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Conference Call Transcript

Edelweiss Financial Services

Q2FY16 Results

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Corporate Participants

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S. Ranganathan
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Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Edelweiss Financial Services unaudited Second Quarter FY16 Earnings Conference Call. I now hand over to Mr. Shailendra Maru of Edelweiss. Thank you and over to Mr. Maru.

Shailendra Maru: Thank you Margaret. Good afternoon to all of you and thank you for joining us. Today we will discuss Edelweiss Financial Services Unaudited Consolidated Financial Results for the Second quarter of FY16 that ended 30th September 2015. Speaking with you today are Rashesh – Chairman, Edelweiss Group; Himanshu – Executive Director and Ranganathan – Chief Financial Officer.

Following the reading of Safe Harbor provision, I will first turn the call over to Rashesh for his opening remarks. There after Ranganathan will take you through an overview of our business performance and financial numbers. This will be followed by the Q&A session. Our press release, financial statements and an earning update for Q2FY16 have been circulated and are also available on our website www.edelweissfin.com. Certain statements that may be made or discussed at the conference call may be forward looking statements. These need to be reviewed in conjunction with the risks and uncertainties that the company faces. We have outlined these risks and uncertainties in the last slide of our earnings presentation which has been circulated and is also available on the website. Investors are requested to refer that slide.

I now request Rashesh for his opening remarks.

Rashesh Shah: Thank you Shailendra and good afternoon to all of you. Good to have all of you again with us for the conference call for Q2 and the first half results for Edelweiss and you would have seen, we have had a fairly good quarter, good amount of growth of businesses and also the organization has grown. The businesses that we started in the last 3-4 years have been scaling up and we have strengthened the balance sheet in this quarter. It is now almost about 16 quarters since the new business model of Edelweiss which moved away from capital markets to a broad based financial services model and which also moved from a wholesale orientation to a wholesale and Retail orientation. We started this journey about 16 quarters ago. I am happy to say that after this rebooting of the business model, we have now managed to grow at approximately 45% CAGR over the last 4 years.

For this quarter we had consolidated revenues of Rs. 1,249 crores which is a 36% growth YOY and the consolidated profit after tax of Rs. 96 crores which is up 21% on a YoY basis. As you know, the more important parameters looking at a PAT growth is the ex-Insurance why because the insurance capitalization has been ring-fenced **with** premium given by the JV partner and accounting wise it gets consolidated with us. The best way to see Edelweiss financial performance is if you look at ex-Insurance growth and the ex-Insurance profit after tax is Rs. 120 crores for the second quarter which is up 33% YoY.

I am also happy about our ROE improvement. For the last 3 years we have had an ROE improvement project and our ex-Insurance ROE has now moved to 17.4% as compared to 15.1% for the last year same quarter. We are now comfortably within the range of 16% to 18% ROE ex-Insurance that we have targeted for ourselves and I hope that we will continue in this range.

Our long-term diversification strategy business model approach has been working and yielding results for us which has allowed us to reduce the volatility in the business model that has built long term scalability and sustainability for us.

Going through each of the businesses the highlights - our Credit business, which now accounts for almost 55% of the revenue ex-Insurance, has grown fairly well.

Our overall book now is, aggregate credit book is Rs. 17,321 crores and we have 5 credit verticals in this business which is Mortgages, Structured Collateralized Credit, Distressed Asset Credit, SME & Agri Finance, Retail & LAS. In this new businesses that we have been expanding the last few years such as the Retail and SME, Agri business which now accounts for Rs. 4,800 crores of the book size.

Our credit business NIM is at 6.6% for second quarter this year which is lower marginally from 6.7% from the first quarter of this year and our spread is at 5.3% as compared 5.2% of the previous quarter. Our NII based on total fund based income for H1FY16 is Rs. 739 cr compared to Rs. 611 for H1FY15, up 21%. The Credit business accounts for 55% of our revenue ex-insurance. The other business groups that accounts 29% of our revenue is Agency businesses which includes investment banking and Broking, Asset Management, Commodity Intermediation and Warehousing and the remaining 16% comes from treasury and Corporate part of the business. So these are three large groups of revenue we have. Credit at 55, Agency at 29 and Treasury and Corporate at 16% ex-insurance.

On the Agency businesses it has been an okay quarter. We saw some subdued activity in the capital market at the start of it, though IPO in the end started coming back. On the brokerage side it was a slightly muted quarter especially because of high volatility in August. We continue to be leader in institutional equities, in debt capital markets, financial products, Retail distribution, structured credit, ARC and all of that. So our commodities business has been a pioneering business for us and in commodity intermediation also we are one of the leaders. On our alternative assets management business, our total AUM is now Rs. 26,700 crores. Under Wealth Management that is the private banking part of the business we have now assets under advice of Rs. 19,500 crores. On the agri warehousing business, we have 193 warehouses and with 14 banks we have finalised tie up for the collateral management part of that.

Insurance have grown well. Happy to report that we got the FIPB approval for the 49% increase by our partners. We are now awaiting IRDA approval. In this quarter, we have shown a 42% YoY growth. The profit has been Rs. (-60) crores for this first half as compared to Rs. (-20) in the last year first half, so there is some increase in the loss in this business and they are opening new branches and scaling up businesses. Happy to report that for all the ULIP funds we are rated 5 Star by Morningstar.

On the balance sheet size we are now Rs. 29,000 crores asset based compared to Rs. 27,000 crores as on March 31, 2015. So we have shown some calibrated growth from March to now. We have used this first half for building a liquidity cushion that we have used this to strengthen the balance sheet, added long term funds and also diversified resources of fund we have.

Our ALM continues to be strong. Capital adequacy at a consolidated level of 18.3% and we now maintain a liquidity cushion of Rs. 2,900 crores at the end of this quarter and this liquidity is available to us on unencumbered basis.

Our entire balance sheet management unit currently has assets of about Rs. 6,336 crores which is close to about 15% of the balance sheet size, but large part of that almost Rs. 5000 crores are government securities. We are holding G-secs as part of our liquidation management exercise.

In the organization we continue to focus on the 5 areas; profitability, scalability, sustainability, quality of management and governance and in this quarter also we have increased the headcount, added people and grown the leadership of the business and we also invested a lot in becoming a truly customer centric organization and our aspiration is just not to be a product centric financial services company but truly convert the product expertise we have into a customer centric culture as a whole. As we have always said, risk and compliance are of foremost importance to us and we continue to invest aggressively on that. Technology is another focus and investments are being made for this. Also happy to report that we have quite a few awards in this quarter. We got the 100 most valuable brands in India, 2015 award, also got amongst most promising brand awarded by Economic Times and EBL best equity brokers for the midsize category.

So overall we do believe that the long term opinion on India remains very good. We think there has been an increase in the volatility post August and we think the second half is going to be fairly volatile and there are quite a few events globally as well as India related which will ensure that the market will be range bound but highly volatile and the idea for any good financial company should be to how do you capitalize on this volatility and not get adversely affected by it. But we think earnings growth will start from FY17 onwards and we expect a fair amount of growth from 2017 for the next 3 years there should be steady growth in India and hopefully the overall global volatility as well as India related volatility may come down.

We continue to invest in this business and thanks a lot to all of you for being on this call and now I will hand over to my colleague S. Ranganathan, our CFO, to give you the finer details on our performance for this quarter.

S. Ranganathan: Thank you Rashesh. Thanks everyone once again for joining us on conference call for discussing the Q2 and H1FY16 performance. I will start with the financial highlight followed by the business update.

This quarter, it is the 16th quarter since FY12 that we have recorded consistent growth in our performance despite challenging environment in the part of this four year period, as a result of our long term diversification strategy. It is yielding dividend now, total revenue for H1FY16 is Rs. 2,416 crores up 40% compared to H1FY15. Our net profit for H1FY16 is 187 crores up 19% from H1FY15. Ex-Insurance profit after tax is 231 crores compared to 180 crores in H1FY15 up 29%. The net profit ex-Insurance for Q2FY15 is 120 crores up 33% YoY. Our NII based on the total fund based income for H1FY16 is 739 crores compared to 611 crores for H1FY15 up 21%. Our ex-Insurance consol NIM for the half year is 7.5%. We have been able to improve our operating and capital efficiency and our ROE ex-Insurance for the first half is 17.2% compared to 15.3% in the same period last year, up 190 basis points. The ROE ex-Insurance for Q2FY16 is 17.4%. Our balance sheet is getting strengthened as we continued to tap longer term liabilities and reduce our dependence on short term borrowings. We have also raised funds from newer lenders whereby diversifying our borrowing profile.

Liability management was the focus area during the recent period in view of the volatile market. Edelweiss is now 29,000 crores asset based company with gross network of the growth standing at 3,757 crores and tangible equity ex-Insurance at 2,764 crores.

Among the individual heads of income fund based income has grown 40% in the first half year of ‘16 reflecting growth in our credit book. Agency fee and commission for the first half of financial year ‘16 is up 33% year-on-year on the back of increased activity. Our Life Insurance business continues to be one of the fastest growing Life Insurance companies and recorded a gross premium of 92 crores for the first half, a growth of 42% year-on-year.

Now an analysis of cost – OPEX this half year is up by about 34% due to higher levels of operations as well as higher expenses relating to build out of the warehousing business. As we spoke on the previous call, we are also been investing significantly in setting our Agri businesses as well as Credit businesses. Our employee cost is higher by 35% in the first half of ‘16. The headcount has gone up to 5,937 compared to 4,739 at the end of H1FY15. We scaled up our hiring for future growth and also for setting up of the Agri businesses and the Credit businesses as well as scaling up of the Insurance business. Finance cost is higher by 54% in first half of ‘16 mainly due to higher borrowings. As on 30th September our borrowings stood at 25,688 crores compared to 15,017 crores a year ago, reflecting a scale up in our operations during the last year.

Looking at the balance sheet at the beginning we did talk about the efforts to strengthen our balance sheet. We continue to add stable long term borrowings, as we constructed fresh line aggregating nearly 1000 crores from banks. We have also added long term NCDs aggregating to 1,750 crores in the first half of financial year '16.

We have securitized around 300 crores for credit portfolio till date realizing funds for fresh lending. We have diversified sources of borrowing by adding new lenders namely insurance companies, pension and provident funds, FIIs and banks. Maintaining a matched ALM profile and managing liquidity over short term as well as medium term continue to be our focus area. We have increased the overnight liquidity cushion to 2,900 crores by the end of September 2015. Our consolidated capital adequacy at the end of H1FY16 is 18.3% with a net gearing of 5.15x. Our blended cost of borrowing for Q2FY16 is marginally lower at 10% compared to 10.1% for Q2FY15. We continue to manage our cost of borrowing for having a judicious mix of borrowing.

Turning to the Credit business – the total credit book stood at 17,321 crores at the end of H1FY16 compared to 10,595 crores at the end of H1FY15 a growth of 60%. The average collateral cover in the collateralized book was 2.1x. As in the past we continue to avoid sectoral concentration in this book. The asset quality in the credit book continues to be under control with the gross NPL at the end of September at 1.45% and the net NPLs at 0.44%. Our provisions cover including provisions from standard assets and other provisions is 93%. ECL Finance, our NBFC has a capital adequacy of 18.6% with the Tier-1 ratio of 12.45% and net worth of 1,855 crores.

The outstanding in Retail finance business which includes mortgages, LAP, rural finance, SME, Agri and LAS stands at Rs. 5,475 crores. Our ARC business with a portfolio of over 22,000 crores continues to be the largest ARC in India. Looking at the agency business, on the broking side our agency ADV for clients was over 5000 crores during the half year. The broking yield on client transactions continues to be around 2.5 basis points on gross basis. Investment banking handled 7 transactions in the first half of '16 and continues to have a good traction on the pipeline. Our Retail Financial Market business has over 4,64,000 clients. Wealth AUAs are around 19,500 crores including broking and advisory services assets. In IPO distribution we are ranked number one in the Retail and HNI category with around 39% market share.

Our Global Asset Management business has AUM and AUAs of 26,700 crores at the end of this quarter up 26%, year-on-year.

Our commodities business has further diversified into Agri Services business including procurement, financing, warehousing, and distribution. International and domestic Agri business, commodity, sourcing, and distribution business continues to scale up and grow.

Our fixed income advisory business continues to be a leader having handled 52 transactions in the first half of financial year '16. Edelweiss today is ranked 1st in public issuances of bond in the first half of 2016.

Our Insurance business continues with its plan and grew it gross premium by 42%. Focus of this business is to constantly giving good performance. We are happy to know all our individual ULIP funds have been 5-star by Morningstar. During the second quarter we received the FIPB approval for joint venture partner Tokyo Marine to increase its stake to 49% and we now await the IRDA approval.

To sum up – we continue to implement our post strategy of diversification in financial services while improving efficiency and productivity. With the gradual return of growth and turn around in the capital market we are confident of keeping our track record of consistent improvement in our profitability and business parameters going forward. With this I would like to conclude and we will be happy to take your questions.

Moderator: We will now begin the question and answer session. The first question is from the line of Jyoti Khatri from Networth Stock Broking.

Jyoti Khatri: Firstly, my question is on the credit side. How do you see the loan growth for the current fiscal, plus if I just look at the growth rate, closer to around 60% plus how do you see the growth panning out in the near term probably and also if I take up 3-5 years' time frame? Also do you sectorize anything from the diversification of the current loan book with the respect to across the sectors, clients of the geographies?

Rashesh Shah: The current YoY growth looks slightly higher than what we would want it to be because last year in the second half, there was a bunching of quite a few transactions which were in the pipeline. We then expanded our Retail and Agri, SME book. As I said earlier, if you look at from March 31st to 30th September our credit growth has been about 15%. We think if we can manage an annual credit book growth rate of about 20%-25% that should be fairly okay because our other assets on the balance sheet are not growing as fast. So if approximately if we can grow our credit asset just by 25% our overall balance sheet will grow by 18%-20%. As we have stated our idea is that our profit should be about 1.5 times the growth rate of the asset book overall. So if we can even grow at about 16%-18% on the asset side we should be able to manage a 24%-25% of profit after tax growth. So that is our internal approach, with the asset as a whole growing at between 16%-18% and the credit book growing at between 20%-25%.

Jyoti Khatri: But how do you see the credit growth for the current fiscal, we have closed it on 60% plus now. Any rough estimate on that side?

Rashesh Shah: No, as I said from 31st March till now we have grown at 15% for the first half, so though it is not a proper thing do if we just double it, then comes to 30%. So as I said our idea is about 25% kind of a growth rate is what we aim for, it can grow a little bit higher and there because there is some credit bunching that is happens at the end of the quarter.

Jyoti Khatri: On the margin side as well, what is the outlook because if I just look at the 6% plus number do you perceive any risks to this number over a longer term?

Rashesh Shah: It should stabilize. It will not grow because now we are expanding Retail book a lot more. So we do not expect NIM expansion. Also as you know, we are fairly liability sensitive. We are very interest sensitive in our overall NIMs. So interest rate comes down it might expand a little bit. If the interest has come down NIM will expand and as the asset especially the credit assets become more and more, as the credit asset becomes slightly more Retail oriented, I would expect the NIMs will come down a little bit.

Jyoti Khatri: If I just look at the collateral cover it was closer to around 2.5x which has now come down to around 2.1x. So what is the reason for that?

Rashesh Shah: It is largely because of growth in the distressed Credit business and the Retail Credit business because in the Retail credit our LTVs are about 55%-60% which is slightly under 2 times. So our wholesale book continues to be above 2 and the Retail book will continue to be between 1.6-1.8 x.

Jyoti Khatri: And on the gross NPAs on the sequential basis if I just look at it the number has increased from 1.3% to 1.45%, although it is a marginal increase, would you share how much has been the incremental slippage for you this quarter?

Rashesh Shah: I do not have the exact calculations in front of me but you can calculate because you have the size of the book but we are obviously seeing some accounts which are not able to service interest because as you know there is a liquidity crunch which is still there. So as with any other banks or NBFCs, we are also very affected by that. The only good news we have is on two counts, one is provisioning has been fairly aggressive. So we are also aggressively, not only classifying NPAs but also providing for that. But we also have collateral cover over and above that. So we still have the collateral. We are seeing some accounts interest servicing is obviously as stretched as it is for everybody else. So we are using that to provide conservatively as we can only see upside as we recover the funds.

Jyoti Khatri: So how do you perceive probably the gross NPA numbers panning out over the next 2-3 quarters? Any material significant change there?

Rashesh Shah: Hard to give any forward looking statement on this but our internal tolerance for the business has been around 1.5% gross NPA around 0.5% NNPA. As you can see our NIMs are about 6%. So over the years I have seen that if you have 6% NIM, around 1.5% gross NPA and a 0.5% NNPA is an acceptable kind of business that you can do, so our endeavor will be to try to keep that and we always have gained, so we feel comfortable. We do not feel very concerned about it because as I said unlike a lot of other loans, our loans are collateralized. So we still have collateral underlying this loan which on the long term basis helps with the recoveries.

Jyoti Khatri: PCR of 93% is inclusive of provisioning on standard assets?

Rashesh Shah: Yes, it is aggregate. So if we remove the standard assets it will come up with the other specific part which is around 70%. We have always maintained that we will try and keep on our specific provision cover 70% and I will like to repeat again even after this provisioning we still have a collateral over and above this. So collateral is our final defense of that. But in spite of that, we have tried to maintain a 70% specific coverage ratio.

Moderator: Thank you. The next question is from the line of Vishal Modi from

Maybank.

Vishal Modi: My question is on the agriculture commodity financing business. I would like to know how is the progress in terms of warehouse addition and employee addition, etc., is it as per our plans and how is the portfolio behaving in terms of profitability and any NPL issue as of now on the segment?

Rashesh Shah: Overall the execution on the business is as per plan, in fact I should say slightly ahead of plan because we now have 193 warehouses and we have tie ups with 14 banks for collateral management. As you know this is a business that we have started 18 months ago. So in 18 months we have established strong presence out there. We have started our credit financing on that in a slightly slowish way because we are still fresh in the market seeing counterparty behavior and all that but overall we are as per plan, may be slightly ahead of that. Our idea here has been that the biggest risk in Agri Financing is the entire warehouse management part of it. So we have first set up the warehouse management business with an idea that once we have that the ability to scale up the Agri Financing should be a relatively easy part and we are constantly focusing on that. It is a very operationally heavy business. We have not had any NPAs on that because agri commodities are fairly liquid and are easy to liquidate. So our current book is about 340 crores as of now on the Agri Financing side and our expectation is to make spreads of about 3%-4% on this. It is a very steady book, highly scalable because we have a fairly innovative kind of model on this. This will scale up over the 2-3 years and our approach is that, so as I said no NPA and all but as I said very operationally intensive because it makes sure that when the rains happens your warehouses are safe and the collateral does not get damage and all that. So very operational intensive activity. But we think it is a very new-new opportunity which over the next 5-10 years will be fairly iconic business for us.

Vishal Modi: Just heard that the person who is heading the business has departed. So how are we trying to fill the gap on that side?

Rashesh Shah: Actually this transition was planned. It was going on for some time. One of our senior who is on the board of Edelweiss, Rujan Panjwani has taken over head of commodities business and the guy who was heading the Agri Warehousing business is Santosh Dadheech. He is still there. He continues to run that business. So under the Commodities vertical we had about 5 or 6 business and all the heads of them are still there and Rujan who is a senior partner who actually originally started the commodity business in Edelweiss in 2007 and then he handed it over to my other colleague, DP Jhawar has now gone back and taken over as head of that business.

Moderator: Thank you. The next question is from the line of Kunal Sabnis from V.E.C Investments Ltd. Please go ahead.

Kunal Sabnis: My first question is on Developer Financing which is a major portion of the Mortgage Lending book and considering the industry a lot of lenders have stayed away from this piece as well as real estate market is kind of uncertain of late. What are your views on managing risks in this business and how do you see it growing over next few quarters?

Rashesh Shah: Actually this is an interesting business because as you know even people like HDFC and Piramals and all, they have all been doing it. There has been a fairly good growth in the Credit business overall for the market as a whole also and you know there are good developers and not so good developers and there are good assets and not so good assets. So your asset selection, the asset you are funding as well as the developer you are funding is very important and we continue to be highly selective. We reject at least three cases for every one that we approve. The other good thing is we do mainly residential projects in fact I would 97%-98% of our financing would be on the residential side which are in a way self-liquidating. Our usual collateral cover is between 2-2.5x average being 2.25x. You have funded a project of let us say expected price of Rs. 18,000 a square foot, even if you manage to sell that at Rs. 8000-9000 square foot you will come out okay. You will be able to recover money because that is the kind of over collateralised issue you have and we also do projects only post-approval. We hardly do projects where approval is not yet in place but we do not fund buying of land. So usually your yields are not high as it would be if you have funded buying of land and aggregation of land and things like that. But financing good quality developers who have a good project and mainly on the residential side with your over collateralization then you can be fairly safe. We expect this business to grow at not more than 15%-18% kind of a growth rate as we go along and that is what it is grown. So if you see we have not been very aggressive on this business. After 8 years this is now 4000 crores book for us where if we had wanted this could have been 8000 odd crores. Now we have been very cautious, very slow in scaling up this particular book.

Kunal Sabnis: These projects are mainly under construction and you give the last mile funding is that the sense?

Rashesh Shah: It is a combination. It is usually under construction but it is not always construction finance. Construction Finance usually is an end use requirement which is for a specific project. Usually a lot of these are for general Corporate use and basically equity release kind of project because what happens in a project, as the project is underway there is a fair amount of equity build up that happens and usually a developer can free up his equity only at the very end. So by funding part of it you are allowing him to get some equity release early on which he then uses to acquire other land and develop project. So you are doing a combination of equity release construction finance what is called developer LAP and all that. And we usually also have escrow from the sales in this because very often the project is already sold or a large part of the project is sold but the cash flow is going to come in installment. So once you escrow on that you have a fair amount of visibility on the future cash flow.

Kunal Sabnis: So this lending will be collateralized by the project itself?

Rashesh Shah: Yes, it is collateralized by the project assets as well as the projects cash flows and very often we also take other assets towards collateralized. We usually like hybrid collateral. We like diversified collateral, so even if there is one project will take some few apartments from some other projects just to diversify the collateral base that we have.

Kunal Sabnis: How does the collateralization spend you say about 2-2.5x, how does it work when say if you have multiple lenders, if there is a lender who has already lend and has a collateral on the project. So you will have the second charge, how does that work?

Rashesh Shah: Usually we do not do that. Usually wherever this kind of thing we are the only lenders out there and usually sometimes there is small loans from some earlier funder who has funded when they buy land and all. So even that get repaid in days but usually those are very small amounts. We do not like to do second charge and things where we do not have easy stepping rights and easy access to the collateral.

Kunal Sabnis: On the ARC business, I must say that the growth has been fantastic over the last two years, just one thing, broader numbers right in terms of what would be the net worth, and the debt raised and just wanted to understand the broader P&L numbers of the ARC business right? I mean since we have lent to the ARC and we will get periodic interest on that. How does that whole transaction work because my understanding is that basically the income of the ARC could be very lumpy, right? Unless it is a matured book and you will have a periodic inflow from assets managed. Just wanted to understand that part of the business.

Rashesh Shah: Overall the ARC business is also one of the credit verticals. So we have about say 22,000 crores of SRs that have been issued out of which close to about 1,600 odd crores is our own capital that we have put and the balance is SRs issued to third parties may be banks and all and here you get your return as a function of the fee that earn as well the interest that you earn on your contribution that is there. So here in a way you are like an LP cum a GP along with the bank, the banks are the LPs, you become an LP cum a GP and your economics is a composite return that you get which we expect to make between about 16%-18% kind of a yield on this so it is like any other credit verticals. The way you should see is that 1,600 odd crores invested in distressed assets alongside the banks and on that 1,600 we should expect to make 16%-18%. If there is any upside it will be over and above that and as you said if there is any recovery incentive or carry and all that comes in which are there in quite a few deals, they usually come on a back-ended basis but they will come as and when they come. So our expectation is that whatever money we put in ARC should have a return of anywhere between 12%-14% at the lower end to 22%-24% at the upper end. We expect the average of as I said at 16%-18% and there is usually some cash coming in because you are getting your fees and you are getting some interest that is coming in. So you do not have that your basic core interest as an issue on recoverability as afterwards if you get some upside that is an icing on the cake but that we do not account for it. That is the function of many things what is the eventual recovery value, some of it is real estate so real estate prices go up then you make some more upside from that you have recovery incentives as part of the deal from banks. But all that is upside. But if we can make 16%-18% return on our capital we are more than happy about that.

Kunal Sabnis: So the first part of the money that we received from the asset is basically would be the recovery of our cash investment as well as the interest right? And then there will be periodic management fees charged on the entire AUM but the accrual of the cash happens as and when these amounts are due or at least the management fee happens at a quarterly basis or a yearly basis?

Rashesh Shah: Actually this is a fairly complicated business because each of the deals is customized deals; there is no one standard formula. Even the fee is actually negotiated, recovery incentive is also so may be offline if you want our colleagues will explain to you but broadly in most deals the only thing that comes from the top is the fee after that you are Pari Passu with the bank, it is your capital and bank's capital are equal Pari Passu you only get the fees that comes of the top and the fee also comes as you recover the money or as the cash flow that comes in and very often we have not got a single loan, you have got a portfolio of loan so even if one loan of the portfolio has some cash flow it can go towards your fee. I said there is a very complicated view of understanding the business and there is a simple way of understanding the business. The simple way of understanding is to see we have 1,600 crores of assets in distressed asset category and on that we expect to make between 16%-18% kind of a yield on that.

Kunal Sabnis: Right and any collateral that we had for this 1,600 crores?

Rashesh Shah: The price at which we buy from the banks we look at collateral. We look at recoverability. So very often…

Kunal Sabnis: In terms of the loans to the ARC of 1,600 crores what should be the direct collateral will be the assets what the ARC has?

Rashesh Shah: The ARC holds SRs what we called security receipt, because they and the bank hold the security receipt in the trust out there so if at there is a collateral that is the security receipt because the ARC then has the loan and the loan has the collateral. So that is what I am saying it can be a very complicated business to understand or it can be a very simple business to understand.

Kunal Sabnis: I have just a final question on the Insurance business, so sequentially the loss on Insurance has been higher if I compare the last couple of quarters. Should we see a similar growth in going forward as well or it should taper at some point of time. So I just wanted your sense on next couple of quarters?

Rashesh Shah: On the Insurance this year it has been Rs. (-60) crores loss for the first half out of which 74% comes into our account and 26% goes into JV partner. As and when they will move to 49, it will has become almost half and half. We do not expect a huge increase in this; in fact as the additional capital comes in there will be some return on that capital that also the business will earn. So if we do not expect the big scale up the way it happens from last year to this year because this year we invested in scaling up the business.

Moderator: Thank you. The next question is from the line of Subir Sen from Birla Sunlife Asset Management.

Subir Sen: Sir just wanted to understand on the wholesale book, if you can give us some color on the asset quality and is there some kind of mix that you are looking forward to between Retail book size versus wholesale book size at a steady state phase?

Rashesh Shah: As I said our asset quality has been stable. Whatever NPA we have reported as I said wherever we have seen a little bit of stress we have classified as an NPA and also provided against it in spite of the underlying collateral still being there. What we are seeing is the collateral values are still intact. We are not seeing any stress on that. We are also not seeing any fraud or any intention to default kind of an issue. There are genuinely cash flow issues and servicing interest and all that is going on but that has already captured in the NPA so there is not anything else over and above that. We expect this cash flow stress in the economy for a lot of the cooperates to continue for at least another two to three quarters because we are not seeing cash flows yield up but against that the assets are holding up in value and a lot of these are highly productive assets so that should give us some comfort on that. Currently we are about two-thirds wholesale and one-third Retail and SME but as you can see our Retail-SME book is growing slightly faster than the wholesale book and we expect eventually to maintain a 50-50 kind of a ratio in the next two years in Retail SME and wholesale and over the next five years our ambition is that it should become 1/3rd Retail, 1/3rd SME Agri, and 1/3rd wholesale.

Subir Sen: And sir on the wholesale book is there GNPA like that 1.45% is 150 days basis for the entire book right? So for the wholesale book how much would that corresponding number be.

Rashesh Shah: We are not splitting it up but only thing I can tell you approximately. It is usually that wholesale and Retail NPAs are in the same proportion as the book 2/3rd and 1/3rd that has broadly been the breakup. Because even Retail there are home loans and there are couple of LAP accounts there also interest servicing has not happened so that also is coming there. So on both of them we are more or less on the same proportion as the overall size of the book.

Subir Sen: And this should be on 150 days basis sir?

Rashesh Shah: Wholesale is 150 and Retail – housing is at 90 days, LAP and all still at 150 which is not in the Housing Finance book.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management.

Anita Rangan: Just wanted to understand in the ROA attribution slide basically they are saying ROA overall has come down from 1.9 to 1.7% and there is a cross reduction in yields whereas the OPEX is not commensurate with the reduction in yields and interest costs. So can you just give some light on that?

Rashesh Shah: So if you see part of this has been as I said the expansion of the Retail side of the business and we have given ROA attribution Slide #8 on the Analyst Presentation, so if you see even the non-interest income has come down from 3 to 2.5 this is because in this quarter fee and commission income was slightly slower than we expected. As I said earlier, August and September brokerage volumes have been much lower, a few IPOs we were involved in the IPO size got scaled down little bit, so that affected Rs. 5-10 crores of fees so when you add up all that and the fact that we are growing the Retail book slightly faster than the Wholesale book. These are two things that have resulted in the ROA going down from 1.9 to 1.7. Our internal thing is anywhere between 1.5%-2% is a good ROA range and on a quarterly basis it might swing up and down a little bit but on a long term basis we want to be between 1.5% to 2% ROA.

Anita Rangan: Okay and one question I have on the ARC book was, this quarter it was around 220 billion and if you see the same time at last year it was about 180 billion. So is there any traction on the assets of last year because almost a year has been passed and can you throw some light on how the execution has been happening on at least the earlier assets, so basically my question was last year the AUM of ARC business at the end of Q2 was about 180 billion and this year it is about 220 billion. So over the years while it has not grown, just wanted to know if you can give some traction on the execution of the earlier business like is there any recoveries or how the recovery is at least happening and what is the guidance on that, recovery of earlier assets?

Rashesh Shah: So out of the 22,000 crores we have, at least we are in this year on track to redeem about 1000 crores of SRs and usually the most of the redemptions in this happens in your 4^{th} and 5^{th} year as you go along. So if you see what we had three years ago we did not have more than 3000 crores of SRs outstanding. So effectively out of that 4000 crores have got redeemed. So we think the main redemption is based on SRs will happen in the third, fourth and fifth year of the issuance of the SR. So we are on track to do about 1000 crores of redemption in this year, FY16.

Anita Rangan: On the NPA, just wanted to understand which segment is actually seeing more pressure? Is it the corporate loan side or the SME or the Developer segment, which is the one which is contributing to the NPAs?

S. Ranganathan: Anita, we just answered that question, as Subir asked this question what is the breakup of the NPAs between Wholesale and Retail.

Moderator: Thank you. The next question is from the line of Tirath Muchhala who is an Individual Investor.

Tirath Muchhala: I just wanted to know that over the last 3-4 years we have scaled up a lot of businesses quite considerably and even the headcount has gone up quite a bit. So just in terms of your systems or processes, I am just worried about any kind of risk in the system or either in the company, how concerned are you about being able to monitor things like that because now you have global operations, the international agri sourcing when you have your flow book. So if you could address that?

Rashesh Shah: It is always going to be challenges as I said in my opening statements. Also risk and compliance are the two areas that we constantly worry and risk is not always only financial risk it is also operational risk and liquidity risk and all. So what we do is whenever we setup any new product or business category we do a lot of stress testing. We setup the entire backend first and usually most of the business is go through what is call a proof of concept phase for the first couple of years where we try and ensure that the backend, the confirm parameters the MIS and the MCS (Management Information System and Management Control System) they all work well and after that also for the risk management we have a business risk unit on top of that sits our global risk unit, on top of that sits a global risk committee that I chair and we evaluate anything that is gone wrong, any exception, any lapse or whatever happen and then we have the sub-committee of the board on risks. We are one of the companies which has a separate board a sub-committee on risk, we don't just have an audit committee we have risk sub-committee also. So we have a four layer oversight on this and ultimately Financial Services is a business of risk and you have to be constantly paranoid and vigilant about it and ensure that you have some good people. Our culture also helps because we have this culture where people are owners, they have an ownership in the company not just equity ownership but a cultural ownership in the company and that also ensures that people who are running that business says that the business vertical somebody is having the stress asset business, somebody is running Agri Financing business all of them are also responsible for that business over and above you have the strong oversight on risk and compliance and all and over and above that we build a culture of being constantly paranoid about everything and constantly check whether the things are going as per expectation.

Tirath Muchhala: So would you say that is also the reason why the Credit book towards the Agri business has scaled up so slowly?

Rashesh Shah: Absolutely, as I said we first spent almost a year setting up the Warehousing business. It will be in fact very easy to do Agri Credit now. As you know, for example NSEL happened we stayed out of NSEL because we know it is very easy to just go and give money to somebody but unless your systems and processes are very robust, we spent almost a year setting up the Agri warehousing business, we looked at all our systems, processes, we got outside consultant and inside teams going and checking and then very slowly we have been scaling up that book over the last 5-6 months and I just said for us we want to scale up that business over 3-5 years. We are in no hurry to scale that business immediately. Our idea is to do it in a way that if there are any gaps or any errors they should happen early on when the book size is small.

Moderator: Thank you. The next question is from Jagdish Bhanushali from Florintree Advisors.

Jagdish Bhanushali: Just one question I had was, could I get a split between Mortgage Retail and Mortgage Wholesale numbers?

Rashesh Shah: We do not give up those details as of now but as I said our

Retail book is about 1/3rd of that and Wholesale book is another 2/3rd of the overall credit book.

Jagdish Bhanushali: And could I get, how much would be the treasury income in this quarter and the previous quarter?

Rashesh Shah: I do not know whether we have it in the PPT, but it is small enough amount that we have not focused on that.

Jagdish Bhanushali: Another question is that we have a buffer of 2,900 crores as you mentioned as a cushion and so wanted to understand for the whole year probably if we are able to utilize that 2,900 for our credit lending, so are we looking to raise any capital in Tier-1, Tier-2 or any borrowings or we are just looking to utilize this 2900 in terms of expanding our loan book?

Rashesh Shah: The way to look at this, 2,900 crores is, this is the overnight liquidity cushion that we maintain. You know these are cash, FD, plus the undrawn committed credit lines that we have. So this is not from a capital adequacy point of view. This is from liquidity adequacy point of view that overnight we carry unencumbered availability of cash of 2,900 crores and it is close to 10% of the asset base that we have. Effectively this is more from a liquidity management point of view.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Shailendra Maru for closing comments.

Shailendra Maru: Thank you Rashesh, Himanshu, Ranganathan and Margaret and thank you everyone for joining this call and if you think you have any question please feel free to contact us directly or drop me an email at ir@edelweissfin.com . We will now speak with you again after the completion of our 4th Quarter FY16 Results. Have a great day ahead and thank you so much.

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