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Conference Call Transcript

Edelweiss Financial Services

Q2FY15 Results

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Corporate Participants

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Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the Edelweiss Financial Services unaudited Q2 FY15 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' unaudited consolidated financial results for the second quarter of FY15 that ended 30th September 2014.

Speaking with you today are Rashesh Shah – Chairman, Edelweiss Group, Himanshu Kaji – Executive Director and S Ranganathan – the Chief Financial Officer. Our press release, financial statements and a quarterly earnings update for Q2FY15 have been circulated and are also available on our website www.edelweissfin.com.

I will now read the normal safe harbor provision. 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 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 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 S Ranganathan for his opening remarks. Following that we will have a brief overview of our performance by Rashesh and then we will open the lines for Q&A. So SR, over to you.

S Ranganathan: Thank you, Shailendra. I extend a warm welcome to everyone for joining us on our conference call for discussing the Q2FY15 performance. As usual, I will start with the financial highlights and then give you a brief update on the businesses.

The performance of Q2FY15 indicates that we are maintaining the growth trajectory in our profits which have gone up from 46 crores in Q2FY14 to 79 crores in Q2FY15. This consistent financial performance is a result of diversification in our businesses and our efforts to improve efficiency and productivity. Our balance sheet position continued to be comfortable as we continue our efforts to strengthen the balance sheet, reduce our dependence on the short-term borrowing and diversify the sources of borrowing.

On the Q2FY15 unaudited results:

Total revenue is Rs. 915 crores compared to 584 crores for Q2FY14 that is up 57%. Profit after tax is 79 crores compared to Rs. 46 crores for Q2FY14, up 72%. Profit after tax excluding insurance is Rs. 90 crores compared to Rs. 62

crores for Q2FY14, up 45%. The group gross net worth stands at Rs. 3,261 crores with a tangible equity excluding insurance at Rs. 2,375 crores. Our return on tangible equity excluding insurance is 15.1%. We continue to achieve a nonlinear growth in our balance sheet growth that has grown by 30% and a PAT growth at 45% excluding insurance. Among the individual heads of income, our fund based income for Q2FY15 has grown 59% year-on-year reflecting growth in credit business. Agency fee and commission for Q2FY15 is up significantly at 45% Y-on-Y. We have been able to improve our fee and commission topline along with growth in market share as our financial market businesses have scaled up following the recent rally in markets.

Life Insurance business continued to scale up and recorded a gross premium of Rs. 42 crores during Q2FY15 compared to Rs. 24 crores in Q2FY14, a growth of 77%.

Let us look at the costs:

OPEX this quarter is up 72% on a year-on-year basis due to higher level of operations as well as higher advertising expenses, provisions on loan and warehousing charges. Diversification and expansion of businesses is also adding to costs. Our employee cost is higher by 69% year-on-year as a result of higher headcount. Our employee strength stands at 4,739 as on September 30th 2014 compared to 4,003 a year ago as we have stepped up hiring in our Retail and Commodities businesses for future growth. Financing cost is higher by 44% compared to Q2FY14 due to higher borrowing. Our borrowing stood at 15,017 crores as on 30th of September 2014 compared to 11,242 crores at the end of Q2FY14. Our blended cost of borrowing for Q2FY15 is flat at 10.1% compared to Q2FY14. We continue to manage our cost of borrowing by having a judicious mix of borrowing.

Coming to our balance sheet:

As we have been discussing in the previous call, we have been constantly strengthening the balance sheet by reducing dependence on short-term market borrowings and also diversifying sources of borrowing. Having a matched ALM profile continues to be our focus area. We have been adding stable bank borrowings besides other long-term borrowings. As a result, our money market borrowings have come down from 50% in FY11 to 33% in Q2FY15 and bank borrowings have gone up from 26% in FY11 to 32% in Q2FY15. During the same period, the Retail borrowings are up from 5% to 15% reflecting our efforts to diversify the sources of borrowing. Since January '14, we have added Retail bonds aggregating to 900 crores including a subordinated debt issue of 400 crores. Our short-term borrowings as a percentage of total borrowings have also gone down significantly over the years. Our group net worth at the end of the quarter stood at 3,261 crores and the effective gearing excluding our back-to-back borrowings was 3.7 times.

We maintain a comfortable liquidity cushion of around Rs. 600 crores. The book size assigned to the balance sheet management unit at the end of the quarter was Rs. 3,650 crores compared to 3,080 crores at the end of Q2FY14. This book

mainly comprises of G-Secs and bank FDs and the operations of this unit focus on managing liquidity and balance sheet similar to that of a treasury in a commercial bank.

Finally the business highlights:

The total credit book stood at 9,789 crores at the end of Q2FY15 compared to 6,920 crores at the end of Q2FY14, a growth of 41%. The average collateral cover in the collateralized book was 2.4x. As in the past, we continue to avoid sectorial concentration in the book. The blended yield in the credit book for Q2FY15 was 15.7% compared to 15.8% in Q2FY14. Increasing Retail finance book is resulting in slight reduction in the blended yield. The yields on individual books remain stable. The asset quality on the credit book continues to be under control with the gross NPLs at the end of the quarter at 1.24% and the net NPLs at 0.19%. Our NPL provision cover is 84% and the total provision cover including provisions on standard assets is 106%. We continue to grow our book without diluting risk parameters and are confident of maintaining asset quality around these levels. ECL Finance, our NBFC has a capital adequacy ratio of 20.6% as on 30th September 2014 with a tier I ratio of 15.4%. Its net worth is 1,631 crores at the end of this quarter. We have added tier II capital by way of subordinated debt aggregating to 400 crores in June 2014.

The Retail Finance business which includes mortgages, LAF, rural finance and SME finance continues a steady growth. The outstanding have now touched Rs. 2,487 crores including SME finance of 547 crores.

Our Commodities business continues to build scale. It deals in agri commodities and precious metal. The business is working on an agri services value chain model including procurement of commodities through our infrastructure and intermediary network, making credit available to the participants, warehousing and distribution. The business is also scaling up international sourcing and procurement model for key commodities like pulses and oil seeds. A state-of-the-art precious metal refinery is set up in Ahmedabad and is likely to commence commercial production soon.

On the broking side:

Our agency ADV for clients was Rs. 4,900 crores in Q2FY15. Our securities broking revenue forms 6.9% of the total revenue for the quarter. The broking yield on clients' transaction stands at 2.6 basis points for Q2FY15 on a gross basis. Our Retail Financial Market business scale up continues. It now has over 4,37,000 clients compared to 4,22,000 clients a year ago. Wealth AuAs are now around 7,200 crores compared to 3,700 crores a year ago.

In our Alternative Asset Management business, we have AUMs/AUA of around 2,300 crores at the end of this quarter spread over 5 funds. ARC has a portfolio of over Rs. 18,000 crores at the end of this quarter and is an important player in the industry as it helps release productive assets for nation's economy and also reduces the burden on commercial banks.

Our Insurance business continues its planned scale up. Focus of this business continues to be on constantly improving performance through growth in

premiums**.** The strategy of this business continues to be expanding its distribution footprint across both the agency and alternate channels and the company witnessed strong growth across both the channels. The agency channel scaled up with the total number of PFAs crossing 8,000 by the end of this quarter compared to 5,000 a year ago. In the recently announced industry level performance ratings by Morningstar, all six individual ULIP funds of Edelweiss Tokio Life have been rated as 5 star. It is the only life insurance company with 100% of its funds being rated 5 star. Its focus on consistent top performance places it well to leverage the renewed customer interest in ULIP offerings. The cash burn on this business is as per plan and its loss of Q2FY15 was Rs. 15 crores compared to a loss of 22 crores in Q2FY14. Its current net worth is 609 crores and is well capitalized for future growth.

To sum up, we continue to implement our growth strategy of diversification in financial services while improving efficiency and productivity. Our core business operations remained robust. We will continue to focus on strengthening the organization while building scale in all our businesses and improving capital efficiency going ahead. With this, I conclude my opening remarks and I now hand it over to Rashesh for his comments.

Rashesh Shah: Hello and good afternoon everybody. Thanks a lot for being on the Q2 call with us and SR has already highlighted the facts about our results and the financial performance. I just wanted to underscore that it has been a good growth quarter for us, but as all of you would know, the YoY growth looks slightly higher because the last year quarter 2 was a lot more subdued because of the global currency crisis that was going on. So as we compare, we should keep that in mind. But having said that, I think it has been a good growth quarter for us. In the last couple of quarters, we have seen all our businesses have started chugging along well. So all the five businesses that we have, continue to do well. We remain fairly optimistic about the growth prospects of credit book and we think growing at 25% on this book over the next few years is possible because we still are fairly small and our credit portfolio is only about 10,000 crores. So that to grow at 25% a year should be possible for us and we will continue to focus on underwriting and risk management of that.

Our Commodities business have expanded quite a bit from the precious metals to the agri part of the business and we have seen the upside of that because as we are diversifying more and given that what the government has been speaking about reforms in the agriculture sector in India including APMC and all, we think the scope for financial intermediation in agri commodities will also increase a lot and we expect to also play a part in that. Our commodity strategy continues to be financial intermediation in the commodity sector.

The third part, the capital market part has obviously been doing well. We are seeing growth in broking. We also have been able to do quite a bit of work in the investment banking, in the IPOs and IPO distribution market leadership that we have established. So overall the capital markets and investment banking portfolio mix continues to do well in the quarter 2. As the stock market is doing well and investments are back, we have been seeing upside on that and we

hope to continue on that.

Our Asset Management business has also grown. There has been a good quarter on all parts of our Asset Management business and even the prospects for this part of the business is very exciting for us.

And finally Insurance also has done well even on the profit basis on the last year Q2 and this year we have reduced the burn on that, but as we have always said in that, this is a long-term investment business for us and for the next few years we expect to continue to invest in that. The way the business is growing, the way we are consolidating our market share on a small base and we still are very small player, it is very encouraging and we continue to be on plan and we expect to breakeven in 2018-2019 on this business as we go along.

So along with that, the other parts of the focus continues; focus on risk management compliance, operating efficiency and investment in technology and people and we continued to have various initiatives on this throughout the organization, and we hope to have the next 3-4 years growth oriented as Indian economy has started to come back on track. So again, thank you very much all of you for being here and we will now open for questions from you.

Moderator: Thank you very much sir. Our first question is from Sudhakar Prabhu of Span Capital.

Sudhakar Prabhu: My first question is on your insurance piece which is around 40 crores a quarter. How do you see this business going on in next 2-3 years and what kind of products are you targeting? Would it be largely participating or non-participating products?

Rashesh Shah: On the insurance front since we have a large amount of capital, that capital also earned investment income for us. In that sense, this quarter had been good because both equity markets and bond markets have done well. So the cash burn has come down. Hence the Q2 loss has been 15 crores. So if you annualize it, it will be 60 crores. We expect to burn between 80-100 crores a year on this business for the next 3-4 years and initially we focused on traditional products for the first couple of years and in the last couple of years, we have added ULIPs in products which have also done very well. But I would say our current mix is also slightly more tilted towards traditional products which are both par and non-par. One of our more hot selling products has been the non-par wealth buildup products that we have introduced, but overall we expect 60-40 mix sort of, 65-35 mix between traditional products and the unit linked products.

Sudhakar Prabhu: And what is the distribution strategy, is it largely agency led or it would be like tie up with banks or other distribution agencies?

Rashesh Shah: As you know our partner Tokio Marine also have a strong focus on organic agency sales force and we have around 59 offices and we focused a lot on agency sales via what we call the need based selling. So we have adopted a practice called need based selling which is from Tokio Marine and that is doing very well. With agency salesforce we have and our huge effort is on productivity and need based selling on this part of it. We are also now becoming fairly large

on the alternate channel, but a large part of our focus will continue to be organic.

Sudhakar Prabhu: And what has been the amount invested by Edelweiss into this business as of now and also Tokio?

Rashesh Shah: Up till now Edelweiss has invested 364 crores and Tokio Marine has invested close to 450 crores. So altogether 800 crores has gone into that particular business. Out of which, 600 is still there as cash.

Sudhakar Prabhu: And my second question is on lending piece which is around 10,000 crores. It has been growing pretty well. Just wanted to understand out of this corporate book of 6,500 crores, what is this in terms of, just to understand what this 6,500 crores is? Is it largely asset backed financing or short-term lending, what is this in terms of nature?

Rashesh Shah: It is actually what we call Corporate loans which are largely structured credit transactions. We are focused on structured credits. This is the area that we wanted to focus on and all the loans are collateralized as SR, my colleague has said in his speech that our average collateral cover is about 2.5 times on that book. So we do collateralize structured credit transactions in that.

Sudhakar Prabhu: And when you say it has a cover of 2.4 times, the security would be largely what in terms of shares and all?

Rashesh Shah: We actually take both shares as well as real estate as security and in shares, we largely take listed companies. We do not take unlisted companies.

Sudhakar Prabhu: Would you have exposure to any of the power or metal companies or mining companies where we have recently seen a massive fall in prices of all these shares. So would you have any large exposure to any of these companies or any significant one?

Rashesh Shah: We do not usually talk about individual cases, but to broadly answer your question, not much exposure to mining/metal companies. We do have exposure to a company called Bhushan Steel which I am sure all of you are aware what Bhushan Steel has gone through, I think a stressful period, but outside of that, our portfolio is fairly well-diversified. But no exposure to the power sector specifically, but we have exposure to groups which may have some activities in power, but again as I said we have a fairly strong collateral base. In underwriting, we look at three things. We look at counterparty, we look at collateral and we look at cash flow and at least on the counterparty front and the collateral front, we have fairly strict norms in terms of what kind of counterparties that we will give the credit to and what kind of collateral we will take. What we have seen in the last couple of years, cash flows have been not as per expectation because in the last few years cash flows for Indian Corporate sector has been under stress. So of the three, I would say we had assumption just going wrong on the cash flow front, but not on the collateral and the counterparty front where we have very strong underwriting policies on that.

Sudhakar Prabhu: And sir, what is the tenure of these products? Would this be

like 1 year, 2 year, what is the average tenure of these structured products?

Rashesh Shah: The average is 18 months to 3 years.

Sudhakar Prabhu: And sir you mentioned that you planned to grow your lending book by around 25%. Right now Corporate is around 65% of the book. Will in next 2-3 years would the ratio between Retail and Corporate gained significantly?

Rashesh Shah: I think as I said average is 25. I expect Corporate to grow at 18%-20% and Retail to grow at about 30% in that sense.

Sudhakar Prabhu: And my last question is on this balance sheet management unit. You have around 3,600 crores in that piece. So just wanted to understand what is the kind of yield are you generating on these assets?

Rashesh Shah: We do not look at yields because there is a borrowing cost that is there. Broadly we try to make 100-200 basis points spread on that particular business. Again the way to understand this business is like the treasury business in a bank. This particular group in Edelweiss, they manage the balance sheet, they manage our liquidity, they operate like a treasury of a bank where they borrow and lend constantly to internal groups, and they keep on also driving up efficiency through arbitrage opportunities and all. So that is what they basically manage liquidity and the balance sheet and try to bring as much efficiency as possible in the cost of funding as well as on the asset yield that we get.

Sudhakar Prabhu: And sir in the presentation, there is this line item called income from BMU operations which is around 144 crores. Would this be largely trading income?

Shailendra Maru: That is a treasury income which basically includes the arbitrage income and MTM also sometimes. And actually the treasury income in the reported statements also includes the income from commodities business.

Moderator: Thank you. Our next question is from Anil Sarin of AQF Advisors.

Anil Sarin: Just wanted to know little bit more about two different businesses. The first one being the Commodity. Would it be possible to share the numbers of the commodities SBU for the second quarter and for the first half?

Rashesh Shah: As a policy, Anil we try to give the breakup between the SBUs only at the end of the year. So we are not giving individual breakups of capital and profitability at quarterly intervals, but broadly to give an idea in the Commodity business, currently about 400 crores of our equity is invested. Our equity base is 3,200 crores and we allocated equity to all the businesses. So about 400 crores is allocated to Commodities business. We expect to generate about 18%-20% after tax ROE on that business.

Anil Sarin: 18%-20% after tax ROE on that 400 crores, alright. That is very helpful. But just as a general pointer, your year-end capital deployed on the Commodities business was roughly around 1,400 crores which included equity and debt. That figure as per your disclosure has gone up to 1,500. So an outsider like myself should I take it that this business is not growing given by

the fact that the capital deployed has not grown.

Rashesh Shah: Lot of the capital deployed in this business usually has a 3-4 month horizon because the large part of the capital is in the working capital. It is a financial intermediation business in the commodity stake. So quarter end figures can be slightly deceptive because it can go up and down. In fact I think 500 crores here and there, at least according to us should not mean anything. Along with that, we also have been driving a lot of working capital efficiency in this business. So even if the business grows through the constant efficiency that we drive in the business, you might see the capital employed come down or not increase much but whole idea is as I said we do not look at the total capital employed, we look at how much equity we have allocated and how much is the return we earning on that.

Anil Sarin: And my second part was on the ARC business. Now RBI has come out with its new set of restrictions and regulations. Despite that I noticed that the assets under management have actually grown over the preceding quarter. So just at a high level Rashesh, what do you think about this business. Are the banks going to like selling their assets going forward or this business would encounter a slowdown, thanks to the RBI restrictions?

Rashesh Shah: We have been in this business for about 6 years now and we have gone through various cycles that we have seen in the market place in this business. Even after the change in norms, I think the business is still there. According to us, the total stressed asset in the banking industry is at least about $50-60 billion and out of which, only about $8-9 billion have been sold by them. So they have at least another $8-10 billion that they need to sell. Now what happens is that the banks sell to ARCs for two reasons. The first reason is to recover some cash because they want to make a nonproductive asset into a productive asset by getting some cash out of it and the other reason that they sell is - it is an NPA handling game because you transfer a loan into an investment and investment NPA is very different from the way you handle a loan NPA. So very often banks do it for that reasons also. They may also think that they are not fully equipped to resolve an NPA. So it is going to be a combination of these factors because for the banks, it is actually balance sheet management as well as recovery of cash. So as long as that is there, we think the market is huge and more importantly for us we have a great management team where the top 5 or 6 people in the team have collectively 150-160 years of experience doing stressed asset management. So given that kind of an experience that we have in the field and the fact that we think the banks will still have to sell another $8-10 billion of assets either for cash or for SRs, I do not think there is going to be any problem of opportunity.

Moderator: Thank you. Our next question is from Nischint Chawathe of Kotak Securities.

Nischint Chawathe: First of all just a clarification. You have a real estate exposure as you put it in your sectoral exposure of around 2,500 odd crores out of the total corporate portfolio of around 6,500 crores. So I wanted to know whether this is exposure to real estate companies or whether it is exposure to

various Corporates such as backed up by real estate?

Rashesh Shah: It is a combination of both because we try to classify it based on collateral as well as the counterparty. So on the whole like if you have given a large loan to a Corporate, but the collateral is only real estate, then it falls under this. If you have given a loan to a Corporate and the primary collateral is shares but the secondary collateral is real estate, then it would not fall into this. But I would expect that out of this 2,500, about 1,500 would be to the real estate companies which are primarily into real estate business.

Nischint Chawathe: So does that mean that the balance portfolio is primary loan against shares.

Rashesh Shah: It is a structured credit portfolio where we take collateral which can be shares and which can be real estate. So it is not a loan against shares because what we call the loan against shares is a Retail business which is run as an adjunct to the broking business. The Corporate finance business is a structured credit-oriented business.

Nischint Chawathe: I am just trying to understand in terms of what would be the equity book at this point of time because I believe that some of the loans like you gave an example about Bhushan Steel have been converted into equity or you are holding equity at this point of time against those loans. So what would be the aggregate equity, such equity exposure at this point of time?

Rashesh Shah: We have no equity exposure. We do not convert any of the loans into equity. If we have to sell, we will sell the shares, but as part of our internal policy, we do not convert loans into equity.

Nischint Chawathe: Just finally two questions slightly qualitative. What would be the impact of recent regulations for ARCs on the ARC business and the recent RBI regulations for loan against shares?

Rashesh Shah: The second one is an easier one, Nischint. We have always maintained collateral cover more than 2x. So recent RBI policy says that you have to have 2x collateral cover. So on that it is actually positive for us because we were losing some good quality business where there were other companies which were happy to have a collateral of say 1.5x or 1.8x. Our internal policy does not allow us to go under 2x. So from that point of view it is a positive that RBI has also reinforced that. And on the ARC, as I said earlier in the answer to a question that we have seen cycles of how the stressed assets have been managed in India and it will go through cycle, but even in this quarter after the RBI rules have been changed, we have been buying asset. We also have a couple of funds where we buy for all cash assets also. So I think the nature of business will change. What used to happen earlier, the banks were willing to sell smaller loans of 40, 50, 100 crores loans for all cash because then the haircut is there, they were happy to take the haircut and get the cash and go away whereas in the larger loans, the 500-1,000 crores loans, they were happy to do it against SR because they wanted to avoid the haircut and also keep the economic interest alive in those loans. So I think we will see a lot more smaller deals and hopefully we will see some larger deals also where banks are willing

to sell it for all cash and take a haircut, the market will just evolve.

Nischint Chawathe: This could possibly mean that the haircuts in the industry could go up.

Rashesh Shah: Yes, usually we have seen that for all cash deals. You pay 25-30% for loans that you acquire in cash. For SR deals, the haircut has been lower for example we have done a lot of SR deals, but 18,000 crore that we have, the gross value of the loan against that is about 35,000 crores. So even on the SR deals there has been haircut between 40%-60% of the value of the loan.

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

Kajal Gandhi: Continuing the same discussion of ARC, 18,000 crore number which we are having is the total AUM, correct which is not the outstanding SR value.

Rashesh Shah: No, it is the outstanding SR and the cash value of the assets. As I said, the gross value of the loan that we acquired is close to 34,000 or 35,000 crores.

Kajal Gandhi: And what is your expectation of recoverable amount in this because the SR as you just said 60% of the value is put on the SR. So how is the average recovery cycle in this?

Rashesh Shah: It is too early to say. It will vary case by case. There are some cases where you not only will recover all the money, but you also get the penal interest and you might get even more than the SR value because as I said the outstanding value for the portfolio if it is 100, the SR value is only 50. So you can theoretically recovered also above 50, but it will happen in a very few cases. So overall it is very case-to-case. It is a function of what is the underlying collateral. You should remember that we also approach this as a portfolio. Very often we have bought portfolios from banks. So in a portfolio you will recover good amounts in some loans or you will not recover from other ones, but on the whole if you can recover 18,000 crores which is SR value that itself is going to be a very good outcome, but it will be very hard to say. There is an NAV revaluation process every 6 months. Every 6 months you will revalue the outstanding SR.

Kajal Gandhi: 18,000 crores is not NAV, correct?

Rashesh Shah: It is the NAV as of now of the SRs which are outstanding.

Kajal Gandhi: So what is the outstanding in your book? When we see your balance sheet, we all share generally now 15% kind of thing.

Rashesh Shah: So out of 18,000, ARC which is only 49% owned by Edelweiss should be about 1,300 crores approximately.

Kajal Gandhi: 1,300 crores on your balance sheet and you are sharing?

Rashesh Shah: On the ARC, yes.

Kajal Gandhi: And secondly earlier this 5:95 was there and now 15:85. So if we look at earlier the loans whatever you must be purchasing, the asset

management fee itself must be also quite remunerative which is now not the case. The 15% your capital investment is higher. So you see any changes taking place because of this?

Rashesh Shah: See ultimately as you very correctly said, very often when you invest money and you only get the capital back after 5 years if you recover the money, then the asset management fee was a proxy for the return on your capital that you deploy. If you deploy your higher amount of capital, then either the pricing gets adjusted or something else gets adjusted. So it is an economic thing where you will decide what is the price at which you will bid for the asset and how much you expect to recover, how much more you will get, what is the return you will get on your investment. So it will all be a function of that. You should understand ARC is a combination of agency and capital business. The fee is your agency business and your 5 or 15 now that you invest is your capital business and you will calculate aggregate returns on your agency cum capital business on that. So earlier there was a large part coming from agency and small part came from capital. Now slightly bigger part will come through capital and a slightly smaller part will come through agency, but again it is very hard to say as an average because it is very specific case-to-case basis.

Kajal Gandhi: Sir, one last question. Earlier because most of the transactions were happening on cash basis. Now it is more of SR what is happening. So how are the valuations in the sector, just talking broadly how one should look at this ARC sector because earlier I remember Arcil and all general valuation used to be 20%-30% of what is the AUM but now what is the norm or currently going norm?

Rashesh Shah: See, how to value a particular business and I am sure all the people on this call are experts on that, so it would be wrong for me to tell you what should be the value of this business. What I can tell you is the loans as I said in the earlier question, the loans that we acquire, the ones you acquire for cash, you pay between 25%-35% of the outstanding gross value of the loan and the SRs have been between 40%-60% of the outstanding value of the loan and I think on that basis, as I said this is not a pure asset management business because it is not pure agency, it is not a pure capital business because it is not pure capital. It is a combination of agency and capital business.

Moderator: Thank you. Our next question is from Aadesh Mehta of Ambit Capital.

Aadesh Mehta: I joined your call late, so I am not sure if this question has been asked earlier. So my question is regarding this RBI's norms on loan against securities which has imposed a 50% LTV one on the value of the shares. So just wanted to know sir what is the regulators current stance on this. So would that also cover the margin financing or would that also affect the lending you do where shares is a secondary collateral. So is there any clarity on this sir as yet?

Himanshu Kaji: No. As of now wherever you have given loans against shares per se where shares are a primary collateral, this rule will apply as a concept.

However, RBI is expected to come out with clarification because they have received a set of questions from the participants. So as and when they come out, we will have better clarity on it.

Rashesh Shah: But on the whole I would say this is a good move by RBI. We have always insisted on 2x collateral which is of 50% LTV and there were lot of other players in the market who are happy with under 2x also. So now everybody will come back to 2x which is good for the market as a whole and for the systemic risk management.

Aadesh Mehta: And sir how does that affect our business sir?

Rashesh Shah: We have always been about 2x. So for us it would not change anything.

Aadesh Mehta: So how are we engaged with the regulator on this in terms of what were our presentations or what were our concerns on this aspect sir?

Rashesh Shah: When RBI wants us as a part of the association, we all go and talk to RBI. We give our point of view. There is a lot of clarification that RBI asks that all of us provide, but as I said in principle, the RBI norms of 2x, 50% LTV is the one that we strongly endorse. That is something our internal policy always followed.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Shailendra Maru for closing comments.

Shailendra Maru: Thank you Rashesh, Himanshu, Ranganathan and thanks Inba. And thank you everyone for joining us on this call. In case you have any other questions, please feel free to contact us directly or drop an email at shailendra.maru@edelweissfin.com. We will now speak with you again after the declaration of our fourth quarter results. Have a great new year ahead. Thank you very much.

Moderator: Thank you. On behalf of Edelweiss Financial Services that concludes today's conference call.

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