



Edelweiss Financial Services Limited
Q4 & FY19 Earnings Conference Call Transcript
May 15, 2019

Moderator: Ladies and gentlemen, good day, and welcome to the Edelweiss Financial Services Limited's Q4 & FY19 Earnings Conference Call. As a reminder, all participant lines will be in a 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Salil Bawa from Edelweiss Stakeholder Relations Team. Thank you, and over to you, sir.

Salil Bawa: Good afternoon, everyone. Thank you for joining us for FY19 Results Conference Call of Edelweiss Financial Services Limited. We have with us Mr. Rashesh Shah -- Chairman and CEO, Edelweiss Group; Mr. Himanshu Kaji -- Executive Director and Group COO; Mr. S. Ranganathan -- President and Chief Financial Officer and Ms. Ramya Rajagopalan -- Executive Vice President, Corporate Development

Before we begin, I would like to state that some of the statements in today's discussions may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the 'Results Documents' shared with you earlier. During the discussions, we will be referring to the Q4 FY19 Investor Presentation uploaded to the exchange and on our website. With that, I would like to now invite Mr. Rashesh Shah to begin the proceedings of the call.

Rashesh Shah: Thank you, Salil, and good afternoon to all of you and thanks for being on this call. I can see some of the names. Lot of you have been with us for many-many quarters. So, good to have all of you once again with us at the end of another quarter and another year. We announced the results in the board meeting yesterday and we have also put out the Investor Presentation after that. I hope you have had a chance to go through it.

The highlights are that for FY19 we have clocked total revenues of Rs.10,886 crore which is a 22% growth and we had profit after tax of Rs. 995 crore, slightly short of Rs. 1,000 crore, but almost there, which is the growth of 15% over the earlier year. Friends, as you know, a more important parameter has always been, profit after tax excluding insurance because insurance is a separately capitalized ring-fenced vehicle where our partners have invested capital there. So, the key important operating parameter is PAT excluding insurance which is Rs.1,193 crore which is a growth of 18% over last year.

As I said, we have given a lot of the other information in the presentation and the addendum which contains the outlook for FY20-22 to give some color on what our plans are for the next three years. As you would have seen, it has been a steady performance. Obviously, we all know there were significant market headwinds in the second half largely because of the liquidity crunch in the market. I think the good news is now we have retail credit book and corporate credit book almost equal; we had intended to achieve this by FY20 where our retail and corporate are about equal in size, we have achieved this a year in advance.

Also, half of our profits for this year have come from what we call the non-NBFC businesses. If we look at the retail and corporate credit, there is the NBFC business and the other half is our ARC, asset management, wealth management, capital markets and BMU collectively are about 50% of our total profits. So, it is a fairly good spread. RoA is about 2.4% and ROE is 17.6% which has slightly come down but we have maintained RoA; RoA has come down because the gearing has come down significantly for us and we will talk about that.

It was also a very good year for recoveries on the ARC business. In the distressed credit business, we have recoveries of close to \$1 billion which is Rs.7,000 crore for this year which is a significant achievement because now what we had invested three years ago, we always said that recoveries in ARC are a three to five-year cycle and that is coming of age. So, that will be a good thing over the next two years we expect to see significant recoveries in our ARC business.

The other good news is that the wealth management assets have crossed Rs.1 lakh crore and in our asset management we have raised more than \$1 billion funds in this year. Our insurance business continues to grow and is one of the strongest growing businesses in the industry.

As we look at this year which has been a fairly eventful year to say the least, there are a few things we have experienced, understood and got reinforced in belief. I just want to share that before we open up for the Q&A, we have found that there will always be a few quarters every four to five years, in fact, in Edelweiss, we say that four to five quarters in every four to five years you should be prepared for the environment becoming very challenging and anything can be a catalyst. This time IL&FS was a catalyst but anything can be a catalyst, but every four - five years, there will be four- five quarters which will challenge you. The idea is to have a business where you are very resilient in these four - five quarters and I think we have been able to withstand that and become stronger and we want to build a business model that continues to be resilient. We do not think that these kinds of quarters will come again. They will come unannounced and it is at that time that we should be prepared.

Also, a lot of you have been talking to us about NBFCs promoted by corporate houses versus NBFCs which are more professionally owned and managed. We are obviously a professionally owned and managed NBFC, not part of any business house. As with everything else, there are advantages and disadvantages of that. We have obviously worked towards building on the advantages that our professional structure gives us that we are a first generation professionally managed financial services company with a large NBFC in that. Few of the advantages we have which makes us capital efficient because we do not take capital for granted, our own history has been that we started off with Rs 1 crore of equity capital which has now grown close to Rs 10,000 crore of equity capital. Also, it allows us to create a more democratic ownership oriented culture which we have been able to create over the years and even today almost 47% of the equity is owned by the internal management team which is also fairly broadly owned, so allows you to create a very different kind of culture, also makes you more conscious of liquidity issues, makes you more conscious of being capital-efficient. So, all these are the advantages we have and we want to continue to capitalize on that.

The other thing we have built is we have a diversified business model and these last few months we have reinforced that. As I said, more than 50% of our profits come from non-NBFC activities and what we have learnt over the years is at any point of time, some parts of the business will have concerns and we will have environmental challenges while there will be others which at the same time will be prospering and growing and we want our investors and our stakeholders to be cognizant of that. At any point of time the wide range of businesses we have, there will be concerns on a few of them but there will be also good things happening on the others and the idea is to keep a very holistic view on that.

In our diversified business model, we also have some additional upside. Our ARC carry income which we think over the next couple of years will start coming of age and which is also not insignificant for our size. Even in our alternative asset management business, we are building all these credit funds, they also have a carry component in that and over the next two to four years as we start exiting the investments, we will start getting carry income from that. So, there is a lot of potential embedded carry income that will come on that.

Our fee and commission business, if you look at our asset management, wealth management and capital markets business, these three businesses have made almost Rs.300 crore of profit after tax for this year and it was almost the same as it was last year. So, making Rs 75-80 crore profit after tax in agency businesses, even that is not insignificant and all these are the businesses which are not dependent on capital and liquidity environments. So, that is also one of the other strengths we have over and above the other businesses we have.

As you would have seen in the Investor Presentation, in the last six months we have raised almost Rs.7,800 crore of long-term funding which ironically is more than what we raised in the first half. We raised about Rs.7,300 crore in the first half. If you see Slide 14 in the Investor Presentation, we have raised more long-term money in second half of last year than in the first half, contrary to the popular perception of liquidity being very tight. It has been slightly more expensive. We have paid almost 100 basis points higher cost than what we paid earlier in the first half but we have been able to raise almost half of this, close to Rs.4,000 crore is what we have raised from retail investors. So, our retail franchise has been strong and we are confident that every month we will raise about Rs 300-400 crore from retail investors on an ongoing basis. Out of the other half, almost half has come from banks and half has come from the mutual funds. So overall, I think the funding environment though it is challenging is not completely closed and we do expect that in the next three- four months hopefully it should improve.

Along with this Rs.7,800 crore of long-term borrowings that we raised last quarter; we have also announced Rs.1,800 crore equity raised from CDPQ in our NBFC business. I am happy to report that the first tranche of Rs.1,000 crore has already come in last week and the balance Rs.400 crore plus Rs.400 crore will come at the end of year one and year two going forward. So, with this, our credit business has enough capitalization available for growth for the next three to four years ahead of us. So, we have made sure that we have enough capital for growth as and when it comes back.

Along with that, we have also closed \$1.3 billion distressed credit funds in this half and we have also launched \$1 billion structured credit fund which we hope to close in the coming years. So, our asset management, wealth management businesses have done well, our credit business has raised equity and in spite of the funding environment the balance sheet has got stronger.

We will continue to have a very countercyclical approach. So, quite a few of you have also asked us about our approach to the NBFC opportunity and all. I am happy to report that we continue to invest in SME and the mid-market corporate credit opportunities. We are seeing that there is a large market emerging which is above SME and below the large corporates where you need amounts of Rs.10-20 crore to Rs.40-50 crore and business loans to mid-market corporates is also emerging and this space also something we have been building upon and we hope to grow that.

Along with that being more focused on capital efficiency, we have invested a lot of effort in the last six months on co-origination and securitization and this will also hopefully give us a fair amount of fee income, because one of the learnings we have had in the last five six months, I think there will be some structural changes to the NBFC business model and some will be cyclical which will come back as things become normal. So, one of the structural changes we see is that NBFCs will hold little bit more liquidity cushion that they were holding earlier which we have also been doing and we think that will now become structural.

Along with that, I would also think that even the Reserve Bank and the other creditors will insist on holding liquidity. Maybe some kind of an LCR norm for NBFCs should also start emerging at the end of this and that will be a good thing. There should be a structural change that will be very positive for the industry. As you can see from our Investor Presentation Slide 41, we have liquidity cushion out there which is our own LCR. So, we have always been focused on maintaining an LCR though it is not currently mandatory for NBFCs.

Along with that, I think people will be more conscious of gearing and we will keep gearing at a conservative level. As you can see, our current gearing ratio is about 4.4 as on 31st March plus the capital investments that we have got in NBFC, we expect this to be equivalent of 3.9. So, in this gearing we remain fairly comfortable but we think industry will also be more conservative of gearing going forward.

The third structural change that will happen is NBFCs will be more focused on fee income, whether it is through cross-sell, whether it is through insurance attachments, whether it is through co-origination and other models, but NBFCs will move away from just the brute force of growing the balance sheet to using capital more consciously but also building some kind of fee revenue stream to improve RoE going forward. I think all these changes are something we would truly welcome because we think that will make the NBFC model even stronger and will allow you to grow. NBFCs continue to be about 25-30% of the incremental credit that is there and we do not see that changing as we go along.

So, finally I think the last quarter and the last half have reinforced a few things for us: It has underscored once again that liquidity management is a very important part of NBFC management. We have always believed that but it got reinforced. Things like being conservative on gearing has also been part of that. You would have seen in Slide 15 that we have internal gap of 6 and always every time we have gone closer to 5.5, we have raised equity and brought down the gearing, and I think that has also been reinforced as a belief in the last few months. Thirdly, I think having a diversified model has also been another belief that we have always held which has got reinforced in the last few months. We continue to hear concerns on asset quality and we will talk about it in the Q&A more and we want to continue to keep focused on that.

In the outlook for FY20-22 we have indicated that we expect the first half of this year to still be more controlled, more calibrated from a growth point of view and it is from the second half onwards there is environment and liquidity and even the elections will be over, the new government and the new budget will be out there. We expect that from the second half of this year growth should be back and we are well capitalized for that as we go along. We have also made some structural changes. We have simplified our organization structure and as we have been talking to you, we do think that scalability and simplification go hand-in-hand and over the last couple of years we have made a lot of attempt to simplify. Even in the Investor Presentation, we have tried to simplify it from the complex structure we used to have earlier and we would continue to be focused on that. We have also simplified our internal structure. We have closed or merged 20 group entities in the last two years; we have identified another 23 to be rationalized in the next year. So, we will have target to have 32 entities by FY22. We were close to 75 entities a couple of years ago. So, coming down from 75 entities to 32 entities is a significant part of the simplification process that we have. We have also structured our internal organization structure in three businesses – Credit business, Advisory business and Insurance business and we have the leadership in place, we have the capitalization strategy in place for that and we continue to be bullish on growth and between now to FY 22, we hope that the credit business continues to grow as things come back to normal and we will continue to focus on growing the retail credit. So, currently in our NBFC business, half is wholesale and half is retail. We expect it to be two-thirds or more as retail and the balance wholesale by FY 22. We continue to grow other businesses we should have embedded value breakeven in Insurance by FY 22.

We have also diversified our sources of funding and retail has become a very important part. Retail is now 23% of our sources of funding and our retail franchise has been one highlight in the last year for us and we will continue to grow that and invest in that and by FY 22 we are hoping to have close to 30% of our borrowing coming from retail investors.

So, along with that, friends, thank you once again for being on this call. We will now open it up for Q&A.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: A couple of questions from my side; One is a little clarification on the interest income part. So, in this Q4, our interest income in absolute terms actually declined from around Rs 1,670 crore to Rs.1,500 crore. So, what is the reason for this absolute decline in the interest income part?

Rashesh Shah: Our wholesale book has degrown a little bit because when we get repayments, we have not reinvested that and retail has grown and the yields on retail are slightly lower than the yields on wholesale. As you can see our NIMs have still been maintained. The other factor is in the last quarter in our ARC business, we got the pickup from ARC on the Binani transaction. So, there was a carry income of almost I think Rs.70-80 crore which came as our share, the gross income was Rs.120 crore on the Binani exit. In our ARC, we get normal income and then we get carry income. So, in Q3 we had got the Binani carry income also. So, when you add both factors, the portfolio mix change - wholesale, retail, and the Binani income that should explain the change.

Renish Bhuva: So, basically carry income is generally a part of the interest income, is it on the retail?

Rashesh Shah: It comes as part of that. Part of that also can come as fee income, but in our ARC income we show it as split income.

Renish Bhuva: Just a follow up on that again sir, so basically if I understood correctly, the yield on the blended book must have declined, right, sir because of the mix change?

Rashesh Shah: There is a slight change but as I said we focus more on the NIMs. So, if you look at our NIM it is still 7.1% overall on the credit book as combined and that continues to be that and we have also given you the split on Slide 22 between NIMs across all the three books.

Renish Bhuva: Why I am asking is because given our outlook that the first half FY20 would be slightly muted in terms of the credit growth and we are sitting pretty high in borrowing book as of now. So, do we expect margin to decline or will we be able to pass it on if there is a negative carry on the borrowing side, how do you see the scenario?

Rashesh Shah: I think it is an important question. We have seen our cost of funding on an average go up by about 100 basis points in H2 versus H1. In a way it is very ironical because H2 is the one RBI has cut rates, so your repo rate has come down, your average funding cost depending on players have gone up. Our experience has been an increase in cost of almost about 100 basis points in H2. 100 basis points increase in cost of incremental borrowing translates to about 35 basis points on average cost of funding. It was only about a third of your resources are getting repriced because about two-thirds of our borrowing is also more than one year. So, in any year about a third of our borrowings will get repriced. So, if you pay 100 basis points higher cost on new borrowing, your average cost of funding should go by about 35 basis points. Out of that I think around 20 basis points we have been able to pass it on to our customers. We have also repriced some of the assets and the loans we have and we are continuously evaluating given the market conditions and competitive expectations. We continue to try and see whether there is any repricing opportunity available. We have already passed on almost about 20 basis points out of the 35 basis points change in funding on the assets side and we have in the second half

experienced about 10-12 basis points reduction in spread, that we are absorbing in our calculation. So, if you see our NIMs also has fallen from 7.2-7.3 on the pure credit business to around 7.1 now.

Renish Bhuva: Is this right to assume that there will be further follow up let us say 15 to 20 basis points because of the 15 basis points gap, which we still have on the balance sheet on the credit side?

Rashesh Shah: No, I think it has already happened. So, as I said our idea would be to keep our NIMs on the credit business between 7 to 7.5 and overall for Edelweiss between 7.5 to 8 and our current credit NIM is about 7.1 which is you will see on Slide 17 of our presentation. We expect to stay above 7 going forward. So, it might fluctuate by 10 basis points here and there but we think a large part of the change we have already absorbed.

Renish Bhuva: Secondly, again a small clarification, so in this quarter, there is a dividend income of around Rs.200 crore versus negligible in Q3. So, what is the nature of this dividend income and how sustainable is this?

Rashesh Shah: This is part of our treasury activity that we keep sort of funds in cash future arbitrage and all that, we have some in the arbitrage mutual funds also with the lot of mutual funds. Every year fourth quarter we have seen that there is a dividend income that comes in. But as you know that is actually part of yield only when you invest in arbitrage fund, whether you get returns and dividend or you get capital appreciation, it is actually the same thing. So, every year you will see in fourth quarter we will have dividend income but you should consider that as part of the overall yield only.

Renish Bhuva: This will be linked to our BMU division, I mean, this is the treasury management income, right?

Rashesh Shah: Yes, absolutely because as you know we hold quite a bit of liquidity on hand and we try to deploy that liquidity as efficiently as we can. So, rather than keeping it in fixed deposits in the bank if you can put some of that in arbitrage funds and you are getting post-tax returns, we also evaluate that.

Moderator: Thank you. The next question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.

Anitha Rangan: I wanted to check on a couple of questions: First, on the margin side, with the shift to retail going forward, will we see actually like a blended margin coming down because obviously your corporate margins as you pointed out in Slide 22 is on the higher side?

Rashesh Shah: I think first on the retail, you are very right when the wholesale-retail mix undergoes a change, the yields on retail are slightly lower than wholesale. But if you can see our cost-income ratio in retail is much higher because we made investments in opening branches and recruited salespeople. So, we do expect that our cost-income ratio on retail which is currently at 50% should moderate down to 30% or so by FY22. So, I think part of the efficiency we will get in the cost-income ratio, part of it, we expect the cost of funds also to come down because retail

we have a lot of other sources of borrowing. So, retail is going to become more than 50% of the total book, currently they are almost 50:50 between retail and wholesale. Like even today our housing finance subsidiary is actually borrowing at about 50 to 70 basis points lower than the NBFC subsidiary because NBFC historically was more seen as a wholesale business. So, I think it is between cost of funds and cost-income ratio. Thirdly on the retail side, we have not done securitization up till now in a big way. So, we will from this year onwards, as I said in my opening remarks, do more co-origination and securitization which will also improve the margins for the retail business. So, our retail business currently operating at 12% RoE, we think we will get to about 15-16% RoE on the retail side. Wholesale is currently at about 18% RoE. So, there might be a slight change but overall we do not see a significant change as the percentage gradually grows.

Anitha Rangan:

Second question is on the developer side. What is your experience here and how are you handholding your developers? They must also be facing some kind of liquidity stress from their alternate borrowing sources. So, what is the situation and how are you seeing this if you can help with that?

Rashesh Shah:

On the developer segment, as we have shown, our book is spread across 162 projects, almost 85% of these are going as on a BAU (Business As Usual) basis; Construction activities going on, projects are underway and sales are happening. The good news is in the last five - six months, home sales if you look at any data card, have not slowed down. So, home sales are robust especially in under Rs.1 crore. Our focus is on the below Rs.1 crore category there is no slowdown in home sales. It is actually very ironical that we have seen auto sales come off in the last six months but home sales are still fairly robust. Out of these 162 projects, we do expect that a few will need some additional funding either from other funders who are providing last mile funding and all but not more than 10-12 projects will fall in that category and 10-12 might be showing a little bit of slowdown on sales and that ratio has been consistent over the last 10-years. So, we are not seeing any change in that ratio. Out of 162 projects, 20 projects you are always under watch, not that they will become stress, but about 15% of your portfolio is always going to be somewhere sales are slow, somewhere execution is slow, somewhere some last mile funding is required, but even in projects where last mile funding is required, the amounts are usually between Rs 10-20 crores to Rs 80-100 crore, very few projects have a funding gap of more than Rs 40-50 crore on an average. So, on that basis, there is enough funding available for those projects by other funds. There are a lot of private credit funds internationally who have been doing that. Recently, in fact, our own distressed credit fund did a deal along with one large international fund for last mile funding for some other real estate project. So, we are happy to be comfortable that some funding will be available for those 8-10 projects which are there. So overall, I think as long as home sales are strong, we do not see a major concern in this. I think this liquidity crunch obviously is getting tighter and tighter, not just for the real estate sector but for the economy as a whole and that has its own reason for concern because we are seeing slowdown and other things happening. So, we do remain concerned at a macroeconomic level because of the slowdown that has been underway for the last five- six months. On real estate, fortunately, there has been no significant change in our experience what we are seeing for the industry currently.

Anitha Rangan: What traction are you seeing via the AIF route because the reason why I am asking is the overall wholesale mortgage book has actually grown versus the last quarter? Last quarter you mentioned that you might take some because your overall mortgage book actually has gone up versus the last quarter. So, just trying to understand either repayments have slowed down or disbursements itself have picked up, how is the scene?

Rashesh Shah: We have taken a policy decision. Wherever we have committed projects and the projects are on-stream and all we will not hold back disbursement as committed earlier. As you know, we have funds out there and we now co-invest with the funds. So, there are some projects where the fund had given a commitment and we have to meet our co-invest requirements. So, those we are continuing, but we are also getting repayments against that. A lot of projects repayments are also coming. Our idea is not to grow the book much. I think our current idea is that we double the book in the next three to four years but keep wholesale constant and basically triple the retail part of the portfolio so that we become 70% retail and 30% wholesale in three years' time. So, we continue to remain focused on that. On AIF, we are seeing lot of interest both from international investors and Indian investors with yield. In fact, the last quarter what happened with the mutual funds and the NBFCs that lot of this good risk/return opportunities which are high yield where you are getting 14% to 16% returns but increasingly will not be undertaken by maybe mutual funds and by NBFCs will slowly and steadily go into AIF. There are a lot of high net worth and family office and international investors like insurance companies and pension funds who are keen to put funds into private credit structure where they can get 14% to 16% return. So, we think the good outcome of the last quarter, of people that we have had is that the private credit funds and AIFs will start kicking off.

Moderator: Thank you. The next question is from the line of Avinash Singh from SBICAP Securities. Please go ahead.

Avinash Singh: Two questions: One, regarding your FY 22 outlook. So, you are sort of indicating that you will double your credit book in the next three years. So, here if I see now three years practically becomes 2.5 years because first half you are indicating is going to a slow growth. Now, if we were to see that okay, you are going to double your credit book at the same time you are expecting the current 50:50 to go to 2:1 retail into corporate. That is virtually indicating that corporate book is not going to grow whereas that retail is going to grow at say anywhere between 30% to 40%. So, just want to understand that what will be driving this for non-corporate book growth particularly in an environment of increasing competition; lot of NBFCs focusing on certain pockets of retail and banks are also focusing there. So, that is question 1 that how this growth is coming in the retail side that will take this mix along with the strong growth in the overall book? Second, particularly when you are looking to go from wholesale to retail, at the same time you are also expecting that your cost-income ratio to improve. So, again if you can just throw some light on that because typically if you are moving to a retail side generally cost-income ratio tends to inflate?

Rashesh Shah: You are absolutely correct. I think we will not grow the wholesale book, we will grow the retail book, that is for the next three years that is our current expectation. So, current 50:50 should

become 70:30 in the next three years. As we said, wholesale will not grow, we will be getting repayments every quarter in the wholesale book and we will be reinvesting that alongside our fund strategies to keep it flat. So, that is what we had announced and we will continue to do that. On the retail side, we expect half the retail book will end up becoming mortgages and other half will be the non-mortgage. So, if you look at our current, the mortgage book that we have is about closer to Rs.9,000 crore, and as you can see on the Rs.9,000 crore we have been doing small ticket home loans and LAP and all, we see the demand fairly strong for that, we do not see any issues on growth on that because India still remains a credit starved market on the whole, and we have invested quite a bit of opening branches and sales capacity and all that for that. The other growth area is SME. The third is going to be what we call the mid markets out there. The fourth is our ESOP funding and margin funding which is currently a Rs.4,000 crore book. When we look at the opportunity out there with our HNI customers and with customers we think that can go to about Rs 10,000 crore. Lastly, our agri book which is very small there also we see at least Rs 2,000-3,000 crore opportunity. So, when we add up all these over the next three years, we do see the market opportunity. As you correctly said competition will be there but in India competition has always been there. So, as the banks are scaling up, maybe NBFCs also slowing down a little bit on the margin. So, overall because of our size, because we are still very small with only Rs 9,000 crore mortgage book is very small from an opportunity point of view. We do think in India credit demand is growing at 14-15% a year and credit supply is growing only at 12-13% a year. So, there still remains 2-3% gap between potential demand and supply of credit in India and that will continue because the capitalization of PSU banks and all those other needs that are there. The other thing which is also related is cost-income ratio is that in the last two years we have made significant investment in opening sales capacity and branches, etc. for this strategy. So, now as we start implementing on that, that cost-income ratio should come down because usually in a lot of this retail businesses, investment is upfront and your scale comes afterwards. Along with that, we remain open to buying portfolios from other NBFCs and housing finance companies also and we do think that about Rs.2,000-3,000 crore a year we should get portfolio buying opportunities also. We have been talking to a lot of smaller NBFCs and others. As you know, we have capitalized ourselves well. So, once the liquidity situation stabilizes in the next three-four months, we will also be looking at portfolios to buy which is inorganic growth. It would not be a big part of our strategy but I think doing Rs 2,000-3,000 crore of portfolio buys a year will also be a good way of scaling up retail business and optimizing on the cost-income ratio.

Avinash Singh:

Just a quick follow-up. On the wholesale side, is it a strategy that you are sort of deliberately running down the structured finance book, within that of course wholesale mortgage will be relatively stickier, I mean, even if you are not doing the new, that sort of a book will remain stable, but on the structured finance, what is your strategy, are you deliberately just running this book down and where do we sort of see this book say in FY20?

Rashesh Shah:

Avinash, we remain committed to our old approach which is that our own balance sheet on the wholesale book, both the corporate book and the real estate book will stay flat while the overall book keeps on growing, so the percentage of this comes down. We still remain very optimistic on the structured credit opportunity. So, as I said, we are on the road to raise \$1 billion

structured credit fund from international investors and we see a good opportunity, good interest in that. In fact, the changes of the mutual fund and NBFCs that are happening currently will actually give more opportunity to a fund. We do think a lot of this high yield credit will eventually increasingly move from an NBFC, mutual fund structure to a private credit fund structure and that is where we also remain committed. That is why last three- four years, we have raised this fund so that incrementally we can capture this opportunity of the fund structure. The reason for it being in the fund structure is a lot of these strategies do not have significant credit losses. There might be NPAs but not eventual loss because the loss given default ratios are very good in collateralized credit and in fact across the industry in last 25-years, the loss given default on these kinds of strategies have been very low. But it can result in NPA which for a mutual fund or a NBFC can be a challenge. So, hence the privately funded vehicle like a credit fund is ideally suited because they do not have an ALM issue and they will not have NPA issue. So, this strategy remains good from a risk/reward point of view. The liability structuring of that will move away from NBFC, banks and mutual fund increasingly towards private credit fund. We have built the skill sets and the capability to capitalize on the opportunity. A more efficient way to capitalize this will be in a fund structure and NBFC structure. We have been saying that for the last three years. So, even the last five- six months what has happened, only reinforces our hypothesis earlier.

Moderator: Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: I have two questions: One is on the ARC side. So, if you could help us with how is the deal pipeline looking in ARC? So, we see that the ARC AUM has actually grown this quarter after the resolution of Binani in last quarter. So, how should one look at in terms of this business as the resolutions going ahead?

Rashesh Shah: On ARC, we remain optimistic because I think the pipeline is there. So, I think next three years will see significant activity both on recoveries of the old deals which are three - four years old now and the new pipeline because the banks still continue to have a lot of these NPAs. The good news is that most of the NPAs of banks have been quantified. The provisioning cycle is also almost over, only the last maybe a year or 18-months of provisioning is left. So, banks have already provided against it but somebody still needs to restructure, resolve and recover out of this NPAs where we are experts in. So, we do see that banks being available more and more to sell these NPAs especially those assets where the collateral quality is good, the underlying asset is good, the promoters are stretched or broken and there is a consortium of 8 to 15 banks so that each bank is a small part of that. In those kinds of cases, we are seeing banks are happy to sell and let the ARC aggregate the debt and basically handle the recovery part of it. So, in this year, as you see our book from FY18 to FY19 has gone up by about Rs 1,200 crore in spite of the Binani recovery, I think this pattern will continue. We hope to grow this book by about net amount Rs 1,000 crore a year. So, we will get recoveries. We will deploy and overall the book should grow by hopefully Rs 1,000 crore a year as we go along which is the opportunity we see for the next three years because the NPAs are still there in the banks. Now the NPAs have been identified, quantified and provided against.

Viral Shah: Second question that I had was on the recoveries part. So, under the IBC certain recoveries have been delayed. So, what is your view on that? How soon one expects the big recovery of the Essar Steel?

Rashesh Shah: All of us are reading the same newspaper. So, your guess is as good as mine. But if I may just give a personal opinion, do not attach too much weightage to that, I do think Essar Steel should get resolved in the next three to four months because we are getting to the end game stage. But you are right, I think recoveries have taken slightly longer, but it is also because of this uncertainty. It is also acting as an entry barrier because lot of the global funds and others who wanted to very aggressively enter the Indian market, they are not able to build a business model around that because there is already some kind of price risk when you buy stressed assets from banks, but there is also time risk. Your ability to do a structure and calculate the payoff, given the prices and the time risk, requires a lot of skill set and a lot of execution capacity. So, like for example, in our distressed credit team, we have more than 140 people. So, all these Essar Steel kind of examples also shows that you need a large army, it is not a deal making business only that you have five people who go out and do some interesting deals, you have army of people because there are court cases going on, there are new things you want to acquire, you are evaluating that, you are evaluating small- small deals because you might do one deal. Essar Steel, I remember the first deal we did from HDFC Bank, which was about Rs.400 crore where we had invested only Rs.37 crore of our own money. That is the first deal. But because we did that first deal, we evaluated and understood Essar Steel asset value, time risk, price risk on that very well, and because we did that eventually we acquired Essar Steel from Axis Bank, ICICI Bank, J&K Bank, Federal Bank, IOB and various other banks. So, this is that kind of a model where you need an army, you need an ability. Thirdly, given that lot of our assets are in 85:15, when time risk gets extended, when time delays happen, you still earn money as a management fee. So, as you know this is called LP GP model. The more time it takes, your LP returns come down but your GP returns goes up. So, in a way they both offset each other and we have been able to build a business model around that. But, ability to calculate the structure around this is also becoming an entry barrier for fresh competition.

Viral Shah: One more question I had was basically on your credit book. You mentioned that even within agri segment you continue to see opportunity. What was the reason for a sharp 30% QoQ decline in the agri and rural finance book?

Rashesh Shah: Agri book is a short-cycle book, it comes and goes. Usually it is not three, four, five, six months because when the crop comes, is when people need the loan to buy the goods and store them. But usually agri loan will not extend more than five to six months because the goods will be consumed because agri is a consumption commodity. So, these are called short cycle credit book and it will vary on QoQ basis. But, overall we see this increasingly becoming a large opportunity and we have been in that phase itself. We have done a lot of IT investment, back end structuring and all that, now we are tied up with banks and we do see a lot of opportunity in co-origination with banks because lot of these can fall under PCA. It has taken a lot of work from technology and other point of view. But this will always be a fluctuating book which is good news because this is not a permanent book, this will not stay all the time because as the

crop comes, the loans go up and then it slowly comes down, until the finished crop comes in the market.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: First of all, overall borrowing profile has changed and more diversification has happened whereby the NCD portion has significantly improved YoY. You have been explaining it earlier as well. Since you are moving towards more of a retail, that once retail mortgage is a longer tenure one, you are anyhow increasing your portion of banks and retail significantly as well as your ancillary portions as well, so what kind of strategy you are building around for the borrowings part further now – one is securitization which will be part of it as mortgages rise, but any further color on it as well as that \$1 billion structured fund that you raised whereby risk appetite has been now shifting towards other guys rather than banks or NBFCs, if you can just give some more color on it, that would be little more helpful for us?

Rashesh Shah: First, you are absolutely correct and you would have seen from our slide that we have been reducing dependence on commercial paper long before the crisis also happened. Between March 17 to March 18, we had almost brought down the commercial paper from 21% of total borrowings to only 14% of total borrowings, it is now down to 2%. Commercial paper has a cost advantage but given the volatility and the uncertainty around that, there is a lot of hidden implicit cost in that. So, when you add up all of that like even if 10% of your borrowing is commercial paper and you get 150 basis points advantage on that, it only translates to about 15 basis points on overall cost of funding. So, it is not a significant change for us. We have gone from 14% of commercial borrowings to 2%. So, that percent has added a little bit of cost. As I said, 20, 30, 40 basis points of cost increase has happened with us and we have already absorbed that, passed on part of that. But what is the good news if you can see on Slide 43, close to 93% of our borrowing is between NCDs and bank loans. This has been I think the biggest change and the strength which we have achieved. I should also highlight that if you see FY18 also it was still almost close to 80%. So, we were almost 80%, we have gone to more than 90%. Slide 44 if you see we had never been highly reliant on non-NCD, non-bank borrowing because both the NCD and bank borrowing are tenured on a long-term basis and comes from very stable source of funds. Even Slide 44 if you see, retail is now 23% of borrowing, we are saying that by FY 22, we want to take it to 30%. We are seeing a lot of traction from our retail investors, Edelweiss franchise that is there with the retail investors, the retail distribution that we have built over the years is helping us a lot. As you will remember in December also, in the middle of the crisis, we had raised the Rs.1,000 crore purely retail bond issue and that has come from really retail investors. So, they have stood by us. We have also raised this Rs.1,800 crores of equity. So, I think both on long-term borrowing as well as on equity raising, in the last six months we have shown significant strength and capability which has strengthened our balance sheet. So, we do think that going forward we will increase. Banks will remain around 40-45%. I think retail should go up to 30%, hopefully higher than 30% also. So, dependence on mutual funds should coming down is not the only reason, I think mutual fund is a good source and important source of funding for you but given the volatility in their own source of inflows and

outflows, and given the structural changes happening in credit side of the mutual fund, for the next year or two, it will take time to stabilize and in that time I think we have already switched very quickly. One of the good things about Edelweiss is that we are fairly adaptable and we are quick to change. So, when this crisis also started, we quickly started looking at equity raise to strengthen the balance sheet. I am happy to say that we are maybe the only as far as I know NBFC that has raised a large amount of money in the last six to seven months and we have raised from very credible investors. We have raised it in a very structured way and it has helped us bring our gearing down. The same thing we have done on the borrowing, our retail borrowing, bank borrowing and the fact that we raised Rs 7,800 crore in the second half of long-term money itself is not bad because our total borrowings are only Rs 45,000 crore and if we can raise Rs 7,500 crores in a half year that is almost about Rs 15,000 crore on an annualized basis which is about one-third of your borrowing. But as I said about one-third of a borrowing needs to be renewed every year and we have shown that even in a challenging environment like H2, I must say that in the last 23-years of Edelweiss, there have been challenging quarters from a liquidity point of view and this last five to six months have been as challenging as any other period we have seen. I am happy that in this environment also we raised money which strengthened the balance sheet and we also changed the borrowing profile with a lot of retail and bank borrowing in the mix.

Jignesh Shial:

Secondly, it is little premature or little early for me to ask this but just getting a sense over there. Now you have been talking about retail would be incrementally will become 65% sort of a portion of your book and there are a couple of products that you have mentioned is obviously mortgage, SME and MSME; any more line of lending products that are there in the pipeline not now but at least 12 to 24 months down the line that these are retail products that at least would be keen entering into or any thoughts over there or these are the only two, three products where you will be focusing on for the FY22 plan?

Rashesh Shah:

Currently, if you see the sizes of the books we have, as I said, the home loan book is not even Rs 10,000 crore, there is enough headroom for growth only in that category; the same thing our SME book is about Rs 4,000 crore. There is a lot of headroom for growth. Even the ESOP financing book where we are the leaders, we can see doubling the book from here. So, I think given that in these businesses, we are constantly evaluating adjacent markets and products, we have always been experimenting. But as of now, I would expect the next couple of years we will stick to this because there is enough headroom for growth in this itself.

Jignesh Shial:

Coming to your developer finance book, obviously, 85% of the projects are doing fine. Now there will be definitely ups and downs in any particular sector. The balance of the 15%, you being now almost like a veteran in this industry, have been doing in and out about the developer finance book, what is your sense over this balance 15% of the book that Edelweiss has it or industry in general if we say that this is happening, are we gearing up for providing for this and incremental provision coming up on our books or are we seeing that the resolutions are likely to come up or there will be very less casualties on whatever the stress is getting built up because that is the book where major of the concerns is getting built up, not the entire book, but the 10-15% sort of a book, how this is going to shape up in the next 12 months? Or is Edelweiss

preparing for building up a cyclical provision, you already have 13-15% sort of a coverage if I am not wrong, so are you planning to build up a further coverage on this or what is your view over this developer finance book for next 12 months?

Rashesh Shah:

I am happy you asked this question. I think it is a very important question and I think as analysts, as investors, as stakeholders I think it is always constantly good to shake the tree and see how things are shaping out. So, I would like to just give you four to five clarifications and again lot of this is our assessment of market and the environment. First is we do not call developer funding book, because we do not fund developer, we call it Real Estate Project Funding because we fund housing projects. In fact, at Edelweiss, we always say that we do not fund developers, fund projects because projects are steady, developers can change. In another context, Essar Steel is a great asset though the company became NPA, the project itself was always there and in India we always said that there are no stress assets, there are only stress promoters. Assets are good. In fact to call Essar Steel as stressed asset is not true because what we have seen people are willing to pay Rs 40,000-45,000 crore to take over that asset. So, in India, assets do not get stressed very easily. Promoters get stressed very easily and the same thing applies to real estate where lot of the projects if you analyze it well, will not get stressed but developers will get stressed and hence you want to avoid lending to developers and you do not want to take that risk. So, I think that is the first clarification. The second is 10-15% accounts under watch or where things are is part of the model. This has been true for the last 20years for the industry, this has been true for last 12 years for us also. So, this ratio has not changed in the last five to six months and not all accounts which are under watch where either sales are behind target or construction is behind target or there is some cash flow mismatch creeping up on you. The good news is that average real estate project with the total cost of funding is between Rs 400-500 crore, out of which the loan usually is Rs 100-200 crore maximum. If there is a gap in funding, as I said earlier, it is not more than Rs 40-50 crore. So, these are not unlike a steel project or a power project which are Rs 3,000-8,000 crore. An average real estate housing project is about 300 apartments of about Rs 60-80 lakh each apartment. So, that if you calculate will be about Rs.200-300 crore. Maximum will be Rs 500 crore. I have not seen too many projects beyond Rs.1,000 crore in real estate. So, even if it is a Rs.1,000 crore project, average rule of thumb is the project financing will be 20-25%. So, there will be Rs.200-250 crore of the average funding on that. If there is any gap in that project, we will never exit Rs.100 crore. This is at the upper hand. So, in a way these problems are not hard to solve because of the funding gap of Rs 30-50 crore. This has happened in the past also in the last 20years. The third is we look at even the last 20years the loss on these projects have been very little. So, we have already classified some projects as NPA. We have also provided against that. But even in those we expect the loss given default will be lower than what we have provided. So, as we go along, as we resolve that or complete those projects or sell those assets, we will be ploughing back something and providing going forward. So, our idea is that overall we will be cognizant, we will remain conservative as the projects we have to call them NPA and provide for that, we are also prepared for that and we will be upfront with our investors and stakeholders on that. If you ask me for the industry as a whole, so let me give you our perspective on the industry. The total industry is about Rs 5 lakh crore with total real estate project financing between housing commercial, LRD, project funding, construction financing,

whatever you call it; half is with banks and half is with NBFCs and HFCs. So, that is how broadly the industry is split. As I said, our own portfolio of about Rs.10,000 crore is spread over 160 projects. I think of the total Rs 5 lakh crore, there will be few thousand projects out there. As an industry we are about 2% market share is what we have. So, I would think the whole industry is about between 5,000 to 8,000 projects going on in India as a whole if you just extrapolate that. Even if you take 10% of that is under watch and all that, that would mean between about 600 to 800 projects. My estimate is that out of the Rs 5 lakh crore, these projects will constitute about Rs 20,000-30,000 crore from an exposure point of view. If this becomes NPA, I think the loss given default on this will be at best 20%. So, if I look at on Rs 5 lakh crore, Rs 30,000 crore incrementally also, though part of NPA is already provided for by everybody, I think Rs 30,000 crore, 20% loss given default about Rs 6,000 crore could be the potential write-off or provisioning that the industry has to do. Maybe double that, Rs 10,000-12,000 crore is what may be required over the next two years. I think if you do the number, it is not very significant that will really affect the industry as compared to what happened in bank NPA. So, bank NPAs are about Rs 13 lakh crore and the total loss on that was about Rs 7 lakh crore. In the last five years, banks have provided close to Rs 5-5.5 lakh crore for those NPAs. Compared to that this might be Rs 20,000-30,000 crore stress if at all of it comes true. I think as economy is improving, this may also not come true. So, this is our assessment. Again you can do your own assessment and numbers and aggregate it. But I think if at all the provisioning required for the next two years will be about Rs 5,000-10,000 crore at an industry level as a whole. We have always believed that we are 2-3% of the industry. So, according to that we have anyway been providing. So, if you have seen in the past also we have provided. In the last 12years we have recovered always 100%. We have never had to take actual loss. But we continue to provide because idea is to provide and then as you recover that should flow back to you.

Jignesh Shial: This CDPQ transaction of Rs.1,800 crore, just reconfirming, Rs.1,000 crore you said has already been received in this particular month and Rs.200 crore will be received in next financial year each in FY21 and FY22 is my understanding correct?

Rashesh Shah: Yes, because we have structured in a way that we do not need so much capital straightaway because as you can see our gearing has already fallen below 4. So, our idea is that we do not stagger it so that it comes in as the growth is also coming in. So, current structure is Rs 1,000 crore is coming now and again I am giving it to you in Indian rupees, though the deal actually is \$150 million coming in now, another \$50 million at the end of year one and another \$50 million at the end of year two. If rupee falls the amount will go up which will also not be a bad thing but we do hope that rupee does not fall much.

Jignesh Shial: So, the stake which has been sold in ECL Finance that also will be transferred partly or how does it work?

Rashesh Shah: No, they are investing in ECL Finance. So, ECL Finance was 100% subsidiary of Edelweiss and they are investing in ECL Finance. ECL Finance will become the main company of the credit business. Under the ECL Finance, we will have the Edelweiss Housing Finance, that will

become a subsidiary of ECL Finance as part of this deal. So, between ECL Finance and its 100% subsidiary Edelweiss Housing Finance, that will constitute our entire credit business, the corporate and retail credit business will be housed in the structure and CDPQ is investing in ECL Finance for fresh equity. We have not sold any stake to them as a secondary structure.

Moderator: Thank you. The next question is from the line of Kshitiz Prasad from Maybank. Please go ahead.

Kshitiz Prasad: Just a couple of strategic questions: how do you see this alternative assets business standing? You have shown tremendous growth in the last couple of years and even if I see the growth this year has been pretty good. So, which are the target segments with global or lot of Indians are also looking at the sort of high yield returns, so is any kind of strategic thoughts on that? Second question is when you are saying that you will double your retail book, is it that by FY22 balance sheet size too will double from the current Rs.64,000 crores to about Rs.1,20,000 crores or so?

Rashesh Shah: I think on the second one, we are not looking at balance sheet size, we are looking at credit book size. So, I think credit book size we should double. As I said credit book is about 50% retail, 50% wholesale, if we triple the retail part and keep the wholesale constant, we become 75:20, that is broadly a very crude calculation but that is our intention on that part. On the first question you asked is an important one. The alternative asset management business is becoming very interesting and we think alternative asset management corpus is growing at twice the pace of the mutual fund corpus. Currently, if we look at total asset management in India, about 10% is alternatives and the other 90% is mutual fund. But all over the world in the last 20 years alternatives have grown very well. Within alternatives there are various categories. There is something called private equity, there is real estate, there is private credit, there is hedge funds. We are largely focused on private credit as a key strategy. We are the leaders in that. As you know in India there are a lot of private equity funds. We are not going into private equity as an alternative category. We are focused on private credit. We are not into PMS also in a big way which is also another equity alternative. So, I think there are a lot of categories and alternative asset management and what we are focused on is in private credit. Our hypothesis of private credit is that increasingly the market which is below 10% will become like a bond market, your 10-14% market will remain a bank loan market and anything more than 14% needs more bespoke solutions like currently we are seeing what is happening between mutual funds and the borrowing by Zee promoters and others. All those are what we call bespoke credit solutions where you do structuring; then is collateral, all of that. Increasingly this will not be continuous to any publicly funded vehicle like an NBFC in a large way. On the margin you can always have. But in a large way I think these kind of credit strategies which are usually between 14% to 20% which requires collateral management, which requires customized solutions, which requires structuring, all of that will increasingly go into credit funds, and we are seeing a lot of appetite also, investors are interested because over five years ATR kind of a fund life if you can get an yield of 14-15%, lot of Indian high net worth investors, family offices, lot of international investors are also keen because it is great risk/reward. As I said usually in this strategy your ultimate credit loss may not be there. You might have stress and delinquencies like Essar Steel. Essar Steel became NPA for bank but ultimately banks recover money. So, if Essar Steel kind

of deals were done in a credit fund which is what we have done in a stressed credit fund, you are holding power in that, you do not have ALM pressure, you do not have NPA pressure, you can easily eke out and basically rate out together an optimal outcome. So, I think alternative asset funds increasingly there will be a demand for between Rs 1-1.5 trillion every year. As I said, we are currently doing at the rate of about \$1 billion a year which is only Rs.7,000 crore. We think the market appetite for private credit alternative funds, AIF, international fund will be at least Rs 100,000 crore. So, if you have Rs 100,000 crore of opportunity in the market, if there is investor appetite for this high yield returns, you can create platform structures of that. It requires a lot of work because unlike private equity, private credit needs a lot of investment, you need lawyers, you need risk managers, you need to collect interest every month, you need to do collateral valuations. It is an RD. While private equity is a commando business, private credit is an army business. So, if you can build an army, there is a lot of opportunity in both sides, demand and supply in this.

Moderator: Thank you. The next question is from the line of Umang Shah from HSBC. Please go ahead.

Umang Shah: Just wanted to know if you could give some color on the alternative assets business. What would be the definition or the mandate of the distress credit fund, I mean, is it any sector-agnostic fund or how is it?

Rashesh Shah: It is fairly sector-agnostic though we have overall cap in the fund that we will not exceed x-percent of the fund in a particular sector. Just from a prudent portfolio management point of view, it is not a sector focus fund because what we have learnt in stress as we have been in this business for 10 years in a way helping out recover money from other people's NPAs in a way, what we have learnt is the sector is not important as asset, in a steel sector, there could be a great asset and there could be a fairly bad asset and we have seen that. In some steel asset NPAs people have recovered only 30 cents on a dollar, on some steel asset, people have recovered 100 cents on a dollar like our own example on the Binani Cement deal, recovered more than 100 cents on a dollar on a cement NPA. But there are other cement NPAs where you would not even recover 20 cents on a dollar because it depends on whether you are a limestone mine, what is the state of the plant, where you are based, which part of the country, all of that. I have seen power plants which are unviable and have to be completely written-off to power plant which are very viable if the financial restructuring can be done and additional capital can be provided. So, I think asset-specific strategy is more viable. So, you do two things: One is to understand what the real capability of that asset is to produce cash flow in the future and how to price it. The same power project at 40 cents on a dollar is a great opportunity but that 70 cents on a dollar, the risk/return may not meet your requirement and asset-specific understanding. So, we have actually built a docket of almost 100 assets in India where we have understanding of what are the nuances of that asset, what is the risk/return, where you have coal linkage problem, where you have maybe some plants located in the naxalite infested areas, so you have all the other issues around that. So, it is very important to understand asset-by-asset and we have over the last 8 years built almost 100 assets capability and we have an understanding on that. So, those assets if any bank wants to sell, he can quickly get there and give a go/no go as well as the pricing indication on that.

- Umang Shah:** Just to understand let us say for example within the overall Rs 25,000-odd crore of fund that we have, we have a cut between infrastructure, real estate, but is it possible that let us say if you have a real estate or infra stress asset, it will get classified under the stress category or will it still get classified within real estate or infra so to say?
- Rashesh Shah:** No, I think real estate credit fund will do project financing for real estate. That is not a distress. So, that you will not do any distress opportunities also. You will do that as what I will call performing credit opportunities. So, structured debt fund and real estate credit funds or performing credit funds they are not listed. Distress credit fund might buy a loan from somebody in a real estate sector where a project has got stuck and become NPA and he can buy those loans and complete the project. Distress will do mainly loans which are already stressed or distressed while structured debt in real estate will do performing credit. Infrastructure is a yield fund where we buy operating asset and get an yield, it is almost like an InvIT REIT kind of a structure. So, each of these are different strategies. The infrastructure yield fund will have yields between 11-14%, structured debt will have yield of between 13-16%, real estate will have yield of 16-18% and distress will have yield of 18-20%.
- Umang Shah:** What proportion of this AUM would be eligible under co-invest or what would be our co-invest commitment out of this Rs 25,000-odd crore?
- Rashesh Shah:** Each of the strategies varies. We have a predetermined co-invest in each of them. Depending on strategy and others, so it can be anywhere between 5% to 30% across these funds.
- Umang Shah:** So, is it fair to assume that blended on Rs 25,000-odd crore portfolio, we might have a blended 10-15% sort of co-investment commitment?
- Rashesh Shah:** Yes, but I should point out of this Rs 25,000-odd crore, about a fourth of that is our PMS and the multi-strategy fund which is not credit and there is no co-invest commitment on that. Out of the other, almost about Rs 18,000 crore, half is already invested, so half has been done, the other half is what has to be invested now.
- Umang Shah:** We have kind of maintained about Rs 10,000 odd crores of liquidity on our balance sheet. Just wanted your outlook for FY20, do we expect this number to go up, fall down or just sustain through the year?
- Rashesh Shah:** I think Rs10,000 crore is actually more than enough. As you can see our total borrowing is only about Rs 45,000 crore, so Rs10,000 crores is what we call available liquidity both overnight liquidity plus liquidity that we can get by liquidating our treasury and other assets. I think Rs10,000 crore is actually more than adequate. In fact, this Rs10,000 crore is hurting us. Normal conditions I would like to keep this in about Rs 5,000-6,000 crore. So, we are about Rs 3,000-4,000 crore in excess of what we should be and then Rs 3,000-4,000 crore excess if you take 3% drag on that, it is costing us about Rs100-125 crores a year.

Moderator: Thank you. The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Just to follow up on the last question. I understand that we are incrementally focusing more on the AIF structure for the wholesale lending. If you can just throw some light in terms of how it will move P&L per se from the AIF book, so let us say if we have Rs25, 000 crore of outstanding AIF as of now, what kind of income we must be booking on it and under which line item I think that would be really-really helpful?

Rashesh Shah: The income on that comes in your asset management columns. Usually in credit funds, you get a fee of between 1.5-2% every year and about three-fourths of that goes away in expenses. So, you can see that from the management fee you make a little bit of profit that comes in, that is reflected in the asset management part of it. Usually you can carry which is approximately 100 to 125 basis points per year and your exits are at the end of four years. So, as and when you start exiting, we should get another 4-5% as a carry income. So, you are accruing carry every year. We are not taking into account. So, it would not come in the P&L. You will only get carry when you exit but from an embedded value point of view, as obviously these credit strategies are there, you are potentially going to earn that money in three to four years on this credit strategy. So, on an average you make about between 1.5-2% as fees and another 1-1.25 per year of carry which comes cumulatively at the exit time.

Renish Bhuva: So, carry income again it would be largely linked to the underlying NAV will get at the end of the asset, is it?

Rashesh Shah: Absolutely. Usually if you can earn 14-15% of gross yield, then you will get a carry of 100 basis points. If you can get about 17-18%, you get 150 basis points of carry. This carries over a certain threshold what you make, you get 20% of that. So, usually your threshold is 8% and again this varies from fund-to-fund, anything you make above 8% you can get 20% of that. So, you make 18% in a stress credit fund and if your threshold is 8%, then the extra 10% you will get 2% as your share of the carry, but that only comes when you exit. So, usually lot of these we expect the funds we are building now post FY 20 to FY 22 lot of that carry income will come between now to FY 21-22. We are hoping that the ARC carry income will come. So, for the next two to three years we should get some ARC carry income and after that the asset management carry income should start coming.

Renish Bhuva: Just a last small clarification on the management fee side under AIF. So, this 1.5-2% of the management fees would be on the deployed fund, right?

Rashesh Shah: Yes, in credit that is how it works unlike private equity where you earn fees on committed money, in credit you earn only on deployed money. Yes, so currently as I said, half the money is deployed, half is undeployed. So, as we deploy that also all those fees start coming in.

Renish Bhuva: Sir, what is the expected timeline where you feel that half of the money will get deployed?

- Rashesh Shah:** I think they are deploying at the rate of about Rs 6,000-7,000 crore a year across all the strategies. So, we expect to be able to deploy about \$1 billion. As I said earlier, we want to raise \$1 billion and deploy \$1 billion across credit strategies every year.
- Renish Bhuva:** Sir, post this equity infusion on the CDPQ under ECL Finance, which used to be 100% subsidiary, so what will be the Edelweiss holding after dilution?
- Rashesh Shah:** It is a convertible structure. Based on what the base is, not that we have agreed with them, we expect them to hold between 14-15% up to 17-18% of the company, somewhere in that range it will fall at the end of three years.
- Renish Bhuva:** So, you are saying in ECL Finance right not Edelweiss Holdings?
- Rashesh Shah:** Yes, so they will end up owning between 13-14% to 17-18% of ECL Finance at the end of three or four years when they convert for the Rs 1800 crore that they invest.
- Renish Bhuva:** What is the FY19 net worth under ECL Finance ex the CDPQ investment?
- Management:** Around Rs 3,000 crore.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.
- Rashesh Shah:** Okay. Thank you very much. As with all other quarters we have had, this has been very interactive and lot of insightful questions from all of you. So, once again thank you and I hope to see you again at the end of Q1. Bye.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Financial Services, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.