4-5 years the macro environment was very benign but the micro-environment - Banks had huge NPAs, corporates had a lot of borrowings, growth was coming down. Last few years was a story of good macro, bad micro. I think the next 2 years is going to be bad macro but good micro for India. On that I think Indian companies have always done well. The Indian story of the corporate India is what we think is going to be there for the next few years.

For us this year the focus will be completing the Edelweiss Wealth Management demerger and listing which is expected to complete it by February '23. Demerger should happen by December and listing by Feb '23, continue to scale up our Asset Management Insurance business. We continue to make our businesses very independent. They now have their own balance sheet, their own governance, their own boards and each of the eight businesses on their own on are now very strong and very well positioned within their marketplace to grow.

One important part is steady reduction of wholesale. We expect to reduce the wholesale book by another INR 4,000 crores in this year ending March '23. By March '24 it will fall to INR 3,500 crores. The current wholesale book is about close to INR 10,000 crores which will slowly come down over the next 3 years. That will make our balance sheet stronger and release a lot of equity. I think to end it strong balance sheet, comfortable liquidity, scale of retail businesses, asset light model, are the foundation for our growth ahead. So once again thank you all of you for your patience, for your support in the last few years. We will now open for questions from you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. We'll take the first question from the line Arun Malhotra from CapGrow Capital Advisors.

Arun Malhotra: I think majority of the businesses are moving in the right direction. Couple of things Rashesh. One is the asset reconstruction business has done exceedingly well. Is this a steady number which we can extrapolate going forward or there will be lumpiness in this?

Rashesh Shah: So, I think on ARC if you see we continue to have a fee income of about INR 800 crores a year and now we have an equity base of 2,500. If you see the equity of ARC business is INR 2,500 crores. It's a good business. We expect to make ROAs of about 6% to 7%. Unfortunately, the gearing has come down. 3 years ago, the business was geared three times. Now we are gearing is only about one time. As a result of that we should make about 10% to 12% ROE on that business. It's not just our ARC, all ARCs are facing this issue. That it's a good ROA business but gearing up that business because the banks don't lend to ARC's. They were dependent on bond market. After ILFS the bond market have also become unsteady and the long-term borrowing because ARCs need 5-year, 10-year borrowing. So, we still have some borrowing but I personally think ARC will be geared 1:1 and we'll make about 6% to 7% ROA. If you make 6% ROA and you have geared 1:1, you should make a 12% ROE. So, 10% to 12% if you see is what we are averaging. I think that will remain. As I said the large part of the profit, almost 65% to 70% of the profit comes from the capital and the fee income that we get. So that is going to remain steady.

Arun Malhotra: Second is on the NBFC, what would be the focus going forward? I know we are going to make it more granular but have we tightened the credit process now so that we don't repeat the mistakes that we have done in the past, that's one. Also, would like you to comment on the excess liquidity which we have on the books, part two. Lastly one more, we have been one of the top most brokers, you have been a very astute investor. Our stock has not done anything for last 10 years, is the management concerned about it? Are we really looking at it that way that there has been no return for the shareholders?

Rashesh Shah: Yes. I will answer all, I think I hope I remember all the questions and I have here my colleague Ashish also I forgot to mention Ashish Kehair, who runs the wealth management business. He's also on this call. In this quarter we added addendum on wealth management because I think as that business has become large and getting listed on its own, there was a lot of investor interest

in understanding that business specifically. If there are any queries on that Ashish is also on this call. I think I'll try, on the NBFC obviously a lot of the....if you see we've been doing retail like mortgages and SME for last 10 years. We have not had any stress in that in spite of COVID and ILFS and all that. I think our retail NBFC has been fairly steady. Wholesale obviously there were a lot of asset quality issues, about 70%-75% of that was mainly because projects got stalled. There was not liquidity available and basically the developers or the projects were weakly funded. So those obviously were the learnings we have had. A large part of that also became an ALM problem. If you look at the wholesale credit business, the credit cost which was expected to be 2% ended up being 4%. That was obviously a setback, but a 2% per annum credit cost is what is expected on the wholesale book. Actual experience was about 4% and slightly more than that on the wholesale credit business. A lot of that was also ALM related because you had to repay your loans while your projects were stuck in the developers were not paying you. But fortunately, as real estate is improving, housing market has improved, a lot of the projects we have the underlying collateral is there. That's why if you see after last year, we have not had to take any impairment for the last four quarters. I think on the wholesale side as we are moving more and more to asset management model where you're holding power because a lot of this requires holding power. You can't have a 3-year loan that you have to repay and you on a 3-year loan to a developer because the 3 becomes 4 or 5. You might still make your return. I think the learning on the wholesale book has been yes, underwriting some weaker projects were funded, some weaker developers and maybe weak counterparties were there. That was what we learned. Credit costs was higher which can be adjusted in the pricing. I think moving it to an asset management model which is what we have been doing for wholesale book has been one learning. Our retail businesses continued to do well but we have decided that we have a lot of equities or credit business we have 3,000 crores equity currently allocated to the wholesale business, another 800 crores to the mortgages business and another 500-550 crores to the SME business. The mortgage and SME business has got adequate equity and has a lot of growth especially in the co-lending model. So, there we will continue to invest. We have done a lot of work on technology and the co-lending partnerships we have with State Bank, with Standard Chartered Bank, with Tata Housing all of that has underscored that our underwriting and collection. On the retail side has been underscored by a lot of partners. Wholesale we have had a lot of learnings, both on the underwriting but also on the format. I do believe that wholesale credit business is not right business for any bank or NBFC. It is a much better business for AIFs and funds who have the holding power and the long-term flexible capital on that. I think that's your answer on the NBFC. As I said I may not remember all the questions. The other you asked about the stock price. We do acknowledge that last few years... so if you look at on a 10-year basis obviously NBFCs or financial services have gone out of fashion and come back. We have also paid a fair amount of dividend in the last 10 years but last 4 years our earnings have come down. Our balance sheet has come down. The gearing from 5x has come to 2x and we have had to make a call on whether we protect the balance sheet or we protect the earnings. We have had to protect balance sheet for obvious reasons. I'm sure you will understand, our earnings have deteriorated in the last few years. Now fortunately the trend is that we are repairing earnings and I've seen that there are two ways of valuing a company, the stock price. Either the intrinsic value which maybe a long-term private equity investor, somebody who has a 10-20 horizon can take a call

on that. But unfortunately, our markets don't have enough information on that which I acknowledge or on earnings or market growth fancy. So, 3 years ago NBFCs were very fancied, they were trading a three-time book value. Now most NBFCs and even banks are at book value or below book value because somewhere I think credit growth has gone except for a few exceptions I think for most of them the excitement around NBFC business has come down, on credit has come down but along with that our earnings have come down and we are confident as we repair our earnings and we grow our earnings; the underlying value is there, we've been building value. We have not yet converted a lot of this value into earnings. That is the job of the management. So, next 4-5 years, we remain committed to not only convert the intrinsic value we have built into earnings but also and grow the value but also unlock value because as you can see even now about 45% of the company is still held by insiders. And we have another five or six core large investors from external investors who own another 25% of the company. All of us collectively are very committed to growing value and unlocking value. But the precursor to growing value is to building value which is what I think if you look at most of the parameters on customer additions, AUM or we are doing all the right things. We hope those writings get converted into earnings and post earnings as we have demonstrated with Edelweiss Wealth Management, we remain committed to unlocking value.

Arun Malhotra:

Sure, that was helpful and lastly you have passed the resolution for raising funds in the form of rights QIP, any thoughts on that?

Rashesh Shah:

I think this is just an enabling resolution. We don't expect to raise any equity money. As we said we have only 2X here. We have a lot of equity out there. We have just taken the enabling resolution for any instrument because we have as you can see some borrowing which we have to rollover. So, every year like last year, we I think repaid about more than INR 8,000-9,000 crores and raised only INR 3,000-4000 crores. Every year we are repaying more than we are raising but some rollover we have to do. So, we have given a slide which explains all the borrowing we have at a group level. So, we expect that we will in the next 3-years go towards zero-debt at the holding company, at EFSL level but some we have to roll over. So, we've just taken an enabling resolution. I personally don't think we will need to borrow more than INR 500 to INR 800 crores in this year.

Moderator:

Our next question is from the line of Krish Kumar, an Individual Investor.

Krish Kumar:

So, I just have one question. You've spoken about value unlocking in your investor presentations in multiple occasions in recent the times. Can you please throw some light on what are the plans on that front?

Rashesh Shah:

I think the first one we have is on, is on Edelweiss Wealth Management that we have shown. Also, the insurance broking that we sold to repay debt at the Holdco level which has also, because that is also building value. I think our what we have done is the eight businesses including wealth management, each of them has become independent and we remain committed to either IPOs or de-mergers in the coming years to unlock value in those businesses which is the life insurance, general insurance, housing finance, NBFC, ARC. Each one will have their

own contours like for example currently as per RBI rules, ARCs are not allowed to IPO. They are not allowed to be listed. We will have to find our own way of unlocking value in that either through dividend payouts and whatever else because that business has strong earnings. But I think through either dividend, buybacks as well as de-mergers and IPOs these are the four vectors we will use and as we said our idea was to make the businesses stronger, which I think we have done in the last 2-3 years, convert that into earnings and value creation and then unlock the value. By actually unlocking Edelweiss Wealth Management, we have demonstrated the first example of that.

Moderator: We will our next question from the line of Harshil Solanki from Equitree Capital.

Harshil Solanki: I have one question. In your presentation you have mentioned that you have reduced 30% of the wholesale of assets in the past 2-years but are projecting a 60% reduction over the next 2-years? So, I'm trying to understand what will you do differently to achieve this?

Rashesh Shah: Well that 30% was over a INR 18,000 crores book. While now the book is only about INR 10,000 odd crores so 60% is about INR 6,000 crores. We've been reducing the book by about INR 3,000 to INR 4,000 crores every year. So, in this year also we expect to reduce it by INR 4,000 crores so INR 10,000 crores should become INR 6,000 crores and then we hope to reduce another INR 2,500-3,000 crores in FY24. I think as we said every year, we are reducing it by 3 to 4 thousand crores. At the peak in 2018 our total wholesale book was INR 22,000 crores which has now come to INR 10,000 crores. So, we have in the last say 4 years reduced about INR 11,000 crores in that book.

Moderator: We will take our next question from the line of Mahavir Jain from Astrum Advisors.

Mahavir Jain: I had a question on the mutual fund business. Your mutual fund business has seen strong inflows, especially on the equity front in the current year. However, there is an increased volatility in market due to global macros. So, how do you see the impact on the mutual fund industry in India as well as Edelweiss AMC?

Rashesh Shah: I think the growth we have seen in the last 2-3 years maybe will get tapered but I still think there will be growth because as you see, SIPs have reached about INR 12,000 crores and there is an increased commitment to SIP based investing and all that. In our case we have a good portfolio. I mean our three main platforms in our mutual fund business; one is equities which we have grown in this year, other has been our ETF on debt, the Bharat Bond and all which we still think especially as bank interest rates and all, as inflation goes up, the bank deposits may not be as attractive and ETF especially Bharat bond has been a replacement. It is a substitute to bank deposits for a lot of investors because it's, I mean for retail investors, it's almost overnight liquid and you get 100 to 200 basis points more on an after-tax basis on the Bharat Bond then you would get in that. So, we continue to think as inflation goes up Bharat Bond will become more attractive to FDs. It may not be bonds itself might not be that attractive but I think FD to a Bharat Bond should be also a good vector to continue to grow. And our third has been the balance advantage fund, which we think in these volatile times the balance funds will do very well

because I think investors will want some certainty of steadiness with a growth because it's not going to be that the equity markets will go down. There'll be increased volatility but we do think India corporate earnings and all will go up. So, there will be some equity upside sporadically. But overall, I think this year even if you see a, it will be a single digit growth for the mutual fund industry which is not bad after the last 3 years of more than 14%-15% growth. I think a single digit growth for AUM, for the mutual fund industry is not bad but our three planks equity, balanced and Bharat bond I think we have some positive drivers in all of them.

Moderator: We will take the next question from the line of Ankit Agrawal from Yellowstone Equity.

Ankit Agrawal: Thank you for taking my question. First one is what is the monthly disbursement rates we are currently doing for NBFC and housing finance businesses?

Rashesh Shah: So, currently on the NBFC for this quarter and it has been mainly SME because we don't do any wholesale the disbursements anymore. So, NBFC for this quarter was closer to INR 200 crores for the quarter and we can do more but we want to do it in co-lending partnerships so we are allowing the partnerships on co-lending with central bank and all to keep on stabilizing but it's growing by 20%-30% every month, the co-lending disbursements out there. I think on the NBFC we are at about close to INR 200 crores a quarter and on housing we are at about INR 350 odd crores a quarter. Our idea on housing is to go to INR 1,000 crores a quarter and on NBFC to go to about INR 400 crores a quarter at the end of this year.

Ankit Agrawal: When you say that a quarter you mean monthly run rate?

Rashesh Shah: Yes, divide by 3 basically you can divide by 3 because what happens in the quarter is also get bunched up so we look at quarterly disbursements rather than monthly but when I say INR 350 to INR 400 crores a quarter, it's about a INR 100 to INR 120 crores a month in housing.

Ankit Agrawal: And just on the BMU, where does that sit like is it part of the standalone or is it spread across the businesses?

Rashesh Shah: The BMU is a standalone is more the Holdco and what has happened is last few years we have borrowed money at the Holdco level. We have in the last 3-4 years of the liquidity crunch kept about between INR 2,000-2,500 crores at the Holdco level for use of the businesses underlying and make sure that we never had any liquidity crunch which could be a lot more damaging and some of this borrowing was expensive. So, because it was expensive borrowing a lot of that borrowing expires in FY23 and FY24 because a lot of, this was 3-year-4-year contracted borrowing we have taken. That is largely where the Holdco is and the Holdco also has the basically corporate and BMU also manages the liquidity and treasury for itself and also makes investment in the operations of the Holdco which oversees the businesses and all. As the businesses grow, the dividend income and all will start coming in. Currently we are not yet pulling money out of the businesses as yet.

Ankit Agrawal: Right but the standalone entity does not have anything apart from BMU, right?

- Rashesh Shah:** Yes.
- Ankit Agrawal:** And the gain from the sale of insurance broking business? That would have booked in BMU?
- Rashesh Shah:** Yes. That was booked in BMU.
- Ankit Agrawal:** Basically, the liquidity cost and other fair value changes offsetted the gains from the sale of insurance broking?
- Rashesh Shah:** Yes, as we have said in the past Ankit, I think the excess liquidity and the expensive liquidity that we are holding at the Holdco, was annually costing us about INR 300 crores and just we are hoping a INR 300 crores a year and we're hoping it will come down by INR 25 crores every quarter as we go forward, as the repaying borrowing and all that; we had to do it because unlike others we are not a big corporate house. We had no group company to fall back upon if we needed INR 300-400 crores because of any shortfall. So, we in '19 and '20 which we decided to hold this extra liquidity at the Holdco at the BMU level.
- Moderator:** We will take our next question from the line of Vishal from Real Value Securities.
- Vishal:** I was going through presentation and I had two-three question on credit side. So, significant improvement in asset quality, what are the factors leading to this and how much that can be contributed to wholesale and retail and are we going to see same improvement in coming quarters also or we will say it gets steadied now?
- Rashesh Shah:** I think on the credit side as I said retail has done very well. So, retail has been steady. The improvement you are seeing from last year when an NNPA was 5.8% has come to 1.8%, has been largely on the wholesale side because of two-three reasons. On wholesale, we in 2021 we proactively provided we I think accelerated a lot of our provisioning. You might see some other NBFCs still having provisioning drag coming in. We have we actually upfronted all of that, provided for that. However, the underlying portfolio especially housing and real estate is doing well. So, recoveries as strong and as the recoveries are coming, the NPAs are improving. In fact, it's very commendable because the usually when a book is shrinking, your NPAs go up, they don't come down and, in this year, though the credit book has shrunk the NPAs has also come down because a lot of the NPAs that we had we have been able to recover or make them standard because a lot of these projects are good project. Unfortunately, '19-20 everything got stuck because of liquidity and then COVID and all so as the projects are coming, I think real estate is doing well, housing is doing very well. So, we expect to not have any asset quality issues though I think as the book is shrinking, a 1.8% NNPA should be as good as it gets. If our NNPA is around 2% will be continue to be satisfied with that.
- Moderator:** Our next question is from the line of Hitesh from Citibank.
- Hitesh:** Thanks, Rashesh for your input specially on the Alternative side. I understand that this is our focus area for the group but the AUM for FY22 increased only by about Rs. 500 crores and

given the macro conditions that you hinted in your presentation also; should we expect an increase in H1FY23 or you think that the focus will be more on deployment and if you could just add an outlook for profitability and scale that you envisaged for this business?

Rashesh Shah:

So, as you know the alternate AUM, the Alternate Asset Management business, the AUM is not like mutual fund. It doesn't come every month. It takes about 1-year-1.5-years to close a fund. So, we have three funds under closure right now, stress, credit fund, number two ISAF III as we call it, our EYIP number two and our credit plus fund. We expect to close three funds in this year. We did close almost about INR 9,000-10,000 crores the year before. So, unfortunately in Alternative Asset Management you might have 1 year where you will have AUM which is you will add INR 8,000-10,000 crores of AUM. I would say in this business along with AUM, investors should also look at the deployed capital because the deployment of capital is an important one because AUM is only that you have raised of INR 8,000 crores fund and that INR 8,000 crores fund will get deployed over 3 or 4 years. That is an important vector to also look at that how much have you deployed in this year? And in that sense this year Alt Asset Management has been fairly good. We have been able to deploy a fair amount of capital, also exit a fair a lot of capital. That has been good performance on the Alternative Asset Management side. I think we have a total AUM of about INR 30,500 crores out of which ~INR 17,000 crores is deployed. That has been the good growth in this year. I'm just looking for the number. On Alternatives for this year, we had a 25% increase in our fee-paying AUM because when we raise an AUM of INR 8,000 crores we only earn fees when we deploy the money. If you raise INR 8,000 and deploy INR 2,000 crores a year, your first year INR 2,000 crores is fee-paying AUM. In this year our fee-paying AUM is now a INR 17,600 crores which is a 25% growth and we had deployment of INR 4,900 crores in this year, out of which INR 1,650 crores were deployed in this quarter. I think the fee-paying paying AUM is the one I look at the most. So, we may not have growth in AUM but the fee-paying AUM at a 25% growth and that is also reflected in the increased profit after tax for the Alternatives business.

Moderator:

Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference back to Ms. Priyadeep Chopra, for closing comments.

Priyadeep Chopra:

Thank you Rashesh and thank you very much everyone for your time today. Please feel free to write into us at Edelweiss Investor Relations for any questions or any other additional information you may need. Once again thank you for your time. Have a great week ahead and stay safe. Bye-bye.

Rashesh Shah:

Bye everybody, thank you.

Moderator:

Thank you members of the management. Ladies and gentlemen on behalf of Edelweiss Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.